



UNIVERSITY
OF
JOHANNESBURG

COPYRIGHT AND CITATION CONSIDERATIONS FOR THIS THESIS/ DISSERTATION



- Attribution — You must give appropriate credit, provide a link to the license, and indicate if changes were made. You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use.
- NonCommercial — You may not use the material for commercial purposes.
- ShareAlike — If you remix, transform, or build upon the material, you must distribute your contributions under the same license as the original.

How to cite this thesis

Surname, Initial(s). (2012). Title of the thesis or dissertation (Doctoral Thesis / Master's Dissertation). Johannesburg: University of Johannesburg. Available from: <http://hdl.handle.net/102000/0002> (Accessed: 22 August 2017).



**THE DEVELOPMENT OF AN ENGAGEMENT RISK MANAGEMENT
INSTRUMENT FOR
ZIMBABWEAN AUDIT FIRMS**

by

Varaidzo Denhere

A thesis submitted in fulfilment for the Degree

of

Doctor of Philosophy

in

Auditing

UNIVERSITY
OF
JOHANNESBURG

at the

College of Business and Economics

UNIVERSITY OF JOHANNESBURG

Supervisor: Prof. Dr. Tankiso Moloji

2019

DECLARATION

I certify that the thesis submitted by me for the degree of Doctor of Philosophy in Auditing at the University of Johannesburg is my independent work and has not been submitted by me for a degree at another university.

VARAIDZO DENHERE



DEDICATION

I dedicate this piece of work to my beloved husband Professor C. Denhere, my daughter Tinotenda, and my two sons Tavonga and Tanatswa. This work is also dedicated to my beloved parents as an appreciation for my upbringing, and to all those who supported and encouraged me.



ACKNOWLEDGEMENTS

My sincere gratitude and appreciation goes to all those who provided me with moral and spiritual support; and encouragement and all those that enabled me to complete this study. I am greatly indebted to the following:

- God Almighty for making everything possible in my life.
- My supervisor Prof. Dr. Tankiso Moloji whose support, advice, invaluable guidance and constructive criticism made this study possible and successful.
- The College of Business and Economics and staff of the University of Johannesburg for all the guidance, assistance and the financial support towards part payment of my fees.
- The institute of Chartered Accountants of Zimbabwe for providing me with the latest information on the registered and operating audit firms in Zimbabwe at the time when data was collected.
- All the audit firms that allowed me access to their revered audit firms to conduct my research.
- All the audit partners and chief risk officers for availing themselves for data collection.
- Mr Marange, my workmate for computer technical support and my late supervisor at work Mr F.B. Pesanai for his support.
- My Pastors, Anna and Prophet John Moyounotsva for their moral and spiritual support.
- My siblings, Zivaishe Pfumbidzai and Simbisai Chikotosa who took care of me each time I travelled to South Africa from Zimbabwe to do my research business at the University of Johannesburg.
- The Denhere and Pfumbidzai families for the moral support.
- My children; Tinotenda, Tavonga and Tanatswa for being very patient, loving and supportive during this study.
- Lastly but not least, my husband Professor Chris, for the love and encouragement, and for the financial, material and emotional support he provided throughout the research process.

ABSTRACT

Following the collapse of audit firms and the attendant reputational damage, the principal objective of the study was to develop an Engagement Risk Management Instrument (ERMI) in the Zimbabwean context. This tool would be used by these firms to assess the engagement risk associated with certain clients. Related literature was reviewed for desk research and structured interviews conducted on Audit Partners and Chief Risk Officers from purposively sampled audit firms in order to determine generic engagement risk factors. The Delphi process was selected as a methodology because it allowed the validation and rating of identified engagement risk factors by a panel of experts, the Audit Partners and Chief Risk Officers, in engagement risk assessment before client acceptance. Data for this study was collected in two phases. The data that was collected from the Delphi process was then analysed using the SPSS software resulting in the identification of eight (8) levels of engagement risk factor importance. The study established that through the desk research thirty-four (34) engagement risk factors were identified. These thirty-four (34) identified engagement risk factors were used to guide the structured interviews as part of data collection in phase 1. The interviews identified six more engagement risk factors while confirming twenty-two and rejecting twelve (12) from the desk research. The total number of engagement risk factors consolidated after phase 1 was forty (40) and these forty (40) engagement risk factors were used to construct the Delphi Questionnaire which was employed to collect data in phase 2. Data analysis from phase 2 yielded eight levels of importance of the forty (40) engagement risk factors and these levels guided the construction of the ERMI.

The study recommended the use of the ERMI as a tool for assessment and re-assessment of clients by audit firms. As an assessment tool, the ERMI would be used in the initial assessment of potential clients for client acceptance decision making. As a re-assessment tool, the ERMI would be used for existing clients; those that were already engaged. In this case, re-assessment is a necessary on-going process because some of the engagement risk factors are economy-based and the economy is dynamic. It is therefore necessary to continuously assess the companies to curb potential engagement risks that might ruin the reputation of audit firms.

KEY WORDS: Audit Firms, Engagement Risk, Auditor’s client acceptance, Auditor-client Relationship, Engagement Risk Management Instrument, Engagement Risk Rating, Delphi Technique and Client Rejection.



CLARIFICATION OF BASIC TERMS AND CONCEPTS

Engagement Risk – can be described by Ethridge, Marsh & Kurt, (2007:2) as, “an ultimate risk that goes with an audit engagement, and is made up of three components namely: client’s business risk, auditor’s business risk and audit risk”.

External Audit – Collier (2009:49) says, “It is independent examination of the financial statements that are prepared by an organisation and giving an opinion about whether the financial statements give a true and fair view of the company’s financial statements”.

Engagement decision – a decision that is made by an audit firm on whether to take a new client on board or reject for auditing purposes.

Engagement risk management instrument (ERMI) – is a set of guidelines developed in this study for consideration by Zimbabwean audit firms in decision making as to take a new client on board or reject for auditing purposes.

Accounting scandal – is a business scandal, which sometimes becomes a political scandal. It arises from the disclosure of financial misdeeds by trusted executives of corporations or governments.

Audit firm – an organisation that assesses activities to pinpoint inefficiencies and to lower costs, and at the same time may probe potential theft or fraud and ensure conformity with applicable regulations and policies in order to provide assurance to stakeholders (Gray & Manson, 2008). An audit firm serves to give assurance to shareholders on the reported financial statements of a corporate.

Audit partner – McDonnell (2016:1) defines, “is a certified public accountant and full equity partner in a professional accounting firm”.

Risk partner – is a certified public accountant or certified risk analyst and full equity partner responsible for management of risk in a professional accounting firm.

ABBREVIATIONS

ER – Engagement Risk

ERMI – Engagement Risk Management Instrument

USA – United States of America.

ISQC – International Standards on Quality Control

ISA – International Standard on Auditing

IFAC – International Federation of Accountants

IAASB – International Auditing and Assurance Standards Board

ACCA – the Association of Chartered Certified Accountants an international professional accounting body offering the Chartered Certified Accountant qualification, founded in 1930



TABLE OF CONTENTS

DECLARATION	i
DEDICATION	ii
ACKNOWLEDGEMENTS	iii
ABSTRACT.....	iv
KEY WORDS:.....	v
CLARIFICATION OF BASIC TERMS AND CONCEPTS.....	vi
ABBREVIATIONS	vii
LIST OF TABLES.....	xiii
LIST OF FIGURES	xiv
LIST OF APPENDICES.....	xv
CHAPTER ONE	1
INTRODUCTION AND BACKGROUND.....	1
1.1 Introduction and Background to the Study	1
1.2 Research problem.....	4
1.3 Research questions.....	5
1.4 Objectives of the study.....	6
1.5 Scope.....	6
1.6 Significance, expected outcomes and contributions of the research.....	7
1.7 Research outline.....	7
1.8 Chapter synthesis	9
CHAPTER TWO	10
THEORETICAL FRAMEWORK, THE AUDIT PROCESS AND CLIENT ACCEPTANCE PROCEDURES.....	10
2.1 Introduction.....	10
2.2 Theoretical Framework.....	10
2.2.1 The Agency Theory	11
2.2.2 The Lending Credibility Theory	17
2.2.3 The Legitimacy Theory.....	18
2.2.4 Theory of Inspired Confidence	19
2.2.5 The Decision Usefulness Theory	20
2.2.6 Logic of Action Theory.....	23
2.2.7 Application of the discussed theories in this research study.....	25
2.3 External auditing.....	26
2.4 The evolution of auditing.....	27

2.5 The audit engagement concept.....	31
2.6 Client acceptance	32
2.7 International Standards of Auditing and client acceptance.....	34
2.8 Client acceptance decisions	36
2.8.1 Client-acceptance decision models	39
2.9 Audit firms in Zimbabwe.....	42
2.9.1 The big four audit firms and client-acceptance in Zimbabwe.....	43
2.10 Possible consequences of poor client-acceptance decisions	46
2.11 Construction of an instrument.....	47
2.11.1 Instrument Criteria 1	48
2.11.2 Instrument criteria 2	52
2.11.3 Instrument criteria 3	53
2.12 Chapter synthesis	53
CHAPTER THREE	55
THE CONCEPT OF ENGAGEMENT RISK	55
3.1 Introduction.....	55
3.2 The concept of Engagement Risk	55
3.3 Components of Engagement Risk.....	57
3.3.1 Entity’s business risk	57
3.3.2 Audit risk	58
3.3.3 Auditor’s business risk.....	63
3.4 Engagement risk control considerations	65
3.5 Managing engagement risk through client acceptance decisions.....	66
3.5.1 Management integrity	67
3.5.1.1 Management commitment to applicable accounting standards	68
3.5.1.2 Management internal control consciousness.....	68
3.5.1.3 Regulatory and reporting requirements.....	69
3.5.1.4 Existence of related-party transactions	69
3.5.1.5 Financial health of the prospective client	70
3.5.2 Nature of the entity	73
3.6 High-risk audit clients.....	76
3.7 Client acceptance by the big four firms in Zimbabwe	76
3.8 Chapter synthesis	77
CHAPTER FOUR	79
RESEARCH DESIGN AND METHODS	79

4.1 Introduction.....	79
4.2 Theoretical perspectives on the research design.....	79
4.2.1 Theoretical Framework of Research Design.....	82
4.2.1.1 The Positivist paradigm and quantitative research design.....	83
4.2.1.2 The Constructivist/Interpretivist paradigm and qualitative research design.....	84
4.2.1.3 The Realism paradigm.....	85
4.2.1.4 The Pragmatist paradigm and the mixed methods research.....	85
4.3 Research design in the development of the ERMI for Zimbabwean audit firms.....	86
4.3.1 Research approaches used in each of the two phases.....	88
4.3.2 Phase 1 data collection.....	89
4.3.3 Theoretical aspects of interviews.....	89
4.3.4 Interviews in this research.....	90
4.3.5 Theoretical aspects of data analysis.....	91
4.3.5.1 Thematic analysis for this study.....	93
4.3.5.1.1 Step 1: Become familiar with the data.....	93
4.3.5.1.2 Step 2: Generate initial codes.....	93
4.3.5.1.3 Step 3: Searching for themes.....	94
4.3.5.1.4 Step 4: Review themes.....	94
4.3.5.1.5 Step 5: Define themes.....	95
4.3.5.1.6 Step 6: Write-up.....	95
4.3.5.2 Data presentation.....	96
4.4 Phase II: The Delphi process.....	96
4.4.1 Theoretical framework.....	96
4.4.2 The Delphi questionnaire.....	99
4.4.3 The Delphi technique.....	99
4.4.4 Data analysis.....	99
4.5 The Research population, selected firms and sample.....	100
4.6 Validity and reliability: Theoretical aspects.....	102
4.6.1 Validity used in the context of this research.....	103
4.7 Ethical issues.....	103
4.7.1 Interviews.....	104
4.7.2 Delphi process.....	104
4.8 Chapter synthesis.....	105
CHAPTER FIVE.....	106
DATA ANALYSIS, INTERPRETATION AND PRESENTATION - PHASE 1.....	106
5.1 Introduction.....	106

5.2 Summary of engagement risk factors.....	106
5.3 Interview response rate	108
5.4 Report on the interview findings.....	109
5.4.1 Interview findings	109
5.5 Chapter synthesis	116
CHAPTER SIX	118
DELPHI TECHNIQUE RESULTS ANALYSIS, INTERPRETATION AND PRESENTATION	
– PHASE 2	118
6.1 Introduction.....	118
6.2 Response rate	118
6.3. Biographical characteristics of respondents.....	120
6.3.1 Gender.....	121
6.3.2 Age.....	121
6.3.3 Highest academic qualifications	122
6.3.4 Professional qualifications	122
6.3.5 Employment Role in the Audit Firm.....	123
6.3.6 Work experience	124
6.4 Rating of Engagement Risk Factors by respondents.....	125
6.4 .1 Shortened Engagement Risk Factors (coding).....	125
6.4.2 Rating of Engagement Risk Factors by respondents.....	127
6.5 Chapter synthesis	134
CHAPTER SEVEN.....	136
DISCUSSION OF FINDINGS AND CONSTRUCTION OF ENGAGEMENT RISK	
INSTRUMENT	136
7.1 Introduction.....	136
7.2 Restated objectives of the study	136
7.3 Brief overview of Phase 1 results	137
7.3.1 Engagement risk factors from literature.....	137
7.3.2 Engagement risk factors from interviews	139
7.4 Phase 2 of the study	140
7.4.1 Rating of the key engagement risk factors.....	141
7.4.2 Ranking of the Engagement Risk Factors by importance.....	142
7.5 Developing the ERMI for consideration by Zimbabwean audit firms.....	144
7.5.1 The ERMI	144
7.5.1.1 Explanation of the ERMI	144
7.5.1.2 Calculating the target scores	145

7.5.1.3 Overall client acceptance level	147
7.5.1.4 Guidelines on client acceptance or rejection.....	148
7.5.1.5 Possible modes of potential client acceptance	149
7.6 Chapter synthesis	150
CHAPTER EIGHT	151
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	151
8.1 Summary	151
8.2 Summary of findings.....	152
8.3 Limitations of the study	152
8.4 Contribution to the body of knowledge	153
8.5 Implications to audit firms	153
8.6 Implications for stakeholders	154
8.7 Conclusion	154
8.8 Recommendations for future research	155
REFERENCES	156



LIST OF TABLES

Table 1. 1: Studies on Audit Engagement Risk	4
Table 2. 1: Differing levels of audit quality in the US and non-US jurisdiction	45
Table 3. 1: Indicators of audit risks	61
Table 3. 2: Auditor's business risk factors.....	64
Table 4. 1: Delphi Survey Rounds	97
Table 5. 1: Engagement risk factors from literature	106
Table 5. 2: Confirmation of engagement risk factors through interviews	109
Table 5. 3: New engagement risk factors emerging from interviews	111
Table 5. 4: Frequency of engagement risk factors	111
Table 5. 5: A Consolidated list of engagement risk factors from literature and interviews ..	114
Table 6. 1: Response rate	120
Table 6. 2: Respondents statistics	120
Table 6. 3: Descriptive statistics on gender of the respondents	121
Table 6. 4: Descriptive statistics on age distribution of respondents.....	121
Table 6. 5: Academic qualifications	122
Table 6. 6: Professional qualifications.....	122
Table 6. 7: Role.....	123
Table 6. 8: Experience	124
Table 6. 9: Short codes for the engagement risk factors.....	125
Table 6. 10: Rating of the engagement risk factors	127
Table 6. 11: Highest Ranking Level (100%)	128
Table 6. 12: High Ranking (93.8%).....	129
Table 6. 13: High Ranking and 6.3% Lower Ranking.....	130
Table 6. 14: 87.5% High Ranking and Varied Lower Ranking.....	130
Table 6. 15: 81.3% High Ranking and Varied Lower Ranking.....	131
Table 6. 16: 75% High Ranking and Varied Lower Ranking.....	133
Table 6. 17: 68.8% High Ranking and Varied Lower Ranking.....	133
Table 6. 18: 62.5% High Ranking and 6.3% Lower Ranking	134

LIST OF FIGURES

Figure 2. 1: A Model of the Client-Acceptance Decision	40
Figure 2. 2: A Model of a Client-Acceptance Decision Process	41
Figure 4. 1: Relationships between Ontology, Epistemology and Methodology	80
Figure 4. 2: The Research Onion	82
Figure 4. 3: Types of designs using Morse (1991) Notation System.....	87
Figure 4. 4: Elaborated visualisation for the mixed methods procedures.....	87
Figure 4. 5: Thematic analyses for this study	92
Figure 7. 1: Importance levels of the forty (40) ERFs.....	143
Figure 7. 2: The developed ERMI	144



LIST OF APPENDICES

Appendix A: University of Johannesburg Research Ethical Committee Ethical Clearance Certificate.....	177
Appendix B: Letter seeking permission to conduct research through interviews	178
Appendix C: Letter seeking permission to conduct research through the Delphi Questionnaire	179
Appendix D: Structured Interview Covering Letter	180
Appendix E: Structured Interview Consent Form	182
Appendix F: Structured Interview Guide.....	184
Appendix G: Delphi Covering Letter	185
Appendix H: Delphi Consent Form	187
Appendix I: Delphi Questionnaire	188
Appendix J: Audio transcriptions from interviews	193
Appendix K: Communication seeking a list of registered and operating audit firms in Zimbabwe	213
Appendix L: List of registered and operating audit companies in Zimbabwe.....	214
Appendix M: Certificate of language editing	215

CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 Introduction and Background to the Study

The year 2001 saw one of the worst accounting scandals of the decade world over. This is the Enron accounting scandal, which was subsequently followed by the collapse of Arthur Andersen Audit Firm. The event had a negative effect on the audit profession globally. This occurred in the United States, whose government responded to this corporate failure by enacting the Sarbanes-Oxley Act of 2002 with the aim of ensuring that similar scandals would not recur (Association of Chartered Certified Accountants 2014). Elsewhere, this decade was characterised by accounting scandals such as the 2000 Tyco International collapse, the 2009 Saytan collapse in India, the 2008 Lehman Brothers debacle, and the 2002 WorldCom collapse among others (Jones 2011).

Arthur Andersen audit firm was an American holding company based in Chicago. Before its collapse Arthur Andersen belonged to the 'Big Five' club of accounting firms along with PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst & Young, and KPMG. Its collapse led to the formation of the 'Big Four', (Edelman & Nicholson 2011). As a result the top world audit firms are currently referred to the 'Big four' namely; PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst & Young, and KPMG. According to Kolakowski (2018) the Big Four team of audit firms is known to be the largest network that provides professional services namely: management consultancy; assurance services; audit and taxation; corporate finance; legal service; advisory and actuarial services. Further to that Kolakowski (2018) indicates that members of these big four conduct the majority of audits in public and private companies all over the world.

In South Africa, KPMG recently experienced its own debacles. In this regard, Shoaib (2017) observes that KPMG's audit of the Gupthas' Linkway Trading was reportedly used to channel taxpayers' money amounting to R30 millions, apparently meant to support farmers from Free State. This money was used to fund a wedding for one family. The consequence of this was a negative perception, general fallout and loss of confidence to the firm itself as well as the audit profession by the public. KPMG lost some of its biggest clients, and more clients were

reviewing their relationship with the company. On its part, the office of Auditor General of South Africa cancelled its contract with the firm (Staff Reporter Huffpost 2017).

Scandals such as described above, according to Mandeya (2016), have fascinated stakeholders to query the process of auditing, roles of auditors and company management, who are entrusted with shareholders' wealth. As a result, the process of auditing and role of auditors have come under increased scrutiny (Magaisa 2006). This scrutiny calls for audit firms to tighten their engagement risk management systems so that they guard against their reputational damage. The consequences of auditors' reputational damage include losses of finance and prestige; and potentially, the eventual collapse of the audit firm in question (Ethridge, Marsh & Revelt 2007).

Literature reveals that numerous post-Enron research studies were carried out by academics, auditors as individuals and audit firms, regulatory bodies, financial and professional analysts, and governing bodies (Sengur 2012). There was an increase in research focus on decision making on client acceptance and on how auditors assess potential clients in the last decade. Khalil, Cohen and Schwartz (2011) indicate that the interest in audit engagement risk emerges, partly as a result of their experiences namely; prosecution of audit firms, aggressive market forces, and contemporary improvements in technology improved the validation processes.

Hsieh and Lin (2016:99) state that “studies have tended to examine whether auditors evaluate client risk characteristics when making client portfolio management decisions, and whether auditors change their portfolio management strategies in response to changes in litigation liability”. According to Hsieh and Lin's (2016) observation, only a small number of researches investigated the impact of other attributes of auditors besides the size of the accounting firm. This is because auditors with different attributes might have varying risk determinants when they make decisions on client portfolio management.

Asthana, Balsam and Kim (2009) also investigated the effect of Enron, Andersen, and Sarbanes-Oxley Act on the US audit market services, specifically focusing on the audit fees. Their findings established that the instalment of the big four audit fees hiked in the year 2002. The researchers added that the hike was remarkably bigger for those clients that carry a higher risk and these findings were compatible with an aggressive market for previous Andersen clients. As a risk management tool around the client portfolio management and client risk characteristics, it would appear that audit firms, particularly the Big Four, were using the audit services fees so that they could hedge the potential liability of prosecution. These findings

consolidate the perception that the 2001 Enron – Andersen issue had a certain degree of impact in the audit field.

Ethridge *et al.* (2007) also explored to find out if audit firms had anchored their client acceptance/retention strategy in the post-Enron era. In their research, Ethridge *et al.* (2007) carried out an investigation to establish whether viewpoints and methods for assessing engagement risk had transformed markedly during the post-Enron era. Their findings were that the majority of audit partners were of the view that the engagement risk had changed.

It should be pointed out that current regulation about audit engagement is interested mainly in the evaluation of the risks lasting the preliminary phase of planning, which starts after the engagement acceptance and yet the process of the engagement's decision making is most probably the most important stage in the audit procedure (Ouertani & Ayadi 2012). From above assertion, Ouertani and Ayadi (2012) seem to be convinced that there is no regulation in regards to the engagement acceptance, which carries the engagement risk, and yet it is argued that this stage is very critical. As a guide, ISA 220 does provide the general guidance around this matter. The ISA 220 (Para A8-A9) states that; "The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed, and shall determine that conclusions reached in this regard are appropriate". There are no further details regarding the appropriate procedures referred to in the ISA 220. Perhaps the challenge with the ISA 220 guidance could be that it is not specific, in the sense that there is no guidance on how this is to be done.

Ouertani and Ayadi (2012) posit that the engagement process is complex. For instance, it comprises auditor decisions on the one hand and of the entity to be audited on the other. With such a complex process, the question is; how can there be no specific guidance in this area? Decker, Ray and Kizirian (2016) lament this fact, further pointing out that the existing guidance is common in nature, also spread across various promulgations and neither as extensive nor prescriptive as other significant auditing promulgations (Decker *et al.* 2016).

The intricacy of the system suggests that the decision to accept a client is subject to a lot of factors, and requires a lot of knowledge about events and about the client. Despite the importance of this decision, little is known with regards to how audit partners make this complex and multidimensional decision (Johnstone 2000). It is necessary to note that researchers interested in this phase of the audit process are very few, both nationally and internationally (Ouertani & Ayadi 2012). In order to illustrate the contribution to the client

acceptance discourse, Table 1.1 demonstrates the research that has been carried out in the field as well as the contribution it has made.

Table 1.1: Studies on Audit Engagement Risk

Research	Contribution
Johnstone (2000)	A Model on Client Acceptance Decisions.
Johnstone and Bedard (2003)	A Model on Risk Management in Client Acceptance Decisions.
Ethridge, Marsh and Revelt (2007)	Investigation on whether attitudes and strategies for evaluating engagement risk have changed remarkably in the post-Enron era.
Ouertani and Ayadi (2012)	“Auditor Engagement Decision: An exploratory study in the Tunisian context” (Ouertani and Ayadi 2012:371).

Table 1.1 presents studies that have been undertaken on the audit engagement risk field during the last two decades. The first two studies by Johnstone (2000) and Johnstone and Bedard (2003) that are indicated on the table were both models to guide client acceptance decisions. The last two studies on the table were specific investigations into the issue of engagement risk management. Overviews of the studies tabulated above suggest a knowledge gap on the detailed guidelines for making a client acceptance decision. It is this lack of adequate knowledge on how audit partners make this complex and multidimensional decision of client acceptance, together with continued reports of accounting scandals by audited corporates in Zimbabwe that prompted this study. Therefore, this research sought to cover the opening by constructing a detailed instrument to guide the complex and multidimensional client acceptance decision. The intended instrument is to guide the user on what circumstances a client was to be considered or rejected.

1.2 Research problem

A critical review of studies highlights some significant gaps in knowledge about engagement risk management, particularly the complex and multidimensional decision making process at

the point of accepting a client. Cascading from this global scenario to the Zimbabwean set up, Munyoro (2015) observes that most collapse of corporates in Zimbabwe was a result of recklessness and poor corporate governance principles by management and directors. Munyoro (2015) further points to a landmark case involving Gulliver Consolidated Industries (GCI), among others, where issues to do with integrity and the conduct of the nine directors caused the demise of the company and led to the loss of reputation, and litigation for the auditors. The conduct of company directors, such as recklessness, is part of management's characteristics and integrity, which are outlined by Siregar *et al.* (2006) as risk factors in decisions to accept or reject a client. Management integrity, which encompasses the conduct of directors, has also been identified by Zhenli (2016) as one of the engagement risk factors that should be assessed in order to determine the decision by an auditor whether to accept or keep an audit client. Zhenli (2016) posits that management integrity is most likely the most critical factor to be assessed in every audit engagement at the client acceptance stage.

Given that management integrity has been put on the lime light to be amongst the crucial factors to be assessed in every audit engagement in engagement risk management, this study was meant to traverse the literature, and engage with experts, in order to determine and establish other engagement risk factors that should be considered in the process of client engagement. In this regard, an ERMI guide, to be used by Zimbabwean audit firms at the initial stage of engaging a client, and in order to reduce engagement risk and maintain the audit firm's reputation, is constructed in this research study. The study intended to address the problem above by following the determination and establishment of engagement risk factors. It sought to develop a guide to audit firms on circumstances under which a potential client can be accepted or rejected.

1.3 Research questions

The research questions conceptualised to steer the research study were:

- What are the key engagement risk factors that should be assessed by audit firms during new engagement with the potential auditee/s or re-engagement with the existing clients?
- Could these engagement risk management factors be aggregated and prioritised in order to be used in developing the ERMI to guide audit firms in engagement decisions?

1.4 Objectives of the research

The primary objective of this study was to construct and refine an ERMI for consideration for use by Zimbabwean audit firms. In order to support the achievement of the main objective, the following secondary objectives were followed:

- To identify key engagement risk management factors that need to be assessed during the client acceptance stage, in order to develop an ERMI; and
- To validate accepted engagement risk factors for assessment by Zimbabwean audit firms during client acceptance through the Delphi Technique.
- To identify engagement risk factors emerging from the study.

An exploratory sequential mixed methods design was embraced to fulfil objectives of the study. The first Phase focused on identifying the key engagement risk factors from literature and structured interviews. The structured interviews enabled the identification and formulation of acceptable engagement risk factors to be assessed before client acceptance. Interviews were held with a group of experts.

Once the engagement risk factors were identified in Phase one, a Delphi questionnaire was developed and administered to a second panel of experts in order to evaluate the engagement risk factors identified in literature and considered by the first panel. This process of evaluating engagement risk factors was achieved through a one-round Delphi process in order to conclude on the accepted contents for the development of an ERMI for consideration by the Zimbabwean audit firms.

After consolidation, consideration and confirmations, data from the three processes described above was analysed using the SPSS. The results of the SPSS process were used in order to rank the engagement risk factors and determine their order in the construction of the ERMI.

1.5 Scope

Engagement risk is experienced from the engagement of the client through the whole process of carrying out the audit, writing the audit report and receiving payment for the audit services by an audit firm. Considering this long process of audit engagement, this study was confined to the engagement risk at the point of client acceptance only. Further, this study was carried out in Zimbabwe and it developed and evaluated an engagement risk instrument for the purpose of client acceptance by audit firms in Zimbabwe specifically. During the time this study was conducted, Zimbabwe had twenty-two (22) audit firms, and among them a total of four were

affiliates of the big four international audit firms. The majority of these audit firms had headquarters in Harare, the capital city of Zimbabwe, with a few having branches in some other cities and towns in the country. Data was collected from twenty (20) out of the registered and operational twenty-two (22) audit firms because the respondents from the other two were not accessible.

1.6 Significance, expected outcomes and contributions of the research

This study potentially has important implications for auditors in Zimbabwe, and for stakeholders such as the Zimbabwean government, academics and industry. Literature has indicated that making a decision on client acceptance is a critical and complex process but little information on how to make a decision by audit partners and chief risk officers to accept a client is known by. This study is, therefore, expected to provide specific guidance to audit firms in making client acceptance decisions. Currently, in Zimbabwe there is no known research study in this area. It is expected that this study would prompt more research in this specific field. Through the instrument developed by the researcher, this study further provides potentially critical guidelines on the kind of engagement risk factors to assess in the engagement of clients, thereby enhancing decision making during client acceptance. The developed engagement risk management instrument is expected to be a useful tool for audit firms when they engage potential clients or re-engage existing clients. The instrument is also expected to reduce the number of the continuously reported company collapses that result from Zimbabwean auditors engaging risky clients, and thus, subsequently contributing to the management of reputational risk.

1.7 Research outline

The study report has eight chapters as outlined below:

Chapter One: Introduction and Background

In this chapter the background to the study was provided, the research problem stated, the research question and objectives formulated, and the scope of the study was demarcated. The chapter also outlined the significance of the study output.

Chapter Two: Theoretical Framework, the Audit Process and Client Acceptance Procedures

The chapter describes audit engagement and focuses on reviewing the present position of knowledge on the general process of audit engagement at the client acceptance stage. It also

describes the theoretical framework informing the study, and on which the audit process is dependent and the dynamics involved in the process of client acceptance/rejection.

Chapter Three: The Concept of Engagement Risk

This chapter describes engagement risk and its components. It further focuses on the key engagement risk factors that partners in audit firms should assess when evaluating a potential client.

Chapter Four: Research Design and Methods

This chapter discusses the research structure and methodology employed in this research. It outlines the two phases of the study in line with the exploratory sequential research design. Sampling, data collection, preparation of the measurement instrument, testing the validity and reliability of the ERMI and ethical reflections were explored in this chapter.

Chapter Five: Data Analysis, Interpretation and Presentation – Phase 1

The chapter discussed the findings from phase one of the study, which is the qualitative exploratory phase. It presents findings from the interviews.

Chapter Six: Delphi Technique Results Analysis, Interpretation and Presentation – Phase 2

The chapter discussed the findings from phase two of the study, which is the quantitative exploratory phase. It presents findings from the Delphi questionnaire.

Chapter Seven: Discussion of Findings and Construction of Engagement Risk Management Instrument. Results are discussed and interpreted in this chapter. The ERMI is also constructed in this chapter.

Chapter Eight: Summary, Conclusion and Recommendation

Chapter eight is the last chapter, and it summarises all the chapters and findings. It also presents limitations of the study, contributions of the study towards the body of knowledge, and implications of the study on audit firms and stakeholders. Finally, the chapter discusses the conclusions and recommendations of the study.

1.8 Chapter synthesis

Chapter one articulated the background to the research problem, and outlined the research problem. It also presented the research question and listed the objectives of the study. The scope, significance of the study and expected outcomes were also outlined. Finally, Chapter one described the research outline. The following chapter presents the first part of the literature review, which is relevant literature to the process of audit engagement. It also highlights the theoretical framework of the audit process and decision making dynamics involved in the process of client acceptance /rejection.



CHAPTER TWO

THEORETICAL FRAMEWORK, THE AUDIT PROCESS AND CLIENT ACCEPTANCE PROCEDURES

2.1 Introduction

The previous chapter presented the background to the research problem, the research problem and the research question, and outlined the objectives of this research study. This chapter presents the theoretical framework of the audit process and decision making dynamics during client acceptance or rejection. In addition to this, the chapter also presents some review of literature on the audit process, with a particular focus on client acceptance procedures and the audit evolution over time. The nature and distribution of audit firms in Zimbabwe is outlined, after which the regulatory authorities and possible consequences of poor client acceptance decisions are discussed. Considering that the audit engagement process is long and entails all stages from client acceptance, the engagement letter, the actual auditing process and report writing, this review of literature examines the engagement process at the client acceptance/continuance stage, which is the focus of this study. This chapter is presented as follows: section 2.2 describes the theoretical framework of auditing decision making in client acceptance; section 2.3 provides a brief overview on external auditing; section 2.4 examines the evolution of auditing; section 2.5 examines the audit engagement concept; section 2.6 examines client acceptance; section 2.7 examines international standards of auditing and client acceptance; section 2.8 examines client acceptance decisions; section 2.9 examines the audit firms in Zimbabwe; section 2.10 discusses possible consequences of poor client acceptance decisions; section 2.11 discusses construction of an instrument; and section 2.12 presents the chapter synthesis.

2.2 Theoretical Framework

In order to guide the study, six theoretical frameworks were considered, and these are the agency theory, the lending credibility theory, and the legitimacy theory, the theory of inspired confidence, the decision usefulness theory and the logic action theory. Audit services are sought by companies for various reasons, including the company attempting to earn credibility, legitimacy and confidence from principals and stakeholders. Volosin (2007) points out that since the inception of the audit profession, there have been many theories generated in an effort

to specify and determine the audit functions. Therefore, there are so many varied theories that explain and justify the demand for audit services (Volosin 2007). According to Mironiuc, Chersan and Robu (2013), there are four critical theories whose combination prompts the need for audit services by audited clients. The Policeman Theory, the Lending Credibility Theory, the Theory of inspired Confidence, and the Agency theory are the four theories referred above.

For this study however, the Policeman Theory was not considered because there has been a shift from the focus on the roles of an auditor, which is no longer the prevention and detection of fraud (Hayes, Dassen, Schilder & Wallage 2005). Currently, there is a general acceptance that the main purpose of an external audit is no longer the detection and prevention of fraud. Hayes *et al.* (2005) point out that the Lending Credibility Theory is premised on the huge public impression harboured by the audit organisations that they play a significant role of ensuring that financial statements of organisations are credible. This theory was not considered to address the concerns of this research study for the mere reason that it focuses on the end result of the audit process; which is the credibility of financial statements. The outcome of the process may not matter if the engagement process is flawed. As such, the theoretical framework for this research study was informed by a total of six theories, namely: The Agency Theory, the Lending Credibility Theory, the Theory of Inspired Confidence, the Legitimacy Theory, The Theory of Logic of Action and the Decision Usefulness Theory. The theory of Logic of Action is important for the purposes of explaining the process of decision making by auditors during client acceptance, and before an audit engagement.

2.2.1 The Agency Theory

As highlighted by Kaplan Publishing (2012) the Agency Theory is premised on the problem of directors wanting to control a company whilst shareholders do own the company. Mitnick (2006) points out that in the past; a problem was recognised whereby the directors would not want to act in the shareholders' best interests. The agency theory then came on board to tackle this problem by identifying ways and means to prevent the problem. The agency has some key concepts identified by Kaplan Publishing (2012) as follows: An agent – is personnel employed by a principal and is responsible for carrying out a task on the principal's behalf; Agency means the existing relationship between a business owner and their management; Agency costs are those costs that are incurred by principals in an effort to monitor agency behaviour because generally the agents lack good faith; and as agents accept to execute a task on the principal's behalf, they become accountable to the principal by whom they are employed. As indicated by

the Institute of Chartered Accountants in England and Wales (ICAEW) (2005), an agency relationship, comes into existence the moment a principal owner of a business engages someone to act as their agent to carry out a duty in their place. In addition ICAEW (2005) indicates that the performance of a service by an agent in place of the principal also leads to the assigning of some authority to make decisions by the agent. It is important to note that such delegation implies that the principal is required to put trust in the agent and think that the agent does not contradict with the concerns of the principal but conform. For example, Panda and Leepsa (2017) indicate that ownership in a joint stock company, is held by a group of individuals, called shareholders, in the form of stock and in this set up it is these shareholders who delegate the deciding powers to management so that they operate the business for them. In most cases there is an issue that arises from this set up, and the issue according to Mitnick (2006) is whether these managers will perform for the owners of the business as expected or they will work for themselves. Literature revealed that the agency theory revolves around the issue of the agency problem and its solution. Panda and Leepsa (2017) point out that the agency problem widely exists in most organisations and this has resulted in the recognition of the theory as one of the most important theories in the finance and economic disciplines and literature.

2.2.1.1 The separation of ownership and control

The Agency Theory discusses the problems that are rampant in the firms are emanating from the separation of ownership from those that manage the business, and also focus on how these problems can be reduced (Panda & Leepsa 2017). The separation of ownership and management is illustrated on fig 2.1.

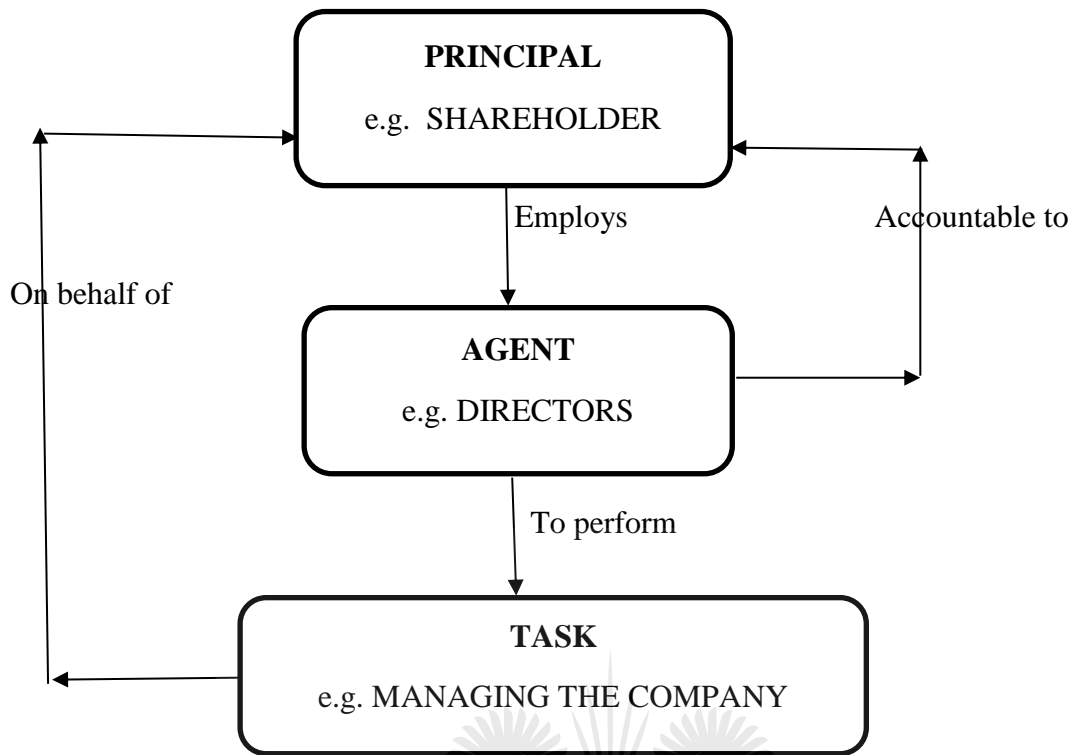


Figure 2.1: Separation of ownership and control

Source: Kaplan Financial Knowledge Bank (2012).

Figure 2.1 illustrates that shareholders employ agents and assign control to the professional managers, who are the agents to manage the company for them. The agents (directors) have a legal guardian responsibility to the shareholders to perform the task to promote the best interests of the shareholders. Shareholders are usually passive in the routine running of the company. According to Kaplan Publishing (2012), the separation of ownership from running has resulted in widespread conflict of interests between owners of businesses and the directors. For example, Kaplan Publishing (2012) indicates that the agents usually have what they would call commonly acceptable objectives to them and these are the desire for high salaries, directors' status and huge bonuses. These objectives normally do not conform to those of the principal who aim at maximisation of wealth.

Therefore, the agent and the principal have different and opposite goals and interests, and so there exists a conflict termed the agency problem. As indicated by ICAEW (2005) information asymmetry and differences in the risk sharing attitudes leads to the occurrence of principal-

agent problem. The agency theory suggests that business owners have no reason to trust their directors as a result of information asymmetry and self-interest, and that they will make effort to address these concerns. These concerns could be addressed by putting in place some mechanisms that will align agents' interests with those of principals and also reduce opportunistic behaviours and streamline the scope of information asymmetry (ICAEW 2005).

2.2.1.2 Examples of principal-agent relationships

Two examples of principal-agent relationships were identified by Ruia (2016) namely: shareholders and auditors; and shareholders and directors. This study focused on the shareholders and auditors relationship. In this relationship, according to Ruia (2016), the audit exercise is perceived as a critical element of corporate governance, and that it renders an independent assessment of the financial position of the business entity. When carrying out an audit, auditors play a role of agents to principals, and this relationship raises similar concerns in regards to trust and confidence in the same manner as the director-shareholder relationship. Kaplan Publishing (2012) posits that in a similar way auditors will also harbour their own interests and motives to promote just like directors. Against this background, it should be noted that independence of stakeholders from the interference of board of directors is of paramount value since it is regarded as a crucial component in ensuring the delivery of quality audit. In addition it should be noted that an audit promotes a healthy working association linking the business owners and the board of directors of a company. Mitnick (2006) further indicates that this close relationship between board of directors and auditors leads shareholders interrogating the perceived and actual independence of auditors to the extent that tougher control measures together with standards have been introduced to protect the shareholders.

2.2.1.3 Agency costs

According to Peavler (2018) disagreement between business owners and business managers on which courses of action will be best for the business generate costs which can be described as agency. This disagreement cost is inherent and leads to the rise of "the agency problem" (Peavler 2018). Therefore, agency costs are internal costs that are incurred in resolving disagreement between the opposing interests of business owners and the management and for managing their relationship (Nam, Tang, Thornton Jr & Wynne 2006). For example, Nam *et al.* (2006) posit that agency costs are incurred where the senior management team, when travelling, unnecessarily reside in the very expensive hotels or orders unnecessary hotel upgrades. The agency costs directed towards managing principal-agent relationships have an

effect of increasing operating costs of the company and do not add any value to the business owners (Nam *et al.* 2006).

Peavler (2018) submits that agency costs can be either direct or indirect. Direct agency costs have two categories namely: corporate expenditures which are of benefit to the management at the expense of principal business owners; and an expense that results from monitoring management actions in an effort to maintain the principal-agent relationship in line, such as paying external auditors so that they examine the accuracy of the company's financial statements. As indicated by Nam *et al.* (2006), indirect agency costs, on the other hand, refer to lost opportunity; for example, management may embark on projects that do not add value to the business, simply because if a project fails, management might lose their jobs whilst business owners might want to accept the risk because the success of the projects will maximise shareholders' wealth.

2.2.1.4 Reducing agency costs

According to Peavler (2018), the ordinary and effective way of lowering agency costs in a principal-agent relationship is to apply an incentive project, which can either be financial or non-financial. Literature reveals that financial incentives are the most commonly applied incentives scheme where, for example, if an organisation attains a certain goal, the team of managers are awarded a monetary bonus. Other examples of financial incentives, according to Nam *et al.* (2006), are: stock promotions, where a person is allowed to purchase a given amount of shares at a pre-agreed price; and sharing of profits, where managers receive a certain portion of the company's profits.

Material incentives are rarely adopted because many a times they are not as effective and successful at lowering agency costs unlike the financial incentives and examples of these material incentives include new offices or workspace, capacitation opportunities, acknowledgement from co-workers, and a company vehicle among others (Peavler 2018). It should be noted that agency costs cannot be totally removed; incentives are in themselves a form of agency costs.

2.2.1.5 Aligning the interests of agents with principals'

According to Agoglia, Hatfield and Lambert (2015), there are various mechanisms that may be employed so that interests of management can be aligned with those of the business owners, and also to enable business owners to measure and control the behaviour of their managers and

build trust in them. Among other mechanisms, auditing is used to monitor agents' behaviour and performance. An audit, as presented by ICAEW (2005), gives an independent scrutiny of the work of directors and of the information that they also provide, and this scrutiny helps to build and maintain confidence and trust. Advocates of an audit, as indicated by Abreu (2015), hypothesise that audit is one type of monitoring and control activity that adds value to a company. As much as audit is taken to be an independent exercise that results in presenting the professional judgement on the financial statements belonging to an organisation, an audit exercise is also viewed in esteem as an important tool for monitoring the governance of companies. It is also considered an effective instrument for reducing information asymmetry. Further, Abreu (2015) posits that a number of studies employ the agency theory framework as a tool used to scrutinise the role of the auditor in society.

For audit, Almeida (2014) observes that various authors, including Wallace (1980); Flint (1988); Knechel, Naiker and Pacheco (2007); Arens, Elder and Beasley (2010); and Rittenberg, Johnstone and Gramling (2010), recommend an audit justification based on agency theory, anchored on distinct division between the business owner and management. The agency theory originates from relationships of responsibility between the principals and agents, who are the key people working at the heart of organisations. Almeida (2014) further posits that these relationships unfold within a context of information asymmetry, an unfavourable selection and moral peril within which identifiable facts exist and have the potential to trigger doubts, uncertainties and intentions in the various stakeholders of the company. The relationship between the agent and the principal functions on the basis of loyalty and trust; therefore, the auditor is seen as an agent who verifies the actions of another agent in a context of minimising the cost of the principal.

This theory, therefore, justifies the need for a company to seek the services of an audit firm in order to earn trust from the principal. If the audit firm accepts a client, then the auditors are contracted as agents under a contract and they should be autonomous or self-standing and become an objective arm of the governance process which mitigates for information asymmetry and potential moral hazard should there be no checks and balances. As a crucial feature of the check and balance system, there is need for an audit firm to have a thorough comprehension of the risk factors, and work through mitigating this so as to preserve and ensure the success of the interests of the principals.

2.2.2 The Lending Credibility Theory

Okpala (2015:97) posits that, “the Lending Credibility theory proposes that the basic role of the audit exercise is to attach credibility to the financial statements and in this regard the commodity that is being sold by the auditors to the clients is credibility”. This is another audit theory that is based on public perception. The lending credibility theory states that those financial statements that are audited intensify the stakeholders’ credence in the declaration by management and the governance team (Hayes *et al.* 2006). Firouz and Attaran (2013) posit that the lending credibility theory is likened to the agency theory; it adds credibility to the financial statements and reduces information asymmetry. Shareholders need a guarantee for a fair reflection of the business’ economic value and therefore the theory emphasises the importance of attaching credibility to the financial statements as the basic role of an independent audit (Hayes *et al.* 2005). Shumba (2015) posits that the auditors confer their credibility to a business organisation at hand and its financial status through conveying a professional judgement on the fairness view of the business organisation’s performance and confirming conformity to the statutory provisions in producing the financial statements through authenticating the fairness and precision of an entity’s financial statements. Auditors’ professional view on a business organisation’s financial statements promotes investors’ confidence in the financial statements of that entity. Wright and Rosen (2018), thus, describe credibility as a powerful tool that defends the interests of both investors and stakeholders.

Firouz and Attaran (2013) argue that when stakeholders such as creditors or government need to make their decisions and judgements on the financial information, they must trust that this is a fair report of the company’s value, and the audit exercise ameliorates the quality of investment decisions. Audited financial statements could then be considered to have supplementary elements, which enlarge the users’ confidence in the figures presented on the financial statements (Volosin 2007). Volosin (2007) adds that according to this theory, the users benefit from the increased credibility, which has a direct influence on the quality of investment decisions as they are based on dependable information. As highlighted by Firouz and Attaran (2013), the external audit exercise is meant to append credibility to financial reports and minimise information risk that financial reports are biased, misleading, imprecise, and incomplete and hold material misstatements that were not intercepted or discovered by the ICFR system.

This theory, therefore, justifies the need for a company to seek the services of an audit firm in order to earn credibility for their financial statements, and confidence of stakeholders. Since the audit firms play such a crucial role of lending credibility to companies, the implication is that every company needs that credibility and will look for an audit firm to render such services. To avoid engaging potentially risky clients, an audit firm should exercise a lot of caution in engagement risk assessment. As a crucial feature of the check and balance system, there is need for an audit firm to have a thorough comprehension of the engagement risk factors and work through mitigating the engagement risk so as to preserve its reputation as well as that of the audit profession.

2.2.3 The Legitimacy Theory

The theory of legitimacy talks about a social agreement entered into by the two parties namely the organisation and the society, constituting a set of indirect or straightforward assumptions of members of the society on how the organisation is expected to operate (Abreu 2015). Guthrie, Cuganeson and Ward (2006) posit that the legitimacy theory states that business organisations continually seek to make sure that they operate within what they are obligated and norms of their respective societies. Hence if a business organisation adopts a legitimacy theory perspective, it is expected to make voluntarily reports on activities that the management perceives that those activities were expected by the community members in whom the business organisation operates. Therefore, the legitimacy theory hinges on the impression that there must be a social agreement between a business entity and the community where it operates. The society has a say on whether or not the operations of a company continue successfully as society has certain expectations that need to be met by organisations operating in their space (Branco & Rodrigues 2006; Mohammed 2018). Without the society lending legitimacy to an organisation operating in its space, it is difficult for that organisation to maintain the interests of stakeholders (Branco & Rodrigues 2006).

Abreu (2015) warns that the legitimacy theory is an idea that is still being scientifically expanded; and therefore, its concept has not yet been completely established. Many researchers have different point of views and approaches about legitimacy, for example regulatory socio-economic legitimacy and regulatory legitimacy (Abreu 2015). In this regard, De Bellis (2011) is of the view that regulatory legitimacy is approved during the course of setting of international standards some of which are the International Accounting Standards (IAS) and International Standards for Auditing (ISA) that have turned to be progressively important because of

globalisation. Further, Abreu (2015) highlights the fact that, an increased number of auditors take legal responsibilities, and the level of credence is buttressed by the atmosphere of increasing levels of supposition of citizens who are guided by the statutory report, with which the auditor is arraigned daily. An effective way of auditors to contribute in a positive way to the ever changing factors of citizenship and increasing value to the auditor's report is to meet the assumptions of users of the financial statements (Abreu 2015).

More and more, it is becoming apparent that society has a huge role in the continuing existence of an organisation. The society's huge role is that of lending legitimacy to organisations operating in their space. The perpetuity of an organisation may be jeopardised if the society learns that an organisation has violated its social agreement (Abreu 2015). Since the society is not part of the internal stakeholders, it will rely on reports to discover such infringements. The legitimacy theory can also be signalled as a justification for the necessity of an independent professional judgement on the truth and fairness of the business organisation's reporting (Hayes *et al.* 2005). This independent opinion can only be provided by auditors after conducting an audit of financial statements for an organisation. Once more the opinion is expressed after the audit has taken place, which would have been preceded by the engagement process. Should engagement risk factors not be properly outlined and mitigated, a risky client could be mistakenly taken on board, causing the audit firm to fail in its duties of lending legitimacy to the audit processes, and the society losing confidence in the industry and the auditing profession.

2.2.4 Theory of Inspired Confidence

The theory of inspired confidence was originated in the late 1920s by Dutch Professor Theodore Limperg. The theory speaks to both the demand for and supply of audit services (Hayes *et al.* 2005). In developing this theory, the functions of an auditor were outlined as follows by Sijpesteijn, Knecht, Van Der Boom (2011:13);

the auditor, as an agent, derives his general function in society from the need for expert and independent examination and the need for an expert and independent opinion based on that examination... the function is rooted in the confidence that society places in the effectiveness of the audit and in the opinion of the accountant...this confidence is, consequently, a condition for the existence of that function; if the confidence

is betrayed, the function too, is destroyed, since it becomes useless (Sijpesteijn et al. 2011:13).

According to Ittoten (2010), the need for audit services is viewed as the direct outcome of the involvement of external stakeholders in a business organisation where these external stakeholders need accountability from the managers, in exchange for their augmentation to the business organisation. Accountability is attained through the dispensation of regular financial reports. An audit is needed for the purpose of affirming the dependability of this information since there are chances that the information supplied by the business management could be biased, and external stakeholders can not directly monitor the business activities (Hayes *et al.* 2005). With regards to the provision of audit assurance, Limperg Jr (1985) proposed that the auditor must always make effort to fulfil the community members' expectations.

The theory of Inspired Confidence, therefore, justifies the need for audit services to a company as a way of raising the confidence of stakeholders in the company. The inability of the audit firm to properly identify engagement risk factors in order to be in a position to determine whether it has the ability or proper risk appetite for that degree of risk could lead to that company failing after it has been audited, and loss of trust in the audit organisation itself together with the profession.

2.2.5 The Decision Usefulness Theory

According to Tollerson (2012), the idea of decision usefulness was inaugurated in accounting theory in the year 1966 by a committee that was put in place by the American Accounting Association (AAA), which was tasked with designing a 'Proclamation of Basic Accounting Theory'. According to this committee, the most critical benchmark used in the selection of accounting measurement's method is the decision usefulness of accounting information for those who use it. This must be assessed by the foreboding capacity of the accounting information, and the more precise the users are capable of foretelling economic and financial events making use of accounting information, the more functional the information is for them (Tollerson 2012).

Staubus (2000) describes the decision usefulness theory as a paramount theory because it is the fundamental theoretical basis for the FASB's conceptual framework. The theory in question makes effort to advance a scientific and objective technique to assist those who set standards

as they choose the best option of the measurement together with the dispensation of accounting data. The decision usefulness theory states that the best accounting standards is one that supplies the most useful financial information to the users of that information as they make their decisions (Cordery & Sinclair 2016). Staubus (2000) posits that this theory is just like most other social science theories, because it is made up of a mixture of normative and descriptive propositions, but its crux is the decision usefulness objective. Staubus (2000) further reiterates that the aim of accounting is to render financial accounting information pertaining to the business organisation for use in decision making.

2.2.5.1 Decision-Usefulness objective

Decision-usefulness as a General Purpose Financial Report (GPFR) objective originated from the United States (Cordery & Sinclair 2016). Cordery and Sinclair (2016) further indicate that the US was the first jurisdiction for the use of the theory, from 1989 onwards but the International Accounting Standards Board (IASB) also introduced it, and from 2006 decision usefulness was given preference as the purpose for international reporting. According to Hitz (2007:326),

The decision-usefulness is premised on the strong Efficient Market Hypothesis, which presupposes that the share prices incorporate all relevant public information, and also that a bigger volume of timely information promotes market efficiency and reduces the prize of capital (Hitz 2007:326).

Heinle and Hofmann (2011) highlight that business organisations might furnish such information willingly, but regulators also need disclosures to promote markets' operations; thereby, need forecast in advance to make useful decisions on capital markets. From this set up, Cordery and Sinclair (2016) justify the need for those who set standards as well as regulators to consider requirements of participants in the capital markets requirements as they endorse financial and non-financial declarations to defeat the unavoidable information asymmetry.

Cordery and Sinclair (2016) indicate that the IASB's (2015 para. 1.4) Conceptual Framework Exposure Draft which is (similar to 2010) identifies users as "existing and potential investors, lenders and other creditors", and thus users encompass those with "critical and immediate need for the information in financial reports [which] many cannot require the entity to provide

directly” (IASB 2010a, para. BC1.16).As highlighted by Cordery and Sinclair (2016), the (IASB 2008 para OB9-11) states that under the decision-usefulness objective, capital providers are “directly interested in the amount, timing and uncertainty of an entity’s future cash flows, and also in how the perception of an entity’s ability to generate those cash flows affects the prices of their equity interests”. However, Stevenson (2013: 16) says;

the IASB is yet to identify the generic types of information about an entity that should be relevant to users in order for them to make decisions about the allocation of scarce resources and calls for purpose-driven disclosure and presentational approaches that would clearly express the decision-useful objective (Stevenson 2013: 16).

In their research professional investors together with advisors have noted that mark-to-market fair values are useful for decision making and at the same time also find mark-to-model fair values to be minimum useful in decision making rendering suitable measurement under decision-usefulness is disputed (Hitz 2007). Barth (2014:338) posits that;

fair value measurement is better compatible with the current framework ideas than either revised or unrevised historical cost in demanding for a measurement objective to buttress decision-usefulness and yet, it is perturbing that such future-focused information is less provable (Barth 2014:338).

To sum it up, the feature of decision-usefulness that should be anticipated in the conceptual framework becomes a prediction on those who provide capital. These capital providers, according to Cordery and Sinclair (2016), use the GPFR of entities to analyse the impact of apprehensions of future cash flows that are expected from the cost of capital, and will also make decisions based on this information on availing future capital to those business organisations. As such, they are expected to have credence in the standards employed to construct GPFR, regardless of shortcomings of the standards (Cordery & Sinclair 2016).

2.2.5.2 Importance of the Decision Usefulness Theory for standard setters

The conceptual framework for the financial reporting is one of the most critical documents for those who set standards and accounting professionals, and it expresses that reporting on

financial statements should target to furnish important and usable financial information to investors, lenders, creditors and other stakeholders regarding how they make informed decisions on allocation of their capital (Djayoon 2014). Djayoon (2014) further indicates that financial information might additionally be useful to other users beside these capital providers, but the most vital group earmarked by those who set standards is the group of capital providers. These capital providers must be able to depend on the published accounting information in order to make decisions on which business organisations they intend to invest or disinvest their capital.

2.2.5.3 Application of the Decision Usefulness theory in this study

The decision usefulness theory directly applies to the accounting practices by an entity that needs to be audited. The decision usefulness theory has been described as an objective of the General Purpose Financial Report (GPFR). Since it is an objective of the general financial report, the decision usefulness theory is expected to meet this objective in its reporting for the purpose of potential investors. Therefore, when an entity seeks an audit engagement with an audit firm, the audit firm should ensure this aspect is part of the engagement risk factors that get assessed before client acceptance. The inability of the audit firm to properly identify engagement risk factors, particularly in regards to the fulfilment of the decision usefulness objective by a potential client in order to be in a position to determine whether it has the ability or proper risk appetite for that degree of risk, could lead to that company failing after it has been audited, which results in the leads to misplaced confidence in the audit firm itself and the profession.

2.2.6 Logic of Action Theory

The Gaulejac's (1987) concept of logic of action is described by Gendron (2001:660) as, "a means of logic interpretation or an interpretive scheme that directs members of an organisation when making decisions". This logic might be difficult to ascertain since it seems to vary depending on individual interpretation. According to Gendron (2001:660), "Gaulejac posits that decisions for the organisation are taken in the middle of some forces that, when contrasting; have to be harmonised, each force carrying its own rationalisation with regards to the way decisions have to be made". Further, Gendron (2001) explains that these logics of action are transmitted through organisational documents such as the policy manual, the professional reading material and deliberations amongst the staff. Further, Gendron (2002) confirms that

each organisational decision show decision makers tend to resolve the logics of action at any given time, and subscribe to promote the explanations which give guidance in decision making.

The four logics of action that have been identified by Gendron (2001, 2002) as reflected in auditors' decision process of accepting a client, are mechanization, organic/flexibility, professionalism, and commercialism. Each of these logics advocates a particular way of making decisions. The logics of action are produced and reproduced through organisational members' daily activities and decisions (Gendron 2002). Research evidence, as indicated by Gendron (2001), indicates that these four logics permeate auditors' working environment. According to Gendron (2001), proponents of the mechanization logic of action depend on standardisation of work procedures to synchronise activities that are carried out within the firm. This standardisation results in administrative partners develop detailed policies to closely control and balance the process of making decisions, which auditors should uphold with little or no non-mandatory liberty.

Contrary to mechanization, advocates of the organic logic of action contemplate that the process of making decision should be versatile to become aligned to the finer details of circumstances, and circumspection of making decisions is therefore assigned to those auditors regarded as the experts to and reactive to challenges created by the macro or micro-environment (Gendron 2001). Professionalism is premised on the context that professionals should be devoted to providing service as a public good and rather not to gratifying their individual interests (Gendron 2001). Therefore, in the audit set up, according to Bailey (1995), the dedication to provide service to the public means that auditors are particularly perceptive to the expectations of shareholders and the other interested parties who depend on the financial statements. Commercialism, as indicated by Gendron (2001), favours near-to middle-term profitability. Gendron (2002) posits that commercial auditors are described in auditing literature as striving to make audit activities profitable within a short to middle term horizon, their driving motivator in the work place being remuneration.

Various authors, including Gendron (2001, 2002) and Canning and O'Dwyer (2006) have investigated the application of the concept of logics of action to the auditors' client acceptance decision processes. In trying to comprehend how auditors make challenging client acceptance decisions, Gendron (2001) concludes that decisions to accept a client might be challenging due to incongruent coercion amid professionalism and commercialism, and that these could be at the centre of the client-acceptance quandary for the auditors. An example of this scenario is

where auditors might have to decide on whether they should accept or reject a potential client whose audit service is likely to yield a lot of profit to the firm in a short term to middle term whilst their acceptance have a potential to end up marring the independence reputation of the audit firm (Gendron 2001). In this case commercialism and professionalism are contradicting. It is in the middle of these two logics of where each portrays its own depiction of making decisions. These depictions many a times lead to points of conflict in routine decision processes (Gendron 2002). To avoid conflict in day-to-day decision processes in accepting a client for an audit engagement, the audit firm should correctly identify the engagement risk factors that affect a client so that they can assess them accordingly. When the identification and evaluation of the engagement risk factors is properly done, the process of client acceptance decision making becomes simple, and the tension in routine decision process alluded to by Gendron (2002) could be avoided.

2.2.7 Application of the discussed theories in this research study

This research study focused on engagement risk management during client acceptance for an audit engagement. This involves the explanation of the auditing process and its justification, and it is where the agency theory, legitimacy theory, and the theory of inspired confidence apply. After that, focus was on the process of client acceptance by an audit firm. This is when the theory of logic of action comes handy to explain how auditors make decisions in client acceptance after assessing engagement risk factors for a client's organisation.

The agency theory justifies the need for a company to seek the services of an audit firm in order for it to earn trust from the principal, who is the owner of the business. The legitimacy theory explains the necessity for a free from interference professional judgement regarding the truth and fairness of the business organisation reporting. The theory justifies the importance of auditors in endorsing the legitimacy of a client's financial reports in order to be acceptable to the stakeholders. The theory of inspired confidence speaks to both the demand for, and supply of audit services. The independent opinions issued by auditors are embedded within the credence that the society is placing on the audit process influence and the professional judgement of the auditor.

Since client acceptance decision-making is also discussed in this study, the logic of action theory explains the complexity of client acceptance decision making. The decision made by auditors, whether to take the client on-board or decline, could be as an influence of the four logics of action, which are professionalism, commercialism, mechanization or organic/flexibility

influences as explained by the logic of action theory. The process of engagement risk assessment could be carried out, but, ultimately, the decision whether to take a client on-board or reject a client for audit engagement is influenced by the four logics of action.

2.3 External auditing

Ruppert (2005:2) states that “external auditing is a periodic or specific audit conducted by external, qualified accountants in order to give a professional judgement of the financial statements indicative of the status and business operations of the company being audited”. Szivos (2014) highlights that the process is guided by the professional standards and accomplished by individual members who have nothing to do with the process that is being audited. It is usually conducted by the audit firm personnel who are holders of at least one of a number of recognised qualifications (Ruppert 2005). These certificated individuals are called auditors and are there to provide reasonable assurance through expressing a professional judgement on a subject of thought. Assurance is very critical since it increases the level of confidence that is placed in the matter of thought by those who intend to use the financial information.

According to Szivos (2014), when the auditor’s professional judgement reflects that financial statements are ‘true and fair’ it implies that the financial statements are factual and are independent from misstatements of substance. Further, it is also a reflection that financial statements are independent from partiality and indicate the commercial material of those transactions that would have been recorded. It must, however, be noted that during the audit, auditors examine the transactions that took place and were recorded during their absence. Under these circumstances, the Association of Chartered Certified Accountants (2014) appears to suggest that Szivos’ (2014) views on truthfulness as well as fairness are not well justified. This, according to their argument, is due to the fact that auditors cannot give a reasonable assurance because financial statements are a rooted upon historic information from which auditors may not be capacitated to extract the evidence they need to give that particular assurance (Association of Chartered Certified Accountants 2014).

For Solomon (2015), there are three main types of audits that are carried out by external auditors. These are identified as the financial statements audit, the operational audit, and the compliance audit. Following is a brief description of each of these types of audits. A financial

statement audit analyses financial statements, the records, and also related operations to determine compliance to GAAP (International Financial Reporting Standard) (Solomon 2015).

An operational audit analyses activities of an organization in order to examine performance and come up with suggestions to improve, as well as for further action. Auditors conduct statutory audits that are executed as a requirement of a regulatory body, which could be a federal government, state, or city or agency among others (Szivos 2014). The objective of a compliance audit is to establish if an organization is in compliance or not with laid down procedures or rules (Solomon 2015).

The International Federation of Accountants (IFAC) (2015) identifies two sets of audits, namely the statutory and the non-statutory audits. Accordingly, the statutory audit occurs when it is considered important for an entity to have an audit by law. In this regard, all public and large companies are obliged to have a statutory audit. On the other hand, the non-statutory audit is not a legal requirement and is usually undertaken by small companies when they want to provide assurance to the owners in regards to financial results, make accounts more acceptable to tax authorities, make a sale of the business easier, and provide assurance to those financing the business, e.g. banks (IFAC 2015).

Conducting statutory audits is a legal requirement which is performed by auditors who have nothing to do with business organisation being audited in order to verify the fairness and the truthfulness of the financial statements for the benefit of the principal. Further, the statutory audits verify compliance of preparation of these financial statements with the relevant standards, and the legal framework (PricewaterhouseCoopers 2017).

As indicated by IFAC (2015), the statutory audit only gives a reasonable assurance because of intrinsic restraints, like the impossibility of examining the entire transactions, the probability of fraud, and the intrinsic restrictions of internal control; it gives assurance that audit work is infiltrated by judgment. Despite the inherent limitations, the whole audit exercise still gives the required assurance by the principal (shareholders) who are owners of the business and other stakeholders as well. The next section describes the evolution and development of auditing.

2.4 The evolution of auditing

Manal (2017) posits that auditing initially came into being basically for governmental accounting and mainly focused on record-keeping rather than accounting mechanisms. As

such, Manal (2017) argues that it was not until the industrial revolution, that auditing started to unroll into an area of detecting fraud and financial answerability. Further, business owners could not be there to be involved in managing their business activities as businesses expanded to unparalleled sizes at this time and they realised the need to engage other people to run the business on their behalf and in the process creating the agency problem (Moloi 2009). With the agency problem, Jerzemowska (2006) suggests, that the business owners conceded a growing need to trail the financial activities of managers to check for precision and prevention of fraud. In agreement with Jerzemowska (2006) on the manner in which auditing evolved, Ajao, Olamide and Temitope (2016) pointed to a number of stages that the process has had to go through. Specifically, Ajao, Olamide and Temitope (2016:34) posit that;

the unrolling of auditing through various stages was a reaction to a recognised requirement of community members who sought information or assurance on the behaviour pattern of others in which they have an acknowledged and legitimate interest. these members of the community or stakeholders were unable, for one or more reasons; to acquire for themselves the information or reassurance they required (Ajao *et al.* 2016:34).

From this perspective, it could be argued that it is this process of assuring or reassuring that somehow justifies the existence of auditors, their role and skill, to address the demand of independent audit for public accountability.

In a similar manner, Ajao *et al.* (2016) point out politics, sociology, economics and environment as some of the factors that have highly influenced this evolution. Accordingly, these factors have led to a change on the objective and techniques of auditing so that the field could satisfy the evolving requirements and anticipations by the community. In addition Ajao *et al.* (2016:35) view the unrolling of auditing practices in the “following five chronological periods: Period prior to 1840; 1840s to 1920s; 1920s to 1960s; 1960s to 1990s; and 1990s to 2016”. These descriptions of the evolution periods are made below.

Period Prior to 1840s

During this era, auditing was confined to executing detailed attestation of every transaction. The most important feature about this period is that the idea of examining or sampling was not

part of the auditing techniques. Further, internal control was also known to be in existence. It is in this regard that Ajao *et al.* (2016) note that the focus of audit during the early period seemed to be basically designed to confirm the honesty of the managers who were entrusted with budgetary roles.

Period 1840s to 1920s

During this period the main responsibilities of auditors was to identify fraud and also to properly portray the bankruptcy or liquidation shown on the company financial statements. There was a shift when it comes to internal control, i.e. it came into the picture; however, it must be noted that there was little attention paid to it as an important feature in the company. During this period, Porter, Simon and Hathlerly (2005) observe, that the courts decisions affected the duties of auditors.

Period 1920s to 1960s

During this era, the socio-economic condition highly determined the development of auditing. The main characteristics of the audit, as outlined by Ajao *et al.* (2016:35) included the following;

dependence on internal control of the business organisation and sampling techniques; using both internal and external sources to provided audit evidence; emphasising on the truth and fairness of financial statements; gradually shifting to the audit of profit and loss statements with the balance sheet still remaining important; and physical observation of external and other evidence outside the book of account among others (Ajao *et al.* 2016:35).

Period 1960s to 1990s

During this era most companies had embraced and introduced computer systems that were used in the processing of their financial related data, as well as managing their operations and administration (Porter *et al.* (2005). In the same vein, auditors relied heavily upon advanced computerised auditing to ease their audit procedures. During the same era, auditors also began to provide advisory services to the audit clients besides the auditing the financial statements. The main point of interest of this period, as far as Porter *et al.* (2005) is concerned, is that accounting and auditing evolved into becoming a strong industry which experiences

competition of its participating member firms, an obscuring of relationships with clients, and a total failure to carry out due diligence.

Period 1990s to the present day

Critical changes were made to the audit practice resulting from vigorous and widespread reforms in different countries despite overall objectives remaining the same with regards to lending credibility to the financial statement during this era. Leung *et al.* (2004:56) stated that;

such reform has insinuated the auditing profession in the following ways: the role of audits is expected to coincide and refocus on the public interest, redefining audit relationship, ensuring integrity of financial reports, separation of non-audit function and other advisory services; reverting of the audit methods to basics which are risk attention, fraud awareness, objectivity and independence; and increasing attention on the needs of financial statement users (Leung *et al.* 2004:56).

According to Ajao *et al.* (2016), as auditing evolved based on circumstances, the evolution directly influenced the roles and the whole practice of auditors. Firstly, auditors were given the duty to discern fraud and assist ameliorate the perception of the business owner by establishing whether management were showing the correct situation of the business finances (Ajao *et al.* 2016). Later on during the evolution of auditing, this duty changed since auditors were not guarantors and there was no way they could ascertain, hundred percent, whether the report prepared and presented by the agents was free from material misstatements. Therefore, the auditors were expected to give sensible skill and care in giving their opinion. The roles of auditors were seen to be changing due to changes in the world at large.

Considering the audit firms' debacles, which have been reported globally in the media recently, the researcher speculates that the focus of auditing in the future should include ethical issues. It is apparent that audit ethics have been breached in most of the audit debacles that have been reported. The ethical issues would need to be addressed more aggressively than what is currently prevailing in order to arrest the mushrooming of the audit debacles.

2.5 The audit engagement concept

According to Chow, Massey, Thorne and Wu (2013), the audit engagement procedures involve four stages, namely: acceptance and continuance of a client; organising; execution; and reporting. Thibodeaux (2017) only accepts the first part of the first stage proposed by Chow *et al.* (2013). For Thibodeaux (2017:1), “an audit engagement refers only to the first stage of an audit, where the auditor informs the client that the audit firm has accepted the audit work and makes clear their understanding of the audit’s purpose and scope”. It is reiterated here that the focus of this study aligns to what Thibodeaux (2017) proposes, where it is argued that taking the right client on board is critical to preventing an audit engagement risk. The procedures referred to as the pre-engagement acceptance or continuance procedures by the International Standards of Auditing 220 have to be followed during this stage. These include: an independence examination; a pre-engagement evaluation; and communications with the outgoing auditor where applicable.

Procedures covered under the pre-engagement assessment include evaluating the client’s background and reasons why an audit should be conducted, determining if the auditor is in a position to fulfil the ethical requirements pertaining to the client, determining necessity for other professionals, communicating with outgoing auditor preparing proposal of a client, and identifying and choosing staff to perform the audit (International Standards of Auditing 220 2009). ISA 220 (2009:128) indicates that;

the moment the pre-engagement assessment is done with, the auditor issues an engagement letter outlining, among other gives out, engagement objectives, scope and constraints, management’s responsibilities, responsibility for adjustments, the auditor’s responsibilities, and other issues such as audit fees (ISA 220. 2009:128).

Carmen (2016) argues that client management is the foundation of client success and it is what ensures that an auditor is selecting clients that are a good strategic fit for the firm’s business as well as setting the groundwork for long-term client satisfaction. This provides a healthy and lucrative client portfolio. Audit engagement entails a client assessment process that evaluates potential clients to determine if they are a worthwhile investment for an audit firm (Perry, 2014). The assessment, according to Carmen (2016:2), includes “professional risks, financial

suitability, strategic alignment with the firm's long-term market strategy, resource alignment with the firm's expertise, terms alignment, compliance with anti-money laundering regulations and due diligence".

A risk rating is then assigned to potential clients as a means of formalising the results of the client assessment according to a predefined set of rules of an audit firm. Audit firms may choose to employ a different set of parameters based on jurisdiction, service line, or client industry, where there may be varying regulations or risk tolerance (Carmen 2016; Perry 2014). There is no uniformity in risk rating in the audit firms and each firm determine their own risk appetite level.

The AICPA professional standards (2006) require an audit firm to be independent when performing a client engagement that potential threats to independence and other possible conflicts of interest are systematically evaluated and protective measures are put in place to reduce or eliminate conflicts of interest. Carmen (2016) also emphasises the establishment of a well-defined process for client acceptance and on-boarding that is transparent to partners, risk stakeholders, and management. In addition to the above, the officer responsible for the ultimate decision to approve or reject new clients, should be clearly stated and the approvals process should also be clearly documented. It is important that these essential attributes of a client risk management process be bolstered by the effective use of technology to automate key steps in the process, centralise searches, increase efficiency, enhance visibility, improve data hygiene, and preserve an audit trail for future reference (Perry 2014).

2.6 Client acceptance

Khalil *et al.* (2011) indicate that client acceptance is an expression frequently employed by auditors to indicate decisions on whether to offer or not to offer an engagement proposal to the potential client. To be able to get to the stage where the engagement proposal is issued to a client, Manry, Mock and Turner (2006) emphasised that assessment of an ultimate engagement risk by auditors to determine whether to initiate a working relationship with a potential client or not at the beginning of an audit is very critical. In an effort to manage the process of client acceptance, Professional Standards make it mandatory that audit firms must enact policies and procedures to use when making decisions to take a new client on board or decline and to keep current clients (Murray 2014). Such policies as highlighted by (Chow *et al.* 2014), serve to minimise the chances of an auditor being associated with clients who compromise the independence of an auditor, accepting an engagement that they are not capacitated to perform

and having their integrity tempered with. However, the professional standards do not specifically outline steps on exactly how to actually make the decision (Basioudis 2007).

Most importantly note should be taken that lack of independence of auditors can result into failure to comply with ethical requirements. Similarly, association with a client who does not have integrity or an auditor lacking the expertise and capability to conduct the audit increases the risk that substance misstatements could subsist and might fail to be picked by the auditor, leading to litigations against the auditor by those who use the financial statements (Perry 2014). Both the auditor and the client are expected to put in place and comprehend requirements of the service that need to be executed before the auditor can accept the client (Association of Chartered Certified Accountants 2017). This involves making a confirmation according to the International Framework for Assurance Engagements (IFAE), paragraph (20. 2005:10) that;

the engagement is in compliance with the five identified components of an assurance engagement that are outlined in the International Framework for Assurance Engagements namely: a three-party relationship; appropriate subject matter; suitable criteria; sufficient appropriate evidence; and written assurance report....the auditor together with the client should confirm the terms of the engagement by appending their signatures on the engagement letter the moment a decision to accept a client is made (IFAE. para. 20.2005:10).

The client acceptance process is of paramount importance because it is a way through which an auditor's business risk, one of the components of ER, is controlled. Decker, Ray and Kizirian (2016) argue that an exhaustive evaluation is exceptionally important because the decision to accept a client could be the main contributor towards auditor business risk (ER). Therefore, as highlighted by Johnstone and Bedard (2003), it is important for auditors to set up an acceptance process of new clients as the first phase of their risk management. As already highlighted, the client acceptance process is critical but guidance in this area is general in nature, spread across various promulgations and not as widespread or coercive as other significant auditing promulgations (Decker *et al.* 2016). Johnstone (2000) also points out that very little information is known regarding how audit partners reach a decision to accept or reject a client. This could mean that client acceptance decision is the uttermost underrated considerations of a prosperous audit.

ACCA (2015) presents that decisions on accepting a client, are crucial for a reason that new audit engagements can constitute peril to impartiality, or generate subjection to risk of the audit firm, hence the need for careful assessment of the client. Further to that, the new International Standard on Auditing (ISA 210:103) urges;

the firm to determine whether or not preconditions for an audit are fulfilled in the face of a potential audit engagement.In the event that preconditions for an audit exercise are not fulfilled, the auditor should discuss this issue with the organisation's management, and should decline to accept the engagement unless if it is demanded by law or regulation (ISA 210:103).

All these factors are an indication that decisions to accept a client must be taken with care.

IFAC's Code of Ethics for Professional Accountants (2015:1123) states that "before accepting a new client relationship, a professional accountant in public practice shall determine whether acceptance would create any threats to compliance with the fundamental principles. Potential threats to integrity or professional behaviour may be created from, for example, questionable issues associated with the client (its owners, management or activities)". The implication of the above as indicated by IFAC (2015), is that the audit firm should scrutinise together with its owners and its business practices whenever it is approached to take on board a new client to enable it to evaluate and establish whether there is any doubtful indication on the potential client's integrity that could pose unacceptable risk. This type of investigation is called know your client, also known as customer due diligence procedures, and is also conducted to enable checking for compliance with anti-money laundering rules and regulations (Association of Chartered Certified Accountants 2015).

2.7 International Standards of Auditing and client acceptance

IFAC (2010. sec.20. para.1:27), notes that "judicious risk management, calls for an audit firm to know as much as possible about what it will be dealing within a new client relationship or engagement process, before entering into the agreement". This, as indicated by IFAC (2010.sec.20.para.6:27), implies that, "failure to carry out a risk assessment through performing timely client and engagement acceptance procedures are a clear indication that surprises will

follow from the client after the engagement”. The surprises might include destruction to the firm’s professional reputation and, ultimately, loss of public confidence.

IFAC (2010) asserts that the International Auditing and Assurance Standards Board (IAASB) have issued a number of standards to provide guidance on how to handle issues of accepting or rejecting clients on board. The published standards according to (IFAC 2010:6) include;

International Standards on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and reviews of Financial Statements, and Other Assurance, and related Services Engagements; and International Standards on Auditing 220, Quality Control for an Audit of Financial Statements (IFAC 2010:6).

These standards address critical client acceptance and engagement issues that need to be addressed by audit firms prior to an audit exercise. Further to the above (ISQC 1: Para. A18, A23) states that;

the firm shall establish policies and procedures for the acceptance and continuance of client relationships, and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm is competent to perform the engagement and has the capabilities, including time and resources, to do so (ISQC 1: Para. A18, A23).

ISA 220 Quality Control for an Audit of Financial Statements contains a paragraph 12, section A8, on Acceptance and Continuance of Client Relationships and Audit Engagements which calls upon the firm to acquire information considered a necessity in the situation before they go on to take a new client on board. According to ISA 220. (para. 12. Sec. A8) information, includes;

the integrity of the principal owners, key management and those charged with governance of the entity; whether the engagement team is competent to perform the audit engagement and has the necessary capabilities, including time and resources; and whether the firm and the engagement team

can comply with relevant ethical requirements (ISA 220, para. 12. Sec. A8:16).

On client acceptance, IFAC (2010) points out that ISQC (para. 26. sec. c); “notes the need for considering the integrity of the client and made some specific recommendations about the need for the performance and documentation of an assessment of management and board integrity and reputation were made by one oversight body (Canada)”. The specifics as stated in (ISQC para. 26:44) are that;

the firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm; is competent to perform the engagement and has the capabilities, including time and resources, to do so; can comply with relevant ethical requirements; and has considered the integrity of the client, and does not have information that would lead it to conclude that the client lacks integrity (ISQC, para. 26, pp. 44).

IFAC (2010) also explains that the integrity of the management team and business owners of the entity is critical to the Firm’s capacity to offer professional services and that this is also a key consideration in the evaluation of client risk and hence, engagement risk.

2.8 Client acceptance decisions

Auditing as a profession carries more risk than people realize, and each time an auditor commits to take on an audit engagement, that audit engagement carries with it potential risks; the risk that an auditor will make a mistake, the risk that the client will fold their business due to loss, and the risk that someone might sue the auditor (Sherman 2017). Decker *et al.* (2016) reiterate that uttermost underrated antecedent of a prosperous audit exercise is the decision to accept a client. Decisions to take a new client on board are very crucial and complicated that have notable inferences on the economy of the audit firms, and their clients, (Johnstone & Bedard 2003). Also, as indicated by Drira (2013:39);

on the supply side, client acceptance decisions are treated by both professionals and academics as the most critical decisions in audit practice because they are frequent and recurrent, and also automatically precede every audit engagement (Drira 2013:39).

On the technical side, a client acceptance decision represents a crucial phase in the audit process (IFAC 2010). Hence it becomes critical for an auditor to assess the risks when considering engaging a new client.

According to Drira (2013:40),

for public companies or clients, auditors' client acceptance decisions may have important repercussions, such as stock price increases after client acceptance or retention, and stock price fall following an auditor's resignation.... the procedure is that when deciding for client acceptance for a single client, the auditor considers the client-specific factors only, and ignores the potential impact of his decision's outcome on the audit firm's portfolio of audit clients.... the client acceptance decision process is initiated by the client when they approach the audit firm expressing their interest in becoming one of the audit clients....the audit firm then evaluates the prospective client and either accepts or rejects the new client (Drira 2013:40).

Sometimes the audit firm settles for submitting an offer of service, which can be eventually accepted by the new client. Drira (2013) indicates that in reality, the process could be more complicated and iterative because it usually involves several discussions and negotiating rounds. Johnstone and Bedard (2003:1004) state that "previous research shows that client acceptance decisions are arrived at in line with the risk avoidance theory, and this theory suggests that audit firms decline to take on board risky clients". In addition to the sentiments by Johnstone and Bedard (2003), Drira (2013: 42) states that;

literature documents that the client acceptance decision process involves two critical phases, namely the risk/return

assessment phase, and the risk/return management strategies phase”,...during the first phase of client acceptance decision making, the auditor appraises the client’s riskiness and the expected yields from the audit firm requirements. ...during the second phase, non-acceptable engagements are reassessed before a final refusal is issued in order to make sure that risk management strategies such as human resources-related policies cannot draw the prospective relationship to an acceptable risk/return level....when dealing with client acceptance decisions, both the client specific factors and the audit firm portfolio characteristics should be considered (Drira (2013: 42).

This is because attributes of the client are pivotal for the evaluation of riskiness and profitability of any audit engagement. Similarly, the characteristics of the audit firm’s client portfolio could not be completely ruled out because they play a crucial role in the ultimate audit firm performance.

Gomaa, Hunton and Rose (2010:6) state that “given the litigious environment in which the audit profession operates, auditors are acutely aware that they must be prepared to defend their decisions to jurors should the need arise”. Prospective rationality is a phenomenon in which decisions made in the present are anticipated that they will need to be defended in the future (Petherbridge 2010). This shows how critical the work of auditors is since many stakeholders rely on the auditors’ reports on a particular business. Some of the stakeholders that depend on audit reports include banks, investors, shareholders, suppliers and customers among others.

In their initial stage of risk containment efforts, auditors have intensified their dependence on client acceptance decisions (Johnstone 2000). Unfortunately, notwithstanding the growing importance of decisions on accepting a client, little information is known about how chief risk officers make this decision. Hyejung (2016) points out that very few experimental and field studies show some perception into how individual chief risk officers arrive at a decision to accept a client. Professional standards indicate that audit firms are expected to set up techniques that could be employed to come up with decisions to accept a client but these standards do not give a roadmap to coming up with the decision. This position might suggest that critical questions remain unanswered regarding the process of making decisions to accept a client.

For Colbert *et al.* (2005:55), “making a client acceptance decision is guided by the audit firm’s policy and procedures in acceptance decisions, and may involve completion of a questionnaire regarding client attributes and obtaining other background information”. This suggests that the client acceptance decision is significant and therefore the revision and acceptance procedures should be recorded and complied with (Colbert *et al.* 2005). During the course of deciding to accept a new client, the auditor will be exercising judgement and applying prescribed procedures in making the judgement. Johnstone (2000) argues that amongst the procedures that might be performed, the crucial one addresses the integrity of the client management. This point has manifested in the Zimbabwean scenario, where investigations into one of the failed companies established that the company’s management administered the company with negligence to the extent that some had criminal charges laid against them. An example is the nine directors of the Gulliver Consolidated Industries (GCI) due to their poor corporate governance (Munyoro 2015).

2.8.1 Client-acceptance decision models

Johnstone’s (2000:320) model;

describes how auditors assess relevant risks, and how auditors eventually adapt to the risks during the process of client-acceptance decision making. The model was constructed through consulting audit practitioners and also by considering prior research and professional standards that explain relevant client-acceptance risks, client acceptance practices in place, and also strategies for risk-adaptation (Johnstone 2000:320).

The main criticism that could be levelled against the client-acceptance model by Johnstone is that it is rather descriptive than normative in nature and is focused on how auditors arrive at a decision to accept or reject a client. This model has two phases namely; a risk-evaluation phase; and risk-adaptation phase. The model starts by characterising the fusion of client-acceptance risks to form an ultimate assessment of how risky a client is. After that the model characterises three techniques of adapting to risk which auditors might be employed in response to the assessed risks. Johnstone (2000) concludes that auditors employ their assessments of client-related risks and their own firm’s risk of losing an engagement to exclude unfavourable clients. According to Basioudis (2007:1399), “interchangeable conclusions, that pre-engagement risk

evaluations are considered as a very important decisive factor in the engagement outcome, were reached in other studies”. Johnstone’s model is depicted on figure 2.1.

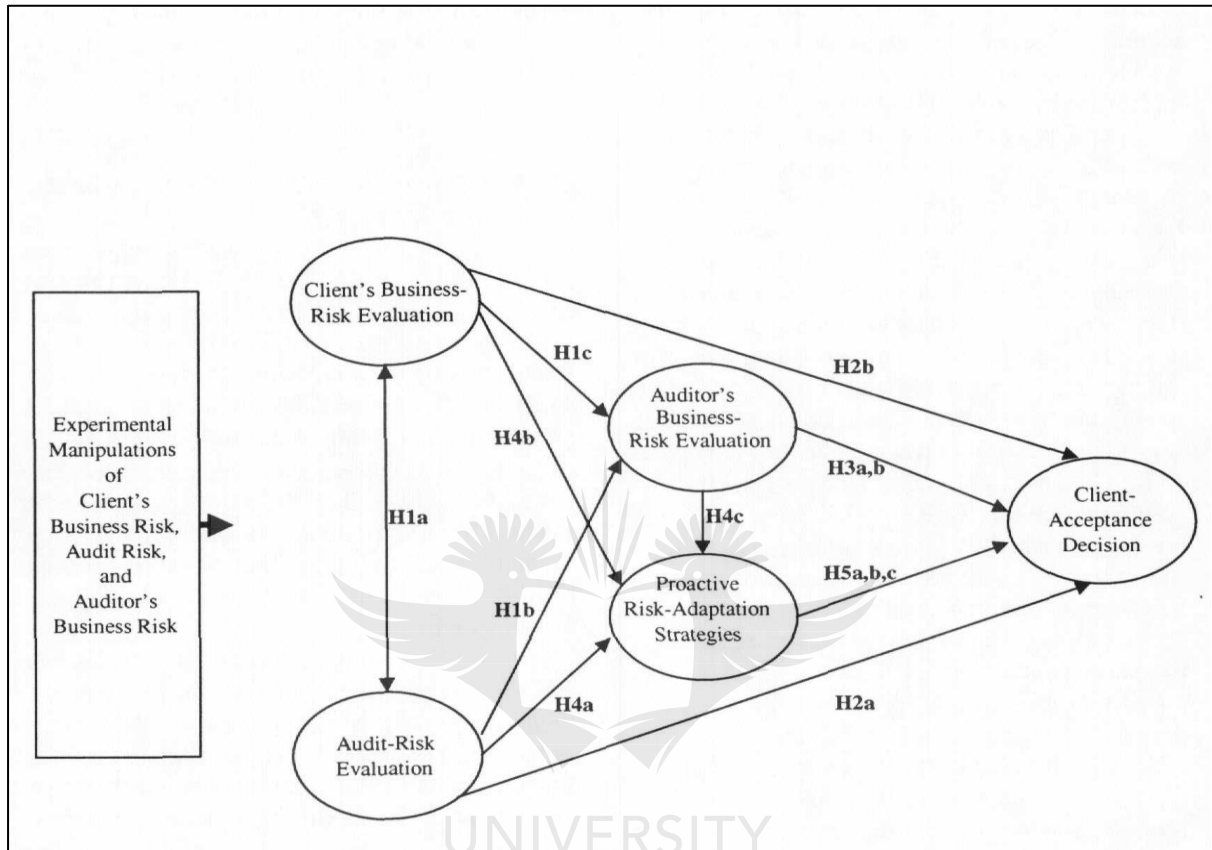


Figure 2.1: A Model of the Client-Acceptance Decision

Source: Johnstone (2000: 5)

The model can be used by audit practitioners for assessing their own internal client-acceptance forms and techniques and also as a framework for teaching less novice auditors about this complex, multidimensional decision. However, the researcher is of the view that the model still generalised the client acceptance process, which is critical and requires extensive or prescriptive guidance as other significant auditing promulgations. It lacks the finer details in terms of contents that can be included on the instrument that could be used as a basis for the evaluation of the three components of engagement risk. This model still serves as a guide but lacks details on the content to be included in each of the engagement risk components. Therefore, with this model at their disposal, some auditors might still need assistance in

identifying all aspects of the engagement components to include and interrogate the instrument used during a stage of accepting a client in an engagement process. Therefore, the complexity of the multidimensional decision in client acceptance would still remain unsolved.

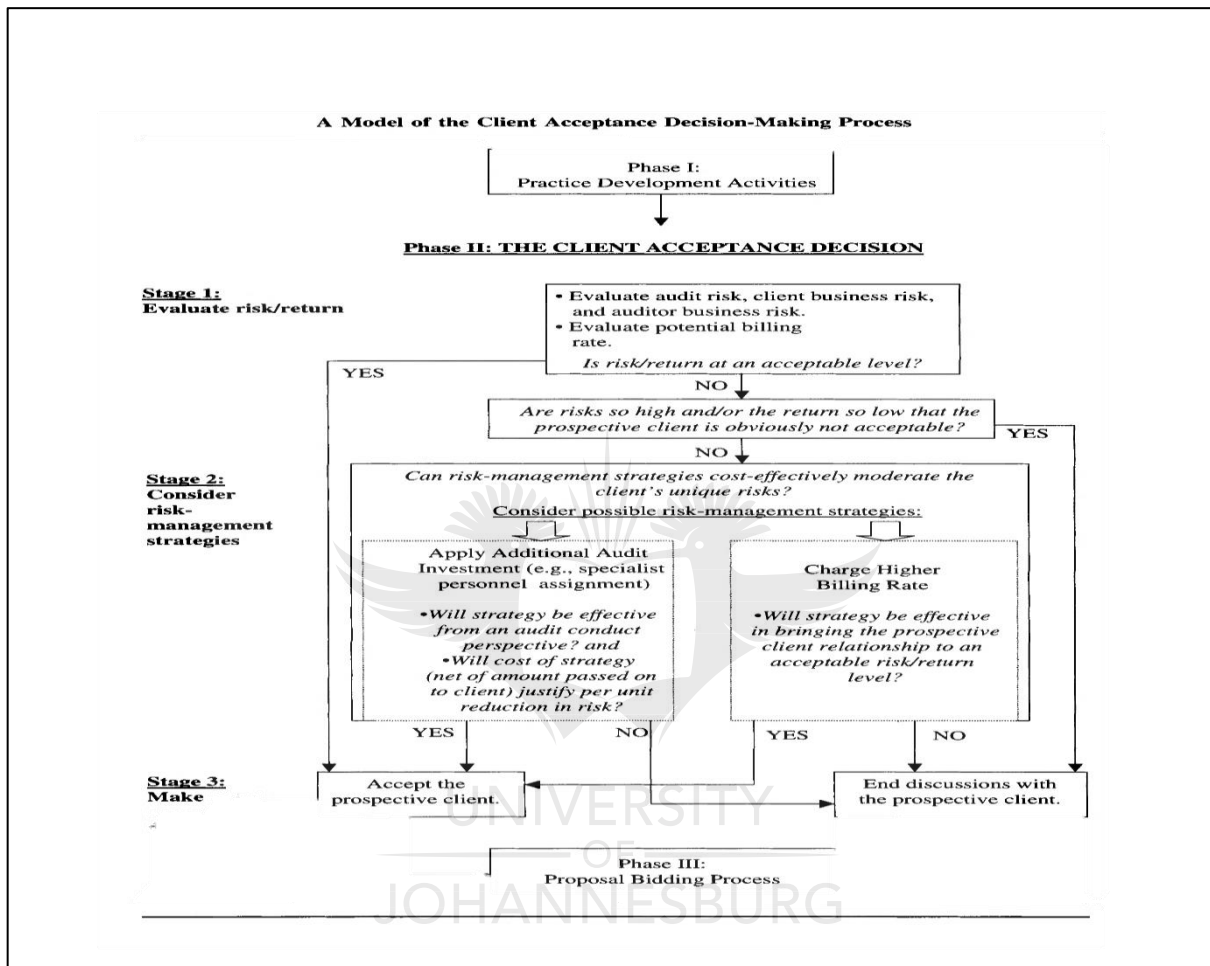


Figure 2.2: A Model of a Client-Acceptance Decision Process

Source: Johnstone & Bedard (2003: 1007).

Figure 2.2 presents a model which illustrates the process of decision making when accepting a client. In the model, Johnstone and Bedard (2003:1007);

examine whether or not risk-management strategies reduce the effect of risk on client acceptance decisions, thereby assisting auditors in bringing prospective client relationships to tolerable risk/return levels. In the process they proposed a conceptual model of the client acceptance decision process,

and used archival data of one firm's actual client acceptance decisions to test the model Johnstone and Bedard (2003:1016).

Compared to the Johnstone (2000) model, it is arguable that the latter model developed by Johnstone and Bedard (2003) is more detailed as it provides guidelines on the route to follow when managing engagement risk at the client acceptance level. Having conceded that the model is detailed, it is a considered view of this study that the Johnstone and Bedard's latest model still lacks the real content that ought to be included when addressing each of the three components of audit risk. Therefore, there is need for developing a more comprehensive instrument guided by the two models discussed above, which includes the actual questions that, when all answered, will practically assist the auditor to make the most complex client acceptance decision.

2.9 Audit firms in Zimbabwe

Wandirasa (2016) affirms that Public Accountants' and Auditors' Board in Zimbabwe (PAAB) as at (2016) has a register of more than sixty-five (65) member firms, and most of them are offering various services ranging from audit, tax, accounting and business services. This is a great achievement in terms of audit firms' numbers which rose from eight in the early 90s to the 65 recorded in 2016. As indicated earlier on, most of these firms have their head offices in the capital city Harare. Some of them are indigenous, small to medium sized and owned by local audit partners and some are affiliates of international firms. However at the time of data collection twenty-two (22) audit firms were registered and operating. Of the twenty-two audit firms registered and operating in Zimbabwe, four (4) are affiliates of the Big Four and they use the names of the Big Four and added Zimbabwe at the end; five (5) are affiliates of the middle-tier global audit firms; twelve are indigenous to Zimbabwe; and one (1) is a government run audit firm. This variety of audit firms suggests that there could be lack of uniformity in operating procedures.

Wandirasa (2016) observes that the big four provide 80% of the business which is in aligned to audit services rendered to listed companies in Zimbabwe whilst the smaller audit firms have the remaining 20%. Nyakuwanika (2014) concurs with Wandirasa (2016) that the big four affiliates dominate the Zimbabwean audit market just like the world market, but the presence of the smaller to medium accounting and auditing firms brings a balance on the market. Wandirasa (2016) asserts that most of the local firms are currently franchising with

internationally recognised brands to up their visibility, access to international networks and databases for work procedures and other needs. Eight (8) out of ten (10) international top accounting brands own franchises in Zimbabwe. Audit Practice Reviews on audit firms are carried out by the PAAB as a way of checking compliance to the standards of audit quality.

According to Nyakuwanika (2014) (citing DeAngelo 1981; Palmrose 1986; Davidson & Neu 1993), research on quality audit services suggests that international firms auditors render quality services and, therefore, have a larger mitigating effect on the agency problems. Nyakuwanika (2014:174) states that, “the reason the Big Four dominate the audit market could be that companies tend to engage reputable auditors to assure external investors of the credibility of financial disclosures and, in the process, ameliorate the agency problems”.

2.9.1 The big four audit firms and client-acceptance in Zimbabwe

Affiliates of the Big Four audit firms found in Zimbabwe are EY, PricewaterhouseCoopers, Deloitte, and KPMG. In Zimbabwe Deloitte operates as Deloitte & Touche (Zimbabwe), and are a part of Deloitte Africa, and also a member of Deloitte Touche Tohmatsu Limited, a United Kingdom private company limited by guarantee. According to Deloitte (2015), Deloitte & Touche Tohmatsu Limited is among the largest professional services firms worldwide and it provides competence throughout these services.

EY Zimbabwe is a member firm of EY Global Limited, and it is a separate legal entity. EY takes the lead internationally in providing audit professional services (Ernst-young 2017). KPMG in Zimbabwe offers professional services covering audit, business performance and IT Advisory, Tax, Company Secretarial and Corporate finance services. PricewaterhouseCoopers in Zimbabwe also offers a wide range of audit professional services.

On a global scale, the Big Four have recently come under spotlight in terms of their global operations. Scannell (2016:2) points out that, “the Big Four Auditors experience some crackdown on their global operations”. According to Rapoport (2015), the Big Four auditing firms periodically brag about having international impression in more than 150 countries. Here they are assuring clients joined up services the world over but they are less forthcoming with regards to how audit quality sometimes varies widely in different regions of the world to another according to critics. Scannell (2016) pointed out that failure in oversight by one of the Big Four were brought to the limelight in December 2016 when the United States accounting

watchdog pounced on Deloitte Brazil business and made a record-setting \$8million fine. Scannell (2016:2) further states;

the Public Company Oversight Board (PCAOB) found out that accountants in Brazil fabricated the audit of a local airline, doctored documents and misled inspectors appraising the audit..... This case pronounced the very first time that the PCAOB had intervened against an affiliate of the Big Four over an alleged fraud and complicity. on that same day, the PCAOB also announced a \$750 000 settlement with Deloitte Mexico after discovering altered documents in its audit of United States Mining Company Southern Copper (Scannell 2016:2).

Scannell (2016) also reported that James Doty, who was the chairman of the PCAOB, told the Financial Times that they were not in doubt that audit integrity standards differ extensively and that there are actual problems that existed in many jurisdictions. As the PCAOB monitors more international audit firms' cases, they have unearthed that auditors sign the professional judgement after they have done little or no work at all. This challenge according to Scannell (2016) was said to be stemming from the position of independent legal existence of the national branches of the Big Four rather than them treated as extensions of the Big Four. Scannell (2016) shows the differing levels of audit quality in tabulation as percentages of inspected audits that lacked reasonable assurance. Table 2.1 shows differing levels of audit quality in the United States and non-United States jurisdictions.

Table 2.1: Differing levels of audit quality in the US and non-US jurisdictions

Name of Audit Firm	Percentage of inspected audits that lacked reasonable assurances	
	United states jurisdiction (%)	Non-United States jurisdiction (%)
Deloitte	28	66
Ernst & Young	49	53
KPMG	46	39
PwC	32	46

Source: Adapted from Scannell (2016:2)

Table 2.1 indicates a generally increased lack of reasonable assurance from the non-United States jurisdictions by the Big Four audit firms. Reasonable assurance for non-United States jurisdictions is on the lower side as compared to the United States jurisdiction. This implies that in terms of compliance to the required audit standards by the PCAOB, the big four in the United States jurisdiction are more compliant than those in the non-United States jurisdictions. It could be speculated that this is due to the fact that the PCAOB originated and is based in the United States, and the audit firms in the United States are, therefore, located within quickest reach of the PCAOB. The debacles experienced by different big four audit firms globally, as indicated above, suggest that these big firms are not conforming to the expected standards. Such debacles may not be expected by the public because these international firms are closely monitored by the PCAOB.

Contrary to the above, one of the Zimbabwean Big Four affiliates, Deloitte Zimbabwe, boasts of having meticulous policies and procedures for prospective client acceptance, engagements and evaluating engagement risk notwithstanding the suggested services to be provided. Deloitte (2016) showed that;

these policies and procedures are designed to provide the firm with reasonable assurance that it will only accept engagements where it is competent to perform the engagement and has the capabilities, including time and resources, to do so; can

comply with relevant ethical requirements, including independence and conflicts of interest, assessment and considerations; and has considered integrity of the client and does not have information that would lead it to conclude that the client lacks integrity (Deloitte Transparent Report 2016).

KPMG Zimbabwe also indicates that as a firm they have put in place policies and procedures guiding whether to accept or decline a client relationship. It should be noted that at the time this research was undertaken, information about how other big four affiliates in Zimbabwe, as well as the rest of the audit firms in the country manage their client acceptance decision processes could not be accessed.

2.10 Possible consequences of poor client-acceptance decisions

Laux and Newman (2010:265) stated that “when considering the auditor’s acceptance decision, it is important to carefully identify the component of the litigation environment that is being investigated”. The Association of Chartered Certified Accountants (2015) indicates that auditors are culpable for both criminal and civil offences from their clients and third parties. According to ACCA (2015: 25);

the liability environment can be decomposed into three components, namely; the strictness of the legal regime, defined as the probability that the auditor is sued and found liable in case of an audit failure; potential damage payments from the auditor to investors; and other litigation costs incurred by the auditor, labelled litigation frictions, such as attorney fees or loss of reputation. The accounting profession has raised concerns that excessive liability exposure renders audit firms unwilling to provide audit services to risky clients, limiting the prospective client’s ability to raise external capital (ACCA 2015: 25).

Two types of potential clients have been identified and these are called high-risk and low-risk. Therefore, poor client-acceptance decisions might result in accepting a high-risk client, which exposes the auditors to litigation frictions. According to Magaisa (2006), the issue of auditor liability is hotly contested across the world and is undergoing some reviews, with wide

consultations. This largely reflects the role that auditors play in the operations and regulations of companies across the world, as well as the way in which some major audit firms have been implicated in corporate disasters. The Association of Chartered Certified Accountants (ACCA) (2015:1) points out that;

the past two decades have seen the bill for litigation payments of the Big Four audit firms alone running into billions of dollars, and examples for this case include Deloitte's 2005 payment of \$250m for its audit of the insurance company Fortress Re and PWC's \$229m payment in the lawsuit filed by the shareholders of Tyco audit client in 2007. Auditor liability is becoming a great concern, both in terms of audit quality and the reputation of the profession, and in terms of the cost to the industry and the barriers this creates to competition within the audit market (ACCA 2015:1).

It is, therefore, very important for the client acceptance decision process to be conducted cautiously to avoid litigation frictions.

2.11 Construction of an instrument

It was necessary to establish what literature says with regards to the construction of an instrument since the main objective of this study was to construct an ERMI intended to assist audit firms in Zimbabwe to manage ER at the acceptance level. There is an indication in literature that scientific research is inadequate with regards to the evaluation of the effectiveness of risk management practices (Vergotine 2012). Another observation from literature made by Vergotine (2012) is that the current ERM measurement tools are based on the authors' opinions. These observations further concretise the need for this study since it sought to contribute towards the management of risk in the audit industry. The three instrument criteria proposed by Onwuegbuzie, Bustamante and Nelson (2010), Cloete, Crous and Schepers (2002) and Briller, Schim, Thurston and Meert (2012) was considered to be of great relevance to this study.

2.11.1 Instrument Criteria 1

A meta-framework that comprised a number of frameworks and models together with various research techniques meant to increase the evolution of quantitative instruments was presented by Onwuegbuzie, Bustamante and Nelson (2010). The meta-framework was called Instrument Development and Construct Validation (IDCV) and it contains ten (10) detailed phases of a rigorous way used to develop and validate an instrument through a mixed research approach. Steps that are taken by a researcher in developing an instrument and augment its aptness and usability were identified by the proponents of the IDVC. The ten (10) interactive phases of the IDCV are listed as follows:

conceptualise the construct of interest; identify and describe behaviours that underlie the construct of interest; develop initial instrument; pilot-test initial instrument; design and field-test revised instrument; validate revised instrument: Quantitative analysis phase; validate revised instrument: Qualitative analysis phase; validate revised instrument: Mixed analysis phase; Qualitative-dominant crossover analyses; validate revised instrument: Mixed analysis phase: Quantitative-dominant crossover analyses; and evaluates the instrument development / construct evaluation and product (Onwuegbuzie *et al.* 2010:799).

The ten (10) above listed phases are best described as mingled as this allows for gesticulation among the stages to embrace the new findings that come out. This implies that the process of instrument construction is iterative because after the design and field-testing, the researcher might go back to conceptualise the construct of interest. Each of the ten (10) phases from the IDCV are summarised below:

Phase 1: Conceptualise

It is in this phase that the construct of interest is developed. In this phase the researcher, as their important early goal, are expected to be cognisant of their own personal belief system which could be one of the following belief systems: overall worldview, research philosophy, and discipline-specific philosophy (Onwuegbuzie *et al.* 2010). In addition to the goal awareness, conduction of a substantial literature review to enable the identification of the pertinent

theoretical frameworks is one of the basic ways of establishing the construct of interest (Onwuegbuzie *et al.* 2010). “A few mixed research-based models have been developed recently to assist instrument developers carry out rigorous literature reviews”, (Onwuegbuzie *et al.* 2010:800).

In addition, Onwuegbuzie *et al.* (2010) posit that the researcher at this stage is expected to engage with various local experts and also organise focus group meetings. By doing this the researcher will be capitalising on the contribution by experts when they are in a group generated from the social processes that occur when people come together. Another crucial thing to be done at this point is to make sure that all the key contributors’ voices are heard with the intention to comprehend and capture their cultural background (Onwuegbuzie *et al.* 2010). It is also important to conduct individual interviews, focus groups, and direct observations because they can contribute positively towards the whole exercise. Detailed field notes should also be kept and a traceable audit trail should be left (Onwuegbuzie, Bustamante & Nelson, 2010). Banks & Banks (2001) emphasise the importance of a key goal in this phase which is to develop an instrument with cultural sensitivity, which when done will provide optimally reliable and valid data.

Phase 2: Identify and describe behaviours that underlie the construct

This phase involves adapting qualitative approaches and any other data collection tools to achieve data saturation. Also, data analysis tools are central at this phase. Reaching data saturation is very important because it is only when this point is reached that the instrument developer can be in a position to identify behaviours underpinning the concept of interest. If data saturation is not accomplished there will be need for the instrument developer to revisit phase 1, to reconceptualise the theory and re-evaluate the philosophical and research assumptions, and recollect data.

Phase 3: Develop initial instrument

At this stage, the development of the instrument commences through item writing. A specification table containing specifications from the preceding two phases is used to guide the item writing. Onwuegbuzie *et al.* (2010) posit that where the situation permits, a group of specialists and main participants should take part in writing items and appraising on those items to make sure that they conform to cultural sensitivity. The researcher might be forced to revisit

phase 2 in order to start the whole process if feedback from the experts on the items indicates that the instrument in question was extremely underdeveloped.

Phase 4: Pilot-test initial instrument

Phase 4 involves testing the instrument in the field. The test involves assessing each item to verify coherence, comeliness, tone and the amount of time needed by the responded and, above of all, aesthetic proficiency. The focal point during this phase is more on content-related validity than on the other areas of validity.

Phase 5: Design and field-test revised instrument

This stage involves some refining or removal of those items that would have been identified in phase 4 to have problems. The revised instrument is circulated in order to get substantial test, where the recommended adequate sample size for exploratory factor analysis ranges from 5-10 participants per item. It is also strongly recommended at this stage that both open-ended qualitative and quantitative items be included.

Phase 6: Validate revised instrument: Quantitative analysis phase

The collected quantitative responses are analysed at this stage, the major goal being to assess the content-related validity, criterion-related validity and construct-related validity of the instrument. The key activity in this phase is the rigorous exploratory factor analysis.

Phase 7: Validate revised instrument: Qualitative analysis phase

The qualitative responses collected in phase 5 are analysed at this stage to address one or more of the five purposes of mixing qualitative and quantitative data. The analysis techniques that can be used for this include method of construct comparison analysis, key words in context, and word count among others.

Phase 8: Validate revised instrument: Mixed analysis phase; Qualitative-Dominant crossover analyses

This phase according to Onwuegbuzie *et al.* (2010:69) involves;

either a qualitative analysis of scores obtained from quantitative instrument in phase 6 or quantitative analysis of the qualitative data that was obtained from phase 7...For the qualitative analysis, quantitative data can be converted to

qualitative data via narrative profile formation, in which narrative descriptions are constructed from quantitative data....the profiles include the following among others: modal profiles, average profiles, holistic profiles, comparative profiles, and normative profiles (Onwuegbuzie *et al.* 2010:69).

The most vital technique at this stage is the factor-analysing the themes that would have arisen in phase 7.

Phase 9: Validate revised instrument: Mixed analysis phase: Quantitative-Dominant crossover analyses

At this stage the crucial thing is conduct one or more sets of quantitative-dominant crossover analyses and instrument developer again, it should be noted that at this stage again the instrument developers are exposed to a number of data analysis tools that they can use. The important point is that this phase expands on the preceding one. As an illustration, Onwuegbuzie *et al.* (2010:805) stated that “the factor scores obtained from the factor analysis of the springing up themes in phase 8 could be correlated to the factor scores obtained through the exploratory factor analysis of the quantitative instrument that was undertaken in phase 6”.

Phase 10: Evaluate the instrument development/construct evaluation process and product

This phase is about conducting an extensive evaluation of both the product and the process. The revised instrument is the product which can be evaluated through the findings obtained from phases 6 up to 9. According to Onwuegbuzie *et al.* 2010:806);

the use of framework for debriefing the researcher is suggested for this purpose and this framework can assist instrument developers in reflecting on the IDCV process in order to establish their feelings as they went through this process, establish which data collection and analytical strategies were more useful, and expose areas for further growth and development of the instrument (Onwuegbuzie *et al.* 2008:806).

There might be need for the instrument developer to go back phase 5 and revisit the instrument so that they can repeat phases 6 to 9, or even to revisit all the phases up to Phase 1 to reconceptualise the theory and/or hypotheses, re-evaluate any philosophical and research assumptions borne by the instrument developers, and/or collect supplementary data from the specialists and main participants, before repeating phases 2 to 9 basing on the evaluation data (Onwuegbuzie *et al.* 2008). Therefore, the IDCV framework can be described as a collection of iterative and cyclical processes that promote more rigour to the process of developing the instrument and validating the concept as indicated by Onwuegbuzie *et al.* (2008).

2.11.2 Instrument criteria 2

Cloete, Crous and Schepers (2002) suggested five criteria for consideration in the construction of new measuring instruments. The five criteria process is briefly outlined below:

- **Criterion 1:** Development of the measuring instrument must be theoretically investigated and should be clearly expressed because it is the focus area.
- **Criterion 2:** There has to be utter lucidity on the actual sphere on which the construct has to be based.
- **Criterion 3:** Sub-domains have to be identified and should contribute towards the elements of which the actual sphere is comprised.
- **Criterion 4:** Feasible designs of behaviour for the identified sub-domains have to be outlined. This criterion aims to operationalize the sub-domains by delineating them in terms of observable behaviour patterns. The ultimate outcome of applying this criterion is the development of a diversity of behaviour patterns regarding each sub-domain.
- **Criterion 5:** The format of the items has to be connected to the construction of questions that support the designed behaviour patterns.

According to Vergotine (2012), these criteria have been taken on board in the evaluation of assessment instruments and in the blueprint of new instruments. The following are two of the examples of the application of the instrument construction criteria: A study by Cloete, Crous and Schepers (2002) constructed and assessed a scale for measuring employee empowerment that might add value to the organisational transformation. The construction of the scale adhered to criteria 1 to 5 for test construction, which yielded findings that signalled that a highly reliable scale that was sensitive to group differences had been developed; and Schepers (2008) designed and assessed a work performance questionnaire for use in administrative and operational

developments. The construction of the questionnaire adhered to criteria 1 to 5 for test construction. The findings of the study revealed high reliabilities on scales of both questionnaires.

2.11.3 Instrument criteria 3

Briller, Schim, Thurston and Meert (2012) suggest six criteria to be considered in the construction of new measuring instruments which are outlined as follows;

determining what data should be collected; establishing if existing instruments are available; planning for reliability and validity assessments; designing new instrument format and content; establishing pre-testing protocols; and evaluating pilot data (Briller *et al.* 2012:3052).

The study focused on the above three theories because they all explain the construction of an instrument. All the three are guided by some criteria where the first one is guided by ten (10), the second one by five (five) criteria and the third one is guided by six (6) criteria. The one with ten (10) had detailed criteria but these were summarised in the other two theories with six (6) and five (5) criteria. Therefore, the three theories have some common steps at some point. According to Briller *et al.* (2012), the development process of an instrument begins with careful review and comparison of existing instruments, and this involves reference to literature. For the instrument design, Briller *et al.* (2012) indicate that there is need to use in-depth interviews to generate a detailed listing of categories of themes. In addition to the above, Briller *et al.* (2012) emphasise the need to consult with experts when drafting a list of items during the creation of items. For this study, a hybrid of criteria from the three theories was obtained to suit the circumstances under which this study was conducted in an effort to fulfil the main objective of this study.

2.12 Chapter synthesis

The literature review revealed that the audit process generally has four stages, namely; pre-engagement; planning; execution; and reporting. The pre-engagement was described as the initial stage of an audit, which involves client acceptance. When it comes to the term client acceptance, it was observed that there is consensus in the sense that it denotes the auditor's decision relating to whether to issue an engagement proposal or not. The audit partner's client

acceptance decision was described as critical and a complex process, and if not handled properly, it could lead to engagement risk, which has consequences of litigation against the auditor and reputational harm to name a few. To examine the manner in which this critical and complex process has been dealt with in literature, two models of client acceptance decisions were presented. The first model, which deals with client-acceptance decision, was found to lack the finer details in terms of contents that can be included on the instrument that could be used as a basis for the evaluation of the three elements of engagement risk. On the basis of this, the opponents of the first model sought to address these weaknesses by developing a more comprehensive model, which contained client-acceptance decision process. As noted in section 2.7.1, much as there was an improvement, this model still lacked the real content that ought to be included when addressing each of the three components of audit risk, hence the objective of this study, which was to moderately contribute by developing the ERMI for the Zimbabwean audit firms. This chapter also discussed the two criteria of the construction of instruments by Onwuegbuzie *et al.* (2008) and Schepers (2002). Literature revealed that Onwuegbuzie *et al.* (2008) used a ten criteria procedure of instrument construction while Schepers (2002) used a five criteria procedure. The next chapter presents a review of literature on the concept of engagement risk.

CHAPTER THREE

THE CONCEPT OF ENGAGEMENT RISK

3.1 Introduction

The previous chapter reviewed literature on the process of audit engagement, with specific reference being made to client acceptance decision, and its application to the Zimbabwean audit firms. This chapter focuses on engagement risk, its components and the engagement risk control considerations. Literature on prospective audit clients' evaluation and International Standards of Auditing is also reviewed to unveil the key indicators that engagement risk partners in audit firms should look for when evaluating a potential client. These indicators informed the construction of the interview schedule. The rest of the chapter is organised as follows: section 3.2 discusses the concept of engagement risk, section 3.3 the components of engagement risk, and section 3.4 engagement risk control considerations; section 3.5 focuses on managing engagement risk through client acceptance decisions while 3.6 discusses high-risk audit clients, and 3.7 focuses on client acceptance by the big four firms in Zimbabwe. Section 3.8 synthesises the chapter.

3.2 The concept of Engagement Risk

Auditors are increasingly exposed to engagement risk due to the dynamic changes in the economic environment. Basioudis (2007) points out that the public accounting environment is rapidly evolving, with a raised focus on complicated decisions on accepting or continuing with a client. Further, Basioudis (2007) posits that;

increased litigation exposure and fierce competitive pressures for clients among audit firms have driven the auditors to be engaged in risk-management practices in the audit market..... risk-management practices include activities such as screening out high-risk companies, and the outplacement of accounting employees into the boardrooms of existing and prospective clients among others (Basioudis 2007:1398).

Ethridge, Lilley and Kurt (2007), describe engagement risk as the risk that exposes audit firms to monetary loss and harm to their professional standing. This risk also becomes the ultimate risk in the whole engagement process. According to Colbert *et al.* (2005:55), “the use of the term ‘Engagement Risk’ may be relatively new, and the American Institute of Certified Public Accountants (AICPA) audit alerts have utilized the term in describing various risks considered by auditors in performing an engagement”. Engagement risk embraces risks that are experienced by the audit firm and the client business organisation. Ouertani and Ayadi (2012) argue that the engagement risk is critical for the total programme of the risk management of an audit firm and that each decision has a bearing on the overall audit firm’s client portfolio risk. Therefore as indicated by Colbert (1996:32) “engagement risk should be addressed throughout the audit from the initial decision to accept a new client or continue serving an existing client to planning the engagement through to the ultimate issuance of the audit report”. At Deloitte Zimbabwe, for example, risk is assessed by more than one audit partner, and where audit partners view engagement risk as ‘greater than normal’ or ‘much greater than normal’ the decision to accept engagement lies with the firm’s Risk Leaders (Deloitte Zimbabwe, 2018). This study addresses engagement risk, with particular focus on initial client acceptance, and not the whole engagement risk process. Analysing ER during the planning process is especially critical as it determines the kind of ER management to be adopted throughout the whole engagement process.

Sengur (2012) asserts that assessment of ER assists an auditor in the process of client acceptance decision making. Manry *et al.* (2007:627) says that “before beginning an audit, auditors assess an overall ER to determine whether a relationship should be established with a potential client or continued with an existing client”. The auditor takes on board a client if assessed ER is lower than an acceptable level of risk set up by the firm. It should be noted that the threshold of acceptable risk is determined by an audit firm, hence there is no uniform or fixed threshold for all firms operating in a given jurisdiction (Ethridge *et al.* 2007).

Ethridge *et al.* (2007:260) stated that, “possible damages caused by engagement risk are financial loss in the form of uncollected fees or potential litigation, loss of prestige or image, and ultimate demise of the audit firm”. The possible damages of poorly managed ER can be costly; therefore, every audit firm is expected to invest a lot in its management. According to Ethridge *et al.* (2007:26), “it would seem that the past ER challenge, was that in their haste to take on new clients and retain profitable ones, auditors may not have been totally cognisant of all the risks associated with a client”. Further Ethridge *et al.* (2007) showed that;

this is the essence of ER, and it most often occurs because in the ultra-competitive pre-Enron environment, auditors may have felt the need to take on and retain riskier clients without proper consideration of the risks involved with those clients (Ethridge *et al.* 2007:26).

Johnstone and Bedard (2003:1006) added and stated that, “the auditor may have been more concerned with getting their share of the wildly profitable late-nineties revenue, and not with the integrity or reliability of the client”. Throughout an audit process, audit firms have the responsibility to analyse that goes with being associated with a client, and this calls for robust instruments to use at the client acceptance stage by audit firms to reduce the ER associated with clients. A robust instrument will enable a rigorous client assessment process.

3.3 Components of Engagement Risk

Ethridge *et al.* (2007) and Colbert *et al.* (2005:55), concur that “engagement risk represents ‘the overall risk associated with an audit engagement’, and accordingly, consists of three components, namely; client’s business risk, audit risk, and auditor's business risk”. During the acceptance phase and also the engagement phase each of the engagement risk component can be evaluated. This evaluation is critical during the analysis of engagement risk (Ethridge *et al.* 2007). For the purpose of this study, analysis of the three components of engagement risk was done at the acceptance phase. This is due to the fact that the acceptance phase is the main focus of this study. A detailed discussion on each of these components follows below.

3.3.1 Entity’s business risk

Colbert (1996) points out that a client's business has the risk of being unprofitable and failure to continue to surviving, or business operations in a dynamic industries that have a bearing on an entity's risk. Therefore knowing the client’s situation will let the audit firm anticipate the types of risks that might be discovered during the audit. A number of external or internal factors might result in a higher assessment of a client’s business risk. Inability to make profit be and/or continuous survival could be as a result of adjustments in the external environment, industry and/or lack of management integrity (Colbert *et al.* 2005) cited by Ouertani and Ayadi (2012). It is clear from the above discussion that some of these factors are beyond the control of the business entity, so a company cannot do anything but adjust.

Ouertani and Ayadi (2012) opined that;

there could also be other internal factors that affect a client's business risk; for example, items on a company's balance sheet which are subjective and based on judgment. As a consequence of the estimates regarding such accounts, fairness of financial reporting is affected by the competence and integrity of management and potential incentives to misstate the financial statements (Ouertani and Ayadi 2012:373).

Johnstone's (2001) study shows that financial shifts are the most critical part of a client's business risk. Johnstone (2001:385) further argues that "rapid technological changes in the industry could also be an indicator of business risk for many companies". The efficacy of internal controls of an entity's internal controls could also have an impact on the client's business risk. This could be achieved through either averting or identifying mistakes (Rittenberg, Johnstone & Gramling 2010).

As can be seen in the discussions above, audit firms are not in a position to manage the levels of a client's business risk. However, they can evaluate it and make a decision on whether to take on board the new client or not. The client's business risk should be assessed thoroughly by an audit firm and which should identify mitigating measures before client engagement. This assists the audit firm in avoiding risky clients that might cause reputational damage of the audit firm.

3.3.2 Audit risk

The auditor is exposed to audit risk and it is viewed as the risk that an auditor has chances of issuing an unqualified professional judgement on materially incorrect financial statements and detection risk (Messier, Glover & Prawitt 2008). According to IAASB (2015), ISA 315 deals with the responsibility of the auditor as they identify and evaluate the risks of material misstatement that are usually found in the financial statements. This is done through a thorough apprehension of the environment of the entity together with its internal controls and risk evaluation process. In this regard, "ISA 315 reinforces the importance of obtaining a bird's eye view of the entity's business and significant business risks by the auditor at the audit planning stage", (IAASB 2015:18).

According to Jones (2009:2);

an audit risk is consists of three elements , namely; Inherent Risk, Control Risk and Detection Risk - Inherent Risk refers to the susceptibility of an attestation about a class of transaction, account balance, or disclosure to a misstatement that is material be material, either independently or when lumped with other misstatements, before regarding other related controls (Jones 2009:2).

Yafele (2012:151) states that, “this risk is most common when accounting transactions are quite complex, there is a high degree of judgement involved in accounting for transactions or the training level of staff is low”. Control risk is a risk that a misstatement could happen in an attestation about a class of transaction, account balance or disclosure, and that the misstatement could be material, either discretely or when lumped within other misstatements, and will not be prevented or detected and corrected, on a timely basis, by the entity’s internal control. According to the Association of Chartered Certified Accountants (ACCA) (2013), this risk arises from the failure of existing controls or the absence of controls, leading to erroneous financial statements. Detection risk refers to the risk that procedures carried out by the auditor to lower audit risk to an acceptable low level will not pick a misstatement that exists, and that could be material, either singly or when lumped with other misstatements. ACCA (2015) submits that this risk is caused by the failure of the auditor to discover a material misstatement in the financial statements.

Colbert (1996:33) argues that “there are certain factors that impact the level of audit risk, and these include high volume of significant year-end transactions, financial reports not prepared in a timely manner and material weaknesses in internal controls”. In his survey, which sought to determine factors impacting audit risk, Johnstone (2001) found that the point relating to internal controls highlighted above also held true. According to Johnstone (2001:231), “in this regard, more experienced partners tended to rank management's attitude toward internal controls as the most important audit risk factor”. According to Colbert (1996), these factors, may not be damaging to the client, but the giving out an unqualified opinion when not required can be so damaging to an audit firm. It is therefore important that the auditor must recognize that, audit risk cannot be eliminated once a client is accepted.

It is important to note that in the case of audit risk, the auditor is in control and the audit risk is decided upon and administered by the auditor and thus the audit risk can be lowered by doing more work aimed at specific areas in which financial reporting risk is high (Messier *et al.* 2008). Arens and Loebbecke (1997:125) state that, “when the auditor decides on a lower acceptable audit risk level, it means that the auditor wants to be more certain that the financial statements are not materially misstated”. Conversely, a high level of audit risk implies that the audit firm is ungrudging to take a higher risk of giving an unqualified opinion on materially misstated financial statements (Rittenburg, Johnstone & Gramling 2010). The auditor should perform the audit risk evaluation to determine the extent of risk so that this can be mitigated to a satisfactorily low level. Messier *et al.* (2008:213) argue that, “by establishing a relatively low level of audit risk, the auditor minimizes the possibility that the financial statements may contain a material misstatement”. Ultimately, the auditor’s audit risk lies in the hands of the auditor, and calls for maximum professionalism and expertise by the audit partner.

Lesser and Lesser (2012) demonstrate that identification of significant business risks leads to the spotting of audit risk through an example of the Energy PLC Company operating in the energy exploration and production sector. In this example, the Audit Manager, identified as AM, carried out the risk assessment procedures during the planning for the audit of Energy PLC. In the process, the AM identified the following tabulated notable matters while scrutinising the minutes of a meeting of the company’s Board of Directors held at the start of the year.

Table 3. 1: Indicators of Audit Risks

MATTER	BUSINESS RISKS	AUDIT RISKS
<p>The CFO apprised the Board of the initiation of legal proceedings against Energy PLC regarding damage caused to a customer's pipelines as a result of the supply of low quality gas by the Company.</p>	<p>The litigation may result in a significant outflow of economic resources in the future.</p> <p>Significant management time will also need to be expended over the course of the litigation.</p>	<p>Liabilities of Energy PLC might be understated as a result of non-recognition of the provision in respect of the litigation.</p> <p>Alternatively, the disclosure regarding contingencies may not adequately disclose the effects of the pending litigation.</p>
<p>The Board accepted the proposal of the Finance Director to sell off a low performing subsidiary of the Company after two years.</p> <p>The Finance Director remarked that the current market price of the subsidiary's shares is too low.</p>	<p>The full worth of the subsidiary may not be realized by Energy PLC through the sale transaction.</p>	<p>Financial results of the subsidiary might be manipulated to influence the market value of its shares prior to the sale transaction.</p> <p>Related party transactions with the subsidiary may be misrepresented in order to improve the market perception of financial performance of the subsidiary.</p>

Table 3.1 Indicators of Audit Risks (continued)

<p>CFO informed the Board about the progress towards the finalization of the gas sales agreement in respect of a gas field which commenced production in the preceding year.</p> <p>CFO explained the basis of the provisional price being charged to the customer at the moment and that any price differential arising on the determination of the final price will be subsequently settled with the customer upon the finalization the gas sales agreement.</p>	<p>The finalization of the gas sales agreement may result in a significant cash outflow in the form of a price differential adjustment if the final price determined is lower than the price currently charged to the customer.</p>	<p>Sales revenue is currently being recognized on an estimate basis in respect of the mentioned gas field. The estimate may be biased and not based on realistic assumptions regarding the sales price.</p> <p>The effect of provisional pricing and any future revisions in price may not be adequately disclosed in the financial statement.</p>
<p>The managing director appraised the Board regarding plans to drill a second exploratory well in an area.</p> <p>The drilling of the first exploratory well in the same area in the previous period could not be successful due to unsuitable rock formation.</p>	<p>The cost to be incurred on drilling of the second exploratory well may not be recoverable if a similar rock formation to the first well is discovered.</p>	<p>Exploration and evaluation assets of the company may be overstated as a result of the unsuccessful exploratory well whose cost must be immediately expensed in the income statement.</p>

Source: Adapted from Lesser and Lesser (2012:2)

Table 3.1 shows that knowledge of an entity's business risk can lead to the identification of audit risks. This justifies the existence of ISA 315, which calls on auditors to get a comprehension of the business entity and its environment so that they can evaluate the risks of substance misstatement of financial statements and other audit risks.

3.3.3 Auditor's business risk

In regards to the business risk, ordinarily, auditors will be exposed to risk due to the fact that they are dealing with clients thereby unveiling their business to risk. Therefore, the auditor's business may be at risk if the firm accepts the wrong engagement. AICPA (1994) refers to the scenario above as the auditor's business risk. Arens and Loebbecke (1997) concur with this description of the auditor's business risk and further posit that, "the auditor's business risk is the risk that the auditor or audit firm will suffer harm because of a client relationship" (Arens & Loebbecke 1997:423). Accordingly, this type of risk consists of all risks associated with a new client, such as legal costs, loss of reputation and failure to recover audit fees.

According to Messier, Glover and Prawitt (2008:214), "the elements of the auditor's business risk are litigation, sanctions and impaired professional reputation and each of these elements may cause injury or loss to a professional auditing practice in a variety of ways". When considering this risk, it is, therefore, important to consider who, after the audit, will be using the reports that the client wants the audit firm to generate. In describing litigation, Sengur (2012:295) points out that "it can involve a number of injurious costs, such as attorneys' fees, court awards of damages or expensive settlements and an impaired reputation, which can result in lost clients and injured morale of firm personnel". Sometimes, even if the client is not in financial challenges, some engagements naturally raise the chance of a lawsuit. For example, taking on a client who is entangled in litigation or who already altered his auditors many times increases the risk (Sengur 2012).

The auditor can affect the auditor's business risk, but other factors impacting on auditor's business risks, for example the client being involved in lawsuits, cannot be influenced by the auditor (Colbert *et al.* 1996). From this discussion it is clear that an auditor's business risk is manageable, to a certain extent by the auditor. "Regardless of the quality of work performed, involvement in future litigation may be inevitable when an auditor accepts or retains a client", (Hall & Renner 1991:65).

In an attempt to mitigate the risks that come with being connected with clients, the audit firms are entailed to enact some techniques for client acceptance (Johnstone 2001), and this assists the audit firm to eliminate potential problem clients. To be able to address the problem of accepting such clients, the firm should develop more rigorous instruments to use at the client acceptance stage. Johnstone and Bedard (2003) propose a number of techniques to assist in managing risks that come with being connected to a potential client. Managing risks through allocating the correct manpower is one of the methods that could be used in the management of risk. Table 3.2 summarises factors influencing the level of auditors' business risk.

Table 3.2: Auditor's Business Risk Factors

Factor	LEVEL OF AUDITOR'S BUSINESS RISK	
	Lower	Higher
The economy in which the company operates.	Healthy.	Depresses; stagnant.
The industry in which the company operates.	Established; stable; relatively, uninfluenced by external conditions.	Relatively new; unstable; Greatly influenced by external conditions.
The company's management philosophy with regard to both operational and accounting matters.	Conservative.	Aggressive.
The company's control environment; including the possibility of management override.	Strong administrative controls; control-conscious management.	Weak administrative controls; management isn't control conscious.
The company's previous audit history.	Unqualified opinions for previous audits; no prior disagreements with auditors; few adjustments.	Qualified or adverse opinions for previous audits; prior disagreements with auditors; numerous adjustments.

Table 3.2 Auditor’s business risk factors (continued)

The company’s financial position and operating performance.	Strong.	Weak.
The company’s existing or potential litigation.	Insignificant.	Significant.
The business reputation of the company’s management and principal owners.	Good.	Poor.
The relevant experience of the company’s management and principal owners.	High.	Low.
Ownership of the company.	Non-public.	Public.
Client understanding of the auditor’s responsibilities.	Clear.	Unclear.
Conflicts of Interest, regulatory problems or auditor independence problems.	Insignificant.	Significant.
Rate of turnover for top management and the board of directors.	Low.	High.

Source: Sengur (2012: 296)

Table 3.2 demonstrates the auditor’s business risk factors, and indicates when the level of auditor’s business risk is lower or higher for each of the factors. For example, for the factor ‘the economy in which a company operates’, if the economy is healthy, the level of auditor’s business risk is lower, and if the economy depresses and is stagnant, the level of auditor’s business risk is higher. Therefore, all the factors listed on table 3.2 have an impact on the level of the auditor’s business risk and have to be considered in ER management accordingly.

3.4 Engagement risk control considerations

The idea of engagement risk can be applied to all phases of an audit. The extent to which engagement risk could be managed depends on the attributes of each of its elements. For

example, the entity's business risk cannot be managed not by the auditor; what the auditor can only do is to simply consider its evaluation in controlling engagement risk.

Audit risk is determined totally by the auditor and could be managed to an appropriately low level. According to Hall and Renner (1991:66) the;

auditor's business risk can be reduced by the auditor not accepting certain companies as clients, thereby reducing engagement risk to acceptable levels. ..the auditor can manage the auditor's business risk, and also engagement risk, through the process of client selection.....other factors impacting on the auditor's business risk, such as the client being entangled in lawsuits, cannot be controlled by the auditor. ...since audit risk and auditor's business risk are controllable by the auditor, to some extent, but the entity's business risk cannot, and the auditor's focus on controlling engagement risk centres on audit risk and auditor's business risk (Hall & Renner 1991:66).

While audit risk can be controlled by controlling the nature, timing, and extent of audit procedures that are carried out, the auditor's business risk can be managed through the decisions processes of accepting a client.

3.5 Managing engagement risk through client acceptance decisions

Risk can be described as a natural part of business activity and is a pervasive concept, hence Zhenli (2016) posits that it is therefore important to control and address risks because, if uncontrolled, it can jeopardise the business operations. According to Carmen (2016), risk management starts before a firm takes on a new client and continues throughout the entire engagement lifecycle. Carmen (2016) concurs with Perry (2014) and further emphasises that the methods of taking a new client on board or continuance are the base of the process of assessing risk primarily during the issuing of the financial statement. Perhaps, the most important audit decision reached at on every audit engagement serves to determine whether a client gets to be accepted or retained.

The auditors are obliged to carry out an introductory analysis of the potential client before deciding to accept engaging such a client (Siregar, Wondabio, Harahap & Wardhani 2006). Such introductory analysis is primarily connected to the business community, financial

stability, and also the relationship with the outgoing auditor. According to Hyejung (2016:224), “research shows that while client business risk and audit risk are negatively associated with an auditor’s determination in accepting a prospective client, individual auditors differ in terms of which factors are more significant for their decisions”. This, therefore, rules out uniformity in decision making processes by audit firms. As noted by Hyejung (2016), decisions to accept a potential client are premised on the evaluations of the anticipated costs and returns by an auditor and as a result are auditor specific.

Siregar *et al.* (2006) outline the risk factors in client acceptance decision as follows: management’s characteristics and integrity; litigation risk; operating characteristics and financial stability; susceptibility of assets to misappropriation; organisation and management structure; industry condition; and relationship between the entity and its employees. For Zhenli (2016), the following are factors that affect the auditor’s decision to accept or retain an audit client;

management integrity; independence and competence of management and the board of directors;... the quality of the organisation’s risk management process and controls;... reporting requirements, including regulatory requirements;... participation of key stakeholders;... existence of related-party transactions; and the financial health of the organisation (Zhenli 2016:662).

Decker *et al.* (2016) concur with the factors that influence the decision of an auditor to take on board that are listed by Zhenli (2016). Decker *et al.* (2016) further identify management commitment to applicable accounting standards and management internal control consciousness as important factors in the process. The above listed factors are described below.

3.5.1 Management integrity

According to Zhenli (2016), management integrity is presumably the most critical factor to be assessed in all engagements. Therefore, an auditor is obliged to comprehend and evaluate the integrity of management, together with economic incentives that influence management. Decker *et al.* (2016) point out that the economic incentives that affect management are clearly an influence on fraudulent financial reporting that happened in the past decade. Potential sources of information pertaining integrity of management encompass preceding auditors,

previous year audit experiences, and unconventional sources of information. Background checks, including a search for civil and criminal litigation, bankruptcies, tax liens, Securities and Exchange Commission (SEC) violations, media reports and any other needed additional research on principal management personnel, should be obtained by the auditor (Decker *et al.* 2016).

Such management personnel background checks, in most cases might be limited to those individuals who would provide management representations to the auditor and these might include the Chief Executive Officer, the Chief Financial Officer and the Chief Accounting Officer. Decker *et al.* (2016:100) stated that;

in the event that the background checks revealed litigation, criminal proceedings, SEC Violations or other significant matters, the auditor should follow up on each matter of potential significance and document the matter(s) along with assessed significance of the matter(s) and conclusions (Decker *et al.* 2016:100).

3.5.1.1 Management commitment to applicable accounting standards

Management's Commitment to applicable Accounting Standards is determined by the Auditor's assessment for any doubtful accounting policies. According to Decker *et al.* (2016:101), "the doubtful policies, practices or transactions can be sniffed out through reading the intended client's financial statements for the several previous years and the auditor should ask of management pertaining to these matters". In the event that the auditor believes that the prospective client should embrace different accounting policies or operations, the auditor should propose the changes to the prospective client and the willingness by the client to adopt such changes is meaningful for the auditor's decision.

3.5.1.2 Management internal control consciousness

Siregar *et al.* (2006) argue that an investigation to identify any practices that can be reported or substance shortcomings in internal accounting controls must be carried out as part of the process of accepting a potential client. This necessitates determining the background and the know-how of the accounting staff of the potential, establishing whether or not there was any latest turnover in the principal accounting staff and reasons for the turnover.

3.5.1.3 Regulatory and reporting requirements

According to Zhenli (2016:662),

the auditor should review previous reports to regulatory agencies such as those filed with the SEC because some industries, such as banking, insurance, proprietary drugs, and transportation are subject to regulatory oversight. those agencies often conduct regulatory audits that auditors should review to determine if the regulatory auditors have problems with the company or its management (Zhenli 2016:662).

Reports from regulatory bodies are crucial and guide the incoming auditor on the previous non-compliance behaviours by the potential client if any.

3.5.1.4 Existence of related-party transactions

Related-party transactions usually have a potential to create conflicts of interest between shareholders and the corporate. These then become of interest to auditors in order to eliminate an engagement risk caused by related party transactions. Decker *et al.* (2016:100) argued that;

the auditor should gather information on a preliminary basis, to determine if potential clients are engaged in related-party transactions..... Small companies, in particular, use related-party transactions to facilitate financing or to achieve tax benefits....however such transactions are often used to manage earnings to render the real financial condition of the company less transparent (Decker *et al.* 2016:100).

An example of such related-party transactions was given by Gramling, Rittenberg and Johnstone (2012), where they cited Tyco which gave out numerous loans to the top executive personnel, and these loans which were then forgiven by company management team. These loans were actually used to lure the executive personnel into more fraudulent cover-ups of transactions. In the same vein, WorldCom also issued out loans to its top officers without an apparent schedule for paying back and engaged in financial transactions with some companies that were owned by senior management (Zhenli 2016).

3.5.1.5 Financial health of the prospective client

The auditor is obliged to read and analyses the potential client and corporate financial statement so that they are able to assess the probability of business collapse. Decker *et al.* (2016) posit that notable doubt of going concern raises audit risk because it is correlated with a higher probability of fraudulent financial reporting. The risk that the potential client will not be able to pay for the audit service is increased by business failure (Decker *et al.* 2016).

In addition to the factors listed above, Deloitte (2015) and KPMG (2016) assert that auditors should consider other matters before accepting a client. These other matters are listed as follows: client assessment; professional clearance; client assessment considerations; resources (time and staff) available; the fee; the client's credit rating; client deadline; the integrity of the client and its directors; the level of audit risk; attestation of the identity of the potential client and their source of income; and professional clearance process.

Standards of Fieldwork, as promulgated by AU, sec. 314, and indicated by Statements on Auditing Standards (SAS) No. 109, provide;

guidance to an auditor in comprehending the business entity and its environment and also evaluating the risks of material misstatement.... to obtain a comprehension of the business entity and its environment, the auditor should perform investigations of management and others within the entity, analytical procedures, and observation and inspection among others (SAS No. 109. sec. 314).

To add to the above, the auditor might consider making investigations of other factors external to the business organisation, such as the organisation's outside legal counsel or of valuation specialists that have been used by the business entity. As outlined by SAS No. 109, "the auditor may also review information gotten from outside sources, such as reports by analysts, banks, or rating agencies, trade and economic journals or regulatory and financial publications in order to obtain useful information about the entity".

In determining of whom inquiries should be made, and to what extent, SAS No. 109 indicates that the auditor should consider what information needs to be collected in order to help in the identification of risks of material misstatement. For example, (SAS No. 109, AU sec. 318) points out that;

inquiries directed towards those charged with governance may help the auditor understand the environment in which the financial statements are prepared; internal audit personnel may relate to their activities concerning the design and effectiveness of entity's internal control and whether management has satisfactorily responded to any findings from these activities; employees involved in initiating, authorising, processing, or recording complex or unusual transactions may help the auditor in evaluating the appropriateness of the selection and application of certain accounting policies; in-house legal counsel may relate to such matters as litigation, compliance with laws and regulations, knowledge of fraud or suspected fraud affecting the entity, warranties, post-sales obligations, arrangements (such as joint ventures) with business partners, and the meaning of contract terms; and marketing, sales, or production personnel may relate to changes in the entity's marketing strategies, sales trends, production strategies, or contractual arrangements with its customers (SAS No. 109, AU sec. 318).

It is therefore important to note that assessing the client entails understanding the client's business. The client's business is affected by external, internal and the ICT environment. Therefore, basing on the relevant business environment, the auditor exercises professional judgement when assessing risks and responds to those risks throughout the audit (ISA 315).

External considerations that should be made in the process of understanding the new client's business include; industry, regulatory, and other outside factors and examples of matters that an auditor may consider under these factors, including the following, as outlined by hybrid label PCAOB audit standards AU (314);

industry conditions which include the market and competition, including demand, capacity, and price competition, cyclical or seasonal activity, product technology relating to the entity's products and supply availability and cost; regulatory

environment, which include accounting principles and industry specific practices, regulatory framework for a regulated industry, and legislation and regulation that significantly affect the entity's operations; regulatory requirements; direct supervisory activities, which include taxation, and government policies currently affecting the conduct of the entity's business; monetary; fiscal; financial incentives for example government aid programs; tariffs and trade restrictions (environmental requirements affecting the industry and the entity's business); and other external factors currently affecting the entity's business which include (general level of economic activity, interest rates and availability of financing, and inflation and currency revaluation) (PCAOB audit standards AU sec314).

Other factors than those outlined above include the government, customers, lenders, special interest groups, board of directors, audit committee, suppliers, shareholders, financial analysts, and employees (Davies 2000). Therefore, to support the comprehension of the potential client's business risks, the auditor should contemplate how a client's principal stakeholders, internal or external to the business entity, affect the actions of management. Generally, if the business has been successful, its management must gratify or at least balance its principal stakeholders' expectations, which could sometimes conflict. For example, risks can arise if principal stakeholders' expectations are impractical, and may influence management decisions during their setting of strategies and goals. It is also important for an auditor to comprehend the client's industry since many industries have unique accounting requirements. Also, comprehending the common intrinsic risks of the relevant industry assists the auditor to identify the intrinsic risks of an individual client.

The AU (Section 314) and Davies (2000) concur in their outline of the internal aspects that an auditor should comprehend in the process of assessing an entity, and these according to Davies (2000) include;

nature of the entity; objectives and strategies, and the related business risks that may result in material misstatement of the financial statements; measurement and review of the entity's

financial performance; and internal control, which includes the selection and application of accounting policies (AU sec. 314. para. 21:1673).

3.5.2 Nature of the entity

Risk indicators to be considered under the nature of the entity, according to Davies (2000:9), include the following;

business operations and processes, which include products and services, market, key customers and suppliers, employment, and related party transactions; investment activities, which include capital investment, investment in non-consolidated entities, partnerships, joint ventures or special purpose entities; and capital structure and financing, including debt structure and leases; financing arrangement with subsidiaries, transfer of contracts to special purpose entities and off-balance sheet financing; derivative financial instruments (Davies 2000:9)

The risk factors also include capacity to proceed as a going concern; financial reporting policies, including accounting principles, presentation and disclosure, revenue recognition, fair value accounting, and accounting for unusual and complex transactions; and gaining an understanding of the IT environment, including understanding how IT may affect the ability to achieve, understanding of IT infrastructure significant to the audit, understanding the risks arising from the use of IT, and involvement of an IT specialist (Davies 2000:9).

The objectives, strategies and related business risks and risk indicators to be considered under this include the following; organisational objectives; understand client objectives in respect of reliability of financial reporting; effectiveness of operations; compliance with laws; potential business risks that may have financial consequences; and strategies as operational approaches of objectives. The following risk indicators were listed by Davies (2000:11);

measurement and review of the entity's financial performance, internal information which may include key performance indicators, budgets, variance analyses, risk reports, and

segment information, which matters might be considered before performing analytical procedures during the planning phase, internal or external reports from analysts and credit rating agency, may create pressures on management to misstate the financial statements, and examination of such information allows the auditor to assess the risk of material misstatements (Davies 2000:11).

The other risk indicators are internal control and governance, which include the client's organisational structure, the geographical organisation, activities of the Board of Directors and the Audit Committee, management's philosophy and operating style, corporate charter, bylaws and contracts; for example, stocks options, pension plans, leases and bonds, minutes of meetings, code of ethics, and understanding of internal control.

Internal control elements consist of the control environment, risk assessment, information and communication systems, control activities and monitoring (Committee Of Sponsoring Organisations of the Treadway Commission 1992). The control environment determines the tone of an organisation, affecting the control consciousness of its people, and is the foundation of constructive internal control, which provides discipline and structure. However, the control environment according to (COSO 1992) embraces;

the communication and enforcement of integrity and the ethical values, dedication to competence, participation of those staff charged with governance, management's philosophy and operating style, organisational structure, assignment of authority and responsibility, and human resource policies and practices (Statements on Audit Standards 315.2004:315).

The risk indicators outlined above are mere examples of a wide range of matters that are applicable to many other engagements; however, AU 314 points out that it is not all matters that are relevant to every engagement, and that the list of examples is not fundamentally complete. This means that auditors may add or subtract these risk indicators as they exercise the client acceptance decision.

Perry (2014:2) outlines the investigative procedures to be followed by the audit partner during the client assessment process, and these include;

obtaining credit information for the entity and its officers, discussion of the prospective client with the entity's bankers and attorneys, asking the potential client why the entity is changing auditors, and obtaining management's permission to communicate with the entity's former auditors, conducting enquiries of former auditors about disagreements, management's integrity, uncollected fees, or other reasons why the firm should not accept the audit (Perry 2014:2).

Perry (2014) further indicates that procedures followed during client assessment include revisiting reports of former auditors and asking management if any officers and directors had been convicted of a crime.

The investigation of potential clients and the on-going assessment of existing clients avail information that enables an audit firm to determine that a client comply with its quality standards and, therefore, worth engaging. The auditor should ask the client for permission to speak to outgoing auditors and if the answer is no then the appointment should be rejected. The auditor should also ask the outgoing auditor if there are any reasons the appointment should not be accepted, and if the response is no the appointment should be accepted and if the response is yes, the auditor should further ask the client if the problem can be explained to the auditor's satisfaction. If the response is no then the appointment should be rejected (Deloitte 2015). Client acceptance and continuance instruments need to facilitate new and continuing client investigations, and should contain information about an entity's business and environment, and this includes description of its applicable financial reporting framework. Messier, Glover and Prawitt (2012:315) point out that;

the knowledge that the auditor gathers during the acceptance process is not as in-depth as it is later when the auditor is seeking understanding of the entity and its environment, to assess risk and plan the audit but the knowledge obtained during the engagement activities should be sufficient to make an informed decision whether or not to accept a client (Messier *et al.* 2012:315).

3.6 High-risk audit clients

Zhenli (2016) points out that the auditor assesses the economic prospects of the client to help ensure that important areas are investigated, and that the company will stay in business. If a company is a high risk client, it usually exhibits the following characteristics; inadequate capital, absence of long-run strategic and operational plans, reduced cost of entry into the market, dependence on a restricted product range, dependency on technology that might quickly become obsolete, unreliability future cash flows, a past record of questionable accounting practices, and past investigation by the SEC or any other regulatory agencies. If the auditor observes the above listed characteristics in a prospective client, then it is an indication that such a client is a high risk one, and the auditor may reject the client-auditor relationship.

3.7 Client acceptance by the big four firms in Zimbabwe

It has been indicated earlier that Deloitte Zimbabwe and KPMG, as some of the Big Four Audit firms operating in Zimbabwe, do have in place policies and procedures for taking on board prospective clients and evaluating engagement risk. Deloitte Zimbabwe (2016) points out that in its operations, ER categorisation associated with accepting an engagement can be evaluated as “normal”, “greater than normal”, or “much greater than normal” and is completed before accepting a client and engagement. Their ER evaluation process includes approval by the recommending partner and agreement by at least one firm partner that the firm might accept the client and engagement. Further to that, the decision to welcome an appointment is approved by the firm’s risk leader if ER is assessed as “greater than normal”, or “much greater than normal” (Deloitte Zimbabwe 2016).

Deloitte Zimbabwe is also involved in international engagements where engagement acceptance procedures are carried out at the member-firm level (Deloitte Zimbabwe 2016). In its report, the firm indicates that it does not assume the acceptability of a client and/or the engagement simply because it has been referred from another audit firm. In evaluating acceptability of an engagement, Deloitte Zimbabwe considers client and professional service risks in concurrence with Siregar *et al.* (2006) and Decker *et al.* (2016). The following factors are considered by Deloitte Zimbabwe (2016);

management characteristics and integrity, organisation and management structure, nature of the business, business environment, financial results, business relationships and

related parties, and prior knowledge and experience (Deloitte Zimbabwe 2016).

According to Deloitte Zimbabwe (2016) the firm's ER evaluation procedures identify associated risks and provide a foundation for designing the audit approach so as to be able to mitigate engagement-specific risks. Further, Deloitte Zimbabwe (2016) indicates that for Deloitte Zimbabwe, the ER evaluation starts during the process of taking a new client on board and continuing throughout the engagement. ER evaluation tools and programmes are embraced in the audit approach and common documentation to promote comprehensive risk evaluation to start planning the audit once the engagement is accepted (Deloitte Zimbabwe 2016). Before accepting a new audit engagement at KPMG, a partner carries out an assessment of the entity and its principals, its business, and engagement-related matters as suitable; the assessment typically includes a background investigation of the entity and selected senior management personnel (KPMG 2016). The factors considered by KPMG during the acceptance process include, but are limited to client-related matters, business-related matters, service-related matters, and independence-related matters (KPMG LLP 2016).

3.8 Chapter synthesis

The literature review identified and established the body of theory relating to the engagement risk, its components and management by audit firms. Engagement risk has three components, namely audit risk, auditor's business risk, and client business risk, which are assessed to ultimately determine the client acceptance decision by an audit firm. Control considerations of the three components of engagement risk vary. Literature revealed that the entity's business risk is not controlled by the auditor, but the auditor simply considers its assessment in controlling engagement risk. The auditor's business risk is controllable to some degree by the auditor as the firm makes a decision on client acceptance. The audit risk is solely determined by the auditor and can be managed at an appropriately low and acceptable level.

In reviewing the literature, it was found that risk factors in client acceptance decision included management's characteristics and integrity, litigation risk, operating characteristics and financial stability, susceptibility of assets to misappropriation and organisation and management structure. Other factors were; industry condition, relationship between the entity and its employees, independence and competence of management and the board of directors, the quality of the organisation's risk management process and controls, reporting requirements,

including regulatory requirements, participation of key stakeholders as well as the financial health of the organisation. The above listed factors were included in the Delphi instrument for the purpose of engaging with experts in a journey to develop the framework. The following chapter outlines the research and design method used in this study.



CHAPTER FOUR

RESEARCH DESIGN AND METHODS

4.1 Introduction

The previous chapter reviewed literature informing the current research, which sought to develop an ERMI. This chapter provides a detailed description of interviews and the Delphi Technique employed to attain the objectives of the study. To this end, this chapter further identifies and outlines the rationale for the research design, the methodology and research approaches employed in the current research. It further discusses research population and sampling. The final section of this chapter addresses ethical issues applicable to this study. The chapter is organised as follows; 4.2 presents the theoretical perspectives on the research design, 4.3 the research design for the development of the ERMI for Zimbabwean audit firms, 4.4 the Delphi process, 4.5 the research population, selected firms and the sample, 4.6 validity and reliability theoretical aspects, 4.7 ethical issues, and 4.8 synthesis of the chapter.

4.2 Theoretical perspectives on the research design

Generally a research design is meant to provide the framework that guides the whole research with regards to methodology. Creswell (2014:107) say “the extensive research approach is referred to as the plan to conduct research, and it includes the intersection of philosophy, research designs and specific methods”. The research philosophy is a paradigm, which is described by Patel (2015) as a collection of common beliefs and consensus that are shared between scientists on how challenges should be comprehended and handled. Further, Creswell (2007) suggests that a research paradigm is a worldview and a primary set of beliefs that steer action. For Krauss (2005), research paradigms are philosophical underpinnings that guide the decision on whether to use qualitative or quantitative research approach, and cognitive perception, embraced by an individual or society as a comprehensible example, model, or pattern of how things in the world work.

Accordingly, it is of paramount importance that in designing a study, the researcher should take time to contemplate on the philosophical worldview suppositions that they will apply to the study together with the research design that is applicable to this worldview and specific methods that translate the approach into practice. Mertens (2005) concurs with this view by

further suggesting that in guiding research action, a paradigm establishes the intent, motivation, expectations, and flow of an investigation.

According to Patel (2015), research paradigms can be described through their;

Ontology – What is reality; Epistemology – How do you know something; Methodology – How do you go about finding it out? The diagram below explains the above terms and the relationship between them (Patel 2015:43).

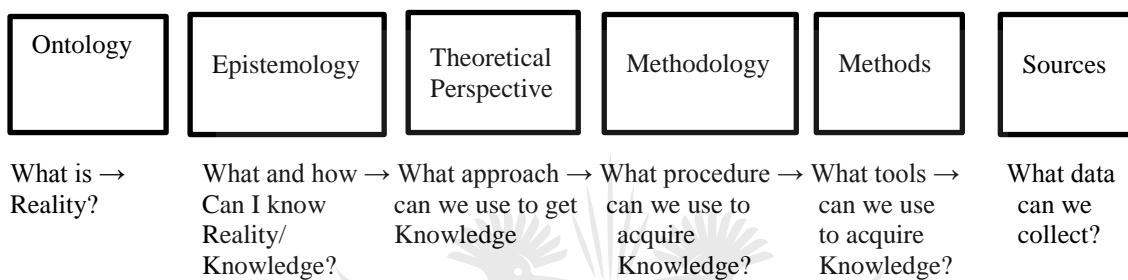


Figure 4.1: Relationships between Ontology, Epistemology and Methodology

Source: Patel (2015), “The Research paradigm-methodology, epistemology and ontology- explained in simple language”.

Ansari, Panhwar and Mahesar (2016:134) define “ontology as the perception or view point regarding existence of men, society and the world in general on the one hand, and relationship among them on the other hand”. Ansari *et al.* (2016) further identify two main. Ontological perceptions with regards to social world reality and these are namely: reality is one; and multiple realities co-exist in a social world. Following the perception that reality is one, Bryman and Bell (2011) posit that the researcher investigates a social phenomenon objectively, whereas when following the perception that multiple realities co-exist in a social world, the researcher, with the help of human experiences, subjectively explores the nature of social world reality. The objectivists are of the view that social world reality may be determined independent of social actors and they investigate it in a way similar to that of physical or natural scientists. On the other hand, subjectivists argue that in the social world, humans, unlike objects, assign meaning to the phenomena surrounding them; thus, in order to traverse the character of social reality, human participation within the boundaries of the research study, is useful to establish the truth (Ansari *et al.* 2016).

Saunders, Lewis and Thornhill (2007) posit that the researcher can make a choice about their philosophical approach at the same time being aware that the chosen approach will have an effect on the whole methodology and sometimes even the research questions in it will also suggest a particular approach. It is therefore very important for a researcher to decide on the most applicable Ontological and Epistemological positions specific to their study. Vanson (2014:2) emphasises that;

the research design starts by considering the Ontological position, which deals with the fundamental nature of existence, and for which there is no right or wrong answer as different people view topics differently depending on their role, values and background (Vanson 2014:2).

Basing on their pattern of thinking, each researcher will screen for their subject of inclination in their world, according to their metaprogrammes (Dilts & DeLozier 2000). As described by Dilts and DeLozier (2000), the metaprogrammes are acquired from the leading propositions and presumptions, intentions and limitations, which in turn determine the events to be observed and the events to be disregarded, the evidence to be gathered and the evidence to be discarded in developing an argument. Regarding filtering for preference, Vanson (2014) highlights the importance of the researcher understanding what they are filtering because this will affect the research methods and data collection methods and tools to be used.

After deciding on the Ontological positions, the researcher then moves on to consider the Epistemology employed in their research study. Ansari *et al.* (2016) posit that epistemology is aligned to the way in which a researcher would ascertain or come up with reality. They further argue that if a researcher seeks knowledge and argues for it while keeping his or her own perspective aside, then the epistemological path of the study, in broad terms, may be termed as positivism. Positivism presumes that there is only one objective reality, which is independent of human belief system. Epistemology assumes that reality is determined through systematic scientific methods of enquiry. Conversely, according to Maykut and Morehouse (2002), cited by Ansari *et al.* (2006), if the interaction occurs between the researcher and the subjects, in that case the study would follow the interpretivist epistemology. Vanson (2014) asserts that Epistemology pertains to the information that contributes towards acceptable knowledge and how that knowledge should be obtained and interpreted. Further, Vanson (2014) argues that once a researcher embraces a specific epistemology they usually adopt methods that exhibit

characteristics of that particular position, giving place to experience to determine filters and preferences.

4.2.1 Theoretical Framework of Research Design

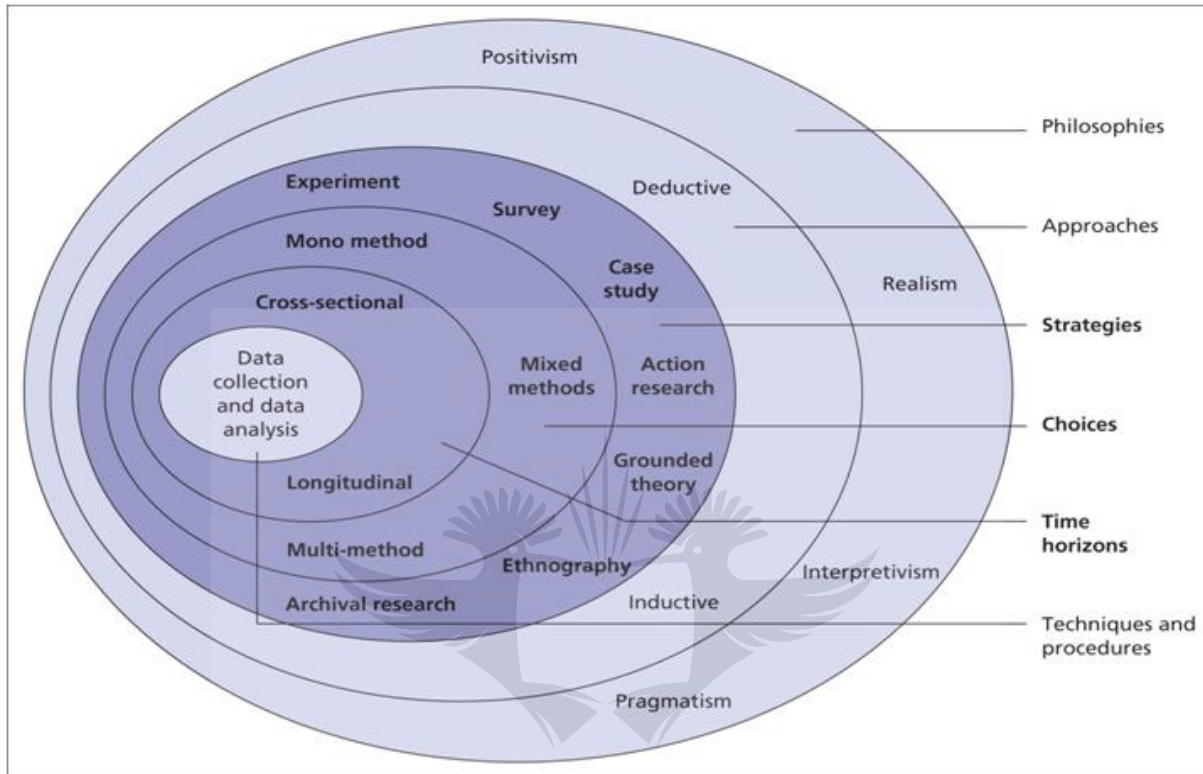


Figure 4.2: The Research Onion

Source: Saunders, Lewis & Thornhill (2007)

Saunders *et al.* (2007) developed the above research onion to illustrate the stages that should be taken into consideration and covered during the development of a research strategy. As illustrated above, the onion is viewed starting from its external to the internal layer and each layer of the onion explains a more detailed phase of the research process. According to Bryman (2012), the research onion exhibits an effective continuance through which the research methodology can be developed, and its effectiveness is found in the adaptability for almost any variety of research methodology. The existence and availability of different research designs necessitates that the researcher chooses the appropriate research design for a research study. As a result, selecting an appropriate research design becomes a critical aspect of the research process. Barbbie (2010) reiterates that while researchers select between varieties of research approaches, they must also comprehend the philosophical concepts on which each approach is based.

The outer most layer of the research onion on Figure 4.2 shows four research philosophies, namely; Pragmatism, Interpretivism, Realism and Positivism. These philosophies are explained in detail in sections 4.2.1.1 to 4.2.1.4. The philosophies are followed by research approaches in the second layer, and these are; the deductive, which tends to be quantitative, and the inductive, which tends to be qualitative. The third layer shows the research strategy, which could be experiment, survey, case study, grounded theory, and ethnography or action research. The fourth layer shows time horizon, and this can be either cross sectional or longitudinal. The time horizon, according to Saunders *et al.* (2007:47), “is the time framework within which the project is intended for completion”. The fifth and final layer shows data collection methods that can be used in a particular research.

The research onion was applied in this research in that the research philosophy of pragmatism which is the outermost peel of the onion was employed in this research. From the peel of the research philosophy is the approach which in this research was inductive which is concerned with the generation of new knowledge emerging from data. Data was collected and analysed to be used in the development of the engagement risk instrument. Therefore the developed engagement risk management instrument emerged as new knowledge. The next peel from the approach is the strategy which in this research was the grounded theory which operates inductively as a systematic methodology involving the construction of theories through methodical gathering and analysis of data. The next peel on the research onion is the choices and this research chose the sequential mixed methods starting with qualitative data collection followed by the quantitative data collection. The next onion peel is the time horizon and this research’s time horizon is cross-sectional since data was collected over months in order to answer the research questions. The last and inner-most research onion peel is the techniques and procedures. This research employed the desk research, structured interviews, and the Delphi questionnaire as techniques for data collection. Thematic analysis and the SSP package were used to analyse data in this research.

4.2.1.1 The Positivist paradigm and quantitative research design

According to Willis, Jost and Nilakanta (2007), the traditional and most preferable approaches to social and behavioural research from the nineteenth century onwards, were quantitative, whose foundation is in the positivist and the early natural science paradigm which has affected social science in the nineteenth century and during first half of the twentieth century. Cassel, Cunliffe and Grandy (2017) posit that, positivism is a point of view to science that is based on

credence in universal laws and emphasis on objectivity and impartiality, and it follows the natural science approach by trying theories and hypothesis. Patel (2015) points out that positivist believe in the existence of one reality only, and that this can be measured and determined, and, as a result, chances to use quantitative methods to measure this reality are very high. Bryman and Bell (2015) describe positivism as a way of seeing things and believing that the only legitimate knowledge is scientific knowledge, and that this scientific knowledge could only come from positive attestation of theories through strict scientific method. Guba and Lincoln (1994) point out that this paradigm aims at revealing the truth and facts in the form of quantitatively specified relations among variables. Bryman and Bell (2015) identify five major principles backing positivism and one of them is that under this paradigm researchers should be able to empirically observe the research with human senses, and also use inductive logic to establish verifiable statements. The terminal goal of science is to generate knowledge, notwithstanding politics, morals and values (Bryman 1992).

Barbbie (2010:57) states that “quantitative methods emphasise objective measurements and the statistical, mathematical, or numerical analysis of data collected through polls, questionnaires and surveys, or by manipulating pre-existing statistical data using computational techniques”. Quantitative research therefore concentrates on collecting numerical data and then generalise it across groups of people. The analysis of such data also needs to follow a numerical trend.

4.2.1.2 The Constructivist/Interpretivist paradigm and qualitative research design

Patel (2015) indicates that Constructivists are the opposite of positivists in that they do not believe in the existence of only one reality or truth and instead say reality needs to be interpreted. Therefore because of this stance, chances are high that they use qualitative methods to identify those several realities. According to Creswell (2007), in the constructivist paradigm individual people seek to comprehend the world in which they are living and working and researchers subscribing to this worldview trust that comprehending human experiences is equally important as concentrating on explanation, prediction and control. Constructivists come up with subjective meanings to explain their experiences, where these meanings are directed towards certain objects. According to Creswell (2007), these meanings, are widespread and diverse, thereby leading the researcher to seek the complexity of views rather than reducing the meanings into reduced categories of ideas. Also, research aims at depending as much as possible on the participant’s view of the circumstances and inductively come up with a theory or design of meaning instead of beginning with a theory.

Since the 1960s, qualitative research has witnessed a steady growth, starting with the dawning of new approaches from a symbolic inter-actionist viewpoint and the emergence of grounded theory (Barbbie 2010). In this approach, researchers progress from the specific to the general and from data to theory or explanation. However, the paradigm has been criticised by Phillips (1995), among others, for turning a blind eye to the effect of biological factors and social composition on individual action and its tendency to assume that all participants have equal chances of consideration.

4.2.1.3 The Realism paradigm

The Realism research philosophy is guided by the supposition of a scientific approach to the emergence of knowledge, and it depends on the concept of freedom of reality from the human mind (Saunders, Lewis & Thornhill 2012). Realism is broken up into two categories; direct and critical realism. According to Saunders, Lewis and Thornhill (2009), direct realism could be illustrated as; what one sees is what they get, and thus depicts the world through individual human emotions. On the other hand critical realism, asserts that human beings do experience the emotions and visual impressions of the real world. Novikov and Novikov (2013) argue that on the other hand critical realism presents that emotions and visual impressions of the real world can be deceiving, and they usually fail to depict the real world. However, according to Saunders *et al.* (2012:37), “there is an agreement amongst researchers that critical realism is widely accepted and appropriate than the direct realist approach because it is able to represent the all-inclusive picture when studying a phenomenon”. It therefore follows that if a researcher chooses realism as their research philosophy, they are directed to presume the function of critical realism, instead of direct realism.

4.2.1.4 The Pragmatist paradigm and the mixed methods research

According to Morgan (2014;1047), “pragmatism acts as a new paradigm to replace an older way of thinking about the differences between approaches to research and pragmatists treat those differences of social contexts for inquiry as a form of social action, rather than as abstract philosophical systems”. Patel (2015) posits that pragmatists are of the belief that reality is continually renegotiated, interrogated, discussed, and interpreted and therefore, the foremost method to employ is the one that addresses the problem. Creswell (2014:33) asserts that, “the pragmatic approach to science involves using the method that appears best suited to the

research problem and not getting caught up in philosophical debates about which is the best approach”.

Pragmatists allow themselves the liberty to employ any of the techniques and procedures related to qualitative and quantitative research and in the process recognising that every method has its merits and demerits, and that these approaches complement each other. Therefore, as promulgated by Baker (2016), the purpose of mixed methods research is to furnish a mere complex comprehension of a phenomenon that otherwise would not have been reached by using one method alone. The mixed method research has become more prominent and extensively used in research to the extent that it is now regarded as the third paramount research approach (Johnson, Onwuegbuzie & Turner 2007).

Bryman (2006) identifies three primary techniques for mixing methods, and these are; the nested, the sequential, and the parallel strategies and further identifies the sequential strategies as the most common approaches to mixing methods. As an example, Bryman (2006) indicates that qualitative techniques like the unstructured interview can be used as an initial step in research to traverse a matter, and on the account of these interviews the researchers come up with a hypothesis and design a questionnaire to be used for a long survey. Further, Bryman (2006) argues that at the same time, a study can start with a quantitative approach that evaluates facts, and a qualitative technique is added to traverse emotions and perceptions that have not been traversed in depth before.

This research followed the mixed methods design and adopted the transitional ontological position, conceding that both objective and subjective worldviews of reality are applicable in this study. From the epistemological perspective, as well, this research adopted an intermediate epistemology, which acknowledges some aspects of positivism and interpretivism.

4.3 Research design in the development of the ERM for Zimbabwean audit firms

In an effort to be able to fulfil the objectives of this study, the pragmatic research philosophy that informs the mixed approach was employed. This methodology for carrying out research necessitates collecting, analysing, and putting together qualitative and quantitative research in one study or longitudinal program of inquiry (Creswell 2007). Azorin and Cameron (2011) argue that combining qualitative and quantitative research leads to a better comprehension of a research problem than each individual research approach on its own.

From the three basic techniques of mixing methods identified above by DePoy and Gitlin (1993), this particular research employed the sequential technique, specifically the exploratory sequential, Qual→quan design, which starts with a qualitative phase followed by a quantitative phase (Creswell 2014). The sequence is distinguished by the first phase of collecting and analysing qualitative data, followed by a phase of collecting and analysing quantitative data and its purpose is to traverse a phenomenon (Creswell 2003).

According to Creswell (2003), mixed methods are used to, among other things, develop and test a new instrument. Creswell, Plano Clark, Gutmann and Hanson (2013), point out that the Qual → quan design is employed when a qualitative and quantitative technique are employed sequentially, whilst focusing on the inductive theoretical thrust. This sequence can be presented diagrammatically as shown on Figure 4.3.

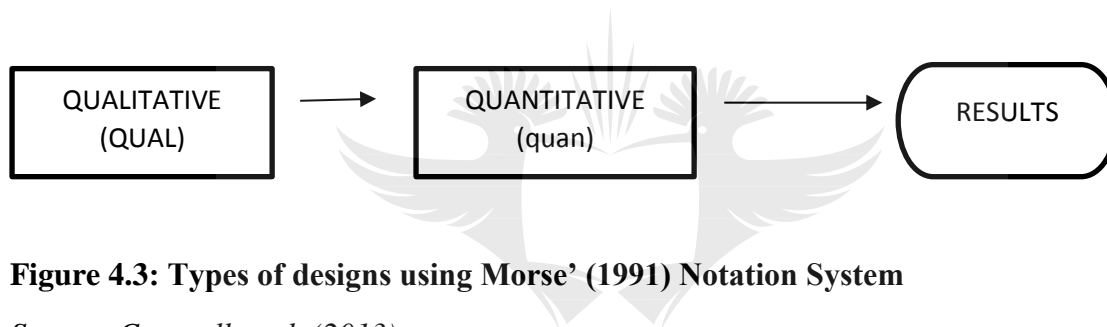


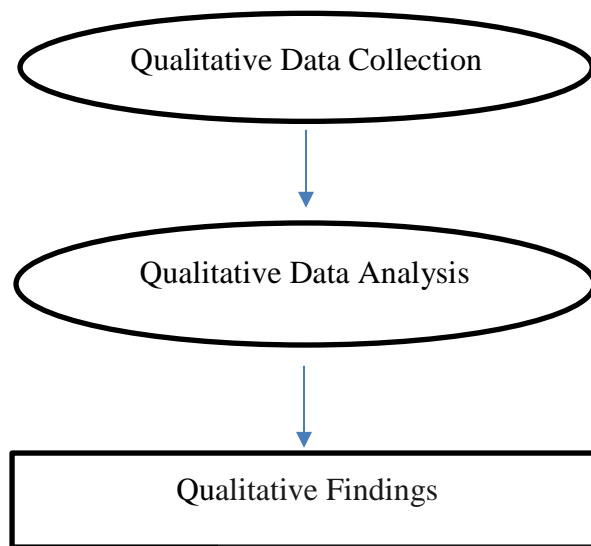
Figure 4.3: Types of designs using Morse’ (1991) Notation System

Source: Creswell et al. (2013)

Figure 4.3 shows that the sequential exploratory design is carried out in two phases, where preference is given to the qualitative facet of the study but the findings are then put together during the interpretation phase. A number of sources including (Creswell 2013; Creswell *et al.* 2003; and Creswell 1998) concur that this design is employed when a researcher designs and evaluates an instrument and this happens to be the aim of this research. This, therefore, justifies why the researcher employed this design for this current research.

Figure 4.4 exhibits an elaborated visualisation for the mixed methods procedures to be followed during the two phases of the exploratory Qual → quan design, adopted in this study.

Phase I Qualitative Research



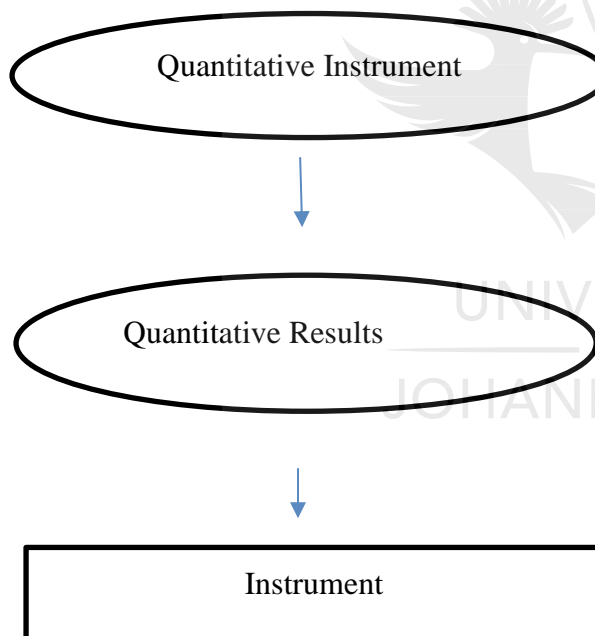
Interviews

Structured Interviews carried out with chief risk officers and managing partners

Thematic Analysis

Identifying engagement risk factors from the interviews.

Phase II Quantitative Research



Delphi Process

Using the identified engagement risk factors from interviews to carry out a one-round Delphi process in order to confirm the most accepted engagement risk factors for Zimbabwean audit firms during client acceptance stage

Analysing Delphi process results at the end of the round to allow development of the final ERMI.

Developing the final ERMI

Figure 4.4: Elaborated visualisation for the mixed methods procedures

Adopted from Creswell et al. (2013)

4.3.1 Research approaches used in each of the two phases

The main objective of this study was to develop an ERMI for Zimbabwean audit firms. The secondary objectives were to; identify key engagement risk management factors that need to be assessed during the client acceptance stage, in order to develop an ERMI; validate accepted

engagement risk factors for assessment by Zimbabwean audit firms during client acceptance through the Delphi Technique; and identify engagement risk factors emerging from the study. To achieve the stated objectives the researcher employed a two-phased exploratory procedure illustrated on Figure 4.4 where phase 1 involves qualitative data collection and identifying engagement risk factors; and phase 2 involves developing the proposed ERMI through a one-round Delphi process.

4.3.2 Phase 1 data collection

Structured interviews were employed to collect qualitative data, which sought to address the first secondary objective of this study. This qualitative exploratory phase, guided by desk research and structured interviews, identified engagement risk factors that should be considered during the client acceptance stage.

4.3.3 Theoretical aspects of interviews

Corbin and Strauss (2008:68) define an interview as;

a two-person conversation that is initiated by the interviewer for the specific purpose of obtaining research-relevant information and focused by the interviewer on the content specified by the research objectives of description and explanation (Corbin and Strauss 2008:68)

There are number of varieties of interviews that can be employed in data collection and among them are structured, semi-structured and unstructured (Kajornboon 2005).

According to Edwards and Holland (2013) structured interviews are premised on the structured interview-guide which slightly varies from the questionnaire. A structured interview is controlled and pre-planned (Alsaawi 2014). The interview guide is a list of questions, topics and matters that the researcher intends to explore during the interview (Bryman 2008). It consists of closed-ended items prepared by the interviewer. Unstructured interviews, also called ethnographic interviews (Dornyei 2007), are non-directed and flexible. Gill, Stewart, Treasure and Chadwick (2008:292) stated that “there are no specifications in the wording of the questions or the order of the questions and the interviewer forms questions as and when required”. Contrary, semi-structured interviews are flexible and the interviewer asks critical questions in a similar manner each time but is at liberty to change the order of the questions

and to inquest for more information (Bryman 2008). For this study, it was decided that some items were to be structured while other items were left open and the respondents were then free to answer in any way they chose (Opdenakker 2006).

There are ethical issues that have to be observed during interviews. Kajornboon (2005) stresses that respondents must be given confidentiality and that they should not be maltreated or injured in whatever way by the researcher. It is also important to note that interviews should not be used as deceitful means of marketing any product or service to the participants (Gray 2013). It is another ethical issue for which the interview can be cancelled or postponed in the event that respondents are uneasy and become upset. The purpose of the inquiry should also be explained to the respondents. The use of interviews avails opportunities for probing, and interviews usually have a good return rate (Edwards & Holland 2013).

4.3.4 Interviews in this research

For this research, the researcher sought the interviewees' consent and employed the structured interview, where an interview guide with a list of closed and open-ended items was used. These items were structured to address the primary objective of the study. They were also based on three elements of engagement risk, namely; audit risk, auditor's risk, and client risk. These question items were constructed in such a way to enable the solicitation of views on what information should be included in an instrument to manage engagement risk at client-acceptance stage. The interview guide had 10 question items.

To determine the interview sample size for this research, the concept of saturation was applied. Guest, Bunce and Johnson (2006:24), "suggest that saturation usually occurs at around twelve (12) respondents in homogeneous groups". Latham (2013) indicates that the proposition by Guest *et al.* (2006) was persistent with his own experience during a CEO research study where saturation happened at around eleven (11) respondents. However, Latham (2013) goes on to argue that to ensure reaching saturation, a researcher has to exceed the point of saturation to ensure that no new main ideas come up in the next interview, and suggests fifteen (15) as the least possible for most qualitative interview studies. Crouch and MacKenzie (2006:485) state that, "less than 20 participants in a qualitative study help the researcher build and maintain a close relationship, and thus improve the open and frank exchange relationship", as they concur with the above researchers and further. On the basis of literature on interviews, this study applied non-random sampling (purposive sampling) by identifying two sets of groups, namely;

audit partners and chief risk officers. As such, there were 10 audit partners and 10 chief risk officers from 10 audit firms. Distribution of the sampled audit firms is as follows; 2 of the Big Four, 4 internationally affiliated, and 4 small to medium local audit firms. The chosen audit firms were not involved in the Delphi process.

4.3.5 Theoretical aspects of data analysis

Data collected through interviews is described as qualitative. One way of analysing this kind of data is thematic analysis. Braun and Clarke (2006:81) indicate “thematic analysis is a method for identifying, analysing, and reporting patterns (themes) within data”. The content analysis basically puts together and recounts data set exhaustively and gives meaning to various issues of the research topic (Braun & Clarke. 2013). Braun and Clarke (2006:81) further posit that, “thematic analysis provides a reachable and theoretically adjustable approach to analysing qualitative data”. This approach is said to provide an adjustable and helpful research tool, which is capable of providing a rich and comprehensive, and at the same time a complex account of data as a result of its theoretical freedom. Thematic analysis goes beyond what is observed or sensed (Marin, Duart, Galvis & Zawacki-Richter 2018).

According to Maguire and Delahunt (2017:3359), “a theme captures something important about the data in relation to the research question, and represents some level of patterned response or meaning within the data set”. Braun and Clarke, (2006) indicate the importance of noting that there is no common ground with regards to what contributes a theme because this is a qualitative analysis (Braun & Clarke, 2006). Since there is no common ground regarding the theme size, Braun and Clarke (2006:81), posit that “a theme might be allocated reasonable space in some data items and least or none at all in others, or it may appear comparatively little of the data set”. Therefore, the researcher judgement is required to establish what a theme is. To add on to the question of the size of the theme, is the issue of ‘keyness’ of the theme. Braun and Clarke (2006:87) opined that “keyness of a theme is not necessarily dependent on quantifiable measures but in terms of whether it captures something important in relation to the overall research question”.

Maguire and Delahunt (2017) posit that themes within a data set can be seen in one or two basic ways in thematic analysis, and these are; inductive or bottom up way, and deductive or theoretical or top down way. The inductive way means the themes recognised are strongly connected to the data themselves; therefore, inductive analysis is a process of coding the data

without trying to fit it into a pre-existing coding frame or the researcher's analytic pre-conceptions. According to Maguire and Delahunt (2017:3358);

the deductive way would tend to be driven by the researcher's theoretical or analytic interest in the area, and is thus more explicitly analyst-driven This form of analysis tends to provide a less rich description of the data overall, and more a detailed analysis of some aspect of the data (Maguire & Delahunt 2017:3358).

In addition to the two ways of identifying themes within data, Fereday and Muir-Cochrane (2006) state that the theme can be identified at two levels, that is semantic and latent. At the semantic level, themes are recognised explicitly or from the resemblance of the data, and the analyst is not searching for something that a participant has not said or what has not written. Braun and Clarke (2006:783) posit that "the latent level goes beyond the semantic content of the data, and starts to identify the underlying ideas, assumptions, and conceptualisations and ideologies that are theorised as informing the semantic content of the data". Maguire and Delahunt (2017) emphasise that a thematic analysis generally focuses principally on one level. Braun and Clarke (2006) summed up thematic analysis in six steps. These are illustrated on Figure 4.5.

4.3.5.1 Thematic analysis for this study

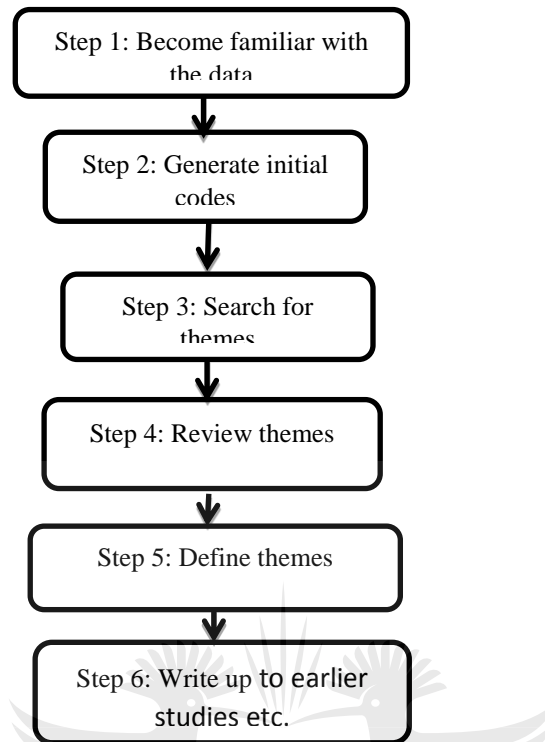


Figure 4.5: Thematic Analysis for this study

Source: Adopted from Creswell et al. (2013)

4.3.5.1.1 Step 1: Become familiar with the data

Maguire and Delahunt (2017:3359) posit that “the initial step in any qualitative analysis is reading, and re-reading the transcripts for familiarisation with the entire body of data”. In this case data was verbal because it was collected through interviews and there was need for transcription of the data into the written form. The transcription process was rigorous and thorough to keep the verbal account to its original nature. Therefore, during the transcription process the attention paid facilitated the much needed familiarisation with the data. After transcription, the researcher did a lot of reading of the data vigorously, looking for meaning and patterns, and making notes.

4.3.5.1.2 Step 2: Generate initial codes

This step involves the production of first codes from the data. The step, according to Braun and Clarke (2006), marks the beginning of organising data in a purposeful and orderly way. It is important to note that coding minimises a lot of data into little chunks of meaning, and involves coding of each segment of data relevant to the research question (Maguire & Delahunt 2017).

In this study, open coding was applied. This type of coding lacked pre-determined codes but instead were created and amended during the coding process. Therefore, this was done manually, working across hard copies of the transcripts using coloured pens and highlighters to write notes on the texts, and indicating potential patterns. During coding, the researcher took heed of the three pieces of advice for this phase as supplied by Braun and Clarke (2006), which state that: coding of many potential themes should be done because one might not know what could be of interest later; coding extracts of data should be done inclusively to avoid losing the data context; and the researcher can code individual extracts of data in a number of various themes that can fit, and as long as there is relevance.

4.3.5.1.3 Step 3: Searching for themes

This step, as highlighted by Maguire and Delahunt (2017:3360), “involves sorting the different codes into potential themes, and collating all the relevant coded data extracts within the identified themes”. For this study, therefore, the researcher began to analyse the codes and looked at how various codes might come together to configure an all-embracing theme. Mind-maps were employed as visual representations to assist in arranging the various codes into themes. During the process of searching for themes in this study some first codes were developed to create main themes, and others created sub-themes. Some codes were classified under miscellaneous since they temporarily did not appear to fit into the major themes. This step resulted into a group of prospect themes as described by Braun and Clarke (2006) and sub-themes and all pieces of data that had been coded in line with them. At this juncture, the researcher also took heed of a warning by Braun and Clarke (2006:89);

not to abandon anything at this step, as without looking at all the extracts in detail, it could be uncertain whether the themes hold as they are, or whether some needed to be combined, refined and separated, or discarded (Braun & Clarke 2006:89). Therefore, nothing was discarded at this step.

4.3.5.1.4 Step 4: Review themes

This step embraces revising, adjusting and advancing the preparatory themes that were recognised in the preceding step, to establish whether they make sense (Maguire & Delahunt 2017). This step embraced two levels of revising and refining the themes. According to Braun and Clarke (2006:86), “the initial level was revising at the level of the data coded extracts,

which involved reading all the gathered excerpts for each theme and contemplating whether they appeared to form a coherent pattern”. After establishing that the candidate themes created a logical pattern, the next level involved contemplating the rationality of individual themes in line with the data set. At this point, all the data applicable to each theme was gathered and the data related to each theme was colour-coded. It was at this stage that it became very clear that some of the prospect themes were not necessarily themes because there was inadequate data to buttress them, at the same time other themes crumpled into each other. Other themes disintegrated into separate themes (Braun & Clarke 2006). This led to the construction of a thematic map, which precisely indicated the meanings noticeable in the data set as a whole. Braun and Clarke (2006:87) state, “at the end of this step this enabled the researcher to have a reasonable idea of what the different themes were, how they fitted together, and the overall story they told about the data”.

4.3.5.1.5 Step 5: Define themes

Maguire and Delahunt (2017), citing Braun and Clarke (2006), posit that this is the final fine-tuning of themes, wherein the goal is to identify the importance of each of the themes, the meaning of each theme, what each theme is about, and how sub-themes, if any, interrelate and interlink with main theme. As described by Braun and Clarke (2006:88), “in this research, defining themes was achieved by going back to collated data extracts for each theme, and organising them into a coherent and internally consistent account, with an accompanying narrative”. It was after defining the themes that the final thematic map was constructed, illustrating the relationship between themes. For each individual theme, the researcher carried out and wrote an informative analysis.

4.3.5.1.6 Step 6: Write-up

Braun and Clarke (2006:89), argued that “this last step begins once there is a set of fully worked-out themes, and involves the final analysis and write-up of the report”. The write-up for this research provided proof of the themes that are in the data and made an a presentation in relation to the first secondary objective of the research which was to traverse and pinpoint key engagement risk management factors that need to be assessed during the client acceptance stage, in order to develop an ERMI. The identified engagement risk factors were the themes within the data.

4.3.5.2 Data presentation

Ranney, Meisel, Choo, Garro, Sasson and Guthrie (2015) posit that there are a number of ways to show qualitative data, and these include visual, audio, or written descriptions. This research presented the data collected from interviews in written form, and according to themes that came up from the content analysis. Specifically, this was shown in the form of identified engagement risk factors. The description of the data highlighted where there was consensus among interviewees and where there were important outlier opinions. This data was then used to develop a Delphi questionnaire in preparation for the Phase II.

4.4 Phase II: The Delphi process

This phase involved using the draft ERMI to carry out a one-round Delphi process in order to confirm the most accepted engagement risk factors during client acceptance to manage ER. The draft ERMI developed in Phase I was used in the Delphi process. This process involved the chief risk officers and audit partners from audit firms in Zimbabwe. The audit firms involved in the Delphi process were different from those originally involved in the interviews. The employment of this technique was meant to confirm and rate the importance of the engagement risk factors identified through literature review and interviews. Therefore, the Delphi process in this case is not meant to collect data but to validate the content collected during phase I.

4.4.1 Theoretical framework

The Delphi technique is described by Iqbal and Pison-Young (2009) as an organised foretelling method that entails structured interchange amongst a group of specialists on a subject. The use of the Delphi technique precedes the 1950s when it was initially used by the military. However, the technique is now being applied in economic and financial fields, civic planning and health care (Thangaratinam & Redman 2011). Habibi, Sarafrazi and Izadyar (2014:10) point out that, “the technique is especially useful when researchers need to collect ideas from isolated experts on a specific topic and establish agreement to discover the underlying assumptions or perspectives among experts”. According to Thangaratinam and Redman (2011:12);

a valid Delphi process would consist of at least a three-iteration questionnaire survey, although decision about the number of rounds is largely pragmatic. The purpose of the initial round is to identify broad issues related to the various

components of the issue at hand. A questionnaire consisting of open-ended questions is circulated to a panel of experts and opinion leaders. The responses to the open-ended questions are analysed qualitatively by sorting, categorising and searching for common themes. These responses are edited and then used to construct the second questionnaire. The second and subsequent rounds are more specific, with the questionnaire seeking the rating of various items in terms of their significance. As the researcher feeds back results from the previous rounds, there tends to be convergence to a consensus of opinion (Thangaratinam & Redman 2011:12).

The rounds and their overviews are summarised on the Table 4.1.

Table 4.1: Delphi survey rounds

Delphi Rounds	Overview
First Round	<ul style="list-style-type: none"> • Highlights matters to be covered in later rounds by making use of unstructured, open-ended questions. • Participants have scope to elaborate on the topic being investigated. • A qualitative analysis of the results is undertaken and provides the basis on which to construct the subsequent questionnaires.
Second Round	<ul style="list-style-type: none"> • Questionnaires aim to quantify findings from Round 1, using rating or ranking methods. • Due to the feedback from the researcher to the participants, there is increased consensus.
Third Round	<ul style="list-style-type: none"> • The final consensus reached among experts is summarised and communicated to all participants. • Participants are afforded a final opportunity to make comments and/or concur with the outcome before the Delphi survey is closed.

Sources: Vergotine (2012:86)

The initial round of this process, as indicated on Table 4.1, usually involves one or two open ended questions related to the issue being researched (Bourgeoise *et al.* 2006). The process is repeated with the next rounds having more questions to solicit consensus on issues. The researcher applied only one round in this particular research since the first two rounds were replaced by the data collection from literature review and interviews.

The size of the Delphi panel can vary, and Thangaratinam and Redman (2011) indicate that there is no consensus on the rules that govern the Delphi panel size. However, Linstone and Turoff (2002) suggest an acceptable minimum panel size to be seven (7), but in reality, panel sizes in some researches have ranged from four (4) to three thousand (3000). This implies that the decision about how many panel members should participate is based on experience and logical, considering factors such as time and cost. In this case representation is said to be evaluated by the qualities of the specialist panel instead of the numbers.

Vergotine (2012), points out that it is important to combine results from this technique in order to resolve a lack of consensus among specialists and also when there happens to be an insufficient body of knowledge. Thus, the multiple rounds shall be stopped after reaching consensus, and balance of results, is attained (Thangaratinam & Redman 2011). Cuhls, Blind, and Grupp (2002) point out that;

It is important that before an expert agrees to take part in a Delphi inquiry, they should understand the purpose of the inquiry and should be aware that their expertise should be made available in different rounds of the inquiry.... For the purpose of maintaining credibility, the tendency for panel members to dropout after the first round should be minimised (Cuhls, Blind, & Grupp 2002:96).

In regards to time requirements, Hsu and Sandford (2007) posit that carrying out a Delphi research study can take a lot of time, especially in a case where the Delphi instrument consists of a large number of statements. Cuhls *et al.* (2002) recommended the least number of days for the administration of a Delphi study to be 45 days. Hsu and Sandford (2007) note the importance of giving two weeks for the Delphi panel members to participate in each round is recommended and, hence, there is need for proper planning and management. Cuhls (2005) posits that one round could take three (3) weeks and a three-round process takes at least 3 to 4 months, to covering preparation and evaluation of outcomes. The use of electronic technologies for the Delphi process is recommended by Witkin and Altschuld (1995), who pose that the users of electronic technologies in the Delphi process can exploit the processing power and capabilities of computers as well as maintaining anonymity of respondents and the potential for expeditious feedback.

4.4.2 The Delphi questionnaire

The Delphi questionnaire, in the form of a draft ERMI, was administered together with a consent form. The questionnaire consisted of two sections, A and B. Section A had questions meant to solicit biographical information about the panel members. Sections B consisted of the engagement risk factors to be assessed before accepting an audit engagement.

4.4.3 The Delphi technique

For this research study, the Delphi process had one round of 20 audit experts answering questions through a Delphi questionnaire. The Delphi questionnaire was hand delivered by the researcher to the participants, who were given a time-frame of two weeks to complete the questionnaire. The Delphi questionnaire was delivered together with the Delphi consent form and covering letter to explain the process and how the participants were expected to respond. During this one round only Delphi process, the participants were required to confirm the ER procedures, rate the importance of the engagement risk factors and make additions if any. The participants were also required to rank the ER procedures according to the 5-point Likert Scale provided on the Delphi Questionnaire (draft ERMI). Thereafter, the Delphi process was closed. The study used only one round because the Delphi process did not seek to collect data for the first time but was meant to confirm the most accepted features of ER procedures for Zimbabwean audit firms during client acceptance. Literature and structured interviews were used to identify the common engagement risk factors, hence the administration of this Delphi process was meant for confirmation, addition and editions to the ER procedures by the participants. Their responses guided the development of the final ERMI.

4.4.4 Data analysis

With regards to the analysis of data for the Delphi process, Hsu and Sandford (2007) point out that it is a must that decision rules are put in place to gather and arrange the judgements and perceptions that are coming from the panellists. The category of criteria to employ to both define and reach agreement in this regard depends on interpretation. However, Cuhls (2005:96) posits that “consensus on a topic can be decided if a certain percentage of the votes falls within a prescribed range”. According to Keeney and McKenna (2000) one criterion proposes that consensus is reached by having 80% of the participants’ votes fall within two groups on a seven-point scale (Keeney & McKenna 2000). Another school of thought proposes that at least 70% of Delphi respondents need to rate 3 or higher on a 4 Likert –type and the median has got

to be at 3.25 or higher. In addition to percentages Hsu and Sandford (200:47) indicate that, “the major statistics used in Delphi research are measures of central tendency (means, median, and mode) and level of dispersion (standard deviation and inter-quartile range)”. However Keeney and McKenna (2000), posit that the use of median and mode is generally favoured.

In order to address the objectives of this research, the participants were required to use a 5 point Likert scale: 5 = highly important; 4 = Important; 3 = Neutral; 2 = Less important; and 1 = Not important. The Likert scale scores on the engagement risk factors were used to rate the importance of the engagement risks. The rating led to the identification of different categories of the engagement risk factors and these categories ultimately guided the development of the ERMI.

4.5 The Research population, selected firms and sample

Research population is defined by Kvale (1996) as an exhaustive collection of elements that hold usual characteristics defined by the sampling criteria identified by the researcher. As of the 10th of April 2018, the total number of accredited audit firms in Zimbabwe was 22, as indicated by the Institute of Chartered Accountants of Zimbabwe, a statutory body. The Institute of Chartered Accountants of Zimbabwe has operated for the longest period and also known as biggest Zimbabwean professional accountancy organization, set up on 11 January 1918 in terms of Ordinance 14 of 1917. The population of this research was made up of managing audit partners and chief risk officers from the 22 audit firms registered and operating in Zimbabwe at the time of the study. However, from the 22 audit firms, 20 were chosen for the convenience of the researcher because they were all located in Harare, the capital city of Zimbabwe which was easily accessible to the researcher. The other two were located in other smaller towns far away from the capital city. A total of 10 audit firms were sampled for interviews. 10 managing partners and 10 chief risk officers from the initially sampled 10 audit firms participated during the interviews. From the remaining 10 audit firms one managing audit partner and one chief risk officer were selected. This then gave a total of 20 respondents participating in the Delphi process. Also of importance from the sample is the nature of the 10 audit firms from which the partners were drawn. Two audit firms were from the Big Four, four from the middle tier category of audit firms which are also internationally affiliated and a further four from indigenous small to medium firms. This sampling was made to embrace the experiences of partners from all the types of audit firms operating in Zimbabwe. It was assumed that from experiences as partners and chief risk officers, the participants should have a

reasonable comprehension of the processes that is involved in engagement risk management and the diverse techniques and methods embraced in managing engagement risk making them experts in their area of operation.

This study was informed by the non-probability purposive sampling theory. Non-probability sampling, according to Etikan, Musa and Alkassim (2016:2), is “a sampling technique where the samples are gathered in a process that does not give all the participants in the population equal chances of being included”. What a researcher wants to achieve determines the choice of employing purposive sampling, and ultimately identification of participants that are suitable for the purpose of the study (Etikan *et al.* 2016). Therefore, purposive sampling could be described as the calculated selection of a respondent as a result of the attributes the respondent possesses. Emphasising the importance of data gathering in research, Etikan *et al.* (2016) stated that;

the data is meant to contribute to better understanding of a theoretical framework. ...Further, it then becomes imperious that selecting the manner of obtaining data, and from whom the data will be acquired, be done with sound judgement, especially since no amount of analysis can make up for improperly collected data Etikan *et al.* (2016:2).

Etikan *et al.* (2016:3) stated that “purposive sampling does not have underlying theories or a set number of participants”. It is the responsibility of the researcher to decide on what information should be known and hence identifies participants who are capable and willing to give out the required information based on their knowledge or experience. This type of sampling includes identifying and selecting participants that are skilled and knowledgeable about the phenomenon of interest. Therefore, the concept on which purposive sampling is premised is to focus on participants with specific attributes, and who will be able to contribute towards the relevant research. It is against this background that the purposive expert sampling method, which calls for involvement of experts in a particular field, was employed in this study to obtain information from experts directly involved in handling engagement risk. This type of sampling is premised on the concept that the samples should be selected on the basis of its appropriateness to the motive of the investigation. Usually, the sample being investigated in expert purposive sampling is very small, particularly when compared to probability sampling

techniques (Baxter & Jack 2008). The purposive sampling applied constituted the first level of connection between the qualitative and quantitative approaches.

4.6 Validity and reliability: Theoretical aspects

Simon (2011) posits that “validity and reliability must be addressed in all research studies because the accuracy, transferability, dependability and credibility of information depend on these”. Validity and reliability are the most important research instrument measurement features in any research (Mohajan 2017). In quantitative research, Golafshani (2003) describes reliability as the repeatability of findings and that any meaningful findings should be more than a once-off finding and be intrinsically repeatable. This, according to Golafshani (2003) implies that other researchers should be in a position to repeat precisely the same experiment, under the same conditions and produce similar results. This inherent repeatability, according to Thomson (2011), will buttress the findings and convince the vast scientific community members to accept the hypothesis.

In qualitative research, as highlighted by Simon (2011), replication cannot be ruled out. However, the common terms that are used in qualitative research studies are quality, rigor or trustworthiness rather than validity and dependability or reliability in qualitative research studies (Simon 2011). Golafshani (2003:599) also describes validity, “as the credibility or believability of the research, encompassing the entire experimental concept and establishing whether the results obtained meet all of the requirements of the scientific research method”. Therefore, according to Creswell (2014), Thomson (2011) and Cohen and Swerdlik (2009), validity and reliability indicate whether the research process was thorough and whether the research findings are credible. Validity (quality/rigor/trustworthiness) and reliability (dependability) can be addressed through various approaches. According to Ergene, Yazici and Delice (2016:100);

most popular approach in qualitative research include triangulation of information among different sources of data; receiving feedback from informants, also called member checking; and expert review..... Member checking involves verification of information with the targeted group, and it allows the participant the chance to correct errors of fact or of interpretation (Ergene *et al.* 2016:100).

Expert review, as propounded by Simon (2011), is one of the basic assessment techniques employed in both formative and summative aspects of a research study.

4.6.1 Validity used in the context of this research

Face validity and content validity were employed for the purpose of this study. Face validity is described as a basic form of validity in which the researcher employs a slight and subjective evaluation to establish whether or not a study measures what it is expected to measure (Nwana 2007; Leedy & Ormrod 2004). This is similar to face value, where one just skims the surface in order to form an opinion. According to (Saunders *et al.* 2007:168);

face validity is only considered to be a superficial measure of validity and not really about what the measurement procedure actually measures, but what it appears to measure. Actually, one of the main reasons why researchers are interested in face validity is a belief that a measure should appear to measure what it measures (Saunders *et al.* 2007:168).

Content validity is described by Cohen and Swerdlik (2009) as the extent to which the components making up a measurement system are applicable and characteristic of the concept for which they are meant to measure (Cohen & Swerdlik 2009). Relevance in content validity means that the researcher has to ensure that the components within a measurement method reflect the concept the researcher is focusing on studying. According to Saunders *et al.* (2007), relevance can be regarded as the purpose of the study, the implementation of theory and discernment, and the relevance of the elements included. The content will only be applicable when it centres on the particular concept that the researcher intends to measure, instead of any wider concept that the researcher might be interested in. Content for the items included in the final ERMI was, therefore, validated through the administration of the Delphi questionnaire to the experts involved in the actual process of accepting clients in audit firms. The Delphi process also contributed towards the content validity.

4.7 Ethical issues

In this study, the researcher took into consideration a number of ethical issues. According to Ritchie, Lewis and Nicholls (2013), these are at the centre of research, starting from the initial design stages right through to reporting and beyond. This pertains to the handling of

participants by the researcher. The ethical considerations applied to each phase of data collection in this study are elaborated in the following sections.

4.7.1 Interviews

Participants were provided with pertaining to the research through the research information form before they were asked to consent. The researcher then sought participants' consent by personally contacting them and requesting them to take part in the research study. The interviews were only carried out after the researcher obtained individual consent from the participants. Before the interviews commenced, the researcher assured participants that all the collated information was going to be treated with maximum confidentiality. The interviewees were also informed that they had the right to reject answering any question or to terminate the interview if they felt uneasy in any way during the interview session. Respondents were also assured of their anonymity as well as that of their responses.

4.7.2 Delphi process

Information about the research and the participants' expected contribution was explained to the participants before they were expected to consent. The researcher sought participants' consent by personally contacting them and requesting them to take part in the research study. The Delphi process commenced after the researcher obtained individual consent from the participants. During the Delphi process the researcher continuously gave assurance to the participants that all the collected information was going to be treated with maximum confidentiality. Anonymity of respondents and their responses were also assured by the researcher since the Delphi questionnaires were hand delivered to Participants and also collected in person by the researcher.

Participation in this study was discretionary in both the structured interviews and the Delphi process. Data was stored in electronic format within a password-protected folder only reachable by the researcher and her supervisor. Ethical approval was granted by the University of Johannesburg FEFS Research Ethics Committee (FEFS REC) to cater for humans and the data involved in this research study.

4.8 Chapter synthesis

This chapter presented the research design and methods employed in this research. This included the philosophical aspects of research, particularly the ontology, epistemology and methodology underpinning this research. These philosophical aspects were demonstrated through a research onion. It was from the research onion that the pragmatist philosophy was identified as the philosophy guiding this research study. This philosophy informs the study, particularly following the Qual → quan sequential strategy. The sequence starts with the qualitative and is followed by the quantitative data collection methods, thereby translating into two phases of the study. The chapter concludes by focusing on validity, reliability and ethical issues applicable to the research study. The next chapter presents the findings of the initial phase of the study, which is the qualitative exploratory phase.



CHAPTER FIVE

DATA ANALYSIS, INTERPRETATION AND PRESENTATION - PHASE 1

5.1 Introduction

Chapter 4 presented research design and methods, which entail the practical aspects of the research study. It provided a detailed description of interviews and the Delphi technique that were employed to collect data for the study. Chapter five presents the results of interviews in the form of frequencies and percentages using tables. The chapter is organised as follows; section 5.2 presents a summary of the engagement risk factors; section 5.3 presents the interview response rate; section 5.4 gives a report on the interview findings; and section 5.5 presents the chapter synthesis.

5.2 Summary of engagement risk factors

The desk research conducted through review of related literature in the preceding chapters found that a total of thirty-four (34) potential engagement risk factors should be taken into account before auditors engage with a potential client. Proponents of these factors argue that if these factors are assessed, the risks associated with engaging undesirable clients could be reduced. Table 5.1 presents the list of engagement risk factors that were used in the checklist as a guide in the interviews of Audit Partners (AP) and Chief Risk Officers (CRO) in this study.

Table 5.1: Engagement Risk Factors from desk research

No.	Engagement Risk Factor
1	Authority to communicate with outgoing auditors.
2	Financial stability.
3	Organisation and management structure.
4	Verification of the identity of the client and their source of income.
5	Operating characteristics.
6	The quality of the organisation's risk management process and controls.
7	Management's characteristics and integrity.
8	Nature of the entity.

9	The financial health of the organisation.
10	Business operations and processes.
11	How the Company operates.
12	The fee charged.
13	Resources (time and staff) available.
14	Reporting requirements, including regulatory requirements.
15	The client's credit rating.
16	Monetary and fiscal conditions.
17	Litigation risk.
18	An understanding of the IT environment.
19	The integrity of the client and its directors.
20	Due date for the audit report.
21	Susceptibility of assets to misappropriation.
22	Industry condition.
23	Relationship between the entity and its employees.
24	Independence and competence of management and the board of directors.
25	Participation of key stakeholders.
26	Existence of related-party transactions.
27	Professional clearance client process.
28	Regulatory environment.
29	Regulatory requirements.
30	Direct supervisory activities.
31	Tariffs and trade restrictions.
32	Investment activities.
33	Objectives and strategies of the entity.
34	Related business risks that may result in a material misstatement of the financial statements.

5.3 Interview response rate

According to the records of the Institute of Chartered Accountants of Zimbabwe and the Public Accountants and Auditors Board (PAAB) Zimbabwe, at the time of data collection there was a total of twenty-two (22) audit firms registered and operating in the country. Twenty (20) of these were located in Harare, the capital city of Zimbabwe and this location was conveniently accessible for the researcher, hence the sampled twenty (20) audit firms for the study. As part of the methodology, it was decided that data for the purpose of achieving the objectives of this study would be collected in two phases. The first phase of this process included the convenient sampling of ten (10) audit firms that were selected to participate in the first phase of data collection. In these ten (10) firms, both the CRO and the AP were interviewed in order to determine whether there were points of agreement or disagreement with the engagement risk factors included in the checklist guideline. The remaining ten (10) firms, which had not been conveniently sampled for Phase 1, were reserved for the purpose of participating in the second phase, which is the Delphi process of data collection.

A total of two (2) out of the ten (10) audit firms that were conveniently sampled for interviews indicated that they did not want to participate in the study, and an additional two (2) other firms kept on postponing the appointments and ended up not honouring the appointments they had fixed. Three (3) audit firms agreed to the interviews; however, they did not consent to being voice-recorded. Finally, a further three (3) audit firms agreed to the interviews and also consented to be voice-recorded.

For the purpose of capturing and ensuring that accurate records were kept, it was decided that hand written notes were to be taken for those that had agreed to participate but had not consented to being recorded. On the other hand, the audio recording was used to record the interviews with those that agreed to the interviews and also consented to voice recording. As indicated earlier, in every audit firm where interviews were conducted, two (2) respondents were interviewed; the Chief Risk Officer and an Audit Partner.

In terms of the response rate, the interviewing process yielded a 60% response rate, with twelve (12) responses derived from the interview of six (6) APs and six (6) CROs. The interview respondents' views in relation to the engagement risk factors to be assessed before client acceptance were captured through audio recording for six (6) out of twelve (12) respondents as the other six (6) had not consented to being recorded. For those six (6) that were not recorded

during the interviews, hand written notes were taken. The audio recorded responses were later transcribed using a listen and write (an audio-into texts) software and recorded on the spreadsheet that captured the consolidated information.

5.4 Report on the interview findings

Table 5.2 presents the findings from the interviews. The second column of table 5.2 shows engagement risk factors established from literature while the third column indicates those engagement risk factors from literature that were confirmed or not confirmed through the interviews. The tick (√) shows those engagement risk factors that were confirmed while the cross (×) shows those engagement risk factors that were not confirmed through the interviews.

5.4.1 Interview findings

Table 5.2: Confirmation of Engagement Risk Factors through interviews

No.	Engagement Risk Factors from Literature	Confirmed or not confirmed by respondents
1	Authority to communicate with outgoing auditors.	√
2	Financial stability	√
3	Organisation and management structure.	√
4	Verification of the identity of the client and their source of income.	√
5	Operating characteristics	√
6	The quality of the organisation's risk management process and controls.	√
7	Management's characteristics and integrity.	√
8	Nature of the entity.	√
9	The financial health of the organisation.	√
10	Business operations and processes.	√
11	How the Company operates.	√
12	The fee charged.	√
13	Resources (time and staff) available.	√

14	Reporting requirements, including regulatory requirements.	√
15	The client's credit rating.	√
16	Monetary and fiscal conditions.	√
17	Litigation risk.	√
18	An understanding of the IT environment.	√
19	The integrity of the client and its directors.	√
20	Due date for the audit report.	√
21	Susceptibility of assets to misappropriation.	×
22	Industry condition.	√
23	Relationship between the entity and its employees.	×
24	Independence and competence of management and the board of directors.	√
25	Participation of key stakeholders.	×
26	Existence of related-party transactions.	×
27	Professional clearance client process.	×
28	Regulatory environment.	×
29	Regulatory requirements.	×
30	Direct supervisory activities	×
31	Tariffs and trade restrictions.	×
32	Investment activities.	×
33	Objectives and strategies of the entity.	×
34	Related business risks that may result in a material misstatement of the financial statements.	×

Out of the thirty-four (34) engagement risk factors identified through literature, respondents confirmed and agreed that twenty-two (22) of these should be assessed for risk before client acceptance. The remaining twelve (12) engagement risk factors marked (×) could have been left out by respondents perhaps because they did not apply to their clients. However, in addition to the twenty-two (22), it was noted that respondents identified six (6) additional factors that also need to be taken into account when the auditor was planning to engage with a new client.

This was an emergence of new factors that had not been mentioned in the reviewed literature. The identification of these factors could be attributed to the day to day experiences of these audit firms. These factors are presented on Table 5.3.

Table 5.3: Engagement Risk Factors emerging from the interview process

No.	New Engagement Risk Factors Emerging from Interviews
1	Decent form of record keeping.
2	Historic audit record.
3	Reason for changing auditors.
4	Independence of auditors.
5	Referral details.
6	Volatility of the country's political environment.

Table 5.4 presents the frequency and ranking of engagement risk factors that were identified during interviews.

Table 5.4: Frequency of Engagement Risk Factors

Ranking of factors based on the frequency of identification	Risk Factors to Assess before Client Acceptance	No. of Interview Respondents out of 12	Percentage of Respondents (%)
1	Management's characteristics and integrity.	12	100
	The fees charged.	12	100
	Independence of auditors.	12	100
2	Organisation and management structure.	11	91.7
	Resources (time and staff) available.	11	91.7
3	Financial stability.	10	83.3
	Nature of the entity.	10	83.3

4	Authority to communicate with outgoing auditors.	8	66.7
	The quality of the organisation's risk management process and controls.	8	66.7
	The financial health of the organisation.	8	66.7
	Historic audit record.	8	66.7
	Reason for changing auditors.	8	66.7
	Verification of the identity of the client and their source of income.	8	66.7
5	Decent form of record keeping.	7	58.3
	Volatility of the country's political environment.	7	58.3
6	Independence and competence of management and the board of directors.	6	50
	Operating characteristics.	6	50
	Industry conditions.	6	50
	How the company operates.	6	50
	Business operations and processes.	6	50
	Reporting requirements, including regulatory requirements.	6	50
	The client's credit rating.	6	50
	Referral details.	6	50
	Monetary and fiscal conditions.	6	50
	Litigation risk.	6	50
	An understanding of the IT environment.	6	50
	The integrity of the client and its directors.	6	50
	Due date for the audit report.	6	50

Table 5.4 indicates the frequencies of interview respondents. All respondents that were interviewed cited three engagement risk factors which have to do with the ability by the client to pay their fees, independence of the auditor, and management's characteristics and integrity.

The frequency of engagement risk factors for the above three engagement factors was observed to be 100%. These proved to be very common engagement risk factors to the six (6) audit firms whose audit and risk management partners participated in the interviews.

The second largest frequency of engagement risk factors was 91.7%, where respondents cited two (2) engagement risk factors; organisation and management structure, and auditor's resources. Thirdly, 83.3% of the respondents also cited two (2) engagement risk factors, which are financial stability and nature of the entity. The fourth largest frequency of engagement risk factors cited 66.7% of the respondents were; authority to communicate with outgoing auditors, the quality of organisation's risk management process and controls, the financial health of the organisation, historic audit record, reason for changing auditors, and verification of the identity of the client and their source of income.

The fifth largest frequency of engagement risk factors showed that 58.3% of the respondents cited two (2) engagement risk factors; decent form of record keeping and volatility of the country's political environment. Finally, 50% of the respondents cited thirteen (13) engagement risk factors, listed as: independence and competence of management and the board of directors; operating characteristics; industry condition; how the company operates; business operations and processes; reporting requirements, including regulatory requirements; the client's credit rating; who referred the client to the audit firm; monetary and fiscal; litigation risk; understanding of the IT environment; the integrity of the client and its directors; and client's deadline.

Table 5.5 presents the consolidated list of engagement risk factors (desk research and interviews).

Table 5.5: A Consolidated list of Engagement Risk Factors from desk research and interviews

No.	Consolidated List of Engagement Risk Factors from Literature and Interviews
1	Authority to communicate with outgoing auditors.
2	Financial stability
3	Organisation and management structure.
4	Verification of the identity of the client and their source of income.
5	Operating characteristics
6	The quality of the organisation's risk management process and controls.
7	Management's characteristics and integrity.
8	Nature of the entity.
9	The financial health of the organisation.
10	Business operations and processes.
11	How the Company operates.
12	The fee
13	Resources (time and staff) available.
14	Reporting requirements, including regulatory requirements.
15	The client's credit rating.
16	Monetary and fiscal
17	Litigation risk.
18	An understanding of the IT environment.
19	The integrity of the client and its directors.
20	Client's deadline.
21	Susceptibility of assets to misappropriation.

22	Industry condition.
23	Relationship between the entity and its employees.
24	Independence and competence of management and the board of directors.
25	Participation of key stakeholders.
26	Existence of related-party transactions.
27	Professional clearance client process.
28	Regulatory environment.
29	Regulatory requirements.
30	Direct supervisory activities
31	Tariffs and trade restrictions.
32	Investment activities.
33	Objectives and strategies of the entity.
34	Related business risks that may result in a material misstatement of the financial statements.
35	Decent form of record keeping.
36	Historic audit record.
37	Reason for changing auditors.
38	Independence of auditors.
39	Those who referred the client to the audit firm?
40	Volatility of the country's political environment.

Table 5.5 is a consolidated list of engagement risk factors from both desk research and interviews. The forty (40) consolidated engagement risk factors are a combination of the identified and confirmed practical risk factors that are experienced on the ground by the audit firms in their day to day operations and not only the book risk factors. These forty (40) consist

of the thirty-four (34) engagement risk factors obtained from desk research and an additional six (6) engagement risk factors that emerged from the interviews.

The next stage of the study was to construct a Delphi questionnaire based on the engagement risk factors from the consolidated list on table 5.5. The Delphi questionnaire was administered to Chief Risk Officers and Audit Partners from the remaining ten (10) audit firms that did not participate in the interviews. This was meant to determine the final list of engagement risk factors to be included in the development of the ERMI.

5.5 Chapter synthesis

This chapter presented the results of interviews in the form of frequencies and percentages using tables. The interviews were the first phase of data collection in this research study. During the first phase of data collection, ten (10) audit firms that were conveniently sampled from the twenty-two (22) registered and operating audit firms in Zimbabwe were approached to participate. Out of the ten (10) firms, two (2) did not consent to participate and the other two (2) kept on postponing their appointments but ended up not honouring the appointments. Only six (6) audit firms were left to participate and out of the six (6), three (3) did not consent to being voice-recorded. From the six (6) audit firms that participated, twelve (12) participants were interviewed and this translated to 60% response rate from this first phase of data collection.

Desk research from literature revealed that thirty-four (34) engagement risk factors need to be assessed before client acceptance and these were used as guide for the interviews. Out of the thirty-four engagement risk factors from desk research, interview respondents confirmed twenty-two (22) as being assessed in their audit firms and also provided six (6) additional ones in the course of the interviews. This translated to a total of twenty-eight (28) engagement risk factors having been identified by respondents for assessment before accepting a potential client for audit engagement.

The frequency and rating of engagement risk factors were also presented as guided by the frequency of identification by respondents. This presentation showed six (6) engagement risk factor categories by percentages of respondents ranging from 100%; 91.7%; 83.3%; 66.7%; 58.3% and 50%. The rankings ranged from one (1) for 100% to six (6) for 50% respondents. A consolidated list from interviews and desk research had forty (40) engagement risk factors and these were then used in the construction of the Delphi questionnaire that was then used to

collect data during the second phase of the study. The next chapter quantitatively presents the findings from the second phase of the study.



CHAPTER SIX

DELPHI TECHNIQUE RESULTS ANALYSIS, INTERPRETATION AND PRESENTATION – PHASE 2

6.1 Introduction

Chapter five presented the results relating to phase 1 of the data collection. This chapter presents the Delphi Technique results populated in a descriptive statistics format, which contains frequencies and percentages. The chapter is organised as follows; 6.2 presents the response rate, 6.3 the demographic characteristics of respondents, 6.4 the ranking of engagement risk factors, and section 6.5 presents the synthesis of the chapter.

6.2 Response rate

According to Nulty (2012) several factors determine an acceptable response rate and some of the factors are; research purpose, type of statistical analysis, how the questionnaires are administered, and how close the researcher is to the respondents. Guidelines for maximising response rate, are outlined by DeFranzo (2011:1-2) as;

requesting participation from respondents in advance and providing information about the purpose of the research, how the results will be used, and the terms of anonymity and confidentiality; giving respondents sufficient amount of time to complete the survey; providing clear instructions on how to complete and submit the questionnaire when it is administered; design the questionnaire so it is easy to read and follow; and offer an incentive for participation (DeFranzo 2011:1-2).

For the purpose of this study, Saldivar's (2012) guidelines were all fulfilled. The incentive for participation was the assurance that the results of the study would be shared with the participants. Nulty (2012) posits that the issue of adequacy of a response rate is dependent, in part, on how the data is going to be used. This suggests that there is no common agreed upon threshold of the adequate response rate.

According to Fowler (2002), there is no agreed-upon or common standard for a minimum acceptable response rate. In this regard the American Education Research Association (AERA)

has published extensive guidelines for the reporting of social science research. Fowler (2002) further notes that as detailed as these guidelines are, they do not mention a minimum of nominally acceptable response rate for survey research.

Saldivar (2012:5), points out “that neither the literature on survey research nor major research associations nor scholarly journals have produced a universally agreed-upon figure to describe an ideal or even a minimally acceptable survey response rate”. Saldivar (2012) qualifies this view by stating that the current literature on survey research broadly sees higher response rates as important for lowering the chances of non-response bias. Fowler (2002) surveyed journal editors to elicit their views on the acceptable response rate. Fowler’s findings are captured below:

One editor did report that despite the absence of a formal policy, his/her journal did expect “at least a 60% response rate with rare exceptions.” Several editors noted that they make such judgements on a case-by-case basis.....The editor of another journal agreed, adding that “in most instances, 20% is too low, and 80% is a de-facto standard, but there is considerable grey area. Part of the decision rests on how the investigators characterise the non-responders (Fowler 2002:129-130).

However, it is generally agreed that high response rates increase efficiency and ensure representativeness of the collected data (Brtnikova, Crane, Allison, Hurley, Beaty & Kempe 2018; Agustini 2018).

Table 6.1 illustrate the response rate achieved. Of the twenty (20) questionnaires that were administered to the sampled ten (10) audit firms in the second round Delphi Technique, a total of sixteen (16) were returned. There were two audit firms that there were not willing to participate. Given this, the response rate obtained in the one round of the Delphi process was 80%. In the absence of generally acceptable guidelines on response rate required and on the basis of Fowler’s argument above, an 80% response rate achieved in the Delphi Technique is considered a very good response as it is well above 20% considered too low by the guidelines.

Table 6.1: Response rate

	Total questionnaires administered	Total questionnaires completed and returned	Total questionnaires that were not returned
Number	20	16	4
Percentage	100%	80%	20%

6.3. Biographical characteristics of respondents

The first part of the questionnaire required respondents to indicate their biographical characteristics, such as gender, age, highest academic qualifications, professional qualifications, role in the firm, and experience. Table 6.2 illustrate the response rate on each of these characteristics where it is apparent that all returned questionnaires were completed in full.

Table 6.2: Respondents statistics

		Gender	Age	Highest Academic Qualification	Professional Qualification	Role	Experience
N	Valid	16	16	16	16	16	16
	Missing	0	0	0	0	0	0

6.3.1 Gender

Table 6.3: Descriptive statistics on gender of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	4	25.0	25.0	25.0
	Male	12	75.0	75.0	100.0
	Total	16	100.0	100.0	

Table 6.3 illustrates that of the sixteen (16) respondents that participated in phase two Delphi Technique, four (4) were females (25%) and twelve (12) were males (75%). It is apparent that the higher echelons of audit firms in Zimbabwe are dominated by males.

6.3.2 Age

Table 6.4: Descriptive statistics on age distribution of respondents.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	26-30	1	6.3	6.3	6.3
	31-35	4	25.0	25.0	31.3
	36-40	3	18.8	18.8	50.0
	41-45	3	18.8	18.8	68.8
	46-50	5	31.3	31.3	100.0
	Total	16	100.0	100.0	

Table 6.4 illustrates that respondents to the questionnaire were in the age range twenty-six (26) to fifty (50) years. It is clear in the results that the 46-50 age group had the highest number of respondents, with five (5) out of sixteen (16) respondents. This translates into 31.3%. This group is followed by the age group 31-35, which had four (4) respondents translating into 25%. Age groups of 36-40 and 41-45 both had three (3) respondents, respectively translating to 18.8%. The last age group was 26-30 which had one (1) respondent. This age group translated into 6.3%. Data indicates that the overall mean age of respondents was 42 years.

6.3.3 Highest academic qualifications

Table 6.5 presents the highest academic qualifications of the respondents.

Table 6.5: Academic qualifications

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Master's degree	9	56.3	56.3	56.3
	First Degree	6	37.5	37.5	93.8
	Others	1	6.3	6.3	100.0
	Total	16	100.0	100.0	

Table 6.5 illustrates the highest qualifications held by the respondents. Of the sixteen (16) respondents that participated in the Delphi Technique, the majority (9) were holders of Masters Degrees (56.3%), which were followed by six (6) holders of a first degree (37.5%). The least was one (1), a holder of other unspecified academic qualifications (6.3%) which was not identified but is assumed that it would not be audit related.

The level of education could have had a bearing on the information that was provided by the respondents, especially in relation to the open questions where respondents had to really think before they answered. Lower qualification holders tend to rush through issues, whereas higher qualification holders tended to give more attention to issues, especially when they were not rushed. However, the results suggest that respondents were literate enough to comprehend the questions on the questionnaire and were expected to provide meaningful data.

6.3.4 Professional qualifications

Table 6.6: Professional qualifications

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	CA	9	56.3	56.3	56.3
	ACCA	7	43.8	43.8	100.0
	Total	16	100.0	100.0	

Table 6.6 illustrates that all respondents to the Delphi Technique had at least a professional qualification. Of the sixteen (16) respondents, the majority (9), which translated into 56.3%, were holders of a Chartered Accountant (CA) professional qualification, followed by seven (43.8%) holders of the Association of Chartered Certified Accountants (ACCA). Both professional qualifications are internationally recognised. The CA's were the first accountants to form a professional accounting body, initially established in Scotland in 1854. The ACCA is also said to be a leading international accounting body whose qualification is recognised and treated as equivalent to their local qualifications in other countries. These results indicate that all the respondents were properly qualified to furnish the researcher with the data that was required for this research study.

6.3.5 Employment Role in the Audit Firm

Table 6.7: Role

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Managing Partner	6	37.5	37.5	37.5
	Chief Risk Officer	3	18.8	18.8	56.3
	Risk Managing Partner	4	25.0	25.0	81.3
	Advisory Service Manager	3	18.8	18.8	100.0
	Total	16	100.0	100.0	

The table illustrates that the respondents to the Delphi questionnaire each played one of the four (4) roles in their audit firms. Of the sixteen (16) respondents, six (37.5%) were Managing Partners, three (18.8%) were Chief Risk Officers, four (25%) were Risk Managing Partners and three (18.8%) were Advisory Service Managers.

These statistics indicate that all the respondents were in managerial roles and were experts in dealing with audit engagement risk. This research sought the input of such respondents, well

knowledgeable in the area of audit engagement risk management and also responsible for decision making during the critical client acceptance process. It is assumed that since they are in managerial positions, they were expected to contribute meaningfully in the rating of engagement risk factors.

6.3.6 Work experience

Table 6.8: Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 Years	2	12.5	12.5	12.5
	6-10 Years	6	37.5	37.5	50.0
	11-15 Years	4	25.0	25.0	75.0
	16-20 Years	4	25.0	25.0	100.0
	Total	16	100.0	100.0	

Table 6.8 illustrates that respondents' work experiences ranged from one (1) to twenty (20) years. It is clear from the results that the 6-10 years of experience had the highest number of respondents, with six (6) out of sixteen (16) which translated into 37.5%. This group was followed by the 11-15 and 16-20 years of experience, both with four respondents, which translated into 25% each. The least was the 1-5 years of work experience that had two (2) respondents, translating into 12.5%. Data indicates that the mean period of work experience of the respondents within their current fields of practice / role was 13years.

According to Jullisson, Karlsson and Garling (2005:565);

past decisions influenced the decisions people make in the future ...further posit that it stands to reason that when something positive results from a decision, people are more

likely to decide in a similar way, given a similar situation in the future (Jullisson *et al.* 2005:565).

On the other hand, Sagi and Friedland (2007) indicated that people have a tendency avoid recurring past mistakes. Therefore, it should follow that the more the experience respondents have in a field, the better decisions they make given recurring scenarios in their operations. Therefore, it is apparent that past experience in a field can impact future decision making.

6.4 Rating of Engagement Risk Factors by respondents

6.4 .1 Shortened Engagement Risk Factors (coding)

Table 6.9: Shortened codes for the Engagement Risk Factors

No.	Shortened Engagement Risk Factor	Engagement Risk Factor in full
1	Communicateaud	Communication with outgoing auditors
2	Financialstability	Financial stability
3	Organisationstruc	Organisation and management structure.
4	Identityoftheclient	Verification of the identity of the client and their source of income.
5	Operatingchar	Operating characteristics.
6	Riskmanagement	The quality of the organisation's risk management process and controls.
7	Managementchar	Management's characteristics and integrity.
8	Naturentity	Nature of the entity.
9	Financialhealth	The financial health of the organisation.
10	Businessprocesses	Business operations and processes.
11	Companyoperations	How the Company operates.
12	Auditfees	The fee.
13	Resavailability	Resources (time and staff) available.
14	Repreq	Reporting requirements, including regulatory requirements.
15	Creditrating	The client's credit rating.

16	Monetandfisc	Monetary and fiscal.
17	Litigationrisk	Litigation risk.
18	Itenvironment	An understanding of the IT environment.
19	Integrity	The integrity of the client and its directors.
20	Clientdeadline	Client's deadline.
21	Misappropriation	Susceptibility of assets to misappropriation.
22	Industrycondition	Industry condition.
23	Relentityandemploy	Relationship between the entity and its employees.
24	Indboard	Independence and competence of management and the board of directors.
25	Keystakeholders	Participation of key stakeholders.
26	Relparty	Existence of related-party transactions.
27	Profclearance	Professional clearance client process.
28	Regulatoryenv	Regulatory environment.
29	Regulatoryreq	Regulatory requirements.
30	Directsupervisory	Direct supervisory activities.
31	Traderestrictions	Tariffs and trade restrictions.
32	Investment	Investment activities.
33	Objectives	Objectives and strategies of the entity.
34	Businessrisk	Related business risks that may result in a material misstatement of the financial statements.
35	Recordkeeping	Decent form of record keeping.
36	Previousaudit	Historic audit record.
37	Changingauditors	Reason for changing auditors.
38	Auditind	Independence of auditors.
39	Referraldetails	Who referred the client to the audit firm?
40	Polenvir	Volatility of the country's political environment.

Table 6.9 presents the short codes for the engagement risk factors that were rated through the Delphi process. These had to be shortened because the SPSS analysis software that was used to analyse these results does not take long descriptions. Therefore, the short codes are not grammatically correct and are not meaningful.

6.4.2 Rating of Engagement Risk Factors by respondents

Table 6.10: Rating of the engagement risk factors

Communicateaud	Financialstability	Organisationstruc	Identityoftheclient	Operatingchar	Riskmanagement	Managementchar	Naturentity	Financialhealth	Businessprocesses	Companyoperations	Audifees	Resavailability	Repreq	Creditrating	Monetandfisc	Litigationrisk	Itenvironment	Integrity	Clientdeadline	Misappropriation	Industrycondition	Relentiyandemploy	Indboard	Keystakeholders	Relparty	Profclearance	Regulatoryenv	Regulatoryreq	Directsupervisory	Traderestrictions	Investment	Objectives	Businessrisk	Recordkeeping	Previooaudit	Changingauditors	Auditind	Referraldetails	Polenvir	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	
5	5	5	5	5	5	5	5	5	5	3	5	5	5	5	5	4	5	5	5	5	5	5	5	5	5	5	5	5	4	5	5	5	5	5	5	5	5	5	1	
4	4	4	5	4	5	5	4	4	4	4	4	4	4	4	4	5	5	3	5	5	5	4	5	4	5	5	5	5	4	4	4	5	5	5	5	5	5	5	5	2
4	5	5	5	3	4	5	5	5	3	5	4	5	5	5	4	4	3	5	5	5	5	4	5	4	5	5	5	5	5	4	4	4	5	5	5	5	5	4	2	
5	4	4	5	5	5	4	5	4	5	5	5	5	4	4	4	5	4	5	5	5	5	4	5	4	5	5	5	5	4	4	4	5	5	5	5	5	5	5	4	3
5	3	5	5	5	4	3	4	5	4	3	4	5	5	5	5	4	5	5	5	5	5	4	5	4	5	5	5	5	4	4	4	4	5	5	5	5	5	5	4	3
4	5	4	5	3	4	5	5	4	3	4	4	4	5	4	4	3	4	5	5	5	4	4	5	4	5	4	5	5	4	4	4	4	4	5	4	5	5	5	4	4
5	4	5	4	5	5	4	4	5	5	5	5	5	4	5	3	5	4	5	5	5	4	4	5	4	5	4	5	5	2	4	4	4	4	5	4	1	5	5	4	4
4	4	4	5	5	4	3	4	4	4	4	4	5	5	4	4	4	5	5	5	4	4	4	2	4	5	4	5	5	4	4	4	4	4	5	4	4	5	4	4	
5	5	5	5	4	4	5	5	5	1	5	5	5	5	4	2	5	4	5	5	4	4	4	5	4	4	4	5	5	4	5	4	4	4	5	4	4	5	4	4	
5	4	4	4	5	5	4	5	4	5	3	4	5	5	3	4	4	5	5	4	4	4	4	5	4	4	4	5	5	4	5	4	4	4	5	4	4	4	5	4	4
5	4	5	4	3	4	2	3	5	4	4	4	4	4	4	3	5	4	5	4	4	4	4	5	4	4	4	4	4	4	4	4	4	5	4	4	4	4	5	4	4
5	5	4	4	4	5	5	5	4	4	5	5	5	5	3	4	3	5	5	4	4	4	4	5	4	4	4	4	4	3	5	4	4	4	4	4	4	4	5	2	4
5	4	3	5	5	5	4	5	5	5	5	3	4	5	4	3	5	4	5	4	4	4	4	5	3	4	4	4	4	3	3	4	4	4	4	4	4	4	5	2	5
5	4	3	4	3	3	5	3	5	4	4	4	5	5	2	4	3	5	4	4	4	4	3	5	3	4	3	4	4	3	3	4	4	4	4	3	4	4	5	3	5
4	4	3	4	5	1	4	5	4	4	5	4	4	5	4	5	4	4	4	4	4	4	3	4	3	4	1	4	4	3	3	3	2	1	1	4	3	3	4	1	5
5	5	1	5	4	5	5	5	5	5	5	4	5	5	4	4	5	4	4	3	3	4	1	4	4	1	1	5	4	3	2	1	1	4	3	3	1	4	1	5	

Table 6.10 illustrates rating of the engagement risk factors by the sixteen (16) respondents basing on the 5 point Likert scale, where (5) stands for Highly Important; (4) Important; (3) Neutral; (2) Less Important; and (1) Not Important.

An analysis of the rating indicates that very few engagement risk factors were rated 3, 2, and 1. According to the Likert scale, the engagement risk factors rated in these categories are not important. The majority of the engagement risk factors were rated 4 and 5, which shows that they are important as indicated by the Likert scale. Further analysis of the rating led to the ranking of the engagement risk factors into levels of importance by percentages.

Ranking of the rated engagement risk factors produced eight (8) different levels of importance by percentages. Each of the identified levels was extracted and presented separately. Tables 6.11 up to 6.18 illustrate each of these levels.

Table 6.11: Highest Ranking Level (100%)

Engagement Risk Factor Number	Not important (1) %	Less important (2) %	Important (4) %	Highly important (5) %	High Ranking %	Lower Ranking %
1	0.0	0.0	31.3	68.8	100	0.0
4	0.0	0.0	37.5	68.8	100	0.0
9	0.0	0.0	43.8	56.3	100	0.0
13	0.0	0.0	31.3	68.8	100	0.0
14	0.0	0.0	25.0	75.0	100	0.0
22	0.0	0.0	68.8	31.3	100	0.0
28	0.0	0.0	31.3	68.8	100	0.0
29	0.0	0.0	37.5	62.5	100	0.0
34	0.0	0.0	31.3	68.8	100	0.0
38	0.0	0.0	6.3	93.8	100	0.0

Table 6.11 illustrates engagement risk factors that were rated between (4) and (5). These belong to the highest ranking level (100%) of the eight (8) identified ranking levels. Of the forty (40) identified engagement risk factors, ten (25%) were ranked at this level.

Table 6.12: High Ranking (93.8%)

Engagement Risk Factor Number	Not important (1) %	Less important (2) %	Important (4) %	Highly important (5) %	High Ranking %	Lower Ranking %
2	0.0	0.0	56.3	37.5	93.8	0.0
12	0.0	0.0	62.5	31.3	93.8	0.0
18	0.0	0.0	56.3	37.5	93.8	0.0
19	0.0	0.0	18.8	75.0	93.8	0.0
20	0.0	0.0	37.5	56.3	93.8	0.0
21	0.0	0.0	50.0	43.8	93.8	0.0

Table 6.12 illustrates the engagement risk factors that were rated 3, 4 and 5. These belong to the second highest (93.8%) ranking level. Out of the forty (40) identified engagement risk factors six (6) were ranked at this level. This translates into 15%.

Table 6.13: High Ranking and 6.3% Lower Ranking

Engagement Risk Factor Number	Not important (1) %	Less important (2) %	Important (4) %	Highly important (5) %	High Ranking %	Lower Ranking %
24	0.0	6.3	12.5	81.3	93.8	6.3
26	6.3	0.0	43.8	50.0	93.8	6.3
37	6.3	0.0	37.5	56.3	93.8	6.3

Table 6.13 illustrates the engagement risk factors that were rated 1, 2, 4 and 5. Rating 1 has an effect of reducing the ranking of the engagement risk factors while rating 2 adds a percentage of the Lower Ranking portion. These two ratings have a general net effect of reducing the importance of an engagement risk factor. These engagement risk factors belong to the third highest (93.8%) ranking level and 6.3% Lower Ranking. Out of the forty (40) identified engagement risk factors, three (3), which translates into 7.5%, were ranked at this level. The following three engagement risk factors; independence and competence of management and the board of directors; existence of related-party transactions and reason for changing auditors were ranked at this level.

Table 6.14: 87.5% High Ranking and Varied Lower Ranking

Engagement Risk Factor Number	Not important (1) %	Less important (2) %	Important (4) %	Highly important (5) %	High Ranking %	Lower Ranking %
6	6.3	0.0	37.5	50.0	87.5	6.3
8	0.0	0.0	25.0	62.5	87.5	0.0
32	6.3	0.0	81.3	6.3	87.5	6.3
33	6.3	6.3	56.3	31.3	87.5	12.5

Table 6.14 illustrates the engagement risk factors that were rated 1, 2, 4 and 5. Ratings 1 and 2 reduced the ranking of the engagement risk factors and also added a percentage of the Lower Ranking portion. The Lower Ranking percentage portion varied depending on the distribution of ratings 1, 2 and 3. The table indicates that the Lower Ranking percentage portion ranged from 0.0% to 12.5%. These engagement risk factors belong to the fourth highest (87.5%) ranking level and varied Lower Ranking. Out of the forty (40) identified engagement risk factors, a total of four (4), which translates into 10%, were ranked at this level. The following engagement risk factors: the quality of the organisation's risk management process and controls; nature of the entity; investment activities; and objectives and strategies of the entity were ranked at this level.

Table 6.15: 81.3% High Ranking and Varied Lower Ranking

Engagement Risk Factor Number	Not important (1) %	Less important (2) %	Important (4) %	Highly important (5) %	High Ranking %	Lower Ranking %
7	0.0	6.3	31.5	50.0	81.3	6.3
10	6.3	0.0	43.8	37.5	81.3	6.3
11	0.0	0.0	31.3	50.0	81.3	0.0
15	0.0	6.3	56.3	25.0	81.3	6.3
17	0.0	0.0	25.0	56.3	81.3	0.0
23	6.3	0.0	75.0	6.3	81.3	6.3
25	0.0	0.0	75.0	6.3	81.3	0.0
27	12.5	0.0	50.0	31.3	81.3	12.5
35	0.0	0.0	50.0	31.3	81.3	0.0
36	6.3	0.0	43.8	37.5	81.3	6.3

Table 6.15 illustrates the engagement risk factors that were rated 1, 2, 4 and 5. Ratings 1 and 2 reduced the ranking of the engagement risk factors and also added a percentage of the Lower Ranking portion. At this level the Lower Ranking percentage portion ranged from 0.0% to 12.5%. These engagement risk factors belong to the fifth highest (81.3%) ranking level and varied Lower Ranking. Out of the forty (40) identified engagement risk factors, a total of ten (10) were ranked at this level. This translates to 25%. The following engagement risk factors: management’s characteristics and integrity; business operations and processes; how the company operates; the client’s credit rating; litigation risk; relationship between the entity and its employees; participation of key stakeholders; professional clearance client process; decent form of record keeping ; and historic audit record were ranked at this level.

Table 6.16: 75% High Ranking and Varied Lower Ranking

Engagement Risk Factor Number	Not important (1) %	Less important (2) %	Important (4) %	Highly important (5) %	High Ranking %	Lower Ranking %
3	6.3	0.0	37.5	37.5	75.0	6.3
5	0.0	0.0	25.0	50.0	75.0	0.0
16	0.0	6.3	62.5	12.5	75.0	6.3
31	0.0	6.3	50.0	25.0	75.0	6.3

Table 6.16 illustrates the engagement risk factors that were rated between 1, 2, 4 and 5. Ratings 1 and 2 reduced the ranking of the engagement risk factors and also added a percentage of the Lower Ranking portion. At this level, the Lower Ranking percentage portion ranges from 0.0% to 6.3%. These engagement risk factors belong to the sixth highest (75%) ranking level and varied Lower Ranking. Out of the forty (40) identified engagement risk factors, a total of four (10%) were ranked at this level. The following engagement risk factors: organisation and management structure; operating characteristics; monetary and fiscal; and tariffs and trade restrictions were ranked at this level.

Table 6. 17: 68.8% High Ranking and Varied Lower Ranking

Engagement Risk Factor Number	Not important (1) %	Less important (2) %	Important (4) %	Highly important (5) %	High Ranking %	Lower Ranking %
39	12.5	12.5	56.3	12.5	68.8	25.0
40	6.3	12.5	43.8	25.0	68.8	18.8

Table 6.17 illustrates the engagement risk factors that were rated 1, 2, 4 and 5. Ratings 1 and 2 reduced the ranking of the engagement risk factors and also added a percentage of the Lower Ranking portion. At this level, the Lower Ranking percentage portion ranges from 18.8% to 25%. These engagement risk factors belong to the seventh highest (68.8%) ranking level and varied Lower Ranking. Out of the forty (40) identified engagement risk factors, two (5%) were ranked at this level. The following engagement risk factors: Those who referred the client to the audit firm; and volatility of the country's political environment were ranked at this level.

Table 6.18: 62.5% High Ranking and 6.3% Lower Ranking

Engagement Risk Factors	Not important (1) %	Less important (2) %	Important (4) %	Highly important (5) %	High Ranking %	Lower Ranking %
30	0.0	6.3	50.0	12.5	62.5	6.3

The engagement risk factor presented on table 6.18 was also rated 2, 3, 4 and 5, with the rating 2 reducing the ranking of the engagement risk factor and also adding a percentage of the Lower Ranking portion. The engagement risk factor at this level has a High Ranking of 62.5% and a Lower Ranking portion of 6.3%. Among the forty (40) engagement risk factors identified in this study, one (1) was ranked at this level. Therefore, this engagement risk factor falls into the last of the eight (8) identified levels of importance. The following engagement risk factor: direct supervisory activities, was ranked at this level.

6.5 Chapter synthesis

This chapter presented the Delphi Technique results, populated in a descriptive statistics format containing frequencies and percentages. The Delphi Technique presented the quantitative part of the Qual→quan sequential mixed research method adopted for this research. Out of the twenty (20) initially identified audit firms in Zimbabwe, the Delphi questionnaire was administered to ten (10) firms, after the first ten (10) firms participated in the qualitative phase of the study.

Two respondents from one audit firm declined involvement in the study while one audit firm, from which further two (2) respondents were expected, set very prohibitive conditions for their participation in the data collection. At the end, this firm was excluded. This resulted in only sixteen (16) respondents completing the Delphi questionnaires, and returning them to the researcher. This yielded an 80% response rate, which according to a number of scholars, is acceptable. The Delphi questionnaire also captured the following biographic characteristics of the respondents; gender, age, highest academic qualifications, professional qualifications, role in the firm and experience. The next chapter, chapter 7 presents the discussion of the major findings of the study from both chapters 5 and 6 in relation to related literature and the empirical findings.



CHAPTER SEVEN

DISCUSSION OF FINDINGS AND CONSTRUCTION OF ENGAGEMENT RISK INSTRUMENT

7.1 Introduction

Chapter six presented results relating to Phase 2 of the study. Phase 2 was the quantitative part in the mixed Qual→quan sequential design method employed in this study. Earlier, chapter 5 presented the qualitative results obtained through interviews with selected risk and audit partners. The purpose of this chapter is to discuss the major findings of the study from both chapters 5 and 6, and in relation to related literature and the empirical findings.

The main objective of the study was to develop the ERMI for consideration by Zimbabwean audit firms. The study set out to achieve this objective through a process that involved the identification of potential engagement risk factors that should be taken into account by audit firms during the client acceptance stage, which was later refined through the Delphi Technique that was undertaken in order to confirm the most accepted engagement risk factors by risk and audit partners in the Zimbabwean context.

This chapter interprets results relating to each research objective. Section 7.2 reiterates the objectives of the study, including the manner in which each of the study's objectives was achieved. Section 7.3 of the chapter discusses the process employed for the purpose of attaining the objectives of the study. In order to lay the ground and contextualise the formulated ERMI, section 7.4 briefly outlines Phase 1 findings; section 7.5 briefly outlines Phase 2 findings; and, section 7.6 presents the developed ERMI for consideration by Zimbabwean audit firms. Section 7.7 presents the chapter synthesis.

7.2 Restated objectives of the study

As stated in chapter 1 of the study, the study had one primary objective and two secondary objectives. Primarily, the study sought to develop an ERMI for consideration by Zimbabwean audit firms. In order to attain, the primary objective of the study, three secondary objectives were formulated as follows:

- To identify key engagement risk management factors that need to be assessed during the client acceptance stage, in order to develop an ERMI; and
- To validate accepted engagement risk factors for assessment by Zimbabwean audit firms during client acceptance through the Delphi Technique.
- To identify engagement risk factors emerging from the study.

The following sections briefly discuss key findings from each phase.

7.3 Brief overview of Phase 1 results

Results discussed in this section were presented in chapter five of the study. It is important to note that these results were used in the development of the Delphi questionnaire whose results were presented in chapter six. In this phase, potential engagement risk factors were identified through desk research from review of related literature.

A list consisting of thirty-four (34) potential engagement risk factors was derived from this process. This list was used to formulate the unstructured questionnaire, which was to be utilised during the process of interviewing the chief risk officers and audit partners in Zimbabwean firms. The identified engagement risk factors from the desk research are briefly outlined in section 7.3.1.

7.3.1 Engagement risk factors from desk research

The data that was collected through desk research yielded thirty-four engagement risk factors. It is important to note that at this stage, these were still potential engagement risk factors yet to undergo evaluation by the audit partners and chief risk officers. The thirty-four potential engagement risk factors that were generated from the desk research are outlined as follows: authority to communicate with outgoing auditors; financial stability; organisation and management structure; verification of the identity of the client and their source of income; operating characteristics; the quality of the organisation's risk management process and controls; management's characteristics and integrity; nature of the entity; the financial health of the organisation; business operations and processes; how the company operates; the fee charged; resources (time and staff) available; reporting requirements, including regulatory requirements; the client's credit rating; monetary and fiscal conditions; litigation risk; an understanding of the IT environment; the integrity of the client and its directors; due date for

the audit report; susceptibility of assets to misappropriation; industry condition; relationship between the entity and its employees; independence and competence of management and the board of directors; participation of key stakeholders; existence of related-party transactions; professional clearance client process; regulatory environment; regulatory requirements; direct supervisory activities; tariffs and trade restrictions; investment activities; objectives and strategies of the entity; and related business risks that may result in a material misstatement of the financial statements.

The identified engagement risk factors are a product of desk research from a detailed engagement with literature. Some of the studies are outlined below:

- Siregar *et al.* (2006) outlined seven (7) out of the forty (40) engagement risk factors that were found from the study and these are: management's characteristics and integrity; litigation risk; operating characteristics and financial stability; susceptibility of assets to misappropriation; organisation and management structure; industry condition; and relationship between the entity and its employees.
- Zhenli (2016) also identified seven engagement risk factors, namely: management integrity; independence and competence of management and the board of directors; the quality of the organisation's risk management process and controls; reporting requirements, including regulatory requirements; participation of key stakeholders; existence of related-party transactions; and the financial health of the organisation. Decker *et al.* (2016) concurs with Zhenli (2016) on all the seven engagement risk factors that affect the auditor's decision to accept or retain an audit client.
- Davies (2000) also identified the following engagement risk factors: industry conditions; regulatory environment; regulatory requirements; direct supervisory activities; monetary; fiscal; financial incentives (for example government aid programs); and tariffs and trade restrictions.
- AU Section 314 and Davies (2000) concur in their outline of the internal aspects that an auditor should understand in the process of understanding an entity and these include: nature of the entity; objectives and strategies and the related business risks that may result in a material misstatement of the financial statements; measurement and review of the entity's financial performance; and internal control, which includes the selection and application of accounting policies.

- Deloitte (2015) and KPMG (2016) identified similar engagement risk factors. These are outlined below: the client assessment; professional clearance client assessment considerations; resources (time and staff) available; the fee; the client's credit rating; client deadline; the integrity of the client and its directors; the level of audit risk; verification of the identity of the client and their source of income; and professional clearance process.

Management integrity was common to both Siregar *et al.* (2006) and Zhenli (2016). The financial health of the organisation, fingered by Zhenli (2016), was similar to the Measurement and review of the entity's financial performance by Davies (2000). This gives a further two engagement risk factors from the thirty-six (36) common. This has an effect of reducing the total engagement risk factors identified through engagement with literature. All the engagement risk factors above listed added up to thirty-six (36) but two of them were common to some authors hence reducing the total to thirty-four (34). As indicated earlier on in chapter five, from these thirty-four, interview respondents confirmed twenty-two (22), and brought up six (6) others. The identification of the different engagement risk factors by respondents is in line with Hyejung (2016), who assert that individual auditors differ in terms of which factors they consider more significant than others for their decisions. Therefore, the thirty-four (34) and the six (6) were consolidated to get the forty (40) that were used on the Delphi questionnaire.

7.3.2 Engagement risk factors from interviews

The potential engagement risk factors identified from related literature were used to construct the interview instrument that was used during the process of interviewing selected chief risk officers and audit partners. As indicated in chapter 4 of this study, as of 10 April 2018, there were twenty-two (22) registered audit firms in Zimbabwe. In those 22 audit firms, a partner responsible for risk and the audit partner were conveniently selected to participate in the study. On the basis of the Delphi technique, about which most researchers are in agreement that the point of saturation is reached when the study has a minimum panel size of seven (7) and a maximum of three thousand (3000) participants, the population of twenty (20) audit firms was divided into two. As a result, for phase 1, there were ten (10) audit firms that were targeted for data collection. Two (2) individuals, a chief risk officer and an audit partner, were selected per audit firm.

Following the process of setting up interviews with selected audit firms, twelve (12) representatives from the firms agreed to be part of the study in phase 1. This reflects a response rate of sixty percent (60%). phase 1 results reveal that in identifying engagement risk factors, interview respondents confirmed twenty-two (22) engagement risk factors from the list presented to them, a list that was constructed from the review of related literature. In addition to confirming twenty-two (22) engagement risk factors from the list presented to them, the respondents identified six (6) additional engagement risk factors that had to be considered. Phase 1 results demonstrate that twelve (12) engagement risk factors from the original thirty-four (34) identified from literature were not confirmed by the interview respondents. A consensus, amongst respondents when it comes to the twelve (12) engagement risk factors that could not be confirmed appears to be that they did not assess these in their day-to-day client risk assessment for acceptance and, therefore, they were not deemed important.

It is important to note that even though the twelve engagement risk factors were not identified by the interview respondents, they, together with the additional six (6), were consolidated into the list. All in all the study ended up with forty (40) engagement risk factors. This was acceptable because this was part of the exploration phase of the study. It was this list that was then taken to phase 2 of the study. The literature that was read was so wide that the engagement risk factors that were identified were broad and not specific to a particular market environment or specific geographical location.

These findings add to the two models; the Model of the Client-Acceptance Decision by Johnstone (2000) and the Model of a Client-Acceptance Decision Process by Johnstone and Bedard (2003) discussed in the literature review. Both models give a guideline on the client acceptance decision process, and show stages where engagement risk should be assessed. However, the models do not identify these audit engagement risks. Therefore, these results build into the two models by adding the list of the engagement risk factors, which was lacking from both models.

7.4 Phase 2 of the study

Results discussed in this section were presented in chapter six of the study. In this phase of the study, a one-round Delphi process targeting engagement risk experts was employed. The ten (10) audit firms that had not participated in the first phase were engaged in this phase. Two participants, the audit partner and the chief risk officer, from each of the ten (10) audit firms

were targeted to participate in this phase. Results reveal that out of the twenty (20) expected respondents, sixteen (16) completed and returned the Delphi questionnaires. Therefore, the response rate was eighty (80%).

As indicated in chapter four of this study, Habibi *et al.* (2014:10);

the Delphi technique is especially useful when researchers need to collect ideas from isolated experts on a specific topic and establish agreement to discover the underlying assumptions or perspectives among experts (Habibi *et al.* 2014:10).

The only round of Delphi process in this study involved engagement risk experts in rating the engagement risk factors from already identified and confirmed in phase 1 of the study. The forty engagement risk factors that were consolidated from literature and structured interviews were included in the Delphi questionnaire. As indicated earlier on, the suitable minimum panel size is seven (7). The panel size for this study was sixteen (16), which is well above the minimum (7).

Analysis of the ratings of the forty engagement risk factors by respondents led to the identification of ranking levels of the engagement risk factors. This Phase embraced criteria 3 and 4 of instrument construction outlined by Briller *et al.* (2012), which are planning for reliability and validity assessments, and designing the new instrument format and content. It further embraced Phase 3 of the Instrument Development and Construction validation (IDCV) process outlined by Onwuegbuzie *et al.* (2010), which entails the development of the initial instrument.

7.4.1 Rating of the key engagement risk factors

Sixteen (16) respondents rated the forty (40) engagement risk factors based on the five-point Likert scale of importance on the Delphi questionnaire. The results point to the fact that the ratings of the majority of the engagement risk factors skewed towards important and highly important. Very few engagement risk factors were rated neutral, less important or not important. This pattern of results could be explained by the experience and exposure of the respondents in handling engagement risk in their audit firms. Most probably, these ratings exhibit the pattern of risk from most of their potential clients. Another possible explanation

could be that these are also on the list from their regulatory bodies in the audit profession and International Standards of Auditing; so they could have been familiar with them. Therefore, the general high rating of the engagement risk factors by the audit experts further confirms the identification of these engagement risk factors from both literature review and interviews.

7.4.2 Ranking of the Engagement Risk Factors by importance

The results illustrate that engagement risk factors were ranked by order of importance in audit firms' engagement with potential clients. Accordingly, there are eight (8) levels of importance, which suggests that experts do not apportion the same level of importance to different engagement risk factors. As such, engagement risk factors could be ordered and weights can be apportioned on the basis of importance. The outcome of apportionment of weighting would yield the ERMI. The eight (8) levels derived from the analysis of data are illustrated on table 7.3.

Table 7.1: Ranking of the Engagement Risk Factors

Level	Percentage rated	Number of risk factors in this category	Description assigned
1	100%	10	Extremely High Ranking
2	93.8%	6	High Ranking
3	93.8%	3	High Ranking and 6.3% lower ranking
4	87.5%	4	High Ranking and varied Lower Ranking
5	81.3%	10	High Ranking with varied Lower Ranking
6	75%	4	High Ranking with varied Lower Ranking
7	68.8%	2	High Ranking with varied Lower Ranking
8	62.5%	1	High Ranking with 6.3% Lower Ranking

The information on Table 7.1 can be graphically presented as illustrated in Figure 7.1.

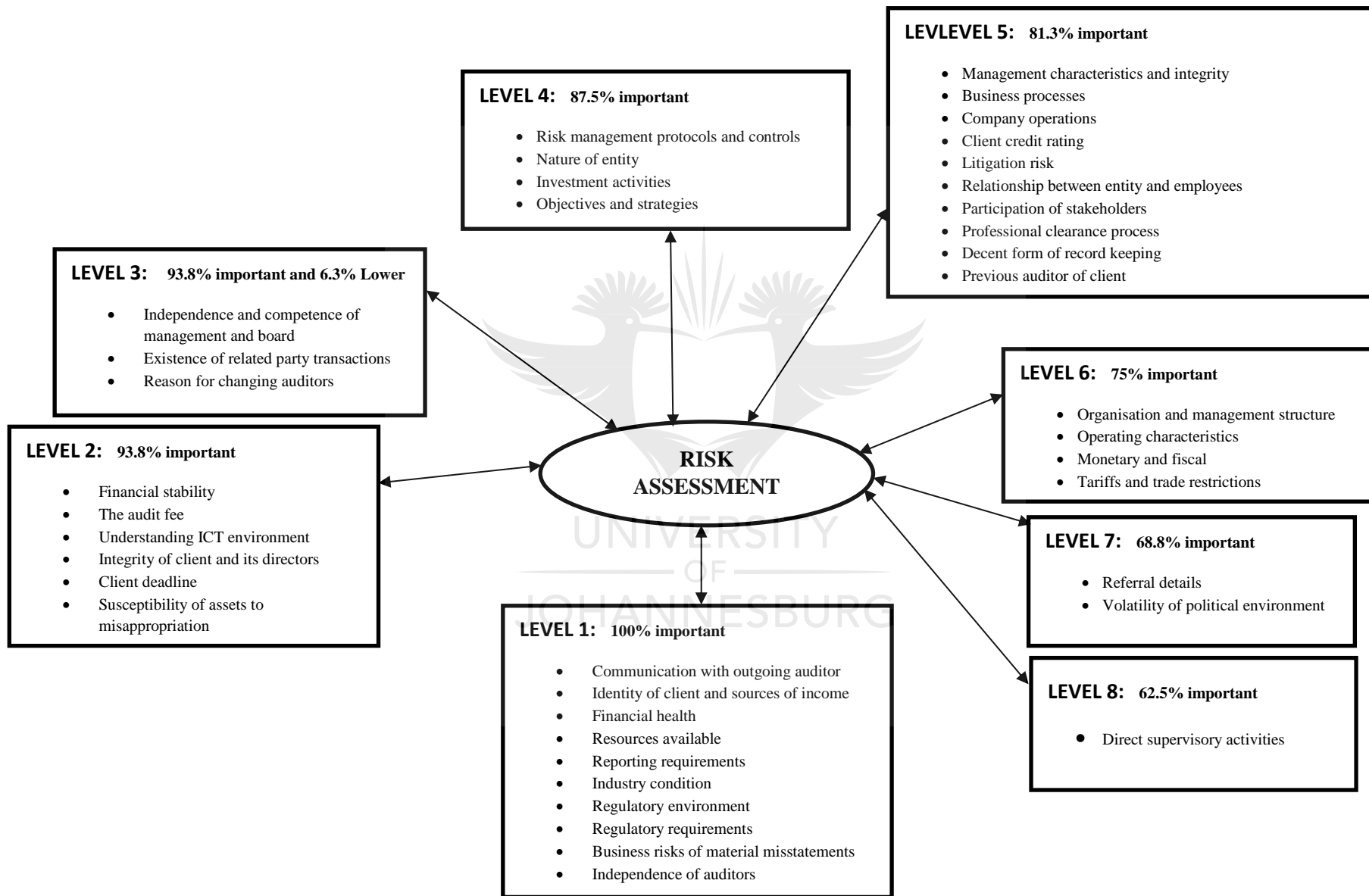


Figure 7.1: Importance levels of the forty (40) Engagement Risk Factors

Figure 7.1 shows the eight levels of engagement risk factor ranking with their percentages of importance. All these levels of engagement risk factors would undergo risk assessment. The engagement risk factor assessment will show the level of risk, which will lead to either the acceptance or rejection of the client.

7.5 Developing the ERMI for consideration by Zimbabwean audit firms

It was the primary objective of the study to develop an ERMI for consideration by Zimbabwean audit firms. At this juncture, all the critical stages in the construction of an instrument as indicated in the literature review have been fulfilled. The proposed ERMI is discussed and presented below. It integrates findings from the study and indications from literature review. The forty engagement risk factors are the point of reference in phase 3 of the IDCV process of instrument construction outlined by Onwuegbuzie *et al.* (2010), and these are central in the construction of the instrument. The rating and ranking are explained in criteria 4 of instrument construction as indicated by Schepers (1992), and these also determine the design of the proposed ERMI. The ERMI is theoretically situated in the Model of the Client-Acceptance Decision (Johnstone 2000) and the Model of the Client-Acceptance Decision Process (Johnstone & Bedard 2003).

7.5.1 The ERMI

7.5.1.1 Explanation of the ERMI

The ERMI has got six (6) columns. These are: Category; Description of importance; Respondents score; Targets score; Rating; and Guidelines. The proposed ERMI will determine how the audit firm arrives at either accepting or rejecting a potential client. The ranking of the engagement risk factors identified and confirmed will guide the engagement risk factor assessment outcome, which will lead to the audit firm either accepting or rejecting a potential client. The percentage of importance of each engagement risk factor ranking level will be used to determine the risk level at which to accept or reject a client. The risk levels are determined through calculations, using the level of importance for a ranking level and the number of engagement risk factors in each level.

Category	Description of importance	Respondents Score	Targets Score	Rating		Guideline	
A	Critical	100.0%	10/10	≥10	<10	=10 Accept	<10 Reject
B	Very Much High	93.8%	8/9	≥8	<8	≥8 Accept	<8 Reject
C	Very High	87.5%	4/4	4	<4	=4 Accept	<4 Reject
D	High	81.3%	8/10	≥8	<8	≥8 Accept	<8 Reject
E	Medium	75.0%	¾	≥3	<3	≥3 Accept	<3 Reject
F	Low	66.7%	½	≥1	<1	≥1 Accept	<1 Reject
G	Lowest	62.5%	1/1	1	<1	=1 Accept	<1 Reject
Overall acceptance/rejection methodology			35/40	≥35	<35	≥35 Accept	<35 Reject

Figure 7.1: The Proposed ERMI

7.5.1.2 Calculating the target scores

Level 1/Category A: There are ten (10) engagement risk factors ranked 100% important at this level. According to the proposed ERMI, answers to all the 10 engagement risk factors by the potential client should be positive from the point of view of the audit firm. Below is the formula for the calculation of the minimum number of engagement risk factors that should ideally be positively answered by the potential client:

$$100/100\% \times 10 = \mathbf{10 \text{ engagement risk factors [A]}}$$

This means that 100% of the 10 engagement risk factors at this level are 10, and a potential client must positively answer all the 10 engagement risk factors in order to be accepted for audit engagement.

Levels 2 and 3/Category B: These levels are combined for calculation purposes because they are both rated 93.8% in terms of importance. They differ in terms of the lower ranking percentages. Level 2 is 0% lower ranking and level 3 is 6.3% lower ranking. They have a total number of nine (9) engagement risk factors. Below is the formula for the calculation of the minimum number of engagement risk factors that should be positively answered by the potential client:

$$93.8/100\% \times 9 = 8.4 \text{ and rounded off to a whole number} = \mathbf{8 \text{ engagement risk factors [B]}}$$

This means that 93.8% of nine (9) engagement risk factors in this level are 8 and a potential client should positively answer at least eight (8) engagement risk factors out of the nine (9) in order to be accepted for the audit engagement.

Level 4/ Category C: There are four (4) engagement risk factors ranked 87.5% important at this level. The following is the calculation criterion of the minimum number of engagement risk factors that need to be positively answered by a potential client:

$$87.5/100\% \times 4 = 3.5 \text{ and rounded off to a whole number} = \mathbf{4 \text{ engagement risk factors [C]}}$$

This means that 87.5% of four (4) engagement risk factors at this level are three and half (3.5). However, there is no half factor because a factor is absolute; it is either a factor or not a factor. Therefore, for this level a client should positively answer all the four engagement risk factors for them to be accepted for the audit engagement.

Level 5/ Category D: There are ten (10) engagement risk factors ranked 81.3% important at this level. The following is the criterion for the calculation of the minimum number of engagement risk factors that need to be positively answered by a potential client:

$$81.3/100\% \times 10 = 8.13 \text{ and rounding off to a whole number} = \mathbf{8 \text{ engagement risk factors [D]}}$$

This means that a potential client should positively answer at least eight (8) out of the ten (10) engagement risk factors for them to be accepted for the audit engagement.

Level 6 Category E: There are four (4) engagement risk factors ranked 75% important at this level. Below is the criterion for the calculation of the minimum number of engagement risk factors to be positively answered by a potential client.

$$75/100\% \times 4 = \mathbf{3 \text{ engagement risk factors [E]}}$$

This means that a potential client should positively answer at least three (3) out of the four (4) engagement risk factors for them to be accepted for the audit engagement.

Level 7/Category F: There are two (2) engagement risk factors ranked 68.8% important at this level. The following is the formula for the calculation of the minimum number of engagement risk factors a potential client ought to positively answer:

$$68.8/100\% \times 2 = 1.4 \text{ and rounding off to a whole number} = \mathbf{1 \text{ engagement risk factor [F]}}$$

This means that a potential client should positively answer at least one (1) out of the two (2) engagement risk factors for them to be accepted for the audit engagement.

Level 8/ Category G: There is only one (1) engagement risk factor ranked 62.5% important at this level. Below is the criterion for the calculation of the minimum number of engagement risk factors that should be positively answered by a potential client.

$$62.5/100\% \times 1 = 0.62 \text{ and rounding off to a whole number} = \mathbf{1 \text{ engagement risk factor [G]}}$$

This means that a potential client should positively answer the one (1) engagement risk factor for them to be accepted for the audit engagement.

7.5.1.3 Overall client acceptance level

A total of all the positively answered engagement risk factors obtained at each level by the potential client will determine the overall acceptance level. The method for the calculation of the minimum required total number of engagement risk factors from all the eight (8) levels that should be positively answered by a potential client is presented on table 7.4 below.

Table 7.2: Summation of the minimum required positively answered ERFs

Ranking Level	Total number of ERFs in a level	Minimum Required Positively Answered ERF
1	10	10
2	9	8
3 and 4	4	4
5	10	8
6	4	3
7	2	1
8	1	1
Total	40	35

Table 7.2 presents the target scores of engagement risk factors to be positively answered by a potential client on each category. The table shows that a potential client should score at least a total of thirty-five (35) positively answered engagement risk factors for them to be accepted for an audit engagement. It is important to note that Level 1 weighs a 100% importance and this level becomes a limiting factor. The rest of the Levels, that is 2 to 8, can contribute in any way as long as the individual Level score is above the minimum required. This implies that a client may be assessed and scores at least thirty-five (35) positively engagement risk factors, but if in Level 1, they score less than ten (10) they get rejected. This means that the score range for acceptance of a potential client is thirty-five to forty positively answered engagement risk factors. Any score less than thirty-five will render a potential client rejected for an audit engagement.

7.5.1.4 Guidelines on client acceptance or rejection

The last column on the ERMI shows the guidelines on either accepting or rejecting a potential client.

- For category A, a client is accepted when they score all the ten (10) engagement risk factors positively, and is rejected when they score less than ten (10). This is a critical category as explained earlier on.
- For category B, a client is accepted when they score eight (8) or more out the nine (9) engagement risks factors, and rejected when they score less than eight (8).

- For category C, a client is accepted when they score four (4) out of four (4); and rejected when they score less than four (4).
- For category D, a client is accepted when they score eight (8) or more, and is rejected when they score less than eight (8).
- For category E, a client is accepted when they score three (3) or more out of four (4), and is rejected when they score less than three (3).
- For category F, a client is accepted when they score one (1) out of two (2), and is rejected when they score less than one (1).
- For category G, a client is accepted when they score one (1) out of one (1) and rejected when they score less than one (1).

Overall, a client is accepted when they score thirty-five (35) out forty (40), and rejected when they score less than thirty-five (35).

It is important to note the effect of the critical category A. This limits the overall decision. If a client scores anything less than the ten (10) engagement risk factors that are in this category, they do not get accepted. The reason is that all these were rated 100% important by engagement risk experts and therefore become critical.

7.5.1.5 Possible modes of potential client acceptance

Three modes of potential client acceptance could be considered as guidelines in this process. The audit firm chooses the mode of acceptance that is applicable to them considering their circumstances. The modes are shown below:

- Accept the client without changes to the ERMI's formula.
- Accept the client with changes to the ERMI's formula.
- Reject the client out rightly.

The formula of the ERMI explained above can be generalised to any audit firm, but the engagement risk factors to be applied in this formula will depend on the jurisdiction. The forty (40) engagement risk factors making up the ERMI apply to the Zimbabwean situation because these were identified and confirmed by engagement risk experts from the Zimbabwean audit firms. Elsewhere, the engagement risk factors would need to be identified, rated and ranked by audit engagement risk experts in the specific contexts. The developed ERMI in this study will then be applied for engagement risk assessment.

7.6 Chapter synthesis

This chapter discussed the major findings of the study from both chapters five and six, and in relation to reviewed literature and empirical findings. The chapter started by outlining both the primary and secondary objectives of the study and indicated where in the study, and how, each of the objectives was achieved. The first secondary objective, which was to explore and identify key engagement risk factors to be assessed during the client acceptance stage in order to develop a proposed ERMI, was attained in phase 1 of the study. This objective was attained through desk research and interviews. The second secondary objective of the study was attained in phase 2 of the study through the Delphi process. It was the attainment of these three secondary objectives that led to the attainment of the primary objective.

The chapter also presented the discussion of the findings from phase 1 of the study. As the ultimate objective was to propose an ERMI, the identification of engagement risk factors through both desk research and the interviews was a fulfilment of the criteria 1 and 2 of instrument construction outlined by Briller *et al.* (2012), criteria 1 and 2 of instrument construction outlined by Schepers (1992), and also the first phase of the IDCV process outlined by Onwuegbuzie *et al.* (2010). The chapter also discussed the findings from phase 2 of the study. Phase 2 entailed the rating of the identified engagement risk factors by experts in auditing and engagement risk management. Again this stage also fulfilled criteria 3 and 4 of instrument construction prescribed by Briller *et al.* (2012) and phase 3 of the IDCV process described by Onwuegbuzie *et al.* (2010). Discussion of findings from both phases 1 and 2 led to the construction of the proposed ERMI.

The ERMI was based on the eight ranking levels of engagement risk factors. The percentage levels of engagement risk factors' importance guided the calculations of the minimum required number of engagement risk factors, leading to the acceptance or rejection of a potential audit engagement client. Calculations for the minimum required number of engagement risk factors positively answered by a client were done, leading to the overall method for acceptance of a potential client. The three modes of acceptance at the disposal of audit firms were also outlined and explained. Chapter 8 presents the summary, conclusions and recommendations of the study.

CHAPTER EIGHT

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

8.1 Summary

Chapter One introduced the study, presented the background to the research problem and stated the research problem. It also outlined the objectives as well as the research question of the study. The scope, significance and expected outcomes of the study were also outlined. Finally, the chapter presented the research outline.

Chapter Two presented the theoretical framework on the evolution process of auditing and outlined the justification of the concept of audit of companies. It further discussed the audit process, with a particular focus on client acceptance procedures. Literature on international standards of auditing and client acceptance was also reviewed.

Chapter Three reviewed literature relating to engagement risk, its components and management by audit firms. Literature on prospective audit clients' evaluation and International Standards of Auditing was also reviewed to determine the audit engagement risk factors that audit partners and chief risk officers in audit firms should assess when evaluating a potential client. These engagement risk factors guided the development of the ERMI, which was presented in Chapter 7.

Chapter Four presented the research design and methods employed in this study. These included the philosophical aspects of research, particularly the ontology, epistemology and methodology underpinning this research. These philosophical aspects were demonstrated through a research onion. The final section of Chapter 4 addressed ethical issues applicable to this study.

Chapter Five was the first of two chapters on data presentation and analysis. It presented results from desk research through literature interrogation and interviews. The presentation was done in the form of frequencies and percentages using tables. This chapter was concluded by

presenting a consolidated list of engagement risk factors that were then used in the construction of the Delphi Questionnaire that was used to collect data during the second phase of the study.

Chapter Six was the second data presentation and analysis chapter. The chapter presented the quantitative Delphi Technique results in the descriptive statistics format, containing frequencies and percentages. Analysis of data was done, and it identified levels of importance that were used as the basis for the construction of the proposed ERMI.

Chapter Seven discussed the findings of the study from both Chapters five and six, and in relation to related literature and empirical findings. The discussion interpreted results relating to each research objective and laid the ground for the development of the ERMI. At the end of this Chapter the ERMI was developed and contextualised.

8.2 Summary of findings

- The main objective of this study was to develop an ERMI to be considered for use in client acceptance by Zimbabwean audit firms.
- Through the desk research from literature review, thirty-four (34) engagement risk factors were identified.
- The thirty-four (34) identified engagement risk factors were used to prepare an interview guide as part of data collection in phase 1.
- The interviews identified six more engagement risk factors, and confirmed twenty-two and rejecting twelve (12) from the factors drawn from literature review.
- The total number of engagement risk factors consolidated after phase 1 was forty (40).
- The forty (40) engagement risk factors were used to construct the Delphi Questionnaire, which was used to collect data in phase 2.
- The analysis of data from phase 2 yielded eight levels of importance of the forty (40) engagement risk factors. These levels guided the construction of the ERMI.

8.3 Limitations of the study

The limitations of this study are outlined below:

- Three of the selected audit firms did not participate in the second round, whereas two audit firms indicated that they had challenges in participating in the final round of Delphi.

However, the response rate of 80% ensured that the data collected was representative of the registered auditing firms in Harare. Further, combining insight from literature with results from phase 1 of data analysis to develop an instrument for the second phase of the data collection process improved the reliability of the study.

- Due to resources and the need for convenience for the researcher the two of the 22 registered and operational audit firms in Zimbabwe could not be included in the study. However, the instruments used for the study of the participating firms were so detailed and rigorous they yielded very critical data for analysis.

8.4 Contribution to the body of knowledge

This study identified engagement risk factors that should be assessed before client acceptance in the Zimbabwean context. It has further provided an ERMI that can be considered and adopted by Zimbabwean firms when they make decisions whether to accept or reject potential clients. It is envisaged that this instrument will be pivotal in the reduction of reputational risk associated with litigation that follows audit fails. The approach utilised in order to get to the ERMI could be adopted in other countries for country specific ERMIs.

8.5 Implications to audit firms

The study recommends the use of the ERMI proposed in this study as a tool for assessment and re-assessment of potential clients. As an assessment tool, the proposed ERMI would be used in the initial assessment of potential clients for client acceptance decision making. As a re-assessment tool, the ERMI would be used for existing clients that were already engaged. In this case, re-assessment is a necessary on-going process because some of the engagement risk factors are economy-based and the economy is dynamic. It is, therefore, necessary to continuously assess the companies to curb potential engagement risks that might ruin the reputation of audit firms.

It is envisaged that the proposed ERMI could assist in reducing the risk of engaging potentially risky clients which has potential to damage the reputation of an audit firm or result in the audit firm being litigated against. As such, there are two primary beneficiaries of the ERMI, namely; the small and medium audit enterprises as well as large audit firms.

- Small and medium audit enterprises with no resources to conduct a thorough engagement risk with potential clients could adopt the proposed ERMI and build this into their

processes. This would assist them to identify engagement risk factors that should be assessed before they make a decision. In this regard, a decision whether to accept or reject a potential client would have been informed by an objective process.

- Larger audit firms could be having their engagement risk assessment processes based on their mother bodies from the international networks, but they could also adopt the ERMI which is Zimbabwean based to buttress their processes. Their already existing engagement risk management processes could be enhanced by applying the proposed ERMI as an additional objective screening instrument embedded in the firm's processes to make a determination on whether to accept or reject a potential client.

8.6 Implications for stakeholders

Stakeholders that could be interested in companies include the government, regulatory authorities, banks, investors and suppliers among others. Government and regulatory authorities can rely on the use of the ERMI to objectively check if a company is in compliance with the set requirements. Potential investors with interest in companies could utilise the ERMI for assessing the engagement risk of the company in order to establish whether they can invest in such a company or not. Banks can also rely on the ERMI to determine whether they can give loans to the assessed companies. Suppliers can also rely on the ERMI to assess the going concern of the company to determine whether or not they can supply goods and services on credit basis to a company.

On the other hand, there are stakeholders with interest in audit firms. An example of such stakeholders is the audit regulatory authorities, such as the PAAB in Zimbabwe. These could utilise the ERMI to check whether audit firms do a thorough job in assessing their potential clients for engagement acceptance. This will help the audit regulatory authority to establish the integrity and professionalism of an audit firm.

8.7 Conclusion

As noted in the discussion of the Agency theory, Legitimacy theory, Theory of inspired confidence, Lending Credibility theory and the Logic of Action theory, audit is an important aspect of the governance process, particularly when it comes to being part of the checks and balances in companies. The involvement of audit firms in questionable companies led to some

audit firms suffering reputational damage and being involved in some legal battles. Questions have been raised as to whether audit firms have robust tools in place to properly assess and rate the engagement risk. This study, therefore, developed an ERMI that can be considered for use by Zimbabwean audit firms in assessing engagement of potential clients before accepting or rejecting them for an audit engagement.

8.8 Recommendations for future research

Following are recommendations for future studies:

- Compliance with ISAs on the engagement of new audit clients by indigenous audit firms in developing countries.
This comes at a time when indigenous audit firms are mushrooming in developing countries. This future research would establish the extent to which these indigenous audit firms comply with the International Standards of Auditing in engaging the new clients.
- An evaluation of the ERMI that was developed in this study.
There might be need for the actual testing of the developed instrument in the audit field by operating audit firms. This may lead to further refinement of the engagement risk management instrument.
- Identification of engagement risk factors that should be assessed before client acceptance in another country.
The economy of a country plays a role in determining the engagement risk factors. Therefore carrying out a similar study in a different jurisdiction might enable the establishment of the role of the economic status of a jurisdiction in engagement risk management.
- Development of an ERMI at a global scale.
This would enable identification of engagement risk factors that should be assessed before client acceptance at a global scale. This is important because the findings in that kind of research could be applicable to countries at different levels of development. The findings would also assist policy makers at a global scale.
- The use of ITC in engagement risk management
Technology has overtaken processes in almost every aspect of doing business. This kind of research would assist in identifying the extent to which ICT is employed in the management of engagement risk by audit firms. This would also assist in identifying areas that would need attention with regards to the capacitation of auditors with regards to ICT skills.

REFERENCES

- Abreu, R. (2015). "From Legitimacy to Accounting and Auditing for Citizenship". *Procedia Economics and Finance*, Vol. 23, pp. 665-670.
- ACCA. (2013). Protecting Stakeholder Interests in SME Companies. [Accessed on 20 May 2018]. From: <https://www.accaglobal.com/content/dam/acca/global/PDF-technical/small-business/tech-tp-psiis.pdf>.
- ACCA, (2014). The drivers of audit quality: auditors' perceptions. [Accessed on 25 June 2018]. From: <https://www.accaglobal.com/hk/en/technical-activities/technical-resources-search/2014/june/the--drivers-of-audit-quality-auditors-perceptions.html>.
- ACCA. (2014). True and Fair Statement Published by Financial Reporting Council. [Accessed on 4 October 2017]. From: <https://www.accaglobal.com/africa/en/technical-activities/technical-resources-search/2014/june/frc-true-fair.html>.
- ACCA. (2015). Acceptance Decisions for Audit and Assurance Engagements, Student Account Hub Page. [Accessed on 13 February 2018]. From: <https://www.accaglobal.com/ie/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/acceptance-decisions.html>.
- ACCA. (2015). Acceptance Decisions for Audit and Assurance Engagements, Student Account Hub Page, ACCA Paper 7. [Accessed on 20 February 2018]. From: <https://www.accaglobal.com/ie/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/acceptance-decisions.html>.
- ACCA. (2017). Auditor Liability: Fair and Reasonable Punishment? Available from: Student Accountant Hub Page. [Accessed on 15 April 2018]. From: <https://www.accaglobal.com/africa/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/auditor-liability.html>.
- Agoglia, C.P.; Hatfield, R.C. and Lambert, T.A. (2015). "Audit Team Time Reporting: An agency Theory Perspective". *Accounting, Organisations and Society*, Vol. 44, pp. 1-14.

- Agustini, M. Y. D. H. (2018). "Survey by Knocking the Door and Response Rate Enhancement Technique in International Business Research". *Problems and Perspectives in Management*, Vol. 16(2), pp. 155-163.
- AICPA. (2006). "Conceptual Framework for AICPA Independence Standards". *AICPA Professional Standards*, Vol. 2, ET. Sec.100.01. [Accessed on 14 November 2017]. From: <https://www.coursehero.com/file/p4ig6uk/Mod-B-17-Conceptual-Framework-for-AICPA-Independence-Standards-In-April-2006/>.
- Ajao, O. S.; Olamide, J. O. and Temitope, A. A. (2016). "Evolution and development of auditing". *Unique Journal of Business Management Research*, Vol. 3(1), pp. 032-040.
- Almeida, B. J. M. (2014). "The Agency Theory: The Main Foundational Base to Explain the Auditing in Portuguese Investor-Oriented Firms". *British Journal of Economics Management and Trade*, Vol. 4(2), pp. 275-304.
- Alsaawi, A. (2014). "A critical review of qualitative interviews". *European Journal of Business and Social Sciences*, Vol. 3(4), pp. 149-156.
- American Institute of Certified Public Accountants (AICPA). (1994). *Practice-Alert 94-03: Acceptance and continuance of audit clients*. New York: USA.
- Ansari, S.; Panhwar, A. H. and Mahesar, G. A. (2016). "Mixed Methods Research: Ontological, Epistemological and Methodological Underpinnings". *ARIEL: An International Journal of Languages and Literature*, Vol. 27, pp. 133-141.
- Aren, A. A. and Loebbecke, J. K. (1997). 7th edition, *Auditing: an integrated approach*. Prentice-Hall International, London: United Kingdom.
- Arens, A. A., Elder, R. J., & Beasley, M. S. (2010). *Auditing and assurance services: an integrated approach*. Upper Saddle River, N.J., Prentice Hall, London: United Kingdom.

- Asthana, S., Balsam, S. and Kim, S. (2009). “The effect of Enron, Andersen and Sarbanes – Oxley on the US market for audit services”. *Accounting Research Journal*, Vol. 22(1), pp. 4-26.
- Azorin, J. M. and Cameron, R. (2011). *The Application of Mixed Methods in Organisational Research: A literature review*. Australia Southern Cross University, Sydney: Australia.
- Baker, P. S. (2016). “Making Paradigms Meaningful in Mixed Methods Research”. *Journal of Mixed Methods Research*, Vol. 10(4), pp. 319-334.
- Bank, J. A. and Bank, C. A. M. (2004). *Handbook of Research on Multicultural Education*, 2nd edn. Jossey-Bass A Wiley Imprint. Hoboken: New Jersey.
- Barbbie, E. R. (2010). *The Practice of Social Research 12th ed.* Belmont. Wadsworth Cengage: California.
- Barth, M.E. (2014). “Measurement in Financial Reporting: The Need for Concepts”. *Accounting Horizons*, Vol. 28(2), pp. 331–352.
- Basioudis, I. G. (2007). “Auditor’s Engagement Risk and Audit Fees: The Role of Audit Firm Alumni”. *Journal of Business Finance and Accounting*, Vol. 34(9), pp. 1393-1422.
- Baxter, P. and Jack, S. (2008). “Qualitative case study methodology: Study design and implementation for Novice Researchers”. *The Qualitative Report*, Vol. 13(4), pp. 544-559.
- Bourgeois, J.; Pugmire, L.; Stevenson, K.; Swanson, N. and Swanson, B. (2006). The Delphi method: A qualitative means to a better future. [Retrieved on 12 April 2018]. From: http://www.freequality.org/sites/www_freequality_org/Documents/knowledge/Delphi%20method.pdf#search=%22Laura%20Pugmire%20Delphi%22.
- Braun, V. and Clarke, V. (2006). “Using Thematic Analysis in Psychology”. *Qualitative Research in Psychology*, Vol. 3(2), pp. 77-101.
- Braun, V. and Clarke, V. 2013). *Successful Qualitative Research: A Practical Guide for Beginners*. Sage. London: United Kingdom.

- Branco, M.C. and Rodrigues, L.L. (2006). "Communication of corporate social responsibility by Portuguese banks: A legitimacy theory perspective". *Corporate Communications: An International Journal*, Vol. 11(3), pp. 232-248.
- Briller, S. H.; Schim, S. M.; Thurston, C. S. and Meert, K.L. (2012). "Conceptual and Design Issues in Instrument Development for Research with Bereaved Parents". *Omega (Weslport)*, Vol. 65(2), pp. 151-168.
- Brtnikova, M.; Crane, L.A.; Allison, M.A.; Hurley, L.P.; Beaty, B.L. and Kempe, A. (2018). "A Method for Achieving High Response Rates in National Surveys of U.S Primary Care Physicians". *PLoS ONE*, 13(8), e0202755. <https://doi.org/10.1371/journal>.
- Bryman, A. (2006). *Mixed Methods*. SAGE Publications. London: United Kingdom.
- Bryman, A. (2012). *Social Research Methods, 5th edn*. Oxford University Press. Oxford: United Kingdom.
- Bryman, A. (2008). *Social Research Methods*. Oxford University Press. Oxford: United Kingdom.
- Deloitte, Zimbabwe. (2018). Audit Regulatory Transparency Report, 30 September 2018. [Accessed on 23 November 2018]. From: <https://www2.deloitte.com/za/en/pages/audit/articles/deloitte-zimbabwe-transparency-report.html>
- Bryman, A. and Bell, E. (2011). *Business Research Methods, 3rd edn*. Oxford University Press. Oxford: United Kingdom.
- Bryman, A. and Bell, E. (2015). *Business Research Methods, 4th edn*. Oxford University Press. Oxford: United Kingdom.
- Bryman, A.E. (1992). *Charisma and Leadership in Organizations*. Sage. Newbury Park: California.
- Canning, M. and O'Dwyer, B. (2006). "The Influence of the 'Organisation' on the logics of Action-pervading Disciplinary Decision Making: The Case of the Chartered Accountants in Ireland (ICA)". *Accounting, Auditing and Accountability Journal*, Vol. 19(1), pp. 17-46.

- Carmen, J. (2016). "How to Select the Right Clients and Keep them". [Accessed on 7 October 2016]. From: <<https://www.accountingweb.com/practice/clients/how-to-select-the-right-clients-and-keep-them>>.
- Cassel, C.; Cunliffe, A.L. and Grandy, G. (2017). *The SAGE Handbook of Qualitative Business and Management Research Methods*. Sage Reference. New Delhi: India.
- Chow, C.W.; Massey, D.W.; Thorne, L. and Wu, A. (2013). "A Qualitative Examination of Auditors' Differing Ethical Characterizations Across the Phases of the Audit". In C. Jeffrey (Ed.), *Research on professional responsibility and ethics in accounting*, Vol. 17, pp. 97–138, Emerald Group, Bingley, United Kingdom.
- Cloete, V.J.; Crous, F. and Schepers, J.M. (2002). "The Construction and Evaluation of a Scale of Employee Empowerment". *SA Journal of Industrial Psychology*, Vol. 28(2), pp. 31-36.
- Cohen, R.J and Swerdlik, M. (2009). *Psychological testing and assessment: An introduction to tests and measurement*, 7th edn. McGraw Hill. London: United Kingdom.
- Colbert, J.L. (1996). "International and US standards". *Audit risk and Materiality Managerial Auditing Journal*, Vol.11(8), pp. 31-35.
- Colbert, J.L.; Luehlhing, M.S. and Alderman, C.W. (2005). "Engagement Risk". *The CPA Journal*, Vol. 66(3), pp. 54-56.
- Collier, P.M. (2009). *Fundamentals of risk management for Accountants and Managers Tools and Techniques*. Elsevier CIMA Publishing. Boston: United States.
- Committee of Sponsoring Organizations of the Treadway Commission (COSO). (1992). *Internal Control — Integrated Framework*. [Accessed on 7 October 2017]. From: <http://www.developmentwork.net/projects/risk-management-standards/137-coso-1992-internal-control-integrated-framework>.
- Corbin, J. and Strauss, A. (2008). *Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory*. SAGE Publications. Thousand Oaks. Los Angeles: California.
- Cordery, C.J. and Sinclair, R.M.S. (2016). *Decision Usefulness and Stewardship as Conceptual Framework objectives: Continuing Challenges*. Thesis. University of Wellington: New Zealand.

- Creswell, J.W. (1998). *Qualitative Inquiry and Research Design: Choosing among Five Traditions*. Thousand Oaks, Sage Publications. Los Angeles: California.
- Creswell, J.W. 2003, *Research Design: Qualitative, Quantitative, and Mixed Method Approaches*. Thousand Oaks, Sage Publications. Los Angeles: California.
- Creswell, J.W. (2007). *Qualitative Inquiry and Research Design Choosing Among Five Approaches*. SAGE Publications. London: United Kingdom.
- Creswell, J.W. (2014). *Research Design, International student edition, qualitative, quantitative and mixed methods approaches*. SAGE. Los Angeles: California.
- Creswell, J.W.; Clark, V.L.; Gutmann, M.L. and Hanson, W.E. (2013). *Advanced Mixed Methods Research Designs*. JWCreswell-2013-books.google.com.
- Crotty, M. (1998). *The Foundations of Social Research: Meanings and Perspective in the research process*. Sage. London: United Kingdom.
- Crouch, M. and McKenzie, H. (2006). "The Logic of Small Samples in Interview-based Qualitative research". *Social Science Information*, Vol. 45(4), 18.doi:10.1177/053901840609584
- Cuhls, K. (2005). "Delphi Method in Delphi Surveys, Teaching Material for UNIDO Foresight Manual". *United Nations Industrial Organisation*, Vienna: Austria, Vol. (2), pp. 93-112.
- Cuhls, K.; Blind, K. and Grupp, H. (2002). "Innovations for Our Future, Delphi'98: New Foresight on Science and Technology". *Heidelberg: Physica*. Doi: 10.1007/978-3-642-5742-6.
- Davies, P. L. (2000). *The Board of Directors: Composition, Structure, Duties and Powers, Company Law Reforming OECD Countries, A Competitive Outlook of Current Trends*. *Organisation for Economic Co-operation and Development*. Stockholm: Sweden, 7-8 December 2000.
- De Bellis, M. (2011). "EU and Global Private Regulatory Regimes: The Accounting and Auditing Sectors". [Accessed on 3 May 2011]. From: https://www.researchgate.net/publication/225313317_EU_and_Global_Private_Regulatory_Regimes_The_Accounting_and_Auditing_Sectors.

- Decker, J.; Ray, R. and Kizirian, T. (2016). “The Auditor’s Road Map for Client Acceptance”. *Journal of Business Case Studies*, Vol. 12(3), pp. 99-102.
- DeFranzo, S.E. (2011). Tips to Maximise Your Survey Response Rates. [Accessed on 9 September 2018]. From: <<https://www.snapsurveys.com/blog/tips-to-maximise-your-survey-response-rates/>>.
- Deloitte. (2015). Clear Transparent Reporting: The New Auditor’s Report. [Accessed on 15 December 2015]. From: <https://www2.deloitte.com/content/dam/Deloitte/za/Documents/governance-risk-compliance/ZA_ClearTransparentReporting_TheNewAuditorReport_072015.pdf/>
- Deloitte, Zimbabwe. (2016). Transparent Report. [Accessed on 20 July 2016]. From: <<https://www2.deloitte.com/content/Deloitte/za/Documents/audit/ZA-Zimbabwe-2016-Transparency-Report>>
- Deloitte, Zimbabwe. (2018). Audit Regulatory Transparency Report, 30 September 2018. [Accessed on 23 November 2018]. From: <https://www2.deloitte.com/za/en/pages/audit/articles/deloitte-zimbabwe-transparency-report.html>
- Depoy, E. and Giltin, N. (1993). *Introduction to Research: Multiple Strategies for Health and Human Services*. St. Louis Mosby-Year Book. Missouri: United States.
- Dilts, R. and Delozier, J. (2000). *Encyclopaedia of NLP*. NLP University Press. Santa Cruz: California.
- Djajoon, G.Z. (2014). Usefulness of Financial Accounting Information. Thesis. Erasmus University. [Accessed on 16 June 2017]. From: <https://thesis.eur.nl/pub/14757/ma126-Zoumaro-Djajoon-327611.doc..>
- Dörnyei, Z. (2007). *Research methods in applied linguistics: Quantitative, qualitative, and mixed methodologies*. Oxford University Press. Oxford: United Kingdom.
- Drira, M. (2013). “Toward a General Theory of Client Acceptance and Continuance Decisions”. *Journal of Comparative International Management*, Vol. 16(1), pp. 37-52.

- Edelman, D. and Nicholson, A. (2011). "Arthur Anderson Auditors and Enron: What happened to their Texas CPA licenses?" *Journal of Finance and Accountancy*, Vol. 8(1), pp. 1-9.
- Edwards, R. and Holland, J. (2013). *What is Qualitative Interviewing?* Bloomsbury Academic. London: United Kingdom.
- Ergene, O. ;Yazic, E.Z. and Delice, A. (2016). "Investigation of Validity and reliability works in postgraduate mathematics theses that adopt qualitative research in Turkey: Functions of data collection tool", *SHS Web of Conferences* 26, Vol. 24(1), pp. 98-112. 01060 (2016) DOI;10.1051/shsconf/20162601060ERPA2015.
- Ethridge, J.R.; Lilley, M.T. and Kurt, C. (2007). "Engagement Risk: A preliminary analysis of audit firms". *Client acceptance decisions*, Vol. 11(1), pp. 1-8.
- Ethridge, J.R.; Marsh, T. and Revelt, B. (2007). "Engagement Risk: Perceptions and Strategies from Audit Partners". *Journal of Business and Economics Research*, Vol. 5(4), pp. 25-32.
- Etikan, I.; Musa, S.A. and Alkassim, R.S. (2016). "Comparison of Convenience Sampling and Purposive Sampling". *American Journal of Theoretical and Applied Statistics*, Vol. 5(1), pp. 1-4.
- Fereday, J. and Muir-Cochrane, E. (2006). "Demonstrating Rigor Using Thematic Analysis: A Hybrid Approach of Inductive and Deductive Coding and Theme Development". *International Journal of Qualitative Methods*, Vol. 5(1), pp. 80-92.
- Firouz, A.M. and Attaran, S. (2013). *Are K2 Guidelines Sufficient and credible for Credit Assessments?* Thesis. Lunds Universiteit. Lund: Sweden.
- Flint, D. (1988). *Philosophy and Principles of Auditing: An Introduction*. Macmillan Education. London: United Kingdom.
- Fowler, F.J. (2002). *Survey Research Methods, 3rd edn*. Thousand Oaks. CA: Sage Publications. Newbury Park: California.
- Gabi, C. and Gabi, J. (2018). *The Dissertation A Guide for Social Sciences for Students, Dissertation Supervisors and Lecturers*. Confluence Information Services. Manchester: United Kingdom.

- Gendron, Y. (2001). "The Difficult Client-Acceptance Decision in Canadian Audit Firms: A Field Investigation". *Contemporary Accounting Research*, Vol. 18(2), pp. 283-310.
- Gendron, Y. (2002). "On the Role of the Organisation in Auditor's Client-Acceptance Decisions". *Accounting Organisations and Society*, Vol. 27, pp. 659-684.
- Gill, P.; Stewart, K.; Treasure, E. and Chadwick, B. (2008). "Methods of data collection used in qualitative research: Interviews and Focus groups". *British Dental Journal*, Vol. 204, pp. 291-295. Published online 22 March 2008/ doi:10.1038/bdj.2008.192.
- Golafshani, N. (2003). "Understanding Reliability and Validity in Qualitative Research". *The Qualitative Report*, Vol. 8(4), pp. 597-606.
- Gomaa, M.I.; Hunton, J.E. and Rose, J.M. (2010). Auditors and Decision Aids: The Effect of Litigation Risk and Internal Control Risk on Reliance. [Accessed on 23 July 2017].
From:
<https://poole.ncsu.edu/pdfs/accounting/Litigation_Control_Decision%20Aids_082405.pdf>.
- Gramling, A. A.; Rittenberg, L.E and Johnstone, K.M. (2012). *Auditing a Business Risk Approach, International Edition*. South-Western Cengage Learning. London: United Kingdom.
- Gray, D. E. (2013). *Doing Research in the Real World*, SAGE, California. USA.
- Gray, I. and Manson, S. (2008). *The Audit Process, Principles, Practice and Cases, 4th edn*. Thomson. London: United Kingdom.
- Guba, E.G. and Lincoln, Y.S. (1994). Competing Paradigms in qualitative research, In N.K Denzin, and S Lincoln (Eds.), *Handbook of qualitative research*, pp.105-117, Sage, London, United Kingdom.
- Guest, G.; Bunce, A. and Johnson, L. (2006). "How many interviews are enough? An Experiment with Data Saturation and Variability". *Field Methods*, Vol. 18(1), pp. 24, Doi: 10.1177/1525822x05279903.
- Guthrie, J.; Cuganeson, S. and Ward, L. (2006). Legitimacy Theory: A Story of Reporting Social and Environmental Matters within the Australian Food and Beverage Industry. The University of Sydney, 5th Asian Pacific Interdisciplinary Research in Accounting

- (APIRA) Conference, 8-10 July 2007, Auckland, New Zealand. [Accessed on 13 August 2018]. From: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1360518.
- Habibi, A.; Sarafrazi, A. and Izadyar, S. (2014). “Delphi Technique Theoretical Framework in Qualitative Research”. *The International Journal of Engineering and Sciences (IJES)*, Vol. 3(4), pp. 08-13.
- Hall, W.D. and Renner, A.J. (1991). “Lessons Auditors ignore at their own risk: part two”. *Journal of Accountancy*, Vol. 171(6), pp. 63-71.
- Hayes, R.; Dassen, R.; Schilder, A. and Wallage, P. (2005). *Principles of Auditing: An introduction to International Standards of Auditing, 2nd edn*. Pearson Prentice Hall. Harlow: United Kingdom.
- Hayes, R.; Dassen, R.; Schilder, A. and Wallage, P. (2006). *Principles of auditing: an introduction to international standards on auditing*. Pearson Education. London: United Kingdom.
- Heinle, M.S. and Hofmann, C. (2011). “Soft Information and the Stewardship Value of Accounting Disclosure”. *OR Spectrum*, Vol. 33(2), pp. 333–358.
- Hitz, J.M. (2007). “The Decision Usefulness of Fair Value Accounting – A Theoretical Perspective”. *European Accounting Review*, Vol. 16(2), pp. 323–362.
- Hsieh, Y. and Lin, C. (2016). “Audit Firm’s Client Acceptance Decisions: Does Partner-Level Industry Expertise Matter?” *Auditing, a Journal of Practice and Theory*, Vol. 35(2), pp. 97-120.
- Hsu, C.C. and Sandford, B.A. (2007). “The Delphi Technique: Making sense of consensus”. *Practical Assessment, Research & Evaluation*, Vol. 12(10), pp. 1-8.
- Hyejung, L. (2016). *Auditors’ Gender Differences and Client Portfolios*. Thesis. Queensland University of Technology. Brisbane: Queensland, Australia.
- IAASB. (2015). New and Revised Auditor Reporting Standards and Related Conforming Amendments. [Accessed on 16 December 2015]. From: <https://www.ifac.org/system/files/uploads/IAASB/Audit%20Reporting-At%20a%20Glance-final.pdf>

- ICAEW. (2005). Agency Theory and the Role of Audit. [Accessed on 23 December 2015].
From: <<https://www.icaew.com/-/media/corporate/files/technical/audit-and-assurance/audit-quality/audit-quality-forum/agency-theory-and-the-role-of-audit.ashx/>>
- ICAEW. (2005). Audit Quality: Agency Theory and the role of Audit. [Accessed on 23 December 2015]. From: <<https://www.icaew.com/-/media/corporate/files/technical/audit-and-assurance/audit-quality/audit-quality-forum/agency-theory-and-the-role-of-audit.ashx/>>
- ICAEW. (2008). *Audit Quality Evolution: Stakeholder Expectations of Audit*. London: United Kingdom.
- IFAC. (2015). The New Auditor's Report. [Accessed on 29 January 2016]. From: <<https://www.ifac.org/system/files/uploads/IAASB/Auditor-Reporting-Fact-Sheet.pdf/>>
- IFAC. (2010). Client Acceptance Continuance. Transnational Auditors Committee: Good Practice Guidance. [Accessed on 29 January 2016]. From: <http://www.mia.org.my/v1/downloads/psp/auditing/knowledge_base/2010/10/27/Forum_of_Firms.pdf/>.
- IFAC's Code of Ethics for Professional Accountants. (2006). Accepting new Audit Clients. [Accessed on 23 September 2017]. From: <<https://www.ifac.org/system/files/publications/files/ifac-code-of-ethics-for.pdf>>.
- International Accounting Standards Board. (2008). *ED: An improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information*. IASB. London: United Kingdom.
- International Accounting Standards Board. (2010a). *Conceptual Framework for Financial Reporting*. ASB. London: United Kingdom.
- International Accounting Standards Board. (2015). Exposure Draft No. 2015/3: *Conceptual Framework for Financial Reporting*. IASB. London: United Kingdom.
- Iqbal, S. and Pipon-Young, L. (2009). "The Delphi Method". *The British Psychological Society*, Vol. 22, pp. 598-606.

- Ittonen, J.L. (2010). "A Theoretical Examination of the Role of Auditing and the Relevance of Audit Reports". *Business Administration* 28, Accounting and Finance. Vaasa University. Vaasa: Finland.
- Jerzemowska, M. 2006). "The Main Agency Problems and Their Consequences". *Acta Oeconomica Pragensia*, Vol. 14(3), pp. 9-17.
- Johnson, R.B.; Onwuegbuzie, A.J.; and Turner, L.A. (2007). "Toward a definition of mixed method research". *Journal of Mixed Methods Research*, Vol. 1(2), pp. 112-133.
- Johnstone, K.M. (2000). "Client Acceptance Decisions; Simultaneous Effects of Client Business Risk, Audit risk, Auditor Business Risk and Risk Adaptation, Auditing". *A Journal of Accounting and Public Policy*, Vol. 31(3), pp. 320-336.
- Johnstone, K.M. (2001). "Risk: experience and client acceptance decisions". *National Public Accountant*, Vol. 46(5), pp. 27-38.
- Johnstone, K.M. and Bedard, J.C. (2003). "Risk Management in Client Acceptance Decisions". *The Accounting Review*, Vol. 78(4), pp. 1003-1025.
- Jones, M. (2009). Audit Risk. ACCA. [Accessed on 11 July 2017]. From: https://www.accaglobal.com/content/dam/acca/global/pdf/sa_nov09_jones.pdf.
- Jones, M.J. (2011). *Business and Economics*. John Wiley & Sons. Chichester: United Kingdom.
- Jullisson, E.A.; Karlsson, N. and Garling, T. (2005). "Weighing the past and the future in decision making". *European Journal of Cognitive Psychology*, Vol. 17(4), pp. 561-575.
- Kajornboon, A.B. (2005). Using interviews as research instruments. [Accessed on 5 December 2015]. From: <https://www.culi.chula.ac.th/research/e.journal/bod/annabel.pdf>.
- Kaplan Publishing. (2012). Kaplan Financial Knowledge Bank. [Accessed on 12 December 2015]. From: <http://kfknowledgebank.kaplan.co.uk/KFKB/Wiki%20Pages/NonFinancial%20Performance%20Indicators%20%28NFPIs%29.aspx>.

- Keeney, S.; McKenna, H. and Hasson, F. (2000). *The Delphi Technique in Nursing and Health Research*. Wiley.com: New York: USA.
- Khalil, S.K.; Cohen, J.R. and Schwartz, K.B. (2011). “Client Engagement Risk and the Auditor Search Period”. *Accounting Horizons*, Vol. 25(4), pp. 685-702.
- Knechel, R., V. Naiker & G. Pacheco (2007). “Does industry specialization matter? Evidence from market reaction to auditor switches. Auditing”. *A Journal of Practice and Theory*, Vol. 26(1), pp. 19–45.
- [Kolakowski, M.](#) (2018). The Big Four Public Accounting Firms. [Viewed 30 December 2018]. From: <<https://www.thebalancecareers.com/big-four-public-accounting-firms-1287328>>.
- KPMG. (2016). LLP Transparency Report. [Accessed on 12 April 2018]. From: <https://www.google.co.zw/search?q=KPMG%2C+LLP+Transparency+Report%2C+2016&rlz=1C1RLNS_enZW706ZW707&oq=KPMG%2C+LLP+Transparency+Report%2C+2016&aqs=chrome..69i57.2305j0j7&sourceid=chrome&ie=UTF-8>.
- Krauss, S.E. (2005). “Research paradigms and meaning making: A primer”. *The Qualitative Report*, Vol. 10(4), pp. 758-770.
- Kvale, S. (1996). *Interviews: An Introduction to Qualitative Research Interviewing*. Sage. London: United Kingdom.
- Latham, J.R. (2013). “A Framework for the Transformation to Performance Excellence part 1: CEO Perspectives on Forces, Facilitators, and Strategic Leadership Systems”. *Quality Management Journal*, Vol. 20(2), pp. 12-33.
- Laux, V. and Newman, P.D. (2010). “Auditor Liability and Client Acceptance Decisions”. *The Accounting Review*, Vol. 85(1), pp. 261-285.
- Leedy, P.D. and Ormrod, J.E. (2004). *Practical Research, 8th edn*. Prentice Hall. Upper Saddle River: New Jersey.
- Lesser, A.L. and Lesser, G.S. (2012). Audit Risks and Business Risks. [Accessed on 16 March 2017]. From: <<https://accounting-simplified.com/audit/risk-assessment/audit-risk-business-risk.html>>.
- Leung, P.; Coram, P.; Cooper, B.; Cosserrat, G. and Gill, G. (2004). *Modern Auditing and Assurance service, 2nd edn*. John Wiley & Sons. Sydney: Australia.

- Limperc Jr, T. (1985). *The Social Responsibility of the Auditor*. Limperc Institute. Amsterdam: The Netherlands.
- Linstone, H.A. and Turoff, M. (2002). *The Delphi Method: Technique and Applications*. Addison-Wesley. London: United Kingdom.
- Magaisa, T. (2006). Company Law Reform: Auditor Liability, Zimbabwe Independent, May 12, 2006, in Business. [Accessed on 12 December 2015]. From: <https://www.theindependent.co.zw/2006/05/12/company-law-reform-auditor-liability/>
- Maguire, M. and Delahunt, B. (2017). “Doing a Thematic Analysis: A Practical, Step-by-step Guide for Learning and Teaching Scholars”. *All Ireland Journal of Teaching and Learning in Higher Education (AISHE-J)*, Vol. 8(3), pp. 3351-33514.
- Mandeya, R. (2016). Who will audit the Audit Firms? Financial Gazette, 25 February. [Accessed on 25 February 2016]. From: <https://www.financialgazette.co.zw.>
- Manry, D.L.; Mock, T.J. and Turner, J.L. (2006). “The Association of Pre-audit Engagement Risk with Discretionary Accruals”. *Journal of Accounting Auditing and Finance*, Vol. 22(4), pp. 623-644.
- Marín, V.I.; Duart, J.M.; Galvis, A.H. and Zawacki-Richter, O. (2018). “Thematic analysis of the international journal of educational Technology in Higher Education (ETHE) between 2004 and 2017”. *International Journal of Educational Technology in Higher Education*, Vol. 15(8), DOI 10.1186/s41239-018-0089-y.
- McDonnell, S. (2012). Audit Partners Vs. Firm Partners. [Accessed on 23 March 2017]. From: <https://smallbusiness.chron.com/audit-partners-81488.html>.
- Members Handbook, Statement of Auditing Standards 315. (2004). Understanding the Entity and its Environment and Assessing the Risk of material Misstatement. [Accessed on 16 February 2016]. From: <http://app1.hkicpa.org.hk/professionaltechnical/pronouncements/handbook/volume3a/sas315a.htm>.

- Mertens, D.M. (2005). *Research Methods in Education and Psychology: Integrating diversity with quantitative and qualitative approaches, 2nd edn.* Thousand Oaks. London: United Kingdom.
- Messier, W.F.; Glover, S.M. and Prawitt, D.F. (2008). *Auditing and Assurance Services: A Systematic Approach, 5th edn.* McGraw Hill Irwin. New York: USA.
- Mironiuc, M.; Chersan, I. and Robu, I. (2013). “The Influence of The Client’s Background on the Auditor’s Decision in Acceptance the Auditor Engagement”. *Communications of the IBIMA*, DOI:10.5171/2013.657289.
- Mitnick, B.M. (2006). Origin of the Theory of Agency: An Account by one of the Theory’s Originators. [Accessed on 3 March 2016]. From: <http://www.pitt.edu/~mitnick/agencytheory/Agencytheoryindex.html/>.
- Mohajan, H.K. (2017). “Two Criteria for Good Measurements in Research: Validity and Reliability”. *Annals of Spiru Haret University*, Vol. 17(3): pp. 58-82.
- Mohammed, S.D. (2018). “Mandatory Social and Environmental Disclosure: A Performance Evaluation of Listed Nigerian Oil and Gas Companies Pre- and Post-Mandatory Disclosure Requirements”. *Journal of Finance and Accounting*, Vol. 6(2), pp. 56-68.
- Moloi, S.T.M. (2009). Assessment of Corporate Governance Reporting in the Annual Reports of South African Listed Companies. Thesis. University of South Africa. Pretoria: South Africa.
- Morgan, D.L. (2014). “Pragmatism as Paradigm for Social Research”. *SAGE Journals*, Vol. 20(8), pp. 1045-1053.
- Morse, J.M. (1991). “Evaluating Qualitative Research”. *Qualitative Health Research*, Vol. 1(3), pp. 283-286.
- Munyoro, F. (2015). Gulliver Bosses Sued over Firm’s Collapse, The Herald, Zimbabwe Newspapers Publishing.[Accessed on 17 October 2016]. From: <https://www.herald.co.zw/gulliver-bosses-sued-over-firms-collapse/>.
- Nam, J.; Tang, C.; Thornton Jr, J.H. and Wynne, K. (2006). “The effect of agency costs on the value of single-segment and multi-segment firms”. *Journal of Corporate Finance*, Vol. 12(4), pp. 761-782.

- Novikov, A.M. and Novikov, D.A. (2013). *Research Methodology: From Philosophy of Science to Research Design*. CRS Press. London: United Kingdom.
- Nulty, D.D. (2012). "The Adequacy of Response Rates to Online and Paper Surveys: What can be done?" *Assessment and Evaluation in Higher Education*, Vol. 33(3), pp. 301-314.
- Nwana, O.C. (2007). *Textbook on Educational Measurement and Evaluation*. Bomaway Publishers. Owerri: Nigeria.
- Nyakuwanika, M. (2014). "Why companies change auditors in Zimbabwe? (2003-2013)". *Research Journal of Finance and Accounting*, Vol. 5(5), pp. 171-181.
- Okpala, K.E. (2015). "Stamatis Generic Model and Audit Quality in Nigeria". *The Journal of Social Sciences Research*, Vol. 1(8), pp. 94-101.
- Onwuegbuzie, A.J.; Bustamante, R.M. and Nelson, J.A. (2010). "Mixed Research as a Tool for Developing Quantitative Instruments". *Journal of mixed Methods Research*, Vol. 4(4), pp. 56-78.
- Onwuegbuzie, A.J.; Dickinson, W.B.; Leech, N.L. and Zoran, A.G. (2009). "A Qualitative framework for collecting and analysing data in focus group research". *International Journal of Qualitative Methods*, Vol. 8(3), pp. 1-2.
- Opdenakker, R. (2006). "Advantages and Disadvantages of Four Interview Techniques in Qualitative Research". *Forum: Qualitative Social Research*, Vol. 7(4), Art, 11-September 2006.
- Ouertani, I. and Ayadi, S.D. (2012). "Auditor Engagement Decision: An exploratory study in the Tunisian Context". *Accounting and Management Information Systems*, Vol. 11(3), pp. 371-390.
- Panda, B. and Leepsa, N.M. (2017). "Agency Theory: Review of Theory and Evidence on Problems and Perspectives". *Indian Journal of Corporate governance*, Vol. 10(1), pp. 74-95.
- Patel, S. (2015). The Research Paradigm – methodology, epistemology and ontology – explained in simple language. [Accessed 30 July 2015]. From:

<http://www.salmapatel.co.uk/academia/the-research-paradigm-methodology-epistemology-and-ontology-explained-in-simple-language>>.

Peavler, R. (2018). What is the agency cost for business? A look at the Agency problem between Shareholders and Managers. [Accessed on 23 July 2018]. From: <https://www.thebalancesmb.com/what-is-the-agency-cost-for-business-392845>>.

Perry, L. (2014). Auditing Special Purposes Frameworks: Client Acceptance and Continuance Decision-Making. [Accessed on 14 July 2014]. From: <https://www.accountingweb.com/ac/auditing/auditing-special-purpose-frameworks-client-acceptance-and-continuance-decision-making/>>

Petherbridge, J.A. (2010). *How does Engagement Risk and the focus of the PCAOB inspection process influence Internal Auditors' reliance Decisions?* Dissertation. Georgia State University. Atlanta: USA.

Phillips, D.C. (1995). "The good, the bad, and the ugly: The many faces of constructivism". *Educational Researcher*, Vol. 24(7), pp. 12.

Porter, B.; Simon, J. and Hatherly, D. (2005). *Principles of External Auditing*. John Wiley & Sons Ltd. Sydney: Australia.

Ranney, M.L.; Meisel, Z.F.; Choo, E.K.; Garro, A.C.; Sasson, C. and Guthrie, K.M. (2015). "Interview-Based Qualitative Research in Emergency Care Part II: Data Collection, Analysis and Results Reporting". *Official Journal of the Society for Academic Emergency Medicine*, Vol. 22(9), pp. 1103-1112.

Rapoport, M. (2015). Audit Regulator Finds 28 Deficient Audits. *The Wall Street Journal (PCAOB)*. [Accessed 20 November 2015]. From: <https://www.wsj.com/articles/audit-regulator-finds-28-deficient-audits-by-kpmg-in-annual-report-1447177800/>

Ritchie, J.; Lewis, J.; Nicholls, C.M.N. and Ormston, R. (2013). *Qualitative Research Practice: A Guide for Social Science Students and Researchers*, 2nd edn. NatCen. Toronto: Canada.

Rittenburg, L.E.; Johnstone, K. and Gramling, A. (2010). *Auditing a business risk approach*. South Western Cengage Learning. Ohio: USA.

- Ruia, S. (2016). Corporate Governance: Role of Auditor and Auditing Committee. [Accessed 18 January 2016]. From: <<https://www.linkedin.com/pulse/corporate-governance-role-auditor-auditing-committee-ca-sanjay-ruia/>>
- Ruppert, M.P. (2005). Defining the meaning of Auditing, Monitoring and clarifying the appropriate use of the terms. [Accessed on 18 July 2017]. From: <<https://www.ahia.org/assets/Uploads/pdfUpload/WhitePapers/DefiningAuditingAndMonitoring.pdf>>.
- Sagi, A. and Friedland, N. (2007). “The cost of richness: The effect of the size and diversity of decision sets on post-decision regret”. *Journal of Personality and Social Psychology*, Vol. 93(4), pp. 515-524.
- Saldivar, M.G. (2012). A Primer on Survey Response Rate: Learning Systems Institute: Florida State University, pp. 1-12.
- Saunders, M.; Lewis, P. and Thornhill, A. (2007). *Research Methods for Business Students*, 4th edn. FT Prentice Hall. Sydney: Australia.
- Saunders, M.; Lewis, P. and Thornhill, A. (2009). *Research Methods for Business Students*, 5th edn. FT Prentice Hall. Sydney: Australia.
- Saunders, M.; Lewis, P. and Thornhill, A. (2012). *Research Methods for Business Students*, 6th Edition. Pearson Education Limited. Sydney: Australia.
- Scannell, K. (2016). Big Four Auditors face Crackdown on Global operations, Financial Times. [Accessed 14 December 2016]. From: <<https://www.ft.com/content/86e72a0a-cl4f-11eb-9bca-2693a6856354/>>
- Schepers, J.M. (2008). “The Construction and Evaluation of a Generic Work Performance Questionnaire for Use with Administrative and Operational Staff”. *SA Tydskrif Vir Bedryfsielkunde*, Vol. 34(1), pp.10-22.
- Sengur, E.D. (2012). “Relationships among Components of Engagement Risk”. *Annals of the University of Petrosoni, Economics*, Vol. 12, pp. 292-304.
- Sherman, F. (2017). High Risk Audit Engagement versus Low Risk Audit Engagement, Hearst Newspapers, LLC. [Accessed on 7 May 2018]. From: <<https://www.dummies.com/business/accounting/auditing/how-to-perform-an-audit-in-a-high-risk-situation/>>.

- Shoaib, A. (2017). KPMG Rocked by South African Corruption Scandal. [Accessed on 27 June 2018]. From: <<https://www.accountancyage.com/2017/09/27/kpmg-rocked-south-african-corruption-scandal/>>.
- Shumba, V. (2015). *Investigation into the impacts of Management's non-implementation of audit recommendations to risks: A case of National Social Security Authority (NSSA)*. Thesis. Midlands State University. Gweru: Zimbabwe.
- Sijpesteijn, F.K.; Knecht, E.A.; and Van Der Boom, A.H. (2011). *The Value Relevance of Auditor's Communications: Financial Statements Users' Understanding of the Messages in the Audit Report*. Erasmus Universiteit. Rotterdam: Holland.
- Simon, M.K. (2011). *Dissertation and Scholarly Research: Recipes for Success*, 2011 edn. Seattle, W.A, Dissertation Success, LLC. [Accessed on 19 November 2016]. From: <<http://dissertationrecepies.com/>>.
- Siregar, S.V.; Wondabio, L.S.; Harahap, S.N. and Wardhani, R. (2006). *Evaluation of Risk Factors in Client Acceptance Decisions: Evidence from Public Accountants in Indonesia*. University of Indonesia, Jakarta: Indonesia.
- Solomon, A.B. (2015). *The Impact of External Audit in Accountability and Transparency of NGOs in the Bolgatanga Municipality*. Thesis, Kwame Nkrumah University of Science and Technology, School of Business. Kumasi: Ghana.
- Staff Reporter Huffpost. (2017). KPMG Stands to lose its Biggest Clients the Auditing Firm's Woes are Far from Over. From: <<https://www.huffingtonpost.co.za/2017/09/20/kpmg-stands-to-lose-its-biggest-clients-a-23215791/>>
- Staubus, G.J. (2000). *The Decision Usefulness Theory of Accounting: A Limited History*. Taylor & Francis Inc. Bosa Roca: United States.
- Stevenson, K.M. (2013). *Rethinking the Path from an Objective of Economic Decision Making to a Disclosure and Presentation Framework*. (AASB Essay 2013-1). AASB. Melbourne: Australia.
- Szivos, L. (2014). "The Role of Data Authentication and Security in the Audit of Financial Statements". *Acta Polytechnica Hungarica*, Vol. 11(8), pp. 161-176.

- Thangaratinam, S. and Redman, C.W.E. (2011). "The Delphi Technique", *The Obstetrician & Gynaecologist*, Vol. 7(2), pp. 120-125.
- Thibodeaux, W. (2017). What is an Audit engagement? Chron HEARST, Newspapers, LLC. [Accessed on 14 July]. From: <<https://smallbusiness.chron.com/audit-engagement-24480.html>>.
- Thompson, N. (1995). *Theory and Practice in Health and Social Care Milton Keynes*. Open University Press. Buckingham: United Kingdom.
- Thomson, S.B. (2011). "Qualitative Research: Validity". *JOAAG Research Method*, Vol. 6(1), pp. 315-329.
- Tollerson, C.D. (2012). *The Data Decision-Usefulness Theory: An Explanation of Post- 1998 Reported Products and Services Segment Data Decision Usefulness*. Thesis. University of Houston: United States.
- Vanson, S. (2014). What on Earth Are Ontology and Epistemology? [Accessed on 22 August 2016]. From: <<https://theperformancesolution.com/earth-ontology-epistemology/>>
- Vergotine, H.W. (2012). *The construction and evaluation of an Enterprise Risk Management Instrument for state-owned enterprises*. PhD Thesis. University of Johannesburg. Johannesburg: South Africa.
- Volosin, E. (2007). *The Theories of audit expectations and the expectations gap*, Grin Verlag, Norderstedt, Germany. [Accessed on 13 July 2017]. From: <https://books.google.co.zw/books?id=eSB6tSbx9gwC&printsec=frontcover&dq=The+Lending+Credibility+Theory&hl=en&sa=X&ved=0ahUKEwiy2dqLxabfAhVUQxUIHarsDTYQ6AEIKDAA#v=onepage&q=The%20Lending%20Credibility%20Theory&f=false>.
- Wallace, W. (1980). *The economic role of the audit in free and regulated markets*. The Touche Ross and Co. Aid to Education Program. Reprinted in *Auditing Monographs* (New York Macmillan Publishing Co., 1985).
- Wandirasa, T. (2016). 10 Things about Accounting Profession in Zimbabwe, SMEZIM. [Accessed on 29 November 2016]. From: <<https://smezim.com/2016/11/29/10-things-about-accounting-profession-in-zimbabwe/>>
- Willis, J.W.; Jost, M. and Nilakanta, R. (2007). *Foundations of Qualitative Research Interpretive and Critical Approaches*. SAGE Publication. London: United Kingdom.

Witkin, B.R. and Altschuld, J.W. (1995). *Planning and Conducting Needs Assessment: A Practical Guide*. SAGE, Thousand Oaks. Los Angeles: California.

Wright, L. and Rosen, D. (2018). *Credit and Credibility: Risks to China's Economic, A Report of the CSIS Freeman Chair in China Studies*. Center for Strategic and International Studies (CSIS).

Yafele, A. (2012). *Key performance Indicator Disclosures by Large UK Private and Public Listed Companies*. Thesis. BU Bournemouth University. Dorset: England.

Zhenli, G. (2016). Audit Risk, Business Risk and Audit Planning. [Accessed on 16 April 2017]. From: <<http://www.academia.edu/6665711/4-Audit-Risk-and-Audit-Panning/>>



Appendix A

University of Johannesburg Research Ethical Committee Ethical Clearance Certificate



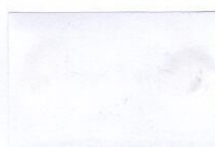
SCHOOL OF ACCOUNTANCY RESEARCH ETHICS COMMITTEE ETHICAL CLEARANCE REPORT

Applicant	V Denhere
Student/staff number	217019340
Title	The development of an engagement risk management instrument for the Zimbabwean audit firms
Decision date at SOA REC meeting	November/December 2017
Ethical clearance code	20171127-01
Rating of most recent application	CODE 01

CODE 01 - Approved
 CODE 02 - Approved with suggestions without re-submission
 CODE 03 - Not approved, may re-submit
 CODE 04 - Not approved, no re-submission allowed

RESEARCH COMPLIES WITH	COMPLIANCE	NON-COMPLIANCE / DETAILS / RECOMMENDATIONS / CONDITIONS OF APPROVAL
The right to privacy, confidentiality and anonymity	Yes	
The right to equality, justice, human dignity/life and protection against harm	Yes	
The right to freedom of choice, expression and access to information	Yes	
Right of the community and science community	Yes	Please distribute a copy of the final thesis to the participants
Informed consent/letters of request	Yes	

The School of Accountancy of the College of Business and Economics at the University of Johannesburg has reviewed the application and provides ethical clearance for the research to proceed in the manner described in the application documents received by the committee on 27 November 2017.



Appendix B

Letter seeking permission to conduct research through interviews

Bindura University

P. Bag 1020

Bindura

12 March 2018

The audit partner

Dear Sir/Madam

RE: REQUEST TO CONDUCT RESEARCH AT YOUR FIRM

I, Mrs Varaidzo Denhere, Student Number 217019340 am doing a PhD in Auditing with the University of Johannesburg in South Africa. I am currently working at Bindura University of Science Education. As a fulfilment requirement for a Doctor of Philosophy Degree in Auditing in the Department of Business and Economics, I am expected to carry out a research study on the following thesis title: **THE DEVELOPMENT OF AN ENGAGEMENT RISK MANAGEMENT INSTRUMENT FOR THE ZIMBABWEAN AUDIT FIRMS.**

I, therefore, kindly request your permission to carry out this research at your esteemed organisation. This will involve interviewing an audit partner and an audit risk partner. This is purely an academic exercise and all the information will be treated with strict confidentiality. I have enclosed copies of my proof of Registration and an Ethical Clearance Report from the University of Johannesburg, School of Accountancy Research Ethics Committee for your information.

Your assistance will be greatly appreciated.

Yours Sincerely,

Varaidzo Denhere

Appendix C

Letter seeking permission to conduct research through the Delphi Questionnaire

Bindura University

P. Bag 1020

Bindura

03 October 2018

The Managing Partner

Dear Sir/Madam

RE: REQUEST TO CONDUCT RESEARCH AT YOUR FIRM

I, Mrs Varaidzo Denhere, Student Number 217019340, am doing a PhD in Auditing with the University of Johannesburg in South Africa. I am currently working at Bindura University of Science Education. As a fulfilment requirement for a Doctor of Philosophy Degree in Auditing in the Department of Business and Economics, I am expected to carry out research study on the following thesis title: **THE DEVELOPMENT OF AN ENGAGEMENT RISK MANAGEMENT INSTRUMENT FOR THE ZIMBABWEAN AUDIT FIRMS.**

I therefore kindly request your permission to carry out this research at your esteemed organisation. This will involve administering a Delphi Questionnaire to the Audit Managing Partner and Chief Audit Risk Partner/Officer. This is purely an academic exercise and all the information will be treated with strict confidentiality. I have enclosed copies of my Proof of Registration and an Ethical Clearance Report from the University of Johannesburg, School of Accountancy Research Ethics Committee for your information.

Your assistance will be greatly appreciated.

Yours Sincerely,

Varaidzo Denhere

Appendix D

Structured Interview Covering Letter

Information for the interview participants

You are invited to take part in a structured interview designed to collect data for a research study entitled: **THE DEVELOPMENT OF AN ENGAGEMENT RISK MANAGEMENT INSTRUMENT FOR ZIMBABWEAN AUDIT FIRMS**. Before you decide whether or not you would like to participate, it is important for you to be informed about the research study and how you will be expected to contribute through your participation. Please read the following information carefully.

Purpose of the Structured Interviews

The aim of this study is to develop an Engagement Risk Management Instrument (ERMI) for use by audit firms at the client acceptance stage in the context of Zimbabwe. The purpose of the structured interview is, therefore, to identify the engagement risk attributes that should be included for consideration by audit firms when they make decisions on client acceptance. When the list of attributes is obtained from the interviews, the researcher will then use them to prepare a Delphi Questionnaire to be used in the Delphi process. It will be at the end of the Delphi process that the agreed upon engagement risk attributes will then be used to construct a draft ERMI, which will then be evaluated by yet another panel of audit experts. After the evaluation of a draft instrument, the final ERMI will then be developed.

What is involved in a Delphi Study?

The Delphi process seeks to obtain consensus on the opinion of experts who are described as panel members. This is achieved through a series of structured questionnaires administered to panellists for a minimum of three rounds. The responses from each round are analysed to determine the consensus reached and fed back to the panellists, who are then required to respond again to the emerging data until consensus is reached.

What I will be asked to do if I take part

Taking part in this research study involves being interviewed by the principal researcher in an interview that will last approximately 30-45 minutes. During the interview, notes will be taken and an audio tape of the interview and subsequent dialogue will be made.

The organisation and funding of this study research

The principal researcher in this study is a student doing a Doctor of Philosophy in Auditing at the University of Johannesburg and is supervised by Prof. Dr. Tankiso Moloï and co-supervised by Dr. Christo Ackermann. The principal researcher will conduct the Delphi process.

Data Protection

Data collected for this research study will be stored in a password-protected electronic file accessible only to the researcher and the supervisors. Data will be stored for the duration of the study only and then deleted immediately after.

Confidentiality

The researcher will not identify you by name in any reports using information from this exercise, and your confidentiality will be ensured.

Research Ethics

The proposed Delphi study meets the ethical requirements of the University of Johannesburg Faculty of Economic and Financial Sciences Research Ethics Committee (FEFS REC). A copy of the University of Johannesburg FEFFS REC decision letter on ethical clearance is available upon request.

Thank you for taking your valuable time to read this covering letter. If you have any questions or concerns, please do not hesitate to contact me.

.....

VARAIDZO DENHERE

Principal Researcher

vdenhere23@gmail.com

Appendix E

Structured Interview Consent Form

Interview Consent Form [*to be completed in duplicate*]

Consent to participate in a research study

Title of the research study: The development of an Engagement Risk Management Instrument for the Zimbabwean Audit Firms.

1. I volunteer to participate in a research study conducted by Mrs Varaidzo Denhere (the principal researcher), a PhD student with the University of Johannesburg. I understand that the research study is designed to gather information for academic purposes. I will be one of about 30 interviewees participating in this study.
2. My participation in this study is voluntary and I understand that I will not be paid for my participation. I may withdraw and discontinue participation at any time without a penalty.
3. I understand that if I feel uncomfortable in any way during the interview session, I have the right to decline to answer any question or to end the interview.
4. Participation involves being interviewed by the principal researcher, where the interview will last approximately 30-45 minutes. Notes will be written during the interview and an audio tape of the interview and subsequent dialogue will be made. If I do not want to be taped, I will not be able to participate in the research study.
5. I understand that the researcher will not identify me by name in any reports using information obtained from this interview, and that my confidentiality as a participant in this study will remain secure. Subsequent uses of records and data will be subject to standard data use policies that protect the anonymity of individuals and institutions.
6. I understand that this research study has been reviewed and approved by the University of Johannesburg FEFS Research Ethics Committee involving Human Subjects.
7. I have read and understood the explanation provided to me. I have had all my questions answered to my satisfaction, and I therefore voluntarily agree to participate in this study.
8. I have been given a copy of this completed consent form for my personal records.

My Signature: Date:

My Printed Name:

Name of Principal Researcher: VARAIDZO DENHERE

Signature of Principal Researcher:

Contacts for the Principal Researcher:

Email Address: vdenhere23@gmail.com



Appendix F

Structured Interview Guide

Questions

1. What is your designation in this audit firm?
2. How does your audit firm define Engagement Risk?
3. What are the engagement risk Factors that must be assessed by an audit firm before accepting or rejecting a potential client?
4. What tool does your firm use for the process of engagement risk assessment before client acceptance?
5. From your experience in the audit profession, do you think the Engagement Risk Factors identified by the International Standards of Auditing (ISAs) are exhaustive in terms potential client assessment before acceptance?
6. Can you identify any additional Engagement Risk Factors that you think were left out?
7. How do you manage the process of client acceptance decision-making as a firm?
8. What are the key procedural features of Engagement Risk focusing on client acceptance decisions?
9. From your experience with clients in Zimbabwe, what do you consider to be the most important factors that should be assessed in every audit engagement, particularly to guide in making client acceptance decisions?
10. Do you think an Engagement Management Risk Instrument can be developed to give guidance during client acceptance decision making for Zimbabwean audit firms?

Appendix G

Delphi Covering Letter

Information for Delphi participants

You are invited to take part in a Delphi consensus study on audit engagement risk factors. Before you decide whether or not to participate in the study, it is important for you to be informed about the research study and how you will be expected to contribute through your participation. Please read the following information carefully.

What is involved in a Delphi Study?

The Delphi process seeks to obtain consensus on the opinion of experts who are described as panel members. For this particular study, the Delphi process will be achieved through a structured questionnaire administered to panellists for just one round. The responses from this round are analysed to determine the consensus reached.

Purpose of the Study

The aim of this study, as indicated on the consent form, is to develop an Engagement Risk Management Instrument (ERMI) at the client acceptance stage to be considered for use by audit firms in Zimbabwe. The purpose of the Delphi process is, therefore, to identify the engagement risk factors that should be included for assessment by audit firms when they make decisions for client acceptance. When consensus is reached by the panellists, the identified engagement risk factors will then be used to construct the ERMI.

What I will be asked to do if I take part

Participation involves completing a Delphi questionnaire, which will be used for rating possible engagement risk factors and adding more if need be. This exercise is envisaged to take about 30 minutes. A response time of three weeks will be requested from you.

The organisation of this research study

The principal researcher in this study is a student doing a Doctor of Philosophy in Auditing with the University of Johannesburg, and is supervised by Prof. Dr. Tankiso Moloï and co-

supervised by Dr. Christo Ackermann. The principal researcher will conduct the Delphi process.

Data Protection

Data collected for this study will be stored in a password-protected electronic file accessible to the researcher and the supervisors only.

Confidentiality

The researcher will not identify you by name in any reports, and information from this exercise will remain confidential.

Research Ethics

The proposed Delphi study meets the ethical requirements of the University of Johannesburg, Faculty of Economic and Financial Sciences Research Ethics Committee (FEFS REC). A copy of the University of Johannesburg FEFS Research Ethics Committee decision letter on ethical clearance is available upon request.

Thank you for taking your valuable time reading this covering letter. If you have any questions or concerns, please do not hesitate to contact me.

.....
VARAIDZO DENHERE

Principal Researcher

vdenhere23@gmail.com

Appendix H
Delphi Consent Form

Delphi Study Consent Form [to be complete in duplicate]

Title of the research study: The development of an Engagement Risk Management Instrument for the Zimbabwean Audit Firms.

Principal Researcher: Varaidzo Denhere (Student of the Doctor of Philosophy in Auditing at University of Johannesburg).

Supervisor: Prof. Dr. Tankiso Moloji

You are being asked to participate in a single-round Delphi study, which is a systematic polling of the opinions of an expert panel that is knowledgeable on the topic of audit engagement risk management.

You were selected as a possible participant because you have been identified as an experienced audit partner or engagement risk manager/partner. Details of the study are outlined in the Delphi process covering letter provided. This exercise is envisaged to take about 30 minutes.

Indicate below with an (X) if you consent to participate.

Yes

No

Designation in the Audit Firm:

Date:

Signature:

Please retain a copy of the completed consent form for your personal records and return the other copy.

Thank you for committing your valuable time in assisting me by completing this study.

Appendix I

Delphi Questionnaire

Please answer all the following questions by crossing the relevant block or writing your answer in the spaces provided.

Illustration on crossing the relevant box on this questionnaire:

What is your highest academic qualification?

Doctoral Degree	1	
Master's Degree	2	
First Degree	3	×
HND	4	
Diploma	5	
'A' Level	6	

SECTION A: Demographic information

1. Gender

Male	1	
Female	2	

2. Age

21-25	1	
26-30	2	
31-35	3	
36-40	4	
41-45	5	
46-50	6	
51 and above	7	



3. Highest academic qualification

Doctoral Degree	1	
Master's Degree	2	
First Degree	3	
HND	4	
Diploma	5	
'A' Level	6	
Other	7	

4. Professional qualifications

CA-Chartered Accountant	1	
CPA-Certified Public Accountant	2	
ACCA-Association of Chartered Certified Accountants	3	
ACA-Association of Chartered Accountants	4	
CIA-Certified Internal Auditors	5	
CMA-Certified Management Accountant	6	
CGAP-Certified Government Auditing Professional	7	
CISA-Certified Information Systems Auditors	8	
Other	9	

5. Role in organisation

Managing Partner	1	
Chief Risk Officer	2	
Risk Managing Partner	3	
Advisory Service Manager	4	
Other	5	

6. Years of experience in the field

1-5 years	1	
6-10 years	2	
11-15 years	3	
16-20 years	4	
21 years and above	5	

SECTION B

The following relates to engagement risk factors to be assessed before accepting an audit engagement. Tick the appropriate box to indicate the importance of each of these factors.

Key: Highly Important (5), Important (4), Neutral (3), Less Important (2), Not Important (1)

No.	Engagement risk factor	5	4	3	2	1
1	Permission to communicate with out-going auditors.					
2	Financial stability					
3	Organisation and management structure.					
4	Verification of the identity of the client and their source of income.					
5	Operating characteristics					
6	The quality of the organisation's risk management process and controls.					
7	Management's characteristics and integrity.					
8	Nature of the entity.					
9	The financial health of the organisation.					
10	Business processes.					
11	Company operations.					
12	The audit fee					
13	Resources (time and staff) available.					
14	Reporting requirements.					
15	The client's credit rating.					
16	Monetary and fiscal					
17	Litigation risk.					

18	Understanding of the IT environment.						
19	Integrity of the client and its directors.						
20	Client's deadline						
21	Susceptibility of assets to misappropriation.						
22	Industry condition.						
23	Relationship between the entity and its employees.						
24	Independence and competence of management and the board of directors.						
25	Participation of key stakeholders.						
26	Existence of related-party transactions.						
27	Professional clearance client process.						
28	Regulatory environment.						
29	Regulatory requirements.						
30	Direct supervisory activities						
31	Tariffs and trade restrictions.						
32	Investment activities.						
33	Objectives and strategies of the entity.						
34	Related business risks that may result in a material misstatement of the financial statements.						
35	Decent form of record keeping.						
36	Whether the client has been audited before.						
37	Reason for changing auditors.						
38	Independence of auditors.						
39	Referral details.						
40	Volatility of the country's political environment.						

Any additional engagement risk factors that were not included on the table above BUT should also be assessed before client acceptance.

- 1.....
- 2.....
- 3.....

- 4.....
- 5.....
- 6.....
- 7.....
- 8.....
- 9.....

-----**THANK YOU**-----



UNIVERSITY
OF
JOHANNESBURG

Appendix J

Audio transcriptions from interviews

AUDIO TRANSCRIPTION FOR INTERVIEW RESPONDENT NUMBER 1

Researcher: What is your designation in this audit firm?

Respondent: Managing Partner

Researcher: How do you define engagement risk?

Respondent: It is a risk that you may accept an engagement which in the end can result in the business risk largely on the basis that the client may not be suitable to take on for various reasons, ethical, criminal reasons and also for the reasons that you may not be entirely independent with the client, there may be a related party (relationship).

As an external auditor apart from the business which you have been giving, if you are dealing with criminal elements, or unethical elements, the key thing in the external audit is the independence of the auditor, so the client may very well be somebody without any criminal record, a client diligently doing their business but there is need for you to be independent, and in certain cases, where there are related parties obviously your independence will be compromised, not only you but, somebody with a close relationship in your families. Those are some of the risks interfering with your independence.

Researcher: What are the engagement risk factors that you should assess before accepting a client for engagement?

Respondent: After preliminary reviews, one of the requirements that we normally do is to ask the client to give you the authority to communicate with the outgoing auditors, key reason being to establish whether there is a professional reason why you should not accept the engagement. You may not know the fundamentals underlying the organisation, so as professionals, if you have some reservations, the outgoing auditors have some reservations they are expected to inform you. Some clients change auditors purely for corporate governance issues or because a company is a subsidiary of a foreign company and decisions have been

made that they want to synchronise auditors across the borders. The outgoing auditor will write back to say “there is no professional reason why you should not accept the engagement”. That is just assurance from the outgoing auditors.

In some situations the outgoing auditors may say they have no professional reason but that we decided not to audit in this particular fee range or that the clients are difficult to pay us. In this case no professional reason, but a business risk that it will be difficult to collect your fees, but with your own review of the client, you may come to some other conclusions. Hence it becomes risk management from that perspective. For some it will be due to corporate governance that they need to change auditors after every five years for independence.

You also do your own assessment apart from that from media; gather information about the people behind the organisation, business practices, who is behind this, what are their business practices, any litigation against them etc. The question of independence is critical. The question of independence will cloud your judgement. We have templates which consider all these above. Staff ticks against these to see if there is independence, if the client is running business professionally etc. Information gathered through the template is then reviewed before an engagement is accepted.

Researcher: *Who designed the template that you are using?*

Respondent: The template design is a combination of designs from IFRS, PAAB, and textbooks, best practice, codes of professionals, ethics and conducts, literature and in their case, these templates are in form of standard programmes. Each firm develops its own programmes. We are member of an international organisation HLB International. One of the advantages of being such members are the international associations is technical assistance because all the affiliated firms have to be at the same level. Much of the information on templates we get from programmes designed by the international organisation but everything must suit a particular jurisdiction. With our experience we add on various points as we go along depending on circumstances, but the basics are the same. All you do is that you don't want to be associated with the wrong clients. The completed checklist is reviewed by your partner to make sure you are satisfied. However risk cannot be eliminated but can only be reduced. Wrong client gives you problems so it is critical.

Researcher: *From your template, can you identify for me categories or specific engagement risk factors; I mean broad areas on the template.*

Respondent: Control environment that is how the organisation is run; integrity of directors in their own individual right; governance structures; independent board, are there government instructions; committees of the body and structure of those committees; and the media perceptions of those organisations become important.

Researcher: *Emphasis has been made on independence of the auditors, how do you ensure your independence?*

Respondent: It is a question of relationships and the size of the client. If taking on a client will take 75% of the firm's time, it compromises independence, because there is going to be a tendency to rely on that client and also the firm does not want to step on a client's toes, so there will be a lot of compromise. Whilst it is good to get a very big client, it is also important to determine how much time of the audit firm that client will take (if the time to be spent is 95% of time, then there is no independence). You also want to know that outgoing auditor has not been elbowed out of their job by the client because they were standing their ground.

Researcher: *Thank you very much sir for taking time off your busy schedule to attend this interview.*



AUDIO TRANSCRIPTION FOR INTERVIEW RESPONDENT NUMBER 2

Researcher: *What is your designation in this audit firm?*

Respondent: Risk Partner

Researcher: *How do you define engagement risk?*

Respondent: Risk that you will end up engaging a client whose values may be are not aligned to ours as a firm. We might be looking at a client who has challenges with the previous auditor.

Researcher: *What does it take for you to engage a client that you know?*

Respondent: Do preliminary research about the client through googling.

Researcher: *Some companies do not frequently update their websites, so how do you get reliable information?*

Respondent: Use of multiple sources.

Researcher: *In assessing the client you find there is no black spot, how then do you further assess?*

Respondent: We do assessments as guided by International Standards and we have our own checklist (internal).

Researcher: *Is your checklist a hybrid, then?*

Respondent: Ours draws from the International Standards.

Researcher: *From your template, identify for me areas or subsections that you look at when assessing a client.*

Respondent: If a new client we communicate with the previous auditor and usually issues that come out from previous auditors are about failure to pay fees, integrity of management in their view, we then use this information to make a decision.

Researcher: *You have raised professional reasons for leaving an old auditor; do you also look at the nature of business?*

Respondent: Nature of business, yes we look at, but from the time that a client worked here, we have not turned down a client for their nature of business. Usually we do not want to be associated with a client whose business puts us in some disrepute.

Researcher: *From your experience, do you think what is covered by the international standards and by your template is enough to assess a client for engagement?*

Respondent: Adequate but there is scope for improvement.

Researcher: *Can you identify possible areas of improvement?*

Respondent: given the complexities given by latest developments in ICTs, it will be good if there is provision e.g. looking at the complexity of the client, one can say I cannot take the client because the capacity is not there, and then outsource.

Researcher: *Are you suggesting that the ICT complexities will be on the auditor's part or the client's part?*

Respondent: As a firm, in those situations an audit firm should not accept the client because of lack of capacity. At the moment the audit firms haven't such capacity and if they accept, they may not meet the client's acceptance.

Researcher: *From your experience to date, have you ever accepted a client and 2 years down the line you realise you made a mistake in accepting such a client?*

Respondent: No, no it in my experience but theoretically its possible, maybe, if you had known some information you wouldn't have accepted such a client.

Researcher: *Meaning during assessing a client you cannot determine all factors to guide you in decision making.*

Respondent: Missing a risk during assessment is of material factor which results in regrets having accepted an engagement.

Researcher: *What then do you say about decision making in client acceptance for an audit firm?*

Respondent: The decision is not easy, it's a matter of professional judgement and the process has to be assessed continually because new information continues to come and you keep assessing.

Researcher: *My research title: Do you think this is possible? Can we have a situation where a common instrument can be a guide in decision making at this level of accepting a client through research?*

Respondent: I think at that level it will remain a guideline because there are various factors to be considered and also the issue of professional judgement , so we cannot have the instrument, but guidelines yes, because it gives room to consider other factors.

Researcher: *Thank you very much.*



AUDIO TRANSCRIPTION FOR INTERVIEW RESPONDENT NUMBER 3

Researcher: *What is your designation in this audit firm?*

Respondent: Audit Partner

Researcher: *How do you define engagement risk?*

Respondent: Engagement risk is a risk of being associated with a certain client and more specifically as auditors we want to focus on and minimise the risk of audit failure where may be you issue an audit opinion and a few months down the line people will ask and say but the auditor issued a clean report last month, so what happened? Or if you are dealing with dishonest directors they may hide some critical information from you and not disclose everything to you and you issue an opinion on what you know or availed to you, then a few months down the line that information starts coming out and people start questioning the audit report when there are such things happening. As an audit firm we would want to be associated with clients that will not increase our risk.

Researcher: *The Enron collapsed and recently we heard the case of KPMG South Africa and their association with the Guptas, what is your comment on this?*

Respondent: It appears the Guptas are not people of good integrity. They do a lot of deals and other things which as an auditor you may not want to be associated with. You know the question is the fee. You look at the fee and say I think I can manage this, but when it blows like what happened to the Guptas it becomes a big issue.

Researcher: *I have identified the 3 types of engagement risk. What are entity's business risks specific to your audit firm?*

Respondent: Currently the key risk that we are focusing on is the going concern, if the entity is not doing well and you have some clients listed on the stock exchange, they end up, there is always a temptation to show a more profitable figure/picture than what is on the ground. It means before you accept any such listed clients you really need to make sure they have got a really sound business model which can make them profitable. And also these incentives, some companies give incentives to executive management to say if you reach this target, you get something e.g. sharing 10% of the profit. So before you accept you have to gather some information about how the company operates. If you see such (incentive issues) then you know that this is probably a high risk client.

Also the control environment, you also have to look at the governance structure, is there any governing board because in some cases you can also have a shareholder who is in the governing body, that shareholders may be domineering, so you may have a body, but such a body may not be effective. The shareholder may be calling the shots and that might present a challenge of overriding of the internal controls. Therefore it's not an easy thing to do in this environment but I can assure you that in this environment, I see audit firms lowering their standards because if you really try to be strict in this environment you might end up not accepting most of the clients- that's the truth of the matter.

Researcher: *Which factors should be considered on the part of the business?*

Respondent: On the part of the audit firms if we accept a risky client; reputation is at stake. If there are issues coming out which are not favourable; also the fees, we do this work for a fee, if the client is not able to pay fees, that will affect your business.

Researcher: *Do have a checklist/guideline to gather information about a client?*

Respondent: I have seen 98% of the audits that we do, we do them in accordance with the international standards on auditing and there is a specific audit standard which requires us to do these pre-acceptance procedures before/ or re-acceptance, re-evaluate a client. So we have developed a checklist which we go through documenting all these key things to say, are there any red flags which we think maybe they are a bit too much for us that we can't be in a position to accept a client and that includes talking to the outgoing auditors, "why are you being replaced as an auditor, because some clients when they see that a firm is firm, they just change the auditors so that we can do what we want. So, fellow professionals should indicate why. So it is a very important stage which actually when the team has completed the checklist, that list goes to the Risk management department- he is the one who makes the final decision whether to accept the client – after realising that we can manage this level of risk.

Researcher: *What are the key factors on your checklist, and in this environment how did you come up with the list?*

Respondent: Mostly it is the same, we adopted the international template because we are part of an International network- so most of these templates are developed at our global office and we get them and we need to review them to see if there are things which are not applicable to our environment, but fortunately the issue of going concern which I mentioned that it is one of the key considerations seems its now an issue even in the markets that are doing well. So it is a

key consideration, but where we have tried to tweak it e.g. in the UK, if a client does not pay fees for 6 months, they do not re-engage. But in our environment, we accept a bit more extended terms because we appreciate that the clients are also struggling.

Researcher: *Do you look at things like integrity of management of the client?*

Respondent: Definitely, like the example of the Guptas, you wouldn't want to be associated with people with questionable integrity or criminal past. If there is any information we can get pointing at that direction, you have to consider it and say we don't want to associate with these kinds of people.

Researcher: *In general, how do you manage this so called risky client in the event that it turns out that you engage one or you discover after having made the decision to engage them?*

Respondent: Of course the worst scenario is when you discover that you overlooked something, the worst thing that can happen is that you resign from the assignment and give your reasons and you will have to furnish that information to the incoming auditor, But in the event that you can manage the risk there are a couple of measures that you can put in place;

- You have to reduce materiality- the figure that we calculate where we say, misstatement above a particular threshold, and then we say these statements are misstated, so we have to lower that so we can try and pick any significant misstatement which can be there.
- The other thing has to do with our staffing; we will have to put someone with more years of experience to run the assignment.
- Usually you have one audit partner per assignment but if it's risky, you need a second partner who acts as an engagement quality control reviewer, so once the audit engagement partner is happy with the papers, they go to the engagement quality control partner who does a high level reviewer who ensures we are giving an appropriate opinion.

Researcher: *You and I agree that our country is going through a rough patch economically - you mentioned earlier on that sometimes you compromise the process, so when you assess a client for acceptance under such an environment, what are the key things that you assess before accepting clients?*

Respondent: I have already mentioned them, because acceptance is mainly centred on the calibre and integrity of people you are dealing with, you don't want to deal with dishonest

people, because they will mislead you. They do not give you all the information. You can evaluate it and make a decision. The other thing is you need to see, do these guys have proper systems in place, in terms of how they are running their financial affairs, you don't want to go there and find out that there are no basic things like a ledger or a cashbook to say if money comes in we receipt it and then we post it into the cash book and subsequently into the ledger. At least you want to see that there is some decent form of record keeping because an auditor can only audit what is there. If they are not maintaining financial records it means, you can't do an audit. So I can say the integrity of the people you are dealing with and the control environment, record keeping, the other thing is, you know these days, the other companies are being fingered to say that they are externalising money or are doing some of these illegal transactions, you know like there are cases where companies are buying forex on the black market, for us if we establish that they are doing some of these illegal things, automatically we can't compromise. There are also some who try to do money laundering, once we pick it up, whether it is at the acceptance stage, or when we have already started the audit, we have to say, we can't be associated with this.

Researcher: *Last but not least, your opinion on client acceptance- the process of decision making is not uniform, is not prescribed, it involves human judgement; so, how do you manage that decision making process, what tools have you put in place to guide you in such?*

Respondent: We talk of judgement, in our profession you can never run away from professional judgement; it's a key component of auditing. So what we do then, we have to make sure we have the right checklist, instrument in place, but because there is that judgement, the decision has to be made by someone who is more experienced, so we have our risk management manual in place. It details everything that should be done, but you find that having something in place does not necessarily mean that people will use it, so we have said that one of our most senior partners was designated as the risk management partner. We have looked at his experience in this profession, so we are now saying the final decision rests with him and if he is not sure, he consults with the managing partner and a collective decision is made, so again it will still rest in his professional judgement, but you can never run away from professional judgement. So if you leave this decision to be made at a lower level, you will get serious problems.

Researcher: *Thank you for your time.*

AUDIO TRANSCRIPTION FOR INTERVIEW RESPONDENT NUMBER 4

Researcher: *What is your designation in this audit firm?*

Respondent: Risk Management Partner

Researcher: *How do you define engagement risk?*

Respondent: Has basically aspects to it: actual audit itself; client; and firm. There is the client – client business; Audit firm – risk of failure in loss of business and collapse; the audit itself – risk of giving a wrong opinion. Saying things are ok when they are not, or things are wrong when they are ok. Either way there are consequences, a day down the line it is discovered that things were not okay; this exposes the client to bad publicity and vice-versa.

Researcher: *Accepting a client – what are the key things that you look at?*

Respondent: A practical perspective from our firm – we want to know who they are when they come in, the person of that business. We look at your KYC from the bank; we look at the risk of reputational loss if you take them on if they are not of the best standings in the community or within its industry. We look at are we independent of the conflict of interest, payment of fees potential, we are in business so this is important to us, have been audited before, if yes we want to know why changing auditors, the frequency at which you have changed auditors. If a client is changing auditors frequently, there could be a problem. We also look at ourselves and ask ourselves do we have the manpower, the right skills to do what the client is asking us to do.

Researcher: *Do you use a checklist/tool, and what are the contents?*

Respondent: As a firm, we do have a client acceptance programme that we complete, not a checklist per se, but it's a client-pre-acceptance module that staff complete and upon completion of that schedule, its passed on to the audit partner who looks and make a recommendation. It will then be passed on to the risk partner who then looks at it with the partner responsible before signed for acceptance by the risk partner.

Researcher: *Identify a few of the contents of the acceptance programme or module.*

Respondent: Broad, already given, details of the company, registration, who the directors are, their physical address, contact numbers, all their details, the location, address, details of the kind of engagement they want the audit to firm to carry out, your previous auditors, it's a long

programme, but basically these are the things that we look at. All details relative to the client, even reasons for changing the auditors, why coming to us, who has referred you to us etc.

Researcher: *From your experience in the field so far, have you ever, maybe after having started the process of auditing or after accepting the client, discovered they are a risky client? What do you do?*

Respondent: If the client had been accepted that's a very difficult one, in terms of the standards – disengagement is the last resort. Normally when you have taken on a client with an issue that is considered to be risk you engage the client and find out how best that can be dealt with. In a lot of cases in our profession, disclosure is the best weapon that we have. Depending on the nature of the risk, it has to be disclosed, to who you are disclosing e.g. in South Africa, they have reportable irregularities where the auditor is supposed to report to certain authorities whatever they come across in terms of the work they are doing. In Zimbabwe we didn't have that but we now have the Anti-monetary Laundering, it now has a section of reportable items, so the nature of the problem/issue determines the course of action to be taken. It is when all avenues have failed that the auditor will have to disengage the client.

Researcher: *In your programme of acceptance, what informs the programme, understanding that you are affiliated to the International audit network? Did you adopt the IFRS or the ISAs as they are or you crafted your own?*

Respondent: ISAs are international and are applicable to anyone in the audit/assurance industry, so there is nothing you can say you adopt to suit your environment. You can only talk of a procedure which does not suit your environment. In our firm, like other firms in the industry, we are guided by the ISAs; also we take some from the INTOSA, Auditor General Perspective. Those standards do interlink and for purposes of government institutions, there may be specifics, but in terms of audit philosophy, it is the same. We have adopted the ISAs - the guide that informs the programme of our firm.

Researcher: *The aspect of making a decision is not an easy process because it involves human judgement and there may not be any prescription. How do you manage that as a firm?*

Respondent: In audit profession, judgement is pre-eminent. Also the professional scepticism is pre-eminent. These are abstract, there are no rules to these, so you have to study a situation and give it a judgement depending on experience, but with those guides, so professional judgement at the end of the day is the key.

Researcher: *With reference to the current economic set up in Zimbabwe, is there no compromise by audit firms to relax the pre-requisites to accept a client?*

Respondent: Yes the challenges are there, it does not matter in what economy you are operating, the challenges will always be there, but you will have a certain group or pocket of challenges being more pronounced in one economy than in another, because just talking generally you can say if you are in Zimbabwe, the economy is not doing well and so are the businesses, therefore you are compelled by circumstances to take on business that another economy would not take.

Enrons will always be there, but does that have anything to do with the economy, no, it is about human beings. So the issue of professionalism is at the core, code of ethics of auditors is in itself a small bible for auditors. You have to be a person of integrity etc. We have our problems as Zimbabwe but if you are a professional, you will always ask yourself, what is right and do the right thing. Maybe the biggest problems is that in our better days, we would not accept low fee paying jobs, but today you may find yourself taking such because you would be of the view that every dollar counts. However, the same principles that guide you in doing a high fee paying job, should guide you in taking a low fee paying job if you have accepted the engagement.

Researcher: *Any key risk factors you have to make sure are assessed for risk before accepting a client in Zimbabwe no matter the economic circumstances?*

Respondent: From an auditor side all things are key i.e. auditor independency conflict of interest, capacity/ competence/ resources to be able to do the job. These are universal, Code of Ethics, in totality they are key. From client side: economy, governance, there are governance issues that are driven by the economy of the country, some are driven by the culture, politics, ministers changing boards as they come and sometimes a company goes for some time without a board after the previous term has expired, tentative board because the president has not approved etc. that is political. These have a bearing on how the company operates. Zimbabwean culture may also derive from political – you might have a situation where people sit on boards forever and ever amen, e.g. a chairman of board for 20 years or a CEO for equally a long time. It is a problem in Zimbabwe.

Viability of Companies in terms of the economy may pose a risk. It is a key issue because when you have businesses that are underperforming, you will have management/ or those charged with governance may be under pressure to misstate figures i.e. miss-reporting. Also because of the economic problems currently, there is fraud and corruption, all driven by the economic

event in which we operate and I will call those, key issues. I do not want to say ability to pay fees is a key issue because sometimes, you do work that you are never paid for.

Researcher: *What about the issue of litigation in Zimbabwe?*

Respondent: As a firm we have not had any litigation problems, but beyond that the Zimbabwean society is not a litigious society, particularly in the business event, there are very few auditors who have been taken to court by anyone for shoddy jobs being done.

Otherwise, with all the collapses that have been going on in the Banking industry for example, if it was in some country like America, a lot of companies would have been taken to court by depositors of interested groups, but you find that in Zimbabwe, professionals e.g., lawyers, doctors (patients operated on and scissors left in the body) indeed life changing issues or errors, but still no doctor has been taken to court.

As a profession, e.g. ICAZ, we have practice reviews, where firms are reviewed and if your review report is in the negative you may be taken for a disciplinary hearing, or where cases of clients complaining the institute did its investigations, the institute initiates a disciplinary hearing and penalties are passed but litigation in Zimbabwe ranks very low, and as a profession we would not worry much about litigation.

Researcher: *Your opinion on coming up with an ERMI for Zimbabwean auditors?*

Respondent: Something yes can be developed however, to be applied by all audit firms is not practical because all internationally affiliated firms do have those tools in place, they do have programmes that are developed centrally so the instrument is already there, but currently the new indigenous audit firms many as they are, do not have these tools, they do not have the resources to do that and the only available tool to use when availed will be useful for small firms (localising). For internationally affiliated firms, may be they can pick a few things from it.

Researcher: *Thank you very much.*

AUDIO TRANSCRIPTION FOR INTERVIEW RESPONDENT NUMBER 5

Researcher: *What is your designation in the audit firm?*

Respondent: Audit Partner

Researcher: *Definition of ER according to your firm.*

Respondent: Engagement risk, e.g. reputational risk as you do not want to be associated with a client involved in gambling and money laundering. There are also inherent risks that are associated with each and every client. These are mitigated by our own audit procedures.

Researcher: *Three issues contributing to the overall ER, i.e. client's business risk, auditor's risk of audit risk. How does the client's business risk contribute towards the overall engagement risk?*

Respondent: Operations, the nature of their business, integrity of their management- we do a background search of their management, are they involved in fraud? Is their taxation ok?

Researcher: *Auditor's business risk- situation where a client requires certain expertise that we may not have, and realise after we have already engaged the client that we do not have the expertise.*

Respondent: Another risk- we as an audit firm might not have the resources to execute the job and also tighter deadlines that are imposed by the client.

Researcher: *What are the risks associated with the actual process of audit?*

Respondent: Failure to identify a risk e.g. failure to identify that a client can do tax evasion and failing to address that risk, if that is identified by somebody else then it comes back to the auditor.

Researcher: *What are the factors that need to be assessed for engagement risk before accepting a client?*

Respondent: Enough resources, whether they have been previously audited, management integrity just to get an assessment of the people that are leading the company to see if they are good standing, and if they are not involved in any scandalous things that would affect the audit firm. Whether the auditor needs any special expertise or if the client uses complex ICT systems, you may need any IT auditor. Also consider if we are able to meet the stipulated deadlines, considering that we have other engagements.

Researcher: *From your experience with clients in Zimbabwe, what do you consider to be the most important factors to assess before accepting a client?*

Respondent: Compliance with the laws of regulators of Zimbabwe, potential conflicts, liquidity of the client will indicate whether the client will be able to pay fees.

Researcher: *What tool do you use to assess (checklist/ programme/ guidelines)?*

Respondent: Global focus software/ audit software. It has an engagement acceptance form that we fill in; used by all our firms across the network. Entering information about the potential client and the software will guide on whether to accept or reject. It is about whether the auditors will be able to address particular risks during the audit. It is therefore important to identify the risks during acceptance and see whether you are going to address the risks during audit. Independence- whether we will be able to report independently about the client and give an independent opinion without a bias. Do they have any case published in which they in breach of laws and regulations e.g. management integrity.

Researcher: *How do you manage engagement risk?*

Respondent: Guided by ISA that require that for every engagement we have to assess the risk and identify the risk of the client; and see what we can do to respond and mitigate the risk before we start. All our audits are risk-based, hence it is assessment first.

Researcher: *Global focus software assists but is it efficient and effective?*

Respondent: It is a guide and you need to input the risk factors related to the client, so it would help you in the sense that you do not miss certain things as you are inputting information.

Researcher: *Do you, in Zimbabwe, have such problematic clients who can cause closure of audit firms or soil their reputation?*

Respondent: Just like any other market, such are there but it rests on how auditors are assessing their risks. Such will get qualified opinions which indicate those areas in which assurance was not obtained.

Researcher: *Do you think all audit firms in Zimbabwe, excluding the Big Four, are using the same scope of assessment when they are assessing clients for acceptance?*

Respondent: Yes, because the ISAs give guidelines on what you should think about when assessing a client, and the client industry is regulated by PAAB. So they do period reviews to

each and every audit firm operating in Zimbabwe and assess whether they are operating in conformity with the international standards of auditing. If they are not, their licenses will be withdrawn.

Researcher: *Thank you so much for your time.*



AUDIO TRANSCRIPTION FOR INTERVIEW RESPONDENT NUMBER 6

Researcher: *What is your designation in the audit firm?*

Respondent: Advisory Services Manager (Quality control in audits)

Researcher: *What is your definition of Engagement Risk?*

Respondent: The risk that if we take an engagement we may end up failing to deliver what we are expected to deliver and there is also an element of us having to deal with issues such as ethics, governance, financial reporting and independence which are outside our scope. We are trying to manage all aspects of the audit to at least minimise issues above.

Researcher: *What are the potential clients' business risk factors to be assessed?*

Respondent: Engagement acceptance processes or client on-boarding- background to the type of business that a client is dealing with. There are certain types of businesses that we do not want to be associated with and these can be specific to a certain industry e.g. institutions that have to do with drugs (illegal drugs, transfer of money, money laundering as a business, politics (political connections), volatility of our political environment, going concern in terms of business ownership, a company going down and the management have no plan whatsoever to turn around the situation, they may not be able to pay our fees; independence; unethical management of the client e.g. if there are several newspaper articles that have been written or issues that have come up from that company or associated companies, managers might have committed fraud or any criminal activities or offences, fraudulent reporting etc., we generally don't take such clients. That's how we manage engagement risk.

Researcher: *Are you guided by a checklist /programme?*

Respondent: An on-boarding checklist which includes assessing management ethics, organisation's business,, employees, customers, even its suppliers, tick and indicate how you are going to manage the risk. If management was involved in fraud, have they been cleared in that fraud, and what are you going to do to make sure you minimise reputational risk. With regards to management's conduct, to what extent are you going to rely on the client? So we do a checklist for every client and every engagement before accepting them.

Researcher: *Do you also look at issues of governance?*

Respondent: Yes if we look at the structure – organogram so that we understand the nature of the people who are at the helm of the organisation from the top up to the bottom- part of our

preliminary procedures – CR14 form , CR6, certificate of incorporation, memorandum, directors and shareholders to identify people who are involved in that business.

Researcher: *What are the risk factors from the auditor's perspective?*

Respondent: Skills mainly – we don't want to take on a client on whom we don't have the skills to audit them, we can also look at outsourcing i.e. whether we have the capacity to audit them. We have the option to outsource resources from other firms if we are overwhelmed. Independence – check relationships of directors with any of our employees; influence may affect process, if there are no measures to address that then we reject the client/job.

Researcher: *From the actual audit process, what are the risk factors to be assessed?*

Respondent: By the time you start an audit you have already covered all risk areas. The process becomes redundant once you start the audit before risk assessment. Make sure you cover the audit side and the client side before you start the job. Midway through the process to ensure you meet the time lines, you just make sure you review the process to manage risk. Any areas that are picked at this stage, that had not been picked before are brought to the attention of the audit partner and they see how best to deal with them. Therefore risk management is a continuous process. Adjustments can always be made.

Researcher: *Is your checklist home-grown or it is guided by standards?*

Respondent: I have had the privilege to work for one of the Big Four, what happens is that they all get that from the Code of Professional Conduct which lists all the items that you have to look at when you are engaging, even if you go to the ISAs, there are checklists which are there that guide you on what you have to look at before you engage the client and those ones can filter through to other departments, but audit is the most risky. There is nothing you can think of now which is not written somewhere, but of course there are other internal issues which you can add which are not covered in the IFAC or CPS but they will be specific to that particular organisation. Ours is standard.

Researcher: *The difficult economic situation in Zimbabwe – how is it affecting your acceptance of clients for engagement?*

Respondent: Valid point – there is some pressure yes. There are clients coming from the Big Four to Middle Tier firms, so middle tiers are not suffering because they are taking clients from the Big Four who will readily accept the fees since they will be lower than those charged by

the Big Four. Therefore it is the Big Four that are feeling the pinch of the economy. Some of the clients from the Middle Tiers will also go to the smaller firms due to fees. In terms of negotiating for fees, we will make sure that it is optimum.

***Researcher:** Do you think the issue of risk management is uniform across all audit firms in Zimbabwe?*

Respondent: Several cases have been brought out. I was once in one of the ICAZ committees and it was raised that in some of these smaller audit firms especially those that are starting up, their processes are not adequate to an extent that they can accept a walk-in client perhaps within a day and start the audit tomorrow, which is not what is supposed to be done. I would want to give this notion that perhaps those that are in international networks e.g. the Big Four, The Middle Tiers network, BDO, HLB and Baker Tilly, are guided by our international head office and International Standards, so those procedures are standard across most of the top 10 firms, but when it comes to sole practitioners they need to adopt pre-engagement procedures that suit their own clientele; but there are some requirements within those checklists that they may not need but they rather choose to leave those out and rather take those that are critical for the audit profession. Those that they know that if the PAAB comes for checking they will be covered.

Also the extent of regulation in Zimbabwe is different from the one in Europe, so whereas we take on comprehensive approach to international, a sole practitioner will deal with critical issues. So far I haven't seen a document published locally that sort of like provides a uniform approach to client engagement acceptance but it is a challenge that there are some firms which are taking clients for the sake of it but they know it is risky and will always find ways of mitigating the risk.

***Researcher:** Thank you so much for your time.*

Appendix K

Communication seeking a list of registered and operating audit firms in Zimbabwe

REQUEST FOR NAMES AND PHYSICAL ADDRESSES FOR REGISTERED AND OPERATING AUDIT FIRMS IN ZIMBABWE



Varaidzo Denhere <vdenhere23@gmail.com>

to louisamuzenda

Dear Ms Louisa Muzenda

This communication follows my telephone conversation with you yesterday. My name is Varaidzo Denhere and I am doing my PhD with the University of Johannesburg in South Africa. Currently I am working at Bindura University of Science Education. As a fulfilment requirement for a Doctor of Philosophy Degree in Auditing in the Department of Business and Economics, I am expected to carry out a research study on the following thesis title: THE DEVELOPMENT OF AN ENGAGEMENT RISK MANAGEMENT INSTRUMENT FOR THE ZIMBABWEAN AUDIT FIRMS.

I therefore kindly request your assistance by providing names, physical addresses and contacts of currently registered and operating audit firms in Zimbabwe. I have attached a copy of my Proof of Registration and an Ethical Clearance Report about my research from the University of Johannesburg, School of Accountancy Research Ethics Committee for your information.

Your assistance will be sincerely appreciated.

Your Faithfully

Denhere Varaidzo (Mrs)

2 Attachments



ReplyForward

Appendix L

List of registered and operating audit companies in Zimbabwe

INSTITUTE OF CHARTERED ACCOUNTANTS

LIST OF ACCREDITED TRAINING OFFICES

Training Office/ Company	Physical Address	Postal Address	Telephone Numbers	Website Address
AMG Global	Suite 310, Tregers House Cnr. 12th Ave. / Jason Moyo	P. O. Box AC439, Ascot,	09- 64144	www.amgglobal.co.zw
Deloitte & Touche,	Deloitte Hse Cnr 9 th Ave/J. Tongogara Street	P.O Box 125	09-65942	www.deloitte.com
Ernst & Young	Derry House Cnr Five St/ 6 th Avenue	P.O Box 437	09-76111	www.ey.com
Grant Thornton	1 Clark Road Suburbs		09-231431-4	www.grantthornton.co.zw
KPMG	KPMG Hse 133 J. Tongogara St/ 14 th Avenue	P.O Box FM430 Famona	09-889887/67201	www.kpmg.com
P. Ndllovu & Associates	120 S.Parirenyatwa Street Office 1 Elendon Court		09-61101, 61085	www.pncharteredaccountants.com
Trust Chikohora & Co.	56 7 th Street	P O Box 47	054-224248	LinkedIn
HARARE				
AMG Global	3 Elcombe Road Belgravia	P O Box 3230	04-251415/8	www.amgglobal.co.zw
Baker Tilly Gwatidzo	8 Fletcher Road Mount Pleasant		04-369730/ 369737/ 301598	www.bakertillygwatidzo.co.zw
BDO Zimbabwe	3 Baines Avenue	P O Box 334	04-703876-8	www.bdo.co.zw
Chapman Chartered Accountants	19 John Plagis Avenue, Alex Park Borrowdale		04-744011	www.chapman.co.zw
Chartered Accountants Academy	2 nd Floor Strachans Hse 66 Nelson Mandela Avenue		04-702532-5	www.caa.ac.zw
Comptroller & Audit- General	Burroughs Hse Cnr 4 th St/ G. Silundika Ave	P O Box CY 143 Causeway	04-728321-3/ 793611	www.auditgen.gov.zw
Deloitte & Touche	West Block Borrowdale Office Park Borrowdale Road	P O Box 267	04-852120-22/852124-29	www.deloitte.com
Ernst & Young	Angwa City Building Cnr K. Khumrah Ave/ J Nyerere	P O Box 62	04-750979	www.ey.com
Fairvalue Management	22 Lomagundi Road Avondale	P O Box HG 907 Highlands	04-332-818, 08644-940- 754	www.fvalue.co.zw
Grant Thornton	135 Enterprise Road Highlands	P O Box CY2619	04-442511-7	www.grantthornton.co.zw
HLB Ruzengwe & Co.	14 Downie Avenue Alexandra Park	P.O Box 4684	+2634796481	www.hlbuzco.co.zw
KLM CA(Z)	42 Ray-Amm Road Eastlea	P O Box CY94, Causeway	04-496502-4	www.kimca.co.zw
KPMG	Mutual Gardens 100 The Chase (West) Emerald Hill	P.O Box 6	04-303700/ 302600	www.kpmg.com
Marianhill CA(Z)	102 McChlery Avenue Eastlea	P.O Box 3391	+263 8644208460/1	www.marianhillca.com
Mazhandu & Company	2 nd Floor Methodist Hse 7 Central Avenue	P.O Box 6499	04-795247/253033/4	www.mazhandu.co.zw
MJV CA(Z)	4 Clarence Drive Newlands		04-746783/569	www.mjv.co.zw
Nolandshre CA(Z)	7 Glenara South Avenue Cnr Samora Machel Avenue Eastlea	P.O Box CY 1063 Causeway	(+263) 4 481 037/9	www.nolandshre.co.zw
PKF CA(Z)	3 rd Floor Takura Hse 67 Kwame Nkrumah Avenue	P.O Box CY 629, Causeway	04-2918460-3	www.pkf.co.zw
PricewaterhouseCoopers	Building No. 4 Arundel Office Park Mt Pleasant	P.O Box 453	04-338361-90	www.pwc.com
Vali & Company CA(Z)	2 nd Floor York House 48 Jason Moyo Avenue Angwa Street	P.O Box 5306	04-755512	

Appendix M

CERTIFICATE OF LANGUAGE EDITING



BE STILL COMMUNICATIONS
For effective communication solutions

bestillcommunications@gmail.com
landamasuku@gmail.com
+27835841854; +27618043021

Professional
EDITORS
Guild

CERTIFICATE OF EDITING

This document certifies that a copy of the thesis whose title appears below was edited for proper English language usage, grammar, punctuation, spelling, and overall style by Dr Nhlanhla Landa whose academic qualifications appear in the footer of this document. The research content and the author's intentions were not altered during the editing process.

TITLE: THE DEVELOPMENT OF AN ENGAGEMENT RISK MANAGEMENT INSTRUMENT FOR ZIMBABWEAN AUDIT FIRMS

(219 pages, 63 620 words)

AUTHORS: VARAIDZO DENHERE (217019340)


Note: The edited work described here may not be identical to that submitted. The author, at their sole discretion, has the prerogative to accept, delete, or change amendments made by the editor before submission.

UNIVERSITY
OF
JOHANNESBURG

DATE: 30 DECEMBER 2018

EDITOR'S COMMENT

The author was advised to effect suggested corrections with regards to clarity of terms and expression.


Signature

PhD Applied Linguistics (UFH), MA Applied Linguistics (MSU), BA (Honours) English and Communication (MSU)

Professional Membership: A member of the Professional Editors Guild