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Auditor Independence Challenges Faced By External Auditors When Auditing Large Firms In Zimbabwe.

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Abstract: *The purpose of this research was to find out the auditor independence challenges faced by external auditors in auditing accounts of large companies in Zimbabwe. Many stakeholders of large firms are demanding credible, reliable and accurate audited financial statements and were suspecting that some external auditors were biased and less independent to the day to day operations of the executive management to meet corporate governance standards. A quantitative cross-sectional survey using a quota sample of 40 respondents comprising internship audit members, audit clerks, audit managers and audit consultants was applied in the study. A reliable questionnaire with a Cronbach Alpha value of 0.69 was used in the study. Mean value analysis and hypothesis testing using one sample mean test was done in the study.The study established that unbearable contractual obligations between the clients and the audit firms, having auditors being shareholders of the audit firms, general fear of the clients by auditors, and maintaining a good name for the audit firms at the expense of good work were found to be less prevalent external auditing independence challenges in Zimbabwe. Over-dependency on audit fees and auditors offering other management services to client companies were found to be prevalent and more damaging external auditing challenges. The study concluded that auditor independence challenges were generally less prevalent in Zimbabwe, though a significant percentage of respondents agrees that over-dependency on audit fees and the issue of auditors offering other management services were prevalent in the external auditing practice of Zimbabwe.*

Key Words*: External auditors, audit independence, large company, challenge.*

I. Background to the Study

Auditing existed primarily as a method to maintain governmental accountancy, and record-keeping was its mainstay. It wasn't until the advent of the Industrial Revolution, from 1750 to 1850, that auditing began its evolution into a field of fraud detection and financial accountability. Businesses expanded during this period, resulting in increased job positions between owners to customers. Management was hired to operate businesses in the owners' absences, and owners found an increasing need to monitor their financial activities, both for accuracy and for fraud prevention (Porter ,2005; Gray and Manson, 2000).

In the early 20th century, the reporting practice of auditors, which involved submitting reports of their duties and findings, was standardized as the "Independent Auditor's Report." Such independence is what should be shown and presented by the auditors, whether internal or external. The external auditor is an independent person or firm of auditors appointed by the shareholders to investigate the financial statements prepared by the management and report his findings to the shareholders. The increases in demand for auditors lead to the development of the testing process. Auditors developed a way to strategically select key cases as representative of the company's overall performance. This was an affordable alternative to examining every case in detail, and it required less time than the standard audit. In Zimbabwe there are a lot of Audit Firms both local and international in scope of operations. Examples of local audit firm are The Auditor General, Mazhandu & Company Chartered Accountants, Kudenga & Company Chartered Accountants and AMG Global Chartered Accountants. International audit firms operating in Zimbabwe are; Deloitte & Touché, Ernst & Young, Price Waterhouse Coopers and KPMG otherwise known as the “Big Four”. The stages of the auditing process usually take the following: audit start up meetings**,** documentation review and audit visits, prepare draft audit results and action plans, having feedback meeting and final action plan, and implementing action plan.

Zimbabwean large firms in this research are those listed on the Zimbabwe Stock Exchange. Ten have been sampled for the purpose of this study, namely African Sun Limited, ART Corporation, Delta Corporation, Econet Wireless, Hippo Valley Estates, Hwange Colliery, Interfin Bank, Meikles, TSL Limited and Zimplow. Large firms have fast growing turnover, productivity and employ a lot of people. For a company to be listed on the Zimbabwe Stock market it should have at least 300 shareholders. Such companies have large volumes of sales hence a lot of transactions making them vulnerable to fraudulency. With large volumes of transaction comes a lot of inefficiencies and failures by employees to adhere and apply all required accounting procedures, hence the need for external audits to ensure such activities are curbed and the company stay on track. Large firms usually produce for both the local and the external market, earning the country foreign currency; hence they contribute a lot to the Gross Domestic Product (GDP) of the country. The government is interested as it is also a stakeholder in these companies through their contribution to the country's GDP and taxes. Such firms also employ a lot of people hence contribute in reducing a country's unemployment.

External auditor reviewed accounts give confidence and assurance to shareholders that their investment is in safe hands. The investors want to invest where they are confident their investment will have a return. Creditors will be assured that what they are owed will be paid and are willing to advance more lines of credit. The customers are also assured of continuous produce.

An external auditor can catch small problems before they become serious and help your business get back on track. Because external auditors don't work directly for your company, they are deemed to be independent and less biased. Thus, an external auditor's approval of your financial statements is more credible than that of an internal auditor. Internal auditors can't effectively critique the company's internal processes because they are part of the company. External auditors, however, can observe operations from the outside and determine where the company is wasting time or money. External auditors often critique accounting practices and general operations. For listed companies annual audit is a primary legal requirement according to the Memorandum of Association. The independent opinion as to the status of the company's financial status is of benefit to the shareholders, government, creditors, other firms as well as potential investor.
External audit fulfils statutory requirements of limited companies as stated in the Memorandum of Association. Constant monitoring by external auditors checks the stewardship role of management and ensures good corporate governance is maintained. External auditors help organisations determine whether their business is in compliance with all applicable Internal Revenue Service rules. Corporate audit by external auditors is made compulsory by laws to address agency problem arising from the separation of ownership from corporate management on public limited companies (Coyle, 2010; Solomon, 2010). The problems of shareholders is where they suspect external auditors to be more biased, partial, unfair and less thorough in the way they do their work and in expressing their opinions.

A purely independent external auditor is not affiliated with a public limited company and thus can redirect your company's behaviour without fear of repercussions if you don't like what he has to say. Financial statements of an organisation are more credible if an external auditor evaluates them and agrees that they are accurate. Credibility is important to businesses, it builds a positive reputation. External auditors can recommend behaviours to the company to reduce waste or promote greater efficiency in general as well as tighten accounting practices.

The uncertainty in the business environment has had many private limited companies which used to have their accounts audited (a good practice) withdraw their clientele from audit firm as it is legally not mandatory for them to have their accounts audited. This adversely affected the audit firms' revenue as they were left with a few clients. A lot of large listed companies have either closed or relocated to other countries with more stable economies, further reducing audit firms' clients. The listed companies still available are operating way below capacity hence limiting the amount of audit work and income thereof. Zimbabwe, unlike other countries such as South Africa, now permits other accounting bodies such as CIS and ACCA to provide audit services to companies and this has put a lot of pressure on audit firm as the competition for business has increased thus lowering the charges for audit services.

Some companies fail immediately after external auditors indicated some good procedures and sound financial management. Studies provide striking evidence that in the course of the audit, some auditors compromise their professional integrity for economic gain as they lack full independence. Following numerous cases of corporate scandal, some, which were linked to the negligence or involvement of the external auditors, the public confidence in the audited financial statements has been eroded (Sikka, 2009) and the role of auditors in eliminating agency conflict is being doubted. Corporate scandals have encouraged stakeholders to question the adequacy of oversight responsibility of the audit committees and external auditors. It was reported that lack of auditor independence contributed substantially to the collapse of the Enron company (Solomon, 2010). Arthur Andersen was allegedly reported to have relied on Enron for large portion of its income (Coyle, 2010; Sikka, 2009). Just like Enron, WorldCom, Parmalat, AIG, Xerox, Adelphia and Lehman Brother's collapse were substantially linked to audit failure (Coyle, 2010, Sikka, 2009). This means auditor independence challenges require more thorough review and research for protecting shareholders and other stakeholders of large firms in Zimbabwe.

II. Statement of the Problem

The issues of window dressed accounts which are supported by vague internal audit reports have resulted in less independent external auditors' failure to safeguard the companies' shareholders. Most large firms are listed and their shareholders want to ensure accounts and activities of their firms are audited effectively without bias, fear, favour and partiality. The study collected data on the auditor independence challenges faced by auditing firms when auditing large firms in Zimbabwe.

III. Research Hypotheses

H_0: *There are significant auditor independence challenges faced by external auditors when auditing large firms*

H_1: *There are no significant external auditor independence challenges faced by auditors auditing large firms in Zimbabwe*

IV. Literature Review

4.1 The Auditing process and External Auditing

An external audit is a review of the financial statements or reports of an entity/ business, by someone not affiliated with the company or agency. External audits play a major role in the financial oversight of the business because they are conducted by outside individuals and therefore provide an unbiased opinion. External audits are commonly performed at regular intervals by businesses, and are typically required yearly by law for governments.

4.2 Importance of External Auditing

External auditors help you determine whether your business is in compliance with all applicable Internal Revenue Service rules. An external auditor is not affiliated with your company and thus can redirect your company's behavior. An external auditor can catch small problems before they become serious and help your business get back on track (Hollindale, Kent and McNamara,2008).

A company's financial statements will be more credible if an external auditor evaluates them and agrees that they are accurate. Credibility is important to business positive reputations. Because external auditors don't work directly for your company, they are less biased. According to Tepalagul and Lin (2015), an external auditor's approval of your financial statements is more credible than that of an internal auditor.

Internal auditors can't effectively critique the company's internal processes because they are part of the company. External auditors, however, can observe operations from the outside and determine where the company is wasting time or money. External auditors often critique accounting practices and general operations. They can recommend behaviors to the company to reduce waste or promote greater efficiency in general as well as tighten accounting practices.

Internal auditors may be too close to the business because of their positions within the company. Some internal auditors also don't have enough accounting experience to accurately audit their company's financial statements. External auditors can look at the same factors as internal auditors and double-check their work. They can also train internal auditors in accounting principles by explaining how their analysis differs from the analysis the internal auditor performed.

Good external auditing helps management correct any issues with the operations or the financial reporting, which will prevent future issues with the reporting methods. If a company fails to get an external audit and reports erroneous information, it can result in misrepresentation on tax filings and lead to monetary penalties. After a successful audit, a company can confidently and accurately release its financial information to the public and the board of directors. With the newly audited financial statement, if the company saw an increase of profit, the public can trust the company's statement and safely invest in the company.

4.3 **External Auditing and Auditor Independence Related Challenges**

Auditor independence has been traditionally viewed as the cornerstone of the auditing profession as it is one of the fundamental principles underlying the auditors' work. To be seen or perceived to be independent is called the unique quality of the auditor that distinguishes it from other professions and professional activities. Mautz and Sharaf (1961) recognize this when they consider independence to be the essence of auditing that forms the basis for the professional concept of due care, the requirement of service before personal interest and the standard of professional efficiency. In turn, the unique quality of the audit provides the basis on which public determine the auditors' responsibility to society. It is also regarded as an important prerequisite of a well-functioning capital market and critical in protecting the interests of both creditors and shareholders (Moore et al. 2006). However, there are several factors at work that created the unethical environment namely independence threats (Wyatt ,2004). Independence threats are situations, actions or relationships that are likely to affect an auditor's ability to comply with the fundamental principles of ethics. The occurrences of independence threats such as economic fee dependence, auditing own works resulting from the provision of non-audit services and familiarities developed from lengthy auditor tenure have been alleged to contribute to the erosion of auditor independence. For example, the coziness of the auditor-client relationships has been identified as the major reason in which has disappear the renowned audit firm, Arthur Andersen from the accounting globe and the reputation of the entire profession was tarnished (Lennox 2005). The independence threats have emerged from the auditor-client relationship which is unique in auditing professional services. The nature of the auditor-client relationship has been identified in the research literature (Myers et al. 2003; 2006; Joshi et al. 2009; Rennie et al. 2010) and by regulators, as a factor which may detract from auditor independence.

To be independent, the auditor must not have vested interest in the outcome of the audit; for the auditor nothing hinges on the final conclusion. The ability to decide on the best approach and implement it, as well as having free access to any necessary material is an important aspect. Furthermore, auditors must be free to write up their findings in full detail, without an obligation to conceal or obscure information (Kimbro, 2002).

Independence is essential to enable auditors to retain their objectivity which enables their work to be relied upon by outsiders. It may be destroyed in many ways but significantly in three, firstly by auditors having financial interest in the company, secondly by auditors being controlled in the broadest sense by the company and thirdly, if the work which is being done is in fact work which has been done previously by the auditor themselves acting as accountants. There cannot be the degree of watchfulness where a man checks his own figures or those of a colleague, for these reasons auditors would not have achieved the standards of independence necessary for a wholly objective audit.

V. Research Methodology

A positivist philosophy taking a cross-sectional design research strategy was adopted to analyse independence challenges faced by external auditors when auditing large firms in Zimbabwe. The study was based in Harare taking accounting and auditing firms as sources of respondents. A quota sample of 40 respondents comprising of 14 internship members, 14 audit clerks 8 audit managers and 4 audit consultancts. Each auditing firm selected was represented by at least 5 auditing members. The gender representation had 21 men and 19 women. In terms of qualifications, those with advanced level were one(1), certificate/diploma were three (3), degree and above were twenty three (23) and those with ACCA/CIMA/CIS were thirteen (13) Experience of auditors used in the study were distributed with 11 who had less than 3 years experience and those with 3 years and above were 29. This allowed the various experiences from different auditing contracts, activities and processes to be captured in the perspective of auditor independence challenges. The validity of the research instrument was ensured through reviewing related material on auditor independence and associated challenges. A reliability coefficient of 0.68 Cronbach Alpha value was recorded using the SPSS software. This showed respondents perceived the internal consistency reliability measure of reliability. Mean values and percentages were calculated using the SPSS package. Hypothesis testing was applied using the One Sample Mean tests to measure overall acceptability of the types of auditor independence challenges faced by auditing firms when auditing large firms. This led to conclusions being made on this paper.

VI. Data Analysis and Presentation of Results

6.1 Descriptive Results of Auditor Independence Challenges

The following is a discussion of ***auditor* independence** related challenges that auditing firms might face in auditing large companies.

Note: *SA*-Strongly Agree, *A*-Agree, *NS*-Not Sure, *DA*-DisAgree, *SDA*- Strongly DisAgree
Likert Key: *SA*-1; *A*-2; *NS*-3; *DA*-4 and *SDA*-5

Table 4.6 - Auditor Independence Challenges

No	Item	M	SA	A	N	DA	SDA	TOTAL
1	Unbearable contractual obligations between the client and the audit firm are prevalent.	**3.33**	7.5	12.5	22.5	55	2.5	100
2	Over-dependency on audit fees is prevalent.	**2.88**	10	25	35	27.5	2.5	100
3	Having auditors being shareholders of the audit firm is prevalent.	**3.18**	2.5	10	60	22.5	5	100
4	General fear of the client by auditors.	**3.33**	0	25	22.5	47.5	5	100
5	Maintaining a good name for the audit firm at the expense of good work.	**3.43**	5	25	5	52.5	12.5	100
6	Auditors offer other management services to client companies.	**2.05**	20	67.5	5	2.5	5	100
	Average mean	**3.03**						

Source: Survey Results 2020

Fifty-five percent (55%) of the respondents disagree that the contractual obligations between the audit firm and the client are unbearable, coinciding well with a mean of 3.33. Hence it is evident that the contractual agreements are straight forward and agreeable by both parties. This is not a key challenge from the auditors' point of view. According to Hollindale, Kent and McNamara (2008) during negotiations with their clients, auditors employ tactics representing core dimensions which can be interpreted as "Concern for Self", "Concern for Client", "Concern for Others", and "Concern for Accounting Principles" to ensure the contractual obligations contained in the contractual agreement are favorable to all parties. A mean of 2.88 which is 35% of the respondents are in agreement of the over-dependency of audit firm on audit fees while 30% disagree. Thirty-five percent (35%) were neutral. A mean of 3.18 signifies that the respondents disagree that having auditors being shareholders of the various audit firms is prevalent and a possible challenge to auditor independence. Usually as the auditors graduate to higher posts (e.g. Audit partner) in the audit firm they are offered an opportunity to be part of the shareholders in the various audited firms. This is not a challenge from the respondents' point of view as this comes with the recognition of qualifications, position, good work and service to the firm. A mean of 3.33 which is 52.5% disagree that there is fear of the client by auditors as the higher qualifications comes with more confidence. The auditors are very confident of their skill and what they ought to find out from the client and thus cannot be intimidated. A mean of 3.34, 65% of the respondents disagree that maintaining a good name for the audit firm comes at the expense of good work but rather vice versa. The respondents feel the good work is responsible for creating a good name for the audit firm. Offering of other management services by auditors to client companies has become a major cause for concern within the audit fraternity as evidenced by overall 87.5% of respondents in agreement(mean of 2.05). This could be that the various clients do not have qualified personnel with the know-how on how to handle various accounting functions or the client requests the auditor to act in an advisory capacity or just another way of audit firms to boost their revenue. This is highly likely to affect auditor independence. Wattington and Pany (2001) said "An auditor needs to pay much attention when both audit and non-audit services are provided to the same client, because these non-audit services may threaten the independence of auditor.".

6.2 Hypothesis Testing on Auditor Independence Challenges In Zimbabwe

H_0: *There are significant external auditor independence challenges faced by auditors auditing large firms in Zimbabwe*

H_1: *There are no significant external auditor independence challenges faced by auditors auditing large firms in Zimbabwe*

A One sample T-test was used in hypothesis testing. The study tested whether there was any significant evidence to conclude on the availability of auditor independence challenges faced by accounting firms in Zimbabwe. A t-test was carried with 3.00 as the benchmark test value from its mid-term position on the 1 - 5 Likert scale used in the study.

Tables 2 (a,b) One Sample Statistics and One Sample Mean Test Results
Table 2 (a) One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Independence Challenges	6	3.0333	.51872	.21177

Table 2(b) One-Sample Test

	Test Value = 3.0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Independence Challenges	+0.157	5	0.881	.03333	-0.5110	0.5777

The study indicated that the t-calculated value of +0.157 falls within the lower limit(-0.5110) and the upper limit (+0.5777) at a p-value of 0.881. The researcher rejected the null hypothesis and concluded that the external auditor independence challenges were not large enough to cause much alarm and fear to stakeholders. Though the statistical variables indicate some overall non-significance, there could, however, be some practical significance for eliminating some cropping external auditor independence challenges like on offering other services to the same firms by auditors and repeated usage of the same firm in more than two years and cross shareholding relationships. This will assist to improve shareholder confidence and corporate governance practice in Zimbabwe.

VII. Conclusion and Recommendations

From the research most of the respondents disagreed that auditor independence is a major challenge when auditing large firms, though a significant percentage agrees that over-dependency on audit fees and the issue of auditors offering other management services are prevalent. The researchers recommended that provision of managerial and consulting services should not be requested from the audit company responsible with auditing the company's accounts as this could compromise independence. It is also advisable to contract a different audit company or an advisory firm to hold managerial or consulting service. It is advisable for a company to rotate auditors every five years and the audit firm should rotate the audit personnel sent to clients on a regular basis. The researcher recommends the client and shareholders should be educated on auditor operations. If they are knowledgeable of what to expect from an audit they are in a better position to determine if the reports the auditors give them reflect the status of the firms' position. Shareholders need to protect their investment and it is in their interest to monitor what goes on in the company.

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