

**THE EFFECTIVENESS OF FORENSIC ACCOUNTING  
AND AUDITING IN A CORRUPTION PRONE  
DEVELOPING WORLD  
(THE CASE OF ZAMBIA)**

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**ABSTRACT**

*The need for forensic accounting and auditing cannot be over emphasized in a developing country such as Zambia that is highly prone to corruption, the emphasis stems from the fact that corruption is quite distinct from fraud, embezzlement and misappropriation of funds as it does not leave any trail in the records of an organization and the officers who work with the documents find it difficult to play an effective role in fighting corruption. Corruption is an evil that has seen the collapse of major economies and has robbed developing countries of the much-needed resources in order to develop, this and the complex nature of detecting corruption has continued to add pressure on professional bodies and institutions who are entrusted with forensic accounting and auditing of organizations records. This paper looks at how forensic accounting and auditing can be effective in a developing country like Zambia which is highly prone to corrupt practices. The researcher makes the use of questionnaires distributed to audit partners, audit managers and general audit staff of auditing and assurance firms to determine how effective forensic accounting and auditing is in the various sectors they review in the midst of corruption being the norm and acceptable way of conducting their day to day business.*

**Keywords:** Auditing; Forensic Accounting; Corruption; Developing Country

## INTRODUCTION AND BACKGROUND

From time in memorial auditing was confined mostly to public accounts and state-owned corporations. Only in rare occasions would private entities have their books or records audited. The person charged with the duty of examining these records came to be known as an Auditor. An auditor is an individual who inspects and verifies the accuracy of a company's operational and/or financial records. ([www.businessdictionary.com/definition/auditor](http://www.businessdictionary.com/definition/auditor)). The word is derived from the Latin word "audire" which means "to hear" and this is because originally persons and companies who were being audited were required to appear before the auditor who had their accounts and they would be "heard".

Auditing for public entities was not was not very common and only took recognition in the 19<sup>th</sup> century after the industrial revolution was fully in effect and many companies were pouring out large sums of money/capital to support their businesses which were being run by third party individuals. The fact that companies were being run by third parties and agents the advantages to be obtained from utilizing the services of auditors became apparent to the public generally and a great increase in the practice of auditing resulted and as at present day it forms the most important part of a professional accountants practice (Walter, 1969). These companies came with complex business models and in turn the duties and responsibilities of the auditor also increased. The complexities attached to the business models were met with corruption, a major feature of developing countries like Zambia thereby threatening the independence, integrity and objectivity of the auditors. Corruption is often defined as the abuse or misuse of public office for private gains (World Bank, 1997, 2004) other authors have expanded this conventional definition to include any form of dishonest or unethical conduct by a person entrusted with a position of authority, often to acquire personal benefit (Kaufmen & Vicente,2005,Svensson,2005). To curb this trend it became law for activities of governmental and corporate business organizations to be audited and it ensured that those entrusted with funds were held accountable. Auditing and/or forensic accounting in a nutshell and in this paper used interchangeably, ensures that accounts and records of organizations show a true and fair view and this is achieved by thorough examination of the books of accounts of an entity. If forensic accountants and auditors are not well vested with the required competence levels their effectiveness in corrupt environments is deemed to be of no value. As it stands they are seen to be competent and the training available of these individuals has been on the rise but in contrast to this businesses and various firms have still been known to fail and some fall through.

It is against this backdrop that this study has been undertaken to determine how effective auditing is in a corruption prone environment.

## **MATERIALS/METHODS/DESIGN/METHODOLOGY**

Various researches have been conducted to establish the effectiveness of auditing in corruption prone environments. The nature of corruption not being able to leave an audit trail has indeed been a huge challenge. Nevertheless, the fact that auditing and forensic accounting helps in the detection of corruption has led to most scholars exploring this train of thought. In the Association of Certified Fraud Examiners (ACFE) survey of 2008 which was cited in (Halbouni, 2015) it was noted that auditors are initially able to detect corrupt activities in over 19% of corrupt cases (ACFE, 2008).

Another study by Kenneth M. Dye has called for change on the emphasis of auditing (Kenneth M. Dye). There is an expectation gap between stakeholder's expectations and the auditors mandate on every assignment undertaken. Auditors believe that the duty of detecting corruption and preventing it lies in the hands of law enforcement agencies which would be the Zambia Police Service and Anti-Corruption Commission in the case of Zambia whereas the stakeholders believe that auditors appointed on the job should be able to detect and prevent corruption. This gap needs to be narrowed and can only be done by auditors embracing the stakeholders expectations and incorporating corruption prevention methods their audit plans as it is true that the prevention of corruption is much easier than the detection.

The educational committee of International Federation of Accountants (IFAC, 2005) concluded that for one to be an effective auditor the individual should be a professional accountant, hold an undergraduate degree and have additional skills, knowledge, practice experience and professional values. An auditor's competency determines their effectiveness in the prevention of corruption as it contributes to the ability to perform audits.

Auditor independence refers to the independence of auditors from parties that may have a financial interest in the business being audited. Independence requires integrity and an objective approach to the audit process ([www.icaew.com](http://www.icaew.com)). Researches have also outlined that for an auditor to be effective in the prevention and detection of corruption they ought to approach every audit with objectivity and integrity and this will ensure their independence from third party influence. If auditor independence appeared to be impaired, their work would be questionable and stakeholders would see them to be non-effective.

Stakeholder's unconditional support towards the audit function has also been highlighted to improve the effectiveness towards the prevention and detection of corruption. The success of the audit team is purely dependent on the support they receive from management, their placement in the organizational structure and the authority they have when handling records and documents for audit. A study conducted by A. Ahmi and M.H. Shahdan concluded that without management approval, support and encouragement, the audit process is likely to face failure and worse off would lead to the loss of time and money. Management needs to place reliance on the findings of auditors and effect change according to auditor recommendations and this will in turn give auditors the impetus to accordingly execute their duties knowing that their work is being depended upon by management.

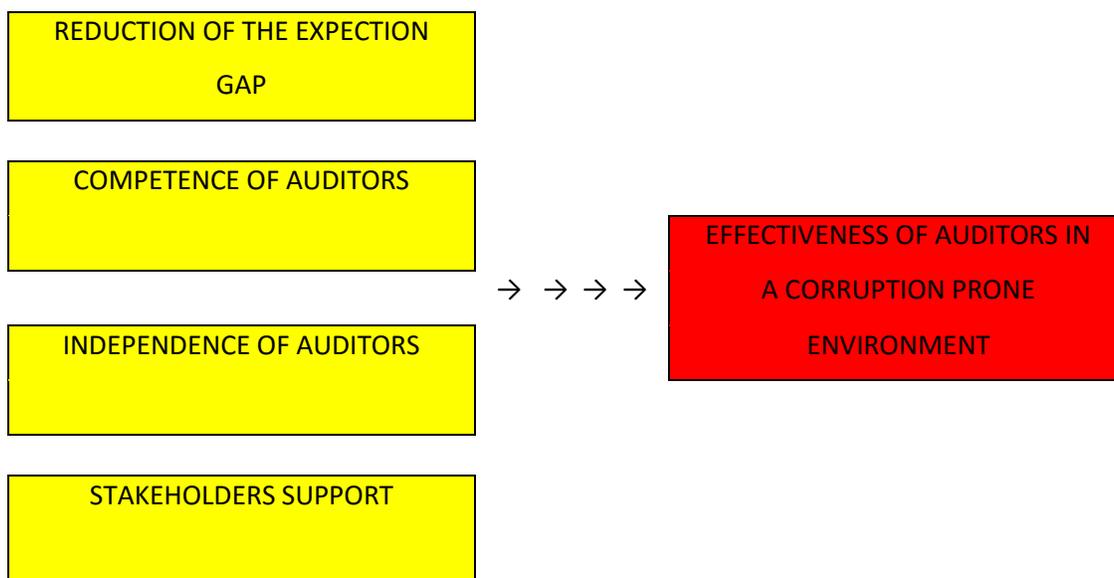


Fig. 1. Shows the research framework of this paper.

To incorporate the Zambian scenario into this study we recognized that as a country Zambia has the office of the Auditor General which audits the books of government ministries and also the various state-owned corporations. It also has quite number of audit firms whom are listed under the Zambia Institute of Chartered Accountants. For the purpose of this study questionnaires were distributed to members of staff of audit firms within the country and those with functional offices within Ndola the provincial capital of the Copperbelt Province of Zambia.

The questionnaires had five sections with the first part outlining personal information of the respondents (brief resume). It also included their take on the various sections of the framework of this study which included the reduction of the expectations gap, competence of auditors, independence and objectivity and lastly the support they got from stakeholders in this case management of the various firms who are the audit partners in most instances.

A 5-point likert-scale ranging from strongly disagree = 1, disagree = 2, not certain = 3, agree = 4, to strongly agree = 5 was utilized to obtain the various auditor views on the effectiveness of auditing in a corruption prone environment.

## RESULTS

The sample size selected was 100 audit staff regardless of position held but ensuring all were catered for. 54 returned response (54%) of the sample size. Table 1 shows the personal profile of the respondents. The majority of respondents in this study were female (51.85%). In addition majority of the respondents (59.26%) are at the age of 40 years and above. (57.41%) of the respondents are married. (85.19%) of the respondents have tertiary level education with either a diploma, bachelors or master's degree. The table also shows that most of the respondents are middle managers and below. (92.59%). Whereas the number of respondents affiliated to a professional body are (68.52%) and (50.00%) of the respondents had over 10 years work experience.

Table 2 shows how the respondents reacted to the questions which were posed to them in relation to the factors that were determined to affect auditor's effectiveness in corrupt environments. According to responses most respondents agreed that the job of detecting corruption was that of law enforcement officers (90.7%). They disagreed that the job of the auditor was to detect corruption (74.1%). Most respondents (83.3%) said that qualified auditors stood a better chance of detecting corruption. (83.3%) said that a more experienced auditor could detect corruption. On the independence of auditors (81.5%) of respondents said that auditors have the final say whether corruption is reported or not when detected. (92.6%) said that clients had no influence on them to conceal corruption. On support received from stakeholders/management (83.3%) said management gives the desired support to them to conduct their duties. (79.6%) said they were well enumerated.

Table 1. Respondents Personal Profile (Resume)

	<b>RESPONDENTS PROFILE</b>	<b>FREQUENCY</b>	<b>%</b>
<b>GENDER</b>	MALE	26	48.15
	FEMALE	28	51.85
<b>MARITAL STATUS</b>	SINGLE	23	42.59
	MARRIED	31	57.41
	OTHER	-	
<b>EDUCATIONAL LEVEL</b>	SECONDARY	8	14.81
	DIPLOMA	9	16.67
	BACHELOR	32	59.26
	MASTERS	5	9.26
<b>POSITION HELD</b>	AUDIT ASSISTANTS	27	50.00
	AUDIT SENIORS	10	18.52
	AUDIT MANAGERS	13	24.07
	AUDIT PARTNERS	4	7.41
<b>MEMBER OF PROFESSIONAL BODY</b>	ZICA	37	68.52
	NONE	17	31.48
<b>WORK EXPERIENCE</b>	LESS THAN 5YRS	0	0.00
	5 - 10 YEARS	27	50.00
	10 - 15 YEARS	10	18.52
	15 - 20 YEARS	13	24.07
	20YEARS AND OVER	4	7.41

## DISCUSSION

Form Table 1 that shows a brief resume or personal profile for our respondents, results indicate that half (50%) of the respondents are not competent as they lack skill and experience as they have less than 10 years of work experience. This fact seems to be invalidated with fact that over (68%) of the respondents

have attained a bachelor’s degree and more meaning that the respondents have educational know how but not practical work experience. If we draw our attention to Table 2 which shows results of the 5-point likert scale our previous conclusion that an expectations gap exists

Table 2. Responses to Questionnaires

<b>Factors that Determine Auditor Effectiveness in Corrupt Enviroments</b>									
<b>0</b>									
Survey Scale: 1=Strongly Disagree 2=Disagree 3=Neutral 4=Agree 5=Strongly Agree									
Course Evaluation Survey question	# 1's	#2's	#3's	#4's	#5's	n	MEAN	MODE	SEM
1. corruption is supposed to be detected by law enforcement officers	4	4		21	25	54	4.09	5	0.2
2. As an auditor you are expected to detect corruption	29	11	2	6	6	54	2.06	1	0.2
3. corruption is prevailing in most of the institutions you audit		6	8	12	28	54	4.15	5	<u>0.1</u>
4. A qualified auditor stands a better chance of detecting corruption	1	1	7	10	35	54	4.43	5	<u>0.1</u>
5. An auditor that has more experience will be able to detect corruption	2	2	5	13	32	54	4.31	5	<u>0.1</u>
6. Auditors have the final say on whether detected corruption is included in the audit report	1	2	7	15	29	54	4.28	5	<u>0.1</u>
7. when corruption is detected the audit client requests for it to be concealed	40	10	2	1	1	54	1.39	1	<u>0.1</u>
8. Audit jobs are usually given to low balling firms and not based on the firms experience	44	8	2			54	4.54	5	<u>0.1</u>
9. After audit partners have had meetings with the audit clients about detected corruption they conceal it	1	2	11	15	25	54	1.22	1	<u>0.1</u>
10. stakeholders ensure that audit staff are well remunerated	1	1	9	15	28	54	1.22	1	<u>0.1</u>
11. stakeholders use recommendations raised by auditors on the job	1	2	6	15	30	54	1.22	1	<u>0.1</u>

Between the auditors mandate and what the stakeholders assumes are the auditor’s deliverables. The results also showed that respondents were well enumerated and that their work and recommendations are indeed used by management.

## CONCLUSION

From the study it can be said that for auditing to be effective in a corruption prone environment the mindset of the auditor needs to change towards that of embracing the stakeholders expectations of auditors incorporating the prevention and detection of corruption as part of the work they ought to do and not that it is only the duty of law enforcement agencies. It can also be concluded from the study that management support helped ensure that auditors acted independently and were objective in their reporting. This could be seen by the fact that their work was relied upon and well enumerated auditors could not be enticed to conceal discovered corruption in their reports. This collaborates with (Aaron Cohen & Gabriel Sayag) who found that the support of management is crucial to the operation and success of the audit function.

In a nutshell it can be said that from the factors identified to contribute to the effectiveness of auditors in a corruption prone environment only auditor independence can be controlled by the auditor whereas reduction of the expectation gap, hiring of competent audit staff and management support all fall in the control of management. Effectiveness describes the degree to which established objectives are achieved, therefore the effectiveness of auditing in a corrupt environment lies in the hands of management/stakeholders and the auditor him/herself by being independent from third party influences.

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## TABLES AND FIGURES

Figure 1. Research Framework

Table 1. Respondents Personal Profile

Table 2. Responses to Questionnaires