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FACULTY OF COMMERCE



DEPARTMENT OF BANKING AND FINANCE

An Investigation Into The Impact Of Internal Audits On The Quality Of Financial Reports: A Case Of Nicoz Diamond Insurance Company

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APPROVAL FORM

DEDICATION

I dedicate this project to my parents , brother and most importantly to Jesus Christ who through grace gave me a chance to start and finish this project.

THE ABSTRACT

The focus of this research centered around examining how internal audits influence the quality of financial reports –specifically studying Nicos diamond Insurance Company. The following were the research objectives of the study, to investigate the impact of auditor professional competency on the quality of financial reports, to examine the perception of key employees regarding the impact of internal audit function and to ascertain the impact of auditor independence on the quality of financial reports. The study hinged on the institutional theory, information asymmetry theory and stakeholder theory .The researcher adopted the quantitative and descriptive approach to ascertain the relationship between the variables .The use of questionnaires to acquire primary data was utilized with a sample size of 54 being achieved as per the original 59 comprising of finance and underwriting personnel .SPSS social sciences software was used to help quantify the data collected using Pearson Correlation tests, Alpha Cronbach test, normality and multicollinearity tests to make sure the data was valid and reliable .The study discovered a strong positive correlation between auditor professional competency and the quality of financial reports in Nicos diamond insurance company. The study concluded that employee perceptions of the internal audit function does impact the quality of financial reports significantly and conclusively the study discovered that auditor independence has a positive correlation with the quality of financial reports. Better auditor education and better corporate structure development in the company were recommended to better enable the audit function to give better financial results.

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First and foremost, I would like to thank my lord and personal savior Jesus Christ for giving me the grace to be among the realm of the living. Secondly I extend my gratitude to my project supervisor for their guidance. To the team at Nicoz Diamond I say may our dear lord Jesus Christ continue to bless you

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CHAPTER I

INTRODUCTION

1.0. Introduction

The study's main objective is to investigate the impact of internal audits on the quality of financial reports utilizing Nicos diamond insurance company as real world case study. The research undertakes to provide a detailed analysis of the background, statement of problem, research study questions, delimitations, limitations and detailed explanations of the main terms of the study.

1.1. Background of study

Over the past few decades ,various corporate misconduct cases have highlighted the vast amount of cases of internal accounting misconduct tarnishing consumer trust and investor confidence in corporations .Such scandals have outlined the need for highly receptive control systems to manage high number of cases of accounting fraud, and abuse of funds .These preventable scandals gave rise to internal audit (IA) an attempt by corporates to have an in-house monitoring mechanism with the mandate of providing unbiased factual results based on controls and risk management processes. Bad corporate accounting practices have given rise to financial scandals such as Enron scandal (2001), this scandal is a popular case study for accounting malpractice studies.

The Toshiba (2015) scandal and Wire card (2020) scandals are the major cases of what accounting departments worldwide should avoid according to The Japan times (2023). Various boards all over the world have concocted measures to combat financial misconduct examples include the Sarbanes- Oxley act of 2002 established in response to the Enron scandal

New corporate requirements for public sector and private sector firms were implemented to better manage accountability and reliability of financial reports. The Auditing and Assurance Standards Board (IAASB) also introduced standards to make accountants accountable in terms of adherence to corporate rules and regulations, this provided auditors with a set of pre made best practices to adhere to. Nicoz diamond insurance company is public limited company with various awards in different excellence disciplines making it a company highly regarded. Nicoz diamond is no exception to the ever evolving regulatory environment, companies need to be vigilant and implement internal control management tools and software's to minimize risk.

Al-Naijjar, Al-Shaer and Hussainey (2019) investigated the relationship between audit committee characteristics and the financial performance of companies, 87 companies in Jordan were sampled and discovered that large audit committees correlated significantly with reporting quality. The large presence of auditors directly influences the quality of financial reports. Al-Rjoub and Gharaibeh (2009) support the study and ascertained that the mere presence of internal audit function which acts as a watch dog significantly impacts the financial reporting quality

Studies done by Ernst and young (2019), posited a strong positive correlation between financial reporting and audit presence tenure. The Tyco scandal of 2002 is a major accounting malpractice case study the CFO and CEO were cooking books and inflating financial results to lie to stakeholders, Pricewaterhousecoopers (PWC) was the responsible auditing company which failed to identify and stop the crime. Regulatory changes were implemented to better manage corporate fraud and ensure transparency and accountability practice

Over the past decade some cases of financial misconduct have made headlines in Zimbabwe which have altered the accounting and audit practices namely

- i. The closure of Century Bank and CFX was a result of Century Bank's inability to fully disclose the level and true nature of their bad credit portfolio Gumbo (2018)

- ii. ZimRe holdings inflated financial gains and engaged in bad accounting practices
- iii. Interfin Bank was responsible for insider trading and bad accounting practices

Impact of internal audits on the quality of financial reports for Nicoz Diamond is a study area that deserves attention and better scrutiny, and is a relevant study for stakeholders who require the best from the company. The study main objective is outlining the shortfalls of the auditing function by exploring the ties between internal audits and the quality of financial reports. This study will also explore the correct environment that fosters auditor excellence to enable financial reporting which is unbiased and true.

1.2. Statement of the problem

Financial statements are relevant to corporations because stakeholders can assess the financial progress, state and health of a company. Decision making hinges on the accuracy of financial reports, this also promotes investor confidence and good regulatory practices. The presence of an internal audit team is essential for the proper functioning of a corporation due to the role it actively takes up to ensure the quality of financial reports is attained and maintained. Despite how important the function is viewed some individuals don't see the relevance of the department and to what end it influences the quality of financial reports. The study seeks to answer the question, if internal audits impact the quality of financial reports? Can corporations utilize internal audit to amplify the quality of financial reporting? Can the competency of internal audit teams influences the quality of financial reports? This research intends to advance literature on internal audit and its influence on financial report quality. Preliminarily it intends to be a provision of understanding of the factors that mediate the relationship. This study also seeks to give an insider view into how the presence of an internal audit team can better improve the quality of financial reports and the potential pitfalls of having one. This study conclusively will lead to the formulation of a framework to assess the effectiveness of internal audit in improving financial quality, which in return will be utilized by corporates and educationally aligned personal

1.3. Research objectives

Primary investigation of this study is to examine the influence of Internal audits on the quality of financial Reports-Case of Nicoz diamond insurance company Zimbabwe.

Objectives of research

- 1.3.1 To investigate the impact of professional competency on the quality of financial reports.
- 1.3.2 To examine the perception of key employees regarding the impact of internal audit function on the quality of financial reports.
- 1.3.3 To determine the impact of auditor independence on the quality of financial reports.

1.4. Research questions

The main question at large to this study is –The impact of internal audits on the quality of financial reports in the financial sector of Zimbabwe.

The specific questions to the research are

- 1.4.1 How does professional competency and affect the quality of financial reports.
- 1.4.2 How do key employee views on internal auditors impact the quality of financial reports.
- 1.4.3 What role does internal auditor independence play in quality of financial reports.

1.5. Significance of study

Quality financial reports are an important characteristic that is relevant to sector regulators, creditors and investors who utilise these reports to make educated decisions as per their

requirements. It is a measure of health of an institution, to insure the accuracy and validity of the financial reports, companies utilise internal auditor's s to analyse their internal controls, identify weaknesses, and propose corrective actions. Despite all the positives, the impact of internal audits on the quality of financial reports is not well studied and known.

This study aims to investigate the relationship between internal audits and the quality of financial reports. Particularly, this research will examine how internal auditor competency can improve the accuracy of financial reports, how key employee perceptions impact the quality of financial reports and lastly to determine the implications of internal auditor independence on the quality of financial reports and to also promote the credibility and transparency of financial information. Valuable insights will be attained to better improve audit practices and accounting practices.

This study will contribute to literature that has real world utilisation. Findings of this study could have positive implications and may influence corporates, auditors and regulatory sector players such as IPEC. For auditors, this study aims to provide factual evidence of the effectiveness of internal audits in enhancing financial reporting quality, as for regulators, results of the research will promote the development of regulations and industry best practices.

Conclusively, the research aims to provide proper literature on the impact of internal auditing on the financial reporting quality through the provision of real world data.

1.6 Delimitations of study

As per Omrod (2016), delimitation outlines the locus of a research body by outlining what is included and excluded. Boundaries are relevant due to the undefinable nature of the research problem without them.

1.6.1 Geographical Scope

The research specifically focuses on Nicoz Diamond Insurance located in the city of Harare, Zimbabwe. The study is being limited to this insurance company and did not include other industry players.

1.6.2 Literature Focus

Literature review includes works of literature undertaken in Zimbabwe, the middle east and other African countries such as Nigeria these studies formed a solid background and made the research more entwined with its research objectives.

1.6.3 Methodological Approach

The study utilizes a quantitative research approach, using questionnaires to source information from employees of Nicoz Diamond Insurance. The research utilizes a case study research design, using Nicoz Diamond Insurance as a representation of the insurance industry in Zimbabwe. The study population was acquired using purposive sampling. Through the outlined delimitations, the study tries to keep the study within controllable scope while also creating insights that are conducive for Nicoz diamond insurance company.

1.7 Limitations of study

1.7.1 Confidentiality concerns

The researcher was affected by the confidentiality concerns of the company as it maintained its financial documents to be proprietary

1.7.2 Data collection method

The primary data collection for this study was restricted to questionnaires. This limitation resulted in a limited range of data as compared to other data methods. To ensure the validity and reliability of the data the questionnaires were administered in a safe and secure way.

1.8 Definition of core terms

1.8.1 Internal audit

This is a process by which a corporations conduct analysis on their own accounts and implement internal controls to ensure that they are effective and efficient in spotting redundancies.

1.8.2 Financial reports

These are documents that provide information about financial performance of an organization. Financial reports are prepared by the organizations financial department or external accounting firms these reports are of crucial importance to managers, investors, lenders and regulators to make informed decisions

1.9 Abbreviations

1.9.1 IPEC
Insurance and pensions commission

1.9.2 EY
Ernst and Young

1.9.3 PWC
PricewaterhouseCoopers

1.9.4 ZIMRE
Zimbabwe reinsurance company

1.9.5 IA

Internal audit

1.9.6 IASB

International accounting standards board

1.9.7 IFRS

International financial reporting standards

1.9.8 IAASB

International audit and assurance standards board

1.9.9 SOX

Sarbanes Oxley act of 2020

1.10 Chapter summary

The chapter provides an introduction and overview of the research, providing background information and study context. The study defines key points and locus of the study, setting the stage for the subsequent investigation. The research objectives and specific research questions to be measured are clearly outlined. The relevance of the study and the statement of problem are also elucidated, the chapter went further to also outline the limitations and challenges faced by the researcher whilst undertaking the study, this study outlined the researches potential downfalls and also bringing light on the study's potential gaps

CHAPTER II

LITERATURE REVIEW

2.0 Introduction

This chapter of the research focuses on the linkages of literature that are in existence in relation to the influence of internal audits on the accuracy of financial reports, with Nicoz Diamond Insurance being the case to be studied. The chapter is made into six essential sections, the first part was set aside for the definition of major concepts significant to internal audits and the accuracy of financial reports. The following section which is in succeeding to the previous section tries to outline the theoretical framework outlining the relationship between internal audits and financial report quality. For a deep comprehension, the third section provides a definitive review of the empirical literature, linkages of previous studies undertaken in the same area. The fourth part a conceptual model addressing internal audits and financial report accuracy is outlined. The fifth part outlines sections that require further study. Conclusively, part six provides a deep review of the whole chapter

2.1 Theoretical review

2.1.1 Institutional theory

The institutional theory suggests that organisation are influenced by external social economic and regulatory pressures that shape their behaviour and practices DiMaggio P (1988) .Abbott (1991) posited that institutional theory attends a deeper more resilient structure .It considers the processes by which structure, Including schemes, rules, norms and routine become established as authoritative guidelines for social behaviour .It inquiries into how these elements are created

,diffused, adopted and adopted over a space of time .According to Oliver C (1991), the institutional theory postulates the subjugation of corporations to external influential forces, such as regulatory, peer and governmental forces, that have a direct influence on their culture and day to day operations. Linking internal audit and financial reporting accuracy, the institutional theory outlines the influence of industry cultures, corporate norms, and regulatory needs to the internal audit function within Nicos Diamond Insurance company. These institutional factors control the promotion and use of best practices and influence the impact of internal audit processes in ensuring accurate financial reporting.

2.1.2. Information asymmetry theory

The information asymmetry theory posits that there is an imbalance of information. The information asymmetry theory postulates the imbalance of information between different stakeholders in a corporation Jensen & Mackling, (1976). The primary reason for financial intermediations is informational asymmetries between participants of the financial system. The case of internal audit and financial reporting accuracy, the information asymmetry theory defines the main role of internal audit in cutting down information asymmetry through the provision of independent and reliable information to concerned stakeholders. Inclusively of basements and tests, internal auditors make strides to try and reduce the gap in knowledge and making sure that proper financial intelligence is disseminated to relevant stakeholders, from managers, workers and investors.

2.1.3. Stakeholder theory

The stakeholder theory suggest that organizations should consider the interest and expectations of various stakeholders in making important decisions .According to the stakeholder theory, corporations are bound to anticipate consumer concerns Corriero and Tewari, (2015).The stakeholder theory addresses how firms perform their duties and is intimately connected to the

practices of business, of value creation and trade. As per internal audit and financial reporting accuracy, the stakeholder theory posits the crucial relevance of internal auditors in promoting the interests of many stakeholders through the provision of unbiased and accurate financial information. Internal auditors are the watchdogs of stakeholder interests, promoting relevance, accountability, and reliability in financial reporting, conclusively building confidence and trust among stakeholders. The stakeholder theory outlines the ways in which corporations undertake their fiducial responsibilities Cordeiro and Tewari, (2015).

2.2. Empirical literature

Studies undertaken by Chan & Vasarhelyi (2018) critiqued the impact of professional competency on the quality audit reports, the study discovered that corporations with the most internal auditors with qualifications had significantly better results. This result supported the assertion that internal audit competency directly influences the quality of results. This study was supported by Norma and Tsovas(2019) which examined the influence of internal audit education on the financial reporting process in Greek banks, the resulting findings discovered a significant positive correlation between educated internal auditors and the quality financial reports for the banks, this study also maintained and proved the importance of internal audit to identify and control risks and the results also posited that educated internal auditors had better ability to identify and control risks.

The results of Che –Vara (2014) studied the influence of education on the impact on managerial results, this study showed a positive correlation between managerial results and the level of education they possessed. This study did not focus on the quality of financial reports as influenced by expertise or competency.

Hassan (2018) undertook a study to investigate the perception of managers regarding the impact posed to internal audits ,the results showed a positive impact between the companies that had positive manager perception of the audit function with the financial results they posted Deloitte undertook a study in 2018 to investigate the implications of bad company function image the result discovered that employees that were seen as being bad at the job would normally perform badly due to the criticism that they received from their peers and employers this study highlighted the need for departmental positive image.

Ridele (2003) in a study entitled “imaging projection” undertook an investigation into the effects of positive imaging in the finance department of IBM .This study was undertaken over a period of seven years in which the results showed that of all the individuals who were given positive perception by managers they were more successful than all other individuals in terms of corporate remuneration and career development .This highlights the importance of positive perception to an individual and department.

Independence has no single meaning and interpretation across the people, hence the concept is a subject ambiguity and uncertainly Wines(2012) .Mapakame (2004) undertook a research on the impact of auditor independence on the productivity of a finance department ,The research design collected raw data from companies in the automotive sector ,the study revealed that companies that had an internal audit was likely to be more productive than those that did not possess the department, the study concluded that these results were because normal employees have a certain fear of the audit department which acts in a watchdog capacity in a company. Conclusively the literature derivation from study posited a need for a functioning audit department.

Goromondo (2010) conducted a research into the implications of audit independence on auditor performance, this study utilized four auditing firms which determined that three auditing firms had better results than that of the individual one because the auditors had free reign to get the results they needed. This study outlined the need for internal auditors to be given free rein to conduct test and implement measures to curb risk, this will in turn be translated to better performance.

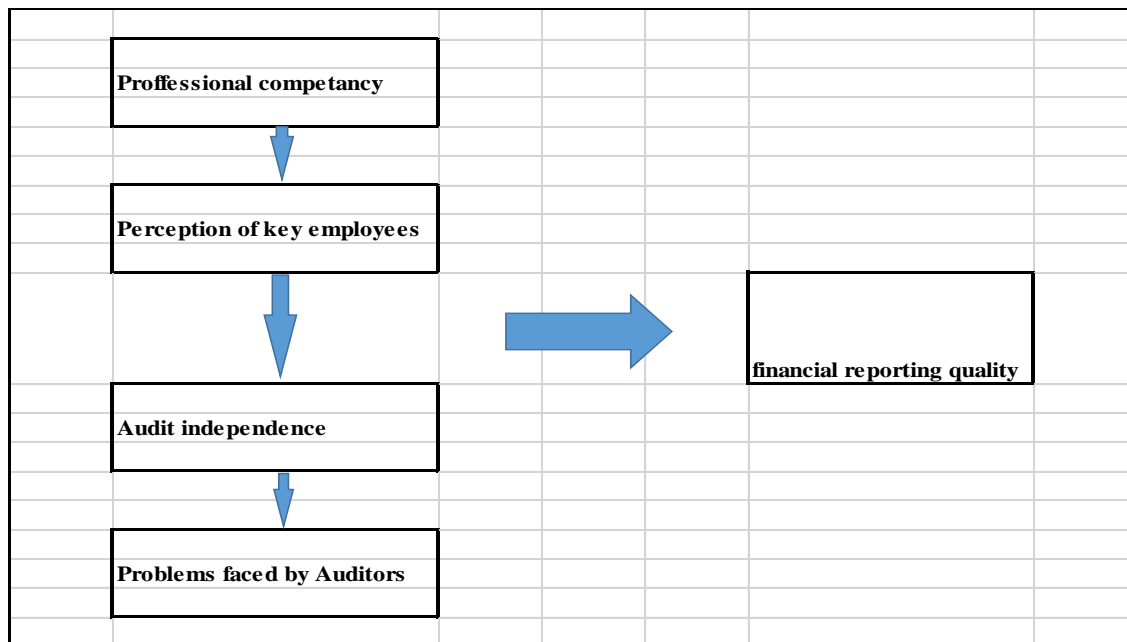
Jani et al (2003) conducted a study titled Accounting and audit independence a case of reserve bank of Zimbabwe .This study tested the implications of accounting and audit independence on bank report reliability ,the main aim of the study was to determine if accounting and audit practices produced better bank reports .The study concluded that 5 banks had better reports than the other 3 due to the accounting and audit personnel they contracted to undertake their finance functions .It was concluded that accounting staff from private accounting firms were better than those with in house auditors based on independence that they allowed their employees. Macheche (2017) aimed to identify the difficulties encountered by internal auditors during corporate governance audits in Zimbabwe. The research discovered that independence had an effect on the execution of duties and expertise of internal auditors.

Quality audit influences the credibility of financial statements ,this lowers the potential risk to stakeholders such as investors and creditors as posited by Mirera (2018).Independent audit exams of a company's financials has become a beacon of reliable and trustworthy financial statements as posited by Baker tilly(2013).Internal audit independence influences the integrity of management in a host organization ,it makes organizations to be liable for their actions and is responsible for vigilant managers who execute and do due diligence in their operational procedures as highlighted by Mungano(2014).

Deloitte & Touche (2013) conducted a study entitled “quality over precision” this study discovered that audit independence was undeniably crucial in insuring that quality was attained in financial reports ,this shows the relevance in an independent audit function ,this study also had research undertones such as management support and this also was a crucial cog in the study .Financial performance is determined by many factors and audit enhances that through its watchdog role in any organization to fulfill the monitoring and mitigation of financial risk as study's shows .

2.3 Conceptual framework

Figure 2.3 conceptual framework



2.4 Summary

The study is built upon solid theoretical foundations, establishing the main pillars that support its framework. Furthermore, existing empirical research on the reliability of financial reports has been extensively documented and publicly disseminated. The subsequent chapter will delve into the research methods employed in this study, providing a detailed examination of the chosen

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

The main objective of the chapter was the provision of a clear outline and summary of the methodology used. It aimed at defining the main setup, principles, approach, and the steps taken for collection of data and analysis. The objective of the study is to undertake an analysis on internal audits influence the quality of financial reports, with Nicoz Diamond Insurance as a case study. This chapter went into detail to outline the methodologies used for data acquisition and scrutiny, Research instruments used and the reasoning that motivated their selection. An evaluation of each of these matters was undertaken, outlining the pros and cons of the highlighted approach. Conclusively, this section sheds light to the methods used to measure the reliability and validity of the information.

3.1 Research design

A research design is the plan for collecting and utilizing data so that the desired information can be obtained as per literature by Bonga (2016). In accordance with Smith (2022), he posited that, a research design is a detailed framework, structure, or methodology used in a research project, with the main purpose being improving details of the particular study topic under scrutiny. According to Johnson and Brown (2019), he posited that it follows a step by step approach for starting a study and finding solutions to research questions. The research design is a detailed strategy for the research, as postulated by Davis & Williams (2022)

3.1.1 Descriptive research design

The researcher undertook the descriptive research design. The use of a descriptive design research entails the observation of a study populations behaviors without interfering in its normal day to day Robinson (2023). Scientific research usually uses this method to gain a comprehensive view into the subject matter. The use of this method in this study was motivated by capturing Internal auditor's natural behaviors that they exhibit operationally. The researcher anticipated to gain a deeper and more natural viewpoint of the audit function.

3.2 Subjects (population and sampling)

3.2.1 Population

Population is defined by Smith, (2020) as subjects residing in a particular space or locus who exhibit similar characteristics. The target population as postulated by Johnson & Brown (2021) refers to the representation of potential respondents in the study area. Population of study is culmination of all ways that can provide credible data for analysis every element in the study group has a fair chance of being chosen to help with the research findings Davis & Williams (2023). For this study the respondents were Nicos diamond personnel.

3.2.2 Sample

As postulated by Question pro (2023), a sample is a smaller set of data that a researcher chooses or selects from a larger population using a pre-defined method. The main purpose is to represent a portion of the study population as a control enabling the researcher to generalize the outcomes as a representation of the whole study. The researcher utilized Nicos diamond as the sample study.

3.3 Research instruments

A research instrument is a tool used to collect, measure and analyze data related to your research study according to the study according to Duquesne university (2023) .Data acquisition can utilize a throng of instruments but ultimately depends on the researchers needs and want, the formulation of a suitable research instrument should guarantee reliability and validity. The researcher used questionnaires to get data from respondents.

3.3.1 Questionnaires

Schvaneveltd (1985) defined questionnaires as a data gathering device that elicits from a respondent the answer or reactions to printed prearranged questions presented in a specific order. The researcher utilized questionnaires as the primary data collection method.

3.3.2 Pros and cons of questionnaires

Questionnaires have the ability to accumulate raw data that may be hard to observe in normal test conditions Smith, (2022). Unbiased research data can be acquired by questionnaires which are concocted in a planned manner. Questionnaires are a very cheap way of acquiring data it utilizes financial resources in a manageable manner apart from other methods of data. Questionnaires have the ability to influence respondents to randomly answer the wrong answers the presence of more than one answer may influence the wrong answer s

The researcher utilized an electronic questionnaire since the study company Nicoz diamond is trying to align with going paperless to be in sync with its green imitative global warming imitative

3.4 Data collection procedures

Acquisition of raw data was aided by google tools as a way to disseminate the questionnaires to the respondents, field research was conducted was done online to monitor the response rate of the respondents. The questions defining this research were then utilized by the researcher to synthesis a well-structured questionnaire. Electronic dissemination of the instruments was chosen due to the characteristics of the respondents.

3.5 Summary

The chapter outlined the methodologies utilized to acquire, analyze and exhibit the study population. The elucidation of the comprehensive principles of this research was undertaken in detail so was the research design, sampling methods and data dissemination. Chapter four offers a comprehensive illustration of the research results highlighting their significance and implications

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter focusses on the research findings that seeks to answer the investigation of the impact of internal audits on the quality of financial reports, with the main focus on Nicoz diamond insurance company. Raw data was analyzed using SPSS and Excel charts which detailed the results attained in the previous chapter. The research objectives were the main focus namely, assessing the impact of professional competency on the financial reporting quality, exploring employee perception in reference to financial reporting quality and lastly the impact of internal auditor independence on the quality of financial reports.

4.1 Reliability and Validity

Table 4.1.1 Correlation and Reliability test (Auditor competency)

QUESTIONS		Total	COMMENT	Cronbach's Alpha	COMMENT
You understand what professional competency is	Pearson Correlation	.906**	VALID	.952	RELIABLE
	Sig. (2-tailed)	.000			
	N	54			
internal auditors at Nicoz diamond have professional qualifications	Pearson Correlation	.839**	VALID	.951	RELIABLE
	Sig. (2-tailed)	.000			
	N	54			
Internal auditors at Nicoz diamond are recognised in their fields	Pearson Correlation	.969**	VALID	.948	RELIABLE
	Sig. (2-tailed)	.000			
	N	54			
Professional competency make your company's financial accounts to be reliable	Pearson Correlation	.909**	VALID	.949	RELIABLE
	Sig. (2-tailed)	.000			
	N	54			
Internal auditors at Nicoz diamond exhibit high levels of audit competency	Pearson Correlation	.853**	VALID	.951	RELIABLE
	Sig. (2-tailed)	.000			
	N	54			
For how long have you been working with Nicoz diamond	Pearson Correlation	.869**	VALID	.948	REALIBLE
	Sig. (2-tailed)	.000			
	N	54			

The questions presented in the study underwent reliability and validity testing using Pearson correlation and Cronbach's alpha tests. The validity of the questions was confirmed as all of them displayed correlation coefficients greater than (0.35), with corresponding significance values below 0.05. Reliability was assessed through the Cronbach's alpha test, which indicated that all the questions achieved results above 0.65, demonstrating their reliability. Therefore, the conducted tests affirm that the competency questions utilized in this study are both valid and reliable for the intended research purpose.

Table 4.1.2 Correlation and Reliability (Auditor Independence questions)

QUESTIONS	Pearson Correlation	Total	Comment	chronbach alpha	comment
Are you familiar with the concept of internal audit independence ?	pearson correlation	0.935			
	Sig(2 tailed)	0			
	N	54	Valid	0.957	reliable
Do the internal auditors at Nicoz diamond posses the freedom to express their views and opinions?	pearson correlation	0.655			
	Sig(2 tailed)	0			
	N	54	Valid	0.954	reliable
Do the audit findings at Nicoz diamond serve as evidence of the precise and equitable nature of the financial accounts?	pearson correlation	0.702			
	Sig(2 tailed)	0			
	N	54	Valid	0.954	reliable
The internal auditors at Nicoz diamond have a direct reporting line to the board of directors?	pearson correlation	0.702			
	Sig(2 tailed)	0			
	N	54	Valid	0.951	reliable
Are the internal auditors at Nicoz diamond recognised as independent experts sought after by various managers for their professional guidance on internal controls? .	pearson correlation	0.938			
	Sig(2 tailed)	0			
	N	54	Valid	0.955	reliable

Source: data processed with IBM SPSS

Validity and reliability tests were conducted on the table of questions pertaining to auditor independence. The validity analysis revealed that all the questions yielded significance values below 0.05, indicating their statistical significance. Furthermore, the coefficient of correlation results for each question exceeded 0.35, demonstrating their validity. In terms of reliability, the Cronbach's alpha test indicated that the reliability of each question was above 90%, surpassing the recommended threshold of 0.65 or 65%. These results affirm the reliability of the questions and validate their use in the study.

Table 4.1.3 Correlation and Reliability test (Employee views)

Questions		Pearson Correlation	Total	Comment	chronbach	comment
Do you have a clear understanding of the valuable assistance and support provided to the company by internal auditors		pearson correlation	0.657			
		Sig(2 tailed)	0			
		N	54	Valid	0.951	reliable
Internal audit as a function is relevant or not.		pearson correlation	0.933			
		Sig(2 tailed)	0			
		N	54	Valid	0.956	reliable
Are internal auditors viewed in good light in the company hierarchy		pearson correlation	0.65			
		Sig(2 tailed)	0			
		N	54	Valid	0.957	reliable
Should the company continue to invest heavily in the audit function		pearson correlation	0.619			
		Sig(2 tailed)	0			
		N	54	Valid	0.957	reliable
total		pearson correlation				
			1			
		Sig(2 tailed)				
		N	54			

Source: data processed with IBM SPSS

Validity and reliability tests were conducted on the table of questions pertaining to corporate views. The validity analysis revealed that all the questions achieved significance values below 0.05, indicating their statistical significance. Moreover, the correlation coefficients for each question exceeded 0.35, confirming their validity. Reliability was assessed through the Cronbach's alpha test, which yielded results above 0.65, indicating the reliability of the questions. Therefore, the conducted tests demonstrate that the questions on corporate views are both valid and reliable for use in the study.

4.2 Normality of data

Table 4.2.1 SPSS normality test

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
com	54	1.60	5.00	3.5889	.94163	-.160	.325	-1.058	.639
ind	54	1.50	4.75	4.2315	.61975	-0.336	.325	-0.569	.639
view	54	2.20	4.80	4.1370	.58384	-0.384	.325	3.077	.639
Valid N (listwise)	54								

Source: research data processed with IBM SPSS (2023)

Normality testing was done using SPSS kurtosis and skewness test the results signified that the skewness and kurtosis measures were in-between +3and -3 significant and this results showed that the data under review is normally distributed this validates our research to be factual in measure.

4.3 Multicollinearity of data

Table 4.3.1 Multicollinearity test

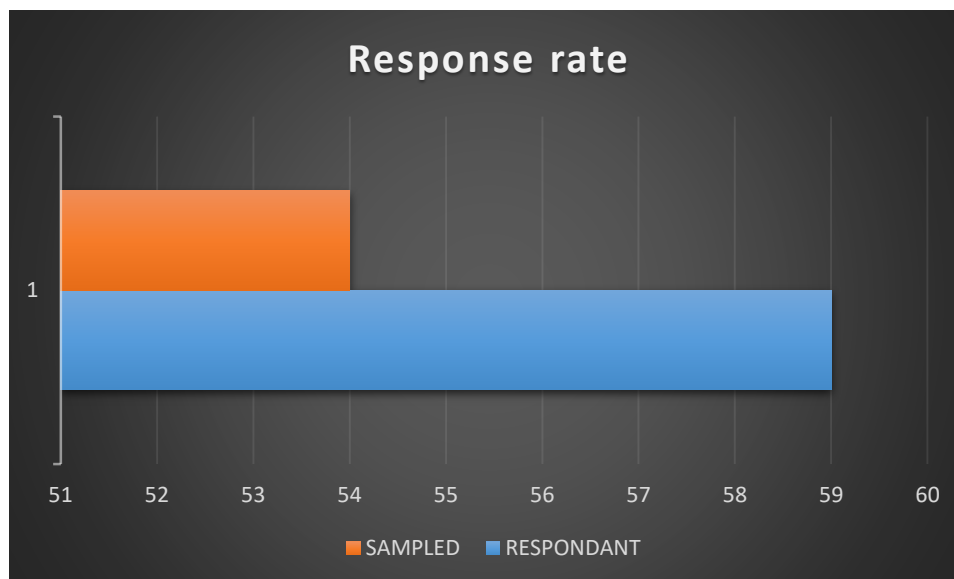
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4.582	.238		19.256	.000		
	com	.013	.039	.052	.336	.738	.728	1.374
	ind	.037	.087	.096	.431	.669	.346	2.891
	view	-.184	.084	-.447	-2.188	.033	.415	2.412

Source: Data processed with IBM SPSS.

To assess multicollinearity, a linear regression analysis was done using SPSS. The variables were evaluated based on the Variance Inflation Factor (VIF), and the results indicated VIF values below 10. This suggested that there is low variance inflation, indicating that the tested variables are highly correlated with each other

4.4 Demographics

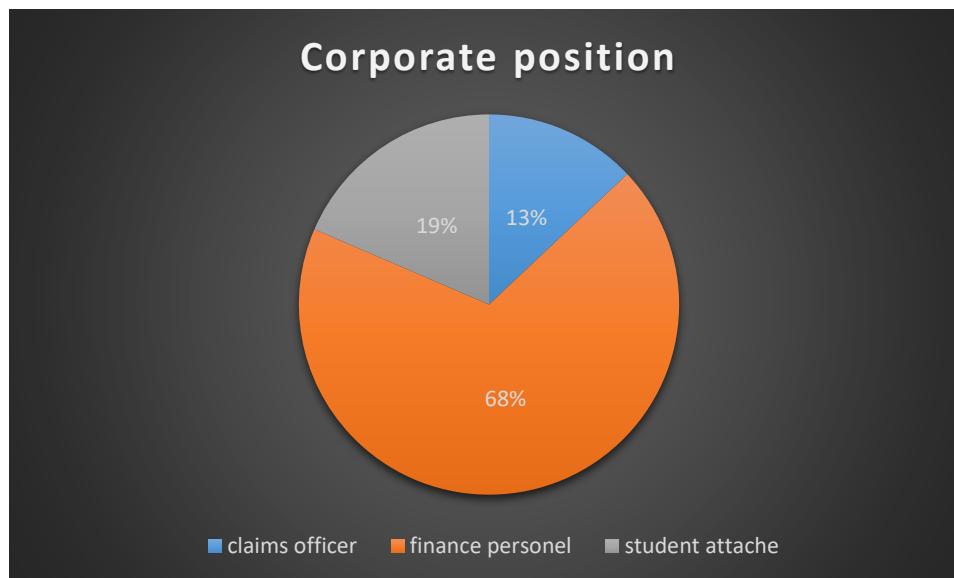
Figure 4.4.1 Response Rate



Source: Data processed with Excel

The bar chart above shows the response rate, mainly the respondents who got questionnaires and the ones who actually responded (sampled) 54 individuals responded out of a total study population of 59. This signifies a good turnout ratio, which in return also gives insight into the study population of the individuals at Nicoz diamond insurance Company.

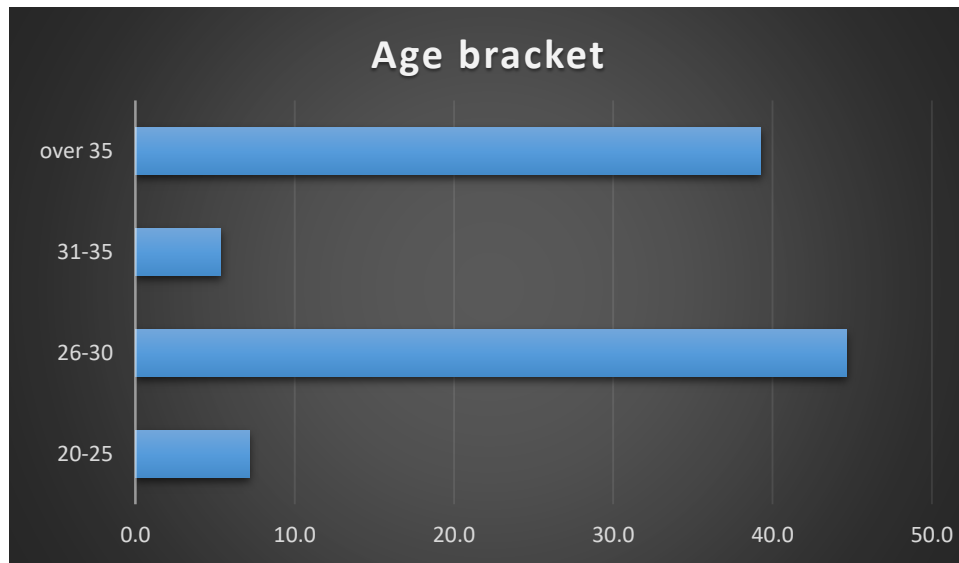
Figure 4.4.2 Corporate position



Source : Data processed with Excell charts

The pie chart presented above displays the distribution of personnel who participated in the questionnaire from a sample population of 54 individuals at Nicoz Diamond. The majority of corporate personnel at Nicoz Diamond consists of accounting officers, comprising a significant 68% of the total sampled population. Student attaches account for 19% of the population, while claims officers in the underwriting department represent the smallest portion with 13%. These findings indicate that the company has a substantial number of accounting staff, which adds credibility to this study. The presence of a higher number of student attaches compared to underwriters in the claims department also highlights the company's investment in the next generation

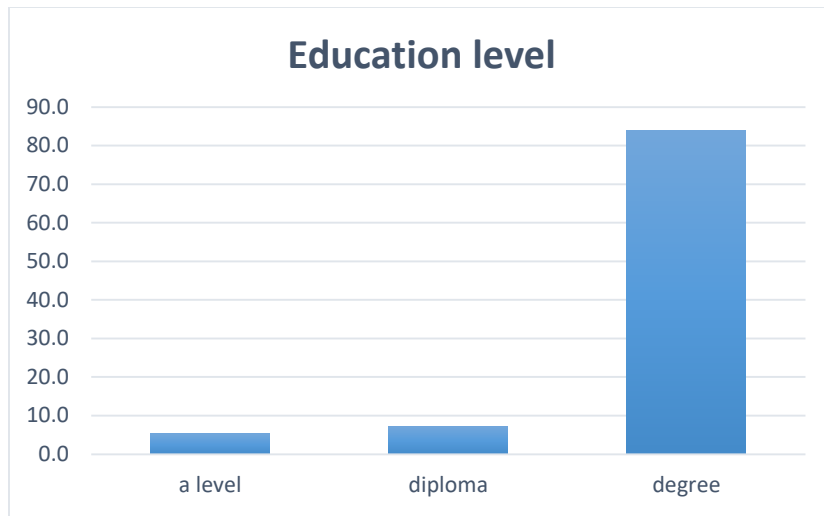
Figure 4.4.3 Age bracket



Source: data processed with Excel charts

Table above illustrates the distribution of age among the respondents the highest age bracket that has the most individuals is the 26-30 age bracket with 44.6% of the total population, followed by the over 30 age bracket 39.3% within, followed by the 20-25 age bracket with 7.1% and lastly the 31-35 age bracket with 5.4% of the total respondent count. These findings support the claim that the majority of individuals in today's workforce belong to the younger age group, below the age of 50.

Figure 4.4.4 Educational level



The presented table showcases the educational attainment of the respondent population. The majority of respondents, accounting for 83.9% of the total population, held degrees. Diplomas were held by 7.1% of the population, while A-level certificate holders constituted 5.4% of the total population. These findings highlight the increasing demand for degrees in the corporate sector, as individuals strive to acquire higher educational qualifications in order to gain a competitive advantage in the professional arena

4.5 Results and discussion based on objectives

Table 4.5 Competency results

QUESTIONS	1	2	3	4	5
You understand what professional competency is		3.70%	20.40%	39%	37.00%
Internal auditors at Nicoz diamond have professional qualifications (CA,CPA,CFA)			7.40%	30%	63%
Internal auditors at Nicoz diamond are recognised in their fields(ICA,ACCA,CIMA)	13.00%	17%	14.80%	24%	31.50%
Professional competency make your company's financial accounts to be reliable	29.60%	6%	11.10%	15%	38.90%
Internal auditors at Nicoz diamond exhibit high levels of audit competency		4%	20.40%	39%	37%
For how long have you been working with Nicoz diamond	13.00%	7%	18.50%	63.00%	

76% of the total respondents understand what professional competency is and only 3.7% has no idea what the term implies 20.4% are neutral and did not take any of the extremes in answering the question .93% of the respondents agree that the internal auditors at Nicoz diamond have professional qualifications such as Chartered Accountant certificates and only 7.4% of the population decided to remain neutral with neither leaning to either extremes .55.5% of the respondents agree that the internal auditors at Nicoz diamond are recognized by bodies such as Chartered institute of management accountants 30% disagree and 14.8% are neutral .53.9% of the respondents agree that professional competency makes the financial accounts of the company reliable with 35% disagreeing to the question .76% of the study population agree that the internal auditors at Nicoz diamond exhibit high levels of professional competency with only 24% not in agreement and neutral to the question. The questions relating to competency of internal auditors showed that most of the study population strongly agree that the internal auditors at Nicoz diamond are competent.

Discussion

The effect of auditor competency on the quality of financial reports

The results regarding the research objective of investigating the influence of professional competency on the quality of financial reports shows significant effect. The results demonstrate a strong correlation between internal audit competency and the quality of financial report. This means the more qualified an auditor is the better the financial reports will be. Audit competency plays an important part in ensuring quality financial reports established by Lonape et al (2018). Uneducated auditors prepare poor financial statements and reports, they fail to effectively fulfill their monitoring capacity's, leading to a significant reduction in quality of financial reports this was deduced from a study by Mangombe et al (2013) .

Qualified internal auditors will improve the quality of financial reports, promoting the stakeholder theory which states that organizations are bound by their roles to provide true and factual results to various stakeholders and to ensure the quality is at par with industry best practices. This will ensure better and accurate stakeholder appreciation. Sian (2012) also outlined the need for internal auditors to have the latest skills to provide better financial reports for their principles. The company is liable to have the best qualified personnel in their ranks to insure that the public and other stakeholders get value for their money through proper financial reports of high quality, promoting the stakeholder theory . Conclusively the study determined that internal auditor competency positively influences the quality of financial reports.

Independence

Table 4.5.2 Independence results

QUESTIONS	1	2	3	4	5
Are you familiar with the concept of internal audit independence ?	3.70%		9%	44.40%	42.60%
Do the internal auditors at Nicos diamond posses the freedom to express their views and opinions?	11.10%	14.80%	6%	66.70%	1.90%
Do the audit findings at Nicos diamond serve as evidence of the precise and equitable nature of the financial accounts?			70%	16%	14%
The internal auditors at Nicos diamond have a direct reporting line to the board of directors?	1.90%			5.60%	92.60%
Are the internal auditors at Nicos diamond recognised as independent experts sought after by various managers for their professional guidance on internal controls? .			5.60%	38.90%	55.60%

The table above shows the questions that were asked in response to independence of the internal auditors ,87% of the respondents agreed that they do understand what internal audit independence is, only 3.7% of the population do not understand with neutrals with 9%. When it comes to internal audit freedom of expression 68%of the respondents agree that it is available to the auditors ,25% of the population does not agree and 6% are neutral to the question. On the question that the internal audit findings demonstrate the accuracy of the financial accounts the majority 70% do not know and are not sure what the question implied 30% agree to the question.98%of the population agree that the internal auditors at Nicos diamond are independent experts only 1.9% do not agree with the question .Lastly 94.5% of the respondents agreed that the internal auditors at Nicos diamond report straight to the board of directors only 5.6% were neutral to the assertion .

Discussion

Effects of auditor independence on the quality of financial reports

The results show a positive correlation between audit independence and financial reporting quality meaning that auditor independence has significantly influences the quality of financial reports ,Auditor independence can amplify the quality of financial reports as posited by Chenxi & Wu(2003).The need for better equipped and independent auditors who are not influenced by management is crucial according Johanes (2014).Independent auditors are ones who are able to conduct their duties without fear and prejudice from their managers ,this will promote accuracy and reliability aligning with the Stakeholder theory which tries to ensure the stakeholders are given true and fair information which has been prepared to be the most reliable according to the latest standards .

The information asymmetry theory aims at promoting the main function of internal audit in reducing information asymmetry by providing of independent and reliable information to relevant stakeholders. This theory is in line with audit independence in the provision of reliable information. Mutengeribwi (2010) investigated the impact of internal audit independence in auditing firms and discovered that auditor independence is essential in provision and execution of duties by an internal auditor.

Employee perception

Table 4.5.2 Employee perception results

Questions		1	2	3	4	5
Do you have a clear understanding of the valuable assistance and support provided to the company by internal auditors						
		10%	23%			67%
Internal audit as a function is relevant or not.						
				25%	34%	41%
Are internal auditors viewed in good light in the company hierarchy		3.70%	9.30%	28%	53.70%	5.60%
Should the company continue to invest heavily in the audit function		7.40%		7%	38.90%	46.30%

The aforementioned questions aimed to gain insights into the viewpoints of respondents regarding internal audits. According to the results, 67% of the respondents were aware of and agreed with the services provided by internal auditors to the company, while 33% disagreed or were unaware. Regarding the relevance of the internal audit function, 75% agreed, 25% were neutral or unsure. When it comes to how internal auditors are perceived, 59.3% agreed that they were viewed positively, 13% disagreed, and 28% were neutral or did not understand. Furthermore, 85% of the study population agreed that the company should continue investing in the audit function.

Discussion

The effects of key employee views on quality of financial reports.

The above depicted results are in line with a study undertaken by Nimrod & Ibrahim (2003) in which the Malaysian government was under scrutiny as female auditors were looked down upon which discovered that female audit performance was a result of how they were perceived in the government. Demairo (2019) discovered that stakeholder perception of a company positively

influences the performance of that company. This is in line with the institutional theory which states that organizations sometimes fall victim to external forces from stakeholders, Key employee view the audit function as a relevant and able function and this in turn boost morale for the internal auditors to perform their duties to the best of their abilities .Dave (2018) investigated the employee perception on the output at a factory in china, and discovered that those factory teams who were perceived to be efficient perfumed better just because they were perceived to be better. The discussion can positively agree that key employee view impact quality of financial reports.

4.6 Summary

The study attempted to empirically determine the meaning of the quantified the data acquired in Chapter 3 and gave explanations in relation to the figures that were being generated it provided simple answers to make the readers better understand the figures. The results found that professional competency does affect the quality of financial reports so does auditor independence and key employee perception on the overall quality of financial reports. Chapter five will look into Summary, conclusions and recommendations of the whole research project.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter went into the summary of the research, and outlined the conclusion and major give away of the study to similar future bodies of work and also key takeaways by students and researchers alike.

5.1 Summary

The main objective of this research was to examine the impact of internal audits on the quality of financial reports as a case of Nicoz diamond insurance company in particular. Sub issues of the research were to investigate the impact of professional competency on the quality of financial reports, examine the perception of key employees to the impact of the internal audit function and lastly to determine the impact of internal auditor independence on the quality of financial reports

5.1.1 Competency

Raw data on the investigation of the impact of professional competency revealed that (76%) understood what professional competency is, (20%) remained undecided and a non-significant (3%) did not agree and had no prior knowledge of it. Auditor professional qualifications: a majority of (92%) remained neutral and undecided (7.4) did not agree. Internal Auditor recognition, majority (55%) agreed that internal auditors at the company were professional recognized by organizations such as CIMA, (30%) were unpopular with the idea and an (14%) remained

undecided on the matter. (53.9%) majority agreed that competency makes quality financial reports, and (35%) did not agree with the question. Overall the reactions from respondents were mixed as per each question of the data gathering but the majority per each question concluded that auditor competency positively influences the quality of financial reports.

5.1.2 Employee perceptions

(67%) of the total respondents know and agree with the services that internal auditors at the company provide, this signifies a positive outlook on internal auditors, (33%) did not agree and did not understand the services brought about by internal auditors. Audit function relevance : (75%) majority of the respondents were in agreement that the audit department was a relevant part of the company, (25%) were undecided and formed a small percentage. Internal audit overall image, (59.35%) majority agreed that internal auditors are seen in good light, (28%) remained undecided and (13%) did not agree. Overall the majority of respondents per each question were positively leaned to agreement rather than disagreement as such this outlined that how internal auditors are seen positively influences the quality of financial reports.

5.1.3 Independence

Understanding of internal audit independence a big chunk of respondents (87%) agreed that they clearly understood what internal audit independence implies. An insignificant percentage (3.7%) did not clearly comprehend the question whilst a mere (9%) maintained neutrality. Freedom of expression (68%) of the respondents agreed to the question, 25% did not agree to the question, and a mere (6%) remained undecided in the neutral zone. Demonstration of Accuracy in financial accounts A big percentage of (70%) were neutral with the question whilst (30%) of the respondents agreed to the question.

Perception of Internal Auditors as Independent Experts A large majority (98%) of the respondents agreed that the internal auditors at Nicos Diamond are independent experts. A small insignificant

(1.9%) did not agree with the question. Reporting Structure to the Board of Directors: A large chunk of respondents (94.5%) agreed that the internal auditors at nice diamond are liberal and report to the board of directors. (5.6%) were undecided and chose neutrality. The questionnaires deduced that whilst they were respondents who decided to remain neutral those responses did not affect the overall answer of agreement that was in unison amongst the respondents, conclusively auditor independence does positively influence the quality of financial reports at Nicoz diamond

5.2 Conclusion

5.2.1 Competency

The study has concluded that professional competency positively influences the quality of financial reports.

5.2.2 Employee perceptions

The study has concluded that key employee perceptions positively influence the quality of financial reports.

5.2.3 Independence

The study has concluded that auditor independence positively influences the quality financial reports

5.3 Recommendations

5.3.1 Competency

Continuous Training and Development, the company should conduct worker training on a regular basis to better amplify the auditor skills and abilities to better suit the current working conditions. Insurance is an ever evolving sector with new products being concocted yearly so employees should be kept up to date with the latest trends in insurance product synthesis.

Learning Culture, the company should create a conducive worker environment that promotes learning and corporate growth. The company should ensure that the industry peers should conduct education dissemination classes to ensure that employee exchange knowledge. This fosters teamwork and employee participation

Update Processes, Existing systems that are no longer efficient should be phased out ever evolving systems should be adopted to eliminate inefficiencies. The latest systems and artificial intelligence tools should be utilized to archive work efficiency. These precautions will better enhance competency and improve the quality of financial reports.

5.3.2 Employee perception

Foster Open Communication is the backbone of any functional organization a culture of open communication should be fostered in the work organization to allow for safe expression of ideas and also concerns. Management should promote regular engagements to ensure that employees have been seen and heard and actively take steps to rectify those concerns.

Provision of clarity, Important decision making should also incorporate worker comprehension to ensure that employees have understood the level and impact of the decisions. Goals should be defined and disseminated in a professional manner to all employees and stakeholders. The ability of the company to match its overall goals with that of the internal auditors, the better the workers want to get involved.

Employee Involvement, Delegation of duties to lower ranked employees should be a fostered behavior within the company, the involvement of lower ranked employees into the decision

making process is relevant and ensures the next crop of leaders know how to react and act in certain situations.

Encourage teamwork, the company should organize work related workshops to ensure that their employees acquire the skills to work as a functional team. A company can be defined as culmination of various collaborative efforts toward a certain goal

Recognition of Expertise at work, Nico diamond should better appreciate the quality of employees they possess through better rewarding framework for those who are highly skilled and with the most experience this will boost work moral and ensure better attitudes at work

5.3.3 Independence

Structure, the internal audit function should bypass the normal reporting channels that are present in many financial company's this will ensure the independence and security of the results and ensure that the results are authentic.

Work structure, the work structure dynamic is an important one and an internal auditor needs one to perform their assigned roles perfectly and that is only possible through the definition and formalization of their work roles. The audit function should not be in the Finance department it should be independent of it

Autonomy, Nicoz diamond should provide the latest tools and technology for their audit staff to ensure independence is achieved. The lack of resources results in auditors not having the best chances to attain work independence in a work set up.

Development, Nicos diamond insurance company should further their internal auditor education through professional development courses. This aids the problem solving capabilities, better understanding of the latest accounting standards (IFRS and IAS) and better quality reasoning, to ensure quality preparation of financial reports.

5.4 Future research areas

The study used data from Nicos diamond insurance company which is a subsidiary of First mutual holdings and publicly listed on the Zimbabwe stock exchange to determine the impact of internal audits on the quality of financial reports .The study used raw data acquired from the respondents at the company ,future studies should further the literature on the importance of quality financial reports as that area lacks in some sense a broad literature base and further studies in internal audit as an area of investigation.

5.5 Chapter summary

Chapter five, the final chapter of the research concluded the research summary, conclusion of the research and recommendations. The study concluded that internal audit does positively impact the quality of financial reports which was analyzed using competency, perceptions and independence

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Appendices

Questionnaire

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE



Dear Respondent

I am an undergraduate student at Bindura University of Science Education doing Banking and Finance, currently working on my project work entitled **“Impact of internal audit on the quality of financial reports –A case of Nicoz diamond insurance company”**

Attached is a questionnaire that I ask you to fill out. I therefore agree to comply with the university rules and guidelines for research projects and acknowledge that all information I receive will be treated as strictly confidential and will not be used for any purpose other than this study.

Your cooperation would be greatly appreciated.

Yours sincerely

B190003B

+263782911156 ∴.

QUESTIONNAIRES FOR STAFF

Kindly, fill all the questions either by ticking in the boxes provided below or writing in the spaces provided.

1.What is your Age bracket?

- a) 20-25 years b) 26-30 years c) 31-35 years d) Over 35 years

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2. What is your position in the organization?

- a) Claims officer b) Finance c) Student Attaché

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3. What is your level of Education?

- a) O' Level b) A' Level c) Diploma d) Degree

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4. For how long have you been working with Nicoz diamond?

- a) Less than a year b) 1-3 years c) 3-6 years d) Over 6 years

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5. You understand what professional competency is?

- 1.strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

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6. Internal auditors at Nicoz diamond have professional qualifications (CA,CPA,CFA)

1.strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

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7. Internal auditors at Nicoz diamond are recognised in their fields(ACCA,CIMA)

1.strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

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8. Professional competency make your company's financial accounts to be reliable?

1.strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

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9. Internal auditors at Nicoz diamond exhibit high levels of audit competency

1.strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

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10. Are you familiar with the concept of internal audit independence?

1.strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

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11. Do internal auditors at Nicoz diamond possess the freedom to express their views and opinions?

1.strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

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12.The internal auditor at your company has freedom of expression

1.strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

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13.The internal auditor’s findings at your company demonstrate the accuracy and fairness of the financial accounts

1.strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

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14.Are the internal auditors at Nicoz diamond recognised as independent experts sought after by various managers for their professional guidance on internal audit.

1.strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

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15.Do the internal auditors at Nicoz diamond have a direct reporting line to the board of directors .

1.strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

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16.Do you have a clear understanding of the valuable assistance and support provided to the company by internal auditors.

1.strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

--	--	--	--	--

17. Internal audit as a function is relevant or not.

1. strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

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18. Are internal auditors viewed in good light in the company hierarchy.

1. strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

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19. Should the company continue to invest heavily in the audit function

1. strongly disagree 2. disagree 3. Neutral 4. Agree 5. strongly agree

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Thank you for your participation

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