

GREAT ZIMBABWE UNIVERSITY



**EXTERNAL AUDIT AS A CORPORATE GOVERNANCE TOOL IN MITIGATING
CORPORATE SCANDALS AND PUBLIC ENTITIES' DECAY. A CASE OF ZIMBABWE
ELECTRICITY SUPPLY AUTHORITY (ZESA) HOLDINGS.**

DISSERTATION

BY

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**SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND INFORMATION SYSTEM
OF GREAT ZIMBABWE UNIVERSITY**

**IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR
*MASTER OF COMMERCE DEGREE IN PROFESSIONAL ACCOUNTING AND CORPORATE
GOVERNANCE/GRAD ICSA***

MASVINGO, ZIMBABWE

YEAR: 2023

RELEASE FORM


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DISSERTATION TITLE: External audit as a corporate governance tool in mitigating corporate scandals and public entities' decay. A case of Zimbabwe Electricity Supply Authority (ZESA) Holdings.

DEGREE FOR WHICH PRESENTED: Masters in Professional Accounting and Corporate Governance/ GRAD ICSAZ

YEAR GRANTED: 2023

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DEDICATION

I dedicate this paper to my wife and family for their unparalleled support. I also dedicate the paper to Great Zimbabwe University, Chartered Governance and Accountancy Institute in Zimbabwe, scholars, ZESA Holdings and government of Zimbabwe.

DECLARATION FORM

I, Method Wisky Chinyamupembe, I therefore declare that, with the exception of the acknowledgements, references, and comments included in the body of the report, this project is a presentation of my own work. The project has not been submitted in part or in full to another University or any other institution of higher learning.

Student Signature..........

Date.....17.12.2023.....

ACKNOWLEDGEMENTS

First and foremost, I would like to thank the Almighty God for His guidance up to this stage of studies. Secondly, I would like to thank Dr J. Bemani for the intimate supervision and guidance on my work. More so, I would like to thank Great Zimbabwe University together with the Chartered Governance and Accountancy Institute in Zimbabwe and lectures in the Department of Accounting and Information Systems for all theoretical skills shared through knowledge, culture and development.

I would also like to express my gratitude to ZESA Holdings Directors for acceding to my request to carry out research. I would like to convey my sincere appreciation to all respondents who participated in this research for their objective responses.

The chapter will remain raw without extending my gratitude to my wife Sharon, family and my friend Mr C. Maramwidze for their unparalleled moral support throughout my studies.

God bless you all.

ABSTRACT

Terrible and unethical practices have occurred to the way business is conducted under the guise of parastatal status. Serious damage has been done to ethical codes of conduct held by once-trusted business professionals in state owned enterprises in Zimbabwe. Increased cases of corporate scandals in public entities and misgovernance has led the public to believe on an assertion “external audit has become a formality rather than a corporate governance tool to satisfy various interested stakeholders”. The research’s main objective was to evaluate the effectiveness of the External Audit function as a corporate governance tool in state owned enterprises and parastatals (SOEs). The research applied the mixed research methods and a combination of descriptive and exploratory research design was used. Target population comprise of 1000 ZESA employees in Harare province. Purposive sampling was used to select a sample size of 278 respondents from the target population broken down as 3 Executives, 90 Top Managerial Staff, 150 Middle Managerial Staff and 35 Lower Managerial Staff. This research was done using semi-structured questionnaires plotted on a 5-point Likert Scale and in-depth interviews to answer research questions on External Audit as a corporate governance tool in mitigating corporate scandals and public entities’ decay. SPSS was used for interpretation of data gathered using Pearson’s Chi-Square to determine relationships. Data was presented as summaries, bar charts, tables and pie charts. The research found out that External Audit is not effective as a corporate governance tool in mitigating corporate scandals and public entities’ decay. The research recommended that the government should stop political interference in the running of state entities, auditors should treat financial and pure governance matters separately before, during and after the audit process and those charged with governance should jealously follow up and implement recommendations made by external auditors timeously.

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LIST OF ACRONYMS

ZESA - Zimbabwe Electricity Supply Authority

ZPC - Zimbabwe Power Company

ZETDC - Zimbabwe Electricity Transmission and Distribution Company

ZENT - ZESA Enterprises

SOEs - State Owned Enterprises

ISA - International Standard of Audit

IAS - International Accounting Standards

IFRS - International Financial Reporting Standards

ZIDA - Zimbabwe Investment and Development Agency

NDS - National Development Strategy

ZIMCODE - Zimbabwe Code of Corporate Governance

OECD - Organization for Economic Co-Operation and Development

ZACC - Zimbabwe Anti-Corruption Commission

CSR - Corporate Social Responsibility

ESG - Environmental, Social and Governance

IPP - Independent Power Producers

PFMA - Public Finance and Management Act

PRAZ - Procurement Regulatory Authority of Zimbabwe

CHAPTER I

INTRODUCTION

1.0 INTRODUCTION

The study examines external audit as a corporate governance tool in mitigating corporate scandals and public entities' decay. The study focuses more on Zimbabwe Electricity Supply Authority (ZESA) Holdings as a case study. The study goes a long way examining the role of external audit within the corporate governance framework and as prescribed by International Standard of Audit (ISA) 240. The study reviews financial scandals occurred in Zimbabwe public entities that involve auditors and also investigate the role of external audit in the collapse of these entities. The opening chapter provides the back ground, statement of the problem, research objectives and significance of the study. Limitations of the study, scope and delimitations are also explained in this chapter. The study is explanatory and descriptive in nature since it followed explanatory research designs on a case study.

1.1 Background to study

Business scandals are so immense and now eroding our most deeply held beliefs about the honesty and integrity of our corporate culture. Terrible and unethical practices have occurred to the way business is conducted under the guide of parastatal status. Once-trusted business professionals have caused serious damage to ethical codes in state owned enterprises in Zimbabwe. The public is now believing on an assertion, "external audit has become a formality rather than a corporate governance tool to satisfy various interested stakeholders." Public sector auditors are expected to form a view as to whether the annual governance statements of an organisation are healthy and parastatals are required to produce comprehensive governance statements that cover a range of organisational arrangements that cover performance management, business strategy and planning process, budget and budgetary control code of corporate governance, project management, risk management / counter-fraud policy, ethical governance, policies, procedures, codes of conduct and partnership protocol, (ACCA, 2010).

SOEs and parastatals must at all times meet Accounting and Auditing Standards. OECD Member countries have made it a common practice to have SOE accounting and auditing standards that are similar to listed companies, (OECD, 2021). The International Financial Reporting Standards (IFRS) or the national equivalent often prevail among the reviewed countries, although some jurisdictions may still use national accounting standards depending on the size and nature of a SOE's operations (OECD, 2020). It was also discovered that in the European Union (EU), national accounting standards are aligned with the EU acquis and the IFRS to ensure quality of public entities' disclosure. In Brazil, Indonesia, Kazakhstan and Pakistan, the majority of SOEs are required to keep their accounts in accordance with IFRS, while in Lithuania, only the largest SOEs are required to do so in practice (OECD, 2021).

In Korea Republic, governmental institutions, quasi - governmental institutions and corporations are required to apply Korea International Financial Reporting Standards (K-IFRS, which were designed in line with the international accounting standards (IAS) established by the International Accounting Standard Board (IASB). In Malaysia, Philippines, Viet Nam and India, public entities are required to comply with national unified accounting standards. The OECD report indicated that for all surveyed authorities the reporting and disclosure requirements for SOEs are mainly driven and defined by listing requirements and/or company law and these reporting requirements are supplemented with requirements or standards that are specifically for SOEs. The nature of operations and size of the public entity then determine the frequency of reporting. In the case of Malaysia, the variety of different forms of SOEs is an obstacle in pursuing accounting standards that are comparable to those of stock-market listed companies (OECD, 2020).

Promoting integrity and prevention of corruption in public entities is central to attain efficiency in public entities operations and in the expenditure of public funds. The OECD contended that evidence suggests that, in contrast to private companies, public entity representatives are less likely to take preventive action in the face of recognized corruption risks while also being more likely than other public officials to be given foreign bribes. In a previous survey, the OECD polled over 360 CEOs of state-owned enterprises (SOEs) worldwide, and 42% of jurisdictions said they had recently observed corruption or other similar irregularities in their organization. Public officials, especially

politicians, need to be closely watched to make sure they stay away from public resources that could provide them a competitive edge in the market and increase complexity in accountability and transparency of the governance chain. The Implementation Guide offers examples of how the guidelines might be implemented in real-world situations, and the "OECD Guidelines on Anti-Corruption and Integrity in SOEs (ACI Guidelines)" give jurisdictions a road map for reducing corruption risks in the SOE sector.

The collapse of Enron

Enron was a Texas based energy trading company in the United States and is the first to consider a shacking corporate scandal up the auditing profession. It has led to a crisis to the confidence on auditors and the reliability of financial reporting (Holm & Laursen, 2007). The independence and audit quality of external auditors were questioned. Enron's auditor Arthur Andersen and accounting function were fraudulent. They were involved in fraudulent auditing and accounting. It is believed that failure of the audit function was one of the key factors that contributed to the collapse of Enron.

Element of conflict of interest was witnessed when Arthur Andersen applied loose standards in their audits due to substantial consulting fees collected from Enron. Andersen received \$27 million for advisory services and \$25 million for auditing Enron's accounts in total in 2000. According to Brown (2005), he was paid US\$55 million for providing non-audit services. Since the fraud was carried out by management, it was not included in the audit report that was sent to the shareholders. CEO Kenneth Lay received approximately US\$ 152 million in compensation between February 1986 and February 2001, even though the company experienced losses. It was obvious that the auditor would unlikely be appointed in the ensuing years or be involved in non-audit activities if they reported fraud. The Enron scandal demonstrates that if powerful officials had been impartial, they would have been able to identify fraudulent activity. Enron's stock price plummeted, and in December 2001 the company filed for bankruptcy.

In 2002, Enron restated its accounts, which is actually a process that reduced reported profits by \$600 million (The Economist, 6 December 2001). In fact, the process resulted in an increase in debt of about \$628 million and a cumulative profit reduction of \$591 million and for the financial statements for a three-year period from 1997 to 2000. Three off-balance sheet entities and removal substantial amounts of debt from its accounts resulted in major difference between the profit figures

and such profit inflation enabled the company to raise its earnings per share and made financial statements look much better than they actually were.

Demise of HIH Insurance

One of the biggest business failures in Australian history, the fall of HIH Insurance Ltd., was seen as the catalyst for the debate about the function of external auditors. The organization, which consists of multiple unique government-licensed insurance companies in Australia, is among the largest insurers in the country. On 15 March 2001, HIH went into provisional liquidation with losses of A\$ 800 million (Peursem et al, 2007). Similar issues arose as in the Enron case. By giving the auditor and the market false financial reports, the corporation was deceiving investors. Since Arthur Andersen oversaw HIH's external audits from 1971 until its demise in 2001, he might have contributed to its demise.

The Gupta family, one of the most influential families in the nation, is at the centre of a burgeoning corruption scandal that has severely damaged the reputation of KPMG's unit in South Africa. The auditors were charged with helping the Gupta family evade taxes and engage in corruption. The audit company acknowledges that they missed a few warning signs regarding family accounts, but they deny any misconduct. KPMG South Africa's eight senior officials have resigned including CEO Trevor Hoole in the wake of the scandal.

The decay of Zimbabwe Public Entities

For the past eight years, the Auditor-General's Office has unearthed gross violations of basic tenets of abuse of public funds and corporate governance in public entities. The 2018 Audit Report highlighted that Zimbabwe could have been prejudiced of more than US\$100 million in fictitious loan repayments and overstated supply contracts for goods paid for but never supplied (Bhoroma, 7 August 2020). The Auditors General report for the year ended December 31, 2021 showed that governance, procurement of goods and services and revenue collection issues were dominating the scandals (Chiri, 2022). The Public Entities Corporate Governance Act [Chapter 10:31], the creation of the Corporate Governance Unit (CGU) in the Office of the President and Cabinet, the Central Internal Audit Unit in the Ministry of Finance and Economic Development, and other legislative and structural reforms are all being enforced by the government through the Auditor General's Office. Most entities are yet to align their practices and policies with the provisions of the Act (Chiri, 2022).

According to the results from Auditor General for the period ending December 2021, governance matters were the most unresolved issues. According to the research, out of the 114 issues, 81 had to do with governance, and 33 had to do with procurement, revenue collection, asset management, and employment expenses. The majority of the flaws, the audit found, were caused by problems with governance. It is therefore imperative that State Owned Enterprises and Parastatals embrace provisions of the Public Entities Corporate Governance Act [*Chapter 10:31*] and incorporate these into their existing structures and processes (Chiri, 2022). The Auditor General expressed gratitude to audit firms but the question “Where were the Auditors” continue to whirl round and around in the mind of the public.

Air Zimbabwe (AirZim)

AirZim could not account for more than US\$14 million in expenditure, while Allied Timbers operated eight bank and mobile money accounts that were not registered in its name (Bhoroma, 7 August 2020). Government failed to account for more than US\$52 million paid to bail out AirZim, Central Mechanical and Equipment Department (CMED) and Civil Aviation Authority of Zimbabwe (CAAZ). Air Zimbabwe was historically mismanaged from being the best airline in Africa to only one flying plane. The parastatal was almost paralyzed and took millions of United States dollars from Zimbabwe National Road Administration (ZINARA) that was meant for road rehabilitation and procured poor standard planes from the now non-operational Malaysian Airways.

National Social Security Authority (NSSA)

The Auditor-General once ordered a NSSA Forensic Audit forensic for the period between 2015 to 2018. The report exposed shocking corruption, corporate governance flaws, abuse of office and theft. According to the report, these unethical tactics caused NSSA to lose out on approximately \$175 million in investment transactions and off-take housing contracts that were given without a formal bidding. It was cited that most of these contracts were awarded to politically affiliated suppliers, (Bhoroma, 7 August 2020).

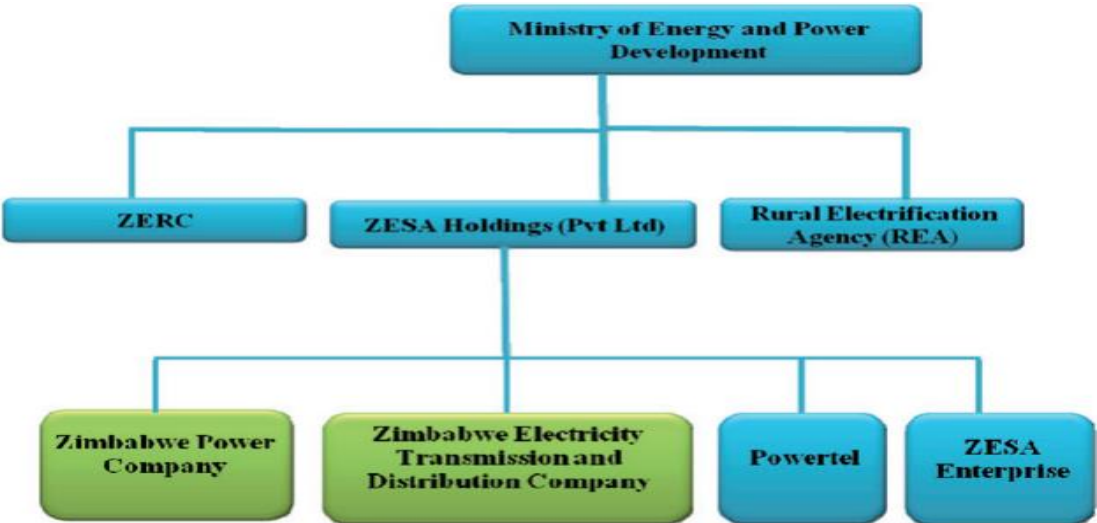
Overview Of Zimbabwe Electricity Supply Authority (ZESA) Holdings

Zimbabwe Electricity Supply Authority, (ZESA) whose official name is ZESA Holdings (Private) Limited, is a monopolistic state company with a national mandate of generating, transmitting, and distributing electricity in Zimbabwe. ZESA has divided up this mandate among two subsidiaries,

Zimbabwe Power Company (ZPC), which generates energy, and Zimbabwe Electricity Transmission and Distribution Company (ZETDC) which distributes power. Other subsidiaries are the internet provider PowerTel Communications (Private) Limited and the investment branch ZESA Enterprises (ZENT). For many years ZESA has been the only electricity generator and supplier for the public grid and has failed to produce adequate power to meet local and regional demands. ZESA produced 6.8 billion kWh in 2016 compared to a projected 7.118 billion kWh of demand.

Public entities have been run in a shoddy manner over the years and the unfolding corporate governance scandals at the power utility ZESA provides a clue. Public warnings about the establishment of an all-powerful executive chairpersonship position and the reappointment of former board members to the ZESA board have been made; nonetheless, the government has disregarded these warnings and broken the Public Entities Corporate Governance Act, which was passed in May 2018. No one may be reappointed to a board if they have previously served on it for one or more terms, whether consecutive or not, totaling eight years, according to the Act (under Part 3 of Section 11). The national code of corporate governance of Zimbabwe contained in the same act states explicitly on three separate points that the chairperson of the board of directors should not double up as the state entity's chief executive officer in order to ensure separation of power (Bhoroma, 7 August 2020).

Institutional arrangements for the Power Sector in Zimbabwe



Source: Zimbabwe Report: Rehabilitation and Recovery in the Power Sector

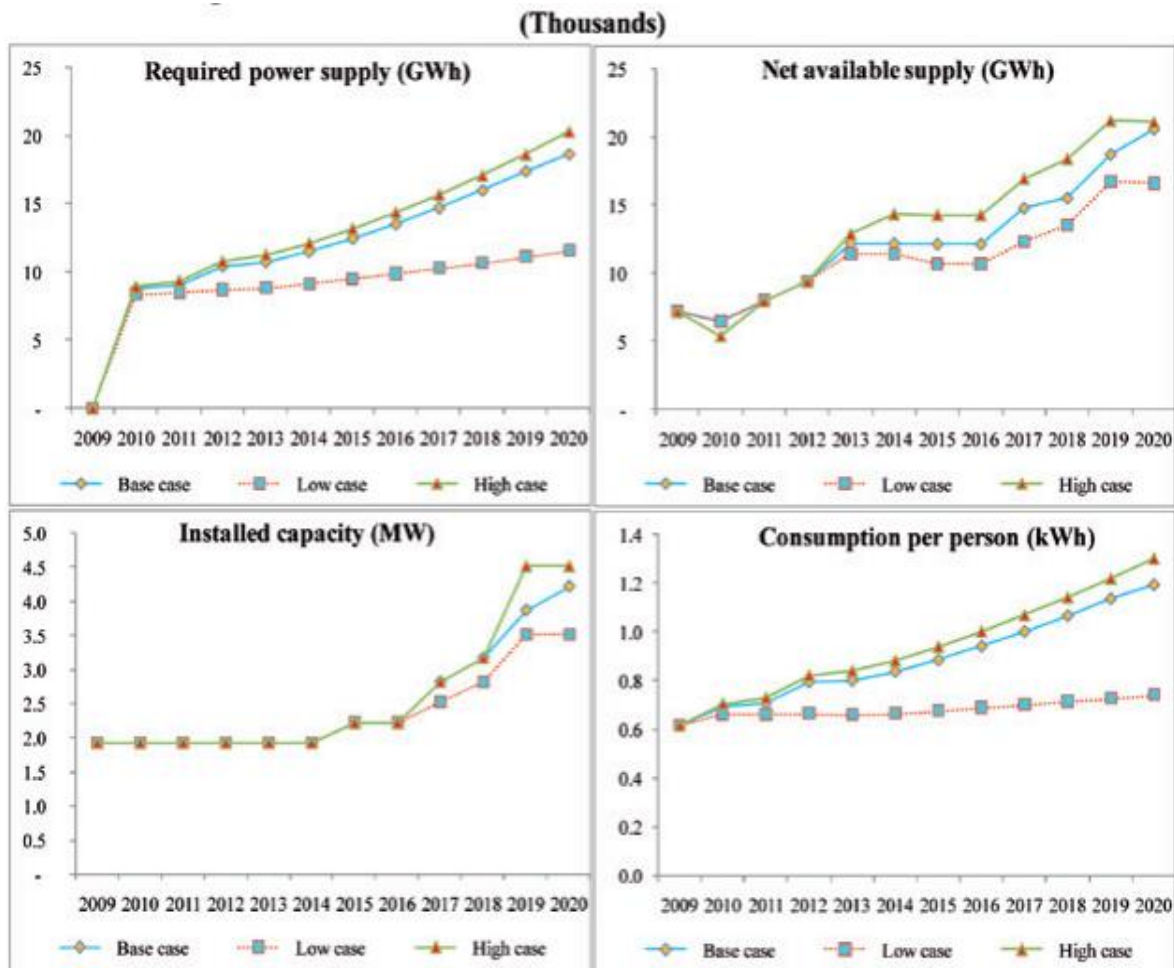
ZESA owns the Kariba Power Station a station which is part of the Kariba Dam project, damming the Zambezi River. The station is owned together with Zambia counterpart ZESCO and Zimbabwe-owned capacity is around 1 050 megawatts from 750 megawatts. The increment was due to the long-awaited Kariba power station expansion. Zimbabwe secured a loan grant of US\$319 million from China Export and Import Bank to finance the power project (Southern Africa Today, 2013). ZESA also owns four thermal power stations.

Theoretically, the largest Hwange Thermal Power Station can generate roughly 920 megawatts. China pledged to lend \$1.2 billion in December 2015 as part of a Look East Policy agreement to expand the Hwange Thermal Power Station's generating capacity from 1520 megawatts to 600 megawatts. The aggregate nominal capacity of the other three thermal power plants in Munyati, Bulawayo, and Harare is 270 megawatts. Maintenance neglect and coal shortages has have resulted thermal power stations producing small amounts or no electricity for the past decade.

In 2015 Zimbabwe has a daily energy peak and supply demand of 2,200MW and 1,200MW respectively. The Zimbabwe Investment and Development Agency (ZIDA)'s 2022 overview report states that, "although the installed capacity is 2 300 MW, the actual power generation capacity is about 1400 MW against a peak demand of about 1700MW, and winter peak maximum demand of about 2200MW thus, creating a shortfall of about 1000 MW during peak periods".

In November 2022 the electricity consumption in Zimbabwe was estimated at 1850MW while under the National Development Strategy (NDS) 1 the nation requires 3 500MW by 2025. The shortfall is too big and the researcher is interested in figuring out the main causes of such energy shortfalls.

Alternatives for growth in demand for Power for the period 2009 to 2020



Source: Zimbabwe Report: Rehabilitation and Recovery in the Power Sector

ZESA scandals

A lot of fraudulent and corporate governance scandals rocks ZESA year in year out. Internal and external audit functions are the only the corporate governance tool that the public rests trust on. However, sometimes the cases are rooted out but no action is taken upon fraudsters.

Procurement of prepaid meters' scandal

Wilfred Shereni, a revenue manager at Zimbabwe Electricity Distribution and Transmission Company (ZETDC), a ZESA subsidiary, was once accused by Price Waterhouse and Coopers (PWC) of failing to sign contract addendums and perform periodic reconciliations regarding the procurement of prepaid meters. PWC then contacted an audit to further investigate the allegations.

Additionally, he was charged with authorizing payments for the installation of prepaid meters without providing sufficient evidence. According to the audit report, US\$6 108 275 was the total amount of bias. Solar Hut, Finmark Energy, and Nyamazela were the suppliers for the pre-paid metering project; however, Finmark and Nyamazela secured large contracts without following the official tendering process. The Procurement Regulatory Authority of Zimbabwe (PRAZ) did not grant permission for the managers to purchase pre-paid meters directly from vendors. The Procurement Act's Sections 26 and 28 were flagrantly broken by the act of getting around the PRAZ. In this instance, ZETDC was entitled to deduct liquidated damages from the contract price for each week of delay, up to a maximum of 20%, since all of the contractors were further alleged to have failed to produce the agreed quantities within the allotted time frame.

Although the addendum of the report required liquidated damages were not pursued against the contractors, according to PWC's calculations, they would have totaled US\$20 538 for Finmark, US\$148 500 for Solahart, and US\$253 750 for Nyamezela. The audit further says, “Shereni, Dhliwayo, Enock Ncube (Commercial Director) and Chinembiri contravened Section 14 of the Public Finance and Management Act (PFMA) by failing to object to the said directives by former Energy Minister Elton Mangoma (the then energy and power development minister) to select top retailer OK Zimbabwe to be the sole vendor for prepaid electricity metres without going to tender.”

Corruption by the ZESA Executive Chairman

In 2020 the ZESA board contacted an investigation in which the Executive Chairman Dr Sydney Gata was alleged of having allocated five company vehicles for his personal use and spent millions of dollars on Christmas parties among other offenses. The then Energy Minister Fortune Chasi described the allegations as “indeed egregious and very worrying” and instructed the board to do thorough investigations.

On 14 January 2020, Dr Gata also seized the powers of the disciplinary committee that was investigating the then acting CEO Mrs Norah Tsomondo. She has been brought before the disciplinary committee to answer allegations of unapproved expenditure of approximately US\$20 million in 2018. He directed the disciplinary committee chairman and members to discontinue the disciplinary hearing of Mrs Tsomondo with immediate effect. These scenarios can be related to the Stewardship Theory. The ZESA boss was not acting in best interest of the shareholders.

Board and executive appointments

The ZESA board since the first republic was dominated by politicians and former ambassadors. In 2019 Dr Gata was reappointed as the Executive chairman regardless of his pending corruption allegations. He was once sacked in ZESA board in 2006 due six corruption scandals and he was reappointed thirteen (13) years. This was a clear violation of the COBE Act [Chapter 24:31] section 200 which states that for someone to be appointed as an officer or director he/she must have no criminal record. In addition, this was also in contravention of the Public Entities Act since Gata was doubling the position of Chairman and CEO. This was same as he was reporting to himself and this is against best practice of corporate governance. Mr Eliab Chikwenhere was later appointed as the new acting CEO of ZESA Holdings in August 2020 to occupy the position which has been vacant after the former CEO, Josh Chifamba was suspended on corruption allegations. The Minister of Finance and Economic Development in his 2023 National budget highlighted that, “State Enterprise and Parastatals reforms have been guided by the SEPs Short to Medium Term Reform Framework (SEPs-SMTRF), the NDS 1 and Vision 2030”. He also stated that there should be a complete dissolution of all ZESA Holdings Subsidiary Boards and allow ZPC to engage strategic partners for its power generation projects (Ncube, 2022).

Gwanda solar power plant tender to Intratrek Zimbabwe

Intratrek Zimbabwe a company owned by Wicknell Chivayo had been awarded a tender by ZESA subsidiary, the Zimbabwe Power Company (ZPC) in 2015 to construct a solar power plant in Gwanda, Matabeleland South. Without bank guarantees, ZESA gave Intratrek US\$5,6 million as an upfront payment for the Gwanda Solar Project. Eight years have passed since the project was abandoned, and ZESA has still not recouped the money it paid the supplier. Later in 2017 ZPC cancelled the tender after accusing Chivayo of fraud and having failed on the project. Shamelessly, the payment was done in full for the service that was not rendered and for the goods that were not delivered for almost eight years. Chivayo then sued ZPC in 2022 claiming US\$22 million damages for defamation of character. In January 2023 the High Court judge ruled that the Gwanda solar tender was still valid. Chivayo is a flamboyant businessman who is known for winning most of government tenders and believed to be backed up by ruling party senior officials. The case shows that the then procurement department and board was all contaminated.

The levels of misgovernance and corruption in Zimbabwe are now in all spheres. Cases of corruption, abuse of office, insider loans, profligate spending on executive perquisites, outright disregard of tender procedures and lack of adherence to audit reporting frameworks have been reported Zimbabwe Broadcasting Corporation (ZBC), Minerals Marketing Corporation of Zimbabwe (MMCZ), Zimbabwe United Passenger Company (ZUPCO), National Railways of Zimbabwe (NRZ), Zimbabwe School Examination Council (ZIMSEC) and Zimbabwe Revenue Authority (ZIMRA among other State-owned enterprises. Serious violations have been found in the Companies and Other Business Entities Act, the Public Entities Corporate Governance Act, the Zimbabwe Code of Corporate Governance, and Chapter 22:19 of the Public Finance Management Act. The president of the Republic of Zimbabwe, His Excellency E. D. Mnangagwa, has pledged to fight corruption in various speeches, including his inauguration speech.

The Government has however made it mandatory for all of the institutions to have external audit capabilities that aids the function of the outside auditors in wearing out their paintings (MOFED, 2021). In order to strengthen the position of the external audit feature inside the public sector, the Minister of Finance proposed at the presentation of the 2021 National Budget that the public sector group should have established outside audit committees.

1.2 Statement of the problem

The levels of misgovernance and corruption in Zimbabwe are now in all spheres. Cases of corruption, abuse of office, insider loans, profligate spending on executive perquisites, outright disregard of tender procedures and lack of adherence to audit reporting frameworks have been reported in almost every Zimbabwean parastatal. Financial statements are being audited by high profile audit firms but misgovernance cases are being heard in all corners of state-owned enterprises. This has resulted in the exploitation of minerals and resources by once trusted senior government officials. Cases of externalisation of funds, money laundering, unclean board appointments, exorbitant board remuneration, procurement scandals and rampant corruption are worsening in Zimbabwe every day. These cases are not even rooted out during the audit process. The researcher is interested in finding out the relevance of the external audit function as a corporate governance tool towards mitigating corporate scandals in parastatals.

For some decades ZESA has been failing to meet power demand. The parastatal in which government is the main shareholder has a mandate to provide power to our beloved nation, so that industry can restart, agriculture, mining, schools, mortuaries as well as hospitals can operate. Some reports also highlighted that some of road carnage were as a result of traffic lights that are not working due to power outages. The industry is operating below 60% capacity utilisation due power shortages. They are opting to gas and petroleum as source of power which tend to increase the cost of production. Zimbabwe is an agro-based economy and was once known for being the bread basket of Africa, however, due to power shortages winter farmers were seriously affected for some years. In addition, tobacco farmers were also affected dismally for they need power for drying tobacco in barns. The mining sector and schools are also affected by these power cuts. Some innocent souls died not because of lack of medicines but due to lack of power in hospitals' Intensive Care Units (ICU) and theatres. It was also reported that some bodies were taken almost rotten in mortuaries due to extended power cuts. On average Zimbabwe is out of power for about 15 to 19 hours at peak.

1.3 Research objectives

- To evaluate the effectiveness of the External Audit function as a corporate governance tool in state owned enterprises and parastatals (SOEs).
- To determine the extent to which the External Audit function balance financial and governance audit to aid corporate governance compliance in public entities.
- To determine on whether external audit has become a formality rather than a corporate governance tool in public entities.
- To assess the degree of uptake and/or implementation of the Zimbabwe Code for Corporate governance in parastatals.

1.4 Research questions

The sub-research questions of the study are outlined below:

- What are the functions of External Audit composition as a corporate governance tool towards minimizing corporate scandals in parastatals?
- To what extent does External Audit function balance financial and governance audit to aid corporate governance compliance in public entities?

- Has external audit become a formality rather than a corporate governance tool to satisfy various interested stakeholders in parastatals?
- To what extent is uptake and/or implementation of the Zimbabwe Code for Corporate governance in parastatals?

1.5 Significance of the Study

The researcher introduced a novel way of thinking about the roles and trade-offs that external audit makes when attempting to uncover corporate scandals and other hidden governance problems. It is necessary to determine whether the audit committee's and the board's role in fraud and other financial problems can be carried out in an atmosphere of corruption and shenanigans. This is a novel measurement that has not yet been investigated in Zimbabwe's parastatals, where several scandals have been reported with little to no action being taken against the scandal's perpetrators. Statement of the problem of this paper states that the researcher identified the research gap on corporate governance issues in State Owned Entities and Parastatals. These governance issues also lack empirical support. Most of the available literature (both individual and corporate) has put more emphasis on financial audit leaving the governance component lagging behind (neglect research gap spotting). Auditing of financial results has been over-researched whilst overlooking the governance component (governance audit). This created a gap that resulted in the increase in white color fraud, corruption, misgovernance and corporate scandals. Therefore, the researcher wanted to unearth governance misconduct in order to strike a balance between financial audit and governance audit in parastatals. The role of external audit in parastatals zone has never been explored and the public have an unanswered question, "where were the auditors?"

1.6 Assumptions

- The researcher assumed that external audit is adding much value to corporate governance issues although it is being trusted to be a corporate governance tool.
- The researcher believed that auditors are balancing financial matters with governance issues.
- The researcher also assumed that ministers, officers and those charged with governance are also ambassadors who treat jealously governance issues like board appointment, structure, composition, evaluation, remuneration and rotation.

1.7 Scope (Delimitation) of the Study

The study was limited to State owned enterprises and parastatals in Zimbabwe paying more attention to ZESA Holdings. The parastatal was amongst the companies that were reported not to be doing well in the Auditor General's 2021 Report especially on areas of governance and procurement. The researcher was interested in pinpointing the role of external audit as a corporate governance tool in mitigating corporate scandals and public entities decay. In this study External audit was the independent variable whilst corporate scandals being dependent variables that depend on corporate governance tools. The study covered the period from 2015 to date, thus the period from which the Zimbabwe Code of Corporate Governance (ZIMCODE) was introduced in Zimbabwe.

The ZIMCODE was introduced in 2015 by the former President Robert Gabriel Mugabe. Its main purpose was to curtail corporate scandals that had ravaged State Owned companies and parastatals together with other private companies due to inadequate corporate governance compliance. The ZIMCODE blueprint was meant to augment the Companies and Other Business Entities Act of 2019 formerly Companies Act of 1951. It was developed and structured as the mirror of the King IV of South Africa.

1.8 Definition of terms

1.8.1 Audit: It is an official inspection or examination of an organization's departmental or overall operations typically by an independent person, committee or board for the purpose of coming up with an independent opinion.

1.8.2 External Audit: It is a process of inspecting a firm's departmental or overall operations by an independent person, committee or board who is an external to the company. The main purpose is to come up with an independent opinion on compliance issues which will help in decision making. An external audit is a review carried out by an independent accountant with the goal of certifying an entity's financial statements in order to satisfy the requirements of specific lenders and investors. The Institute of Internal Auditors (IIA) Standard defines external auditing as an impartial, independent guarantee and consulting service intended to increase a company's value and improve its operations. The external audit feature has been recognized as one of the main pillars of the corporate governance foundations because of the consulting services and cost additions they

generate for the employer. The definition above on external auditing prescribes three very crucial aspects particularly, governance, hazard control and manage (Rahmatika, 2014).

1.8.3 Corporate governance: Corporate governance is the system by which companies are monitored and controlled. It is the interactions between different players that determine a firm's success and direction. The board of directors, management, and shareholders are the primary participants. A vital and dynamic component of business, corporate governance is crucial to both company success and social welfare. According to Marianne (2009), two aspects of corporate governance that are thought to be essential are making sure that management is accountable to shareholders and other stakeholders and supervising or keeping an eye on management performance. In this regard, the Corporate Governance Framework, Central Position of Board, Role and Responsibilities, Dimensions of Board Responsibility and Common Law Duties of Directors should be considered whenever auditing SOEs. This goes a long way in the inspection of board appointment, structure, size, composition and remuneration.

SOE Guidelines states that, the exercise of ownership rights should be (a) clearly identified within the state administration, (b) be centralised in a single ownership entity or, if this is not possible, carried out by a coordinating body; and (c) should have the capacity and competencies to effectively carry out its duties, (OECD, 2021). The ultimate fiduciary duty for SOE performance is one of the board of directors' primary responsibilities in the governance of SOEs. In this sense, the board serves as stewards and functions primarily as a go-between for the business, its top management, and the government (shareholder). Because SOEs have become more and more commercialized in recent decades, most governments have worked to professionalize their boards of directors and grant them more authority.

1.8.4 Public entity. Any state-owned enterprise or an organisation that provides services to the public on behalf of the government or another public entity. These can be referred to as parastatals.

1.8.5 Corporate scandal. This refers to illegal alleged or actual behavior undertaken by an individual or company that are done in a dishonest or unethical manner. These unethical activities can be in form of corruption, fraud, misgovernance, bribing, manipulation of financial statements, insider trading, fogging of documents and any form of abuse of office.

1.9 Limitations

Limitations are possible flaws that are typically outside the researcher's control and are strongly related to the research design that was selected, the limitations of the statistical models used, the financing available, or other variables, (Theofanidis, 2019). From this angle, a limitation is simply a "imposed" restriction that is outside the researcher's control.

- Time constraint. The researcher decided to reduce the population size from Zimbabwe parastatals and to focus mainly on ZESA Holdings as the representative sample. The researcher is confident that the ZESA Holdings would be a true representative of the population considering that it is a very big monopolistic supply of power in Zimbabwe. More so, each and every organization and household in Zimbabwe is the stakeholder of the company.
- The researcher might face funding constraints but will circulate questionnaires on emails to cut travelling costs
- There is possible resistance to participation by those who might be the targeted participants. However, the researcher will make continuous follow-ups through phone calls to remind participants to participate. The researcher will also try to make questionnaires short and precise without omitting crucial areas of the study. More so, the researcher will try to save money and time through conducting interviews on Microsoft teams and zoom.
- There is also a possibility of denied access to top government officials and other honourable persons. However, the researcher will ask for a clearance letter from the university and also try to make professional appointments for interviews.

1.10 Summary

A general introduction to the entire study is given in this chapter. The study's background, research problem description, research questions, purpose, assumptions, definitions of terms, study scope, and study limitations were all described in this chapter. The succeeding chapter will give insights on the literature to the study giving more detail to theoretical framework, conceptual framework, and empirical review.

CHAPTER II

LITERATURE REVIEW

2.0 INTRODUCTION

Corporate governance generally refers to the system by which companies are directed and controlled (Cadbury Report, 1992). This definition emphasizes that all stakeholders are responsible for an effective and smooth interest alignment of stakeholders (Younas, 2022). Therefore, it is a set of relationships between a company's management, shareholders, the board of Directors and other stakeholders. In this regard, there is no single model or theory of good corporate governance, however, the principles proposed by Organization for Economic Co-Operation and Development (OECD), professional individuals and professional bodies for good corporate governance are all at play. Corporate governance is about what the board of a company does and how it sets the values of the company, and it is to be distinguished from the day-to-day operational management of the company by full-time executives (Younas, 2022).

2.2 THEORETICAL REVIEW

2.2.0 THEORIES OF CORPORATE GOVERNANCE

It is crucial to understand theories of corporate governance when highlighting the relationship of corporate governance variables. Several governance theories were used as underpinning frameworks for the study. These are primarily agency theory, stewardship theory, stakeholder theory and resource dependency theory.

2.2.1 Agency Theory

Agency theory has its origins in the economic theory, which is presented by Adam Smith (1776). First-time separation of ownership to control was discussed by Adam Smith, who proposed that a manager who controls all activities of the firm will not have a keen interest in business as he would invest his own money and pointed out some negligence (Smith et al., 1977). Later, the agency theory was further developed by Jensen and Meckling (1976) who defined agency theory as a contract

between owners and management. The agency theory is regarded as the “backbone for all other theories related to corporate governance”. It mainly focuses on the contractual relationship nature between shareholders and management. According to this theory management are considered as the agent of owners and the shareholder's work as principals. Principals hires and delegates agents to run the business in a hand and on the other agents are therefore expected to perform in the principal's best interest. While managers work for shareholders, their main goal is to enhance their income rather than the wealth of the shareholders, shareholders (owners) are more interested in growing their own wealth. Consequently, a conflict of interest develops, which leads to an agency issue in the relationship between the principal and the agent. Younas, 2022 argues that there are grounds of an inherent conflict of interest between the agent and principal which are mostly due to information asymmetry.

Three categories exist for agency difficulties. The first category of problems is known as Principal-Agent Problems, and they originated in the operations of huge organizations where managers are tasked by shareholders with running the company but are more concerned with maximizing their own income than with serving the interests of the owners. The Principal-Principal problem, which is the second kind of problem, arises between major and minor shareholders in huge organizations. Due to their significant voting power, the large owners are able to influence decisions by participating in the process. The third type problem is the Principal - Creditor Problem which exists between owners and creditors due to financing decision of risky projects (Panda & Leepsa, 2017; Yusoff & Alhaji, 2014). Generally, agency theory focuses on the opportunistic behaviour of managers where they try to put their interests first at the expense of shareholders' interests. Financial accountant can then window dress financial statements so that they can be lucrative in-order to attain their bonuses and allowances. As a result, the cost of solving agency problems is increased because under the corporate governance mechanism several measures need to be taken by the board of directors such as the establishment of numerous committees (Yusoff & Alhaji, 2014). Fig. 1 below demonstrates on the agency theory model.

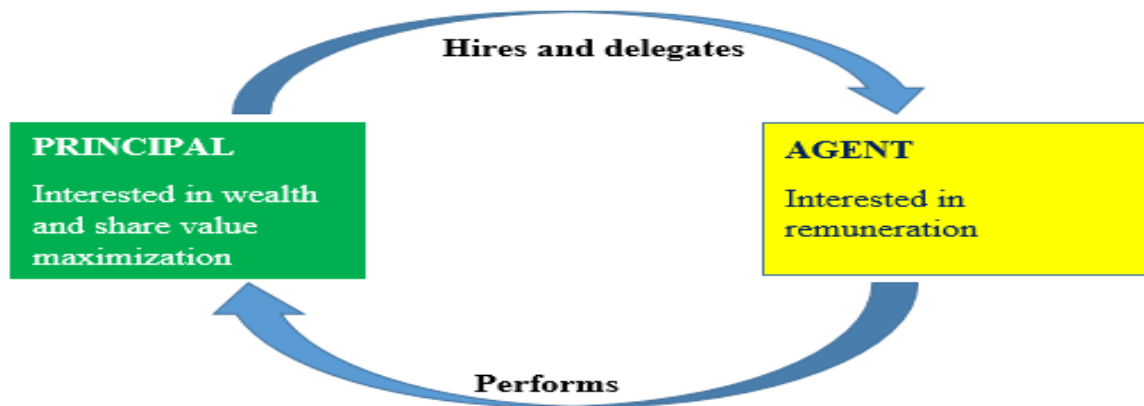


Figure. 2.1: Agency Theory Model.

The Board of directors has a big role to play in monitoring managers performance and align both parties' interests. As the board of directors' stand-in or watchdog, the audit function serves as a watchdog to regulate management actions and align them with the interests of shareholders. Just like what the King IV report recommends, further assertion made by the agency theory is that the nomination of independent directors is essential to management's ability to operate effectively and efficiently. At the end of this study, the researcher hopes to have more information about whether performance-based reward schemes will encourage managers to maximize wealth and reduce the likelihood of managers acting opportunistically.

2.2.2 Stewardship Theory

Stewardship theory was developed by Donaldson and Davis (1991). In contrast to agency theory, the stewardship theory presents a different perspective of management, where managers are considered stewards who will act in the best interest of the shareholders (Chrisman, 2019). According to this notion, managers will always act in the company's best interests, safeguarding and maximising earnings for shareholders. The success of the firm tightly encompasses management commitment and when the shareholder's wealth will be maximized, the stewards will be also benefited in terms of remunerations (Klepczarek, 2017; Yusoff & Alhaji, 2014, Younas, 2022).

The unique feature of stewardship theory is to enrich trust in managers which is lacking in the perspective of agency theory (Younas, 2022). Stewardship theory is based on the assumption that shareholders give more power and trust to managers (stewards) and in return managers will maximize their wealth (Yusoff & Alhaji, 2014). As a result of this theory, shareholders enjoy more

profits and returns on their investments and managers will be able to achieve intrinsic and extrinsic rewards (Abdullah & Benedict, 2009). One prerequisite of sound corporate governance is a healthy interaction between shareholders and management, which is portrayed in theory. Understanding how managers might be motivated to contribute to the accomplishment of company goals is the main focus of stewardship theory. Thus, the theory is based to align the interest of managers (agents) and shareholders (principals) (Chrisman, 2019). Fig. 2 describes the stewardship theory model.

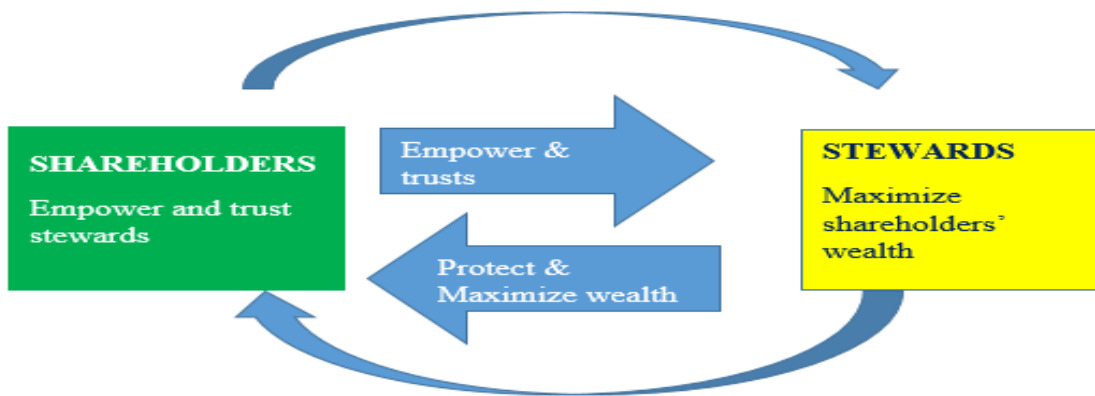


Figure. 2.2: Stewardship Theory Model.

2.2.3 Stakeholder Theory

The theory was developed by Freeman and others in 1984 in their book “The State of the Art”. Unlike the Agency theory which solely focuses on the interests of stakeholders, the Stakeholder Theory focuses on satisfaction of the interests of all stakeholders. An entity should create value for all stakeholders, not just shareholders (Freeman, 1984). Stakeholder is considered as an individual, group of individuals or organization who can affect or affected by the organization decisions (Freeman et al, 2010).

According to (Haataja, 2020), stakeholder theory has been described as a perspective, a set of ideas, expressions and metaphors related to the overarching objective of maximizing stakeholder value. The four areas of organization management study that informed the development of the theory were systems theory, corporate social responsibility, organizational theory, and strategic organizational planning. In public sector administration the community is one of the key stakeholders who are interested specifically with service delivery which is the function of good corporate governance. (Dzomira, 2020)

The stakeholder theory has evolved over time to include a wider range of modifications and points of view. As a result, all members of the community in which a business operates, as well as employees of businesses, raw material suppliers, customers, local authorities, the government, and rival businesses, are now considered significant stakeholders in the theory. Fig. 3 describes the stakeholder theory model.



Figure. 2.3: Stakeholder theory model

2.2.4 Resource Dependence Theory

The theory was first developed 1978 by Pfeffer and Salancik. It is the study of how an organization's behaviour is impacted by its external environmental resources. The idea primarily concentrates on the function of the board of directors in establishing connections between the company and its external environment in order to obtain and secure vital resources. It is therefore the duty of directors to match the changing environment trends with the firm capabilities. Thus, board of directors brings different types of resources such as skills, information, raw materials, and uses their expertise to connect business with the resources (Younas, 2022). As a result, a business performance is highly dependent on the power.

TABLE I: CORPORATE GOVERNANCE THEORIES IN SUMMARY

Theory	Author	Year	Summary
Agency Theory	Smith, Jensen, & Meckling	1776 & 1976	A contract between managers and shareholders to resolve all conflicts
Stakeholder Theory	Freeman	1984	A firm must create value for all stakeholders
Stewardship Theory	Donaldson & Davis	1991	Managers are stewards who work on behalf of owners' best interest
Resource Dependency Theory	Pfeffer & Salancik	1978	A business should create value through joining resources from the external environment

2.3 EMPIRICAL REVIEW

2.3.1 Effects of External Audit on fraud detection

Wadesango, N, Tshuma, Z and Sitha, L, 2023, in their journal “*An Analysis of Effects of Forensic Auditing in Detecting Fraud in State Owned Enterprises: A Case Study of ZESA*” argued that “forensic auditing has a significant positive correlation relationship in fraud detection in SOEs.” They also added that Forensic auditing although used by ZESA, is not being effectively implemented to detect and prevent fraud (Wadesango N, 2023). Elias (2020) conducted a study on the use of forensic auditing in detecting fraud and its control in South Africa. Secondary data was employed in the literature review. The results of the study also confirmed that forensic auditing knowledge, abilities, and methods improve prompt fraud detection. This is also subject to criticism as some authors say it is not the duty of the auditor to detect fraud, rather the duty of the auditor is to provide an independent opinion on whether the financial statements are presented in a true manner without any element of misstatement.

2.3.2 External Audit as a corporate governance tool

Almasria, (2018) conducted a quantitative study which later followed semi-structured interviews on the relationship between internal corporate governance mechanisms (ICGM) and the quality of external audit process in Jordan and found that ICGM can assist improving different aspects of external audit quality through the valuable guidance from the ICGM to the external auditor. The communication between the ICGM and external auditor can be focused on different issues related to the audit process such as auditors' findings, the effectiveness of internal control, scope limitations

and material misstatements which allow improving the effectiveness of audit process, (Almasria N, 2018).

The study also demonstrates the need for auditors to understand the dynamics of the roles that specific mechanisms play in enhancing the external audit process. In Jordan it was concluded that audit practice was facing challenges in terms of the independence of the auditor. In Zimbabwe, the Auditors General's Reports showed that most of SOEs were still behind and struggling to comply with the ZIMCODE of corporate governance since its introduction in 2015. The researcher is interested in finding out if external audit plays as a corporate governance tool since little has been said from external audit reports on pure governance issues.

2.3.3 Has external audit become just a formality?

Increased cases of unethical behavior in SOEs and ZESA in particular resulted the public to believe on assertion "external audit has become a formality rather than a corporate governance tool to satisfy various interested stakeholders in parastatals." The auditor general for the period from 2016 to 2021 unearthed a number of serious ZESA procurement scandals but nothing was done to the culprits. Chiri (2022) highlighted that out of one hundred and fourteen (114) scandals in SOEs, eighty-one (81) which equates to seventy-one percent (71%) related to governance issues. The balance thirty-three (33) which equates to twenty-nine percent (29%) related to procurement, revenue collection, management of assets and employment costs.

External audit by Price Waterhouse and Coopers (PWC) that was explained in early sections of this chapter accused senior officials of ZETDC for serious incompetence and abuse of public office that resulted ZESA to be prejudice of about US\$6 108 275. The Forensic auditor also found that the pre-paid metering project involved tenders that were given to a supplier without going through the formal procurement and tendering procedure.

In 2020, the Zimbabwe Anti-Corruption Commission (ZACC) also unearthed some allegations involving Intratrek Gwanda Solar Project, Mutare Peaking Plant Project and Former Energy Minister Chasi's ZESA dealings. ZACC also examined corporate governance at ZESA and recommended that Gata be cleared of four out of six accusations that he had.

This shows that external audit has not become just a formality but it's a very important in unearthing scandals. However, management fail to implement forces and recommendations provided by the audit functions due to insider fictitious deals. The whole government system is corruptly contaminated and lacks the “tone at the top” culture.

2.4 CONCEPTUAL FRAMEWORK

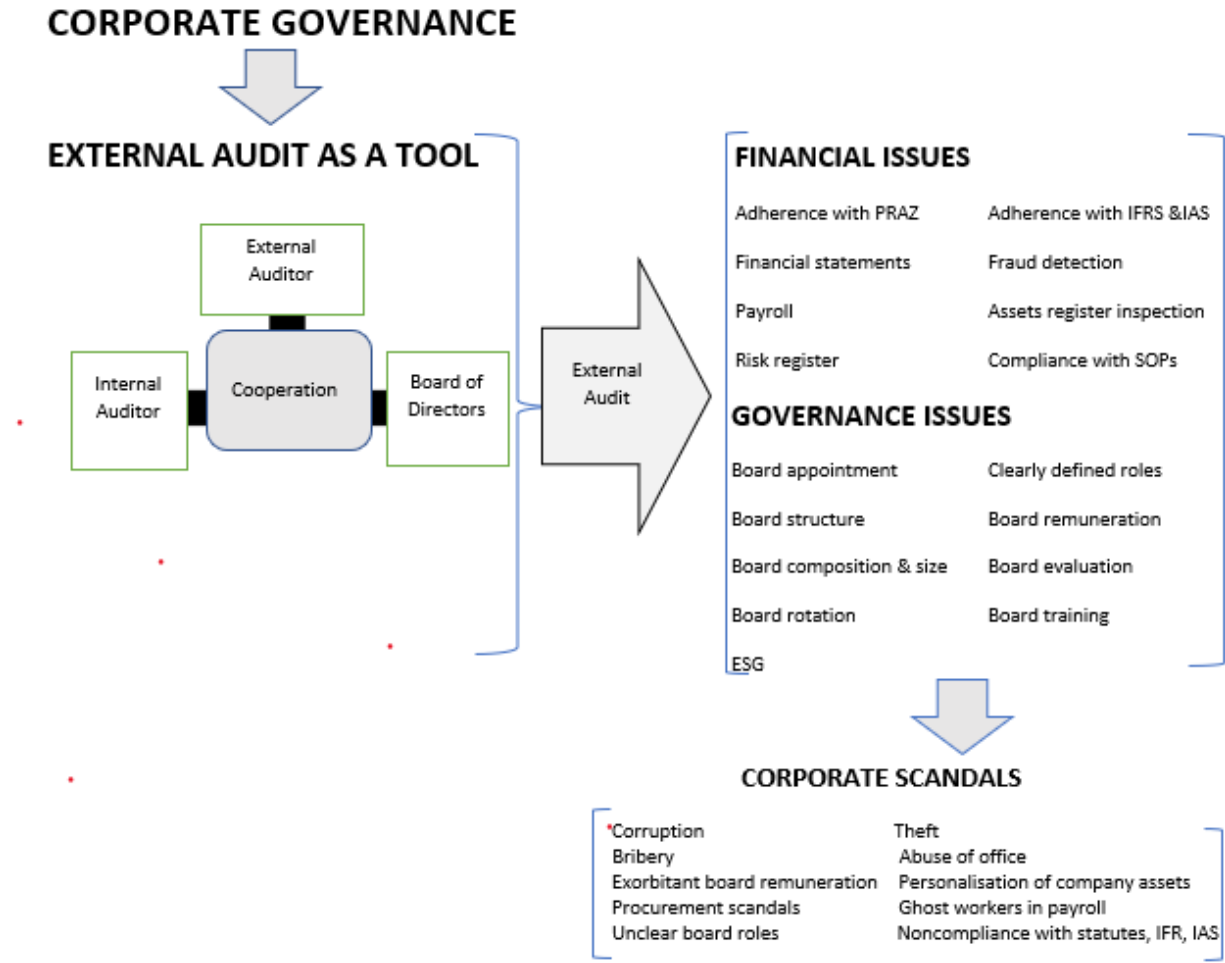


Fig. 4. Diagrammatic presentation of independent and dependent variables of the study.

Source: Prepared for this study

2.4.0 Governance of State-Owned Enterprises

In developing countries like Zimbabwe most of SOEs are parastatal and the appointment of board of directors and board structure for public entities varies from that of a private corporate. The World Bank Report revealed that board of directors of public entities are appointed by the Minister. The board then serve the interests of the political part’s manifesto and mostly does not adhere to the

governance framework. On the other hand, board of directors of a corporate are elected by stakeholders at the Annual General Meeting, (King, 2016). The Ministry, in Zimbabwe for example, gets directives from the Office of the President and Cabinet on how to implement governance designs and policy framework (Zvitambo K, 2019). Therefore, since the Cabinet are the paymasters the Board of Directors are bound to follow all policies from the Minister regardless them complying with corporate governance framework. Ministers are just appointed individuals with little knowledge about governance and technical skills to run parastatals. The expertise is expected to be executed from the board of directors who are supposed to be professionals with objective opinions. The board of directors for ZESA was once reported to be flooded with politicians and war veterans who does not have experience to execute governance policies for the good of the country.

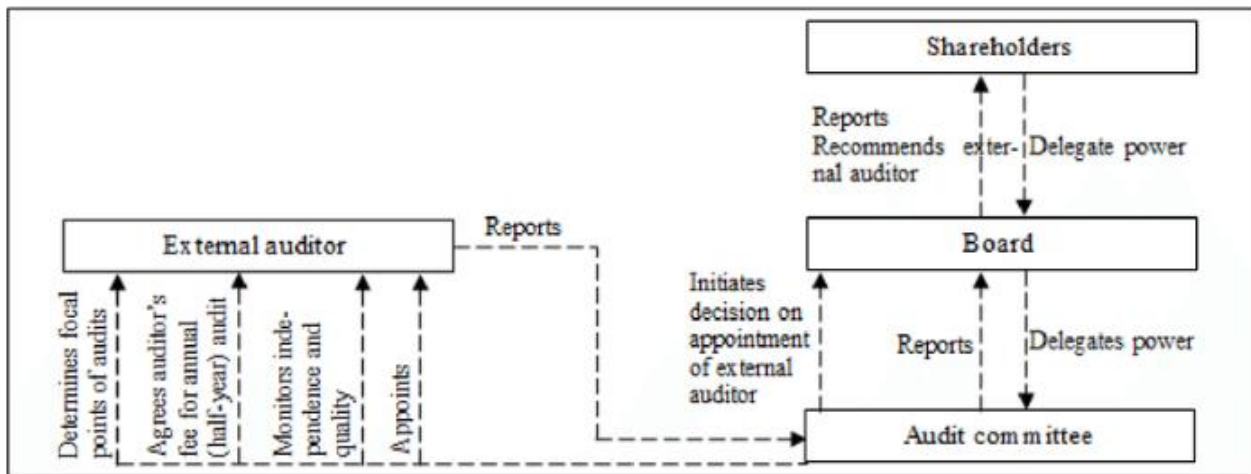


Fig 5: Position of the External Auditor within the basic corporate governance structure. Source: Online

2.5 Financial performance and compliance

Financial statements must have a true reflection and free from any form of material misstatement. International Financial Reporting Frameworks (IFRS) and International Accounting Standards (IAS) must also be followed in their preparation. It is therefore the duty of the external auditor to inspect these financial statements and give an independent opinion to the stakeholders. This seem to be an over researched area and external auditors and even forensic auditors mostly target auditing of financial results. The come up with recommendations to compart fraud and malpractices in the procurement department which seem to be the most targeted area by auditors. However, there is a lot that needs to be done on governance audit. Most of public malpractices are as a result of poor

board of directors be it intellectually and/or incapacity in terms of experience. The only results that the government earn from such ill boards is corruption and abuse of public office.

2.6 Analysis of Public entities Boards

2.6.1 Board appointment and nomination

In most countries, the nomination of SOE directors is a government duty. It is done by ministers and head of states in form of inter-ministerial processes. The nomination and appointment processes for board members and top executives should be made more transparent and uniform, according to good corporate governance norms. Even so, there remains cause for grave concern given that reports of strong links between SOE senior executives and politicians, primarily from ruling parties, are influencing the appointment process. By creating pools of knowledgeable individuals for board nomination, centralization of the ownership function frequently enables the reinforcement and aggregation of necessary competencies. It is therefore the duty of External auditor as a corporate governance tool to foster into these elements and make sure that public entities are compliance with good governance practices.

One minister is directly in charge of selecting candidates for SOE boards in nations like China, Chile, Finland, Hungary, and Sweden, where the role of owning state enterprises is devotedly centralised. In these cases, the appointment process frequently benefits from advisory roles. In Norway and Finland, the ministry in charge of the state's ownership stake in the corporation makes the appointments, however the ownership unit works with the Treasury to coordinate all activity related to ministerial board elections. The Government Committee for Personal Nomination was established in the Czech Republic in 2014. It reviews nominations submitted by the relevant minister and determines whether the candidates are qualified to serve on the supervisory boards of public organizations. In these cases, good practice would entail subjecting ministerial decisions concerning board nominations to some form of consensus by a wider group of ministers, the Cabinet or Head of State, (OECD, 2022).

2.6.2 Clarification of Board roles

Board positions must be precisely defined and established by law, in accordance with general statutes, as part of good governance practice. The board of directors of public companies should have ultimate authority over the company's performance as well as a clear mandate. To increase

board understanding of these objectives, the government or its ownership unit should define goals and cascade them to public entity boards. These responsibilities vary across countries, they usually include planning, executive management performance, strategic monitoring of the company, consultation with shareholder ministries on the business objective, monitoring of the organisational strategy of the company and compliance-checking, (OECD, 2022). Nonetheless, 25 percent of the governments that report lack a clear division of responsibilities between the ownership function and the board. This negatively affects autonomy and independence of boards.

2.6.3 Board Structure

King IV Report recommends boards to have the chairman, secretary and members. The same board must have committees that are stand alone. The King IV Report emphasises that the board of directors must have four separate special committees which are Audit, Remuneration, Risk and Nomination committee. The report goes further clarifying that the chairman of the board must not be chairman of the Audit committee. In this regard, members of the Audit Committee must choose their own chairperson amongst themselves. This shows that the Audit Committee must be independent and is a very crucial corporate governance tool to advise the board of directors. The chairman of these committees must be an independent non-executive director for objective decision making. External audit as a corporate governance tool must look into these elements and make sure that public entities are complying.

2.6.4 Board size and Composition

It is of paramount importance to determine the ideal size of the board to ensure an effective, professional and well-functioning board. In this regard, many nations restrict the number of board posts while encouraging diversity on the board. The size of SOE boards depends on a number of factors, including an SOE's size, degree of commercialisation, risk profile, and areas of operation, which means there is no one-size-fits-all approach for determining board size in the public sector (OECD, 2021). An earlier OECD paper tentatively concluded that a board of five to eight members is often regarded adequate for most public organizations.

According to the SOE Guidelines, the board makeup of the SOE should permit the exercise of unbiased and independent judgment in order to effectively direct the SOEs toward serving the

interests of the business and its shareholders. Furthermore, the Guidelines suggest that regulations governing the inclusion of public officials, ex-officio directors, employee representatives, independent directors, and civil servants be established in order to ensure openness. This involves selecting the number of state representatives to put on the board and the kinds of abilities and qualities that directors must possess.

Due to the growth in commercialisation the King IV recommends the board to have majority of independent non-executive directors and individuals with relevant professional and commercial experience. State officials, other people tasked with advancing the public interest, and independent directors make up the bulk of the examined jurisdictions' public entities' boards of directors. According to the study the OECD contacted, a combined code on corporate governance is used in the UK, Germany, Korea, Netherlands, New Zealand, and Norway, and it covers both state-owned and private businesses. A majority of independent directors must be on the board, under the code (OECD, 2021). According to the same report, independent directors ought to make up the majority of nonexecutive directors in listed public companies in Korea with annual revenue of more than USD 1.8 billion. At least 25 percent of the directors in other listed SOEs with assets under USD 1.8 billion should be independent.

2.6.5 Board evaluation

Regular board evaluations are deemed beneficial since they provide a thorough understanding of the board's overall operations and highlight any deficiencies that may be resolved by upcoming nominations. It is the best approach to use whenever the minister wants assess and improve board performance. Therefore, board evaluations may be done on board as a whole and/or individual director. According to the OECD, evaluation procedures vary from the Chair's informal assessment to formal self-evaluations to formal assessments carried out by outside experts and facilitators. It is also advised that the outcomes of evaluations be taken into account when making board nominations. According to the state ownership policy, boards in Sweden are required to conduct annual board assessments. The chair then reports the findings to the board nomination process. In Israel, the chairman of the board, other board members, and the board members themselves all participate in the evaluation process. Based on paperwork created by the boards of directors and presented to the ministry, the Polish ministry of treasury assesses supervisory boards of businesses under its purview on a regular basis. Audit bodies were found to have no role in board evaluations.

2.6.6 Board remuneration

Exorbitant remuneration for key executives and board members is one of most governance malpractices witnessed in public entities. According to the country's Code of Corporate Governance, compensation plans for top executives and boards of public companies should take into account the state of the market, the board's responsibilities, the members' time and experience, and the complexity of the business's operations. It should also always at a moderate level. Sixty-seven percent of the 41 countries the OECD examined have set statutory or policy caps on the compensation of SOE boards and key executives. Finland, Hungary, Italy, Norway, Spain, and Switzerland are a few of them. In Sweden, the AGM approves the directors' compensation, which is kept below market rates. In Estonia, the Nomination Committee bases its recommendations for the compensation of supervisory board members on peer group market conditions. In 2015, Latvia passed a Cabinet Regulation stating that when determining the upper limit on the compensation of SOE boards and executive management, the average monthly national salary of the preceding year must be taken into consideration

2.6.7 Board rotation and training

The SOE Guidelines recommend that directors should rotate at every annual general meeting (AGM). Directors must retire and if eligible offer themselves for reappointment. The process must be done in accordance with statutes guidelines. The chairman of the board or any independent non-executive member is responsible for facilitating the process.

Governments should also support ongoing professional development, especially in cases where specialized or technical training may be required. The majority of reporting nations, according to the OECD, support their induction sessions with ongoing professional development for their directors. Thematic topics including accounting standards, tax codes, rules, regulations, information, and technology are the emphasis of these trainings. These classes ought to be taken on an as-needed basis. The Commercial Operations Group of New Zealand arranges director inductions for both new and returning members. On the other hand, although members of SOEs are apparently chosen based on their professional experience, the ownership organization in Sweden does not appear to have a formal program in place for training recently appointed SOE directors. Individual SOE board members may, nevertheless, choose to voluntarily enrol in institutes of directors' training programs.

Additionally, employee representatives nominated to boards of public entities may receive training from trade unions. In Malaysia, within six months following their employment, newly appointed directors must undergo board training. Training courses concentrate on performance management, public bodies' monitoring responsibilities, and financial terminology in boardrooms. The Ministries organize and pay for it, with the appropriate companies covering the majority of the expenditures. Board committees are also the target audience for specialized trainings that institutes of directors organize on topics like risk, audit, nomination, and compensation.

2.6.7 Environmental, Social and Governance (ESG)

Due to the increased industrialization, there was noticed increased pollution in all its forms that are air, land, water and noise. Air pollution due to industrial emissions has resulted in serious damage of the ozone layer. The former USA President Barack Obama once said we are the last generation to practice conservative ways to serve the ozone layer. Land polluted through littering and land degradation by mining and construction companies. This results in outbreak of diseases and massive soil erosion. Water is polluted in form of dangerous liquids that are emitted in rivers. This has resulted in eutrophication and death of aqua life. The environment may also be polluted by noise from industries, machinery and vehicles. This naturally affects the environment negatively and most animals can migrate from such noisy areas. Good corporate governance calls for corporate social responsibility (CSR) and sustainability initiatives. A corporation may implement sustainability efforts as a means of reducing its adverse effects on the environment through modifications to its business practices.

2.7 Research Gap

The researcher identified the research gap on corporate governance related issues in State Owned Entities and Parastatals. These governance issues also lack empirical support. Most of the available literature (both individual and corporate) has put more emphasis on financial audit leaving the governance issues lagging behind thus neglect research gap spotting. Auditing of financial results and procurement departments in parastatals has been over-researched whilst overlooking the governance element (governance audit). This created a gap that resulted in the increase in white color fraud, corruption, misgovernance and corporate scandals. A lot of forensic audits were also conducted in SOEs but nothing was exposed on main governance focus areas like board appointment, structure, size, remuneration, rotation and roles. Therefore, the researcher wanted to

unearth governance misconduct in order to strike a balance between financial audit and governance audit in parastatals. The role of external audit on governance in parastatals has never been explored and the public have an unanswered question, “where were the auditors?” The researcher brought a brand-new thought procedure within the roles and the compromises that external audit plays in unearthing hidden governance issues and other corporate scandals.

2.8 Chapter Summary

The literature review was trying to figure out theoretical, empirical and conceptual review for the study. It also figured out studies that were done by other scholars and researchers that are relating to the topic underpinning this study. The succeeding chapter will focus on the research design that was adopted by the researcher to gather information.

CHAPTER III

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter's primary focus is the research methodology. The target population, sample size, sampling strategy, instruments, protocols for collecting data, methods for processing and presenting it, validity, reliability, and ethical considerations are all outlined and supported. The end of the chapter includes a summary of the contents.

3.1 Research philosophy

This research study adopted pragmatism. That is the combination of positivism and interpretivism to better understand the phenomenon. While interpretivism is the study of phenomena in their natural surroundings, which cannot be ignored and affects numerous studies, positivism has a long and rich historical heritage. The two main schools of thought when it comes to sociological research methods are positivism and interpretivism. Interpretivists favour humanistic qualitative methods, whereas positivists favour scientific quantitative ones.

3.2 Research approach

The intention of the research was to assess the effectiveness of external audit functions as a corporate governance tool in mitigating corporate scandals in Zimbabwe parastatals and as a result, the population size was deduced to be limited to State Owned Entities. The research followed a deductive approach. Deductive reasoning aims at testing an existing theory. It is believed that external audit aids corporate governance and mitigate the occurrence of corporate scandals. The researcher was interested in testing the notion and if those charged with governance are balancing governance and financial audit during the audit process. The researcher also wanted to move from general to specific and actual conclusion.

3.3 Research Design

Research design are procedures and the plan set out for conducting a research. It narrates the process and the manner in which the researcher used in order to obtain the requisite information from the research objects. The research design also entails the selection of the research location, the research objects, the instruments design for a specific research to be under taken (Creswell, 2014). A simple research design would consist of a schedule for the collection, storage, and analysis of study data. Consequently, this is a plan that the researcher implemented to collect the data needed to support the findings of a particular research project.

The research methodology used in the study was mixed. A wider range of approaches to better comprehend complicated research problems in various contexts than could be achieved through either quantitative or qualitative approaches alone were made possible by the use of mixed methods research in this methodology. Quantitative and qualitative research method were applied. There is no a purely qualitative or quantitative study. These two research methods complement each other as they depend on each other for better results. A mixed research method integrates post-positivism as well as interpretivism frameworks (Dawadi, 2021).

3.3.1 Qualitative research design

The qualitative design uses subjective reasoning to a conclusion and as a result the level of bias is very high (Creswell, 2014). Qualitative models are typically linked to both interpretivist and pragmatic research theories. Furthermore, a person's responses may also be influenced by their environment, beliefs, and mental state. The reliability and validity of results obtained using a qualitative approach cannot be reassessed due to factors such as respondents' beliefs, comprehension of the object, and mental states.

3.3.2 Quantitative research design

The quantitative research design follows the positivism philosophy of research and is meant to provide that scientific conclusion to a study, in a numerical manner. It aims on testing theories and hypothesis in a quantitative manner and therefore to demonstrate the relationships between given variables (Creswell, 2014).

3.4 Population

Population, population sample and the sample design are explained and highlighted in this section of the methodology. Population is the universal number of items or units from the data available and the pool from which all the items of the study or units can be picked from in a research (Vosloo, 2014). The company has an approximate number of 10 000 employees with an average of 1 000 in managerial level. The researcher however targeted employees at managerial level in Harare province.

3.4.1 Sample

The population of the study was too large for a complete research considering time and resources. According to Osuala (2007), Meyer (1979), Fox, Hunn & Mathers (2007) suggested the following ranges of population and the corresponding sample size. The researcher therefore opted to a sample size of **278** respondents to derive there from.

Population Range	Approximate Sample Size
Infinity	384
500, 000	384
100, 000	383
50, 000	381
10, 000	370
5, 000	357
3, 000	341
2, 000	322
1, 000	278

The size of parastatals in Zimbabwe is too large and the researcher selected ZESA to represent public entities. The sample was selected from ZESA employees in Harare. The researcher believed that ZESA is a true representation of the population and the results are reliable and valid. The researcher decided to reduce the population size from Zimbabwe parastatals and to focus mainly on ZESA Holdings as the representative sample. The researcher is confident that the ZESA Holdings would be a true representative of the population considering that it is a very big monopolistic supply of power in Zimbabwe. More so, each and every organization and household in Zimbabwe is the stakeholder of the company.

3.3 Sampling Techniques

The researcher used stratified random sampling technique to allow equal chances of selection to all elements in the population. This entails the use of two sampling techniques, that is, stratified and purposive sampling techniques. Stratification is the process of dividing the population into subgroups that are comparatively homogeneous, with each element of the population belonging to a single stratum. Firstly, stratified sampling was done to group elements with same characteristics. The population was divided into ZESA subsidiaries that are ZETDC, ZPC, ZENT and Powertel. Employees of these subsidiaries were then grouped according to their work grades namely directors, executives, top level management, low level management and general employees. The process ensured that all employee levels within the company were represented in the survey since corporate scandals are across all employees in the organisation. Stratified sampling includes all sub populations and ensures precision without increasing costs. Non-probability purposive sampling was then applied to these strata to select the respondents. Purposeful sampling resides on the proposition that information-rich samples are to be selected to have an in-depth view of the phenomena (Shaheen et al., 2016). Categories such as age, experience, functional role, or ideology of the organization served as the starting points for researcher to narrow down on a location of the study, (Shaheen M et al, 2021). The researcher sought information-rich participants were. Participants had the characteristics and knowledge needed by the researcher (Babbie and Mouton, 2011; De Vos et al., 2012; Sarantakos, 2017, Shaheen et al, 2021). The participants would be able to give the researcher the details he required on corporate scandals and the decline of public entities.

3.4 Research instruments

Research instruments are the tools in which the researcher uses in the field whilst gathering information required for the research. In order to draw conclusions about the links found in the presented hypothesis through numerical and scientifically validated methodologies, the researcher employed 5-point Likert scale questionnaires and interviews.

3.4.1 Questionnaires

This is the most frequently used way for data collection. Questionnaires are reliable source of data since the information is obtained straight from respondents and the researcher is actually part of the process. Questionnaires also provide anonymity and this allows respondents to objectively express sensitive and controversial issues clearly without fear of being exposed. They also serve a scientific

purpose since they can be useful for large population to gather information from samples. However, questionnaires can may contain complex topics and can be misinterpreted. The researcher tried his level best to make sure that the questionnaires were drafted in simple English and were distributed to the rightful respondents who understand the jargon to safeguard data validity. Questionnaires are historically known for low return rate but the researcher made frequent follow-ups with respondents to make sure that all questionnaires that were distributed were returned. In addition, there is also possibility of ambiguous responses and omission of responses to some questions. The researcher decided to use interviews as another way of data gathering to reduce bottlenecks associated with questionnaires. This altogether assisted on data validity and reliability.

3.4.1 Interviews

Interviews are commonly known for their reality, high return rate, controlled response order and complete answers. They are used when someone wants to get more in-depth information about a phenomenon. Interviews are also a best way when gathering information about sensitive and controversial topics. They also allow the interviewer to do follow-up questions on areas that he/she might needs more facts and clarity. However, interviews are time consuming and they are mostly fit for small scale studies. The researcher administered interviews to few selected ZESA top officials and former Ministers of Energy and Power Development to gather most relevant information. There is also a possibility for subconscious bias.

3.5 Data collection procedures

After obtaining additional authorisation from the General Manager (Harare Area), the study was carried out, several respondents were contacted, and appointments were arranged for the times when the respondents could assist the researcher in distributing the questionnaires. The management of human resources was requested to list all of the managers with extensive experience who had been with ZEZA for more than five years and who regularly took part in audits.

Questionnaires (see Appendix 1) were personally administered by the researcher in order to obtain control although the human resources personal assisted with distribution of some. Some were virtually shared to the respondents using the survey monkey platform. Some questionnaires were administered to few selected governance champions and professionals by email. Interviews were conducted with few people who are at ZESA executive level. This made the process easier since

information was gathered from appropriate people who have a better understanding of matters under study. Strict confidentiality was observed.

3.5.0 Data sources

Primary data is that original data collected for a precise study objective (Creswell, 2014). This means that the data was specific to the researcher and no other person would have collected the data before (ibid). Primary data has several advantages, starting with its uniqueness and relevance to the research being done. Secondly, primary data is easier to evaluate and more practical in addressing the current issue. The 5-point Likert scale questionnaire design was used in this study to collect data.

Secondary data relates to already existing data that was collected for other studies or purposes. This type of data can be available in libraries, data archives, journals and publications. The data is already available and there are less costs and effort in obtaining such. However, the researcher did not wholly rely on this data since it does not form the underlining objective of this study. The major purpose of secondary was only for guiding with information.

3.6 Data presentation and analysis procedures

The data that the researcher collected through questionnaire and interviews was presented by way of tables, graphs and charts which were developed using Microsoft Excel. For easier understanding, quantitative data was organised and statistical descriptions were provided through tables with frequencies and percentages, pie charts, and graphs. On the other hand, qualitative data was analysed to pinpoint respondent replies pertinent to the study issue. Such data was analysed primarily by providing an explanation of the information gathered from the field, allowing the researcher to quote comments from respondents. Data analysis is the systematic organisation and synthesis of the research data and the testing of research hypotheses, using those data (Polit & Hungler 2015:639).

The process also involves categorising, ordering, manipulating and summarising the data and describing them in meaningful terms (Brink 2016:178). The completed questionnaires were analysed using a statistical package SPSS version 20. The majority of the questionnaire's questions were closed-ended. These were coded to make computer analysis simple. The researcher manually categorized the open-ended questions. To determine the strength of the association between the variables in the conceptual framework and ZESA, the Pearson correlation matrix was utilized. Pearson correlation matrix assisted in the measurement scales that were applied in assessing the

opinions of respondents. The statistical Package for the Social Science (SPSS) version 20 was employed to analyse the data. The data is presented and findings are discussed in succeeding chapter.

3.7 Reliability and validity

Reliability tests the consistency of a measurement and the degree for which the users of the information can place on it. It is dependent upon the source of the data, the collector of the data and the timeframe to which the data has been collected. Reliability relates to the precision and accuracy of the instrument. This means that if the instrument is used on a similar group of respondents in a similar context, it should yield similar results (Cohen et al 2010:117). The researcher guaranteed accurate and careful phrasing of questions to avoid ambiguity which might confuse respondents and yield wrong responses. The goal of the interview and the necessity of providing honest answers were explained to the participants. Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Kirk & Miller, 2012). Based on the study's initial findings, the instrument's dependability is determined. According to Marczyk et al. (2010) a valid instrument is always reliable whereas a reliable instrument needs not a valid instrument. The researcher applied the Cronbach's acceptable alpha coefficient of above 0.7 to measure reliability of the variables under study. An alpha range of 0.7, 0.8 and 0.9 is considered acceptable, good and excellent respectively.

Validity on the other hand measures the relevance whether the results reflect on the intended purpose of the study. It measures the strength of conclusions for generalisability. Validity is the accuracy and meaningfulness of inferences which is based on the research results (Kirk & Miller, 2012). According to Polit and Hungler (2015:353), validity refers to the degree to which the instrument measures what it is supposed to be measuring. For the most part, the researcher concentrated on content validity, which is the precision with which an instrument assesses the variables being studied. Thus, the degree to which the questions posed tended to elicit the desired information was what was meant to be considered content validity. The research instrument was tested for content validity by giving the questionnaire to the managers and executives on external audit as governance tool.

3.8 Ethical Considerations

This research complied with professional rules and regulations. The data collected was kept confidential and purely for academic purposes and anonymity of participants was ensured through exclusion of personal information on the questionnaires. The research was depending mostly on data collected and used that data purely for the purpose of the study. Before providing information and formally agreeing to participate, all participants were fully informed about the procedure, the goal, and the study technique through a signed informed consent form. Every study participant was also told that they might stop participating at any time, and any data that was made anonymous would be deleted. They were not forced to participate and were given a period of one week, which the researcher considered adequate to complete the survey questionnaire. In addition, the privacy of case company identities was maintained throughout the research process. No incentives were given to respondents for participating in the study.

The researcher is at any time willing to share the findings of the study with interested respondents who participated on this study. There researcher did not cause any harm or damage to the respondents. If by any chance some benefits are to come from the findings of this research, the researcher is comfortable to share the fruits of sweat with those diligently participated on this study. The researcher thereof undertakes to disclose findings of the research truthfully.

3.9 Summary

The research philosophy, research strategy, research design, target population, sample size, sampling method, research instruments, data collection procedures, data analysis and presentation techniques, reliability, validity, and ethical considerations are all thoroughly explained and justified in this chapter along with the data collection strategy. The study's findings and discussions will be presented in the upcoming chapter.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 INTRODUCTION

The chapter presents the overall study findings. It presents data that was collected from the field. Data was collected through the use of questionnaires, interviews and to some extent observations. Questionnaires and interview guide questions were directly formulated from the research objectives. The main objective of the study was analysis of external audit as a corporate governance tool in mitigating corporate scandals and public entities' decay paying more attention to ZESA Holdings. Analysis of data was done to extract meaning and answers to the research questions. Statistical data analysis packages were also employed to assist in validating the results. The chapter goes a long way in interpreting the meaning and the correlation of variables to arrive on a meaning. Finally, having all done in order, the results shall be in a position to answer all the research objectives. The chapter will then conclude with a chapter summary.

4.1 Data collection process and response rate

Table 4.1: Interview Response Rate

Data was collected from senior ZESA officials, public officials, professionals and governance champions.

Group of Interviewees	Intended interviews	Contacted interviews	Response Rate
ZESA Executives	2	2	100%
ZESA Directors	2	2	100%
Minister	1	1	100%
Total	5	5	100%

Interviews were contacted with two ZESA key executives, one former minister of Energy and Power Development and two ZESA Directors. The overall interview response rate was 100% as presented by Table 4.1 above.

Table 4.2: Questionnaire Response Rate

Group of Respondents	Questionnaire sheets administered	Questionnaire sheets returned	Response Rate
Executive	3	3	100%
Top management	90	62	69%
Middle management	150	140	93%
Lower management	35	34	97%
Total	278	239	90%

Questionnaires were administered to ZESA holdings employees that were composed of 3 executives, 90 top managers, 150 middle managers and 35 lower managers. In total questioners were administered to **278** respondents and the overall questionnaire response rate was 90% as presented by table 4.2 above. Wu et al., (2022) and Baruch, (1999) argued that response rate of 50%, 60% and 75% are sufficient, satisfactory and excellent respectively. Therefore, 90% was an excellent response rate.

4.2 Data representation and analysis

The succeeding sections of this chapter are going to illustrate data presentation charts and graphs. The analysis of presented data allows the transformation process of gathered data into meaning. At the end of this chapter the researcher will give an overall explanation of the results.

4.2.1 Gender Analysis

The total number of respondents who returned questionnaires was **239**. Figure 4.1 below shows that 149 (62%) of the respondents were men and 90 (38%) were female. ZESA holdings is a company which deals with more of technical work hence more male compared to female. However, the number of female respondents is significant to conclude that the research findings are valid and not contain elements of gender imbalance or bias.

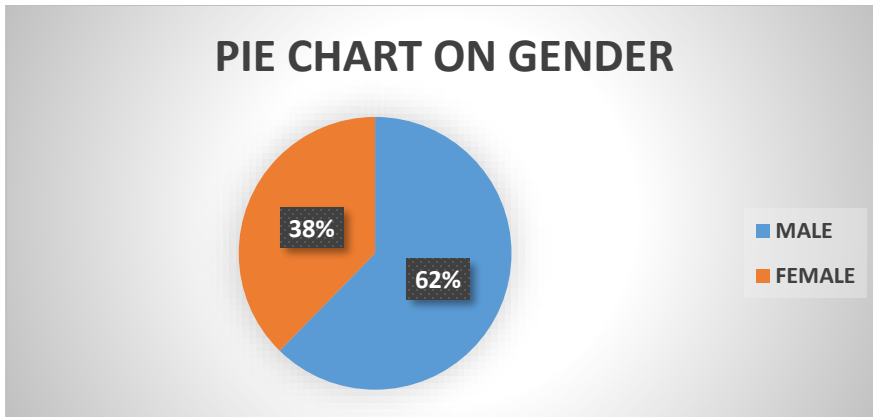


Figure 4.1: Gender analysis pie chart

4.2.2 Age range

Table 4.3: Age Group Analysis

Age of respondents (years)	Frequency	% (n=239)
Below 29	19	8%
30 - 59	144	60%
Above 60	76	32%
Total	239	100%

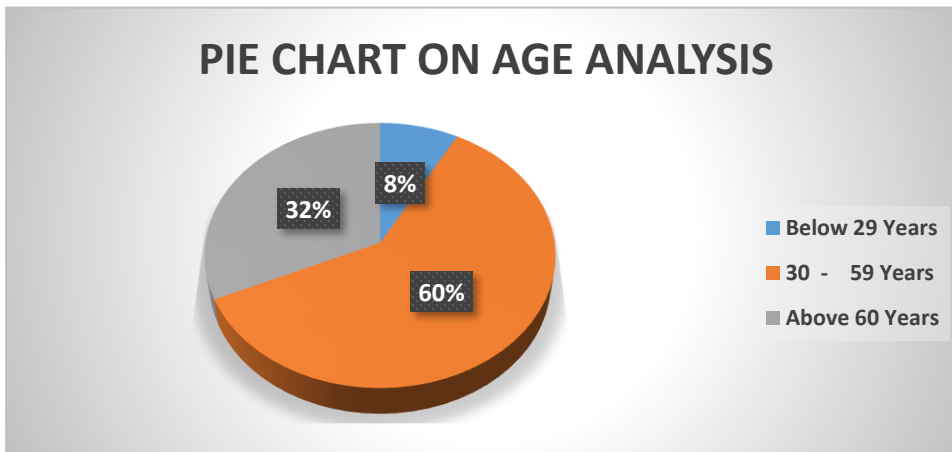


Figure 4.2: Age analysis pie chart

Respondents of the study at ZETDC were asked to indicate their age range and their responses were captured down in table 4.3 and Figure 4.2 above. This shows that data was collected from mature people who can reasonably provide objective judgement and views. About 92% of respondents were over 30 years of age and mature enough to provide adequate reliable information about corporate governance

and public entities decay. This also aids validity of results from this study. The results also show that ZESA is dominated with energetic workers who are aged 59 years and below (68%).

4.2.2 Work experience

Respondents of this study were asked to indicate their work experience in years within the organization and their responses were captured in table 4.4 below.

Table 4.4: Analysis of work experience

Age of respondents (years)	Frequency	% (n=239)
Below 9	42	18%
10 - 19	75	31%
Above 20	122	51%
Total	239	100%

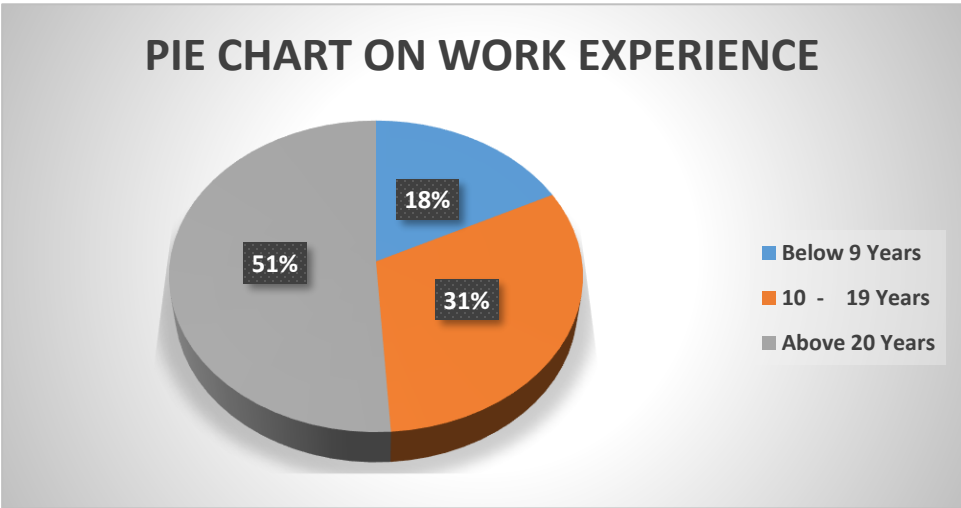


Figure 4.3: Work experience pie chart

From the table it can be noted that 18% were in the organization for 9 years, 31% were in the organization for 10 to 19 years and 51% were in the organization for over 20 years. Findings in table 4.4 and figure 4.3 above revealed that the majority of the respondents (51%) had experience of over 20 years. This is a sign of personnel with vast experience and understanding of the audit engagements and decision-making processes in the organization. The results were found as intended since the researcher used a non-probability purposive sample to gather data form information rich personnel.

4.2.3 Level of education

Respondents indicated their highest level of qualification from a pool of diploma, honours degree/HND, master's degree and PhD. Table 4.5 below shows the analysis of highest level of education of respondents at ZESA.

Table 4.5: Analysis of level of education

Level of Education	Frequency	% (n=239)
Diploma	107	37%
Bachelor's Degree/HND	122	42%
Master's Degree	58	20%
PhD and above	3	1%
Total	239	100%

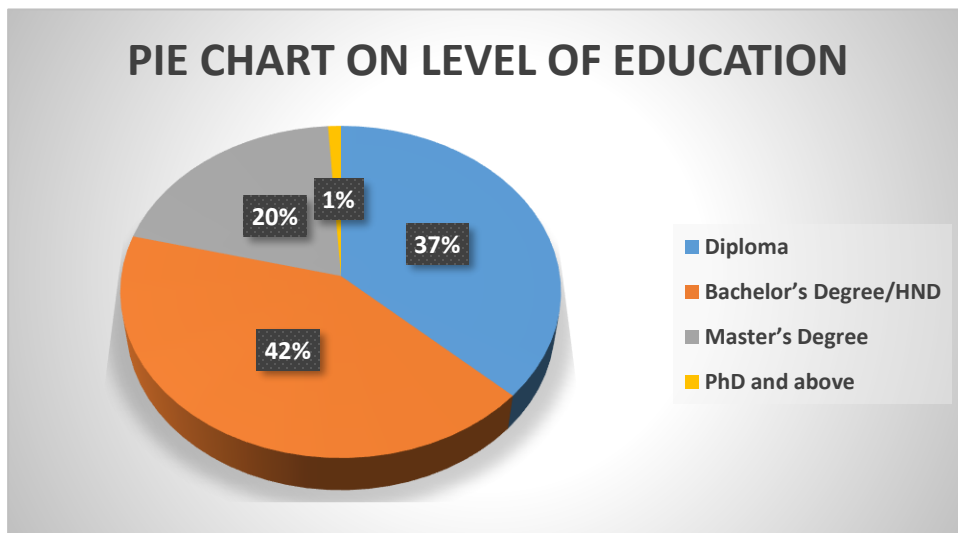


Figure 4.4: Level of education pie chart

According to Benson (2004) in Mazikana (2019), educated employees give quality output of the work and hence improve the performance of the organizations. Table 4.5 and Figure 4.4 above shows that 107 (37%) of respondents had diplomas, 122 (42%) had Bachelor's Degree/HND, 58 (20%) had Master degree and 3 (1%) had PhD. Generally, all respondents were well educated. This can also suggest that ZESA employees can be able to execute their work effectively and efficiently if other factors are held constant. This implies that respondents had the capacity to answer audit and governance related questions in the questionnaire due to ability to interpret the questions clearly.

4.2.4 Work position of the respondents

Respondents cited the position they hold within the organization. Table 4.6 below shows the analysis of the position of respondents at ZESA.

Table 4.6: Analysis of work position

Work position	Frequency	% (n=239)
Executive	3	1%
Top management	62	26%
Middle management	140	59%
Lower management	34	14%
Total	239	100%

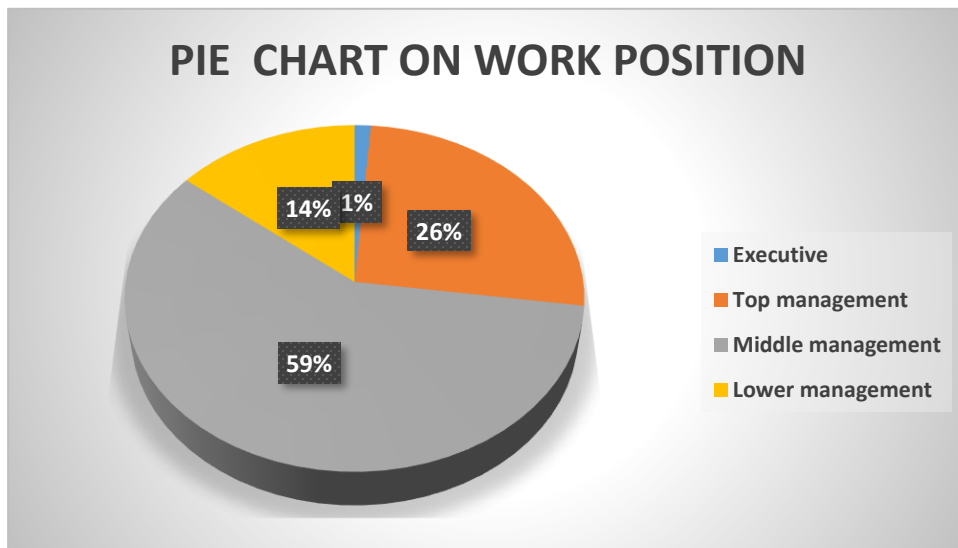


Figure 4.5: Work position pie chart

The findings from Table 4.6 and Figure 4.5 above show that 236 (99%) of the respondents were managers and the remainder 3 (1%) executives. Dolan & Rosenbloom (2015) noted that every organization should have a bureaucratic structure which has a hierarchy with specific roles and responsibilities of different workforce in the organization. Managers are the brain behind the force at ZESA. They are also strategic planners and general employees are responsible for execution of the plans. As shown in Table 4.6, majority of the respondents were at managerial positions.

Managers are included in decision making, audit engagements, corporate governance discussions and recruitment process, therefore, it can be assumed that answers provided in response to the questionnaire of the current study were informed and reliable.

4.3 MAJOR INDINGS ON RESEARCH OBJECTIVES

4.3.1 Evaluating effectiveness of External Audit as a corporate governance tool towards minimizing corporate scandals. (EOEA)

The researcher advises readers to first the questionnaire and the interview guide (*Appendixes I and II*) before focusing on the findings of this study for better understanding of the variables. The first research objective is denoted by “EOEA” for the purpose of this study. Experience of respondents was used as the independent variable against the dependant variable EOEA. “N” denotes the population or number of respondents.

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
EOEA * EXPERIENCE	239	100.0%	0	0.0%	239	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	305.083 ^a	26	.001
Likelihood Ratio	303.449	26	.001
Linear-by-Linear Association	120.080	1	.001
N of Valid Cases	239		

a. 30 cells (71.4%) have expected count less than 5. The minimum expected count is .35.

The researcher applied the Pearson Chi-square to test relationship and significance level (Asymp. Sig) of 0.001 was attained. This shows that the test is statistically significant to allow the researcher to reject the null hypothesis for the study and conclude that External Audit is not effective as a

corporate governance tool to minimise occurrence of corporate scandals and public entities decay. Figure 4.6 below show a bar chart of responses. Results seem to suggest that on average respondents with more than 10 years of experience argued that external audit is not effective as a cooperate governance tool.

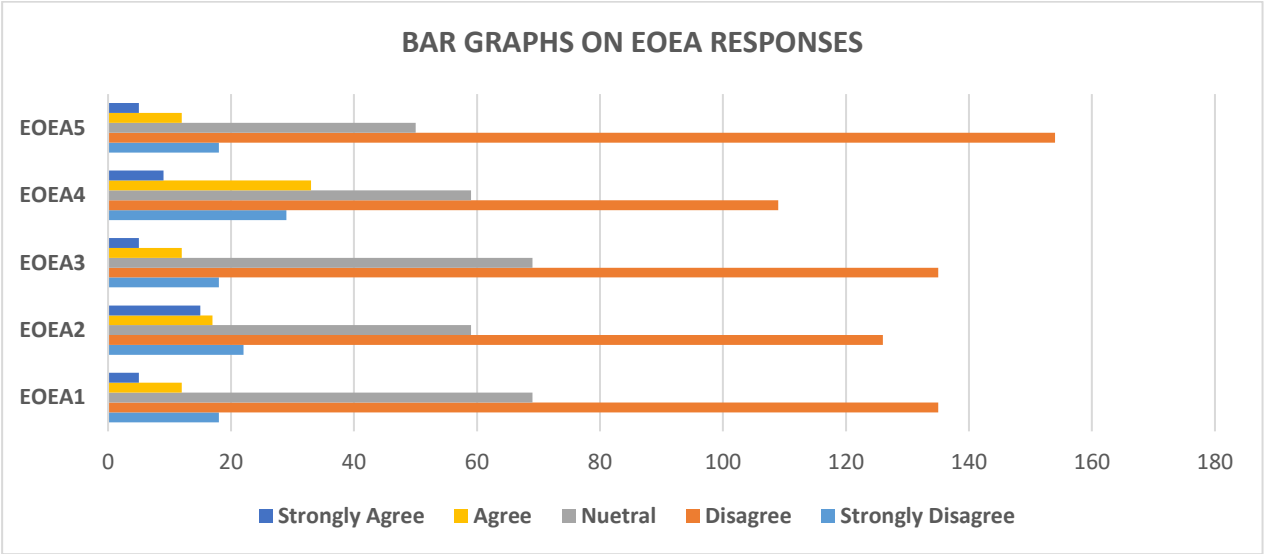


Figure 4.6: Bar chart on EOE A responses

Reliability Statistics

Cronbach's Alpha	N of Items
.828	2

The researcher used the Cronbach's Alpha to measure reliability of the sets between two variables experience and EOE A. The alpha of 0.828 was attained which means the reliability level is good.

4.3.2 Extent to which External Audit function balance financial and governance auditing to aid corporate governance compliance. (BoFGA)

This second objective is denoted by variable “BoFGA” for the purpose of this study. Education of respondents was used as the independent variable against the dependant variable BoFGA. Population was equal to 239 respondents.

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
EDUCATION * BoFGA	239	100.0%	0	0.0%	239	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	692.453 ^a	92	.000
Likelihood Ratio	432.015	92	.000
Linear-by-Linear Association	137.733	1	.000
N of Valid Cases	239		

a. 110 cells (91.7%) have expected count less than 5. The minimum expected count is .00.

The researcher applied the Pearson Chi-square to test relationship and significance level (Asymp. Sig) of 0.000 was attained. This shows that the test is statistically significant to allow the researcher to reject the null hypothesis for the study and conclude that External Audit is not balancing financial and governance issues in public entities. Figure 4.7 below show a bar chart of responses.

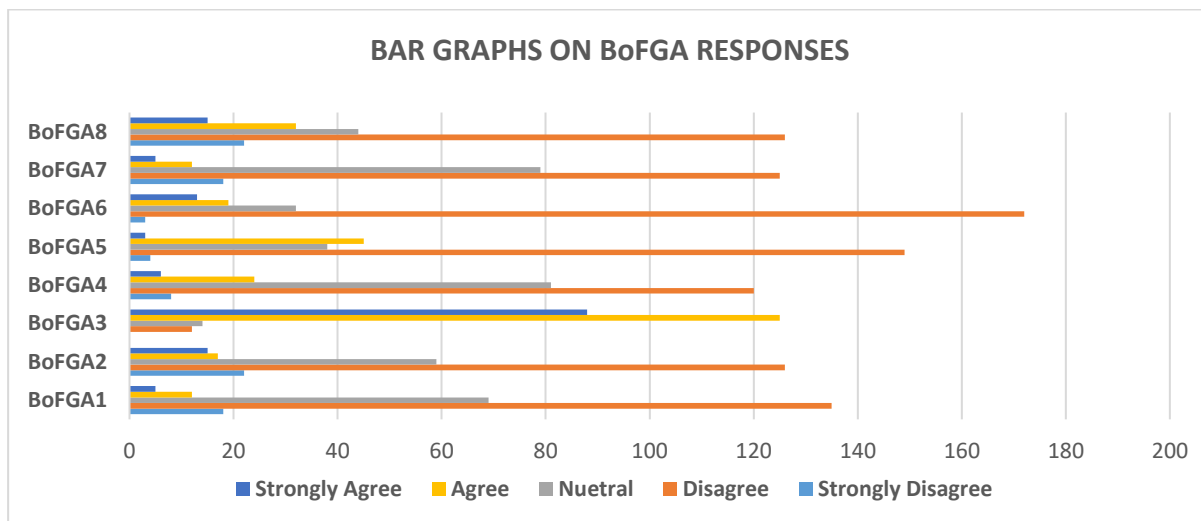


Figure 4.7: Bar chart on BoFGA responses

Reliability Statistics

Cronbach's Alpha	N of Items
.859	2

The researcher used the Cronbach's Alpha to measure reliability of the sets between two variables experience and EOE. The alpha of 0.859 was attained which means the reliability level is also good.

4.3.3 Has external audit become a formality rather than a corporate governance tool to satisfy various interested stakeholders? (EAAF)

The researcher denoted the variable by “EAAF” for the purpose of this study. Education level of respondents was used as the independent variable against the dependant variable EAAF. “N” denotes number of respondents.

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
EDUCATION * EAAF	239	100.0%	0	0.0%	239	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	516.193 ^a	52	.001
Likelihood Ratio	382.626	52	.001
Linear-by-Linear Association	139.172	1	.001
N of Valid Cases	239		

a. 59 cells (84.3%) have expected count less than 5. The minimum expected count is .00.

Pearson’s Chi-square was employed to test relationship and significance level (Asymp. Sig) of 0.001 was attained. This means that the test is statistically significant. Therefore, we reject the null hypothesis and conclude that External Audit has become a formality rather than a corporate governance tool to satisfy various interested stakeholders. Figure 4.8 below show a bar chart of responses.

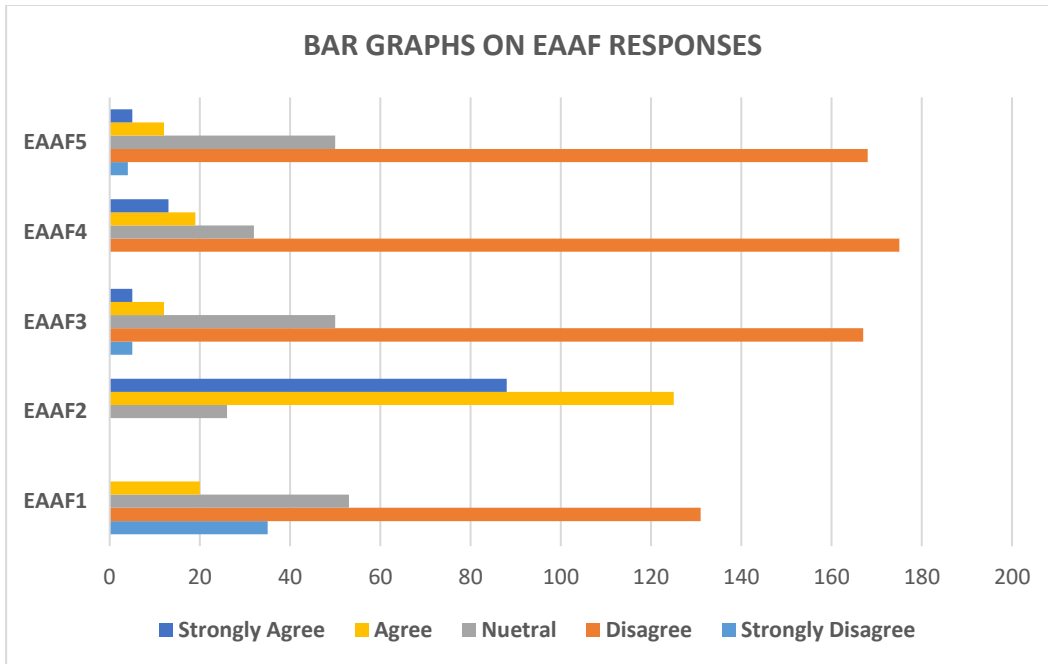


Figure 4.8: Bar chart on EAAF responses

Reliability Statistics

Cronbach's Alpha	N of Items
.844	2

The researcher used the Cronbach's Alpha to measure reliability of the sets between two variables education and EAAF. The alpha of 0.844 shows that the reliability level was good.

4.3.4 Assessing the degree of uptake and/or implementation of the Zimbabwe Code of Corporate governance (UZCCG)

The researcher denoted the variable by “UZCCG” for the purpose of this study. Education level of respondents was used as the independent variable against the dependant variable UZCCG. “N” denotes number of respondents.

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
EDUCATION * UZCCG	239	100.0%	0	0.0%	239	100.0%

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	611.857 ^a	52	.001
Likelihood Ratio	506.033	52	.001
Linear-by-Linear Association	128.560	1	.001
N of Valid Cases	239		

a. 52 cells (74.3%) have expected count less than 5. The minimum expected count is .00.

Pearson’s Chi-square was again employed to test relationship and significance level (Asymp. Sig) of 0.001 was attained. This denotes a statistically significant test. Therefore, we reject the null hypothesis and conclude that the uptake and/or implementation of the Zimbabwe Code of Corporate governance is very low. Figure 4.9 below shows that respondents agree that they are aware of the ZimCode Act (UZCCG1). They also agree that the act has been implemented across the company (UZCCG1). However, the uptake was still lagging behind because the Act was nationally adopted in 2015.

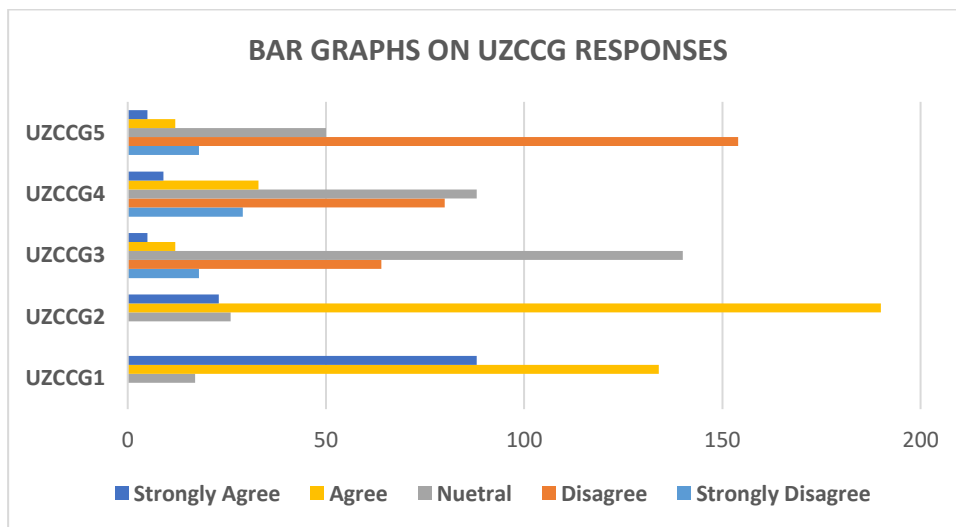


Figure 4.9: Bar chart on UZCCG responses

Reliability Statistics

Cronbach's Alpha	N of Items
.817	2

Cronbach's Alpha was applied to measure reliability of the test between two variables education and UZCCG. The alpha of 0.817 shows that the reliability level was good as well.

4.4 CONSOLIDATED FINDINGS

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
EDUCATION * UZCCG	239	100.0%	0	0.0%	239	100.0%
EDUCATION * EOEА	239	100.0%	0	0.0%	239	100.0%
EDUCATION * BoFGA	239	100.0%	0	0.0%	239	100.0%
EDUCATION * EAAF	239	100.0%	0	0.0%	239	100.0%
GENDER * UZCCG	239	100.0%	0	0.0%	239	100.0%
GENDER * EOEА	239	100.0%	0	0.0%	239	100.0%
GENDER * BoFGA	239	100.0%	0	0.0%	239	100.0%
GENDER * EAAF	239	100.0%	0	0.0%	239	100.0%
AGE * UZCCG	239	100.0%	0	0.0%	239	100.0%
AGE * EOEА	239	100.0%	0	0.0%	239	100.0%
AGE * BoFGA	239	100.0%	0	0.0%	239	100.0%
AGE * EAAF	239	100.0%	0	0.0%	239	100.0%
EXPERIENCE * UZCCG	239	100.0%	0	0.0%	239	100.0%
EXPERIENCE * EOEА	239	100.0%	0	0.0%	239	100.0%
EXPERIENCE * BoFGA	239	100.0%	0	0.0%	239	100.0%
EXPERIENCE * EAAF	239	100.0%	0	0.0%	239	100.0%
POSITION * UZCCG	239	100.0%	0	0.0%	239	100.0%
POSITION * EOEА	239	100.0%	0	0.0%	239	100.0%
POSITION * BoFGA	239	100.0%	0	0.0%	239	100.0%
POSITION * EAAF	239	100.0%	0	0.0%	239	100.0%

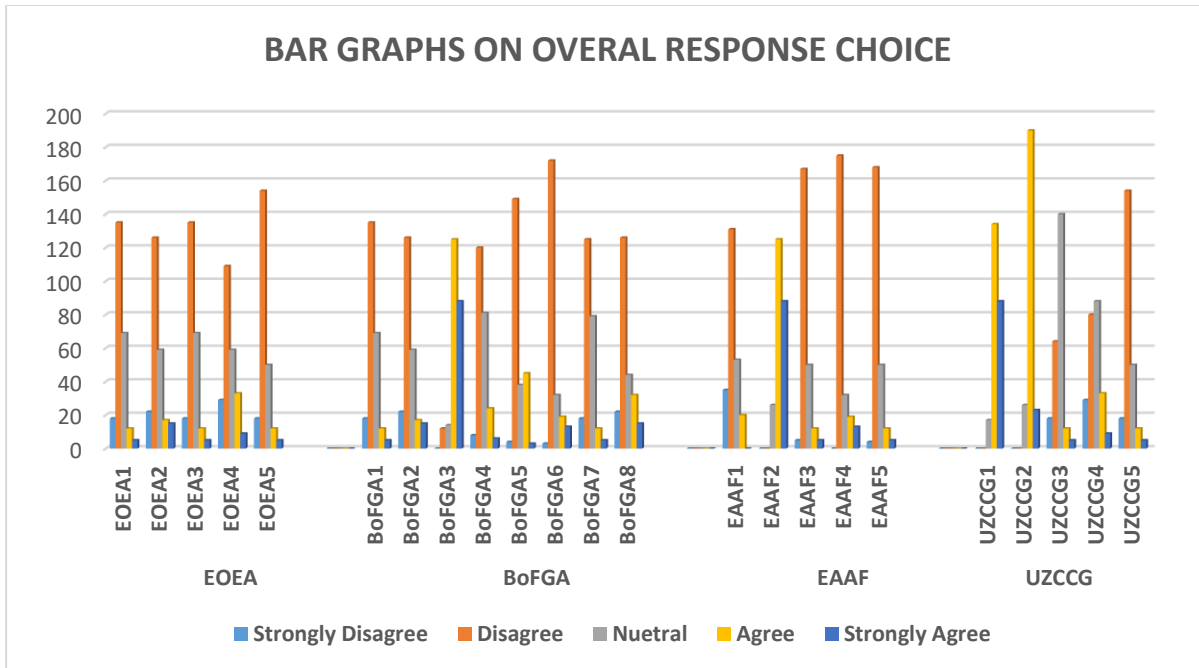


Figure 4.10: Consolidated Bar charts on EOE, BoFGA, EAAF and UZCCG responses

Reliability Statistics	
Cronbach's Alpha	N of Items
.970	9

The researcher used the Cronbach's Alpha again to measure overall reliability of the sets between all variables. The alpha of 0.970 was attained which means the reliability level is excellent. Nine variables for the test were composed of five independent variables and four dependent variables.

Results of this study shows that theories of corporate governance are abused in public entities. There is serious breach of governance practices. External Audit is focusing more on financial matters at the expense of pure governance issues. The researcher is convinced that if governance issues are first attended to, the risk of corruption abuse of public office, financial scandals, poor service delivery and other forms of governance malpractices will cease. Governance audit and compliance with good governance practices and codes is the only remaining way to compart public entity's decay.

4.5 Chapter summary

The chapter analysed, interpreted and presented the data gathered through questionnaires, interviews and observation. Data presentation instruments mostly used ware graphs, pie charts and tables. Each

and every data presentation tool is followed by narrations and explanations. The chapter findings will be used in the suggestion of solutions and recommendations that government and its ministries can implement to address governance malpractices in public entities. The succeeding chapter is the conclusion of the whole study and it will highlight possible solutions and recommendations.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

The purpose of the study was to analyse external audit as a corporate governance tool in mitigating corporate scandals and public entities' decay with specific reference to ZESA Holdings. The chapter briefly explains and highlights the main concepts drawn from the whole study. Conclusions for the entire research study are presented according to the analysis of data from preceding sections. The chapter finally outlines recommendations drawn by the study.

5.1 Summary

The researcher had four main objectives for purpose of the study. A mixed research approach was adopted for better understanding of quantitative and qualitative data. The first objective of the study was to evaluate the effectiveness of the External Audit function as a corporate governance tool in SOEs. Secondly, the researcher intended to determine the extent to which the External Audit function balance financial and governance audit to aid corporate governance compliance in public entities. Thirdly, the researcher sought to determine on whether external audit has become a formality rather than a corporate governance tool in public entities. Lastly, the researcher sought to assess the degree of uptake and/or implementation of the ZimCode in parastatals. The data was both quantitative and qualitative in nature and the researcher employed questionnaires and interviews as techniques or data collection tools.

5.2 Summary of major findings

5.2.1 Effectiveness of the External Audit function as a corporate governance tool

- External Audit is lacking independence due to a number of factors including political interference. It was concluded that auditors regardless of them being independent, they tend to have biased opinions due to political influence and sometimes management influence. In

this regard auditors end up not disclosing some discovered financial scandals. Management would want to secure the intrinsic value by deceiving stakeholders. However, this will end up resulting in public entities decay in the long run.

It was also noted that on the first of December 2023, the Supreme Court dismissed the appeal by the ZESA Holdings subsidiary ZPC against the high court ruling in favour of Wicknel Chivayo's Intratrek. Justices Musakwa and Chiweshe handed up a brief judgment and slapped ZPC with charges. The 100MW Gwanda Solar project was supposed to have been completed in 2019. The high court in January 2023 had ruled that the tender was binding and valid.

- External Audit does not frequently report its findings to management/board
- Recommendations made by the external auditors are not followed up and implemented on time

5.2.2 Extent to which the External Audit function balance financial and governance audit to aid corporate governance compliance

- It was discovered that auditors (both internal, external and forensic) are mainly focusing on financial matters at the expense of pure governance issues
- Officers and those charged with governance are also focusing much on having their figures balancing without checking on issues like board appointment, structure, composition, evaluation, remuneration and rotation if these are in compliance with good governance practices.
- It was also cited that the government is failing to respect the principle of separation of ownership and control with regard to the parent Ministry, the Board and the CEO. In this regard, there is no independency in all circles of strategy formulation and decision making.

5.2.3 Determining on whether external audit has become a formality rather than a corporate governance tool

- Power cuts and ZESA scandals were pure symptoms of misgovernance. The up and down of major units like the Hwange Power station unit 7 were cited a major electricity flow block. Currently the nation requires 1850MW but at the time when this research was conducted (December 2023), Zimbabwe was generating an approximate of 1285MW. Hwange was producing 674MW, Kariba pumping out 570MW and 41MW coming from IPPs.

- Board appointment is related to political interests. The board is composed of allies to senior government officials and relatives to war veterans who then easily comply to the government directives which most of them seem to be against good corporate governance practices.

5.2.4 Degree of uptake and/or implementation of the ZimCode in parastatals

The researcher concluded that there is low uptake and/or implementation of the ZimCode.

- It was also discovered that ZESA is still lagging behind on implementation of the ZIMCODE, however the act has been adopted and efforts to fully comply are still ongoing.
- There are no fines for non-compliance with the ZimCode

5.3 Conclusions

After consolidating all findings, the researcher was in a position to give conclusion in relation to the main objectives of the study. Firstly, researcher concluded that External Audit is not effective as a corporate governance tool in mitigating corporate scandals and public entities decay. The researcher was also convinced to conclude that External Audit is not balancing financial and governance issues in public entities and is not adding much value to corporate governance although it is being trusted to be a corporate governance tool. In addition, the researcher concluded that External Audit has become a formality rather than a corporate governance tool to satisfy various interested stakeholders. Finally, the researcher concluded that there is low uptake and/or implementation of the ZimCode.

5.4 Recommendations

Below are some of the recommendations that should be done in light of cases of unethical conduct that continue to be witnessed. These recommendations suggested to the government and those charged with the governance will go a long way protecting public entities decay.

5.4.1 Improving effectiveness of the External Audit function as a corporate governance tool

- a) The government should stop political interference in the running of state entities. This has contributed to the declining performance and escalating debts. As of July 2018, state enterprises and parastatals owed the Zimbabwe Revenue Authority (ZIMRA) over US\$491 million (Mpedzisi, 2021).
- b) External Audit should frequently report its findings to management/board.

- c) Recommendations made by the external auditors must be followed up and implemented timeously. The audit report of the current year must not continue figuring out same issues that were highlighted in the preceding year's report. There should be continuous improvement regarding implementations of External Auditor's recommendations.

5.4.2 Balancing financial and governance audit to aid corporate governance compliance.

- a) Auditors (both internal, external and forensic) should treat financial and pure governance matters separately before (audit planning and engagement), during (field work) and after (audit report) the audit process. They should enforce greater transparency or 'full disclosure' to rebuild the faith in corporate governance, particularly for public entities in areas such as board appointment, structure, remuneration, perks and performance indicators.
- b) Officers and those charged with governance are supposed to continuously strike a balance between financial issues (compliance with IAS, IFRS etc.) and pure governance issues (CSR, ESG, board appointment, structure, composition, evaluation, remuneration and rotation) to make sure that they are in compliance with good governance practices.
- c) The government must respect the principle of separation of ownership and control with respect to the parent Ministry, the Board and the CEO in order to avoid nepotism and patronage, (Mpedzisi, 2021).

5.4.3 Avoiding external audit to become a formality rather than a corporate governance tool.

- a) The Auditor General's office as a government oversight institution should be respected and vested more powers so that it is able to investigate on its own without fear and/or interference. This will allow the office to provide more regular reports and implement the recommendations. The Zimbabwe Anti-Corruption Commission (ZACC) as a government oversight institution is doing quite well to some extent but should shun the catch and release system for it is the major contributing factor to public entities decay.
- b) Treasury could need to be incapacitated in order to effectively and efficiently monitor the money flow. The government ought to implement more severe penalties for individuals found guilty of corruption, abusing their official position, and other such offenses. In his presentation of the 2024 National budget, the minister of finance allocated Z\$117 billion to cover employment costs, digitalisation, training and development of staff, as well as upgrading and rehabilitation of their office space (Ncube, 2023). However, the allocation

was too little considering the nature of job that the Auditor general's office is supposed to execute. A quadruple of the amount allocated is advisable. The Auditor General's office spaces were once reported the shoddiest amongst all government oversight institution office spaces. There are also backlog of audits backdating to 2013, hence a lot of funds are needed to cover the gap.

- d) Board appointment in public entities should not be politically affiliated. The board must be composed of independent personnel who become ambassadors and champions of good corporate governance practices.

5.4.4 Improving degree of uptake and/or implementation of the ZimCode in parastatals

- a) The government through oversight institutions must make sure there is full enforcement of the Zimbabwe National Code on Corporate Governance (ZimCode) which was adopted in 2015. This should be monitored within each sector with clear penalties or sanctions and should also apply the Environmental and Social Governance (ESG).
- b) There government should treat ZimCode Act like other Acts and non-compliance should attract fines. The fines and penalties must be gazetted and applied accordingly without favour.
- c) Every citizen must be a governance ambassador and there should be effective whistle-blowing and protection mechanism. It may also be valuable to consider creating clients' service charters in all public sectors.

5.5 Further and replication of findings

Firstly, the researcher would want to replicate on this study to spread the population to other provinces since this study was confined to Harare province. Secondly, the researcher advises the scholars to plan in time to have overall control of instruments that will be used. This would go a long way in increased response rate. Lastly, the researcher also recommends scholars to spread the topic to other State-Owned Enterprises in order to gain more informative data that is reliable.

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APPENDIX I: QUESTIONNAIRE



PROLOGUE

My name is **Method Wisky Chinyamupembe**, a bona fide Great Zimbabwe University student in the Department of Accounting and Information Systems, Faculty of Commerce. I am studying a Master of Commerce Degree in Professional Accounting and Corporate Governance now in the final semester. I am carrying a research entitled, “**External audit as a corporate governance tool in mitigating corporate scandals and public entities’ decay. A case of Zimbabwe Electricity Supply Authority (ZESA) Holdings**” as a requirement for my degree programme. Results of the study shall be used purely for academic purposes. You are kindly requested to participate in this research by answering the following questions. Anonymity is guaranteed in your participation as there is no requirement for personal details.

Instructions

The questionnaire is composed of structured questions where you are supposed to tick in an appropriate section.

SECTION A DEMOGRAPHIC

What is your gender?

Male		Female	
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What is your age?

Below 29 years	30 to 59years	Above 60 years

How many years of experience do you have in public sector?

Below 9 years	10 to 19 years	Above 20 years

What is your level of education?

Diploma	Bachelor's Degree/HND	Master's Degree	PhD and above

What is your job position?

Lower management	Middle management	Top management	Executive

SECTION B: VARIABLES /MAIN RESEACH QUESTIONS

The options below have five-point scales from Strongly Agree (highest score of 5) to Strongly disagree (lowest score of 1)

Strongly Disagree (SD)	Disagree(D)	Neutral(N)	Agree(A)	Strongly Agree (SA)
1	2	3	4	5

EOEA	Evaluating effectiveness of External Audit as a corporate governance tool towards minimizing corporate scandals.	SD	D	N	A	SA
1	External Audit function in my organization is effective					
2	Most of ZESA scandals are being unearthed by external audit					
3	External audit provides independent assessment of the organization's financial and governance affairs					
4	External Audit function report its findings frequently to the management/board					
5	Recommendations made by the external auditors are followed up and implemented on time.					

BoFGA	Extent to which External Audit function balance financial and governance auditing to aid corporate governance compliance.	SD	D	N	A	SA
1	There is balance between financial and governance audit					
2	Governance and financial matters are treated separately during audit					
3	External Audit focus more on financial matters					
4	External Audit focus more on governance issues					
5	Government appoints Directors transparently					
6	ZESA Board is effective					
7	Board evaluation is done frequently as possible					

8	ZESA board functions are clearly defined					
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EAAF	Has external audit become a formality rather than a corporate governance tool to satisfy various interested stakeholders?	SD	D	N	A	SA
1	External audit is just a formality to musk scandals by management					
2	External audit usually concentrates on financial audit than pure governance issues					
3	External auditors provide meaningful insights and recommendations beyond the scope of financial reporting					
4	External audit process take place every year-end					
5	Corporate Social Responsibility is reported on financial statements					

UZCCG	Assessing the degree of uptake and/or implementation of the Zimbabwe Code of Corporate governance	SD	D	N	A	SA
1	I am familiar with the Zimbabwe Code for Corporate Governance					
2	ZESA has implemented the provisions of the Zimbabwe Code for Corporate Governance and relating governance guidelines					
3	ZESA once faced regulatory or compliance challenges related to the Zimbabwe Code for Corporate Governance					
4	There are fines for non-compliance with the ZimCode					
5	Directors and management are involved in promoting and monitoring the implementation of the ZimCode					

SECTION C: SOLUTIONS AND RECOMMENDATIONS

What do you think the government should do to compart corporate scandals in public entities?

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Are there any governance frameworks or guidelines specific to parastatals that your organization follows in addition to the Zimbabwe Code for Corporate Governance? If yes, please provide details.

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What do you think the ZESA should do to redeem the eroded trust from various interested stakeholders?

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How would you suggest strengthening the role of external audit as a genuine corporate governance tool in your organization?

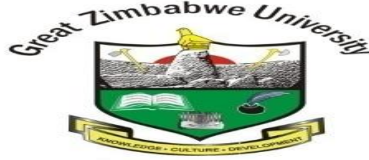
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Are there any additional comments or insights you would like to share regarding the perception of external audit as a formality and its role as a corporate governance tool?

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.....**THANK YOU**.....

APPENDIX II: INTERVIEW GUIDE



Interview guide for the Zimbabwe Electricity Supply Authority (ZESA) directors and Minister of Energy and Power Development.

An academic study: External audit as a corporate governance tool in mitigating corporate scandals and public entities' decay. A case of Zimbabwe Electricity Supply Authority (ZESA) holdings.

INTERVIEW QUESTIONS

1. What do you think are the key functions of External Audit as a corporate governance tool towards minimizing corporate scandals in parastatals?
2. Due to increasing cases of corporate scandals in ZESA Holdings, can someone conclude that external audit has become a formality rather than a corporate governance tool to satisfy various interested stakeholders in public entities?
3. To what extent is the uptake and implementation of the Zimbabwe Code of Corporate Governance at ZESA?
4. Does external audit practices balance the weight between financial audit and governance audit?
5. Board effectiveness depends on several issues that needs to be taken into consideration?
 - a) Who appoints the ZESA Board?
 - b) What are the qualifying criteria used?
 - c) How often board training and evaluation processes are conducted?
6. Governance malpractices and scandals are reported day in - day out within ZESA.
 - a) What do you think are the major causes of such scandals and should be done?
 - b) What have the board and minister done so far in trying to compart abuse of public office?
7. Recently ZETCD has increased power tariffs. The public is also using pre-paid electricity for both domestic and commercial use but still experiencing power cuts for 12 – 15 hours a day.
 - a) What are the major reasons behind power cuts?

- b) Are these reasons have anything linked to misgovernance by the board?
 - c) What have ZESA done so far in trying to compart load shedding?
8. How does the board interact with governance ambassadors (e.g. ZACC, Governance Professionals, Auditor General's Office) and responsible stakeholders towards mitigating scandals and public entities decay?

.....**THANK YOU**.....