Examination of the expectations of the Board of Directors regarding Internal Auditing in State-Owned Enterprises in Zimbabwe

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ABSTRACT

Internal auditing is pivotal in promoting accountability, transparency, and effective governance in State-Owned Enterprises (SOEs). Historically, SOEs in Zimbabwe have faced systemic institutional challenges, including the mismanagement of public funds, financial irregularities, and operational underperformance. This study examines the expectations of Boards of Directors regarding internal auditing in Zimbabwean SOEs, focusing on the extent to which boards rely on internal auditors for risk management, regulatory compliance, and operational oversight. Employing a qualitative multiple-case study research design, semi-structured interviews were conducted with fifteen board members and audit committee chairs across five selected public enterprises in the energy, transport, and utilities sectors. Thematic analysis reveals that while boards expect internal auditors to provide objective, strategic assessments to safeguard public assets, their effectiveness is heavily constrained by structural competence gaps, restricted resource allocations, and compromised reporting independence. The study recommends the strict enforcement of dual-reporting frameworks under the Public Entities Corporate Governance Act [Chap 10:31], the institutional ring-fencing of audit budgets, and a operational shift toward forward-looking, risk-based auditing to align internal audit outputs with strategic board expectations.

Keywords: Internal audit, State-Owned Enterprises, Board expectations, corporate governance.

INTRODUCTION

State-Owned Enterprises (SOEs) play a critical role in the socioeconomic development of Zimbabwe, contributing significantly to employment, infrastructure development, and provision of essential services. Despite their importance, State-Owned Enterprises have historically struggled with governance inefficiencies, financial mismanagement, and operational underperformance. These challenges have often been linked to weak internal control systems, lack of transparency, and inadequate oversight mechanisms (Chikodzi & Nyoni, 2021; Ncube, 2020). Internal audit management and address these weaknesses by providing independent assurance, promoting risk management, and advising management and the Boards of Directors on how to improve corporate governance practices in these entities.

Boards of directors in State-Owned Enterprises have a fiduciary duty to ensure that organizations operate efficiently, ethically, and in compliance with relevant laws and regulations. As such, the expectations of the boards regarding internal audit functions are critical for effective corporate governance. Board members rely on internal auditors to detect irregularities, evaluate internal control systems, provide risk assessments, and support strategic decision-making processes (Mutambara & Kanyoka, 2019). The alignment between board expectations and internal audit activities significantly impacts organizational performance and stakeholder confidence.

State-Owned Enterprises in Zimbabwe have experienced a persistent governance and performance challenges despite the presence of internal auditors. Reports of financial mismanagement, fraud, and non-compliance indicate a misalignment between internal audit functions and Board of Directors' expectations (ZIMRA, 2022).

Understanding the expectations of the Boards of Directors and assessing whether internal audit functions meet these expectations is critical for strengthening governance, ensuring accountability, and improving the performance of State-Owned Enterprises. Hence, this study sought to examine how the Boards of Directors of State-Owned Enterprises in Zimbabwean perceive the role of internal auditing in the enterprises that they lead.

Research Objectives

The study was guided by the following research objectives:

To examine the key expectations that the Boards of Directors of State-Owned Enterprises in Zimbabwe have on internal auditing.

To identify the challenges that are affecting the alignment of the expectations of the Boards of Directors with the activities of internal auditors.

To recommend strategies to be implemented to ensure that the expectations of the Boards of Directors of State-Owned Enterprises in Zimbabwe are aligned to the activities of internal auditors of the enterprises.

LITERATURE REVIEW

The study was guided by the following literature:

Theoretical framework

This study was anchored on the Agency Theory and the Stakeholder Theory. The Agency Theory describes the relationship between principals (board/shareholders) and agents (management/internal auditors). Agency theory posits that principals delegate decision-making authority to agents but require mechanisms, such as internal auditing, to monitor their actions, reduce information asymmetry, and mitigate agency risks (Jensen & Meckling, 1976). Internal auditing acts as monitoring tools that help the Boards of Directors to ensure that there is management accountability, reduced fraud, and alignment of organizational actions with strategic objectives.

The Stakeholder Theory indicates that State-Owned Enterprises must balance the interests of multiple stakeholders, including the government, employees, and the public. Internal auditors serve as intermediaries, ensuring that Board of Directors' decisions reflect the interests of stakeholders and that financial and that the operational activities are transparent and accountable (Freeman, 2010).

Internal audit in state-owned enterprises

Internal audit is an independent, objective assurance and consulting function designed to add value to an organization by improving risk management, control, and governance processes (Institute of Internal Auditors [IIA], 2019). In State-Owned Enterprises, internal audit functions are crucial for ensuring transparency, accountability, and adherence to regulations, particularly in environments susceptible to political interference and corruption (Mavhiki & Dube, 2020). Studies indicate that effective internal audits can detect financial irregularities, recommend corrective actions, and enhance operational efficiency (Chikodzi & Nyoni, 2021; Ncube, 2020).

Boards of directors' expectations

Boards of Directors in State-Owned Enterprises expect internal audit functions to provide independent evaluations of financial and operational systems, identify risks, ensure regulatory compliance, and support strategic decision-making (Mutambara & Kanyoka, 2019). In Zimbabwe, several studies highlight that boards of Directors prioritize risk assessment, fraud detection, and assurance over purely operational or advisory roles (Mavhiki & Dube, 2020). Internal auditors are expected to act as trusted advisors while maintaining independence and objectivity. The current study also sort to examine the key expectations that the Boards of Directors of State-Owned Enterprises in Zimbabwe have on internal auditing.

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Challenges Facing Internal Audit

Despite the clear expectations, internal audit in State-Owned Enterprises face several challenges. Auditor

independence is often compromised due to reporting lines to management rather than audit committees, inadequate resources, and limited professional development opportunities (Chikodzi & Nyoni, 2021). Additionally, boards may lack the technical knowledge to fully leverage audit findings, leading to a disconnect between audit recommendations and strategic decisions (Ncube, 2020). The current study sought to identify the challenges that are affecting the alignment of the expectations of the Boards of Directors with the activities of internal auditors.

GAP Analysis

Research in African contexts demonstrates that internal audit effectiveness is directly linked to board support, auditor independence, and technical competence (Mutambara & Kanyoka, 2019; Mavhiki & Dube, 2020). In Zimbabwe, studies reveal that boards value internal audits but often face limitations in accessing timely and accurate information, underscoring the need for enhanced professional development and structured audit reporting frameworks (Chikodzi & Nyoni, 2021). Hence, the current study sought to examination of the expectations of the Board of Directors regarding Internal Auditing in State-Owned Enterprises in Zimbabwe.

RESEARCH METHODOLOGY

The following research methodology was used to generate the data:

Research Design

This study adopts a **qualitative, multiple case study research design** to explore the corporate governance dynamics within Zimbabwean SOEs. A case study design is ideal because it allows for an in-depth investigation of a contemporary phenomenon within its real-life organizational context, where the boundaries between the phenomenon (board expectations) and the context (political and institutional realities) are highly integrated (Yin, 2018).

Population and Sampling Strategy

The target population comprises Board of Directors members and Audit Committee chairs across key economic sectors in Zimbabwe.

- **Sampling Method: Purposive sampling** was utilized to select 15 participants from 5 major SOEs operating within the energy, transport, and utilities sectors. Participants were selected based on having a minimum of three years of oversight experience in public enterprises.
- **Sample Sufficiency:** The sample size was determined by **data saturation**, the point during data collection where subsequent interviews yielded no new structural insights, themes, or dimensions regarding board-auditor dynamics.

Data Collection and Instrument

Primary data was gathered using **semi-structured, face-to-face interviews**.

- **Justification:** An interview guide was developed around the statutory provisions of the **Public Entities Corporate Governance Act [Chap 10:31]** to ensure institutional relevance.
- **Flexibility:** The semi-structured format allowed the researcher to probe deeply into sensitive issues such as executive management interference, resource constraints, and political pressures affecting oversight.

Data Analysis

The collected qualitative data was analyzed using **Thematic Analysis** following Braun and Clarke's (2006)

six-phase framework. Interviews were transcribed verbatim, subjected to initial open coding, and iteratively grouped into overarching themes. This process grounded the findings directly in the operational realities reported by the board members.

DISCUSSION OF RESULTS

The findings of this study are derived from semi-structured interviews conducted with fifteen board members and audit committee chairs from five selected Zimbabwean State-Owned Enterprises (SOEs) in the energy, transport, and utilities sectors. Thematic analysis revealed four primary themes: board expectations of internal audit, auditor independence and objectivity, challenges affecting internal audit effectiveness, and alignment between audit functions and strategic governance.

The findings confirm and expand on existing literature regarding internal audits in State-Owned Enterprises. Boards of Directors emphasize risk management, compliance, and strategic advisory roles which align with global best practices, where internal audit is increasingly seen as a value-adding function rather than merely a compliance check (IIA, 2019; Mavhiki & Dube, 2020).

The centrality of auditor independence reflects theoretical propositions from Agency Theory. According to Jensen and Meckling (1976), internal audits act as monitoring mechanisms to reduce information asymmetry between principals (boards) and agents (management). This study demonstrates that when auditors lack independence—structural or perceived—the effectiveness of monitoring and risk mitigation is compromised, leading to potential governance failures.

Multiple challenges were identified that hinder the internal audit function:

a) Limited Resources: Auditors often lack adequate staffing, funding, and technological tools. Participants noted that without sufficient resources, auditors struggle to perform comprehensive audits, particularly in complex SOEs with multiple subsidiaries.

b) Skills and Competence Gaps: Several respondents observed that auditors require specialized skills in risk assessment, forensic accounting, and performance auditing. Limited professional development opportunities were cited as a barrier to effective auditing.

c) Reporting and Communication Gaps: Boards reported that audit findings are sometimes delivered late, lack actionable recommendations, or are overly technical, reducing their utility for strategic decision-making.

d) Political Interference: In some State-Owned Enterprises, political influence was highlighted as a significant barrier to objective internal audit practices, affecting both auditor independence and board confidence.

The challenges identified mirror findings from prior studies in State-Owned Enterprises in Africa. Resource constraints, skills gaps, and political interference are recurring barriers to effective internal auditing (Mutambara & Kanyoka, 2019; Chikodzi & Nyoni, 2021). These findings highlight the need for a holistic approach encompassing capacity building, adequate resourcing, and institutional safeguards to protect audit independence.

Furthermore, the study underscores the importance of aligning internal audit outputs with board strategic objectives. In some SOEs, audit findings are not fully actionable or strategically relevant, reducing their impact on decision-making. This suggests a need for enhanced communication and reporting frameworks that translate technical audit results into strategic insights. Stakeholder Theory (Freeman, 2010) supports this, emphasizing that audit functions must address the expectations of multiple stakeholders, including government, employees, and the public, to strengthen organizational accountability.

Overall, the findings demonstrate that internal audit in State-Owned Enterprises in Zimbabwe is underutilized as a strategic governance tool, despite clear Board expectations. Bridging the gap between expectations and practice requires structural, operational, and professional reforms, ensuring that internal audit functions fulfill both their assurance and advisory roles.

STRATEGIC RECOMMENDATIONS

Based on the findings regarding resource constraints, skills gaps, reporting delays, and compromised independence, the following structural and operational reforms are recommended:

Enforce Dual-Reporting Lines to Guarantee Auditor Independence

- **Action:** SOEs must strictly enforce a dual-reporting framework that separates administrative and functional duties.

- **Execution:** Internal audit executives must report **administratively** to the Chief Executive Officer for day-to-day operations, but **functionally** and exclusively to the Board Audit Committee. The Audit Committee must retain sole authority over the hiring, performance appraisal, compensation, and dismissal of the internal audit head to shield them from management retaliation.

Mandate Statutory Compliance with the Public Entities Corporate Governance Act

- **Action:** Align all board-audit interactions with the legal requirements of the Public Entities Corporate Governance Act [Chap 10:31].

- **Execution:** The Board must formalize its interactions by mandating that internal audit reports are delivered directly to the Audit Committee chair concurrently with management distribution. This eliminates the risk of management altering, delaying, or suppressing critical audit findings regarding financial irregularities or fraud.

Restructure Audit Budgets and Professional Development

- **Action:** Establish a ring-fenced budgetary allocation for the internal audit function.

- **Execution:** Boards must transition the audit department from a generic cost center to a prioritized risk-mitigation unit. Budget allocations must specifically fund continuous professional development (CPD) in highly technical domains—such as digital forensic accounting, data analytics, and public sector risk management—bridging the observed competence gaps.

Transition from Compliance Checklists to Risk-Based Auditing

- **Action:** Re-align the annual internal audit charter with the organization's macro strategic objectives.

- **Execution:** Internal auditors must move away from retrospective, checklist-based compliance exercises. They should actively employ a risk-based auditing approach that evaluates emerging operational, geopolitical, and financial hazards, providing the board with forward-looking advisory insights to protect public assets.

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