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RESEARCH ARTICLE

EFFECT OF AUDITING SKILLS ON SMALL BUSINESS PERFORMANCE: A STUDY OF SMALL BUSINESSES IN ANAMBRA STATE, NIGERIA

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Abstract

Small and medium-scale enterprise is a ubiquitous part of the business world. SMEs have been widely implicated in the growth and development of the Nigerian economy. However, the sector has been fraught with several challenges. Indeed, financial management is one of the primary limitations associated with the collapse and underperformance of small businesses. Thus, the present study aimed to investigate the performance of SMEs in the Anambra State of Nigeria based on auditing skills. The study adopted a cross-sectional survey. A total of seventy-nine small and medium-scale operators were randomly selected from the Onitsha business hub participated in the study. A self-developed instrument was used as a measure. Simple linear regression analysis was used for data analysis, and it was found that auditing skills significantly predicted SME performance. Implications and recommendations are discussed.

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Introduction:-

The small business sector is an essential element of any developed economic system, without which the economy and society as a whole might not normally function and develop (Sokolinskaya et al., 2019). It represents the backbone of communities (Merrick, 2020) and forms the majority of business activities in a growing economy like Nigeria (Chidiebere et al., 2014). Small businesses operate less formally, potentially permeating into trivial and remote localities unattractive for large enterprises (Jacob & Mironescu, 2017). A small business is commonly referred to as a privately managed business with fewer employees and minimal annual income than a corporation. It is a business in which the owners must personally guarantee the existence of financial planning. Small and medium-sized enterprises are pivotal to enhanced living standards because they create jobs at relatively low capital costs, especially in the fast-growing service sector (Ayanda & Adeyemi, 2011). The significant advantage of the industry is its employment potential at low capital cost (Ayanda & Laraba, 2011). Accordingly, it is reported that small and medium enterprises contributed over 50 percent to Nigeria's Gross Domestic Product (GDP) and accounted for 80 percent of employment in recent years (Otaru, 2021). Thus, it has been implicated as a driving force behind job creation, poverty reduction, wealth creation, income distribution, and reduction in income disparities (Ayanda & Adeyemi, 2011). Numerous authors have highlighted the role SME's in wealth and job generation in Nigeria (Ademola & Michael, 2012; Ado et al., 2014; Akpabot & Khan, 2015; Anigbogu et al., 2015; Asikhia, 2016; Bowale, 2013; Eniola & Ektebang, 2014; Ilori et al., 2018; Peter et al., 2020; Mukhtar & Rosli, 2014).

An audit is a central construct in accounting that describes the scrutiny and authentication of a business's financial records. It is to ensure that financial data is represented equitably and accurately. Auditing practices represent an

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essential component of business growth and development. It is converging worldwide because of the demands of globalized markets (Maltby & Chandler, 2020). The role of auditing in business is to ensure that all transactions are precisely reported and appropriately classified on the financial statements. Auditing derives its value by increasing the integrity of financial statements increasing confidence in a business (Chen et al., 2014). Accordingly, it is a key to accomplishing an organizational goal in that it introduces a systematic, disciplined approach to evaluating and refining the effectiveness of risk management, control, and governance (Hanskamp-Sebregts et al., 2013).

Similarly, Wangith (2016) noted that auditing is typically conducted to determine the validity and reliability of information and assess a business's internal control. Thus, auditing a business specifies areas that require improvement in the enterprise. Indeed, accuracy entails a measure of efficiency and management. The systematic evaluation of business means less room for error. Nevertheless, identifying and eliminating errors in the course of auditing leads to improved outcomes. According to Iwisi et al. (2002), the process of screening a business financial record offers credibility to business financial statements. Consistent evaluation of financial statements in any business empowers employees and managers to improve controls and responsibilities effectively, thereby informing employees of their commitment to the organization.

Over the years, auditing has been deployed in business to detect errors and fraud early and offer actual views about financial information (Alao, 2016; Emmanuel et al., 2013; Haladu, 2018; Ogoun & Atagboro, 2020; Oyerogba, 2021). Nevertheless, auditing small and medium-scale businesses in Nigeria has been fraught with the inadequacy of internal controls. A growing insinuation suggests that many small and medium enterprises in Nigeria hardly consider the use of auditing (Collis, 2010; Kamarudin et al., 2012). Hence the imminent and untimely collapse of a considerable number of SME's (Festus et al., 2016). Although most countries, including Nigeria, offer audit exemptions to SME's, it does not mean that SMEs are better off without financial evaluations. However, the size of SMEs and the lack of internal control pose a challenge to auditing services. The present study focuses on the owner's auditing skills and its effect on business in the absence of an external auditor.

The present study

SMEs are typically characterized by self-management of daily activities. Thus, the entire business process, including planning, financial recording, invoicing, stock recording, and other activities, is done by one person. The present study is conducted in the Anambra State of Nigeria, a business hub in the country's South-east region of the country. One common feature among business operators in Anambra state is the desire for expansion. However, an important consideration in business expansion is effective management. Thus, the expansion creates the room to employ the service of other people. Engaging others in a small business is the most challenging part of business growth because of the accompanying implications, and it poses a severe vulnerability for business. It is widely intimated that most SME practitioners consistently struggle to improve their business. However, most of these SME's often flop in a few years due to inefficiency in financial management. Therefore, to effectively manage expansion in business demands for evaluative practices. Auditing skill is operationalized as the predisposition to assess systematically, monitor, and scrutinize transactions. Auditing skill is a construct that entails the ability of non-professionals to self-evaluate financial information. Perhaps, SME's lack the resources to engage the services of accredited auditors. Also, research has faulted the relevance of external auditors in business evaluation (Siegel, 2020). Independent auditing may not be suitable for SMEs in the Anambra state, therefore justifying the present study. Perhaps, this study aimed to determine the role of auditing skills on SME's performance.

Hypothesis:

Auditing skills would significantly predict SME's performance.

Method:-

Small and medium-scale business practitioners were approached in the Onitsha business environment between August and October 2021 and were informed of the study's purpose. Eighty-six SME operators consented to participate in the study. Thus, they were offered the study's instrument for a response. More so, they were made to respond to the questions on the spot and accurately and ask questions on any perceived ambiguity. Overall, seventy-nine (79) copies of the questionnaire were appropriately filled and utilized for statistical analysis, while seven (7) copies were discarded for improper filling.

Measures:-

The instrument for data collection in the study was a structured questionnaire. The questionnaire items were developed from relevant literature and designed to assess information relating to auditing skills and business performance on a five-point Likert-type scale. The questionnaire was divided into two parts: A and B. Part A measures relevant characteristics of an auditor such as cognitive ability, mathematical ability, motivation, and document management. Part B includes questions about business performance. Business performance was measured primarily relative to business expansion and perceived financial management. Thus, the measure was subjective, and respondents were required to self-report their business growth. However, a Cronbach Alpha 0.79 coefficient was recorded for the scale following a pilot study using participants outside the study population.

Result:-

The study adopted a cross-sectional survey design. Data were evaluated using the statistical package for social sciences (SPSS, version 23). A simple linear regression was performed on the data to determine the effect of auditing skills on the performance of SMEs. The result indicated that auditing skill significantly predicted SME's performance at $\beta = .912$, $p < .05$, with R^2 of .734. Thus, the R^2 shows that auditing skills contributed 7.34% of the variation in performance among SMEs in the Anambra state.

Table 1:-Table showing the simple linear regression analysis for the effect of auditing skills on SME performance.

	B	Std. Error	β	t	Sig.
(Constant)	-1.89	.085		-22.37	.000
Auditing Skill	.912	.033	.912	29.05	.000
R^2	.734				

Discussion:-

The primary purpose of the present study was to determine the variation in SME performance in Anambra state based on auditing skills. The simple linear regression result found that auditing skills positively correlated with SME performance at $\beta = .912$, $p < .05$. More so, accounting for 7.34% of the variance in performance among the SMEs. Accordingly, the finding supported the study's prediction that auditing skills will significantly correlate with SME performance. This means that traders who possess the requisite independence skills of financial and transaction auditing would have a better opportunity to scrutinize their financial records and identify and manage loopholes early. Conversely, the result suggests that small business practitioners with less or no auditing potential may be more at risk of experiencing financial flaws and underperformance in business. The current finding presupposes that small business practitioners require basic skills of financial assessment, risk management, and stock evaluation to grow their business effectively.

The Implication of the Study

Over the years, many SMEs in Anambra state have closed their business due to financial struggles that characterize SMEs (Murphy & Tocher, 2011; Schenk, 2015). Perhaps, this study implies that auditing skills are a potential quality that could foster business sustainability among small and medium scale enterprises. More so, the current revelation implicates auditing skills as a significant variable in SME growth and development. Also, the finding provides valuable data for researchers in business management.

Conclusion:-

The present study investigated auditing skills as a scarcely explored correlate of SME's performance. The regression analysis performed on the data revealed that auditing skill is a significant predictor of SME growth and development. Thus, the result entails that auditing potential is a pathway to business financial management among non-professionals. Although the study is challenged with limitations, for instance, subjective measures of business performance have been criticized for the issue of common variance. Also, the sampling method poses a limitation for generalization. Nonetheless, the study concludes that auditing skills are an essential determinant of performance among SMEs in the Anambra state. Therefore, it is recommended that small business operators acquire the requisite skills relating to auditing. Also, professional auditors should embrace the opportunity of imparting auditing knowledge to the operators

of small and medium scale businesses. Furthermore, the study suggests expanding the scope of the current research to ensure generality.

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