

Demand and Supply of Accounting and Audit Services to Small Scale Business in Nigeria

Samson A. Adediran, Mary Josiah, Clement E. Ozele and Sule U. Veronica
Department of Accounting, Igbinedion University Okada

Abstract: Small businesses are important to the Nigerian economy. As a developing economy, the investment of vast wealth and resources in small businesses and the auditing of their business are very crucial to the financial growth and prosperity of the economy. The aim of this study is to present the results of a systematic inquiry about the state of demand and supply of accounting and audit services for small businesses in Nigeria particularly Edo State using a sample of small businesses and audit firms. The study aims to find out; whether there is a gap between demand and supply of audit services for small businesses in Nigeria; if there is a gap; what are the reasons for the gap; and how the gap can be filled? To this end, two hypotheses were formulated and tested using the binary logistic regression and the Z-test statistics. It was discovered that small scale businesses do not demand for accounting and audit services in Edo State, and also audit firms supply professional services to small scale businesses in Edo State. The study recommended that small businesses should as a matter of urgency evolve suitable culture appropriate for their demand for professional services of accountants and auditors as this will adequately promote the financial performance their businesses.

Key words: Accounting, auditing, demand, management accountants, professional accountants, small scale business, supply

INTRODUCTION

The interest in the role of small scale businesses in the development process of a country continues to be in the forefront of policy debates in developing countries. Every business whether small or large, simple or complex or public is formed to provide competitive prices. In this regard, Ariyo (2008) opines that “in many sectors around the world, small scale businesses are responsible for driving innovation and competition. Small businesses enterprises are the primary economic units and catalysts for boosting economic growth and development (Izedonmi *et al.*, 2003). Globally, small scale business account for 99% of business numbers and 40 to 50% of GDP”.

The prevalent issues in the country necessitating this study is whether small scale businesses demand for professional services rendered by the audit firms or not. If Nigeria is to reach its full potential in terms of economic and social development, it cannot afford to ignore the importance of necessary quality audit and other relevant accounting services for its indigenous small enterprises. The public confidence in small enterprises' products and services is an important as that in large companies' products and services. Investors invest their money in small and large businesses. The small business owners' perception of business in this regard is very critical. They

need not to undermine or disregard the inherent advantages of engaging professional services of accountants and auditors if their financial performance is to be guaranteed and public confidence in their business attained. Globally, accounting and audit services serve key functions in the world's economic engine.

Objective of the study: The main objective of this study to empirically find out whether there is a gap between the supply of audit services by professional accountants and demand for the services by small businesses.

LITERATURE REVIEW

The lack of a universal definition for small scale business often considered to be an obstacle for business studies and market research. Definitions in use today define thresholds in terms of employment, turnover and assets. The European Union (EU) Member States traditionally have their own definition of what constitutes a small scale business, for example the traditional definition in Germany had a limit of 250 employees, while, for example, in Belgium it could have been 100. But now the EU has started to standardize the concept. Its current definition categorizes companies with fewer than 10 employees as “micro”, those with fewer than 50 employees as “small”, and those with fewer than 250 as

“medium” small medium organisations need to have between 20 - 500 employees. By contrast, in the United States, when small business is defined by the number of employees, it often refers to those with fewer than 100 employees, while medium-sized business often refers to those with fewer than 500 employees. Both the US and the EU generally use the same threshold of fewer than 10 employees for small businesses, (European Commission Enterprise and Industry Directorate-General, 2008).

Within the context of Nigerian industrial situation as opined by Nwoye (1991), a small scale business could be defined as any business with a total capital investment of less than two million naira with the number of employees not more than fifty (50).

Accounting and auditing services for small scale businesses: Accounting and auditing services are essential for the running or operation of a small business inasmuch as financial and human resources are involved. The salon or stationary store operator must keep accounting records of his/her business if the business is to succeed amidst competitors. In order to control his or her operations the small business owner needs to have a good understanding of financial statements and the basic fundamentals of accounting record keeping. This is very vital for the effective running of the business. The financial statement and the accounting records kept are interdependent because the financial statement is usually generated from accounting records. The financial statements of a company or business enterprise include the Balance Sheet, the Income Statement (Profit and Loss Account) and the Cash Flow Statement. However, other financial statements according to Izedonmi (2000) include Note to the Account, Statement of Accounting Policies, Value Added Statement and Directors' Report.

In auditing small businesses, the essential financial statements can be the balance sheet, income statement (Profit and Loss account) or cash flow statement. Ayozie (1990) A financial statement is the summary of the transactions of a business entity for a given period of time. The income statement is traditionally called the trading and profit and loss account. This is a financial statement that shows or reports the success (profit) or failure (loss) of a business during a period. The profit and loss account shows the results of the flow of activity and transactions and is designed to report the profit performance of a business for a specified period of time. The period could be one month, a quarter or a year. But most income statements are one year. The income statements report the revenues, i.e. gross sales and expenses made by the business over a period. No business can achieve its goals without cash. Accounting to Glautier and Underdown (2001), cash is the lifeblood of a business. Glautier viewed that a healthy cash flow

statement (measured as cash inflows minus cash outflows) is fundamental to a business's ability to survive and prosper. The cash flow statement is a financial statement that shows the inflows and outflows of cash for a particular period of time. The cash flow statement provides an insight into how the cash generated by a business were spent and the level of the liquidity of the business entity.

According to Campbell (2009), “small business accounting covers issues and tools relating to accounting and bookkeeping for a small business”. Small business accounting includes cash flow and related finance issues; tax record keeping; accounting software; billing and invoicing applications. Small businesses like large ones have financial goals. Their business operations have to be looked through by a professional accountant to best advise them on how to reach their financial goals. A small enterprise can improve its business operations internally and externally by engaging the services of a professional accountant that may include the auditor to audit the business. The audits can be financial audit, private audit, management audit and so on depending on the aspect of the business its owner deems necessary to be examined. A financial audit is a thorough analysis of a firm's past and current financial position designed to verify and evaluate the effectiveness of its financial operations. It can help management detect circumstances that could lead to financial problems in the future. A management audit is much broader in scope than a financial audit. A management audit aims at detecting potential managerial problems in the small enterprise that threaten its existence. Frequently a small business manager is so closely involved in the firm's operation that he never recognizes its primary problem areas. Given its broad scope and inherent benefits, a management audit can best be suitable for small scale businesses. A small business management audit is useful to an auditor in performing consulting services for small businesses. It offers pertinent suggestions for improving managerial and business performance if properly used. There are vital questions designed to assist the small business owner or manager in sincerely and honestly evaluating strengths and weaknesses and defining opportunities and potential difficulties in his business. Another aspect of the audit of a small business is strategic planning. Planning is very necessary for a small business. The small business operator should know the kind of business that is operated and have a written description of his target market. Knowing where the production or service is aimed facilitates the creation of a unified “theme” for any business (Campbell, 2009). The potential opportunities for increased sales and profits for the business should be identified. New products, new markets, or new locations could generate more business for the small business if management has the capacity to reach them.

Accounting and audit services relating to cash management is important for the effective running of small business enterprises. Money is the most important asset that every business has. Without it the failure of the business is inevitable. Adams (2001) opined that a business owner may have invested a great deal of financial and human resources into his business, but if he does not manage his cash flow, he can be forced out of business. Mistakes may occur in managing employees, customers, or physical facilities of an enterprise and the business can survive. Cash flow is said to be the lifeblood of any business. In today's uncertain economy with ever rising interest rates, many small businesses with limited financial training are having problems staying alive, let alone prospering. In fact, 63% of new businesses don't survive six years - and most work-at-home people fail within 6 months (Adapted from Power Home Biz.com, Making Small Business to Big Business, 2009). The primary reason is bad cash management. Too many self-employed people neglect their cash flow until it is too late to recover. A properly and thoroughly undertaken audit achieves and emphasizes a good cash management. It eliminates unnecessary expenditure with a view of increasing business profits. The small business operator that perceives and understands the role of auditing in cash management would engage the professional services of auditors. The professional accountant in the event of being engaged by his client (small business owner/operator) would seek to know if all cash receipts are deposited to the business's bank account, if all checks and purchase orders renumbered and accounted for, if his client invest seasonal excess cash productively, if he uses lines of credit to decease the demands for cash and if he calculate the business cash flow regularly?

Challenges in auditing small scale businesses: To audit a business enterprise in the first place is not an all-easy task. The audit procedures involved can be rigorous and lengthy if a thorough audit is to be achieved. The audit of a small business enterprise falls in this category given for instance, the absence of financial records in most small business enterprises. Where there are no books of account or records of business assets the auditor cannot manipulate financial records or figures. Therefore the audits of small entities can be very challenging to auditors. The obvious challenges for auditors in Nigeria in rendering or supplying accounting and audit services to small business enterprises are much and dynamic in nature. These challenges constitute the gaps between the demand and supply of accounting and auditing services by small scale businesses. The gaps can be internal and external to a small business enterprise. The internal gaps have to do with challenges within the business enterprise while the external gaps are challenges outside the business enterprise that may be from the auditors or

government legislation. There are factors responsible for the gaps.

Factors behind the internal gaps: The factors that cause the internal gaps include the perception, and inexperience of small business owners, and small business owners' fear of audit. These gaps are major challenges associated with auditing small scale businesses in Nigeria.

Perception of small business owners: The perception of the owners or operators of small businesses regarding accounting and auditing services is a major challenge. For a small business, the audit environment is primarily a direct function of the owner/manager. The owner's basic operating philosophy essentially determines the viability of any audit procedures to be followed and, in effect, either supports or nullifies audits that may be necessary for the business. Understandably, the small enterprise manager's concern for the integrity and accuracy of accounting information has a direct impact on the auditor's substantive testing. The views of the owner/manager relating to hiring of an audit firm and sufficient staffing of accounting functions are other examples of how manager's philosophy and operating style directly impact the professional accountant's audit approach. The wrong perception of "I alone" or "do it yourself" mentality has resulted to one of the reasons why many small business owners rarely or do not engage professional accounting and audit services. The "I alone" mentality makes them to want to perform accounting functions by themselves or even permit a mere accountant (not professional) to play such roles in the business. No matter how much they hate it, many small business owners insist upon handling the books themselves. Having a competent bookkeeper (professional accountant) responsible for handling necessary books of accounts can be extremely beneficial in that he has the skills to do the job quickly and efficiently and will provide a second pair of eyes to find errors and make suggestions. Professionally, the small business owner/operator lacks the ability to appropriately reconcile his books of accounts with the bank statement each month. One of the fundamental aspects of bookkeeping is reconciling the books and back statements every month. This is a good reason for hiring a professional accountant who is an experienced bookkeeper.

Inexperience of small business owners: Various problems as stressed above may arise in auditing a small scale business due to the inexperience of small business owners or management. In Nigeria, a first-time client (the small business) of an audit firm may not know what to expect, the audit fees may appear too large for a service that the client may see as unnecessary or even engage an accountant not licensed or practicing, to haphazardly

perform the service at a cheap rate the time spent on site may also appear too long, and the management letter may appear more intimidating than helpful. The comments of the auditor may even be perceived as being critical of the client's dream. Interpersonal problems create even more headaches for the auditor. Todd (1990) posits that one of the problems associated with auditing small scale business is the "lack of experience of small-business managers". This may lead the managers to believe that fees are too high or that the management letter is not helpful. Inexperience here entails lack of communication. Having a professional accountant handling bookkeeping is only effective if he is filled in and kept up to date on all financial transactions.

Small business owners' fear of audit: Naturally, some small business owners or operators fear audits. An example of this is in an engagement where a bookkeeper shreds every ledger and supporting document before the auditor arrives. When questioned, the bookkeeper says he does not want the auditors to find anything wrong and think that errors were intentional. The fear could also arise as a result of the business owner or operator not wanting the unveiling of his business frauds which can be deterred and detected by auditors.

There also exists the problem of determining the professional services needed by small scale businesses, and then locating the right professional accountant to provide them. Todd viewed that a number of these needed services are readily apparent such as legal and tax advice, "comfort letters" for a banker, compliance reporting for an employee program, and evaluation of emerging business opportunities. A small business clearly needs a business adviser who knows the business through annual audit and other services, represents the most viable business adviser for a small business. Many small businesses represent a dream of the entrepreneur and not necessarily a well-run business. This dream focuses on the delivery of a product or service with concomitant growth and profits for the enterprise. Very few of these small businesses have managers who understand a control environment, basic accounting systems, and control procedures. In addition, they typically employ family members in key positions, thereby presenting unique challenges for the auditor.

Audits of small business have also traditionally presented unique challenges for the CPAs in America. In America for instance, smaller audit clients face a number of problems. Auditing small businesses can be a challenge. Limited resources a variety of reporting and working directly with owners all require the auditor to be up-to-date and sharp in these areas. The small scale enterprises for a long time have not benefited from professional services of accountants and auditors in Nigeria. Could this be as a result of them not demanding such professional services, or the accountants and auditors

not providing the professional services for them? In a journal titled "What are the accounting problems of small scale industries in Nigeria?", the reasons why small scale enterprise tend not to demand for accounting and auditing services in Nigeria are identified as

- Lack of certified public accountant who helps tremendously in keeping accounting records
- Unorganized system of accounting
- Insufficient account recording books
- Auditing round the computer

Factors behind the external gaps: The factors responsible for the external gaps include the regulation/framework of auditing of business enterprises or companies in Nigeria and audit fees.

Regulation/framework of auditing: By law, small scale businesses are not required to be audited. In other words, it is not compulsory for a small business owner to engage the professional services of an auditor for auditing purpose. This is unlike companies (large scale businesses) that must prepare and present financial statements and engage an auditor who will examine the prepared financial statements by management and express his professional opinion on the true and fair view position of the financial statements in the form of audit report. Therefore while companies are legally required to audit their business, small businesses take or see it optional to audit their business.

Audit fees: Another major factor behind the external gap is the chargeable fee for audit services normally called an "Audit Fee". Fees are normally charged for professional services rendered by professional accountants. They can be fixed or variable in nature. In a case where a fixed audit fee for a particular audit service is high, the small business owner or financier may find it difficult to pay the fee given the nature of his business and source of funds. In general, quality services are affordable with high currency. An auditor cannot decide to render a quality service to a company at a certain amount (may be high) and decide to reduce it for a small business owner. His decision to reduce the audit fee may reduce the quality. A willing small business owner would want to maintain a periodical audit of his business (e.g., quarterly, annually, and so on) but may be discouraged if he cannot afford or pay the audit fee.

METHODOLOGY

Study population and sample: The study population covers all small scale businesses and licensed audit firms in Edo State. The researcher selected a total of seventy

Table 1: Responses to question 7

Options	Frequency	%
No	2	9.1
Yes	20	90.9
Total	22	100.0
Field study (2011)		

Table 2: Responses to question 12

Options	Frequency	%
No	57	78.1
Yes	10	13.7
Total	67	9.18
Total	73	100.0
Field study (2011)		

three (73) small scale enterprises and twenty two (22) licensed audit firms in Edo State as the sample from the population for the study. Based on the two groups of respondents, two separate questionnaires were constructed and administered to the groups respectively. The selected small businesses include Trading and Commerce enterprise (e.g. recharge cards), Service enterprises (e.g. hair dressing salon) and Small manufacturing enterprises (e.g. bread baking enterprises) in Edo State.

Table 1 shows the responses to question 7 as to whether auditors regard the audits of small scale businesses necessary.

The Table 1 portrays that 90.9% of the auditors regard the audit of small scale businesses necessary while 9.1% of the auditors do not regard the audit of small scale businesses necessary.

Table 2 presents the responses to question 12 on whether small business owners demand for the services of an independent professional accountant.

From the Table 2 it is shown that 13.7% of small business owners demand for the services of an independent professional accountants while 78.1% of small business owners do not demand for the services of an independent professional accountant.

Method of data analysis: The methods of data analysis adopted in the study include binary logistic regression and the Z-test statistic for two populations. The binary logistic population was adopted in the study since the data used was ordinal data. The Z-test for two populations was used since questionnaires were distributed to two different groups namely Auditors and Small Business Owners.

The Z-test statistics is calculated as:

$$Z = \frac{\bar{x}_1 - \bar{x}_2}{\sqrt{\frac{\sigma_1^2}{n_1} + \frac{\sigma_2^2}{n_2}}}$$

Test of hypotheses: In testing the hypotheses, the Z-test for two populations mean was used in the study.

Hypothesis 1:

H₀: Small scale businesses do not demand for accounting and audit services in Edo State.

Table 3: Summary og Z-test result to hypothesis 1

Z	-5.281157544
P(Z _≤ = z) one tail	6.41851E-08
z critical one tail	1.644853627
P(Z _≤ = z) two tail	1.2837E-07
z critical two tail	1.959963985

SPSS output

Table 4: Summary of Z- test result to hypothesis 2

Z	-2.574263707
P(Z _≤ = z) one tail	0.005022684
z critical one tail	1.644853627
P(Z _≤ = z) two tail	0.010045368
z Critical two tail	1.959963985

SPSS output

H₁: Smalls scale businesses demand for accounting and audit services in Edo State.

The analysis was done using Z test through the uses of statistical package for social Science spss. The Z test result, from the spss is presented in Table 3.

Summary of Z test result for hypothesis 1: From the analysis it was observed that the calculated Z-value of 5.28 in Table 3 is greater than the critical Z-value of 1.96 at 5% level of significance under the two tailed test. Therefore we reject the null hypothesis and accept the alternative hypothesis which means that Small scale businesses do not demand for accounting and audit services in Edo State.

Hypothesis 2:

H₀: Audit firms do not supply professional services to small scale businesses in Edo State.

H₁: Audit firms supply professional services to small scale businesses in Edo State.

In testing Hypothesis 2 question 7 from small business owners and 7 from auditors were used.

In testing hypothesis two, responses from our respondent were subjected to Z-test through the use of SPSS the result is presented in Table 4.

From the analysis it was observed that the calculated Z-value of 2.57in Table 4 is greater than the critical Z-value of 1.96 at 5% level of significance under the two tailed test. Therefore we reject the null hypothesis and accept the alternative hypothesis which states and that Audit firms supply professional services to small scale businesses in Edo State.

Summary of findings: Based on the analysis of data conducted, the following findings are articulated.

- Auditors supply small businesses with more of non-audit services than audit services.
- Small business owners often demand for consultancy services of an auditor once a year.

- The audit fees are usually high when professional accountants provide audit services to small business owners.
- Majority of small business accountants do not perform auditing functions.

CONCLUSION

The role of accounting and auditing services is crucial to the well-being of small business entities. While accounting guarantees the dissemination of vital information about the accountability and trust of the business entities to investors and the public, auditing on the other hand lends credibility to financial statements of the entities. Unfortunately, hiring an auditor for quality audits and having the very best internal controls can be very expensive, especially for small businesses. The question of how much money should be paid to a professional accountant to provide services relating to auditing and internal controls is a matter of perspective and circumstances. The wrong perception and inexperience of small business owners, operators and managers on the audit of a business constitute a negative impact on auditors in providing accounting and audit services to small scale business in Nigeria. The fear of audits is also a major characteristic of small business owners that inhibits possible audits of small businesses. We therefore can conclude from the study that small scale businesses do not demand for accounting and audit services in Nigeria.

RECOMMENDATIONS

The gap between the demand of accounting and auditing services by small businesses and supply of the services by professional accountants in Edo state has been thoroughly ascertained in this study. Upon the findings of this study, the following recommendations are therefore made:

- Small businesses should as a matter of urgency evolve suitable culture appropriate for their demand of professional services of accountants and auditors. This will adequately promote the financial performance of their businesses.
- Owners and operators of small scale businesses should painstakingly correct their perception of accounting and audit services. This is a major factor that has limited the effectiveness and efficiency of auditors in Nigeria.
- The Institute of Chartered Accountants of Nigeria (ICAN) and Association of National Accountants of Nigeria (ANAN) in collaboration with the

- government should endeavour to create an environment suitable for necessary regular audits for small businesses in the country.
- A proper orientation should be given to small business owners, operators and managers on the impact of accounting and audit services on their business operations.

REFERENCES

- Adams, P.E., 2001. Small Business Cash Flow Management & Simple Cash Management Techniques. Retrieved from: www.morebusinuss.com/running...business/.../d983148682.brc, (Accessed on: November 20, 2009).
- Ariyo, D., 2008. Small Scale Businesses are the Backbone of the Nigerian Economy. Retrieved from: www.AfricaEconomicAnalysis.org, (Accessed on: October 16, 2009).
- Ayozie, D.O., 1990. The Role of small scale industry in National Development in Nigeria, corpus Christi Texas, proceedings of 32nd Annual conference by Association for small Business and Entrepreneurship.
- Campbell, A., 2009. Small Business Accounting. New York, the McGraw-Hill Companies Incorporated. Retrieved from: articles.directorym.com/Accounting-Campbell-CA-t5244-Campbell+CA.html, (Accessed on: October 14, 2009).
- European Commission Enterprise and Industry Directorate-General, 2008. Final Report of the Expert Group Accounting Systems for Small Enterprises- Recommendations and Good Practices.
- Glaquier, M.W.E. and B. Underdown, 2001. Accounting Theory and Practice. 7th Edn., FT-Prentice Hall, London.
- Izedonmi, P.F., A.O. Umoren and O.D. Odejayi, 2003. Achieving Economic Growth and Development through Small and Medium sized Enterprises. Retrieved from: www.covenantuniversity.com/.../journal-of-global-accounting.pdf, (Accessed on: December 21, 2009).
- Izedonmi, P.F., 2000. Introduction to Auditing. 1st Edn., Ambik Press, Benin City.
- Nwoye, M.I., 1991. *Small scale Enterprises A panacea for Nigeria's Economic Development Dilemma*. A paper presented at the 1991 session of mandatory continuing Development programme for Association of National Accountant of Nigeria (ANAN).
- Todd, A.A., 1990. Financing small scale rural manufacturing Enterprises. Financial Standard, pp: 22.