EVALUATION OF BARRIERS TO AUDITING OF SMEs IN OYO STATE, NIGERIA.

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Abstract
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. However, audit of SMEs had been marred with some problems making it a difficult task for the auditors. This study therefore, examined the major barriers to auditing of Small and medium Scale enterprises in Oyo state, Nigeria. The paper adopted a descriptive research design with 100 copies of structured questionnaires administered on randomly selected SMEs Auditors in Oyo state out of which 85 were completed and returned. Respondents' feedbacks were analyzed using mean ranking. The result of mean ranking revealed that high audit fees (mean =4.18), poor data availability (mean = 3.964), regulatory environment (mean = 3.802), insufficient information (mean=3.730) and low research and development (mean=3.689) ranked 1st , 2nd, 3rd, 4th and 5th respectively were the major identified barriers confronting audit of SMEs in Oyo State. It was recommended that SMEs operators should ensure that adequate record of their business is kept facilitating auditing, audit firm should charge reasonable and affordable fees to encourage audit of SMEs accounts and regulators should ensure formulation of uniform and convenient regulations necessary for SMEs thrives in Oyo State.

Keywords: ***Small and Medium Scale Enterprises, SMEs operators, accounting, audit, Oyo State, Nigeria***.

1. Introduction

Evidence from the literature of accounting and auditing indicates practical difficulty faced in the SMEs audit. Given the importance of these challenges for practitioners, SMEs and professional accountancy bodies supporting their members have been engaging in discourse which can be useful for practitioners in SME audits in recent years. A small business auditor must be as knowledgeable in all relevant standards as an auditor for a large, publicly traded company. Keeping up with changing needs and maintaining the necessary knowledge base can be difficult for SMEs. However, for SMEs to audit efficiently, a thorough understanding of applicable auditing standards, as well as experience in generating sound professional judgements, is required. Excessive audit effort, as well as the consequences of not doing enough work, are both avoidable costs.

The International Accounting Guidelines Board (IAASB) recently amended its standards on review and compilation engagements, and there may be greater demand for review engagements as governments seek a regulatory response that is deemed to be appropriate to small businesses. Evolving markets and new services will necessitate major investments in skills and technology, as well as a departure from the old practice model and the development of new operating models. In view of fee pressure on SME audits and the necessity to provide other value-added services in order to expand revenue, this innovation is critical to sustaining profitability. Some practitioners may choose to specialize in non-audit services and move away from audit services. In other cases, market consolidation may help smaller audit practices to achieve scale. Mergers of audit practices operating at the smaller end of the market may become increasingly common. In order to attract talent into the profession, it will be important that audit practices are profitable.

Simpler enterprises are not always easier to audit (e.g., accrual and provision correctness), and they may be subject to more complex taxes rules. Small businesses have unique characteristics that necessitate extra attention, such as fewer financial controls, more related-party transactions, a reduced capacity to close the books (i.e., accrual and provision correctness), and they may be subject to more complex taxes regulations.

Many benefits and savings can be gained by involving fewer, more experienced individuals in the audit process. More experienced audit professionals are more likely to make quick and accurate professional judgments, to have specific industry/sector specialized knowledge to allow for a personalized approach, and to be skilled at using audit technologies to automate the audit process. More experienced auditors frequently have a thorough understanding of the standards, allowing them to work swiftly and efficiently, completing the appropriate amount of work while avoiding unnecessary documentation. The market views the audit opinion as very standardized, which has put downward pressure on SMEs audit prices. On the other hand, because auditing is a labor-intensive procedure with initial and continuing education needs, many auditors are grappling with how to increase audit revenue while preserving audit quality. Smaller clients are willing to pay for audits that they believe will add value to their business. Small businesses are also willing to compensate their auditors for sound advice. Auditors can learn how to price their clients for the value of their counsel beyond the audit by learning how to operate with a "trusted business advisor" practice model. a reasonable amount of effort and the avoidance of excessive documentation.

1.1 Statement of the Problem

Despite their importance in the Nigerian economy, SMEs confront significant financial constraints in their operations, which has hampered their development and reduced their ability to drive the national economy as envisaged. This is dangerous for a developing economy lacking the infrastructure and technology needed to attract multinational corporations in significant numbers.

Despite their importance in the Nigerian economy, SMEs confront significant financial restraints in their operations, which has hampered their growth and reduced their ability to drive the national economy as envisaged. This is dangerous for a developing economy that lacks the necessary infrastructure and technology to attract huge numbers of firms.

1.2 Objective of the Study

The general objective of the study was to examine the barriers to auditing of SMEs in Oyo State, Nigeria.

2. Literature Review

In all countries, small and medium companies (SMEs) are considered the backbone of economic growth. They contribute significantly to Nigeria's economic growth, as they account for 97.2 percent of the country's businesses. They also contribute to national development by influencing income distribution in both functional and nominal terms, highlighting the relevance of SMEs. According to Rogers (2002), they improve capacity building by serving as entrepreneurial training avenues; they create more employment opportunities per unit of investment due to their labor-intensive operations; they achieve a much higher relatively high value-added operations because they are propelled by basic economic activities that rely primarily on locally sourced raw materials; and they provide feeder industry services by serving as a conduit for other industries. In all countries, small and medium businesses (SMEs) are regarded as the backbone of economic growth. They account for 97.2 percent of all enterprises in Nigeria;, hence they play a crucial part in the country's economic development. They also contribute to national development by influencing income distribution in both functional and nominal terms, stressing the significance of SMEs. According to Rogers (2002), they improve capacity building by serving as entrepreneurial training avenues; they create more employment opportunities per unit of investment due to their labor-intensive operations; they achieve a much higher relatively high value-added operations because they are propelled by basic economic activities that rely primarily on locally sourced raw materials; and they provide feeder industry services by serving as a conduit for other industries.

2.1 Audit: An audit is when an auditor examines or inspects various books of accounts, followed by a physical inventory check, to ensure that all departments are following a prescribed procedure of recording transactions. It is done to ensure that the financial statements presented by the organization are accurate. as well as the services they provide.

2.1.1 Auditing: Financial auditing is the process of checking a company's (or an individual's) financial records to see if they are correct and follow all applicable rules, regulations, and laws. External auditors are hired from outside the company to look through accounting and financial records and provide an unbiased view. All public firms are required by law to have their financial statements externally audited.

Internal auditors act as internal employees for the organization, examining records and assisting in the improvement of internal processes such as operations, internal controls, risk management, and governance.

2.1.2 Characteristics of SMEs in Nigeria

SMEs are the main contributors to industrialization in Nigeria and many developing and developed economies (Etuk et al., 2014; Odunayo, 2015). SMEs account for 99.9% of the United

Kingdom's economy (Blackburn, Hart, & Wainwright, 2013). Small firms are critical to Nigerian economy as their activities lead to an increase in per capita income, gross domestic product, and food security (Etuk *et al.*, 2014). Small businesses create employment, wealth, and use of local materials with simple technology. SMEs also promote technology, innovation, reduction of poverty, and income distribution and redistribution (Ademola, Olaleye, Ajayi, & Edun, 2013). The government introduces policies such as fiscal, monetary, and export policies, but SME sector performance has not been encouraging (Alarape, 2013). Because of the federal government of Nigeria's recognition of the fact that SMEs contribute to the economic development of the country, the government planned and started policies to promote SME development (Alarape, 2013).

In every country, small enterprises are essential. Small businesses are the driving force behind economic development, innovation, and competitiveness, as well as labor employers. Sole proprietorships, partnerships, and limited liability companies are examples of SMEs. The Corporate Affairs Commission in Nigeria requires all sorts of SMEs to register (Agwu, 2014). Some small enterprises fail to register with the Corporate Affairs Commission.

2.1.3 SMEs Audit

The goal of an audit of financial statements, according to the International Standards on Auditing (ISA), is for the auditor to offer an opinion on whether the financial statements are prepared in all material aspects in conformity with an applicable financial reporting structure. An audit assures shareholders that the statistics in the financial accounts reflect an accurate and fair picture or are presented fairly. Employees, clients, suppliers, loan creditors, and tax authorities are among the other users of financial statements who receive confidence about the information's reliability.

These entities' credibility grows as a result of their dependability, which develops trust and confidence. However, there may be advantages. assists in identifying weaknesses in accounting systems and allowing the auditor to suggest improvements, as well as assuring directors who are not involved in the accounting functions on a day-to-day basis that the business is running in accordance with the information they are receiving and reducing the risk of fraud and poor accounting. The giving of advice that might have genuine financial benefits for a firm, such as how the business is operating, what margins can be expected, and how these can be accomplished, is then made easier. Internal controls can be tightened, fraud risk can be reduced, and tax planning can be done with help. It increases the credibility and dependability of the figures presented to prospective buyers.

A close examination of many SMEs indicates that the owners are actively involved in the day-to-day operations. Personal financial and other controls are exercised by them. When a company grows to the point where the owner can no longer make all the operational choices, management and controls must be implemented. This is a very susceptible stage for any company, and it can last a long time during the growth phase (Baker 2010). A close examination of the operations of many SMEs indicates that the owners are actively involved in the day-to-day management of the company. They are personally in charge of financial and other controls. When a business grows to the point that the owner can no longer make all of the operational choices, management and controls must be implemented. This is a very susceptible stage for any company, and it can last for a long time during the growth phase (Baker (2010).

An external audit of a SME brings to the notice of the SME's directors the need to understand their roles and obligations under cooperative legislation, particularly in relation to the requirement to keep their business operating as a going concern and to address insolvent trading prevention. An independent audit demonstrates to all stakeholders that these company practices have been scrutinized by an impartial expert, providing them with some protection in these matters. Wood (1979) noticed that many small businesses can obtain all the information they require by just keeping a cashbook and keeping some sort of records, not necessary in a double entry system (Vickery & Menders, 1973; Olaoye, 2012). According to Olatunji (2013), this is an anomaly that necessitates a conversion to a double-entry system in order to conduct effective auditing (Adebisi & Azeez, 1999, Onaolapo et al, 2011).

2.1.4 SMEs Audit Problem

Deregulation of mandatory assurance of SMEs has been increasing for a few years now, while this deregulation for SME audits is largely caused by governments raising audit thresholds and requiring fewer audits to be performed by law in response to calls to reduce the regulatory burden on small businesses. Although regulatory demand for audit services is decreasing, there is still a demand for voluntary audits. Accounting firms in the SMEs audit market face significant challenges, but it is critical that they achieve long-term financial success by generating audit service revenues that exceed the full cost of providing high-quality audit services. Cost cutting that has a direct impact on the quality of services provided is not a sustainable strategy.

GAAS and Statements on Auditing Standards try to cover audit circumstances affecting both large and small organizations. As a result, they aren't as specific as they should be. The Commission on the Responsibilities of Auditors chastised the propensity to make guidance as broad as possible. Smaller entity auditors required more detailed implementation instructions, according to the commission. The current guidance on how to apply auditing standards to audits of various sizes is insufficient. The panel rejected the argument that authoritative declarations should not differentiate between different types of enterprises; rather, it decided that announcements should differentiate between different sizes of firms. Most CPA issues are related to GAAS implementation rather than GAAS ideas. The first and most important stage is to identify the implementation issues that practicing CPAs face.

2.2 Theoretical Review

2.2.1 Agency theory

The agency arguments do exist when there is a situation of separation of ownership and control. Separation of ownership and control means "ownership is vested in one group shareholders or owners but the controlling the day-to-day operation of firms is vested in a separate group that is management or managers who are hired by shareholders/owners in order to act on behalf of them". (Ogden et al., 2003) The agents (managers) do have more information than the principals about the firms. By using better information of the firms, mangers attempt to behave for their personal interests than instead of shareholders" wealth. That is called information asymmetry between managers (agents) and shareholders (principals) (Ogden et al., 2003).

Jensen & Mecking (1976) state that the cost of agency problem can be categorized into two main costs categories. First is the agency cost of managerial discretion because of the separation of ownership and control. The cost is incurred when owners attempt to align managers" interest and their interests. The second agency cost does exist between firm's creditors and owners when the firm's financing is supported by issuing additional debt capital. The owners of the firm attempt to choose the risky investment and that potential operational risk must be born by creditors. Because of this conflict of interest between creditors and owners, agency cost of debt is exposing to the firm. Increasing the firm's leverage and high probability of bankruptcy are the consequences of agency problems between the firm's creditors and owners.

In order to align interests and close the gap of asymmetric information, shareholders used strategic incentives schemes for example financial or non-financial performance-based compensation, bonuses, share compensation etc. Moreover, some owners/shareholders conduct contracting to managers and others monitoring devices. Auditing can be said to be an independent monitoring tool for these agency problems. Regarding those conflicts of interests, shareholders/owners bear agency costs in order to align interests and to get accurate information of the firms. One of those agency costs can be described as cost of audit for monitoring and control purpose. Independent auditing takes the role of monitoring firm's financial performance, attaining credibility and solving the agency problem (Seow, 2001).

According to Jensen and Mecking (1976) agency cost can be defined as the sum of: 1) monitoring expenditure by the principal 2) bounding expenditure by the agent and 3) the residual loss. The principals incur monitoring costs when it attempts to align interests. For example, owners establish the appropriate incentives to managers in order to act on behalf of owners and their wealth maximization. Bonding expenditure of agent means that the contracting costs must compensate the owners when agents fail to fulfill the contract requirements. The residual loss of agency cost means that the opportunity loss of owners/shareholders occurs because of agency conflict of interests. Watt and Zimmerman (1990) describe contracting costs as information costs, renegotiation costs and bankruptcy costs As mentioned in the momentary issue, this residual loss from dysfunctional decision means the equivalent reduction in monetary value occurs because agents fail to maximize the firm value and shareholders wealth (Jensen & Mecking, 1976).

Agency theory suggests that the demand for auditing is to signal the quality of firms for both existing and future owners and lenders. Numerous literature debates about differences between small firms and large firms in terms of reasons for audit and its consequences. There is also limited credibility when it comes to the audit of small firms, mainly because of the closeness of auditors-clients relationship. Seow (2001) describes the potential factors affecting the independence auditing of small firms that are frequent rotation of auditors, audit fees, audit service and non-audit service (e.g., consulting) to the same client and unqualified audit reports which means that auditors fail to report the actual conditions of the firm mainly because of bounding between auditors and clients in the small content.

Regardless of the size of the company and even in the absence of mandatory requirements of audit, auditing can be seen as an assurance and tool for solving the agency theory for small firms (Chow, 1982). When small companies are financed by other financing sources instead of capital contribution from owners, auditing can be described as a security requirement from lenders (banks, bondholders, debt holders, etc.). Since lending or issuing loans to SMEs can be said to be riskier in terms of higher potential default risk than large corporations. The intuition why SMEs go for independent audits is for security reasons of their firms. When small firms have their accounts audited and have transparent information, the lenders, investors and shareholders might have a better attitude toward the firms. This not only solves agency problems but also better credit rating from lenders and better investments from investors (Chow, 1982).

3. Methodology

Descriptive research "is designed to provide a picture of a situation as it naturally happens". The descriptive design was found to be suitable because it addresses major objectives and research questions proposed in the study adequately. In addition, qualitative methods would be applied in data collection and data analysis. The design is considered appropriate because the interest of the researcher is to examine the barriers to auditing of SMEs in Oyo State, Nigeria.

3.1 Study Area

This study focused on barrier to auditing of selected SMEs in Oyo State, Nigeria. Oyo state was one of the thirty-six (36) states of Nigeria with its capital in Ibadan. The state was made up of thirty-three (33) local government and other area development councils. It shared boundaries with states like Ogun, Kwara and Osun. The state was chosen because the predominance of SMEs is easily identifiable.

3.2 Population of the study

The targeted population of this research study consists of SMEs Auditors in all 33 local government area in Oyo state of Nigeria as of 2022.

3.3 Sample size and sampling Techniques

In order to determine the sample size for the study, Yamane (1967) sample size calculation formula for finite population was adopted. One of the assumptions of this formula is that, it assumes the population from which the sample was derived from, is a finite one and not infinite. It also assumes that the acceptable error margin for any sample must be greater than zero and never equal to or less than zero. Yamane (1967) provides a simplified formula to determine sample sizes. In this wise, 133 SMEs auditors' owners across the 33 local government in Oyo State were sampled for the purpose of the study. The reason for adopting Taro Yamane (1967) formula is that, it is simple and less complicated and can also provide accurate result of the necessary sample size that will be adequate for the research study since the population for this study is a finite one. Also, adopting this formula increases the level of precision and confidence in making a lower risk in determining the actual sample size necessary for the study. Applying the formula

n=$\frac{N}{1+N}$
n= sample size
N= finite population size which is 1331i.e total number personnel within the population.
e = Maximum acceptable error margin which is 5%
We the have:
n =$\frac{N}{1+N}$
n=$\frac{133}{1+133}$
n=$\frac{133}{1.335}$
n=99.8 n=100

3.4 Reliability and Validity

In research methodology, the idea of reliability is to ensure that any kind of result must be a oe off meaning that other researchers must be able to get similar results. While validity involves the total experiment process which states if the results confirm the requirements slated for the scientific research. This is buttressed by Yin (2011) where the posited that as a matter of fact every study consists of certain claims either valid or invalid, and validating them would ensure that the validity of that study is strengthened.

Reliability refers to the consistency or dependability of a measurement technique and it is concerned with the consistency or stability of the score obtained from a measure or assessment over time and across settings or conditions (Leary,2004). It is linked to the stability of the data. The reliability was calculated by using statistical methods that is, the Cronbach's alpha, as the study made use of multiple items measures.

Table 1 Reliability Statistics: Cronbach's Alpha

Cronbach's Alpha	Cronbach's Alpha based on Standardized Items	No. of Items
0.785	0.785	22

Source: ***Researcher's computation. (2022)***

3.5 Method of Data Collection

The study utilized primary data which was collected through the use of structured questionnaires.

3.6 Method of Data Analysis

Data were analyzed through the use of mean ranking.

4. Results and Discussion

4.1 Mean Ranking Result of the Identified barriers to auditing of SMEs

It was discovered that high audit fees have the mean ranking of barriers to auditing of SMEs with a mean value of 4.18, poor data availability with mean value of 3.96 and regulatory environment with mean value of 3.80. These implied that high audit fee, poor data availability and regulatory environment are the most identified barriers to SMEs auditing in Oyo State. These are followed by insufficient information with a mean value of 3.73, low research and development with mean value of 3.69, low technical know-how with mean value of 3.36 and lastly non-audit service with mean value of 3.31.

Table 2
Identified Barriers to Auditing of SMEs in Oyo State.

S/N	Variables	SA (%)	A (%)	UD (%)	D (%)	SD (%)
1	Poor data availability	42(49.41)	21(24.71)	5(5.88)	7(8.24)	10(11.71)
2	Low research and development	37(43.53)	20(23.53)	8(9.41)	12(11.12)	8(9.41)
3	Poor technical know-how	35(56.47)	27(31.76)	10(11.76)	6(7.10)	7(8.24)
4	Insufficient information	48(56.47)	20(23.53)	9(10.59)	4(4.71)	4(4.71)
5	Regulatory environ.	40(47.06)	30(35.29)	4(4.71)	6(7.06)	5(5.88)
6	High audit fees	45(52.94)	30(35.29)	2(2.35)	3(3.53)	5(5.88)
7	Non-audit service	27(31.76)	20(23.53)	15(17.65)	10(11.76)	13(15.29)

Source; Field Survey, (2022)

Table 3 Identified Barriers to Auditing of SMEs in Nigeria.

Barriers	N	Maximum	Minimum	Mean	Mean ranking
High audit fees	85	1.00	5.00	4.179641	1st
Poor data availability	85	1.00	5.00	3.964072	2nd
Regulatory environment	85	1.00	5.00	3.802395	3rd
Insufficient information	85	1.00	5.00	3.730539	4th
Low research and development	85	1.00	5.00	3.688623	5th
Low technical know-how	85	1.00	5.00	3.359281	6th
Non-audit service	85	1.00	5.00	3.311377	7th

Source: ***Author's Computation, (2022)***

5. Summary and Conclusion

The study concluded that barriers to SMEs auditing in Oyo State are high audit fees, poor data availability and regulatory environment. Other challenges were insufficient information, poor research and development, low technical know-how and non-audit service**.** This study is different from findings of Debra D. and Raiborn, B. B. which use Ownership and Manager Dominance, Inactive or Ineffective, Policy Making Body, Limited Accounting Knowledge, Management Attitude, Toward Internal Accounting Control Override by Management, Internal Accounting

Control Deficiencies, and Inactive or Ineffective Policy Making Body as a major barrier to SMEs auditing.

SMEs operators should ensure that adequate record of their business is kept to facilitate auditing; audit firm should charge reasonable and affordable fees to encourage SMEs audit and regulators should ensure formulation of uniform and convenient regulations necessary for SMEs thrive in Oyo State.

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