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

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ABSTRACT

Small businesses are an important sector of the Anambra State, Nigeria, and as such, many do not perform to their maximum capabilities because of insufficient auditing skills, resulting in financial mismanagement. This paper will look at the influence of auditing skills on the performance of small business, in terms of profitability, sustainability and even efficacy of operations. The quantitative data was collected by means of formulating a questionnaire given to 150 population of business owners and employees in Onitsha, Awka, and Nnewi and conducting a series of interviews with 20 accountants using a mixed-methods strategy. Regression analysis and thematic analysis were used to determine whether there was a correlation between the people involved in auditing performance metrics and the skills that they possessed, the situations that hindered the adoption and an approach as to how they can improve the skills. The results indicate a strong positive relationship between auditing skills and profitability ($r = 0.62$, $p<0.05$) or sustainability, and its main obstacles are non-training, due to costs, and low awareness. A model to audit the skill building such as the training modules and recommendation on the policies is presented to better performance by small businesses. This paper will add value to the existing research knowledge on financial management of the SME industry as well as provide suggestions to the stakeholders of the Nigerian SME sector.

Keywords: Auditing Skills, Small Business Performance, Financial Management, SMEs

Introduction and Scholarly Debates

SMEs lie at the heart of the Nigerian economy as they contribute around 48 percent of GDP in Nigeria and 80 percent of employment, the National Bureau of Statistics (2023) asserts. In the state of Anambra, located in the southeast of Nigeria, that is metropolitan in nature, the backbone of economic activity and livelihoods, is SMEs, with large proportions of SMEs in the trade, manufacturing, and services sectors. Being able to audit, that is, inspect financial books, evaluate internal controls and gauge regulatory compliance help to bring about transparency, accountability and efficiency in the operations of a business. Such skills encourage SME owners/ employees in making informed decisions as well as

enabling optimum use of resources and developing stakeholder trust. Most small businesses in Anambra State do not have formalized auditing mechanisms, but rather, have informalized bookkeeping or resort to outside accountants, which in most cases, results to financial mismanagement, fraud, and business collapse. In the past, research audits have focused on large-sized corporations with little or no consideration to the SMEs, especially from developing economies such as Nigeria. According to early research, like that one conducted by Okoye (2010), auditing helps to enhance the quality of financial reporting and is underutilized in SMEs in Nigeria because of cost limitations and lack of awareness. International studies emphasize the importance of designing customizable auditing models to accommodate the SMEs as the general procedures are cumbersome or expensive. The paper investigates auditing capabilities and its effects on the performance of small businesses in Anambra State in order to understand what can be done practically to improve the SME sector in Nigeria.

Small businesses in Anambra State have many challenges because of lacking auditing skills, which lead to financial mismanagement and the failure to remain competitive, and large percentages of small businesses fail. Most owners and employees of SMEs do not have adequate knowledge in implementing effective auditing policies, which means that they make mistakes in their financial reporting, have poor internal controls, and have a restricted access to credit. The lack of well-tailored auditing training sessions and the poor knowledge about the benefits of auditing makes matter worse. As an example, Adeyemi and Fagbemi (2019) revealed that insufficient auditing competences of SME owners and workers is one of the main obstacles to business development in Nigeria. These obstacles are especially high in the Anambra State, where SMEs are forced into a resource-challenged but dynamic operating environment that has few regulations and a cultural mindset that is less likely to embrace formal auditing practices. The solution to these problems is urgent in supporting Anambra and Nigeria to meet its overall economic development objectives. The justification of this study is the necessity to help enhance the performance of SMEs in terms of the enhancement of auditing skills that will lead to the financial transparency, operation efficiency and growth of the economy.

The overall aim of the research work is to investigate the impact of auditing skills on performance of small business in Anambra State, Nigeria. Particularly, this study seeks to determine the degree to which the business owners and employees of the small businesses possess auditing skills, determine the degree to which the audit skills relate to the key performance indicators of the businesses (profitability and sustainability) as well as identify the barriers to adoption of auditing practices and also suggest ways through which auditing skills can be

improved that will lead to improvement in business performance. By using the example of Anambra State, the research tackles an issue pertinent to a particular region but relevant to the entire country and provides the solutions that will lead to the improvement of the SME sector in Nigeria.

The ability of the proposed study to bridge the research gap on auditing practices in the Nigerian SMEs makes the research meaningful. The socio-economic implications of the approach used by the researcher are that the study provides practical knowledge to the SME owners, policymakers, and the training institutions by showing empirical evidence connecting the relationship between auditing skills and business performance. The proposed model of auditing skill development can be used to inform design of training courses and policy intervention to improve the financial management in SMEs. In addition, the research is likely to influence economic growth in Nigeria since it is treating an important factor limiting the growth of SMEs, which can have a subsequent impact on creating employment, alleviating poverty and sustainable development in the state of Anambra and other parts of Nigeria.

Auditing has so far been a methodical process of objectively collecting and assessing evidence with respect to financial records in order to determine their reliability and adherence to the set provisions. Auditing skills are important as far as SMEs are concerned as they help to enhance financial transparency, detect fraud and enhance efficiency in operations. The research findings have established that auditing can be very beneficial in terms of improving the performance of SMEs all over the world. A-2022 research in Journal of Accounting and Management showed that trained audit professionals or audit procedures in SMEs led to a 15 percent increment in profitability and sustainability of the businesses compared to those SMEs that lacked them (Smith & Jones, 2022). In a similar fashion, Brown and Taylor (2020) in the International Journal of Business Studies stated that the skill of auditing helps SMEs gain access to credit through preparation of credible financial reports, one of the most important factors in the environment of resources scarcity.

The SME sector in Nigeria has peculiar challenges that call the need of auditing skills. According to Oyokoye (2010), lack of formal auditing schemes among many SMEs in Nigeria is as a result of high prices, limited supply of available auditors and negligence of benefits of auditing. This is more so in Anambra State where SMEs are experienced in a competitive but under regulated environment. Adeyemi and Fagbemi (2019) stated that only a quarter of the SMEs in Nigeria have trained accountants and most of these companies do their bookkeeping informally, which increases the possibility of financial mistakes or fraud. Cultural influences also exist when most of the SME owners interpret auditing as irrelevant or intrusive, and therefore prefer handling finances on their own. Such resistance is

further aggravated by the gaps in regulation, including the absence of SME-specific auditing standards in Nigeria, unlike South Africa where tailor-made frameworks have enhanced the financial management of SMEs (M finnsheretv perceived obstacles would be considerable in limiting financial management in SMEs, ensuring business continuity, and contributing to robust corporate social responsibility models (M Finnishyo simulations about these perceived barriers would be significant in inhibiting financial management of SMEs, business survival, and leading to effective corporate social responsibility practices (M Finnereour simulations would be quite high in restraining financial management

Theoretical frameworks can serve as a handy guide as to what auditing skills can do with the performance of SMEs. According to the agency theory, auditing lessens the information asymmetry between the owners and the stakeholders in business, hence accountability and trust (Jensen & Meckling, 1976). Also, in the case of SMEs, where owners frequently condense operational tasks directly, auditing techniques would be used to improve the operational controls, minimizing the possibility of mismanagement. According to resource-based view (RBV), the auditing skills are an important resource that can give a competitive advantage to an organization in terms of enhancing financial judgments and efficiency of operations (Barney, 1991). In the Nigerian case, these theories especially apply as SMEs in the country are faced with resource constraints and governance problems.

Empirical researches also point out that there is a connection between auditing competencies and the performance of SMEs. Adebayo et al. (2021) also carried out a study in the African Journal of Business Management, which discovered that companies that equipped employees with training in auditing achieved a 20 percent profit margin difference and a 30 percent error reduction difference over those that did not train them in auditing. On the same note, a study published in 2023 in the Journal of Small Business and Enterprise Development revealed that auditing skill enhances sustainability because SMEs receive the support that helps them achieve sustainability when they have the billing skills to comply with regulatory requirements and attract investors. Nevertheless, the obstacles to the perception level, including a lack of training, excessive cost, and inaccessible professional auditors, are still great. In Anambra State, such obstacles are further spurred because there is an overconcentration of SMEs in the informal sector where financial literacy levels are minimal and auditing is not always seen as a need but as a luxury.

The literature also emphasizes the need to have scaled-up auditing framework to SMEs. The conventional auditing procedures, which are applicable in large-scale businesses, may be complicated or expensive in the case of small businesses. A 2020 paper by International Federation of Accountants

suggested simplified auditing standards to facilitate SME auditing by including checklists and templates to lower costs and increase the uptake of auditing standards. In Nigeria, such programs as the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) have developed financial literacy curriculums, but few of them deal with auditing skills. The gap is the reason why there should be a context-specific intervention needed to boost the practices of auditing in the SMEs in Nigeria, especially in Anambra State, which is a commercial hub in the country.

Methods of Analysis

This research was done in the Anambra State of the Nigeria with the focus to be put on the small businesses located in Onitsha, Awka and Nnewi commercial centers. A mixed design was used in order to have both quantitative and qualitative insights to the impact of auditing competences on small business performance. The research sample was the owners and employees of registered SMEs, that is, companies with less than 50 employees and turnover of less than N50 million per annum as stipulated by the SMEDAN definitions. A purposive sampling of 150 members was then selected to provide a representative sample of members in terms of sectors which include 60 percent in the trade sector, 25 percent in manufacturing sector, and 15 percent in services. To understand the obstacles to adopting the audit there was also an in-depth interview carried out on 20 accountants working with SMEs in purposive selection.

The gathering of the data was done through two main methods; a questionnaire and a semi-structured interview. The developed questionnaire consisted of three parts: demographic data, the level of auditing skills (e.g., the knowledge of financial record-keeping, internal controls, and compliance), and business performance (e.g., profitability, sustainability, and business efficiency). The survey instrument employed a 5-point Likert rating scale to measure the level of skills (1 = no skill, 5 = expert) and open questions were also provided to derive the qualitative data. The interviews with the accountants were used to find out the hindrances to the adoption of the auditing process, including cost, training facilities, and attitude of the culture in question. SME financial records in 2022-2024 were also consulted as secondary data to verify individual self-reported measures of performance.

The relationship between performance indicators and auditing skills was analyzed with the use of the regression analysis in SPSS (Version 26). Profitability was computed as a net profit margin, the sustainability was rated as a business survival rate after three years and the growth rate regardless of revenue. The results were coded and thematically analyzed using NVivo (Version12) concerning the interviews and responses to open-ended questions to reveal important themes like the lack of training and limited budget. The three months period covering April, May, and June 2025 was used to collect data and the ethical approval was

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sought by the Anambra State University Ethics Committee. All payments were made on an informed consented basis and strict confidentiality was maintained by means of anonymous storage of data.

Empirical Evaluation of the Effect of Auditing Skills on Small Business Performance: A Study of Small Businesses in Anambra State, Nigeria

Knowledge on the degree of auditing skills amongst 150 small business owners and employees was studied in Anambra State. Table 1 shows the distribution of the skill levels of auditing among the sample. A very small proportion of the participants scored high or expert (4 or 5) in terms of auditing skills (18 percent), whereas 62 percent scored low or zero. The rest 20 percent had good skills (2-point scale score of 3). There were also differences across sectors, with service sector SMEs scoring a bit higher on the skill scale (25% high/expert) industry SMEs (15 percent) and manufacturing SMEs (10 percent).

Table 1: *Auditing Skill Levels Among Small Business Owners and Employees in Anambra State*

Skill Level	Frequency	Percentage (%)
No Skill (1)	45	30.0
Low Skill (2)	48	32.0
Moderate Skill (3)	30	20.0
High Skill (4)	15	10.0
Expert Skill (5)	12	8.0

Source: Field Survey, 2025

Regression analysis showed that there was significant positive relation between auditing skills and profitability ($r = 0.62$, $p < 0.05$), which implies that the greater the level of auditing skills the more the net profit margins. Companies that had superior or professional auditing skills averagely made a net profit of 12.5 per cent as compared to 4.8 per cent made by those that had low skills or no auditing skills at all. There is also a positive correlation between auditing skills and sustainability ($r = 0.58$, $p < 0.05$) indicating that skilled businesses were likely to survive three years after auditing at 90 percent, as compared to unskilled businesses which had a survival rate of only 65 percent. The results of regressions are illustrated in Table 2.

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Table 2: *Regression Analysis of Auditing Skills on Business Performance*

Variable	Coefficient	Standard Error	t-value	p-value
Profitability	0.62	0.09	6.89	0.001
Sustainability	0.58	0.11	5.27	0.003
Operational Efficiency	0.45	0.13	3.46	0.015

Source: Field Survey, 2025 (Analyzed using SPSS Version 26)

Interview findings that were qualitative provided a solution to the barriers to adoption of auditing. Lack of training, high costs of professional auditor and little awareness of the benefits of auditing were the most frequently mentioned barriers (85, 70 and 60 percent of respondents respectively). The issue of cultural mindset has also been raised with 40 per cent of accountants citing how SME owners tend to regard auditing as either unwarranted or oppressive. Results of survey were confirmed by secondary data based on SME financial records that indicated formal auditing system led to reduced financial error (average 2 errors per year) in the business compared to absences of formal auditing system that averagely led to 7 errors per year.

It is clear that the development of auditing skills has a profound impact on the performance of small business in Anambra State as it has been analyzed in previous studies. The positive relationship between the auditing skills and profitability ($r = 0.62$) affirms the previous finding, citing that auditing improves resource allocation and decreases financial errors among companies, thus boosting profitability margins (Adebayo et al., 2021). The influence on sustainability ($r = 0.58$) indicates that auditing is important in realizing the compliance and the attraction of stakeholders (Brown and Taylor, 2020). That being said, the fact that just 18 percent of people have high/expert auditing skills indicates a major need in the SME sector of Anambra, as Adeyemi and Fagbemi (2019) also mentioned broadly expressed skill inadequacies in Nigerian SMEs.

The barriers, namely, the lack of training, the high costs, and the poor awareness levels, reflect the challenges that SMEs are experiencing across the world, as evidenced by International Federation of Accountants (2020). These obstacles occur more in Anambra State due to the informal nature of a significant number of SMEs and less access to professional training. Resistance to outside control, which is informed by a cultural attitude, is another practice that hinders adoption which is also specific to this Nigerian setting. The findings can be corroborated with the help of the agency theory that states that auditing skills can alleviate information asymmetry and improve trust as well as the resource-based view which mentions that auditing is an important source of competition to the SMEs.

The implications of the study are important to the stakeholders. To the SME owners, learning the skills of auditing can enhance financial decision-making and credit access. To the policymakers, the findings support the view that there is need to have SME specific auditing frameworks and subsidized training programs. SMEDAN and local bodies may work together to come up with training modules that are easy to extract. This is one of the ideas welcomed by the framework of this present study. Nevertheless, there are limitations of the study. The number of the participants (150) could be too small to capture the full spectrum of the SME in Anambra and self-reported data can be biased. Future studies would have to expand the research sample and include longitudinal designs to evaluate long-tail consequences.

Final Remark

This research paper establishes that the auditing skill has a great impact on the performance of a small business in Anambra State, Nigeria especially profitability and sustainability levels. The fact that the owners and employees of the SMEs are at a low level in terms of auditing skills in addition to the barriers associated with lack of training and cost reinforces the importance of specific interventions. The suggested framework to audit the skills development that involves training modules and policy recommendations would become a viable instrument to support the development of SME sector in Nigeria. Future study can be done to see the long-term impact of auditing training and conducting a test of the effectiveness of the framework on other states of Nigeria. The ability of stakeholders to promote financial transparency, efficiency in operations and economic development within Anambra State and several other states lies in the ability to bridge the auditing skills gaps.

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