Deploying Audit Skills for Small Business Development: Evidence from Nigeria

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ABSTRACT
The rate of small business attrition and collapse is legendary in Nigeria inspite of the considerable latitude the government has provided to them over the years to secure their continued operation. Many theories have been advanced to explain this anomaly. None has been sufficiently in depth as to help shed light on how the accounts and records are kept and maintained and how failure in this segment could be a major contributor to the decline. This paper explores the usefulness of innovative accounting and auditing as a panacea for streamlining small business practice in an enterprising part of what is known as the “Asian Tiger” of South East Nigeria. Using exploratory and survey research design the paper documents that the rate of decline and failure of small businesses could be significantly reduced if small businesses were subject to very scrupulous audit by licensed and certified government auditors. The cost of these audit work could be borne by the government in the first instance and then transferred to the small businesses as their fortunes rise. The outcome of this paper has implications on policy formulation and regulation to secure improved business fortunes and hence further drive the frontiers of economic development in Nigeria as a whole.

INTRODUCTION
For a long time economic development experts have relied heavily on large enterprises by extending tax breaks, financial incentives, and other inducements as a major strategy for advancement. Increasingly however, there is evidence that these traditional approaches to economic development are been abandoned. Instead, they are relying on building businesses from the ground up and supporting the growth of existing enterprises. This approach has two complementary features. The first is to develop and support entrepreneurs and small businesses. The second is to expand and improve infrastructure and to develop or recruit a highly skilled and educated workforce. Both efforts depend in large part on improving the quality of life in the community and creating an attractive business climate.

The reason for the shift in approaches is not farfetched. Experience suggests that economic development strategies aimed at attracting large firms are unlikely to be successful—or successful only at great cost. Smokestack chasing can be especially costly if it generates competition for firms among jurisdictions. Further, because of the purported job creation role and innovative prowess of entrepreneurs and small businesses, creating an environment conducive to many small businesses may produce more jobs than trying to lure one or two large enterprises. The hope is not only that new businesses will create jobs in the local community, but, through innovation, some new businesses may grow into rapid-growth “gazelle” firms, which may spawn perhaps hundreds of jobs and become industry leaders of tomorrow.

This article evaluates this shift in economic development strategies. The first section describes traditional economic development strategies. The second section explores the role that small businesses play in creating jobs. The third section evaluates how small audit skills could be deployed as an innovative tool for fast tracking small business development in South East Nigeria. The overarching question is whether promoting entrepreneurship and small businesses makes sense as an economic development strategy. This article concludes that it probably does but with some caveats. Small businesses are potent job creators, but so are large businesses. The attribution of the bulk of net job creation to small businesses arises largely from relatively large job losses at large firms, not to especially robust job creation by small firms. More importantly, data show that, on average, large businesses offer better jobs than small businesses, in terms of both compensation and stability. Further, there is little convincing evidence to suggest that small businesses have an edge over larger businesses in...
innovation. More research is needed to properly evaluate the case for a small business strategy, and, indeed, to determine whether or not public engagement in economic development itself is a cost-effective and worthwhile pursuit.

Again governments in developing countries like Nigeria should enact small business friendly laws that provide accounting and auditing support to small businesses. Accordingly, such legislations should favour a regime that subject small businesses to very scrupulous audit by licensed and certified government auditors. The cost of these audit work could be borne by the government in the first instance and then transferred to the small businesses as their fortunes rise.

2 Issues With Traditional Economic Development Policies:

In Nigeria over 95% of businesses have fewer than 20 employees. An exploratory survey carried out in the South East of Nigeria confirms this. This scenario is similar to the situation in Europe. For instance 99% of businesses in the UK have fewer than 50 employees, and between them account for 34% of the turnover of the UK’s private sector in 2012. Growth from these small companies is increasingly sought to form the engine of the UK’s recovering economy. This is the same position in South East Nigeria where there is preponderance of small businesses in virtually all sectors of the economy. Small companies, as defined by the Companies Act, are audit exempt. The new EU Accounting Directive (published July 2013) raises the possibility of still more companies being defined as ‘small’. Exemption from statutory audit, however, does not remove the need for lenders and investors to trust their financial statements. 69% of SMEs responding to a BIS survey in 2008 in the UK, said if they were audit exempt they would consider an alternative form of assurance. This is due to the fact that many small businesses have failed to leverage on the considerable latitude in soft loan provisions to grow their businesses on account of the poor state of their accounts and records. This has to a large extent led to downturn and failure of many small businesses in Nigeria. They also have issues with failure to carry out audit of their accounts and records. Together these have been found to be major issues contributing to their inability to access funds and consequently have led to the failure of many small business concerns.

It is time to raise awareness of the range of options available to small organisations, so that they can make an informed choice about what’s best for them. Small companies face disproportionately high costs in both money and resources for statutory auditing. This can be a major obstruction to their growth. The government overtime has desired to reduce this burden on small businesses by increasing the number that are exempt from statutory auditing. Yet we contend in this paper that this may be a benign disservice. Experience suggests that because of these typically large indirect effects and the costs of incentives and competition, economic development strategies aimed at attracting large firms are unlikely to be successful or are likely to succeed only at great cost.

A recent contemplation of new-firm locations and expansions in Ninth Mile, Enugu, South East Nigeria, suggests that, on the average, the location of a new large (500+ employees) firm often retards the growth of the existing enterprises or discourages the establishment of enterprises that would otherwise have located there was the case studied by Edmiston. When Coca Cola came to Ninth mile, in Enugu, South East Nigeria, it was greeted with optimism and soon attracted some other beverage firms like RENO and later alcoholic beverage giants like Nigeria Breweries Plc. Ten years after some of these mushrooming soft drink industries had crumbled. The same scenario were replicated in other south Eastern cities of Aba, Onitsha, Odogwu, Owerri and Umuhia where other alcoholic and non alcoholic small business firms quickly went bankrupt due to very stiff competition and other small scale inefficiencies. In the USA also and specifically, in Georgia, it was reported that the location of a new plant with 1,000 workers, on average, adds a net of only 285 workers over a five-year period. That is, the average firm would add 1,000 workers in its own plant but would also drive away 715 other jobs that would have been generated (or retained) if the new large firm had chosen not to locate there. Fox and Murray report in another study that the net employment impact of large-firm locations may actually be closer to zero (Fox and Murray). Much has been made of the indirect effects, or spillovers, of new large firms. The positive spillovers include links with suppliers, increased consumer spending, the transfer of knowledge from one firm to another, and the sharing of pools of workers. But negative spillovers are important as well. They include constraints on the supply of labor and other inputs, upward pressure on wages and rents, congestion of infrastructure, and (if fiscal incentives are provided to the locating firm) budget pressures from increased spending without commensurate increases in public revenues. Even perceptions of these negative effects can drive away firms, whether or not they actually materialize. The evidence suggests that the negative effects dominate with many large-firm locations [1]. Expansions of existing firms, however, tend to have multiplicative positive employment impacts. On average, a plant expansion adding 1,000 employees is expected to generate a
net employment impact of 2,000. Of all causes of small business misfortunes and decline none has received the least attention as the inability of small businesses to deploy small audit skills to stabilize and grow their businesses.

3 Small Businesses and Job Creation:
An alternative to recruiting large firms with tax incentives and other inducements is to focus on the small business sector. Perhaps the greatest generator of interest in entrepreneurship and small business is the widely held belief that small businesses in the United States create most new jobs. The evidence suggests that small businesses indeed create a substantial majority of net new jobs in an average year. But the widely reported figures on net job growth obscure the important dynamics of job creation and destruction. Nevertheless, small businesses remain a significant source of new jobs in the United States. The outcome of an exploratory survey carried out in the South East of Nigeria confirms this scenario in what may now be called the ‘Asian Tiger’ of Nigeria.

4 Job Quality At Small Businesses
Knowing that small businesses create a significant share of new jobs, it is natural to ask how these jobs compare to those at larger firms. Simply put, large firms offer better jobs and higher wages than small firms. Benefits appear to be better at large firms as well, for everything from health insurance and retirement to paid holidays and vacations. Finally, job turnover, initiated by both employers and employees, is lower at large firms. The lower rates of employee-initiated turnover suggest that job satisfaction and mobility are relatively greater at larger firms. Lower rates of employer-initiated separations suggest that jobs at larger firms are more stable.

5 Small Business And Innovation:
Joseph Schumpeter, the renowned analyst and advocate of capitalism, asserted that the hallmark of capitalism is innovation: “The sweeping out of old products, old enterprises, and old organizational forms by new ones.” He referred to this process as “creative destruction.”
In capitalism, therefore, the only survivors are those who constantly innovate and develop new products and processes to replace the old ones. Small businesses are largely thought to be more innovative than larger firms for three reasons: a lack of entrenched bureaucracy, more competitive markets, and stronger incentives (such as personal rewards). Small businesses are indeed crucial innovators in today’s economy and are the technological leaders of many industries. But the conventional wisdom— that small businesses are the cornerstone of innovative activity and that large firms are too big and bureaucratic to make significant innovations— is false. Both small and large firms make significant innovations, and both types of firms are critical to the success of today’s economy. The innovative powers of small scale businesses in South East of Nigeria, ensuing from the exploratory survey carried out in the study was found to be quite remarkable. Hitherto small businesses concerns like Innoson Industries and Ibeto industries have now grown to become large business concerns to satisfy the large market in Nigeria.

6 Accounting for Small Businesses:
Entrepreneurs keep a lot of the financial details of their business in their heads. Doing so has its advantages: No new software to learn, no danger of a system crash that loses all your data, and you can have access to your budget as often as you need without sitting down at a desk.
But when you don’t have a system and some processes in place, unpleasant surprises can pop up, goals can be easily missed and important paperwork forgotten. But we know that getting a better handle on your money can help you to make and keep long-term goals, smooth out the seasonal ups and downs of your cash flow and maybe improve your profits. It can also help you to stay out of trouble with the Tax office. Here are five bookkeeping tips for entrepreneurs which overall would support small businesses.

1. Plan for major expenses:
Why it’s helpful:
You’re less likely to miss business opportunities or have to scramble for a loan when the expenses become unavoidable.

What to do:
Put events like a major computer upgrade on the calendar a year in advance or, ideally, three to five years ahead. Acknowledge the seasonal ups and downs, something many entrepreneurs are reluctant to do. This helps you to be honest about the fact that it’s coming and plan for it. You'll avoid taking money out of the company during the flush periods only to find yourself short in the slower months, when costly projects like upgrading computers or replacing factory components usually happen.
2. Track expenses:

**Why it’s helpful:**
You otherwise might some miss tax write-offs and may lose out on others.

**What to do:**
A credit card that you use solely for business can be a basic accounting system, as suggested by some experts. Most card statements categorize expenses, so you can see which outlays relate to which business activities. Additionally, according to an expert, routinely jot down business trips, lunches, coffee dates and other events with cash outlays in your electronic or paper day planner. This habit can go a long way toward substantiating those items for your tax records in the event of an audit.

"Often on tax returns, those numbers are too round. No one drives exactly 5000KM for business in a year, so the Tax authorities know this is an estimate. The consequence is that in an audit in an audit, if you can't substantiate those numbers, the whole category [of write-offs] can get thrown out.

One of his clients provides a link to a Google map for each trip instead of trying to remember to note the mileage for every trip he takes on his odometer. That data, along with a day planner recording the trip, are usually enough record keeping to satisfy the IRS, in developed countries.

3. Record deposits correctly.

**Why it’s helpful:**
You may be less likely to pay taxes on money that isn't income.

**What to do:**
Adopt a system for keeping your financial activities straight, whether it's a notebook you use consistently, an Excel spreadsheet or software such as Quickbooks. Business owners typically make a variety of deposits into their bank account through the year, including loans, revenue from sales and cash infusions from their personal savings. The trouble, as we know is at the end of the year, you or your bookkeeper might erroneously record some deposits as income, and consequently pay taxes on more money than you've actually made.

4. Set aside money for paying taxes:

**Why it’s helpful:**
The tax authority can levy penalties and interest for not filing quarterly tax returns on time.

**What to do:**
Systematically put a portion of money aside throughout the year for taxes. Then note tax deadlines on your calendar, along with prep time if you need it, to make sure you actually make payments when they're due. Payroll taxes that go unpaid can be especially problematic, as noted by an expert. He often sees cash-crunched entrepreneurs get through a down cycle by dipping into employee withholdings, or avlue added tax, that they should have sent to the tax authority.

5. Keep a close eye on your invoices:

**Why it’s helpful:**
Late and unpaid bills hurt your cash flow.

**What to do:**
Assign someone in your organizations to track your billing. Then put a process in place for issuing a second invoice, making a phone call and perhaps levying penalties such as extra fees at certain deadlines. For instance you need to have a plan for what happens if they're 30, 60 or 90 days late. Some entrepreneurs believe that once they've sent out an invoice, they've taken care of billing. Not so, Mari says. "Every late payment is an interest-free loan and hurts your cash flow."

8 Small Audit Skills as Tool for Sustaining Small Businesses:

The end of universal mandatory audit creates a free market for small companies, but not necessarily an informed one. Do small companies need assurance over their financial statements? How can professional accountants’ best support SMEs? This section addresses these issues. The outcome of exploratory survey pointed out that of all likely causes of business failure, lack of or improper book keening and auditing contributes significantly to small businesses decline and eventual failure.

The regulations governing audit in Nigeria, exempt small companies from statutory audits if they meet two of the three conditions on the size of their balance sheet, turnover or number of employees [3]. Are these exemptions useful in the long run? The outcome of the exploratory survey suggests in the negative as about 60 per cent of the respondents indicated their interested in having their accounts audited. What is Auditing and
what role does it play? Eze(2005) defines an audit as an independent examination by a statutorily appointed person called the auditor, called to investigate an organization, its records and its financial statements prepared from them and thus form an opinion on the accuracy and correctness of the financial statement. Opining further he pointed out that the primary aim is to say ‘ these accounts show a true and fair view or of course to say that they do not’.

In another dimension, it has been defined as the analysis of the financial accounts/records, by a qualified accountant, and procedures of a firm or organization. This is essential in order to gain a fair perspective on the company’s financial statements. With auditing, potential investors and creditors can look at the financial statements to decide whether to invest in a business or not. Auditing is important as it also protects the public from scams and corrupt business procedures. about sixty per cent of the respondents in the survey consistently indicated their willingness to have proper accounts and to have those accounts properly audits and regularly audited. While their is division among the respondents in the survey on the need for accounting and auditing, their is consensus on who bears the cost of the audit.

The common consensus is that the audit should be carried out by government certified auditors and the cost borne by government. A good number also indicated that such cost of audit should be transferred to small businesses as their fortunes rise.

Conclusion:

This analysis evaluated the economic development role of small businesses vis-à-vis large businesses with particular emphasis on how compulsory accounting and auditing could be deployed as a vehicle for stemming the tide of business attrition in South East Nigeria. Results from the study suggests that small businesses may not be quite the fountain head of job creation they are purported to be, especially when it comes to high-paying jobs that are stable and offer good benefits. Big-firm jobs are typically better jobs. Moreover, while small businesses are important innovators in today’s economy, so are large businesses. There is no clear evidence that small businesses are more effective innovators. Further, the innovations of both small businesses and large businesses are inextricably linked. Still, small firms create the majority of net new jobs and are critical innovators, and efforts to encourage the formation and growth of small enterprises are probably sensible in most cases.

The key to a successful strategy especially with regard to securing economic development is to get the policies right. Evidence increasingly suggests that the right approach is usually to focus on developing an attractive and supportive environment that might enable any business, whether small or large, to flourish, and to allow the market to sort out which businesses succeed. Many communities have had success in creating this environment. What this paper has added is three fold. One, that even with good environment and robust infrastructure, small businesses could still falter where they fail to get their accounting records straight from the onset. Again, though small businesses are exempt from mandatory auditing, it is seen as a benign dis service, because it denies them of the advantages that regular auditing confers on businesses. Finally government should deploy certified auditors and bear the cost of hiring the auditors on behalf of small businesses that satisfy set criteria and then transfer the costs of the audit work to small businesses as their fortunes rise.

REFERENCES