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The Role of Auditing in Enhancing Financial Transparency in Small Businesses

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ABSTRACT
The influence of auditing procedures on small businesses, the difficulties these companies encounter in implementing routine audits, and the relative merits of internal and external auditing in fostering financial transparency are all examined in this study. According to the report, small businesses frequently ignore auditing, despite the fact that it is essential for corporate management. This leaves them more susceptible to fraud and even business failure.

1 INTRODUCTION

Small business owners who wish to guarantee the profitability and financial stability of their enterprise must have a firm grasp of financial audits. Financial audits, which offer a comprehensive analysis of your financial accounts and procedures, are not just a yearly requirement but also an essential part of your business plan. Fundamentally, a financial audit is an impartial examination of a business's financial records to confirm their correctness and adherence to accounting rules.

As part of the audit process, your internal controls, compliance with applicable rules and regulations, and the accuracy of your financial reporting are all examined. Despite being an essential tool for corporate management, auditing is often disregarded by small enterprises and organizations. Since accountability and probity are crucial for a company's growth, the absence of audits has led to the demise of numerous companies. The cost of audit fees is cited by the study as the reason why small enterprises are unable to hire auditors. This always makes them more vulnerable to fraud, which is why their enterprises fail. As a result, he made the decision to examine the impact that auditing small businesses had on a few of the organizations he had personally examined over the years and offer pertinent suggestions to companies.

The absence of skilled accounting staff to manage their books of accounts makes small businesses even more vulnerable, according to the research; for this reason, it is necessary to hire auditors to assess the organization's operations. Additionally, the study demonstrates that fraudsters are morally discouraged by the mere presence of an auditor. The researcher suggests that stakeholders, particularly financial experts, should educate small firms on the value of audits. To encourage small businesses to have their accounts audited, auditors might think about charging them comparatively modest audit fees. As seen in the case study, small businesses that undergo auditing will start to function more effectively, allowing the auditor to charge reasonable fees as the companies expand.

2 RESEARCH GAP

There are empirical evidence limits in the body of current information, particularly with regard to auditing processes in small enterprises. The implementation of auditing by these businesses is further hampered by notable barriers and a lack of awareness. Sector-specific insights into small firms' particular auditing requirements are mostly lacking, and the different effects of internal versus external auditing on these businesses are still not well understood. Lastly, more research is needed to determine how technology shapes auditing procedures for small organizations. For a more thorough knowledge and successful use of auditing in the small business sector, it is imperative that these gaps be filled by future study.

3 RESEARCH METHODOLOGY

3.1 OBJECTIVES

Objective 1: To evaluate the impact of auditing practices on financial transparency in small businesses.
Objective 2: To identify the key challenges small businesses face in adopting regular auditing mechanisms
Objective 3: To assess the comparative effectiveness of internal and external auditing in promoting financial transparency in small enterprises

3.2 RESEARCH DESIGN

Objective 1 - Regression Correlation
Regression and correlation are statistical techniques used to examine the relationships between variables in a research design. Regression models and predicts the value of a dependent variable based on one or more independent variables, whereas correlation assesses the direction and strength of a link between two or more variables.
Objective 2 - Descriptive statistics
It refers to a set of methods used to summarise and describe the main features of a dataset, such as its central tendency, variability and distribution. These methods provide an overview of the data and help identify patterns and relationships.
Objective 3 – One Way ANOVA
One-way A statistical test called ANOVA (Analysis of Variance) compares the means of two or more independent groups to see if there is a difference between them that is statistically significant. In order to determine whether the independent variable has a significant impact, it looks at whether the difference between group means is larger than the difference within each group.

HYPOTHESIS

Objective:1
NULL HYPOTHESIS: There is no significant impact of auditing practices on financial transparency in small businesses.
ALTERNATE HYPOTHESIS: There is a significant impact of auditing practices on financial transparency in small businesses.
Objective:2
NULL HYPOTHESIS: There are no challenges in adopting regular auditing mechanisms in small businesses.
ALTERNATIVE HYPOTHESIS: There are challenges in adopting regular auditing mechanisms in small businesses.

Objective:3

NULL HYPOTHESIS: There is no comparative effectiveness of internal and external auditing in promoting financial transparency in small enterprises.

ALTERNATIVE HYPOTHESIS: There is comparative effectiveness of internal and external auditing in promoting financial transparency in small enterprises.

4 ANALYSIS AND INTERPRETATION

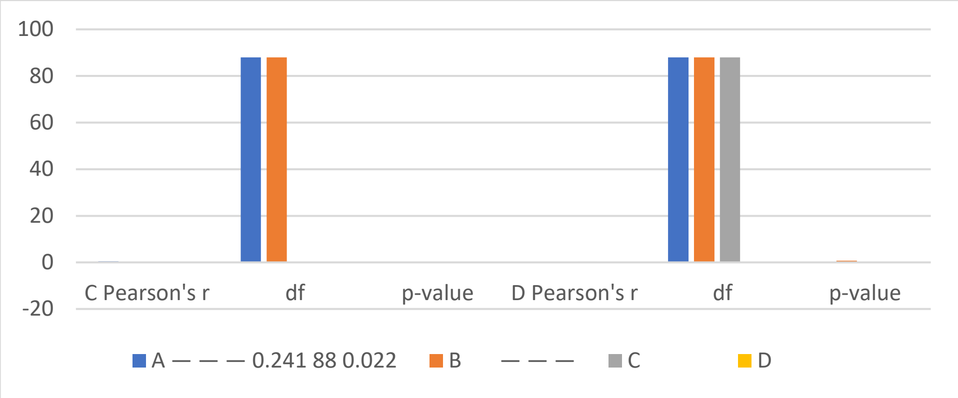
4.1 Objective 1 – To evaluate the impact of auditing practices on financial transparency in small businesses

Correlation Matrix

	A	B	C	D
A Pearson's r	—			
df	—			
p-value	—			
B Pearson's r	0.241	—		
df	88	—		
p-value	0.022	—		
C Pearson's r	0.502	0.201	—	
df	88	88	—	
p-value	<.001	0.058	—	
D Pearson's r	0.24	-0.03	0.254	—
df	88	88	88	—
p-value	0.023	0.775	0.016	—

INTERPRETATION

The associations between variables A, B, C, and D were investigated by the correlation analysis. A is positively correlated with B ($r = 0.241$, $p = 0.022$), with C ($r = 0.502$, $p < 0.001$), with D ($r = 0.240$, $p = 0.023$), and with D ($r = 0.254$, $p = 0.016$), according to the results, which also show several statistically significant positive correlations. According to these results, there is a tendency for both variables to rise as one does. The strongest positive correlation between A and C was found. There was no significant link between B and D ($r = -0.030$, $p = 0.775$), and a weaker, non-significant positive correlation between B and C ($r = 0.201$, $p = 0.058$).



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4.2 Objective 2 – To identify the key challenges small businesses face in adopting regular auditing mechanisms

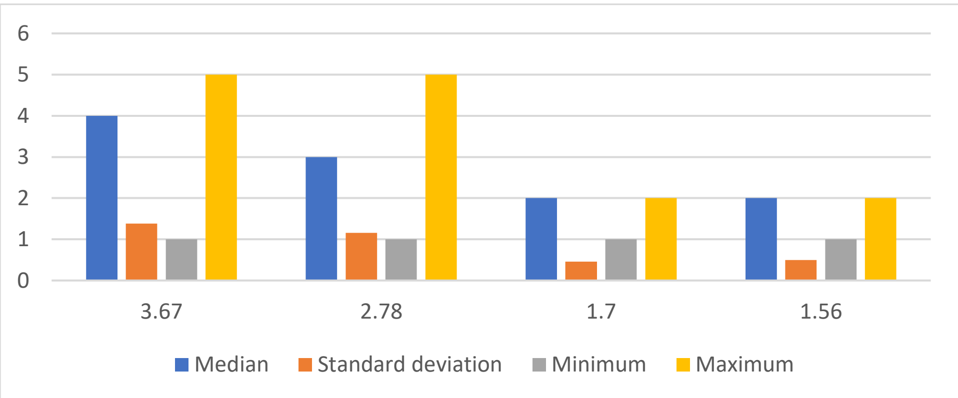
Descriptives Analysis

Descriptives

	A	B	C	D
N	90	90	90	90
Missing	0	0	0	0
Mean	3.67	2.78	1.7	1.56
Median	4	3	2	2
Standard deviation	1.38	1.16	0.461	0.5
Minimum	1	1	1	1
Maximum	5	5	2	2

INTERPRETATION

An outline of the key traits of variables A, B, C, and D is given by the descriptive analysis. There were 90 observations for every variable in the analysis, and no data were missing. Variable A had the greatest average value, followed by B, C, and D, with mean values of 3.67, 2.78, 1.70, and 1.56, respectively. The standard deviations for A and B were 1.38, 1.16, 0.461, and 0.500, respectively, indicating that they are more variable than C and D.



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4.3 Objective 3 – To assess the comparative effectiveness of internal and external auditing in promoting financial transparency in small enterprises

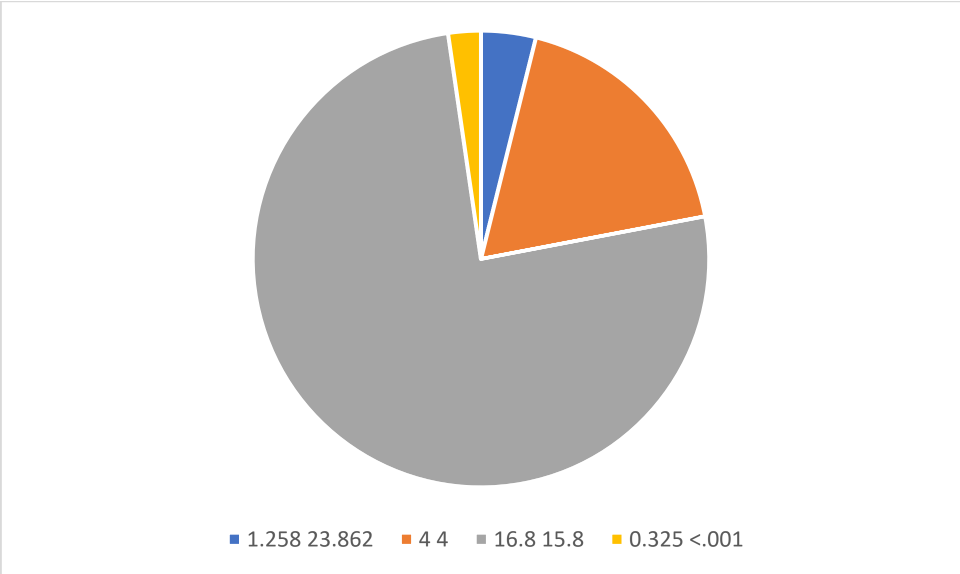
One-Way ANOVA Test

One-Way ANOVA (Welch's)

	F	**df1**	**df2**	**p**
A	1.258	4	16.8	0.325
C	23.862	4	15.8	<.001
D	0.856	4	16.7	0.510

INTERPRETATION

The One-Way ANOVA test examined if there were significant differences in the means of variables A, C, and D between groups. The test found that neither variable A's (F = 1.258, p = 0.325) nor variable D's (F = 0.856, p = 0.510) means differed statistically significantly across the groups. The mean of variable C, however, varied statistically significantly between the groups (F = 23.862, p < 0.001).



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5 FINDINGS, SUGGESTIONS AND CONCLUSIONS

5.1 Findings

Impact of Auditing Practices: The correlation analysis showed that there was a strong positive correlation between variable A and variables B, C, and D, and that these correlations were statistically significant. This suggests that there is a general trend that an increase in one variable is linked to an increase in the others.

The descriptive analysis revealed the mean values for variables A, B, C, and D. The fact that A had the greatest mean indicates that it represents a factor with a higher average value. This suggests that adopting auditing mechanisms can be challenging. A and B are more variable than C and D, according to the standard deviations.

Effectiveness of Internal and External Auditing: While variables A and D did not show any significant differences, the One-Way ANOVA test revealed a statistically significant difference in the means of variable C across groups.

5.2 Suggestions

According to the study, stakeholders especially those with expertise in finance should inform small businesses about the need of audits. Auditors may consider charging relatively little audit fees to small businesses in order to encourage them to get their accounts audited.

5.3 Conclusion

Despite being a crucial tool for corporate management, the study shows that small businesses and organizations frequently ignore auditing. Since responsibility and integrity are essential to a business's development, the lack of audits has resulted in the failure of many companies. Because small businesses lack the qualified accounting staff to handle their records, they are more susceptible to fraud, necessitating the hiring of auditors.

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