

Determinants of demand and supply of accounting and audit services in SMEs: Evidence from Nigeria

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Abstract: The study investigated the factors that determine the demand and supply of accounting and audit services in small and medium enterprises (SMEs), with evidence from Lagos, Nigeria. It also sought to know whether accounting and audit services contribute to the success of SMEs. The study made use of survey design. Using a structured questionnaire, evidence was collected from 380 respondents comprising of 300 SME owner-managers and 80 accounting firms. The data collected were analysed using both the descriptive and inferential statistics. The research findings indicated that owner-managers' characteristics, legal structure, education of managers, possession of accounting skills by managers and capital structure influence demand, while legal structure, attitude towards marketing, Government policy and owner-managers' characteristics influence supply of accounting and audit services. Findings also indicated that services of accountants and auditors have significant influence on the success of SMEs. The study recommended that owner-managers of SMEs should be given proper orientation on the importance of accounting and audit services to the success of their business. It was also recommended that Government should make the preparation and filing of audited accounts of SMEs mandatory, especially in order to render financial assistance to SMEs with a view to enhancing their socio-economic relevance. Accountants were also advised to take their services to the SMEs rather than waiting for the SME owner-managers to voluntarily call for their services.

Keywords: SMEs, accounting and auditing services, theory of inspired confidence, agency theory, Nigeria

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1. Introduction

Accounting and audit services are essential to the life of any business that involves the use of financial and human resources. The professional accountant has long been regarded as a trusted and competent business adviser for clients because they provide high quality professional services to meet a wide range of client needs (Keune & Keune, 2015). Blackburn and Jarvis (2010) described Small and Medium Scale Enterprises (SMEs) as heterogeneous groups possessing different size, age, sector, location and growth profiles as well as run by owner-managers with different capabilities and motivations. The SMEs in Nigeria play a significant role in sustaining socio-economic development of the country. Seventy per cent of all job opportunities and wealth formation have been linked with SMEs (Shehu *et al.*, 2013). However, they are filled with challenges such as low level of entrepreneurial skills, poor management policies, constrained access to capital markets, vulnerability to market imperfections, low equity participation from the promoters, shortage of skilled manpower, societal and attitudinal problems, among others (Shehu *et al.*, 2013; Kamyabi & Devi, 2012).

SMEs can improve their operations by engaging the services of professional accountants because the professional accountant can assist SMEs operating in a competitive environment to harmonise operational considerations within long-term plans to enhance their survival (Shehu *et al.*, 2013). However, most SMEs owner-managers often times, do not see the need for these services as they may not be bothered by the issue of information asymmetry. Moreover, they lack basic accounting knowledge and do not see any need to hire professional accountants. They probably regard the amount paid to the accountants for their services as a waste of resources that has the effect of depleting business profits (Dyer & Ross, 2007). Often, these owner-managers wholly provide the business capital, which keeps the firms under no pressure to prepare audited financial statements. They believe that engaging accountants to handle their financial affairs will amount to exposing their businesses to outsiders unnecessarily.

The accountants, on their own part, have not shown keen interest in taking their services to the SMEs. The apathy shown by the SME owner-managers is construed by the accountants as a sign that these owner-managers may not appreciate the value of professional services, and as such, may not be willing or able to patronise their services or they do not have the in-house resources to provide the range of services required (Blackburn & Jarvis, 2010).

Most SMEs are managed by their owners, who do not see the need for proper financial record keeping. They do not understand the control environment in which these SMEs operate. They believe that, as owners, they oversee the daily operations of their businesses and, as such, the possibility of fraud occurring is

very remote. Most of them even lack the basic accounting knowledge needed for effective financial management. There is this feeling that, since they manage the affairs of these companies, there is no fear of information asymmetry. They see themselves as both the principal and agent and so, do not see the need for any audit. Expenses on accounting and audit services are seen as financial drains that have the effect of depleting business profits. Moreover, most SME owners provide their business capital without resorting to borrowing. As a result, there is hardly any external pressure for transparency and accountability. To some of them, there is no legal requirement that makes their audit compulsory. This makes it optional for them to engage the services of accountants. As such, these owner-managers are likely to prefer the option of ignoring these services. Also, most employees of SMEs are relations of the owner-managers, which in turn, make the job of auditing the financial statements very tasking. Not minding these problems, researchers have not deemed it worthy to ascertain what brought about this apparent neglect and the possible panacea from the perspective of Nigeria.

Several studies in developed countries have examined the effect of professional accountants' services on SME performance but no research has investigated what determines demand for and supply of accounting and audit services among SMEs in Nigeria. Accounting scholars appear to have neglected this very important issue of the determinants of demand and supply of accounting and audit services in SMEs. As a result, the current study finds relevance in bridging this research gap. The study also sought to know whether the services of accountants contribute to the success of SMEs, and also, whether the owner-managers of SMEs appreciate the importance of these services. The study also investigated the internal and external factors that could cause SME owner-managers to seek the services of accountants and also, those factors that could influence accountants to willingly render their services to SMEs.

The study specifically pursued the following objectives: (1) ascertain the determinants of demand for accounting and audit services among SMEs in Lagos, Nigeria; (2) ascertain the determinants of supply of accounting and audit services among SMEs in Lagos, Nigeria; and (3) determine whether accounting and audit services have significant effect on the success of SMEs in Lagos, Nigeria.

This study reveals several factors that make owner-managers of SMEs to seek or not seek the services of accountants and auditors in their businesses. The recommendations made in this work are expected to improve the demand and supply of accounting and audit services in SMEs and improve the working relationship between accountants and SME owner-managers. With the findings of the study, the owner-managers and operators of SMEs will probably change their perception about the importance of accounting and audit services to the life of their business. The study may also sensitise accountants and auditors to make efforts at

making the owner-managers and operators of SMEs see the value of professional accountancy services to the life of their businesses.

The following research questions are formulated to guide the study: (1) Which external and internal factors determine the demand for accounting and audit services among SMEs in Lagos, Nigeria?; (2) To what extent do external and internal factors determine the supply of accounting and audit services among SMEs in Lagos, Nigeria?; (3) What is the significance of accounting and audit services on the success of SMEs in Lagos, Nigeria?

This study was carried out in Lagos, Nigeria focusing accountants in practice and SME owner-managers. The target SMEs include restaurants, pure-water bottling factories, soap and detergents factories, woodwork factories, leather products factories, textiles mills, computer software firms, tailoring and fashion designing outfits, printing presses, fabrication outfits, cassava processing mills, block moulding factories and consultancy services firms. This study focused on small and medium scale enterprises employing between five (5) and fifty (50) full time staff with annual turnover not exceeding five million naira (₦5m) and a total assets investment of less than one million naira (₦1m).

2. Literature review

Evidence from literature reveals that there is no universally agreed definition of an SME across all academic disciplines. This is because no single definition can capture all the dimensions of a small and medium-sized entity, nor can be expected to reflect the differences between entities in different industrial sectors or countries at different levels of development (Nelson & Onias, 2011). The definition of small firm varies from country to country and what may be referred to as small firms in developed economies (such as US, UK and Australia) is classified as medium or even larger firms in developing economies (Padachi, 2012). Different people see SMEs from different perspectives. Ademola *et al.* (2012) reported that Central Bank of Nigeria defined small scale enterprises as all businesses with a total assets investment of less than one million, an annual turnover of less than one million and with a total number of employees of less than fifty.

In Nigeria, the National Economic Reconstruction Fund (NERFUND) sets a maximum limit for small scale industries at 10 million Naira, while Section 37b(2) of the Companies and Allied Matters Act (CAMA, 1990) defined a small scale company as one with an annual turnover of not more than 1 million Naira only, Yahaya *et al.* (2011). The EU has begun 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” (Samson *et al.*, 2012). International Accounting Standards Board (IASB) also described Small and medium-sized entities for the scope of the IFRS for SMEs application as entities that (a) do not have public accountability, and (b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies. Small and medium enterprises, in the context of this study is defined as firms employing between five (5) and fifty (50) full time staff, with annual turnover not exceeding five million naira (₦5m) and a total assets investment of less than one million naira (₦1m).

2.1 Importance of SMEs to the Nigerian economy

The importance of SMEs to any economy has severally been documented by many scholars. In the words of Padachi (2012), SMEs are the backbone of an economy as they are a major contributor of job creation and play an important role as efficient providers of intermediate goods and services to large firms. Samson *et al.* (2012) opined that small businesses are important to the Nigerian economy. They are of the view that, 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. They further stated that if Nigeria is to reach its full potential in terms of economic and social development, it cannot afford to ignore the importance of quality audit and other relevant accounting services for its indigenous small enterprises. According to Ita (2013), micro, small and medium-sized enterprises (MSMEs) are a key source of employment and economic growth especially in developing countries. It has been recognized that small and medium-sized enterprises (SMEs) play an important role in the economic growth and sustainable development, not only in developing, but also in developed countries (Shehu, 2013).

The role of SMEs in promoting grass root economic growth and equitable and sustainable development is significant. To effectively play this role however, requires that all their activities are properly accounted for by employing the services of accountants and auditors. Ita (2013) posited that there is a positive relationship between the relative size of the SMEs sector and economic growth. SMEs are generally regarded as the engine of economic growth and equitable development in developing economies. They are also perceived as the key to Nigeria’s economic growth, poverty alleviation and employment generation. But their unimpressive performance in employment generation in recent years has generated a lot of research interests regarding their challenges and prospects (Mba & Cletus, 2014). Given the position occupied by the SMEs in the Nigerian industrial sector, it is expected that the success of the Nigerian economy would be partly dependent on the success of the SMEs (Onaolapo & Adegbite, 2014).

To ensure that all these positive comments on the importance of SMEs to the growth and development of an economy translates to improved standard of living for the populace, the finances of the SMEs must be properly managed and accounted for. This is better achieved by employing the services of competent finance managers, such as accountants, to assure investors' confidence and guarantee accountability. Moreover, considering that some SME managers are agent-managers, the services of accountants and auditors will serve to lend credibility to the financial statements prepared by management in the minds of the principals and other stakeholders. It will also allay the fear rightfully expressed by the principals and other stakeholders as to whether the managers are acting in their best interest.

2.2 Relevance of accounting and audit to SMEs

Accounting is the measurement, statement or provision of assurance about financial information primarily used by managers, investors and other stakeholders or decision makers to make resource allocation decisions within companies, organizations, as well as public agencies. Accounting is also the process of measuring, communicating and interpreting financial activity (Jayamalathi & Murali, 2009). These researchers opined that typical accounting functions play an important role in businesses to maintain competitive advantages, but that however, some SMEs face problem in handling their accounting functions. 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 and compliance with management policies. 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 (Samson *et al.*, 2012). Audit in SMEs by small audit companies and individual auditors has its specifics; it is recognized by international and domestic audit regulators (Libuse *et al.*, 2011).

Accounting systems provide a source of information to owners and managers of SMEs operating in any industry for use in the measurement of financial performance (Belal, 2013). While the performance levels of small businesses have traditionally been attributed to general managerial sectorial factors, such as manufacturing, marketing and operations, accounting systems also have a strong impact on the survival, growth and success of SMEs (Shehu, 2013; Kamyabi & Devi, 2012). A large number of business failures have been attributed to inability of financial managers to plan and control properly the current assets and the current liabilities of their respective firms (Padachi, 2012).

Accounting plays a critical role in the success or failure of contemporary business institutions (Mohammed *et al.*, 2011). Onaolapo and Adegbite (2014) concluded that there is a strong positive relationship between accounting record keeping and performance of small scale enterprises. Accounting records keeping is essential for decision making which invariably affects the performance of SMEs. The importance of internal and external accounting as a source of information for owners and managers of small enterprises and their different stakeholders is steadily growing (Ita, 2013). He also asserted that, though MSMEs play a vital role in economic development, majority of them do not keep complete accounting records to prepare financial statements with some not preparing any financial statements at all because of lack of accounting skill and knowledge and weakness of regulatory enforcement. Nelson and Onias (2011) revealed that SMEs do not keep complete accounting records because of lack of accounting knowledge and the cost of hiring professional accountants. They recommended that the regulators should come up with some SME-specific accounting guidelines and provide a template for capturing accounting information by SMEs. They further recommended that record keeping in SMEs must be made mandatory to improve their accounting practices and increase chances of them formalizing their business operations.

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 (Samson *et al.*, 2012). Audits of small and medium scale enterprises have proven to be among the most worrisome for professional accountants because of the inadequacy of the internal controls. The small businesses may not even have kept any records at all but for tax purposes, (Olatunji, 2013). He recommended that accountants involved in the audit of small and medium scale enterprises should adopt methodologies that adequately capture the accounting and reporting needs of the enterprises and comment on their peculiarities, if necessary, in the audit report. 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 (Samson *et al.*, 2012).

By providing accounting system as a business infrastructure, it is supposed to assist small business for achieving competitive advantage (Haryani, 2012). But many entrepreneurs think that employing capable hands to keep adequate data of business operations is the concern of the big business only. Little did they know that good accounting services can help keep their business in sound state (Ademola *et al.*, 2012).

Majority of owners of SMEs do not follow proper accounting procedures in their day to day transactions (Yahaya *et al.*, 2011). The small business owners'

perception of business in this regard is very critical. They need not 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 (Samson *et al.*, 2012).

The need for an audit stems for the delegation of the authority to manage a business by the principals (owners) to agents (managers). The problem which emerged when owners begin to delegate the running of an entity in which they had invested to managers, and thus sacrificed any involvement in the day-to-day control of the organization, is: can the owners believe the financial report prepared by their managers (Millichamp & Taylor, 2012)? The authors asserted that the report may contain errors; not disclose fraud; be inadvertently misleading; be deliberately misleading; fail to disclose relevant information; and fail to conform to regulations. They also opined that owners of companies must be protected from unscrupulous management who would use the owner's investment for their own benefit and not that of the owner; and abuse of limited liability where companies are deliberately set up for speculative or high risk ventures because the initial investors have very little to lose, and the managers perhaps nothing at all apart from their employment. If later investors are not aware of company activity they could be induced to invest in a project which carries a much greater level of risk than the rewards they might achieve would warrant. Audit helps to reduce these agency costs by helping to protect investors from the actions of predatory managers. The solution to the problem of credibility in reports and accounts lies in appointing independent professionals to investigate the contents of the financial statements and report on their findings.

The purpose of an audit therefore is to enhance the degree of confidence of intended users in the financial statements through the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework (Millichamp and Taylor, 2012).

2.3 Determinants of demand for accounting & audit services in SMEs

For many SME owner-managers, especially those of micro-firms, their business life is often lonely and isolated, and owner-managers seek a confidante to provide advice (i.e., intangible services), but this confidante is not necessarily the accountant (Blackburn *et al.*, 2010). If this is considered to be true, we then, need to ascertain the reason for that and strive to encourage the owner-managers to seek confidante in the accountant, as doing so will guarantee their financial performance and also guarantee public confidence in their affairs.

One of the major issues currently confronting CPAs and SME clients is the lack of authoritative guidance involving the reporting and assurance processes for sustainability reporting (Kimberly *et al.*, 2012). Kamyabi and Devi (2012) reported that the lack of necessary financial skills and resources to perform accounting functions internally increases demand for accounting and audit services by SMEs. Blackburn and Jarvis (2010) found that the inability of SME owners to access expert and specialized knowledge in regulatory matters, decision-making and control, accounts for the demand for outsourcing of accounting and audit services by SMEs.

The growth of the SMEs has a significant impact on the demand for Accounting professionals and their services. Banham and He (2014) conducted a study on the services provided by accounting professionals to SMEs and found that accounting firms rely heavily on services generated from SMEs and vice versa. This implies that as SMEs grow, the demand for accounting services from public practitioners is also expected to increase. In a study by the Accounting and Corporate Regulatory Authority in Singapore on the decline in revenue by Small and Medium practices, it was identified that intense competition from within the profession and from non accountants was a key reason for decline in demand for accounting and audit services in Small and Medium Professional Accounting Practices (SMPs) (ACCA, 2011).

The cost of service, shortage of time, ignorance on the availability of service providers and the range of support services available to them and their benefits were identified as the obstacles influencing SMEs demand for external services (Ismail & King, 2007; Banham & He, 2014; Watson, 2003; Devi & Samujh, 2010).

Some researchers have also suggested that SME owners fear of loss of autonomy and independence when they seek advice or technical information from an external business advisor (Curran & Blackburn, 2000). Shaw (2006) identified that the psychology of owner-managers to avoid showing weakness, the opportunity cost and financial cost of taking on advices were some of the reasons for low demand of audit and accounting services. Dyer and Ross (2008) also identify legal and statutory compliance for most startup businesses, makes it compulsory for SMEs to demand the services of auditors and accountants. Blackburn and Jarvis (2010) conducted a study on the role of SMPs in providing business support to SMEs and identified three major motivations and reasons for SMEs' use of Accountants as Business Advisers as: technical competency of the accountant/ auditor, trust in the owner-manager accountant/auditor relationship, and proximity and responsiveness of the accountant/ auditor.

2.4 Determinants of supply of accounting and audit services to SMEs

The service quality and availability of manpower and skill that will satisfy SMEs needs has significant impact on the supply of accounting and audit services (ACCA, 2011). This need creates a burden on the professional accountant, because in order to provide comprehensive services to SMEs, there must be sufficient staff skilled in the areas of other business functions other than accounting (Devi & Samujh, 2010). The satisfaction of SMEs needs also requires that the accounting curriculum in academic institutions, continuous professional education and development by the professional bodies and other regulatory institutions is comprehensive enough to have a positive impact on the expertise and skills of the Accounting professional (Banham & He, 2014). Diversification of operations and business models/ services, shift to more profitable clients and change of strategy were identified by respondents in Singapore as some of the factors that boost successful revenue and supply of audit and accounting services to SMEs (ACCA, 2011).

2.5 Theoretical framework

The relevant theoretical frameworks adapted to explain the issues in accounting, which could be used to explain and extend existing knowledge are the Limperg's theory of inspired confidence and agency theory.

2.5.1 Limperg's theory of inspired confidence

In 1926, Professor Theodore Limperg of the University of Amsterdam developed a theory known as the Theory of Inspired Confidence, which, eventually became known as the Theory of Rational Expectations (Millichamp and Taylor, 2012). The theory holds that the value of the auditor's report derives from the expert nature of the auditor as an independent, competent professional. It holds that as the business community changes, so the expectation it has of the auditor's function also changes. Limperg held that the work carried out by the auditor should be governed by the rational expectations of those who use their reports so auditors should not disappoint those expectations. Further, auditors should not seek to raise those expectations by any more than the work they do justify. Limperg's theory further states that the usefulness of the auditor's opinion is based on the general understanding society has about the usefulness of audit. Legal considerations aside, the necessity and cost of an audit is borne by the companies because of the need of investors and lenders for reliable information to aid their decision making. If the audit process changed so that it ceased to inspire a uniform level of confidence in society, but instead, inspired different levels of confidence in different users, society's confidence in audit process would decline as the social usefulness of the audit is reduced (Millichamp & Taylor, 2012).

2.5.2 Agency theory

Jensen and Meckling (1976) define an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent. Agency relationships occur when the principals hire the agent to perform a service on the principals' behalf. Principals commonly delegate decision-making authority to the agents. Problems can arise due to agency operation because of inefficiencies and incomplete information. Consequently, agency theory addresses two fundamental problems.

Dilemma exists because sometimes the agent is motivated to act in his own best interests rather than those of the principal. Problem also arises where the two parties have different interests and asymmetric information (the agent having more information), such that the principal cannot directly ensure that the agent is always acting in its (the principal's) best interests, particularly when activities that are useful to the principal are costly to the agent, and where elements of what the agent does are costly for the principal to observe. Moral hazard and conflict of interest may arise. Indeed, the principal may be concerned with the possibility of being exploited by the agent that he chooses not to enter into a transaction at all, when that deal would have actually been in both parties' best interests. The agency theory is useful for this study because to clear the concerns of the principal, and forestall the differences that could arise as a result of information asymmetry, the services of accountants and auditors are very essential.

Figure 1 (Appendix A) conceptualizes what the demand and supply of accounting and audit services in small and medium enterprises entail. The parties involved in the demand and supply of accounting and audit services in SMEs are the SMEs, who demand the services of accountants and auditors, and the accountants, who supply their services to SMEs. Since it is the SMEs that demand for the services of accountants and auditors, the owners and managers of SMEs are therefore in a better position to supply information on why they do or do not demand such services. Also, since accountants are the people that have the services, they are in a better position to provide information on why they do or do not supply their services to the SMEs. However, a review of existing literature points to various factors that could determine the demand and supply of accounting and audit services in SMEs are the SMEs. The researchers regard these as internal and external factors. The identified factors were statistically tested to ascertain how significantly they influence the demand for the services of accountants and auditors; and the supply of accounting and auditing services to SMEs in Lagos, Nigeria.

3. Research methodology

3.1 Research design

Cross-sectional survey design was adopted for this study. The researchers made use of primary data to arrive at their conclusions. The data used for this study were obtained through the administration of purposely structured questionnaire to respondents. Simple random sampling method was used in selecting the test sample of 380 respondents, in Lagos State of Nigeria, comprising 80 Accounting firms and 300 SME operators. The questionnaire was structured in such a manner as to be able to elicit responses to the items capturing the determinants of demand for accounting and audit services, and the determinants of supply of accounting and audit services, respectively. It also sought to know how significant the services of accountants and auditors are to the success of SMEs in Lagos, Nigeria and whether the managers and owners of SMEs appreciate the importance of accounting and audit services to the life of their business. While the accountants were required to respond to items on the determinants of supply of accounting and audit services, the operators of small and medium scale enterprises were made to respond to items on the determinants of demand for accounting and audit services. To ensure depth in the distribution of the questionnaire, judgment sampling method was used, so that responses could be from experts in SME operations and professionals in the field of accounting and audit profession and give the prospective respondents equal chance of being selected. Copies of the questionnaires were completed by owner-managers of the firms or their appointed representatives. The data collected were summarized using descriptive statistics, such as frequency distribution tables and percentages.

Seven independent variables (owner-managers' characteristics, legal structure of SMEs, experience of managers, level of education of SME owner-managers, possession of accounting skills by SME owner-managers, lukewarm attitude towards audit and capital structure of SMEs) were included on the determinants of demand, while four independent variables (legal structure of SMEs, Accountants' attitude towards marketing, Government policy; and owner-managers' characteristics) were measured as the determinants of supply of accounting and auditing services.

According to Yomere and Agbonifoh (1999), the population of a study is the universe or the totality of the elements of the research from which the researcher draws his sample. In line with this definition, this study made use of two populations which are: (1) the universe or the totality of Small and Medium-Scale Enterprise Operators, and (2) the universe or the totality of professional accounting firms in Lagos, Nigeria. There are 37,531 chartered accountants and 5,290 Small and medium practicing Audit firms (ICAN Annual Report, 2013). The actual

SMEs figures were not officially available as at the time of this study. From the two populations samples were drawn comprising of 80 Accounting firms and 300 SME operators.

This study made use of judgemental sampling technique in arriving at the samples used for the research work. To achieve this, a sample of 80 respondents was selected from all the accounting firms in Lagos, Nigeria and another sample of 300 respondents from the operators of small and medium scale enterprises (SMEs).

The questionnaire was structured in the form of a five-point likert type scale ranging from “strongly agree” to “strongly disagree” as follows: (5 = strongly agree, 4 = agree, 3 = Neutral, 2 = disagree, and 1 = strongly disagree). The respondents were required to indicate the extent of their agreement or disagreement with each of the items on a scale of one (1) to five (5). On this scale, a score of 5 or 4 indicates that the item is perceived to significantly contribute to the demand or supply of accounting and audit services in SMEs in Lagos, Nigeria. A score of 3 or 2 indicates that the item is perceived to slightly contribute to the demand or supply of accounting and audit services in SMEs in Lagos, Nigeria, but not essential, while a score of 1 indicates that the item could be disregarded as being unimportant. Similar scales have been used by Courtis (1992) and were found suitable.

Preliminary tests were carried out by the researcher for the instrument validation. The research instrument was subjected to content validity test to ensure that the content measures the attributes investigated in the research. To achieve this, the initial draft questionnaire was subjected to the constructive inputs of two doctoral degrees and professional accountants in academia who possess at least five (5) years’ experience in academic research. This was done to ensure that the information in the questionnaire conveyed the intended meanings and connotations. The comments of these experts were taken into cognizance in preparing a second draft which was subsequently placed on scrutiny and independent critique by two other practicing professional accountants. Afterwards, necessary amendments were incorporated into what became the final instrument.

After the preliminary and expert tests and the required amendments were done, it became imperative to pilot test the instrument to assess the questions and items, the overall questionnaire and the process proposed for its administration. That is, the pilot test was used to finalize the questionnaire. In the preliminary pilot testing, twenty (20) copies of the instrument were administered to SME operators and Accountants in practice who responded to the items as providers and users of accounting and audit services, respectively. The 20 copies of the instrument were retrieved and analysed. Accountants in practice and operators of SMEs were considered relevant because they possess the relevant knowledge for this study.

For the purpose of this study in which a multi-item scale was used, the relationship between constructs and their indications were assessed via the reliability instrument used. The test used for the assessment includes individual item reliability (factor loading) and composite reliability (internal consistency). In order to measure both convergent and discriminant validity, the use of Pearson correlation coefficient was employed. All coefficients exceeded 0.60, an indication that there is appropriate internal consistency of measurement items (Fornell & Larcker, 1981). Bartlett's Test of sphericity was 0.000 which indicates that the correlation among variables is strong and therefore suitable for further analysis. The Cronbach Alpha statistics is 0.743 for 12 items. The result was considered satisfactory for the study.

3.6 Model development and statistical tools of analysis

The dependent variable in this study is accounting and audit services while the independent variables are demand related and supply related. If the independent variables are represented by "X" and the dependent variable by "Y", then, the relationship between an independent variable (X) and a dependent variable (Y), can be represented by the formula below:

$$Y = \beta_0 + \beta_1 X + u \quad \dots (1)$$

Where

Y = Accounting and Audit Services (Bookkeeping, Audit, Taxation, Cost and Management Accounting)

X = demand of accounting and auditing services;

S = supply of accounting and auditing services

β_0 = the level of demand and supply without any external influence;

β_1 = the effect of any external influence on demand and supply with changes on each independent variable;

u = the "noise" term reflecting other factors that influence demand and supply.

$$Y = \int (\beta_0 + \beta_1 X_i + \beta_2 S_i + u) \quad \dots (2)$$

Where:

β_0 = the intercept

X = Independent variables of demand, comprised of:

1. Owner-managers' Characteristics (X_1);
2. Legal Structure (X_2)
3. Experience of managers (X_3)
4. Education of managers (X_4)
5. Possession of accounting skills by managers (X_5)
6. Capital Structure (X_6)
7. Lukewarm attitude towards audit (X_7)

S = independent variables of supply, comprising:

1. Legal structure (S₁)
2. Attitude towards marketing (S₂)
3. Government policies & regulations (S₃)
4. Owner-managers' Characteristics (S₄)

$$Y = \beta_0 + \beta_1 (X_1) + \beta_2 (X_2) + \beta_3 (X_3) + \beta_4 (X_4) + \beta_5 X_5 + \beta_6 X_6 + \beta_7 (X_7) + \dots U_i \quad \dots (3)$$

$$Q = \beta_0 + \beta_1 (S_1) + \beta_2 (S_2) + \beta_3 (S_3) + \beta_4 (S_4) + \dots U \quad \dots (4)$$

3.7 Statistical tools/analytical procedure

Both the descriptive and inferential (analytical) statistics were used for the purpose of this study. The descriptive statistical tools used are frequency distribution tables, descriptive statistics tables and percentages. The tables were used to depict the distribution of respondents along age, sex, grade level, educational qualifications, knowledge of the need for accounting and audit. They were also used to depict the frequency of the various responses. Also, the inferential statistical tool used is regression analysis. Finally, using Statistical Package for Social Sciences (SPSS) version 20, an analysis of the responses to items in the questionnaire was made.

4. Results analysis

Primary data were used for this analysis. Copies of the structured questionnaire were distributed to three hundred and eighty (380) respondents. Of this number, three hundred and twenty six (326) were validly completed and returned. Two hundred and sixty two (262) of these respondents (SMEs) answered questions relating to the demand for accounting and audit services, while sixty four (64) respondents (accounting firms) answered questions on the supply of accounting and audit services.

4.1 Demographic information

Information about respondents' gender, academic qualifications, membership of professional bodies, working experience and positions held by respondents in their various organizations were collected and summarized in frequency tables as follows:

Table 1. Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	197	60.3	60.3	60.3
Female	129	39.7	39.7	100.0
Total	326	100.0	100.0	

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Table 1 shows the distribution of respondents according to their gender. It shows that 197 respondents, representing 60.3% were males, while 129 (39.7%) were female respondents.

Table 2. Academic qualification

	Frequency	Percent	Valid Percent	Cumulative Percent
BSc	230	70.6	70.6	70.6
MSc	75	23.0	23.0	93.7
Others	21	6.3	6.3	100.0
Total	326	100.0	100.0	

Table 2 depicts the academic qualifications of respondents. It indicates that two hundred and thirty (230) of the respondents, representing 70.6% had first degree, seventy five of the respondents (23%) had second degree, while the remainder had other qualifications such as first school leaving certificate, SSCE, etc.

Table 3. Descriptive statistics for the demand of accounting services

	N	Min.	Max.	Mean	Std. Deviation
Demand_for_accounting_services	262	40.00	44.00	42.7290	1.05366
Characteristics_determine_demand	262	40.00	44.00	42.7863	1.02091
Legal_structure_determines_demand	262	40.00	44.00	42.8435	.97592
capital_structure_determines_demand	262	40.00	44.00	42.9160	.97900
experience_of_manager_influences_demand	262	40.00	44.00	42.7176	1.03038
education_of_manager_affects_demand	262	40.00	44.00	42.7786	1.03049
accounting_skills_affect_demand	262	40.00	44.00	42.7634	1.09217
lukwarm_attitude_affects_demand	262	40.00	44.00	42.8053	.95306
The services of Accountants and Auditors have significant effect on the success of SMEs.	262	40.00	44.00	42.7863	1.02091
Audited Financial Statements increase the confidence of stakeholders in management's stewardship	262	40.00	44.00	42.8435	.97592
SME owner-managers know the importance of accounting & audit services	262	40.00	44.00	42.9160	.97900
Audit assures the reliability of information contained in the financial statements.	262	40.00	44.00	42.7176	1.03038
Valid N (listwise)	262				

Table 3 depicts the descriptive statistics for the demand for accounting and audit services. It indicates that 44 respondents, believe that owner-managers' characteristics, legal structure of SMEs, level of education of SME owner-

managers, possession of accounting skills by SME owner-managers, capital structure of SMEs and lukewarm attitude towards audit by SME owner-managers determine the demand for accounting and audit services, in Lagos, Nigeria. On the average, 43 respondents share this believe. 1% deviation can occur among the respondents, either positively or negatively.

The table further shows that 44 respondents believe that the services of accountants and auditors will positively affect the success of SMEs; that audited financial statements increase the confidence of stakeholders in management's stewardship; that SME owners and managers know the importance of accounting and audit services; and that audit assures the reliability of information contained in the financial statements. Also, 1% deviation can occur among the respondents, either positively or negatively. On the average, 43 respondents share this belief.

Table 4. Descriptive statistics for the supply of accounting services

	N	Min.	Max.	Mean	Std. Deviation
Supply_of_accounting_services	64	40.00	44.00	42.6563	1.07229
Audit fees affect supply of accounting & audit services	64	40.00	44.00	42.5938	1.12290
Lack of proper marketing affects supply of accounting & audit services	64	41.00	44.00	42.8125	.94070
Owner-managers' characteristics affect supply of accounting & audit services	64	40.00	44.00	42.9844	.89960
Legal structure affects supply of accounting & audit services	64	40.00	44.00	42.9063	.83035
Valid N (listwise)	64				

Table 4 represents the descriptive statistics for the supply of accounting and audit services to SMEs in Lagos, Nigeria. It shows that 44 respondents believe that audit fees, lack of proper marketing, owner-managers' characteristics, and legal structure of SMEs affect the supply of accounting and audit services to SMEs in Lagos, Nigeria. Averagely, 43% of the respondents have this belief. 1% deviation can occur among the respondents for audit fees, 94% for lack of proper marketing, 90% and 83% deviations for owner-managers' characteristics, and legal structure of SMEs, respectively.

In order to respond to the first research question concerning Which internal and external factors determine the demand for accounting and audit services by SMEs in Lagos regression analysis is employed, and the results are reported in Table 5.

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Table 5. Regression result on demand for accounting and auditing services

PANEL A

Regression Statistics

Multiple R	0.86242
R Square	0.74376
Adjusted R Square	0.71054
Standard Error	20.68263
Dublin-Watson	1.729
Observations	262

PANEL B

ANOVA

	<i>Df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Sig. F</i>
Regression	30	67048.746	9578.392	22.391	0.0000
Residual	228	23099.641	427.771		
Total	258	90148.387			

PANEL C

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>p-value</i>	
Intercept	82.2526	32.8070	2.5072	0.0152	*
Owner-managers characteristics (X1)	30.8383	7.3298	4.2073	0.0001	**
Legal Structure affect the demand (X2)	21.0861	7.7829	2.7093	0.0090	**
Experience of Managers affects demand (X3)	2.9845	8.2413	0.3621	0.7187	NS
Education of Managers affects demand (X4)	23.1043	6.3965	3.6120	0.0007	**
Accounting Skills affects their demand (X5)	18.1954	7.6685	2.3727	0.0212	*
Capital Structure affect their demand (X6)	22.3874	6.1926	3.6152	0.0007	**
lukewarm Attitude towards Audit (X7)	-16.1131	5.9489	-2.7086	0.0090	**

Table 5 presents the result of the linear regression analysis of demand for accounting services as dependent variable (Y), with Owner-managers characteristics (X₁), Legal Structure affect the demand (X₂), Experience of Managers affects demand (X₃), Education of Managers of affects demand (X₄),

Accounting Skills affects their demand (X_5), Capital Structure affect their demand (X_6) and lukewarm Attitude towards Audit (X_7) as independent variables. The estimated linear model then is as follows:

$$Y = 82.2526 + 30.8383X_1 + 21.0861X_2 + 2.9845X_3 + 23.1043X_4 + 18.1945X_5 + 22.3874X_6 - 16.1131X_7 \quad \dots(5)$$

Table 5 shows that all the independent variable, except the lukewarm Attitude towards Audit, had positive coefficients. The F-statistics was significant at a probability level of less than 1%, implying that the specified independent variables significantly contributed jointly to the demand for accounting and auditing services. Specifically however, all the independent variables except Experience of Managers had significant effect on the demand for accounting and audit services. The R-Square shows that the independent variables account for 74% of changes in the demand for accounting and audit services. Experience of managers had a p-value of 0.7187, therefore did not have significant effect on the demand for accounting and audit services.

Table 5 shows that all the independent variable, except the lukewarm attitude towards audit, had positive coefficients. The F-statistics was significant at a probability level of less than 1%, implying that the specified independent variables significantly contributed jointly to the demand for accounting and auditing services. Specifically however, all the independent variables, except Experience of Managers, had significant effect on the demand for accounting and audit services.

The finding in this study agrees with that in Samson *et al.* (2012), which states that the wrong perception and inexperience of small business owners, operators and managers on the audit of a business constitute negative impact on auditors in providing accounting and audit services for small scale businesses in Nigeria. Also, the findings of Nelson and Onias (2011) that SMEs do not keep complete accounting records because of lack of accounting knowledge supports our finding that possession of accounting skills and education of managers affect the demand for accounting and audit services by SMEs in Lagos, Nigeria. Furthermore, our position that ‘educational level of Owner-managers’ affect their demand for accounting and audit services agrees with the position of Padachi (2012) that important variables which discriminate between firms having accounting systems and firms with minimal accounting systems are the education level of owner-managers.

In order to respond to the second research question regarding the extent do internal and external factors determine the supply of accounting and audit services to SMEs a regression analysis is also performed.

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Table 6. Regression result on supply of accounting and auditing services

PANEL A					
<i>Regression Statistics</i>					
Multiple R			0.6735		
R Square			0.6476		
Adjusted R Square			0.6441		
Standard Error			9.9118		
Dublin-Watson			1.734		
Observations			64		
PANEL B					
ANOVA					
	<i>Df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Sig. F</i>
Regression	4	104889.528	26222.382	266.9101	0.0000
Residual	59	5796.4097	98.2442		
Total	63	110685.938			
PANEL C					
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>p-value</i>	
Intercept	247.8359	8.0151	30.9210	0.0000	**
Legal structure (S ₁)	-10.1979	2.9229	-3.4890	0.0009	**
Attitude towards market (S ₂)	24.0076	3.1714	7.5700	0.0000	**
Government policy (S ₃)	19.6009	5.3613	3.6560	0.0005	**
Owner-managers characteristics (S ₄)	16.1675	2.8879	5.5983	0.0000	**

Table 6 presents the result of the linear regression analysis of supply of accounting services as dependent variable (Q), with Legal structure (S₁), Attitude towards market (S₂), Government policy (S₃) and Owner-managers characteristics (S₄) as the independent variables. The estimated linear model then is as follows:

$$Q = 247.8359 - 10.1979S_1 + 24.0076S_2 + 19.6009S_3 + 16.1675S_4$$

Table 6 (Panel A) shows that all the independent variable, except the legal structure of SMEs, had positive coefficients. The F-statistics was significant at a probability level of less than 1%, implying that the specified independent variables significantly contributed jointly to the supply of accounting and auditing services.

Specifically however, all the independent variables, with p-value of less than 1%, had significant effect on the supply of accounting and auditing services among the firms studied. The R-Square was 0.6476, indicating that the independent variables had approximately 65% contribution to the changes in the supply of accounting and auditing services.

Table 6 (Panel C) shows that all the independent variables, except the legal structure of SMEs, had positive coefficients. The F-statistics was significant at a probability level of less than 1%, implying that the specified independent variables significantly contributed jointly to the supply of accounting and auditing services. Specifically however, all the independent variables, with p-value of less than 1%, had significant effect on the supply of accounting and auditing services among the firms studied.

Based on the regression result, the findings are consistent with *Samson et al.* (2012) which posited that the fear of audit is also a major characteristic of small business owners that inhibit possible audit of small businesses. Also, our finding that attitude towards marketing affects the supply of accounting and audit services agrees with the position of Robert (2011) that in order to respond to the increasing demand for specialized services, and adding value beyond compliance services to their SME clients, it may be argued that accountants need to create an opportunity to enable them capture the market share that is available through the pre-existing relationship of trust.

The tests for the third research question regarding the significance of accounting and audit services success of SMEs are conducted as to exam the following hypothesis: Accounting and audit services do not have significant effect on the success of SMEs in Lagos, Nigeria.

Table 7. Regression result on importance of accounting and audit services

Panel A

<i>Regression Statistics</i>	
Multiple R	0.94342
R Square	0.88876
Adjusted R Square	0.88554
Standard Error	12.38114
Dublin-Watson	1.693
Observations	262

PANEL B

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Sig. F</i>
Regression	8	68.204	34.102	234.754	0.0000
Residual	249	8.571	0.145		
Total	257	76.774			

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PANEL C	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>p-value</i>
Intercept	52.2256	27.7270	3.6042	0.0093
Accounting services have sig effect on success (a ₁)	33.2383	7.5214	1.1023	0.0001
Audit increases shareholders' confidence(a ₂)	13.0861	5.6329	0.8075	0.0070
SME owners know importance of Audit (a ₃)	6.5545	7.4313	0.2547	0.5717
Audit assures information reliability (a ₄)	18.7053	3.2565	3.5520	0.0006

Table 7 presents the result of the linear regression analysis of demand for accounting services as dependent variable (Y), with Services of Accountants have sig effect on success (a₁), Audit increases shareholders' confidence(a₂), SME owners know importance of Audit (a₃), Audit assures information reliability (a₄), as independent variables. The estimated linear model then is as follows:

$$Y=52.2256+33.2383a_1+13.0861a_2+6.5545a_3+18.7053a_4$$

The Table shows that all the independent variable had positive coefficients. The F–statistics was significant at a probability level of less than 1%, implying that the specified independent variables significantly contributed jointly to the importance of accounting and auditing services. Specifically however, all independent variables with the exception of SME owners know the importance of audit (a₃), with p-value of less than 1%, had significant effect on the importance attached to accounting and auditing services among the firms studied. The R Square was 0.88876, indicating that the independent variables had approximately 89% contribution to the amount of importance attached to accounting and auditing services.

Table 7 shows that services of accountants had significant effect on SME success, since it had a positive coefficient of 33.2383. The F-statistics was significant at a probability level of less than 1%. The p-value was also less than 1%, implying that accounting and audit services did significantly contribute to the success of the firms studied. Based on the regression output, the null hypothesis is rejected and the alternative retained. This finding is consistent with Samson *et al.* (2012) that the role of accounting and audit is crucial to the well-being of small business entities. It also agrees with Onaolapo and Adegbite (2014) who concluded that there is a strong positive relationship between accounting record keeping and

performance of small scale enterprises. They further stated that the finding implies that accounting record keeping affects performance of small scale businesses. According to them, accounting record keeping increases the chances of businesses operating and achieving success. Olatunji (2013) also concluded that an effective accounting system in small and medium scale enterprises has profound impact on the corporate performance. In the same vein, the findings of Mohammed *et al.* (2011) shows that good accounting and control system could assist in evaluating the performance of an organization and its managers. SMES with proper books of accounts are often capable of attracting external financing easily than those with poor or no records.

The findings of this study agrees confirm Limperg's theory of inspired confidence which suggests that the demand for audit services is a direct consequence of the participation of third parties in a firm who demand accountability from the management in return for their investment. These third parties depend on the activities of accountant and auditors for increased confidence in the management and absolute assurance of the reliability of information provided by management. No third party will want to invest in a firm that is not successful and the assurance of this success comes from the report of auditors. Our finding supports the fact that accountability is guaranteed through the issuance of periodic audited financial reports, which ultimately attracts investment, leading to the firm's success.

In relation to the agency theory, where the SME is managed by an agent, the activities of accountants and auditors help to lend credibility to the reports of management, thereby eliminating or diminishing information asymmetry. It gives assurance to the principal that the agent has acted in the principal's best interest. Moral hazard and conflict of interest are also eliminated because the independent auditors have made input in the final report which lends more credibility to the reports and boosts the confidence of the principal and other stakeholders. Indeed, the principal's concern at the possibility of being exploited by the agent is doused by the input of the auditors. The assurance gained through the activities of the auditors enables third parties to invest in the firm, leading to business success.

5. Conclusion

This study sets out to investigate the determinants of demand and supply of accounting and audit services among small and medium scale enterprises (SMEs) in Lagos, Nigeria. The main objective of the study was to empirically ascertain the determinants of demand and supply of accounting and audit services among small and medium scale enterprises (SMEs) in Lagos, Nigeria and to establish whether SME owner-managers know the importance of such services to their business success. Using survey design, views were collected from respondents which, after

analysis, revealed that owner-managers' characteristics, legal structure of SMEs, level of education of SME owner-managers, possession of accounting skills by SME owner-managers and capital structure of SMEs determine the demand, while legal structure of SMEs, Accountants' attitude towards marketing, Government policy and owner-managers' characteristics determine the supply of accounting and audit services among SMEs in Lagos, Nigeria. It was also revealed that accounting and audit services significantly contribute to the success of SMEs in Lagos, Nigeria. Finally, the study revealed that SME owner-managers do not know the importance of accounting and audit services to the life of their business.

The finding that services of accountants and auditors significantly contribute to the success of SMEs is consistent with the finding of Samson *et al.* (2012) the role of accounting and audit is crucial to the well-being of small business entities. It also agrees with the findings of Onalapo and Adegbite (2014) that there is a strong positive relationship between accounting records keeping and performance of small scale enterprises.

This study also revealed that SME owner-managers do not know the importance of accounting and audit services to the life of their business. Again, this agrees with the findings of Ademola *et al.* (2012) that, employing capable hands to keep adequate data of business operations is the concern of the SME business only. Existing works also agree with some of the revealed determinants of demand and supply of accounting and audit services among SMEs in Lagos, Nigeria. For example, the finding of Samson *et al.*, (2012) that the wrong perception and inexperience of small business owners, operators and managers on the audit of a business constitute negative impact on auditors in providing accounting and audit services for small scale businesses in Nigeria agrees with our finding that owner-managers' characteristics determine the demand and supply of accounting and audit services among SMEs in Lagos, Nigeria. Also, the finding of Nelson and Onias (2011) that SMEs do not keep complete accounting records because of lack of accounting knowledge conforms with our findings that level of accounting skills and education of SME owner-managers affect the demand for accounting and audit services in SMEs in Lagos, Nigeria.

Accounting and audit services are essential to the overall success of small and medium enterprises in Lagos, Nigeria. Accounting services help to guarantee the dissemination of vital information about the accountability and stewardship of management to investors and other stakeholders. On its own part, auditing lends credibility to the information contained in the financial statements. However, the owner-managers of SMEs do not recognize this fact. The demand of the services of auditors and accountants is influenced by several factors which include, owner-managers' characteristics, legal structure of SMEs, level of education of SME owner-managers, possession of accounting skills by SME owner-managers and

capital structure of SMEs. The factors that determine the supply of accounting and audit services among SMEs in Lagos, Nigeria were revealed to include legal structure of SMEs, Accountants' attitude towards marketing, Government policy and owner-managers' characteristics.

Based on the findings of this research work, it is recommended that owner-managers of SMEs should be properly orientated on the importance of accounting and audit services to the life of their business. Also, owner-managers of SMEs should conscientiously correct their perception of the importance of accounting and audit services to the success of their business. Government should make audit of the financial statements of SMEs mandatory, rather than leaving it at the discretion of their owner-managers. Accountants should take their services to the SMEs and not sit back, expecting them to voluntarily call for their (Accountants) services. Finally, owner-managers of SMEs should endeavor to acquire necessary education and accounting skills, as this will make them better able to realize the importance of accounting and audit services to their business operations.

Further studies should implement a research design that surveys the views of more SME operators and more accounting firms. The factors that could possibly affect the demand and supply of accounting and audit services should be expanded to include trust, external pressure, percentage of employees that are members of owners' families, willingness of SMEs to settle audit fees, and availability of trained accountants.

In considering the outcome of this study, it is recommended that limitations that are peculiar to research in developing countries, such as ours, should be considered. Such limitations include scarcity of accurate data, reticence on the part of respondents, and unstable personal characteristics of subjects. However, the research design made frantic efforts to control for these limitations.

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APPENDIX A. Conceptual model for studying determinants of demands and supply for accounting and auditing services by SMEs

