DURBAN UNIVERSITY OF TECHNOLOGY

The Impact of Financial Audits on the Sustainable Growth of SMME'S: A Case Study of the eThekwini Municipality.

By

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DECLARATION

I, the undersigned, Nkanyezi Lindani Alen Mkhize declare that the work exhibited in this thesis is based on my research and that I have not submitted this thesis to any other institution of higher education to obtain an academic qualification.

This thesis is presented by me for examination for my Master’s degree.

Signed:___________ DATE: 08 November 2021

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ABSTRACT

Small, medium and micro enterprises (SMMEs) play a very important role in the economies of the world. However, the sustainable growth of these businesses in South Africa is one of worst recorded, as 90% of them fail within the initial stage of their existence. This study sought to investigate whether financial audits had an impact on the sustainable growth of SMMEs in South Africa. The New Companies Act 71 of 2008 of South Africa has brought about a lot of changes in the regulatory requirements of SMMEs to relieve them of administrative burdens and increase their sustainability. This, however, worked adversely against these businesses due to the barriers which inhibit their longevity. This can be attributed to the notion that managers/owners of the SMMEs have become oblivious to the risks inherently associated with businesses, and that this is enhanced by SMMEs not having to account to anyone (that is, there is no regulatory body or entity that controls these businesses). The commander and the agency theories, highlight the importance of separating ownership and control amongst SMMEs to align information symmetry between interested parties. A quantitative approach was followed in conducting the study and data was collected from SMMEs in Durban, under the eThekwini Municipality using a semi-structured questionnaire. A descriptive statistical analysis was performed to analyse the sample demographics, and then mean and standard deviations were computed for the variables.

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CHAPTER 1: INTRODUCTION

1.1 Introduction

The study aims to investigate if there is any link existing between financial audits and the sustainable growth of Small, Medium, and Micro Enterprises (SMMEs). According to Chimucheka (2018), SMMEs are defined as a distinct and separate business activity including co-operative enterprises and non-governmental organisations, managed by one or more people, maintaining their own branches or subsidiaries, and operating in any sector of the economy.

SMMEs form the backbone of the South African economy (Bureau for Economic Research, 2016), notwithstanding their immense contribution to the national gross domestic product (GDP) but also their critical role on employment creation (Chimucheka and Rungani, 2013; Dase, 2016). However, according to Maleka and Fatoki (2016) SMMEs in South Africa have been branded with a high failure rate, one of the highest in the world at 79%. One of the reasons for the failure rate could be that the SMMEs have no risk management strategies to be centred as insurance for the long-term survival of their business (Bruwer and Coetzee, 2016). Most SMME business owners also manage their businesses and can easily be oblivious to the risks that their businesses face (Smit, 2021).

1.2 Background to the problem

The significance and the contribution of these businesses to economic development is invaluable. The small businesses of South Africa are intended to help solve some of the challenges in South Africa, for example, youth unemployment and poverty alleviation. However, according to Bruwer (2016a), their sustainable growth is amongst the lowest in the world, as there is a high failure of SMMEs in South Africa (Botha et al., 2020). This augments this study as it sheds light on the link between auditing and sustainable growth and how this sense of accountability can contribute to the growth of SMMEs. Similarly so, it will aid in identifying and mitigating key risk factors in the sustainability of SMMEs.

Goldberg’s commander theory (1965) and the Agency theory (1976) will provide the theoretical underpinning for this study. The commander theory states that, even in instances where business owners also act as business managers, the owners must separately be identifiable from their business and the control thereof (Goldberg, 1965).

In most cases, SMME owners are also managers of these businesses; this then decreases the reliability of the financial information and increases the need for an external person to verify the reliability and credibility of the financial information produced by the accounting systems (Panahi, 2017). The need for SMMEs to have their accounts audited is also further supported by the Agency theory which emphasises the important role of auditing in supporting the relationship with outside parties (Jensen and Meckling, 1976).

1.3 Problem statement

According to Mouloungui (2021), exempting SMMEs from the obligation of having a financial audit deprives these entities of the benefit of integrating sustainability into their core business strategy. This is a challenge because these entities make up 90% of South African business operations (Bruwer, Coetzee and Meiring, 2017; Mouloungui, 2021) and contribute to 50% of South Africa’s employment and GDP (Mukumba, 2019). However, their sustainability is amongst the worst in the world (Bruwer, Coetzee and Meiring, 2017; Wiese, 2020), with 70% of these businesses failing to survive after having been in operation for one - five years (Bruwer, 2016b; Cant and Wiid, 2018). Despite the statutory exemption for SMMEs to have their financial statements audited, there is limited research conducted on the value of audits on these businesses. This, therefore, augments the necessity of this study. There is a dearth of literature within the country on financial audits and business sustainable growth within SMMEs. This, therefore, limits the extent to which the relationship between these two elements is generally understood. This necessitates the need for this study, to bridge the gap of the limited number of studies exploring the impact of financial audits on the sustainable growth of SMMEs.

1.4 Aims and objectives

1.4.1 Aim of the study

The study aims to assist SMMEs to fortify their sustainable growth by identifying the benefits of putting control procedures in place as a measure to ensure accountability, and the positive impact this will have on their businesses.

1.4.2 Objectives of the study

1. To examine the value of a financial audit on a SMME's growth
2. To assess stakeholder perception on the statutory exemption of an audit of SMMEs
3. To establish the link between audit alternatives and sustainable growth of SMMEs.
4. To recommend best audit principles that supports the growth of SMME businesses.

1.4.3 Hypothesis to be tested

- H_1: Financial audit add value to SMME growth
- H_0: Financial audit add no value to SMME growth

- H_2: There is a link between audit alternatives and the sustainable growth of SMMEs
- H_0: There is no link between audit alternatives and the sustainable growth of SMMEs.

1.5 Significance of the study

The study provides important insights on the dynamics of SMMEs in choosing to have their financial statements audited as this has a significant impact on their sustainability and their ability to contribute in stimulating the economy. This research may help motivate SMMEs to adhere to the statutory regulatory requirements by encouraging them to see the need to have their accounting audited or an audit alternative performed on their account. This will enhance the financial administration of these businesses which will ultimately result in the sustainable growth of these businesses, and thereby stimulating the economy through increased revenue collected by the government, reinvestment through building infrastructure and increasing job opportunities and alleviating poverty.

1.6 Conclusion

In this chapter, the introduction to the study was discussed, the objectives for the study were also stated, and the limitations and delimitation of the study were also discussed. The next chapter will indicate various recommendations which were taken into consideration in the exploration process. The focal point of the next chapter reviews existing literature around the subject of this study, and critically examines what has been discovered on the link between a financial audit and sustainable growth of SMMEs. A literature review will be presented in the next chapter; previous studies and models will be explored and compared to assist in solving the research question.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In the previous chapter (Chapter One), an introduction to the study was conducted. The research topic, background, objectives, and brief outline of the literature review and research methodology were highlighted. In this chapter, information from other scholars on the link between financial audits and the sustainable growth of SMMEs relevant to this study will be reviewed. This study examines whether the exemption of SMMEs from a compulsory audit has an impact on the sustainable growth of these businesses. According to Mouloungui (2021), 90% of business entities in South Africa are regarded as SMMEs. The government has prioritised resources to invest in stimulating the incubation of these businesses because of the important role that the SMME industry plays. However, 70% of the SMMEs fail in the early stages of their life span (Mutezo, 2018; Wiese, 2020)

2.2 Overview of the Small Medium and Micro Enterprises (SMMEs)

There was a period when the informal sector and its operations received no attention (Gerxhani, 2019). The informal sector was seen as something that would become outmoded and disappear over time as other industries grew and technology advanced; small enterprises' size and ability would no longer be able to support themselves (Francis *et al.*, 2021). However, the flexible nature of these business entities has allowed them to evolve, and now represent a significant component of the economies of the world (Webb *et al.*, 2018).

According to Ojo, Nwankwo and Gbadamosi (2018); Mbatha (2020), the informal SMME sector contributes more to economic growth than the formal sector. SMMEs are described by Nkosi (2019) as an engine of growth and economic development because of their significant contribution in assisting the government with its mandate of making the lives of citizens better by creating jobs, eradicating poverty, and accelerating social development in the economies of the world.

This is supported by Rankumise (2017) who further says that these businesses are the largest employer in developing economies. According to Chege and Wang (2020) SMMEs provide about two-thirds of work opportunities for non-agricultural employment. The sustainable growth of these businesses can therefore not be compromised by not putting control measures in place that will ensure an increased life span to the extent that they evolve to the status of formal business.

2.3 Value of financial audits on SMME sustainable growth

According to Mustapha and Yaen (2018); Scott (2020) SMMEs in some economies around the world have repealed the regulatory requirement to get their finances audited, as this is said to be a burden to these entities and impends their innovation and growth, including their ability to hire more staff. This is due to the high cost of auditing.

Although SMMEs are exempt from a statutory financial audit, studies by Thompson (2019); Shev (2021) point out that these entities must have their businesses audited. The value of an audit to these entities is immeasurable for their sustainability. Audits help to maintain their existence which is crucial in the global economy, and also assures the stakeholders that their investments in these small businesses will not go in vain.

Due to the importance of financial audits in business, the Government of South Africa established a Ministry of Small Business Development to promote the development of SMMEs (Bureau for Economic Research, 2016).

SMMEs play a key role in the economy of South Africa by assisting the government to reduce unemployment and alleviate poverty (Bruwer and Coetzee, 2016). Justifiably, the government has provided support to these entities, in the form of agencies such as The Department of Trade and Industry which includes, inter alia the Small Enterprises Development Agency, The National Empowerment Fund, National Small Business Advisory, and the Industry Development Corporation (South Africa Department of Trade and Industry, 2019).

Albeit the effort made by the South African government in the contribution of support and development of SMMEs, 60-80% fail within 1-5 years of their existence (Bruwer, 2016b). Taking into consideration everything that has been done to facilitate and promote the development of SMMEs, it is fair their growth to be sustainable (Bruwer and Coetzee, 2016).

To make the requirement of a financial audit obligatory to qualifying SMMEs, South Africa amended the Company's Act (Coetzee and Buys, 2017b) . In a study by Caga (2021), it was found that amongst the various barriers to the success of SMMEs, the most predominant is the underscored risk associated with auditing. Previous studies have explored different risk management strategies to eliminate or mitigate risks (Prinsloo *et al.*, 2019). However, no study has been conducted to investigate the impact that financial audits have on the sustainable growth of SMMEs.

Audits plays a significant role for businesses as they provide credibility to the trustworthiness of the financial status of the business (Panahi, 2017). According to the commander theory, there should be a separation between the ownership of the resources of the business and control over these resources so that the utmost potential can be maximised (Goldberg, 1965). This is further supported by Jensen and Meckling (1976) in their agency theory, which also supports the separation of control and ownership due to the conflict of interest, and the information asymmetry that arises which exposes the stakeholders to risks that could have been avoided.

Research has shown that although small businesses are exempt from a statutory audit requirement, the role of an audit to these companies is still important because it promotes a culture of accountability and transparency which shows adherence to good corporate conduct and corporate social responsibility, and upholding the value of the theory (Walabyeki (2016). This is further supported by Mahzan and Yan (2020) who found that good governance is imperative for the sustainability of SMMEs. According to Mustapha and Yaen (2018), small businesses that conduct an audit are proven to be more sustainable than those that do not.

In a study by Tabone and Baldacchino (2019) the relevancy of an annual statutory audit for owner-managed companies was highlighted. Their study concluded that there are two roles that an audit plays, its relevancy to outside stakeholders who contribute to the development of the business and instilling financial discipline in owner-managers. The value of a financial audit is likely to be appreciated by stakeholders with a financial background (Collis, Jarvis and Skerratt, 2017). However, Davies (2019) argues that the decision of the director can be informed by the quality of the financial statement, because they will be able to assess the reports, therefore there may be no need for an audit. However, it has been observed that directors that do have financial knowledge tend to be the ones that do not rely on financial audits (Davies, 2019).

Some SMMEs lack accounting knowledge, therefore an audit not only ensures the credibility of financial information produced but also allows opportunities for managers to increase their accounting knowledge. There is a lack of oversight of an SMME when no audit has been performed, which can lead to failure. According to Lambert et al. (2016). The value of an audit is based on the difference between the utility of that audit for different stakeholders and the cost associated with the audit. Vanstraelen and Schelleman (2017) assert that one of the biggest benefits of auditing for private companies is to improve and signal the reliability of accounting information to their stakeholders, just as it is for public companies. This is because an audit uses a process to validate how cash is transferred and monitored throughout the firm, which can reduce fraud by management (Cassar, 2017).

Although choosing not to audit is a means to improve efficiency and reduce costs for SMMEs, this signals an opportunistic motive (Haapamäki, 2018). In a study by Haugen and Nygren (2020), it was found that having an audit reduces the likelihood of tax evasion for businesses. The European Federation of Accountants and Auditors for SMES (2019) further adds that an audit enhances the reliability of accounting information presented in the financial statement of a business.

2.3.1 Audit Framework

The purpose of a statutory audit is to provide an independent opinion to the shareholders on the financial statements' truth and fairness, as well as to determine whether the audit was properly prepared following the Companies Act of 1985. Furthermore, an audit aims to report, by exception, to the shareholders on other company requirements, such as wherein the auditors' opinion and proper accounting records have been maintained. The purpose of an audit is to help owners of companies evaluate how well their directors are doing their jobs. Furthermore, it encourages them to place a proper emphasis on their fiduciary duties (The institute of chartered accountant in england & wales, 2016).

2.2.2 Purpose of financial statements

When clarifying the purpose of a statutory audit, Kamarudin, Abidin and Smith (2021) reaffirm the purpose of financial statements, which is to provide information about the status and performance of a company. This is useful to users of the financial statement for decision making.

2.2.3 Stakeholders and their interest

A socially responsible company must not only generate profit, but also take into account the advantages of its operations to employees, customers, communities, and the environment (Joseph and Jerome, 2017). Freeman (2020) defines stakeholders as a group or individual who influences or can be influenced by the achievement of corporate goals; this includes, shareholders, creditors, employees, customers, suppliers, and the community at large. The interest of all of these parties must be considered in the process of attaining the goals of the businesses.

2.4 Stakeholder perception on the statutory exemption of audits of SMMEs

SMMEs play a crucial role in the development of the economy of a country (Asker, Farre-Mensa and Ljungqvist, 2018; Kobe, 2021; Wymenga *et al.*, 2021). However, there is a high failure rate of these businesses in South Africa (Maleka and Fatoki, 2016; Mutezo, 2018; Wiese, 2020). According to Smit (2021). This can be attributed to the owner-managers of these businesses undermining the value of the audit and its ability to develop and sustain the longevity of these businesses. This is further supported by Bruwer (2016b); Siwangaza (2018) stating that South African SMMEs have no risk mitigation strategies.

The fundamental purpose of an audit is to bridge the expectation gap of various stakeholder interests and the perception of management stewardship of the businesses in the areas of internal control, fraud, and going concerns (Kitching, Kašperová and Collis, 2017; Kamarudin, Abidin and Smith, 2021), by expressing an opinion on whether in all material respect the representation of the financial statements following the financial reporting framework is fairly presented and by so doing provide assurance to the stakeholders of the reliability of the financial information, which then builds credibility, and fosters trust and confidence. Vanstraelen and Schelleman (2017); European Federation of Accountants and Auditors for SMES (2019) concur with this in stating that stakeholders rely on an audit to be in a better position to make informed economic decisions. This affirms the need for an audit or an audit alternative to be a regulatory requirement for businesses to be sustainable (Boubala, 2018).

Goldberg (1965); Jensen and Meckling (1976) added emphasis to the need for the accounts of SMMEs to be audited, both their theories allude to the separation of ownership and management of businesses to increase the reliability of the financial information produced by their accounting systems (Panahi, 2017), and also to support their relationships with stakeholders (Jensen and Meckling, 1976).

According to Kew *et al.* (2018), SMMEs in South Africa are adversely affected by regulatory requirements which increase the constraints on these businesses. However, Kitching, Hart and Wilson (2021) are opposed to this view, and focus on the benefit of these requirements. Similarly, Bruwer and Coetzee (2016); Kamarudin, Abidin and Smith (2021) state the implementation of systems of internal control within SMMEs ensures their accountability, credibility and sustainability.

SMMEs are faced with many challenges, some of which are access to finance and risk control (Bruwer, 2016a; Siwangaza, 2018). Audits are valuable to small companies who require finance or wish to extend their credit (Allee and Yohn, 2019; European Federation of Accountants and Auditors for SMES, 2019). In cases where small businesses are substantially reliant on outside finances and credit, stakeholders will need a credible point of reference to make an informed decision and audits can bring value to the small businesses (Allee and Yohn, 2019).

Further support can be sourced from Collis, Jarvis and Skerratt (2017) who state that the sustainable growth of SMMEs is ensured as a result of risk control measures that are taken to minimize failure by having their accounts audited. Tabone and Baldacchino (2019) also highlight the need for statutory audit of owner-managed companies for stakeholders who have an interest in these businesses.

The cost versus benefit of the owner-managed business should be weighed before deciding whether to or not to audit the account of these businesses (Kamarudin, Abidin and Smith, 2021). The call for audit on SMMEs should not be limited to the level of the director of a small business as the only stakeholder in the business and the only person who has an interest in the business. Other stakeholder's interests should also be considered especially where the business is reliant on outside finance and credit (Kamarudin, Abidin and Smith, 2021).

This must also be looked at, at an angle of the reliability of the financial statement and the tax returns populated and submitted on the potentially misstated financial information contained on the unaudited accounts (Fallan et al., 2018). This creates an opportunity for tax evasion by these companies. This has been proven in a study by Haugen and Nygren (2020) who stated that companies that audit their accounts are less likely to commit tax evasion and fraud.

The implementation of internal control systems by SMMEs could help to improve the sustainable growth of these businesses (Alao and Amoo, 2020) **-** providing reasonable assurance on financial information and management stewardship, and attaining the objectives of the businesses allowing investors to make informed business decisions on the company (McNally, 2018). According to Alao and Amoo (2020), Internal controls set the tone of the business operations, forces compliance to the statutory requirement, and increase the credibility of the business.

SMMEs in South Africa need to be cognisant of the positive result that is yielded by the adequacy of internal control as they add value from the perspective of corporate governance although not so much on the mitigation of risk (Byington and Christensen, 2019). Despite the positives that could come with the implementation of the internal control, a study by Bruwer (2016b) found that SMMEs in South Africa lack effective management systems. According to Jere, Jere and Aspeling (2020), this is as a result of limited resources at their disposal. Furthermore, SMMEs see the implementation of systems and control procedures to be too much effort when there is no guarantee of return on their investment.

The users of financial statements have different needs for the information contained in the financial statements, therefore audits in SMMEs should be promoted to meet these needs (Vanstraelen and Schelleman, 2017). Many countries around the world have exempted SMMEs from the obligatory requirement of having to audit their accounts; this is because an audit is not seen to add any value to the business and is said to be a burden to these small businesses (Kamarudin, Abidin and Smith, 2021). SMMEs should seek alternative services offering, such as a review, to offer a limited level of assurance if they are unable to do an audit (Coetzee and Buys, 2017a). In this way, the quality of the financial information will not be compromised and the user expectation gap can also be maintained (Thompson, 2019).

According to Kamarudin, Abidin and Smith (2021), Some of the drivers for undertaking voluntary audits amongst SMMEs include: the period of existence of the SMME, the management decision-making needs, the owners' experience, and the economic position of the country that the SMME operates in.

The enhanced quality and reliability of accounting information produced as a result of an audit by an SMME is arguably one of the main aspects in the promotion of audits for SMMEs (Cassar (2017). Furthermore, Cassar (2017) highlights the internal and external benefits, focusing on the ability of internal aspects to translate externally through the evaluation of internal controls in reducing fraud. Van Tendeloo and Vanstraelen (2018) added that the agency conflict between owners, managers, and banks is alleviated and that it serves to evaluate managerial performance.

There is empirical evidence that proves that the audit of SMMEs alleviates stakeholders' perception about the sustainability of SMMEs (Clatworthy and Peel, 2021). Che and Langli (2018) found that SMMEs that opted out of voluntary audits because of the regime change in Norway resulted in a decline in earnings quality of these SMMEs. This is also supported by research conducted by Downing and Langli (2016) who also claimed that SMMEs that do not audit their accounts have poor internal control systems when compared to the SMMEs that audit their accounts.

Research shows that SMMEs that are audited yield economic benefits in the form of investment opportunities, increased opportunities to access external finance, reduced interest rates when compared to those that do not audit their financial statements, and improving the financial information produced by the internal controls (Vanstraelen and Schelleman, 2017). This is also supported in a study by Allee and Yohn (2019) who found that SMMEs that audited their financial statements had higher chances of being granted access to a credit facility. Kausar, Shroff and White (2016) when examining the impact of voluntary audit, found that SMMEs that audited their accounts enjoyed the benefit of low interest rates when compared to those that businesses that did not have audit.

2.5 Audit alternatives and the sustainable growth of SMMEs.

According to Antonelli, D'Alessio and Cuomo (2017), the exemption of SMME's from a mandatory audit does not take away the different information needs required by the various stakeholders. As much as some SMMEs may be owner-managed businesses and see no need to be audited, there are a group of agents that have an interest in the actions and decisions of these businesses (Coetzee and Buys, 2017c). Therefore a form of disclosure provides reasonable assurance and the satisfaction of the diverse needs of stakeholders (Werhane and Freeman, 1999).

Financial audits have a direct relation to the overall sustainability of any business entity (Rendon and Rendon, 2016; Zhou, Chen and Cheng, 2016). Small businesses that do not have any form of internal control systems in place fail to place emphasis in addressing: the effectiveness, efficiency and economy of the business operation; the compliance with applicable statutory requirement and legislation; upholding the fiduciary duty of directors to external stakeholders; and the reliability of financial and non-financial information of the business entity (Alao and Amoo, 2020). When a financial audit is not conducted the sustainability of small businesses is forfeited resulting in high failure rate (Bruwer, Coetzee and Meiring, 2017).

According to Tilly (2017), business entities and small businesses around the world usually adopt at least one type of formal internal control framework, which is the COSO integrated internal control framework of 1992, revised in 2013. This internal control framework is made up of five elements which are: risk management (identification, evaluation, and treatment of risk); control environment (tone and control consciousness exerted by management); control activity (risk detection and preventative action to mitigate risk); information and communication systems (information sharing to update and empower shareholders to help attain business objectives); and monitoring (evaluation of efficiency and effectiveness of internal controls) (Kesey, Elaine and Genevieve, 2021).

Christ *et al.* (2021) point to the need for an audit alternative to be adopted and performed by SMMEs as a measure to add value in the mitigation of risk. This is further supported by Heise, Strecker and Frank (2019) who concur, they state that these activities can either be automated or manual in nature, and should assist management in enforcing internal control systems to attain sustainability in small businesses. A study by Bruwer (2016a) detected the slight presence of internal control systems in some South African SMMEs and that this was due to the financial constraints of implementing sound internal control activities (Jere, Jere and Aspeling, 2020) and scepticism by management of non-guaranteed returns on such investments (Campbell and Hartcher, 2018). Notwithstanding the aforementioned, (Jorian, 2021) further substantiates the view that audit alternatives can be an economical option for SMMEs to mitigate risk and fortify sustainability of SMMEs.

According to Lebacq, Baret and Stilmant (2018), the achievement of financial objectives (financial sustainability) concerns a business entity’s achievement of a favourable financial position and positive performance which, in turn, should allow it to continue its existence. Bruwer and Coetzee (2017) assert that no business entity can survive in the long run without achieving financial sustainability. The financial viability of SMMEs is generally higher in developed countries than in developing countries, particularly since the economic landscape of developed countries' is more conducive to these businesses (Monk, 2020). A study conducted in Australia found that 23% of SMMEs fail after five years in business; a similar study in Canada found 48% of SMMEs fail after five years; and a similar study in Brazil found 43% of SMMEs collapse within three years of their existence (Oduyoye, Adebola and Binuyo, 2017). In contrast, 70% of South African SMMEs fail after only four years of existence (Tustin, 2019). The South African economic landscape is often referred to as “toxic” (Hlahla, 2018). SMMEs in South Africa have some of the lowest sustainability rates globally (Houghton, 2016). Consequently, mitigating risks within these businesses is imperative (Bruwer and Coetzee, 2017).

In a study by Nieuwenhuizen and Groenewald (2017) it was found that the major obstacle to the sustainable growth of SMMEs in South Africa is access to finance. Mazanai and Fatoki (2021) concur and add that only 25 to 30% of loan applications by SMMEs are approved. Creditors, such as banks, are historically the largest external users of SMME financial statements as they provide operating loans.

Prior to the implementation of the new Companies Act, No 71 of 2008, companies were required to prepare audited annual financial statements. SMMEs are regarded to be high-risk and therefore subjected to rigorous due diligence (Haynes, Ou and Berney, 2019). Most often, this process results in banks requiring SMMEs to provide audited financial statements (SAICA, 2020).

Whilst SMMEs blame the banks and regulators for the difficulties in accessing finance, banks pinpoint the shortcomings of the SMMEs to the businesses themselves (Wiersch and Shane, 2018). This is further supported by Wignaraja and Jinjarak (2019), who estimated that 60% of bank finance applications for SMMES are regularly rejected worldwide. According to research done by the Banking Association of South Africa (2020), banks no longer require SMMEs to submit audited financial statements for loan applications but rather require records on cash flow, management accounts, and loan security provisions. This, therefore, eliminates the notion of banks being the sole obstructers to SMMEs' access to financial resources.

2.6 Theoretical framework

2.6.1 Agency theory

A governing board is often argued to be of value to SMMEs by offering governance oversight and shielding key stakeholders (banks and employees) from potential managerial self-interest, and from the risk that an owner may mix his or her personal and professional ambitions (Daily and Dalton, 2020). The agency theory applies to situations in which one or more persons (principals) hire an external party to perform services on their behalf. This includes a delegation of some decision-making authority to the agent.

Essentially, directors can play a monitoring role in the application of the agency theory (Jensen and Meckling, 1976). The theory proposes that a board’s involvement in monitoring management and firm performance can reduce agency costs and maximise shareholders' returns (Fama and Jensen, 1983).

Gabrielsson and Huse (2019), state that, according to the agency theory perspective, the main contribution of external board members is the ability to introduce independent considerations prior to decision-making. In this view, the board of directors can serve as an important information system for external stakeholders to monitor managerial behaviour and business performance, as well as reduce asymmetric information between contracting parties. As required by the agency theory, external directors are primarily responsible for overseeing the operations of a company, protecting its assets, and holding its management accountable to the corporation's stakeholders to ensure its survival and success in the future.

Generally, the principal-agent conflict is less prominent in smaller organizations because principals and agents tend to have a close relationship. Nevertheless, it is also true that managers in small firms may be more isolated from market discipline due to their close relationship with their principals. These types of situations can perpetuate entrenchment in companies, resulting in poor performance.

Furthermore, failure to understand market disciplines and inertia induced by entrenchment may lead to an ineffective culture and myopic strategy. Most often, however, the owners of SMMEs also serve as managers. As a result, the SMME's culture, leadership, and strategic planning processes are all potentially affected by the managerial style and personality characteristics of the owner. Consequently, when an SME is led by one owner, the decision priorities reflect the individual's capacity to accept risk and aversion to risk and lack the "agency effect" brought about by misaligned interests of other decision-makers. In trying to understand the dynamics of power within

SMMEs, it is important to take into account the owner-manager's desire for autonomy and disposition towards social aspects of relationships. It can be particularly difficult for organisations where power and authority are highly centralised, to introduce change. (Sarkar, Wingreen and Cragg, 2017)

2.6.2 Commander theory

According to Goldberg (1965), even though an owner of resources may also control those resources, ownership and control are separate concepts. In other words, ownership is a legal condition, but control is a human function. Ownership of resources is sometimes accompanied by effective economic control of those resources, but it is not always the case. In this sense, it can be said that controlling or managing resources is distinct from owning them or even being their legal owners.

2.6.3 Relationship between the agency and commander theory

Both these theories point to the fact that accounting reports are prepared by the agent or commander to serve many purposes, including: the provision of information as evidence for decision making; establishing responsibilities pertaining to resources; increasing the ability to base decisions on reasoned interpretation rather than guesswork

Considering the above facts both these theories can be seen as having underlying tenets that make them relevant to this study:

- They provide a strategic position on the impacts that financial audits may have on the sustainable growth of SMMEs
- They can serve as a foundation model in assessing stakeholder perceptions on the statutory exemption of audits on SMMEs
- They can be used to establish if there is any relationship between audit alternatives and the sustainable growth of SMMEs

2.7 Conclusion

The question of whether SMME's should audit or not audit their financial statements rests on the owner-manager of the SMME to consider. It has been established that access to finance is a crucial aspect in ensuring SMME sustainability, the challenges of financing them are a universal problem, and financing forms a vital part of SMME financing culture and banks are perceived as strict in approving loans. In contrast, banks appear to hold that unsuccessful financing applications can be largely attributed to external variables that affect their risk assessments and analytical procedure of the application information. It is unclear whether removing the audit requirement for qualifying companies in South Africa will add to asymmetric information in the market place and this makes it harder for SMMEs to obtain financing (Coetzee and Buys, 2017b). Banking institutions are frequent users of financial statements, and they are often required when considering an SMME application for financing. Generally, financial statements are audited, reviewed, or merely compiled by an accredited accountant. Nonetheless, there is a clear conflict of views on whether audited financial statements add value to banks. It is argued that the purpose of auditing is to assure users of the reliability and fairness of financial statements. Banking establishments often ask for audited financial statements before approving loans. Wignaraja and Jinjarak (2019) found that audited financial statements positively affect the interest rates on loan applications for SMMEs. Wright and Davidson (2020) report somewhat conflicting findings indicating that audited financial statements did not have an effect on the bank's decision-making process on the loan application. Furthermore, Kim and Elias (2018) found that banks often did not require audited financial statements during interviews with senior loan officers with regard to the loan application process for SMMEs. Despite the fact that small banks may choose to formulate their loan criteria from a more personal standpoint that is based on the knowledge of the business owner and business it was highlighted that audited financial statements were not required.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter clearly defines the research method used to conduct this study. The researcher explains how necessary data and information to address the research question and objectives were collected, presented, and analysed. The discussion includes research design, study type, sample technique, sample selection, sample size, questionnaire administration, data analysis, reliability, and validity. The following hypotheses were tested through chapter 4 and discussed further in chapter 5

- H_1: Financial audits add value to SMME growth
- H_0: Financial audits add no value to SMME growth
- H_2: There is a link between audit alternatives and the sustainable growth of SMMEs
- H_0: There is no link between audit alternatives and the sustainable growth of SMMEs.

3.2 Research methodology

3.2.1 Quantitative

Maree (2016) defines quantitative research as a process that is systematic and objective in its ways of using numerical data from only a selected subgroup of a universal group (or population) to generalise the finding to the universal group that is being studied. The data collected from participants was quantified and statistically analysed for interpretation, thereafter recommendations were formulated on the study. For this research study, the data used for analyses was more numeric hence the research adopted quantitative methodology.

3.2.2 Qualitative

Qualitative research denotes a research process that relates to or involves quality/ kind, and which is aimed at discovering underlying motives and desires (Kothari, 2017). The results of a qualitative study are either in non-quantitative form or in the form which is not subjected to strict quantitative analysis. Information is considered qualitative in nature if it cannot be analysed utilizing a mathematical technique (Herbst and Coldwell, 2017).

Since the audit is driven by quantities, a quantititative metholody was adopted. As the prescribed title states: The impact of financial audit on the sustainable growth of SMEs deals, the research will be accounted for factors such as growth rate, financial performance and capital expenditures, to effectively measure the impact of audits.

3.3 Research strategy

Survey methods are often criticised as being the ‘poor man`s experiment because of their inability to assign subjects randomly to treatments and their consequent inability to rule out rival hypotheses. However, this study considered a quantitative survey as a research strategy and implemented a survey questionnaire, which in this study promoted the participant’s freedom to respond to the research instrument with less supervision or influence. A survey can be conducted via mail, telephone or can be in hardcopy for the participant to complete (Malcolm, Hodkinson and Colley, 2019).

3.4 Research design

The research design is a logical plan formulated to maximise the validity of the research findings; it is often equated to an architectural blueprint for research. It is sometimes also referred to as a research strategy, which involves a way of engaging empirical reality that will allow for the answering of a research question as unambiguously as possible (Silva *et al.*, 2020).

3.4.1 Descriptive

The descriptive research design often records simple proportions, cross-tabulation, and measure of associations, even where there is no formal hypothesis testing or model building. When a study seeks to determine if the observed value differs significantly from what is expected or if, in fact, no relationship existed at all, and simple statistic allows for an inference to be drawn (Malcolm, Hodkinson and Colley, 2019). According to Kothari (2017) the researcher has no control over the variables, and can only report on what has or is happening. In this study, the researcher had no control over the study variables (impact of financial audit and sustainable growth of SMME's). If the study is not descriptive in nature it is analytical.

3.4.2 Cross-sectional

The cross-sectional design entails collecting data on more than one case (mostly a lot more than one) and at a single point in time, to collect a body of quantitative data in connection with two or more variables (usually many more than two), which are then examined to detect patterns of association. It can be performed using any mode of data collection, including telephone interviews in which landline telephones are called, cell phones, face to face interviews, mailed questionnaires (Adams, Khan and Raeside, 2017).

3.4.3 Longitudinal

A longitudinal study is a type of research design that collects data from the same sample element on multiple occasions over time. Such surveys are carried out in a wide variety of contexts and for a wide variety of purposes, but in most circumstances, they have considerable analytical advantages over time. These advantages have been increasingly recognised and appreciated in recent years, with the result being that the number of longitudinal surveys carried out has multiplied (Lynn Silipigni and Marie, 2017). This study is cross-sectional and will be administered using questionnaires.

This study will adopt a descriptive research design as it allows the researcher to pictorially (through graphs, charts, and tables) present results. The design also allows the researcher to review and re-analyse figures where necessary.

3.4 Sampling design

A sample, according to Cowles and Nelson (2018), is a portion of the population chosen by researchers with the intent of involving them in the study. Samples are selected from a given population by using a technique or procedure (Saunders, 2016). Using the sample results, one can conclude and generalise about the whole population.

3.4.1 Non-probability sampling techniques

Non-probability sampling is a sampling procedure that does not afford any basis for estimating the probability that each item in the population has of being included in the sample. Non-probability sampling is also known as deliberate, convenience, purposive and judgemental sampling. Under non-probability sampling, the organisers of the inquiry intentionally chooses the particular cohort of the universal group that will constitute their sample, on the basis that the small mass that they select will be typical representative of the whole (David and Jon, 2018). The researcher will not utilise non-probability sampling methods.

3.4.2 Probability sampling

All elements have a chance of being chosen to participate in the study using this method (Cowles and Nelson, 2018) Participants in the study will be chosen by simple random sampling. The researcher randomly selected the participants of this study from the emailing list of SMMEs that is accessible at the Durban Chambers of Commerce, KwaZulu-Natal, South Africa.

3.5 Target population

A target population refers to a group of individuals/units intended to take part in research (Jeffrey, George and Nancy, 2017). The target population for the research was the SMMEs in the eThekwini Municipality that were registered under the Durban Chamber of Commerce. In the year of study, the chamber had 710 members on their register roll. These entities must have been in business for about at least 3 years and can be in any company formation allowed in South Africa as a nature of business and their turnover shall not exceed 20 million in a financial year.

3.5.1 Sample size

In tackling the question of sample size, research is balances two competing demands. A study must be large enough to answer the primary research questions, but not so large that the study cost is greater than its needs. Here, cost might be the actual rand cost, participants' time, inconvenience, or risk; or it might be the consequence of an unnecessarily delayed conclusion. A study design that does not balance these two demands to an acceptable extent would be considered scientifically unethical because it is not scientifically worthwhile and results in wasted resources or unnecessary risk (Faber and Fonseca, 2019). This study is based on 150 SMMEs that are registered on the Durban Chamber of Commerce database that will be selected as a sample.

The sample size of 150 was selected based on the definition of an SMME adopted in chapter one of this research which states that an SMME is a business that has at least 20 - 200 employees. Out of a target population of 710 on the list, the DCC still considered the remaining 560 as SMME, however for this research considering the definition adopted, they did not qualify to be part of the study sample.

3.6 Measurement instrument

(Creswell and Poth, 2017) define data collection as a series of interrelated activities aimed at gathering high-quality information to answer research questions. The research design influences the data collection procedure and instrument, therefore, this study made use of tools suitable to quantitative research methods for the data collection. Additionally, the measurement instrument has primary importance in publications because an instrument can bring about detailed information about the research problem at hand (Habib *et al.*, 2018) The Measurement instrument to be used for this study was a semi-structured questionnaire. The questionnaire was administered to SMME owners in the eThekwini Municipality. The questionnaire utilised a five-point Likert scale (for example, ranging from strongly disagrees represented by the number one (1) to strongly agree represented by the number five (5).

3.6.1 Questionnaire design

The questionnaire was designed according to the study objectives using the following sections:

- **Section A**: Questions dealt with participant demographics.
- **Section B**: Questions dealt with examining the value of a financial audit on a SMME's growth.
- **Section C**: Questions dealt with assessing the stakeholder's perception on the statutory exemption of audits on SMMEs.
- **Section D**: Questions dealt with establishing the link between audit alternatives and the sustainable growth of SMMEs.

3.6.1.1 Questionnaire administration

Questionnaires in this study were completed by SMME owner-managers in eThekwini Municipality. The questionnaire administration mode was anticipated to affect the participation rate and accuracy, and reliability of the respondent. However, the questionnaires were sent to the participants using the email list accessed from the Durban Chamber of Commerce and respondents emailed back the completed questionnaires to the researcher (Puddu *et al.*, 2011).

3.7 Pilot testing

According to (Ford and Tusting, 2013), pilot testing allows a researcher to deliberate the design and the viability of the proposed study, such that the result of the pilot can be used to adjust the actual result of the research should the need arise to manage consistency in the research. A pilot test was conducted to ensure the reliability and validity of the research instrument. The questionnaire was piloted to 10 SMMEs out of the target population of 150 in the eThekwini Municipality region. The pilot study tested the questionnaire design, content, and administration process. The results from the pilot study were used to further align the instrument to the objectives, deal with duplication and also ambiguity.

3.7.1 Reliability and validity

Validity refers to the extent to which an instrument measures what the study intended to measure. An instrument’s validity focuses much on the instruments’ data quality; the extent to which the data is precise and sufficient for the purpose of the study. Kothari (2014) outlines that validity is the extent to which differences found with a measuring instrument reflect true differences among those being tested. One can ascertain an instrument’s validity by ensuring: content validity; criterion-related validity and construct validity. Content validity is the extent to which a measuring instrument provides adequate coverage of the topic under the study (Kruger, Mitchell and Welman, 2015). If the instrument contains a representative sample of the universal group, the content validity is good (Kothari, 2017).

To ensure the validity of this study/ measuring instrument, this study/measuring instrument was built on previous studies. The questionnaire's questions/ elements were adopted/ adapted from previous studies on entrepreneurship and entrepreneurial activity (Lekhanya, 2015). Furthermore, a pilot study was conducted and from the pilot study, ambiguous questions and areas requiring revision were identified and rectified.

3.7.2 Reliability

Reliability is the extent to which something is accurate and consistent (Kruger, Mitchell and Welman, 2015). Sekaran and Bougie (2013) stated that the reliability of a measure indicates the extent to which it is without bias. A measuring instrument is reliable if it provides consistent results. According to Kothari (2017), to ensure an instrument's reliability special attention should be given to two aspects: stability and equivalence. The reliability of this study was ensured through the standardisation of the study's conditions/ environment. The researcher personally administered questionnaires to the study sample. Questions in the questionnaire were made simple and easy to understand. The questionnaire was made up of close-ended questions to take less of participants' time and reduce boredom/ fatigue when answering it. Furthermore, the sample area of this study ensured respondents were from the same operating environment (Kothari, 2017)

3.7.2.1 Reliability test results

The scale reliability test was conducted in order to assure the instrument was capable of gathering data necessary to meet the research objectives, and the results are presented below:

Table 3.1: Case Processing Summary

		N	%
Cases	**Valid**	150	100.0
	Excluded	0	.0
	Total	150	100.0
a. List-wise deletion based on all variables in the procedure.			

Table 3.1 shows that 150 cases or respondents were used in this research and all of them were used for the reliability test such that no case was dropped during the list-wise deletion procedure. This means that the respondents answered all the scale questions which were in the questionnaire.

Table 3.2 Reliability Statistics

Reliability Statistics	
Cronbach's Alpha	**N of Items**
0.953	20

Table 3.2 shows that the Cronbach's Alpha number of 0.953 was obtained from assessing the internal consistency of the Likert scale items in the questionnaire used to collect data used in this research. The Cronbach's Alpha value of 0.953 is in the acceptable range. This shows that the instrument that was used to collect data was a reliable tool and the data is valid and of integrity.

3.8 Data analysis

According to (De Vos et al., 2005) data analysis is the procedure of bringing structure and meaning to collected data. Data was analysed using the Statistical Package for Social Sciences (SPSS). Firstly, a descriptive statistical analysis was conducted. Mean comparisons and standard deviations of the variables were performed. Pearson correlation assessed the link between all study variables. Thereafter, a multiple regression analysis procedure was employed and finally, a hierarchical multiple regression analysis was conducted among all study variables.

3.8.1 Descriptive

Descriptive statistics are used to summarise or describe a set of data (Kruger, Mitchell and Welman, 2015). Descriptive statistics provide valuable information about the nature of participants (Davies and Hughes, 2014). The descriptive statistics tools used in this study are frequencies and measures of central tendency and dispersion. A frequency refers to the number of times that a word or phrase occurs and yields numerical data. Frequencies were used to determine how often respondents made certain responses to a particular question (Kruger, Mitchell and Welman, 2015). Measures of central tendency (mean, median, and mode) and dispersion (range and variance) were calculated to analyse findings for generalisation. According to Davies and Hughes (2014) central tendency consists of an average response of the data question. The mean is the average of the numbers in a series, it is found by summing the elements of a set and dividing by the number of the elements. The median is the value of the central item which divides the series into two equal parts; and the mode is the element with the highest frequency in a data set (Birds, 2014). Standard deviation reflects the spread of data from the mean and it is the square root of the variance (Kothari, 2014) whereas, the range is the difference between the highest and lowest scores in a series.

3.8.2 Inferential statistics

Inferential statistics are used to make inferences from the chosen sample to a larger population (Kruger, Mitchell and Welman, 2015). In this study, inferential statistics were used to measure inferential statements about the population and to ascertain the statistical significance of findings. The Spearman Correlation test was used to test whether there was any link between variables in the study (Kothari, 2014). The test is based upon the concept of independence, if one variable is affected by or related to another. A Spearman Correlation test is one of the most commonly used techniques of exploring relationships between two variables, it outlines if they are dependent or independent of each other (Davies and Hughes, 2014)

For this study, the researcher utilised only descriptive statistics as an analysis method to answer the hypothesis and present the data. The descriptive allowed the researcher to present the results in pictorial formats such as graphs, tables and charts.

3.9 Data Storage and protection

A flash disk containing the raw data will be archived for at least five years. The files will be encrypted and password protected so that only those authorised can access them. The final results will be made available to everyone who participated in the study.

3.9.1 Limitations and delimitations of the study

The study was confined to Durban (eThekwini Municipality), however parallels can be drawn within the country as a whole. The study focused on the eThekwini Municipality in order to ensure accuracy of information and simplicity with regards to the information gathered from respondents. Gatrell, Bierly and Jensen (2020) noted that every study has its limitations, and that the researcher has to be aware of all potential weaknesses and at the same time be mindful of the strength of the research. Due to constraints imposed by the need to avoid unduly long surveys instruments, only a few questions could be devoted to the questionnaire. The researcher's own perception may have influenced the way in which data was interpreted due to pre-conceived ideas about the factors which have an impact on financial audits and the sustainable growth of SMMEs. This study was limited in data collection and time. The data was be cross-sectional.

3.9.1.1 Delimitations

The study was limited to the eThekwini municipal region SMMEs for data collection and inference. The population was limited to the SMMEs business owners as they are directly in authority to either permit audit in their company or not.

3.9.1.2 Limitations

The researcher was limited due to COVID-19. Being in physical contact with participants often adds value to the research as participants easily relate to what they can see, rather than just an email with a survey.

3.10 Elimination of bias

The study's recruitment of participants was voluntary regardless of race, language, or gender. However, the researcher was available to participants on request if any areas were unclear to them or if language translation was needed. In the pilot study, the researcher used words such as participants, respondents, which collectively referred to the people who participated in the study. In doing so, they eliminated any language, words that may have derogatory undertones. The research instrument was free of stereotypes or assumptions about different age groups.

3.11 Research ethics: key considerations

The purpose of ethical consideration in research is to treat humans and animals with dignity (Bechhofer and Paterson, 2012). This research avoided endangering humans and animals.

3.11.1 Ensuring confidentiality/anonymity

Participant anonymity is the act of concealing the identity of participants, whilst confidentiality is not sharing their responses with people outside of the research team (Bechhofer and Paterson, 2012)). Anonymity was also maintained when completing the questionnaire by refraining from asking for or recording participants' names. The letter of information also provided details about participants' rights. In order to avoid any harm, the questionnaires will be disposed of after being archived for at least five years.

3.11.2 Ensuring participants have given informed consent

Participants had the option to choose whether they wanted to participate or not through completing an informed consent form. A participant could withdraw from the study at any time if they felt the need to do so. The consent form contained information about the goals and objectives of the research and also the privacy and anonymity of the respondents' information.

3.11.3 Ensuring no harm comes to participants

Bechhofer and Paterson (2012) reported that no harm should be expected or known to occur to participants during or after a study. This was achieved by structuring the questions so that personal details were not solicited from participants. The questionnaire could also be completed in within a wide time frame by the participants.

3.11.4 Participant may leave the study at any time (voluntary participation)

Participation in the study was voluntary, and participants were free to withdraw at any time. Every participant was informed of his or her rights to participate in the study, and consent included all the necessary details about that participation.

3.12 Conclusion

In this chapter (Chapter 3) an analysis of the research methods that were used by the researcher to collect and analyse data were given. The study's research objectives, type, sampling design, and data collection, and data analysis methods were outlined. The next chapter (Chapter 4) will present the study's findings

CHAPTER 4: DATA ANALYSIS, DISCUSSION, AND PRESENTATION

4.1 Introduction

This chapter presents an analysis and interpretation of the research findings. A sample of 150 SMMEs from the eThekwini Municipality region was used for the analysis. Questionnaires were distributed and 100% of them were returned. The analysis was guided by the research objectives which focused on finding out whether financial audits contribute to the sustainable growth of SMMEs in the municipality. The following section outlines the findings of the data analysis. This section presents and interprets the findings of the research based on the respondents. The results are discussed against the literature and the hypothesis.

4.2 Section A: Questions on participants demographics

Question 1: The number of years the business has been operating

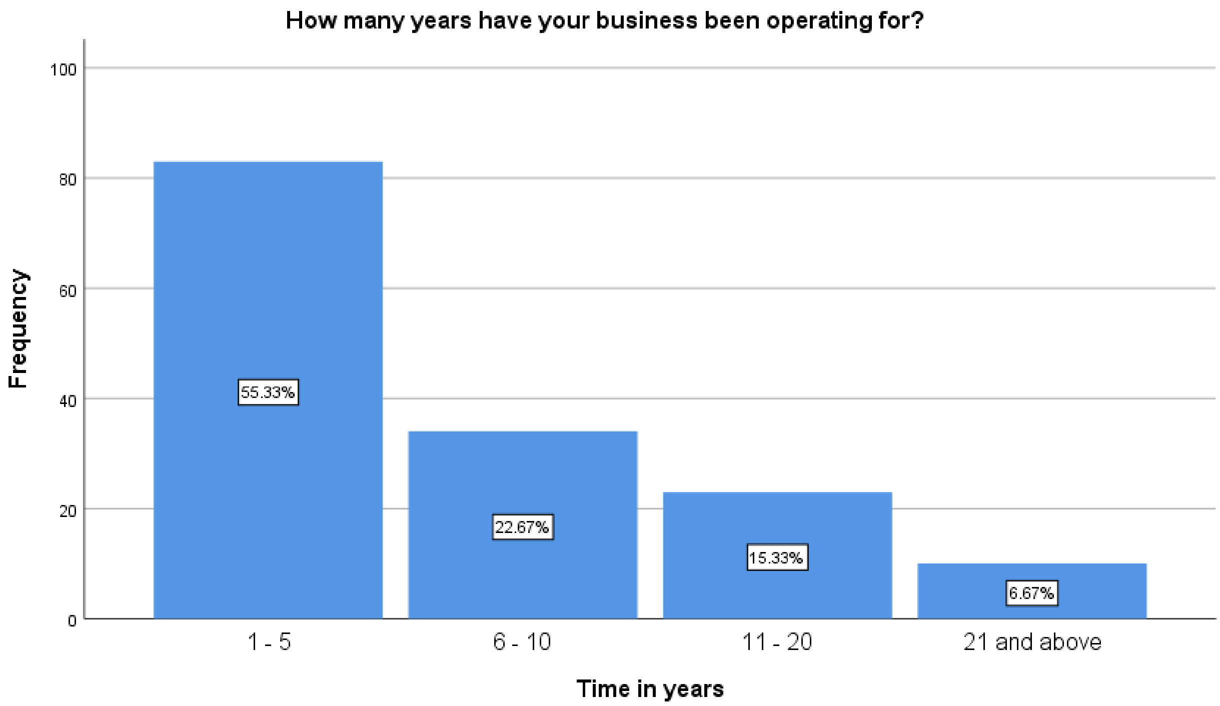

Figure 4.1: Bar graph displaying the duration of operation for the sample SMMEs

Responding to question, “How many years have your business been operating for?” most of the respondents (55.3%) indicated that they had been operating for 1 – 5 years whilst the others (22.7%) said they had been operating for 6 – 10 years, some (15.3%) said they have been operating for 11 – 20 years and a few (6.7%) said they have been operating for 21 and above years. The graph is positively skewed showing that many people have been operating for lower number of years. In this case, the majority have been operating between 1 to 10 years. This means that most of the businesses are still new. According to Haugen and Nygren (2020), new SMMEs are evasive of their financial status. In support, Joseph and Jerome (2017) explained that it is important for new SMMEs to be open about their financial status through strategies such as the financial audit which help management to lead the business in the right direction in full view of their financial capacities.

Question 2: Nature of business

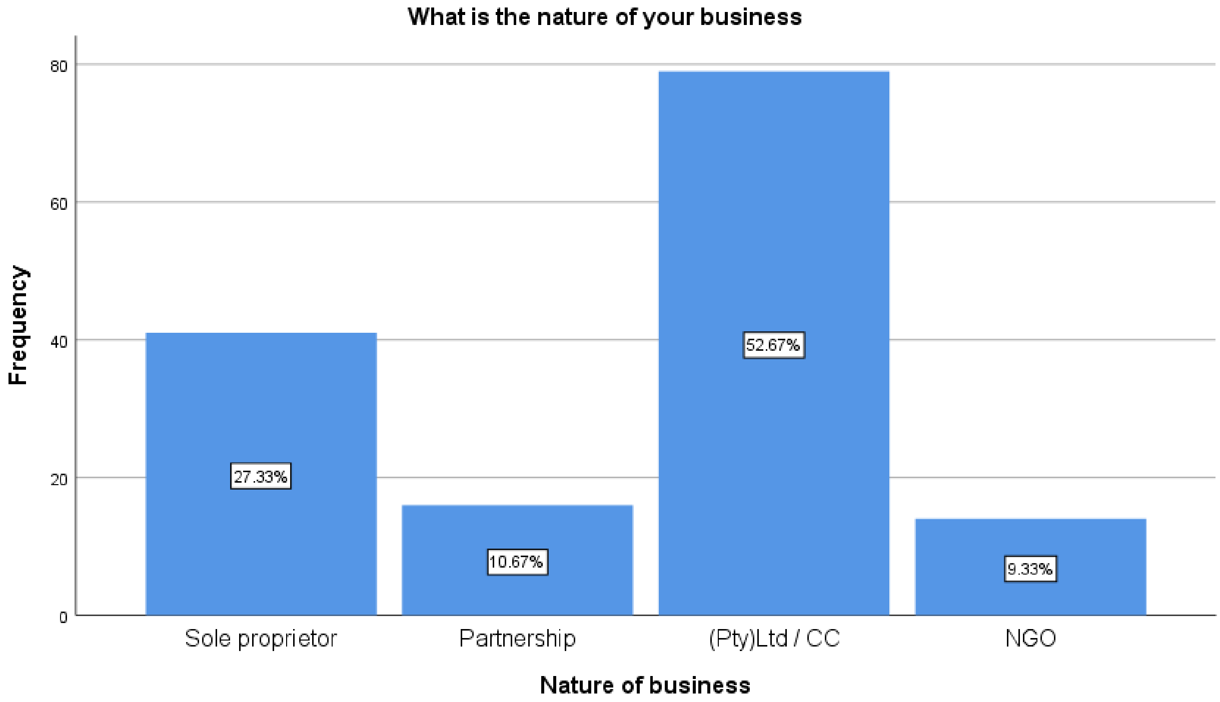

Figure 4.2: Bar graph displaying the nature of the SMMES run by the respondents

Responding to "What is the nature of your business?", on average (52.7%) of the respondents indicated that they were running (Pty)Ltd/ CC whilst others (27.3%) were running sole proprietors, some (10.7%) were running partnerships, and a few (9.3%) were running NGOs. These findings reflect that on average the respondents are running (Pty) Ltd/ CC. According to (Alao and Amoo, 2020), the majority of SMMEs that are private companies are not keen to implement internal controls such as financial audits in their businesses.

Question 3: Formal registration of the business

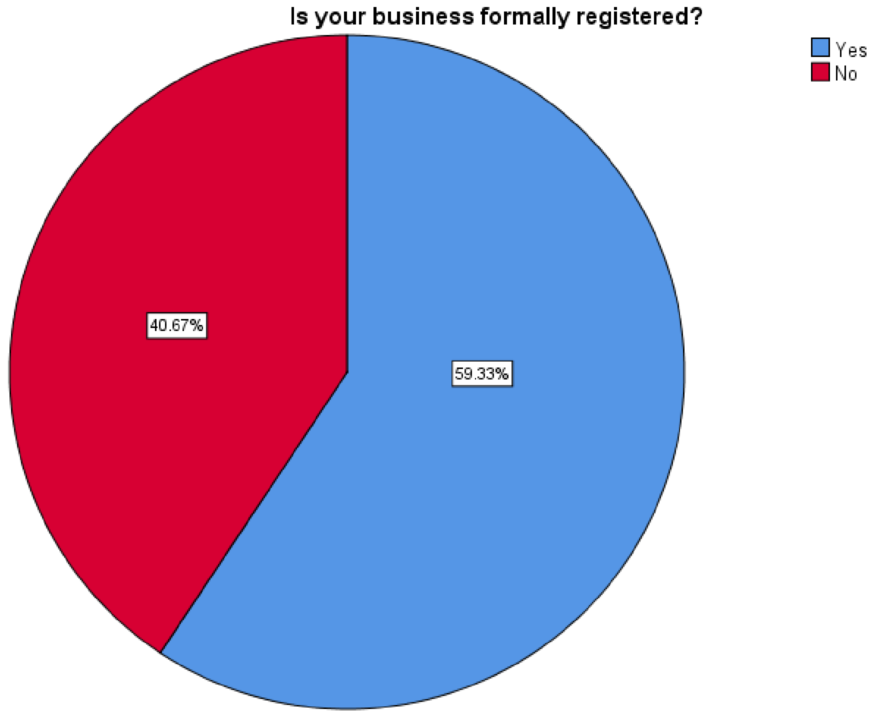

Figure 4.3: Pie chart displaying the registration status of the sample SMMEs

The pie chart in Figure 4.3 shows that 59.33% respondents indicated that their businesses were formally registered; whilst 40.67% said that their businesses were not formerly registered. These results show that most of the businesses were formally registered. However, there are quite a significant number of those who were not registered. Publication of audited financial statements that attract investors requires the business to be formally registered with the authorities and results show that 40% of these businesses preferred not to be registered leading to heavy financial flaws (Alao and Amoo, 2020).

4.3 Section B: Questions examining the value of a financial audit on a SMMEs growth.

Question 4: Reasons for high failure of South African SMMEs: Not auditing entities

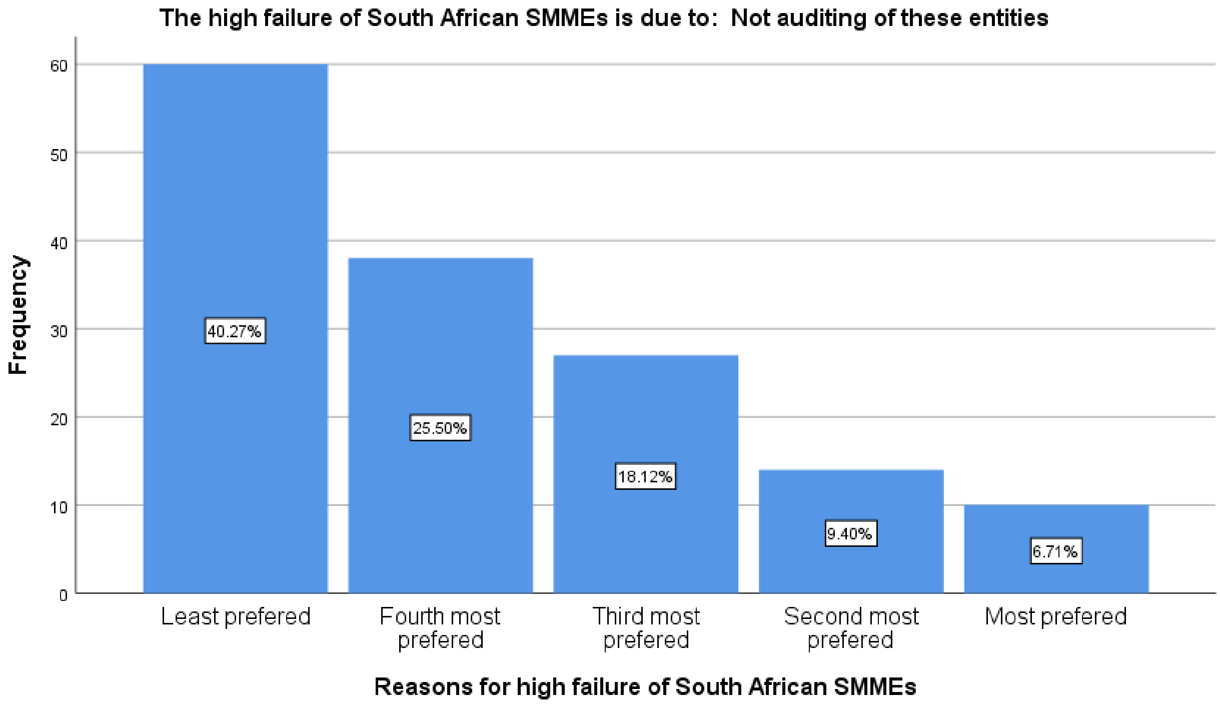

Figure 4.4: Bar graph displaying responses to the question of not auditing entities on the failure rates of SMMEs

Responding to the research question, “Rank the most preferable factors considering not auditing entities”, some of the respondents (40.3%) ranked not auditing entities as the least preferred followed by 25.5% who ranked it fourth most preferred; 18.1% ranked it third-most preferred; 9.4% ranked it second most preferred and only 6.7% ranked it the most preferred. These findings reflect that not auditing the SMMEs entities was the least preferred factor to some extent. The results are in line with the hypothesis (H_0) that states that financial audit add no value to the growth of SMMEs. The majority of the participants preferred SMMEs to be not audited. According to Shev

(2021), some economies have repealed regulations for SMMEs businesses to be audited so that they realise the value of audit on the growth of their businesses.

Question 5: Reasons for high failure of South African SMMEs: Lack of access to finance

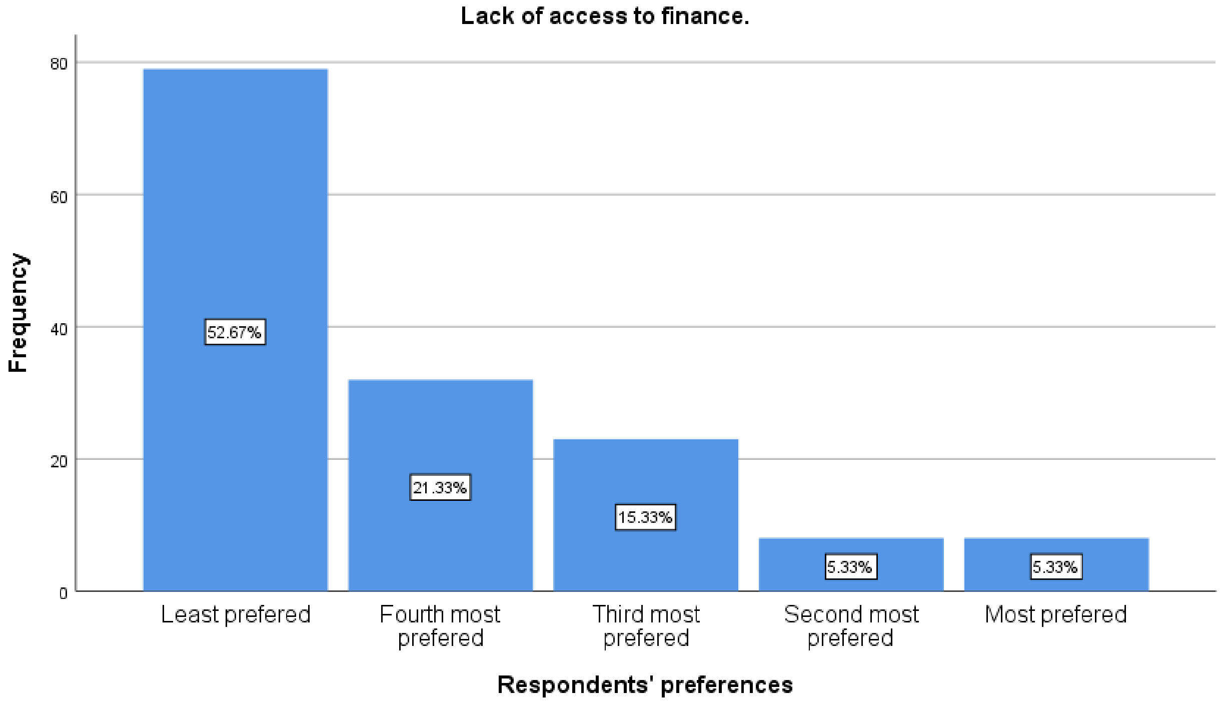

Figure 4.5: Bar graph displaying responses to the question of lack of access to finance for SMMEs on the failure rate of SMMEs

Responding to “lack of access to finance being one of the reasons for the high failure of SMMEs in South Africa”, 52.7% ranked it least preferred followed by 21.3% who ranked it fourth-most preferred; 15.3% ranked it third-most preferred; 5.3% ranked it second-most preferred and 5.3% ranked it most preferred. The bar chart was positively skewed confirming that most of the respondents ranked lack of access to finance to be the least preferred. According to Shev (2021), the majority of SMMEs are of the assumption that their failure is highly contributed by financial challenges; they then turn a blind eye to the necessary financial principles, such as a financial audit which could promote their creditworthiness when they approach banks for loans.

Question 6: Reasons for high failure of South African SMMEs: Lack of Accountability of SMMEs

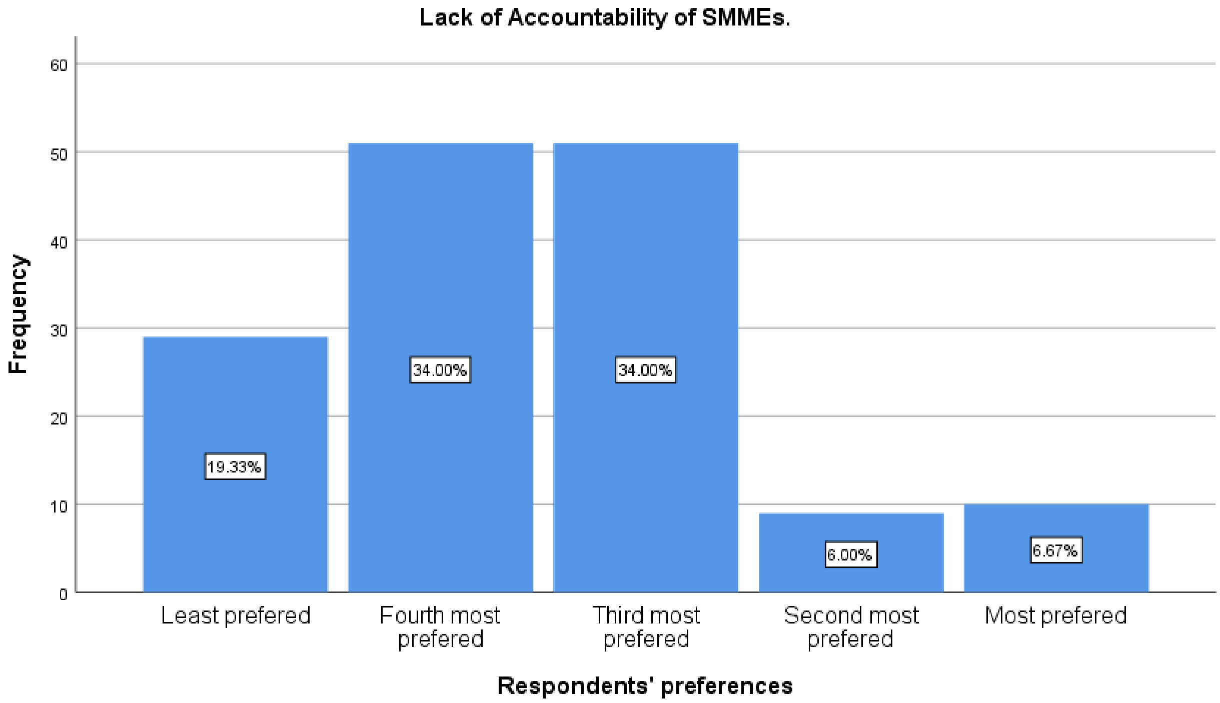

Figure 4.6: Bar graph displaying response to the question of Lack of Accountability of SMMEs on the failure rate of SMMEs

Responding to “lack of accountability of SMMEs being one of the reasons for the high failure of SMMEs in South Africa”, 34% ranked it fourth most preferred; followed by 34% again who ranked it third-most preferred; 19.3% ranked it least preferred; 6% ranked it second most preferred and 6.7% ranked it most preferred. These findings reflect that most of the respondents ranked the lack of accountability of SMMEs lowly. Results are in support of the hypothesis H_1 that states that financial audits add value to SMME growth as the majority of the participants believed that the lack of accountability or failure to be accountable by SMMEs was the main cause of failure.

Accountability through financial audited is one of the main pillars of business success.

Question 7: Reasons for high failure of South African SMMEs: Management conduct

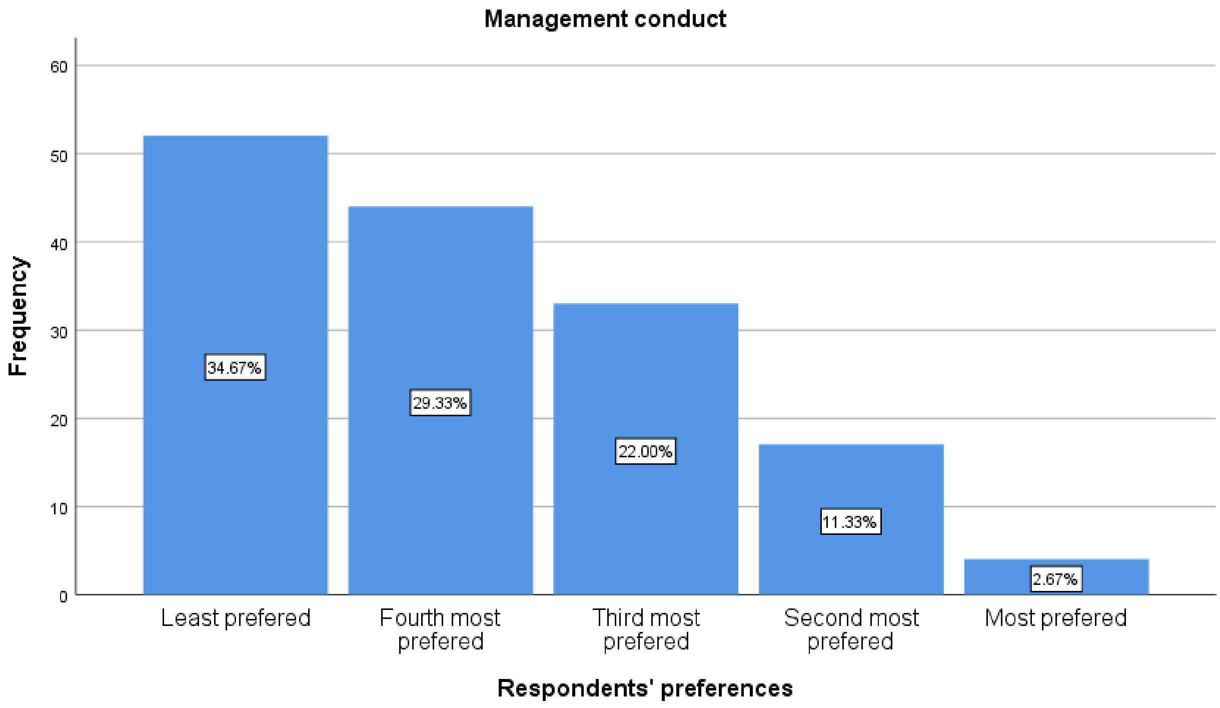

Figure 4.7: Bar graph displaying responses to the question of Management conduct on failure rate of SMMEs

Responding to “management conduct being one of the reasons for the high failure of SMMEs in South Africa”, 34.7% ranked it least preferred; 29.3% ranked it fourth most preferred; 22% ranked it third-most preferred; 11.3% ranked it second most preferred and very few; 2.7% ranked it the most preferred. These findings reflect that most of the respondents ranked management conduct lowly. According to (Goldberg, 1965) commander theory, there should be a separation between ownership of the resources of the business and control over these resources so that the utmost potential can be maximised. The results show that management conduct was the key causal factor of failure. Failure by management to identify and implement the commander theory on the separation of powers results in the owners of SMME businesses also making decisions on financial matters and whether the business should be audited or not. Despite the positives that could come with the implementation of the internal control, a study by (Bruwer, 2016b) found SMMEs in South Africa to lack the presence of effective management systems.

Question 8: Reasons for high failure of South African SMMEs: Not having risk management strategies.

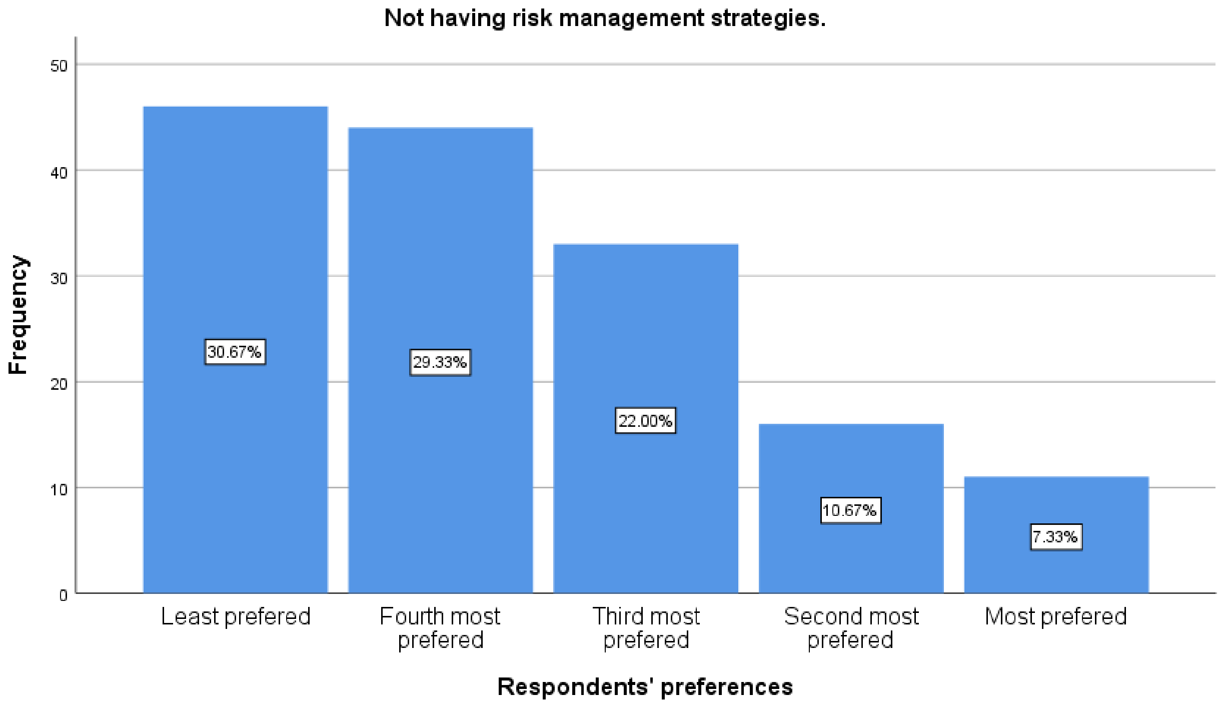

Figure 4.8: Bar graph displaying responses for effect of not having risk management strategies on SMMEs

Responding to “Not having risk management strategies being one of the reasons for the high failure of SMMEs in South Africa”, 30.7% ranked it least preferred; followed by 29.3% who ranked it fourth most preferred; 22% ranked it third-most preferred; 10.7% ranked it second most preferred and a few 7.3 % ranked it most preferred. These findings reflected that most of the respondents ranked not having risk management strategies lowly. Results support hypothesis (H_1) that states financial audits add value to SMME growth. A financial audit is one of the financial strategies used to maintain a healthy financial outlook on the business. The lack of strategies, such as financial audit, mean the business can lose large sums of money through illegal transactions leading to business bankruptcy and finally closing.

Question 9: Audit necessitates the need to prepare a complete and accurate financial statement for SMMEs?

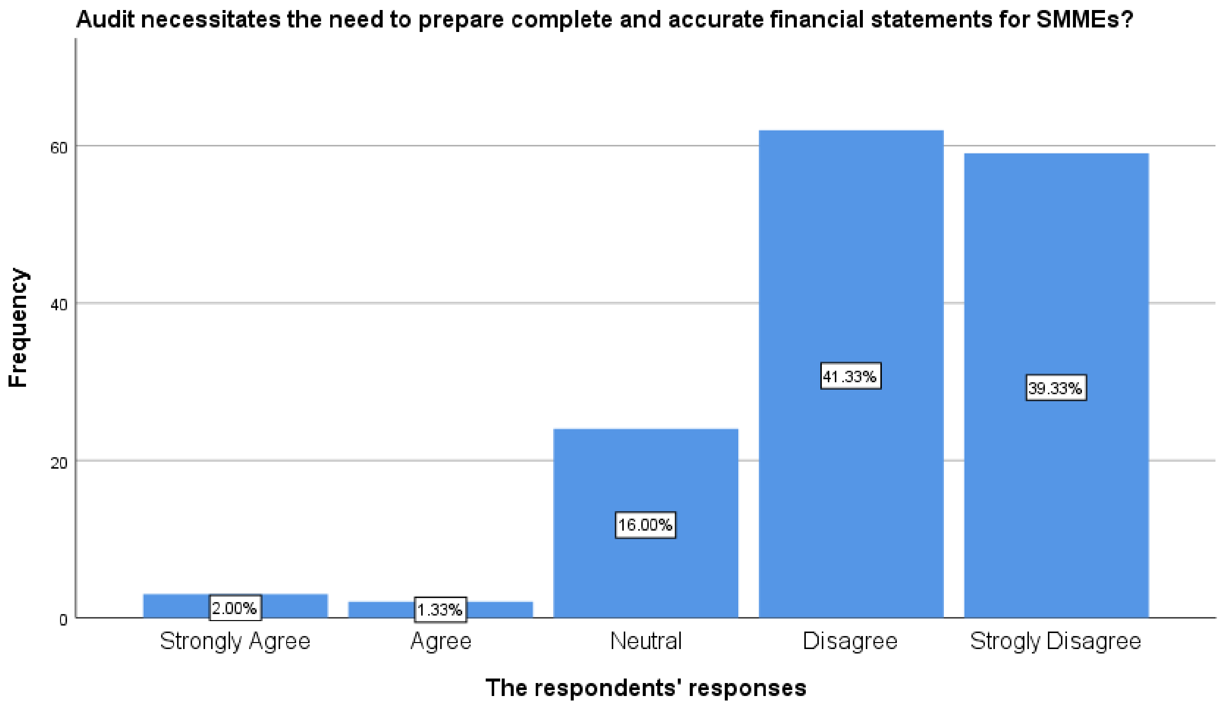

Figure 4.9: Bar graph displaying responses for the role of auditing on producing accurate financial statements for SMMEs

Responding to, “Audit necessitates the need to prepare a complete and accurate financial statement for SMME’s?” 2% of the respondents strongly agreed with the support of 1.3% who agreed; whilst 16% were neutral; and 41.3% disagreed with the support of 39.3% who strongly disagreed. These findings reflected that the majority of the respondents disagreed with the statement that an audit necessitates the need to prepare a complete and accurate financial statement for SMMEs. Results are in support of hypothesis (H_1) that says financial audits add no value to SMME growth. A financial audit is key to a business’ efforts to present correct and accurate financial statements that are used as the basis of borrowing, mergers, supplier bargains, and investor confidence.

Question 10: Audit minimise fraud and illegal activities by SMMEs?

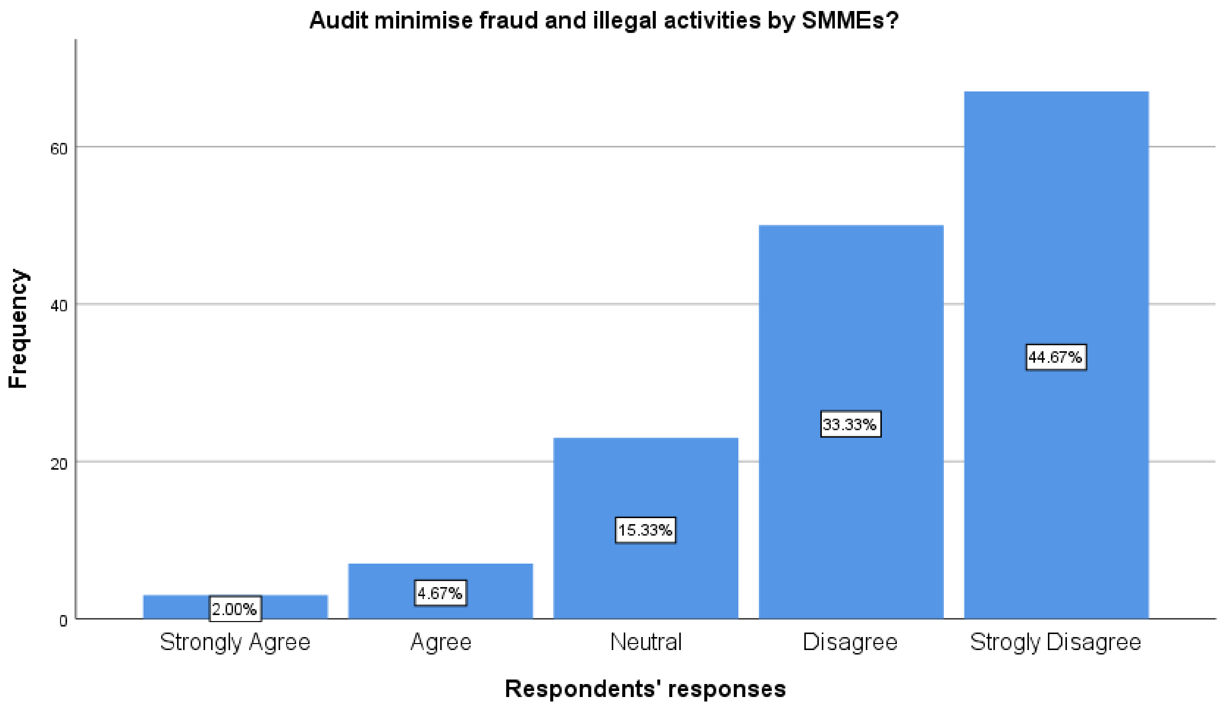

Figure 4.10: Bar graph displaying responses for auditing as a tool to minimise fraud and illegal activities by SMMEs

Responding to, “Audit minimise fraud and illegal activities by SMMEs?” 2% strongly agreed with the support of 4.7% who agreed; whilst 15.3% were neutral; and 33.3% disagreed with the support of 44.7% who strongly disagreed. These findings reflect that the majority of the respondents disagreed with the statement that audits can minimise fraud and illegal activities by SMMEs. Results supported the hypothesis H_1 that claims financial audits add value to SMME growth. The majority of participants agreed that in the absence of financial strategies such as a financial audit, there were opportunities for financial fraud and illegal transactions to go unabated. Financial audits bring value to the growth of the businesses by reducing the chances of fraud and curbing illegal transactions in the business.

Question 11: Audit can contribute to the sustainability of an SMME?

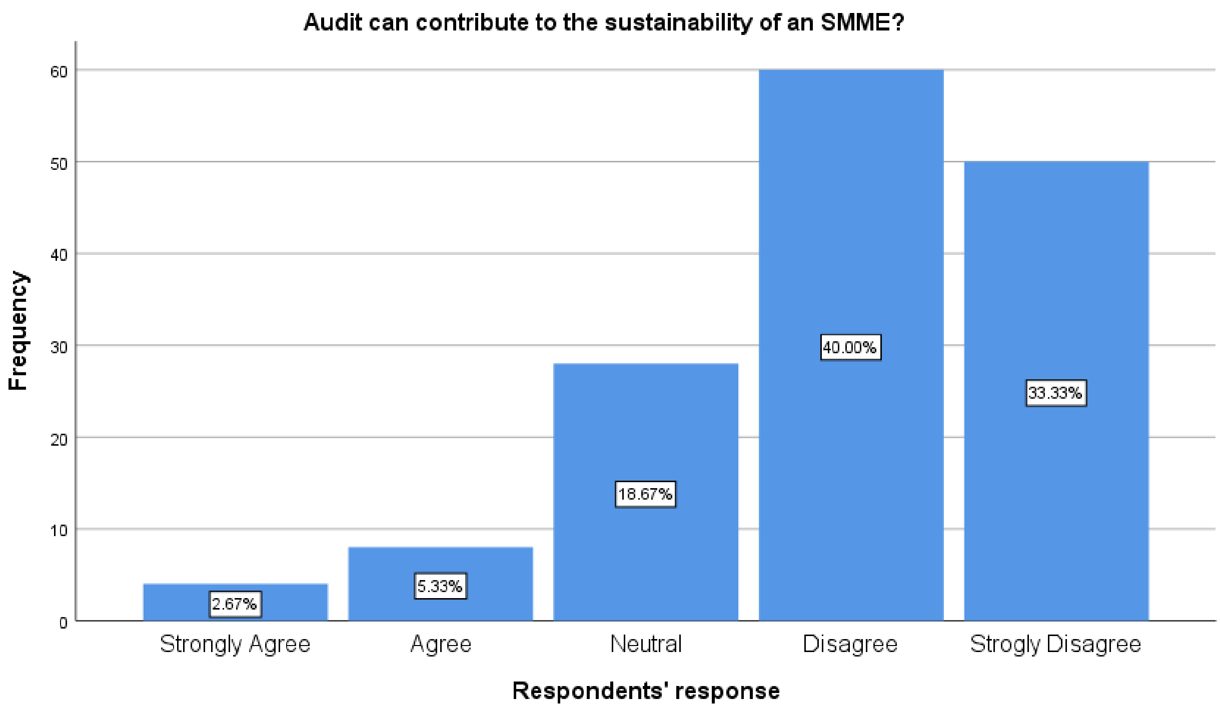

Figure 4.11: Bar graph displaying responses on whether audits can contribute to the sustainability of an SMME

Responding to, “Audit can contribute to the sustainability of an SMME?” 2.7% of the respondents strongly agreed with the support of 5.3% who agreed; whilst 18.7% were neutral; and 40% disagreed with the support of 33.3% strongly disagreed. These findings reflected that most of the respondents believed that an audit could not contribute to the sustainability of an SMME. The results support the hypothesis H_0 that says financial audit adds no value to SMME growth. Only 8% of the participants believed that financial audits could add value to the growth of an SMME; whilst the majority of at least 70% strongly disagreed that financial audits could add value to the growth of an SMME.

Question 12: Audit increases regulatory compliance of SMMEs?

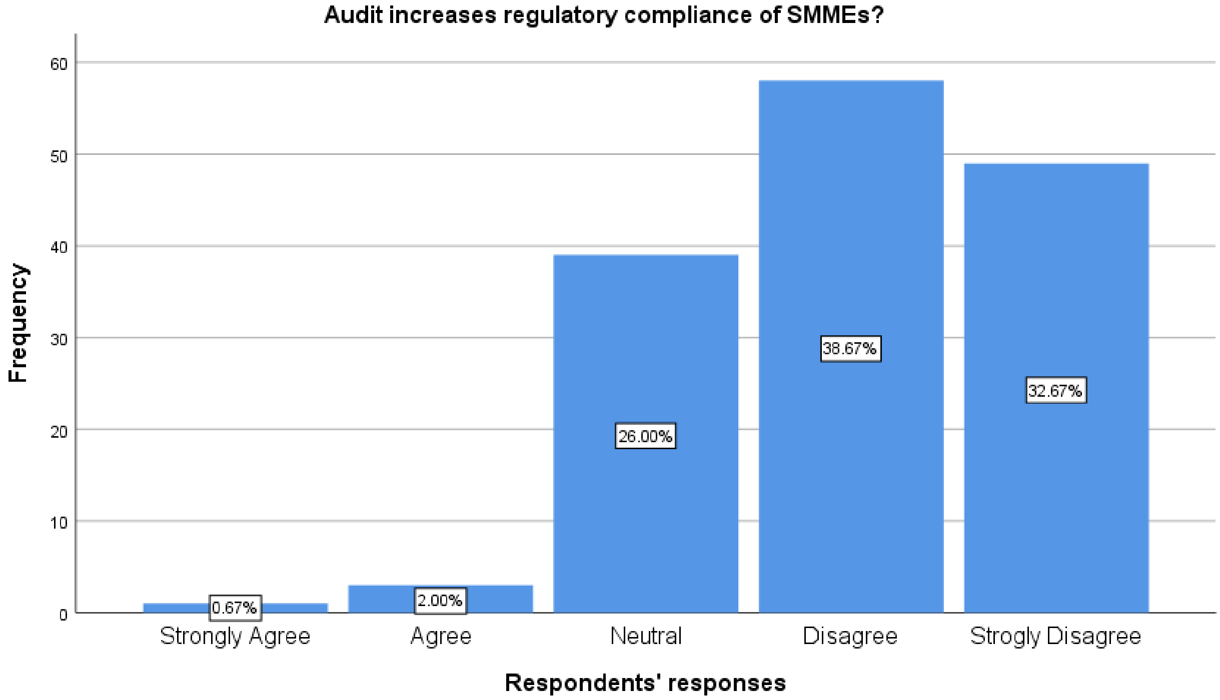

Figure 4.12: Bar graph displaying responses to the question of audits increasing the regulatory compliance of SMMEs

Responding to, “Audit increases regulatory compliance of SMMEs?” 0.7% strongly agreed with the support of 2% who agreed; whilst 26% were neutral; and 38.7% disagreed with the support of 32.7% strongly disagreed. These findings reflected that most of the respondents did not believe that audits could increase regulatory compliance of SMMEs. According to a study by Allee and Yohn in 2009, the authors lamented that SMMEs do not see compliance to regulations, acts, laws, and standards as key to running a business. They regard these issues as extra-curricular and not core to their business. Most SMMEs would rather concentrate on activities and functions that bring income to the business and neglect the finer details of running a business such as a financial audits.

Question 13: Audit adds value to the credibility of SMMEs

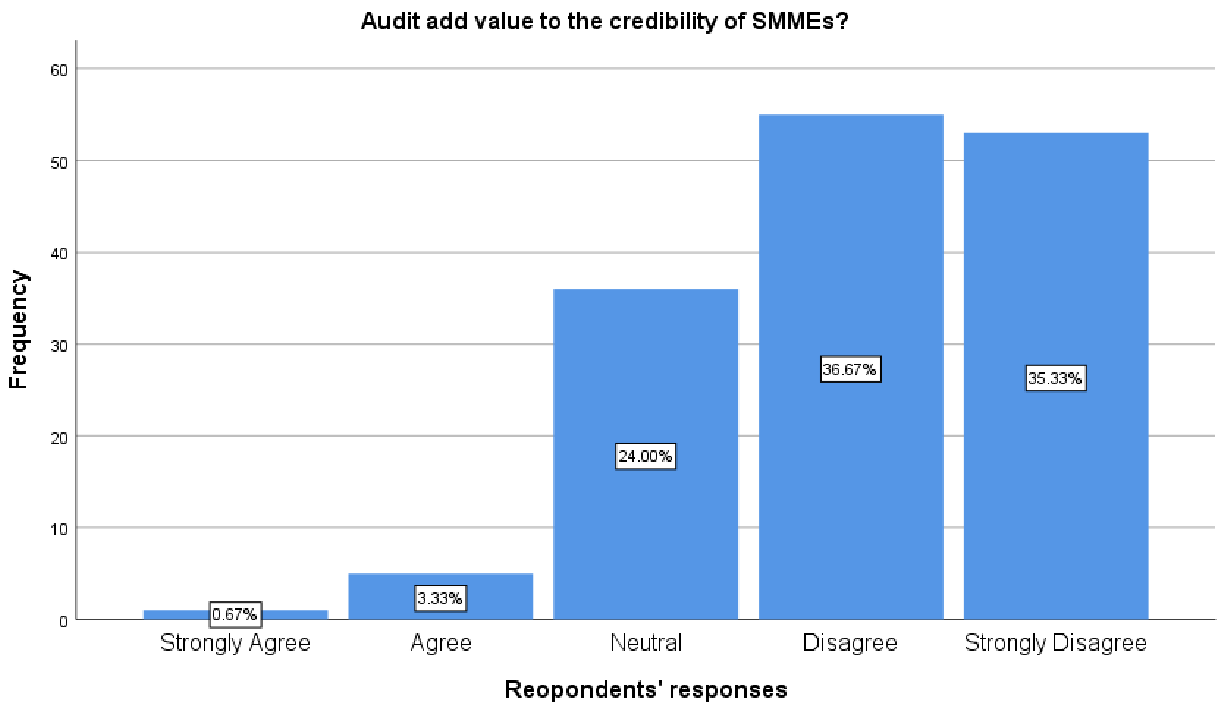

Figure 4.13: Bar graph displaying responses to the question of audits adding value to the credibility of SMMEs

Responding to “Audit adds value to the credibility of SMMEs” 0.7% of the respondents strongly agreed with the support of 3.3% who agree; whilst 24% were neutral; and 36.7% disagreed with the support of 35.3% who strongly agreed. These findings reflect that most of the respondents disagreed that audits can add value to the credibility of SMMEs. The results support the hypothesis H_0 that says financial audit adds no value to SMME growth. A financial audit is one of the factors that increase the credibility of the business towards partners, the value chain, and investors. Investors are especially attracted by how the business is presented financially in its sector. However, the majority of the participants did not believe that a financial audit had any role to play in the credibility of the business.

4.4 Section C: Questions on assessing stakeholder perception on the statutory exemption of audit of SMMEs.

Question 14 Stakeholders are an important component of any business

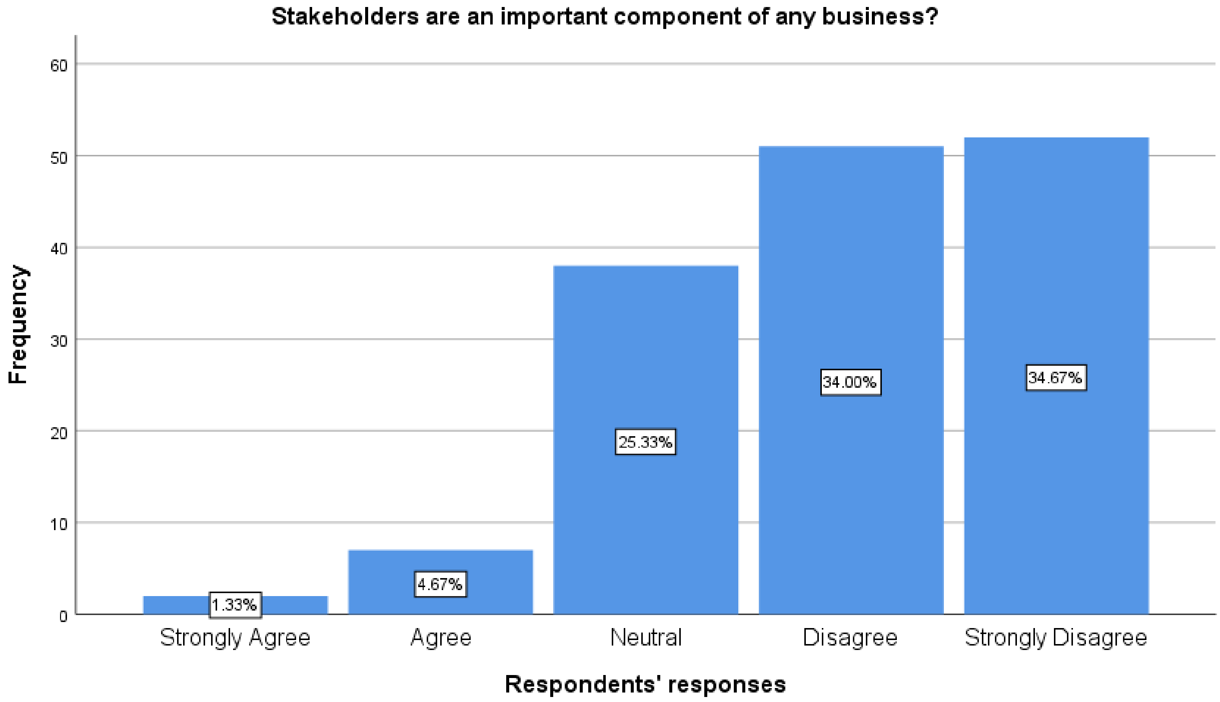

Figure 4.14: Bar graph displaying the responses to the question of the importance of stakeholder's perception in business

Responding to "Stakeholders are an important component of any business" 1.3% of the respondents strongly agreed, with the support of 4.7% who agreed; whilst 25.3% were neutral; and 34% disagreed with the support of 34.7% who strongly disagreed. These findings reflected that most of the respondents did not believe that stakeholders are an important component of any business. Business stakeholders who are strongly linked to the SMME will be concerned with how the business is performing financially, and financial audit reports are some of the outputs that stakeholders use to scale the performance of the business. The fundamental purpose of an audit is to bridge the expectation gap of various stakeholders' interest and perception of management stewardship of the businesses in the areas of internal control, fraud, and going concerned (Kitching, Kašperová and Collis, 2017; Kamarudin, Abidin and Smith, 2021).

Question 15: Audit exemption of SMMEs increase risk to Stakeholders' interest in SMME

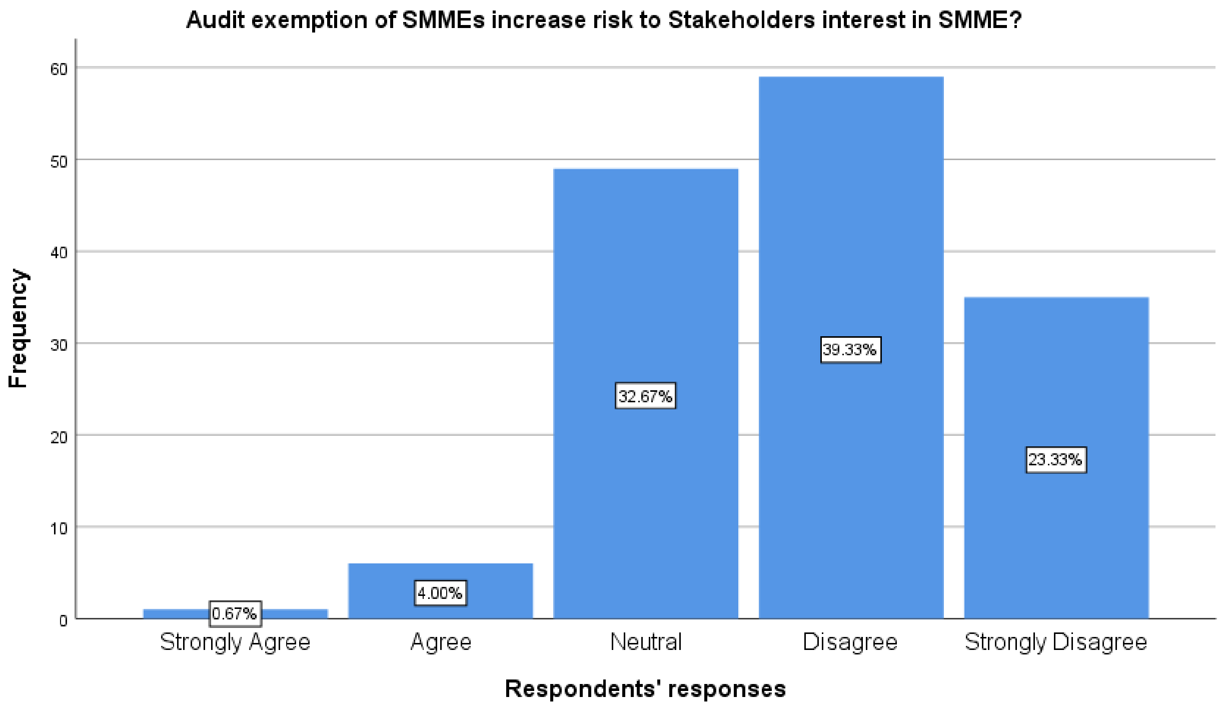

Figure 4.15: Bar graph displaying responses to the effect of audit exemptions of SMMEs on risk to Stakeholders' interest in SMMEs

Responding to "Audit exemption of SMMEs increase risk to Stakeholders' interest in SMME" 0.7% of the respondents strongly agreed with the support of 4% who agreed; whilst 32.7% were neutral; and 39.3% disagree with the support of 23.3% who strongly disagreed. These findings reflected that most of the respondents opposed the idea that the audit exemption of SMMEs increases the risk to stakeholders' interest in SMMEs. However this is contrary to the views of authors (Kitching, Kašperová and Collis, 2017; Kamarudin, Abidin and Smith, 2021) who stated that stakeholders are invested in seeing SMMEs make profits, and that the exemption of SMMEs from audits increased the risk to stakeholders and uncertainty of future of the business.

Question 16: Audit Exemption increase business risk of SMMEs

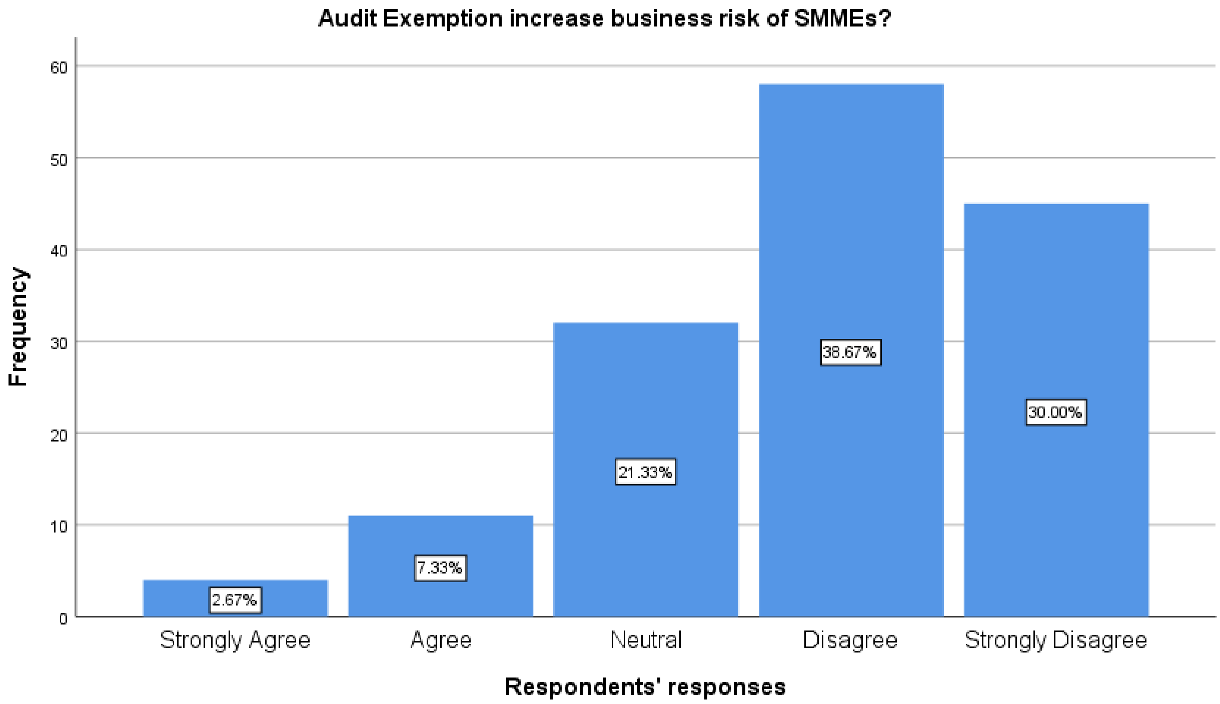

Figure 4.16: Bar graph displaying responses to the risk of audit exemptions on SMMEs

Responding to "Audit Exemption increase business risk of SMMEs" 2.7% of the respondents strongly agreed with the support of 7.3% who agreed; whilst 21.3% were neutral; and 38.9% disagreed with the support of 30% who strongly disagreed. These findings reflected that most of the respondents disagreed with the statements that audit exemptions increase the business risks of SMMEs. (Kitching, Kašperová and Collis, 2017; Kamarudin, Abidin and Smith, 2021) assert that a financial audit is critical as it reflects on the financial risk that the business is willing to take. Contrary to respondents' beliefs, it is the imperative to institute a financial audit to determine risk levels and mitigation measures to be set in place.

Question 17: Audit Exemption opens an opportunity for SMMEs to produce inaccurate information

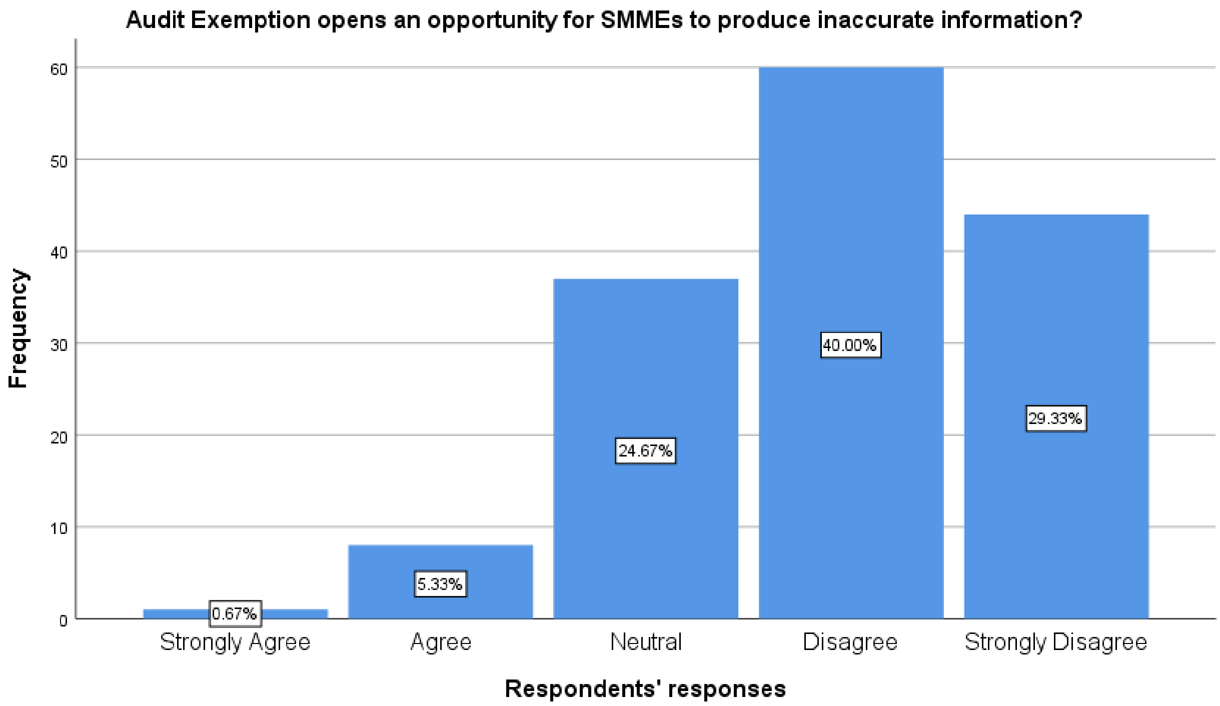

Figure 4.17: Bar graph displaying the responses on audit exemption and its effect on the accuracy of SMME produced information

Responding to "Audit Exemption opens an opportunity for SMMEs to produce inaccurate information" 0.7 of the respondents strongly agreed with the support of 5.3% who agreed; whilst 24.7% were neutral; and 40% disagreed with the support of 29.3 who strongly disagreed. These findings reflect that most of the respondents disagreed that audit exemption opens an opportunity for SMMEs to produce inaccurate information. However, the results are parallel to (The institute of chartered accountant in england & wales, 2016), who stated that the correct financial information provides important stimulus towards the value of the business to investors, so it is important for the business to carry out a financial audit as it improves the financial process of the business.

4.5 Section D: Questions on establishing the link between audit alternatives and sustainable growth of SMMEs

Question 18: SMMEs should consider audit alternatives like audit reviews than no audit at all?

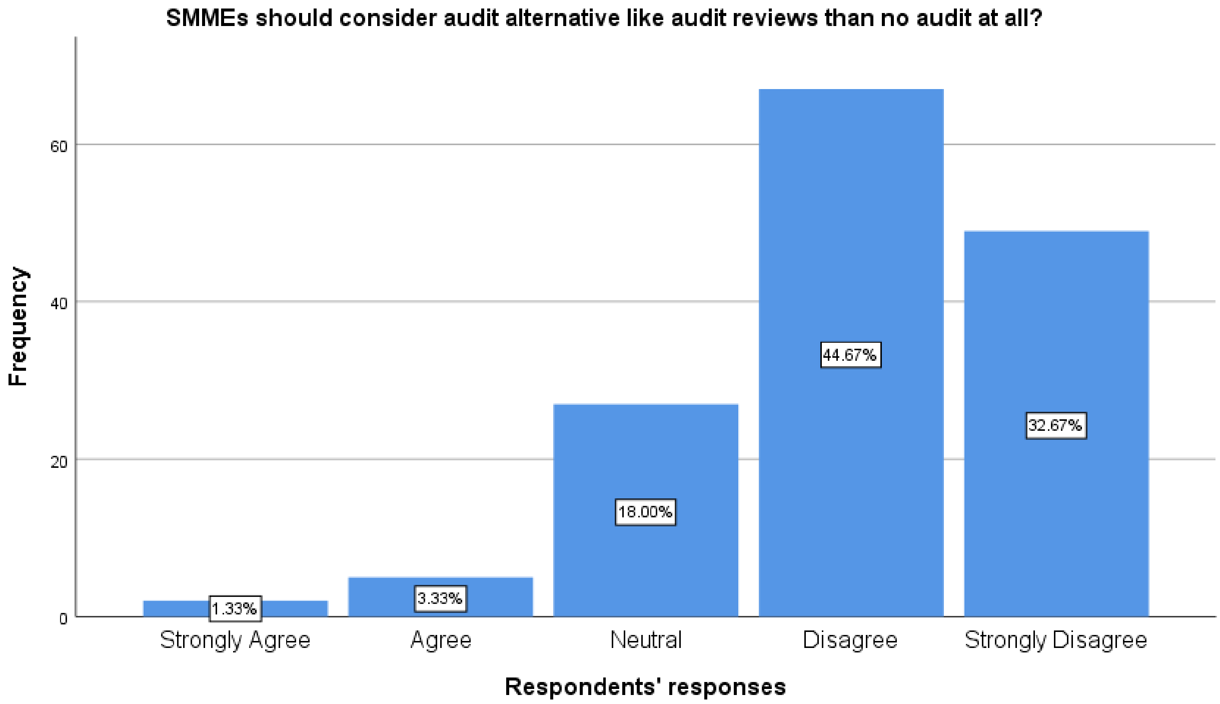

Figure 4.18: Bar graph displaying responses to consideration of SMMEs audit alternatives

Responding to “SMMEs should consider audit alternative like audit reviews than no audit at all” 1.3% of the respondents strongly agreed with the support of 3.3% who agreed; whilst 18% were neutral; and 44.7% disagreed with the support of 32.7% who strongly disagreed. These findings reflected that most of the respondents did not believe that SMMEs should consider an audit alternative like audit reviews rather than having no audit at all. The results support the hypothesis H_0 which states that, There is no link between audit alternatives and sustainable growth of SMMEs. The majority of the participants strongly disagreed that audit alternatives such as audit reviews were necessary. These results showed that participants somehow preferred a full audit or other financial strategies, rather than audit alternatives.

Question 19: SMMEs must voluntarily request an independent review (audit alternative) to their financial statements

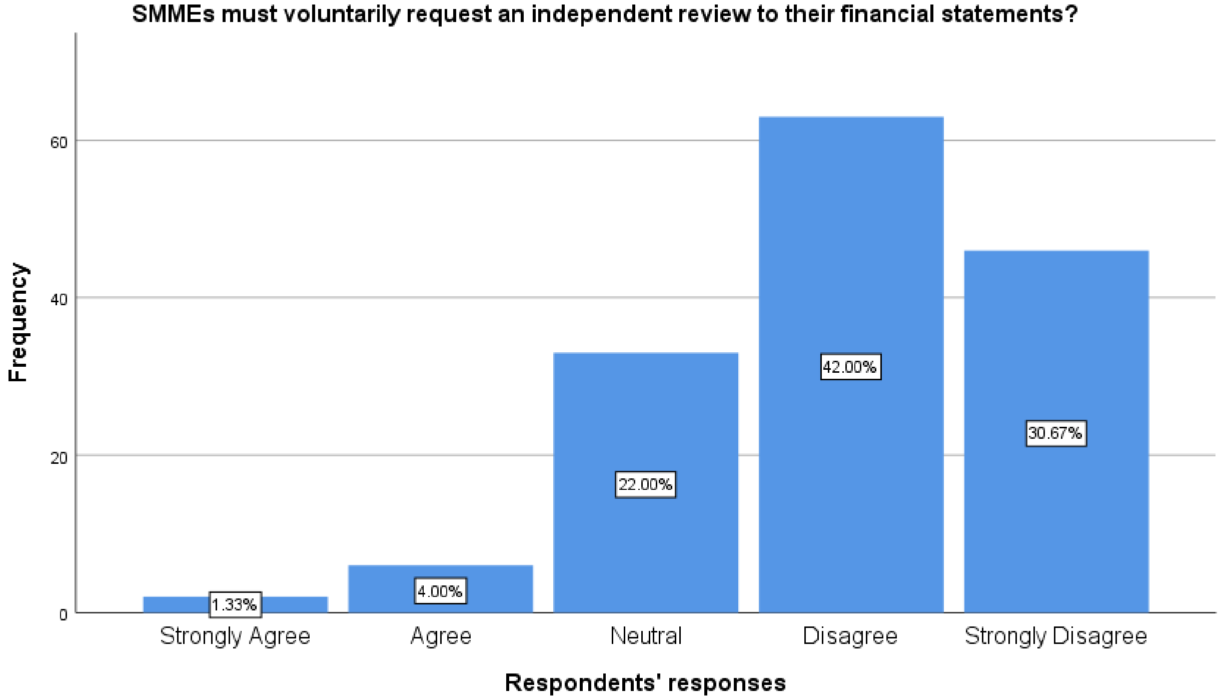

Figure 4.19: Bar graph displaying responses to whether SMMEs should voluntarily request independent reviews of their financial statements

Responding to "SMMEs must voluntarily request an independent review of their financial statements" 1.3% of the respondents strongly agreed with the support of 4% who agreed; whilst 22% were neutral; and 42% disagreed with the support of 30.7% who strongly disagreed. These findings reflected that most of the respondents opposed the view that SMMEs should voluntarily request an independent review of their financial statements. Kamarudin, Abidin and Smith (2021) highlighted the internal and external benefits of voluntary financial audits, focusing on the internal aspect translating externally through the evaluation of internal controls in reducing fraud. However, the results support hypothesis H_0, that says there is no link between audit alternatives and sustainable growth of SMMEs. The majority strongly disagreed that SMMEs must request a voluntary financial audit.

Question 20: An independent review (audit alternative) enhances stakeholder's perception of the sustainable growth of SMMEs

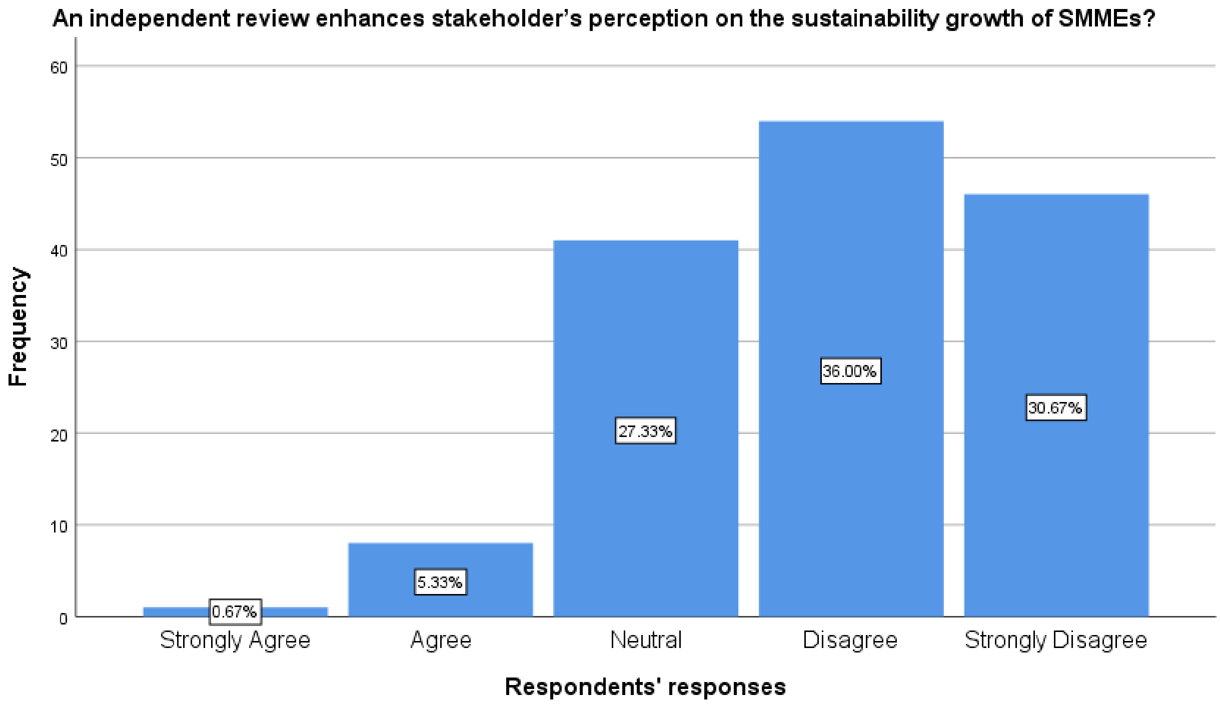

Figure 4.20: Bar graph displaying responses on whether an independent review enhances stakeholder's perception on the sustainable growth of SMMEs

Responding to "an independent review enhances stakeholder's perception on the sustainable growth of SMMEs" 0.7% of the respondents strongly agreed with the support of 1.3% who agreed; whilst 20% were neutral; and 46% disagreed with the support of 32% who strongly disagree. These findings reflected that most of the respondents disagreed that an independent review enhances stakeholders' perception of the sustainable growth of SMMEs. The results support the hypothesis H_0 that says There is no link between audit alternatives and sustainable growth of SMMEs. The majority of participants strongly disagreed that audit alternatives could change the perception of stakeholders towards the sustainable growth of the business. Participants do not believe independent reviews can improve stakeholders' perception which results in the sustainable growth of the business through revolving investments by impressed stakeholders.

Question 21: Independent reviews support the sustainable growth of SMMEs

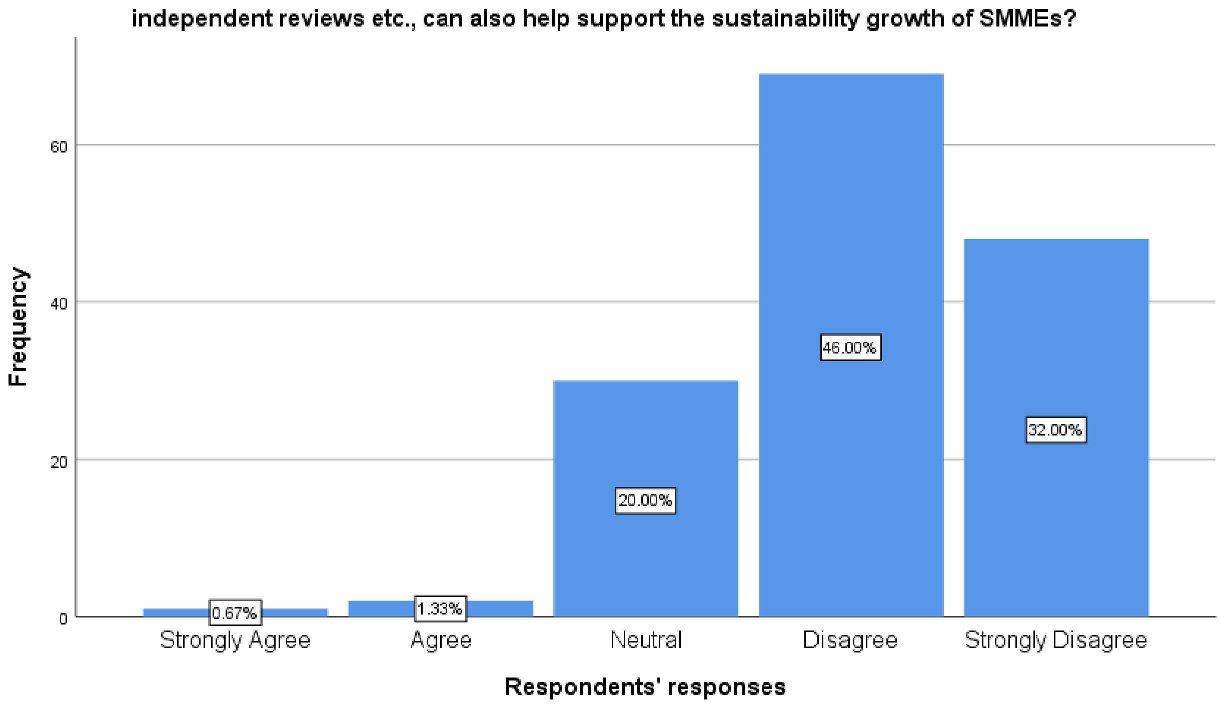

Figure 4.21: Bar graph displaying responses to the perception of internal reviews as a support for sustainable growth of SMMEs

Responding to “independent reviews etc. can also help support the sustainable growth of SMMEs” 1.3% strongly agreed with the support of 2% who agreed; whilst 24% were neutral; and 40.7% disagreed with the support of 32% who strongly disagreed. These findings reflected that most of the respondents disagreed that independent reviews can also help support the sustainable growth of SMMEs. The results support hypothesis H_0 that says there is no link between audit alternatives and sustainable growth of SMMEs.

However, the majority of participants disagreed that audit alternatives have any link with the sustainable growth of SMMEs.

4.6 Conclusion

This chapter has presented, interpreted, and discussed the impact financial audit has on the sustainable growth of SMMEs which can be used by researchers to further investigate the high failure rates of SMMEs and come up with a plan to improve on the life span of these businesses. The following chapter will provide recommendations on how the problem of sustainability of SMMEs can be addressed to increase the livelihood of these businesses.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The sustainable growth of SMMEs is a challenge that affects not only the SMMEs, but the growth of the entire economy of South Africa. The challenge needs to be resolved because of the crucial role that SMMEs play in the livelihood of many, and of our country's economic growth. The study aimed to investigate the impact of financial audits on the sustainable growth of SMMEs. This was explored in the literature review by the examining the link between a financial audit and the sustainable growth of SMMEs. An empirical survey was also conducted for the purpose of this study. This chapter will discuss key findings from the literature under the broad study objectives.

5.2 Key findings from the literature review

The findings under this section were presented under broad study objectives. The findings were extracted from the literature and were presented against the findings from the primary study and hypothesis. This section tries to show the gap between existing literature against what came out of the primary study and hypothesis test.

5.2.1 Value of a financial audit on SMME growth

- Credibility and trustworthiness of financial status of the businesses

Results showed that the majority of participants did not agree that financial audits add value to the growth of SMMEs through credibility and trustworthiness of their financial statuses. The results support the hypothesis H_0, which states that financial audits add no value to SMME growth. These results contradict current literature which argues that financial audits are a key to growth through credibility and trustworthiness of the financial status of the business.

- Accountability

The absence of a financial audit in an SMME leads to a lack of accountability in the business. A successful business would need to put in place structures that promote accountability in the business. The value of an audit to these entities goes a long way in proving authenticity in the face of investors.

- Management control

Findings from the literature have shown that there is lack of oversight when audits have not been performed. This has led to most Durban SMME businesses' experiencing a decrease in growth, and eventually collapsing. A weakness in management conduct creates an ethics gap (Walabyeki, 2016).

5.2.2 Assessing stakeholders perception of the statutory exemption of an audit of SMMEs

- Exemption of SMMEs from statutory audits

Literature has shown that SMMEs in South Africa are exempt from statutory financial audits (Thompson, 2019; Shev, 2021). Furthermore, literature has shown that some countries are repealing laws that exempt SMMEs from financial audit as this is contributing to their growth failure. Furthermore, audits also presents the business in good financial standing to stakeholders and potential investors, and banks willing to offer capital to the business.

- Reliability of financial statements

Accurate financial statements which are used as the basis for compliance with the country's regulations, such as with tax returns, are one of the elements that are supported by the financial audit of the business. Most

SMMEs face challenges dealing with SARS due to tax evasion and non-declared funds. (Haugen and Nygren, 2020) stated that companies that audit their accounts are less likely to commit tax evasion and fraud.

- Stakeholder perception towards the sustainability of SMMEs

Stakeholder perception towards the sustainability of businesses is built upon financial audits and all other factors that drive the growth of the business. (Clatworthy and Peel, 2021) explained that SMMEs that voluntarily refuse audit reviews have poor internal controls which lead to a weak perception by stakeholders towards the sustainability of the business.

5.2.3 Link between audit alternatives and sustainable growth of SMMEs

- Link

Literature findings show that financial audits have a direct relation with growth and the overall sustainability of any business entity (Rendon and Rendon, 2016; Zhou, Chen and Cheng, 2016). Audits promote transparency, accurate financial statements, good governance, and positive stakeholder perception towards sustainability. Audit alternatives prepare the company for the production of accurate statements that lead to financial good standing. By allowing alternative audits, SMMEs promote the growth of the business through curbing financial loopholes, fraud, and illegal transactions. There is a link between audit alternatives and sustainable growth, as consistent audits or audit reviews align the financial status with the targeted growth rate.

5.3 Key findings from the primary study

The findings under this section will be presented under broad study objectives. The findings address the hypothesis of the study.

5.3.1 Value of a financial audit on SMMEs growth

- Credibility and trustworthiness of financial status of the businesses

Results showed that the majority of participants did not agree that financial audits add value to the growth of SMMEs through the credibility and trustworthiness of their financial statuses. The results support the hypothesis H_0 which states that financial audit adds no value to SMME growth. This is not in suport of common literature which suggests that financial audits are a key to growth through credibility and trustworthiness of the financial status of the business.

- Accountability

The results support the hypothesis H_0 that says financial audits add no value to SMME growth. Results have shown that SMMEs do not believe accountability achieved through financial audit can improve financial transparency and good governance leading to the growth of the business.

- Management conduct

Results support the hypothesis H_1, which says, financial audits add value to SMME growth. The result showed that the majority of SMMEs believed that compromised management conduct in their businesses was the main cause of growth failure. The results are parallel to literature findings from many researchers who believe management conduct should be improved to capture the interests of investors, banks, and other stakeholders.

5.3.2 Assessing stakeholders perception of the statutory exemption of an audit of SMMEs

- Exemption of SMMEs from statutory audit

Results have shown that SMMEs favour the conditions of being exempt from statutory audits. However, when considering the research that has been done across the world, some countries are reviewing the regulations on exemptions of SMMEs as a way of promoting accountability and the growth of these entities. It is of paramount importance to note that results are inclined to highlight the financial dealings of SMMEs when talking to their business scrutiny. But these have a greater negative impact on the way stakeholders perceive SMMEs due to their failure to maintain transparency through the financial audit.

- Reliability of financial statements

Results have shown again that as long as SMME businesses are not in favour of statutory financial audits they are also not willing to produce and work with reliable financial statements. Reliable financial statements will lead them to compliance with financial regulations such as tax declarations. However, results show that the majority of the participants do not mind whether their financial statements are correct or not. Unfortunately, the majority of business stakeholders make use of financial statements especially audited statements to make decisions. Their perception is key to favourable decisions towards the business.

5.3.3 Link between audit alternatives and sustainable growth of SMMEs

- Link

Results show that majority of the SMME owner-managers believe there is no link between audit alternatives and the sustainability of their businesses. Even though literature has shown that financial audits have a direct relation with sustainable growth, the results support the hypothesis H_0 which states that there is no link between audit alternatives and the sustainable growth of SMMEs. Audit alternatives build up to a healthy financial status of the business and consistent application of these alternatives, such as audit reviews, will help in curbing financial flaws in these businesses.

5.4 Summary conclusions of key findings from the primary study

- Demographics

The study has shown that the majority of SMMEs in Durban have been operating between one to five years and are running as (Pty) Ltd/CC companies. Even though most businesses are formally registered there is a significant number who are not registered. This could be as a result of the SMME companies being deregistered by the Companies and Intellectual Property Commission because of non-compliance.

- Value of a financial audit on SMMEs growth

Financial audits add no value to the growth of SMMEs in Durban. Results have shown that SMME businesses do not subscribe to accountability, improved management conduct, credibility, and trustworthiness of the financial status of their businesses. This is an undesirable result as businesses, partners, stakeholders, financial institutions and investors prefer companies whose financials are audited. Besides lack of skill in SMMEs, there is a lack of understanding of the importance of audit as they prefer to maintain secrecy with regard to the financial dealings of their businesses. SMMEs believe in concentrating on activities that produce short-term results and forget to get the small details correct which affects them in the future. Furthermore, the results have shown that any activity that speaks to transparency, governance, and ethical ways of doing business is not favoured by SMMEs in Durban. They may not realise that financial audits will allow them to do business within their capacity, spend what they have, and grow steadily.

- Stakeholders' perception of the statutory audit exemptions of SMMEs

Most of the respondents choose to maintain the exemption from statutory audits. They seem unperturbed about how stakeholders will perceive their businesses, as they believe stakeholder perception has no role to play in the growth of their businesses. Results have shown that the majority of SMMEs prefer to be exempt from statutory audit, however, this is detrimental to the businesses status, as stakeholders are persuaded to engage in business due to a positive perception. The South African government is also planning a motion to get SMMEs to be audited as huge financial flaws are leading to the government losing large sums of revenue through tax evasions.

- The link between audit alternatives and sustainable growth of SMMEs

There was no reported link between audit alternatives and the sustainable growth of SMMEs, as results showed that the majority of the respondents are against the belief that audit alternatives are necessary for the sustainable growth of SMMEs. It is important to note that SMME businesses in Durban find comfort in not being audited and any subject that deals with revealing financial status is not welcome in the sector. The majority of transactions in the sector are informal and the movement of money between these businesses cannot afford audits.

5.5 Recommendations

To withstand the challenges that impede the sustainability of SMMEs, the following recommendations are proposed:

- **Management commitment**

SMME owner-managers sometimes lack knowledge and the crucial business skills required to maintain ethical management conduct, especially with regard to the finances of the business. Lack of principled management and management conduct results in failure to separate between those who create resources and those who should manage those resources within a business. In most SMMEs, there is no separation of functions. The SMME owner is the creator of the resources and also the manager thereof. There is no oversight and accountability is very weak. Henceforth, the Ministry of Small Business Development should regulate the management of SMMEs and encouraging them to uphold the commander theory that requires separation of powers in business to allow such activities as a financial audit to go without interference.

- **Training workshops**

The Chamber of Commerce should host training workshops that are designed to raise awareness on the importance of financial audits for businesses and the benefits of getting businesses audited. This may easily remove SMME business fears around transparency and governance in their dealings.

- **Repealing regulation on the exemption of SMME businesses from statutory audits**

The legal framework for statutory audits should be put in place and revise the auditing exemption for SMMEs. This may sound unfair for small businesses, but it is a reasonable recommendation if the government is willing to see growth in the sector. This must not be isolated from understanding and clarifying the purpose of the financial statements which provide information on the state of affairs of the entity.

5.6 Overall conclusion of the study

The study proved that financial audits had no impact on the sustainable growth of SMMEs in Durban. The results of the study and the literature showed different conditions on the subject. Literature suggests that financial audit are key to the growth of SMMEs, whilst the findings from the primary study suggested that it added no value to the growth of SMME businesses.

Areas of Future study: Because of the above, the study shows that there is a knowledge gap in understanding why a business should be audited. Therefore, future studies could address this gap so that SMME owners would understand in simpler terms financial audit as a strategy that enhances business growth rather than simply compliance and obedience to the law of the country.

The study met its main aim of investigating the impact of financial audits on the sustainable growth of SMMEs.

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+Enterprise+of+South+Africa.+University+of+Stellenbosch&oq=Bureau+for+Economic+Research.+2016.+The+Small%2C+Medium+and+Micro+Enterprise+of+South+Africa.+University+of+Stellenbosch&gs_l=psy-ab.3..0i71l2.5666.5666..7247...0.0..0.0.0.......1....2j1..gws-wiz.k6SDdjqnfFY# (Accessed 12 June 2019).

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APPENDIX 2 Consent

DUT DURBAN UNIVERSITY OF TECHNOLOGY INSTITUTIONAL RESEARCH ETHICS COMMITTEE

CONSENT

Statement of Agreement to Participate in the Research Study:

- I hereby confirm that I have been informed by the researcher, Nkanyezi Lindani Alen Mkhize about the nature, conduct, benefits and risks of this study - Research Ethics Clearance Number:22/19FREC,
- I have also received, read and understood the above written information (Participant Letter of Information) regarding the study.
- I am aware that the results of the study, including personal details regarding my sex, age, date of birth, initials and diagnosis will be anonymously processed into a study report.
- In view of the requirements of research, I agree that the data collected during this study can be processed in a computerised system by the researcher.
- I may, at any stage, without prejudice, withdraw my consent and participation in the study.
- I have had sufficient opportunity to ask questions and (of my own free will) declare myself prepared to participate in the study.
- I understand that significant new findings developed during the course of this research which may relate to my participation will be made available to me.

____________________ __________ ______ ______________

Full Name of Participant Date Time Signature / Right Thumbprint

I Nkanyezi Lindani Alen herewith confirm that the above participant has been fully informed about the nature, conduct and risks of the above study.

05 March 2019

Full Name of Researcher Date Signature

________________ __________ __________________

Full Name of Witness (If applicable) Date Signature

________________ __________ __________________

Full Name of Legal Guardian (If applicable) Date Signature

Contact Details

Please note the following:

Research details must be provided in a clear, simple and culturally appropriate manner and prospective participants should be helped to arrive at an informed decision by use of appropriate language (grade 10 level - use Flesch Reading Ease Scores on Microsoft Word), selecting of a non-threatening environment for interaction and the availability of peer counseling (Department of Health, 2004)

If the potential participant is unable to read/illiterate, then a right thumb print is required and an impartial witness, who is literate and knows the participant e.g. parent, sibling, friend, pastor, etc. should verify in writing, duly signed that informed verbal consent was obtained (Department of Health, 2004).

If anyone makes a mistake completing this document e.g. wrong date or spelling mistake a new document has to be completed. The incomplete original document has to be kept in the participant file and not thrown away and copies thereof must be issued to the participant.

References:

Department of Health: 2004. *Ethics in Health Research: Principles, Structures and Processes* http://www.doh.gov.za/docs/factsheets/guidelines/ethnics/

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Appendix 3 Ethic clearance

MANAGEMENT SCIENCES: FACULTY RESEARCH ETHICS COMMITTEE (FREC)

01 April 2019

Student Name: N L A Mkhize
Student No: 20821037
FREC REF: 22/19FREC

Dear Mr N L A Mkhize

MASTERS OF MANAGEMENT SCIENCES: BUSINESS ADMINISTRATION

TITLE: The Impact of Financial Audit on Sustainable Growth of SMME'S: a Case Study of the EThekwini Municipality.

Please be advised that the FREC Committee has reviewed your proposal and the following decision was made: **Approved – Ethics Level 2**

Date of FRC Approval: 26 March 2019

Approval has been granted for a period of two years from the above FRC date, after which you are required to apply for safety monitoring and annual recertification. Please use the form located at the Faculty. This form must be submitted to the FREC at least 3 months before the ethics approval for the study expires.

Any adverse events [serious or minor] which occur in connection with this study and/or which may alter its ethical consideration must be reported to the FREC according to the FREC SOP's.
Please note that ANY amendments in the approved proposal require the approval of the FREC as outlined in the FREC SOP's.

Yours sincerely

Prof JP Govender
Chairperson: Faculty Research Ethics Committee

Appendix 4 Turnitin report

The Impact of Financial Audit on Sustainable Growth of SMMEs: A Case Study of SMMEs of the eThekwini Municipality

by Nkanyezi Mkhize

Submission date: 04-Nov-2021 10:51PM (UTC+0200)
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The Impact of Financial Audit on Sustainable Growth of SMMEs: A Case Study of SMMEs of the eThekwini Municipality

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