



**UNIVERSITY
OF
LUSAKA**

SCHOOL OF POSTGRADUATE STUDIES

**ASSESSING THE ROLE OF FINANCIAL AUDITS IN ENHANCING
GROWTH OF AGRO-BASED MSMES IN LUSAKA: A COMPARATIVE
STUDY OF AUDIT-ADOPTING AND NON-ADOPTING ENTERPRISES**

**A DISSERTATION SUBMITTED TO THE SCHOOL OF
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FULFILLMENT OF THE AWARD OF THE MASTER OF SCIENCE IN
AUDITING.**

BY

RUTH MULONDIWA

MSCA23122101

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DECLARATION

I **Ruth Mulondiwa**, do hereby declare that the contents of this dissertation are purely my own research work, and that as far as am concerned the work contained in this research report have not been published for an award of a degree or diploma at this or any other university before. Lastly, all the works cited from other sources and scholars have all been duly acknowledged.

Signature.....Ruth Mulondiwa.....

Date.....27 June 2025.....

Supervisor’s Names: Mr Owen Muteke

Signature



Date.....27 June 2025.....

DEDICATION

I dedicate this dissertation to God, whose wisdom and guidance have sustained me throughout my academic journey. To my beloved parents, Maxwell and Maureen Mulondiwa, thank you for inspiring my passion for small and medium-sized enterprises through your own entrepreneurial journey and the growth of your business beyond the SME stage.

To my husband, Denny Muntanga Moonde – my unwavering support, source of strength, and constant encouragement, thank you for your love, patience, and understanding during the most challenging moments. To our precious children, your presence and belief in me have been a constant source of motivation.

Finally, to my siblings Zacharia, Mary, and Mwiche, thank you for your enduring encouragement and support, which helped me complete this research.

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List of Acronyms

ACCA	Association of Chartered Certified Accountants
CEEC	Citizens Economic Empowerment Commission
EFAA	European Federation of Accountants and Auditors for SMEs
FRC	Financial Reporting Council
GDP	Gross Domestic Product
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISA	International Standard on Auditing
LCE	Less Complex Entities
MSME	Micro, Small and Medium Enterprise
OECD	Organisation for Economic Co-operation and Development
RBV	Resource-Based View
QCA	Quoted Companies Alliance
SME	Small and Medium Enterprise
UNCTAD	United Nations Conference on Trade and Development
ZDA	Zambia Development Agency
ZICA	Zambia Institute of Chartered Accountants

THE ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) are pivotal to Zambia's economic development, contributing substantially to employment creation and Gross Domestic Product (GDP) growth. Within this sector, agro-based MSMEs play a vital role in promoting food security, rural development, and inclusive economic progress. Despite their importance, these enterprises face persistent challenges that hinder their growth, notably weak financial governance, inadequate internal controls, and restricted access to finance. Although financial audits are widely acknowledged for enhancing transparency, accountability, and access to capital, their uptake among agro-based MSMEs in Lusaka remains limited. Many business owners perceive audits primarily as compliance obligations, often driven by donor or regulatory requirements, rather than as strategic instruments for fostering business growth and sustainability. This study investigates the role of financial audits in supporting the growth and long-term sustainability of agro-based MSMEs in Lusaka. It specifically contrasts the experiences of enterprises that have adopted audits with those that have not. Employing a qualitative comparative approach, data were gathered through semi-structured interviews and questionnaires administered to 48 stakeholders, including MSME owners and managers, auditors, financial institutions, and relevant regulatory bodies. Thematic analysis was conducted using Atlas.ti to identify patterns and derive insights from the qualitative data. Findings indicate that MSMEs engaging in audits demonstrate stronger financial management practices, improved access to finance, and enhanced decision-making capabilities. Nonetheless, misconceptions regarding the cost, complexity, and purpose of audits remain prevalent, particularly among non-adopting firms. Key barriers include limited audit literacy, insufficient institutional support, and the lack of audit frameworks tailored to the needs of MSMEs. The study recommends that the Zambia Institute of Chartered Accountants (ZICA) develop simplified audit guidelines and promote affordable audit solutions through collaborations with audit firms and academic institutions. Furthermore, the Zambia Development Agency (ZDA) is urged to incorporate audit readiness into its business support services and incentivise audit adoption through grants and other innovative mechanisms. By repositioning audits as strategic tools for business development, these interventions can encourage voluntary adoption and strengthen the resilience of Zambia's agro-based MSME sector.

CHAPTER ONE: INTRODUCTION AND BACKGROUND

1.1 Introduction

Micro, Small and Medium Enterprises (MSMEs) play a critical role in driving economic growth and inclusive development, particularly in developing countries. In Zambia, MSMEs account for approximately 97% of all registered businesses, contribute around 70% to the national Gross Domestic Product (GDP), and provide employment to nearly 88% of the population (Zambia Development Agency, 2019). Within this group, agro-based MSMEs hold particular significance due to the country's strong dependence on agriculture. The agricultural sector contributes 9.2% to GDP and employs close to 85% of Zambia's workforce (Food and Agriculture Organization, n.d.). These enterprises not only support economic development but also contribute to poverty reduction, promote women's participation in business, and create employment opportunities for young people. These objectives align closely with the United Nations Sustainable Development Goals (United Nations, 2015).

Despite their importance, agro-based MSMEs continue to face substantial challenges that hinder their growth and long-term sustainability. Key issues include limited access to finance, weak financial management practices, and deficiencies in internal governance. In response, various programmes have been initiated by donors and government agencies, such as the Zambia Farm-to-Market Compact by the Millennium Challenge Corporation (MCC, 2024), the World Bank's Agribusiness and Trade Project (World Bank, 2024), and the European Investment Bank's Agriculture Value Chain Facility (EIB, 2024). While these initiatives aim to address market and structural barriers, they often overlook enterprise-level challenges such as weak financial controls and governance within individual businesses.

Emerging research has begun to highlight the potential of financial audits in improving MSME operational efficiency. Audits are increasingly recognised for promoting transparency, strengthening financial discipline, and facilitating access to finance. Studies by Abouelghit and Gan (2024), Apon, Ismene and Ismail (2024), and Cole and Frost (2020) demonstrate that both internal and external audits can enhance business sustainability. Nevertheless, in Zambia and particularly in Lusaka few agro-based MSMEs conduct audits. Many business owners perceive audits primarily as compliance measures

required by donors or regulators, rather than as strategic tools for business improvement (Bank of Zambia, 2022; World Bank, 2021; Zambia Development Agency, 2019). Moreover, existing research tends to focus on large enterprises or treat audits mainly as regulatory instruments, leaving a gap in understanding how MSMEs themselves perceive and utilise audits for development.

This study seeks to address that gap by examining how agro-based MSMEs in Lusaka understand and engage with financial audits. It explores the factors influencing audit adoption or avoidance and assesses the implications of these decisions on business sustainability. A qualitative comparative design will be employed to gather perspectives from both audit-adopting and non-adopting MSMEs, as well as other key stakeholders. The data will be analysed using thematic and content analysis to uncover patterns in audit perceptions and practices.

The aim is to generate insights into how audits can be repositioned as developmental tools rather than mere compliance requirements. The findings may also serve as a foundation for future research and advocacy efforts aimed at encouraging voluntary audit adoption among MSMEs. While the study does not intend to propose major policy reforms due to its scope and the complexity of the sector, it aspires to contribute meaningfully to ongoing discourse and evidence on MSME development.

1.2. Background of the Problem

Agro-based MSMEs in Zambia occupy a strategic position in the national economy, contributing to employment, food security, and rural development (ZDA, 2019; FAO, n.d.). Despite this, their financial governance remains weak, particularly in relation to the adoption of financial audits. Although audits are widely recognised for improving transparency, accountability, and access to finance (Abouelghit and Gan, 2024; Apon, Ismene and Ismail, 2024; Cole and Frost, 2020), their uptake among agro-based MSMEs in Lusaka is notably low. Many business owners continue to view audits as externally imposed compliance obligations rather than strategic tools for business growth (Bank of Zambia, 2022; World Bank, 2021; ZDA, 2019).

This limited adoption is compounded by internal challenges such as low financial literacy, weak internal controls, and inadequate governance structures (Bank of Zambia, 2022).

While donor-funded programmes such as the Zambia Farm-to-Market Compact (MCC, 2024), the Agribusiness and Trade Project (World Bank, 2024), and the Agriculture Value Chain Facility (EIB, 2024) aim to address structural and market-level constraints, they often overlook enterprise-level financial management issues.

Furthermore, although studies have shown that audited financial statements can positively influence credit access (Ismail, Azizan and Kamarudin, 2023) and that internal audits strengthen risk management and financial control (Parker Russell-EA, 2024), MSMEs in Zambia remain hesitant to adopt these practices. Broader factors such as business acumen, institutional support, and perceptions of audit relevance also play a role in shaping audit adoption and business resilience (Graña-Alvarez et al., 2022; Lozano Montero et al., 2020).

The disconnect between the proven benefits of audits and the perceptions held by MSME owners' points to a critical gap in understanding. Existing literature has not sufficiently explored the socio-economic, institutional, and perceptual factors influencing audit adoption at the MSME level in Zambia. In particular, agro-based MSMEs in Lusaka – a sector both economically active and under-researched requires focused investigation to understand how audits can be repositioned as tools for strategic development rather than mere compliance.

1.2.1 Operational Definitions

To make sure that the meaning of key terms used in this study is clear, the following concepts are explained below:

1. Micro, Small, and Medium Enterprises (MSMEs) or Small and Medium-sized Enterprises (SMEs): These are businesses that are grouped depending on number of employees, yearly turnover, and capital investment. In Zambia, the classification is:
 - *Micro Enterprises*: 1 - 10 employees, annual turnover not exceeding ZMW 150,000
 - *Small Enterprises*: 11 - 50 employees, with annual turnover between ZMW 150,000 and ZMW 8 million

- *Medium Enterprises*: 51 - 100 employees, with annual turnover ranging from ZMW 8 million to ZMW 20 million
2. **Financial Audit**: This is a structured and independent review of a company's financial records and systems to see if they meet relevant laws and accounting standards. It can be carried out internally or by an independent auditor, and it helps improve transparency and accountability in financial reporting.
 3. **Perception**: The beliefs or opinions that MSME owners or managers have about the usefulness of financial audits for improving their business performance, sustainability and also how decisions are made.
 4. **Financial Transparency**: Refers to how openly a business shares its financial information. When information is clear and accurate, stakeholders can understand what is going on and make decisions better. This is usually linked to strong audit practices and proper reporting.
 5. **Sustainability (Business Context)**: Describes an MSME's ability to keep going for a long time usually five to ten years while dealing with things like market pressures, rules and other operational challenges. It also includes the ability to grow and stay competitive in their sector.
 6. **Regulatory Compliance**: This is when a business follows the correct rules and standards for things like taxes and financial reporting. Organisations like ZICA and ZDA often guide this process to make sure businesses comply.
 7. **Audit Adoption**: This means whether MSMEs choose to do audits regularly, either because they want to or because someone (like a donor or government) requires it. How often they do audits can depend on how they see the benefits, what it costs, and the kind of help they can get.
 8. **Access to Finance**: The ability of MSMEs to get funding from banks, microfinance or government support programmes. Having audited accounts can help businesses look more trustworthy and makes it easier to secure loans or grants.
 9. **Best Practices in Auditing**: These are known good methods and procedures for doing audits properly. When followed, they help improve how a business is run and

build confidence among those who deal with the business such as banks or investors.

10. Financial Management Practices: These are things MSMEs do to manage their money properly. This includes planning budgets, tracking expenses, managing cash flow and reporting. For instance, a small farming business might budget for inputs, monitor sales and try to save profits to grow.

11. Agro-Based Company: A company that is involved in agricultural-related activities, either directly in production or in services that support farming, such as processing or supply of farming inputs.

1.3. Statement of the problem

Agro-based MSMEs in Zambia occupy a strategic position in the national economy, contributing to employment, food security, and rural development (ZDA, 2019; FAO, n.d.). Despite this, their financial governance remains weak, particularly in relation to the adoption of financial audits. Although audits are widely recognised for improving transparency, accountability, and access to finance (Abouelghit and Gan, 2024; Apon, Ismene and Ismail, 2024; Cole and Frost, 2020), their uptake among agro-based MSMEs in Lusaka is notably low. Many business owners continue to view audits as externally imposed compliance obligations rather than strategic tools for business growth (Bank of Zambia, 2022; World Bank, 2021; ZDA, 2019).

This limited adoption is compounded by internal challenges such as low financial literacy, weak internal controls, and inadequate governance structures (Bank of Zambia, 2022). While donor-funded programmes such as the Zambia Farm-to-Market Compact (MCC, 2024), the Agribusiness and Trade Project (World Bank, 2024), and the Agriculture Value Chain Facility (EIB, 2024) aim to address structural and market-level constraints, they often overlook enterprise-level financial management issues.

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1.4. Research Objectives

The main objective of this study is to assess the role of financial audits in promoting the growth and sustainability of agro-based MSMEs in Lusaka, by comparing the experiences and outcomes of audit-adopting and non-adopting enterprises and identifying strategies to enhance voluntary audit uptake. The specific objectives are to:

- 1) Explore the perceptions of agro-based MSME owners and managers regarding the value of financial audits for business growth, comparing audit-adopting and non-adopting enterprises.
- 2) Identify key challenges faced by both audit-adopting and non-adopting agro-based MSMEs, particularly those related to audit costs, technical capacity, and regulatory compliance.
- 3) Examine differences in business outcomes between audit-adopting and non-adopting MSMEs, focusing on financial management practices, access to finance, and long-term sustainability.

- 4) Investigate strategies to increase the uptake of financial audits, with the aim of fostering voluntary adoption among non-adopting MSMEs and enhancing engagement among those already conducting audits.

1.5. Research Questions

To address the research objectives, the study will focus on the following questions:

1. What are the views of agro-based MSME owners and managers in Lusaka on the importance of financial audits for business growth, and how do these views differ between those who do audits and those who don't?
2. What are the main challenges faced by both audit-adopting and non-adopting agro-based MSMEs especially when it comes to cost, technical skills, and meeting regulations?
3. In what ways do financial audits affect financial management, getting access to finance, and long-term sustainability of agro-based MSMEs and how are these effects different between businesses that do audits and those that don't?
4. What kind of opportunities or strategies can be used to increase audit uptake and encourage agro-based MSMEs who haven't yet adopted audits to do so, and how might these strategies help both groups?

1.6. Significance of the study

This study explores the role of financial audits in supporting the growth and sustainability of agro-based MSMEs in Lusaka, with a particular emphasis on how these enterprises perceive audits, the barriers to adoption, and strategies for encouraging greater engagement with auditing practices. Given the critical contribution of MSMEs to employment, poverty reduction, and entrepreneurship, understanding their financial governance behaviours is essential for fostering inclusive economic development.

By examining the relationship between audit adoption and key business outcomes such as operational efficiency, financial decision-making, and resilience, the study aims to generate insights that can inform advocacy, capacity-building initiatives, and professional

engagement. Although influencing policy is not the primary objective, the research seeks to raise awareness of the strategic value of audits in small business contexts, particularly in sectors where audit uptake remains low and informal financial practices are prevalent.

The findings are expected to benefit several stakeholder groups. For MSME owners and managers, the study highlights how audits can enhance trust, improve access to finance, and strengthen internal financial systems, reframing audits from being perceived as regulatory burdens to tools for strategic growth. For auditors and finance professionals, the research offers an opportunity to better understand the unique challenges faced by MSMEs and to explore the provision of simplified, tailored, or pro bono audit services. Support institutions and advocacy organisations may use the insights to design targeted training programmes, awareness campaigns, and audit-readiness initiatives.

Finally, the study contributes to the academic discourse on MSME development in Zambia, addressing a notable gap in research on financial governance and audit adoption within agro-based enterprises. It lays the foundation for future studies that may further explore the socio-economic and institutional dynamics influencing financial practices in this vital sector.

1.7. Scope of the study

This study focused on businesses with annual turnovers between ZMW 600,000 and ZMW 20 million. The study involved the following groups:

Table 1.1: Summary of Target Groups and their contribution to the study (Source (Author, 2025))

Participant Group	Scope and Contribution
Agro-based MSME Owners and Managers (Audit-Adopting and Non-Adopting)	Provide insights into the perceived value, challenges, and experiences of financial audit adoption, and its impact on decision-making, growth, and access to finance.
Company Auditors	Offer perspectives on audit practices among agro-based MSMEs, including challenges faced during audits,

Participant Group	Scope and Contribution
	perceived benefits, and strategies to increase adoption.
ZICA Representatives	Share institutional efforts to promote audit adoption among MSMEs, identify systemic barriers, and propose capacity-building initiatives.
ZDA Representatives	Provide insights on audit-linked support for agro-based MSMEs, especially regarding access to finance and development programs.
Financial Institution Representatives (e.g., Banks & other finance lending institutions)	Explain how audited financials influence lending decisions and discuss opportunities to support MSMEs in improving financial governance through audits.

1.8. The Organization of the Report

This Dissertation is organised into eight chapters, each contributing towards a structured and detailed exploration of the role of financial audits in enhancing the growth and sustainability of agro-based MSMEs in Lusaka.

- **Chapter One** introduces the study by presenting the background and context of the problem, the statement of the problem, research objectives and questions, and the significance, scope, and limitations of the study. It also defines key concepts and terms used throughout the report.
- **Chapter Two** presents the literature review, covering both theoretical and empirical aspects of financial audits, MSME development, audit adoption, and financial governance. It also identifies research gaps that the study intends to address, especially in the Zambian context.
- **Chapter Three** outlines the research methodology, including the research design, target populations, sampling approach, data collection methods, and how data was analysed. Ethical considerations observed during the research process are also highlighted.

- **Chapter Four** presents the research findings. The results from key informant interviews and questionnaires are analysed and summarised under key thematic areas, supported by tables and charts.
- **Chapter Five** discusses the research findings in relation to the reviewed literature. It highlights key insight, explains observed patterns, and reflects on the significance of the findings for audit adoption, MSME sustainability, and stakeholder engagement.
- **Chapter Six** provides the conclusion and recommendations. It summarises the key findings of the study and offers practical suggestions for MSME owners, financial professionals, support institutions, and policymakers. Areas for future research are also proposed.
- **Chapter Seven** includes all the references that was used across the study. Every source mentioned in the report has been listed following the academic referencing style required by the University, helping to support the credibility and making it easy to trace where information came from. This is followed by the appendices, which include the interview and questionnaire guides used during data collection, the participant consent form, the ethics clearance form from the University, and approvals from key stakeholders who allowed data to be collected from their institutions or related parties. These attachments gives extra background and shows the tools and processes that supported the research and ethical conduct of the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The literature on financial audits is extensive but often conceptually unclear, mainly in distinguishing between general audits and financial audits. While audits broadly refer to independent evaluations of records, financial audits specifically assess the fairness of financial statements in line with established standards such as IFRS or IAASB guidelines (ACCA, 2019; IAASB, 2021). This distinction is crucial, especially for MSMEs in resource-constrained environments, where misconceptions about the scope of audits, such as expecting them to uncover all inefficiencies or fraud, often arise (Sikka, 2009). Such misunderstandings contribute to an audit expectation gap where users overestimate the scope and value of audits, especially when they have limited exposure to auditing processes (ACCA, 2019).

Despite these concerns, studies consistently show that financial audits can significantly enhance transparency, accountability, and credibility (ACCA, 2010; IFAC, 2011). For MSMEs, particularly in developing countries, audits improve access to finance, enhance internal control systems, and foster stronger relationships with external stakeholders like investors and donors (World Bank, 2021). However, critiques of the audit profession highlight the ritualistic nature of audits in some regions, where compliance takes precedence over deeper insights (Sikka, 2009; Power, 1997). For MSMEs, particularly in Zambia, concerns about the cost and complexity of audits remain significant barriers (Bank of Zambia, 2022; Seim, 2019). Despite these challenges, audits are recognized as valuable tools for governance improvement, operational decision-making, and business sustainability.

This literature review explores these themes, specifically focusing on perceptions of audits, challenges to their adoption, the perceived benefits, and contextual factors that shape audit effectiveness in Zambia's agro-based MSME sector. This review aims to fill gaps in the literature, particularly the lack of empirical evidence on how these businesses perceive and utilize financial audits, especially in relation to managing externally funded resources.

2.2 Thematic Review of Empirical Literature

2.2.1 Perceptions of Financial Audits

Global Perspective:

Across various countries, existing literature consistently highlights that MSME owners' perceptions of financial audits significantly influence both their likelihood of adopting audits and how they utilise them. Coskun and Gungormus (2024), in a quantitative study involving 173 SME managers in Turkey, examined the impact of internal audit quality and accounting information systems on attitudes towards external audits. Their findings revealed that SMEs with weak internal systems or limited accounting knowledge often viewed audits as overly technical and burdensome, leading to avoidance unless audits were legally mandated or linked to tangible benefits. Factors such as business size, financial capacity, and access to professional support were also found to shape whether audits were perceived as mere compliance tools or as valuable mechanisms for business growth.

Graña-Alvarez et al. (2022) conducted a comprehensive review of over 150 academic sources on financial literacy and decision-making among SMEs in South America. Their study emphasised that financial literacy plays a critical role in shaping audit perceptions and increases the likelihood of audit adoption. SME owners with a basic understanding of financial principles were more inclined to view audits as tools that support planning, decision-making, and access to finance. The research also noted that financial knowledge fosters stronger connections with formal financial systems, including audits. However, the authors acknowledged a gap in research within low- and middle-income countries, where informal business practices and limited awareness may influence audit-related behaviours.

Further insights were provided by Lozano Montero et al. (2020), who surveyed 213 SMEs in Mexico. Their study found that many business owners recognised the value of external audits, particularly in reducing financial risk and improving access to affordable credit. A key finding was that owners who could distinguish between financial audits and tax-related audits were more receptive to adopting them. Nonetheless, the applicability of

these findings to countries with weaker audit infrastructure may be limited, as the study was conducted in a context with relatively strong regulatory and institutional frameworks. The European Federation of Accountants and Auditors for SMEs (EFAA, 2019) compiled a report titled *Evidence on the Value of Audit for SMEs*, synthesising findings from multiple studies and policy documents across Europe. The report concluded that audits offer numerous benefits, including improved internal controls, enhanced financial discipline, reduced fraud risk, and better access to finance. It highlighted that banks and investors tend to place greater trust in audited financial statements, thereby increasing SME credibility. Even in jurisdictions where audits are not mandatory, voluntary adoption was associated with long-term advantages such as stronger governance and competitiveness. However, the report also stressed the importance of ensuring that audits are cost-effective and tailored to the scale and complexity of smaller enterprises.

Dahmen and Rodríguez (2014) adopted a mixed-methods approach, combining surveys and case studies to explore how financial literacy and perceptions influence the use of financial tools in small businesses in the United States. Their findings indicated that owners with higher financial literacy were better equipped to manage finances and make informed decisions. While relevant to this study, their research did not specifically focus on audits or the realities of businesses in low-income or agro-based contexts, particularly those reliant on donor support.

Collectively, these international studies suggest that audit perceptions are shaped by financial literacy, understanding of audit value, and the availability of support structures. However, there remains limited evidence on how these dynamics apply in developing economies such as Zambia, where many agro-based MSMEs operate informally and may lack familiarity with audit processes.

Regional Perspective (Sub-Saharan Africa and Middle East):

Recent literature from the Middle East and Sub-Saharan Africa indicates that MSME perceptions of audits are influenced by organisational capacity, regulatory pressure, and awareness of audit benefits. In Egypt, Abouelghit and Gan (2024) conducted a mixed-methods study titled *Empirical Research on the Effects of Mandatory Auditing for SMEs on Their Internal Control Quality and Management's Perceptions*. Drawing on survey responses from 803 stakeholders and longitudinal data from 56 SMEs, the study found

significant improvements in internal controls following the introduction of mandatory audits. While auditors generally supported audits and recognised their value, SME owners expressed concerns about cost, complexity, and limited internal capacity. The authors concluded that although mandatory audits enhance governance, greater engagement and education are needed to foster ownership of the audit process among SME owners.

In South Africa, Coetzee and Buys (2017) explored SME perceptions of independent reviews and accounting skills in relation to bank financing. Using a quantitative survey of SME owner-managers, the study found that many SMEs did not consider independent reviews sufficient for securing bank loans and lacked the accounting expertise to appreciate the value of formal assurance services. The findings also revealed a degree of mistrust towards financial institutions and highlighted a disconnect between SME needs and the structure of existing audit and review systems.

Taken together, these regional studies demonstrate that audit perceptions are shaped by business size, technical capacity, and regulatory frameworks. However, most of the research focuses on mandatory or tax-related audits within formal business environments. There is a notable gap in understanding the factors that influence voluntary audit adoption among agro-based MSMEs, particularly in lower-capacity economies such as Zambia.

Local Perspective (Zambia):

In Zambia, existing research indicates that MSME owners' perceptions of financial audits are shaped by limited exposure to audit practices, low levels of financial literacy, and a general mistrust of formal financial systems. The Bank of Zambia (2022), through its MSME Finance Survey Report covering over 2,000 enterprises nationwide, found that only 3.3% of MSMEs had ever undergone a financial audit. Among informal businesses, this figure dropped to just 1.1%. Furthermore, over 90% of MSMEs managed their financial records without professional assistance. These statistics reflect not only low audit uptake but also a broader perception among MSME owners that audits are neither necessary nor beneficial to daily operations. The report attributed this to poor access to

audit services, lack of simplified audit models tailored to small businesses, and minimal audit exposure.

Kinyua (2022) examined how internal factors, particularly management attitudes, influence SME access to finance and formalisation. Although the study did not focus specifically on audits, it reinforced the notion that business owners' perceptions play a critical role in their willingness to engage with formal financial practices. Similarly, Seim (2019), in a survey of 1,390 MSMEs across Lusaka and Central Province, investigated barriers to tax compliance. While primarily focused on taxation, the study provided valuable insights into MSMEs' attitudes towards broader financial oversight mechanisms, including audits. Only 7.4% of respondents had ever been audited, and many expressed concerns about the high cost of audits, fear of penalties, and distrust particularly when audits were associated with government tax systems. These perceptions discouraged voluntary audit adoption and reinforced the view that audits are burdensome rather than beneficial.

In summary, there is a clear disconnect between the formal benefits associated with audits and how they are perceived and utilised by Zambian MSMEs, especially those operating informally or within agro-based sectors. While global and regional literature underscores the strategic value of audits, many MSMEs in Zambia continue to view them as unnecessary, costly, or even risky. Importantly, current research does not adequately compare the perceptions and experiences of MSMEs that adopt audits with those that do not. This study seeks to address that gap by exploring not only perceptions but also the practical outcomes of audit adoption, including its influence on financial discipline, business decision-making, and long-term sustainability.

2.2.2 Challenges to Audit Adoption in MSMEs

Global Perspective

Empirical literature from various countries consistently highlights that high audit costs and complexity are among the primary reasons MSMEs avoid engaging in audit processes. These challenges extend beyond financial constraints to include rigid regulatory frameworks and audit standards that often fail to reflect the operational realities of smaller enterprises. In the United Kingdom, the Financial Reporting Council (FRC, 2025), through

its *Market Study into SME Audit and Reporting Challenges*, engaged stakeholders to assess the audit burden on SMEs. Preliminary findings indicate growing concern over escalating costs, demanding reporting requirements, and the suitability of current audit expectations for small businesses.

Similarly, the Quoted Companies Alliance (QCA, 2024), in its report *The Crisis of Unaffordable Audits*, documented a 75% increase in audit fees for listed SMEs between 2017/18 and 2022/23. Although the study focused on listed entities, it noted that smaller, non-listed firms also face significant cost barriers when attempting voluntary audits. In response to these concerns, the International Auditing and Assurance Standards Board (IAASB, 2023) introduced the *International Standard on Auditing for Less Complex Entities (ISA for LCE)*, aimed at simplifying audit procedures for small businesses. However, the effectiveness of this initiative depends on national adoption and the availability of local training and infrastructure conditions that remain underdeveloped in many low-income countries.

In Iran, Abdollahi et al. (2023), through a grounded theory study titled *A Model for Determining Audit Fees with Emphasis on the Tone of Financial Reporting*, found that audit pricing is influenced by factors such as company size, sector, and the presentation of financial reports, making affordability difficult to generalise across contexts. Bello, Idemudia and Iyelolu (2024), in their comparative review of compliance systems in the USA, UK, and Canada, identified audits as part of a broader regulatory burden for SMEs and advocated for simplified rules and tailored support mechanisms.

In Southeast Asia, Suman and Ismail (2023) examined Malaysian SMEs and confirmed that cost and complexity remain key deterrents to voluntary audit adoption. Their findings showed that audits were primarily adopted when they served regulatory compliance or improved access to finance, rather than being viewed as essential governance tools. The IFAC Audit Fees Survey (2022), which analysed trends from 2013 to 2020 across North America and Europe, also reported rising audit fees, with smaller firms disproportionately affected due to the higher relative cost burden.

While these studies underscore the global recognition of audit-related challenges, most focus on formal, well-regulated environments. There is limited empirical evidence on how

MSMEs in developing countries, such as Zambia, experience these issues. The applicability of these findings to informal or resource-constrained settings particularly agro-based MSMEs remains unclear. This study seeks to explore that gap.

Regional Perspective (Sub-Saharan Africa) and Local Perspective (Zambia):

Although global research provides strong evidence that audit cost and complexity are significant barriers to adoption, much of it originates from high-income and formally regulated economies. There is a notable lack of empirical work examining how these challenges manifest in Sub-Saharan Africa, where MSMEs often operate with informal bookkeeping systems, limited audit infrastructure, and minimal regulatory oversight. Existing literature tends to focus on quoted firms or structured SMEs in markets where audits are mandatory, offering limited insight into voluntary audit adoption in less formal contexts.

In Egypt, Abouelghit and Gan (2024) investigated the impact of mandatory audits on SMEs and found that while audits improved internal controls, SME managers viewed them as costly and complex. Although informative, the study's focus on mandatory audits limits its relevance to countries like Zambia, where most MSMEs are not legally required to undertake audits and decisions are driven more by perceived benefits and available support.

Currently, there is a lack of empirical research examining how audit costs, perceptions of value, and institutional limitations affect audit uptake among agro-based MSMEs in Zambia. Many of these enterprises operate informally or semi-formally, and there is little understanding of their awareness or responsiveness to developments such as the ISA for Less Complex Entities. It remains unclear whether these businesses are even aware of efforts to simplify audit processes or whether such initiatives are accessible to them. This gap in regional and local knowledge underscores the need for targeted research, which this study aims to address.

2.2.3 Perceived Benefits of Audits for MSMEs

Global Perspective:

Empirical studies consistently demonstrate that financial audits offer a range of strategic and operational benefits to MSMEs, extending beyond mere regulatory compliance. Suman and Ismail (2023), in their study of 250 Malaysian SMEs, found that firms undertaking voluntary audits experienced improved access to credit and enhanced investor confidence. The study emphasised that the primary motivation was not regulatory pressure, but rather the perceived value of audits in promoting transparency and strengthening business reputation.

Cole and Frost (2020), using World Bank Enterprise Survey data from emerging markets, examined the relationship between audit adoption and credit access. Their findings revealed that MSMEs with audited financial statements were 6.5% more likely to secure credit, paid 52% lower interest rates, and generally received more favourable loan terms than their unaudited counterparts. The authors argued that audits help bridge information asymmetries, signal trustworthiness to lenders, and improve internal financial practices. However, they acknowledged that their macro-level analysis did not account for sector-specific dynamics, such as those in agriculture, which may limit the generalisability of their conclusions.

In Spain, Palazuelos, Herrero Crespo and Montoya del Corte (2020) explored how audit information influences lending decisions. Through surveys and interviews with bank officers, they found that audited statements not only provided financial data but also conveyed credibility, competence, and sound management factors that positively influenced credit decisions. Similarly, the European Federation of Accountants and Auditors for SMEs (EFAA, 2019), in a survey across 29 European countries, reported that voluntary audits contributed to improved internal controls, enhanced financial image, and increased access to external funding. SMEs seeking growth or partnerships often opted for audits even in the absence of legal requirements.

Collectively, these studies affirm that audits can elevate an SME's profile, improve its risk outlook, and support long-term strategic goals. However, they also highlight that the realisation of these benefits depends heavily on context. Business owners must

understand the purpose of audits and integrate audit insights into their operational and financial decision-making. Most of the available research has been conducted in high-income settings with robust audit infrastructures, which may not reflect the realities of MSMEs in developing economies.

Regional Perspective (Sub-Saharan Africa):

Recent studies from Sub-Saharan Africa continue to validate the benefits of both financial and internal audits for small businesses, particularly when audits are embedded into routine business practices. Apon, Ismene and Ismail (2024), in their study on internal auditing and SME sustainability in Uganda, found a strong correlation between effective internal controls and business longevity. Although focused on internal audits, the findings suggest that structured audit practices enhance governance, financial discipline, and long-term growth especially in sectors like agriculture, where formal systems are often lacking.

Kinyua (2022), in a multi-country study involving SMEs from Kenya, Uganda, Tanzania, Zambia, Rwanda, and Ethiopia, found that enterprises with external audits and international certifications had better access to finance. The research highlighted that formal reporting systems increased credibility and made businesses more attractive to funders, whereas those without such practices faced greater challenges in securing financial support.

Mkhize (2021), in a case study of SMMEs within eThekweni Municipality, surveyed 150 small businesses to assess the impact of financial audits on sustainability and performance. The study revealed that audited firms had stronger financial controls, easier access to funding, and greater trust from stakeholders. Audits, when used proactively, supported strategic growth and transparency. However, the study also noted that limited understanding of audit processes among microenterprises remained a barrier to fully realising these benefits.

Oosthuizen, Van Vuuren and Botha (2020) examined small business owners in South Africa and found that regular use of professional accounting or audit services provided more than compliance it offered strategic guidance, improved risk identification, and increased managerial confidence. The study concluded that when audits are viewed as

tools for business management rather than regulatory obligations, entrepreneurs tend to be more resilient and forward-looking.

Together, these regional studies reinforce the view that audits, when understood and applied effectively, can enhance financial management, support growth, and improve sustainability in small enterprises. However, most of this research has been conducted outside Zambia and often in more structured environments. There remains limited understanding of how agro-based MSMEs in Zambia perceive audits or whether they experience similar benefits.

Local Perspective (Zambia):

In Zambia, empirical research examining MSMEs' perceptions of the benefits of financial audits remains limited. The Zambia Development Agency (ZDA, 2019), in its report on SME development, acknowledges that audits can enhance transparency and facilitate access to finance. However, it also notes that many MSMEs undertake audits primarily to satisfy donor or lender requirements, rather than recognising audits as tools for internal business planning and strategic growth. In most cases, audits are treated as one-off compliance exercises, with little follow-up on recommendations or integration into long-term sustainability strategies.

An article by Lwizi (2020), published in the *Zambian Business Times* and titled *The Benefits of Audit and Assurance Services to Start-Up Businesses*, supports the notion that audits contribute to business credibility and risk management. However, the analysis relies heavily on World Bank data from developed countries and lacks Zambia-specific evidence. While the article raises general awareness, it does not provide insight into how local SMEs actually perceive or apply audit practices.

Most local studies have focused more on financial literacy than on audit adoption. For example, Ilubala (2023) examined barriers facing SMEs in the digital services sector and identified limited financial literacy as a major constraint. Although not directly related to audits, the findings suggest that low financial literacy may hinder the uptake and effective use of audit services. Similarly, Kunda (2021), in a survey of 248 SMEs in Lusaka, identified ten key success factors influencing MSME performance. While financial illiteracy was not explicitly mentioned, the study highlighted challenges such as poor

access to financial services and inadequate information flow – factors that often correlate with low engagement in formal financial practices like auditing.

Overall, these findings point to a significant gap in local research regarding how agro-based MSMEs in Zambia engage with financial audits and whether they perceive them as beneficial. While global and regional literature emphasises the strategic value of audits, many Zambian MSMEs particularly those operating informally, continue to view audits as external obligations rather than internal tools for growth and sustainability. This study seeks to address that gap by exploring both the perceptions and practical outcomes of audit adoption among agro-based MSMEs in Lusaka.

2.2.4 Contextual Factors Affecting Audit Effectiveness

Global to Local Perspective

The effectiveness of financial audits for MSMEs is closely tied to the regulatory and institutional environments in which these businesses operate. At the global level, organisations such as the United Nations Conference on Trade and Development (UNCTAD) and the World Bank have introduced initiatives aimed at improving SME financial reporting. These include the IFRS for SMEs, the Accounting Development Tool, and various capacity-building programmes (World Bank, 2021; 2024; UNCTAD, 2016). While these efforts aim to strengthen audit ecosystems and promote standardisation, they often fall short in addressing sector-specific needs or achieving equitable reach across diverse regions.

To simplify audit procedures for smaller entities, the International Auditing and Assurance Standards Board (IAASB) introduced the *International Standard on Auditing for Less Complex Entities (ISA for LCE)* in 2023. Developed through consultations with multiple countries, this standard seeks to make audits more scalable and accessible without compromising quality (IAASB, 2023). However, its practical impact will depend on national adoption and the extent to which local systems and training infrastructures can support its implementation.

Regionally, Abouelghit and Gan (2024) examined the effects of mandatory audits on SMEs in Egypt. Their study found that while audits improved compliance and access to

finance, their effectiveness was limited by poor audit literacy and weak internal systems. Similarly, Apon, Ismene and Ismail (2024) demonstrated that internal audits positively influenced SME sustainability in Uganda, suggesting that regular audit engagement whether internal or external can enhance governance and resilience. A particularly relevant study by Chalu (2019) in Tanzania offers deeper insight into how contextual factors shape audit effectiveness among small and medium-sized practices (SMPs). Although Tanzania adopted International Standards on Auditing (ISAs) in 2004, Chalu found that successful implementation among SMPs was not guaranteed by regulatory enforcement alone. Instead, audit effectiveness was influenced by resource availability (financial and human), client capacity, organisational culture, and technological readiness. Using canonical correlation analysis, the study showed that audit success is multidimensional, requiring firms to meet quality, ethical, engagement, and monitoring standards. Importantly, the study highlighted that audit frameworks often cater to large firms, creating a mismatch in applicability for smaller practices.

These insights are particularly relevant to Zambia, where agro-based MSMEs face similar constraints. Although the Zambia Institute of Chartered Accountants (ZICA) has initiated workshops on audit readiness and IFRS for SMEs (ZICA, 2024), and the Zambia Development Agency (ZDA) includes financial reporting in its support programmes, these initiatives remain largely theoretical and underfunded. Many MSMEs, especially those operating informally or within agro-based sectors, lack the financial literacy, formal record-keeping systems, and access to qualified auditors necessary to engage meaningfully with audit processes. As observed in Tanzania, audits in Zambia are often perceived as donor-driven or regulatory obligations rather than strategic tools for business development (Bank of Zambia, 2022).

Chalu's (2019) findings also underscore the importance of organisational culture and structure in shaping audit outcomes. SMPs that fostered professionalism, adaptability, and strategic planning were more likely to adopt and benefit from audits. This suggests that audit effectiveness is not solely dependent on external enforcement but also on internal readiness and mindset, an area that remains underexplored in the Zambian context.

In conclusion, while this study does not attempt to analyse all institutional and regulatory factors affecting audit adoption, it focuses on how MSME owners perceive the value of audits and how these perceptions influence engagement. The Tanzanian experience offers a valuable regional comparison, reinforcing the need for context-specific audit reforms that go beyond compliance and address internal capacity, client education, and tailored audit frameworks. Global benchmarks such as those provided by IFAC (2022) are useful, but locally grounded evidence is essential for designing practical and relevant support measures to improve audit uptake and effectiveness among MSMEs.

2.3 Theoretical Framework

This study draws on three main theories: Agency Theory, Signalling Theory, and the Resource-Based View (RBV). When brought together, they help explain why MSMEs might choose to adopt financial audits, what benefits they expect or actually gain, and what challenges they face, especially in the Zambian context. Each theory looks at a different part of the picture, but combined, they give a well-rounded way to understand how audits can affect business growth, sustainability, and how MSMEs relate with key stakeholders.

2.3.1 Agency Theory

Agency Theory, first introduced by Jensen and Meckling (1976), looks at the relationship between principals (like business owners) and agents (such as managers), focusing on how conflicts can arise when agents act in their own interest rather than the owner's. This often leads to extra costs like monitoring and control measures to reduce risks caused by information gaps. In bigger companies, these problems are addressed through financial audits, which help reduce such gaps and limit opportunistic behaviour (Watts & Zimmerman, 1983; Fama & Jensen, 1983).

In the case of MSMEs, especially in countries like Zambia where owners usually manage the businesses themselves, internal conflict is less of an issue. But once these businesses interact with external players like banks, donors, or regulators, similar trust issues pop up. Here, audits become useful again, not for internal oversight, but to show outsiders that the business is credible and well-managed. For example, Nkwinka and Akinola (2023) found that Nigerian SMEs with solid financial systems, including audits,

were more likely to get funding. Mkhize (2021) also noted that South African MSMEs with audits in place had better financial access thanks to improved controls and transparency. In Zambia, Kinyua (2022) observed the same trend MSMEs with proper financial practices, including audits, were more likely to attract finance. So, even though Agency Theory was mostly meant for large firms, it still works well for MSMEs in Zambia. It helps explain why audits matter not just to meet rules, but to build trust and unlock resources from outside the business. This theory gives a useful way to look at audit adoption among agro-based MSMEs in Lusaka.

Strengths

Agency Theory offers a compelling explanation for the role of financial audits in building trust between MSMEs and external stakeholders such as banks, donors, and regulators. In contexts where information asymmetry is high, audits serve as a monitoring mechanism that reassures third parties of the enterprise's financial integrity and operational discipline. This is particularly relevant for agro-based MSMEs in Zambia that seek external funding or participate in donor-supported programmes. By reducing the risk of opportunistic behaviour and enhancing transparency, audits help bridge the trust gap between MSMEs and those who provide financial or technical support. Furthermore, the theory supports the idea that audits are not merely compliance tools but strategic instruments for improving governance and accountability.

Weaknesses

Despite its relevance, Agency Theory has limitations when applied to MSMEs, especially those that are owner-managed. In such cases, the principal-agent divide is minimal or non-existent, making the theory less applicable to internal governance dynamics. Additionally, the theory assumes the presence of formal organisational structures and rational decision-making processes, which may not reflect the realities of informal or semi-formal MSMEs in Zambia. Many of these enterprises operate with limited documentation, low financial literacy, and minimal exposure to formal audit practices. As a result, the assumptions underpinning Agency Theory may not fully capture the complexities and constraints faced by MSMEs in low-capacity environments.

2.3.2 Signalling Theory

Signalling Theory, first put forward by Spence (1973), is about how one party in a market with less information like a lender or investor can be reassured when the other party like an SME sends credible signals to show they are trustworthy. One strong signal is an audit. If it's costly and can't be easily faked, it tells outsiders that the business is serious and financially sound (Connelly et al., 2011).

For many MSMEs in Zambia, especially those in the agro-sector, audits help to prove their legitimacy. Most of these small businesses run informally, with poor or inconsistent financial records. This makes it difficult for banks or donors to decide if they can trust them (Bank of Zambia, 2022; ZDA, 2019). But when a business has audited financial statements, it can stand out by showing it has good financial practices and stronger governance (Ross, 1977; Healy & Palepu, 2001).

Still, for this kind of signalling to work, others have to recognise and trust it. That depends on a few things like how respected the auditing firm is, how often audits are done, whether funders or stakeholders understand what audits mean, and if the audit system itself is trusted (Connelly et al., 2011). In places where these conditions are weak, audits may not carry much weight. Some MSMEs might even avoid audits because they feel the cost isn't worth it, especially if nobody seems to care whether their books are audited or not. This fits with studies that show voluntary audit adoption is higher where financiers actively look for and value audited statements (Abouelghit & Gan, 2024; World Bank, 2021). Mkhize (2021) also found that in South Africa, businesses didn't bother with audits unless a bank or donor insisted on it.

Strengths

Signalling Theory provides a valuable framework for understanding why MSMEs with audited financial statements are more likely to access finance. In environments where lenders and investors face uncertainty about the financial health of small businesses, audits serve as credible signals of transparency, discipline, and reliability. This is particularly relevant in Zambia's agro-based MSME sector, where informal practices and inconsistent record-keeping often create barriers to trust. By voluntarily undergoing audits, MSMEs can differentiate themselves from less formal enterprises and demonstrate their readiness for external engagement. The theory also highlights the

strategic value of audits beyond regulatory compliance, positioning them as tools for enhancing business reputation and attracting investment. In this way, Signalling Theory supports the idea that audits are not just technical exercises but important instruments for market positioning and growth.

Weaknesses

Despite its strengths, Signalling Theory has limitations, especially in low-capacity environments. The effectiveness of audit signals depends heavily on the credibility of the signal itself and the ability of the receiver, such as a bank or donor to interpret and value it appropriately. In contexts where audit literacy is low or where stakeholders lack confidence in the audit ecosystem, the signal may be ignored or misunderstood. This is a common challenge in Zambia, where many MSMEs operate informally and where institutional recognition of audit signals is inconsistent. Moreover, if audits are perceived as donor-driven or symbolic rather than substantive, their signalling power may be diminished. These weaknesses suggest that for Signalling Theory to be fully applicable, there must be parallel efforts to strengthen institutional trust in audits and improve stakeholder awareness of their strategic value.

For this research, Signalling Theory helps unpack how agro-based MSMEs in Lusaka view audits not just as a reporting tool but as a way to communicate reliability and build trust. It also helps explain why some adopt audits and others don't, and how the audit signal could be strengthened, for example through more awareness or improved audit services. In short, the theory shows how audits can play a key role in helping MSMEs overcome trust barriers and improve their chances of accessing finance and growing their businesses.

2.3.3 Resource-Based View (RBV)

The Resource-Based View (RBV), developed by Barney (1991), argues that firms can gain lasting competitive advantage by using resources that are valuable, rare, hard to copy, and not easily replaced. This theory shifts focus from outside market forces to what happens inside a business its systems, skills, and internal strengths. For small firms, especially in developing countries, this has become a useful way to explain how they can still succeed even with fewer resources (Newbert, 2007; Wernerfelt, 1984). A study by Rodríguez-Aldana, López-Vázquez, and Rodríguez-Aceves (2024) backs this idea by

showing how conscious business practices, like being transparent and ethical, help build a company's good name or reputational capital. Although the study didn't focus just on audits, it made clear that governance tools like audits play a key role in gaining trust and access to finance.

In Zambia's agro-based MSME sector, where informality is high and support systems are weak, audits could help transform how small businesses operate. They help improve efficiency, reduce fraud, and build compliance with tax, donor, and procurement rules (ZDA, 2023; World Bank, 2021). More importantly, audits can act as a learning tool, helping MSME owners build better financial systems and become more sustainable. But just having a resource isn't enough, as RBV also points out. Businesses must know how to use it. Zahra and George (2002) call this "absorptive capacity" the ability to recognise, absorb, and make use of valuable resources. For audits, this means MSMEs need to do more than just get an audit done. They should understand the findings, make changes, and apply the lessons to improve performance. Where skills or financial knowledge is low, these benefits may not be realised. Also, using audits well depends not only on the business but on the environment around it. For audits to work, MSMEs must be able to access affordable, trustworthy auditors and get support from institutions like ZICA or ZDA.

Other recent studies confirm these points. For example, Hassan, Zailani, and Rahman (2021) found that Malaysian SMEs using audits improved governance and got better support from lenders. Likewise, Apon, Kintu, and Nuwagaba (2024) found that Ugandan agro-SMEs who saw audits as part of learning not just compliance built stronger systems and got more external support. These findings agree with the RBV's idea that real value comes not just from having resources, but from using them wisely and aligning them with long-term goals.

Strengths

The Resource-Based View (RBV) offers a powerful lens for understanding how internal capacity and learning drive the effectiveness of financial audits within MSMEs. It emphasises that audits are not merely external compliance tools but can be transformed into strategic resources that enhance financial discipline, operational efficiency, and long-term sustainability. This perspective aligns well with the realities of agro-based MSMEs in Zambia, where businesses often operate in resource-constrained environments and must

rely on internal strengths to remain competitive. By viewing audits as intangible assets—capable of improving internal systems and decision-making—RBV supports the idea that MSMEs can leverage audit engagement to build resilience and credibility. The theory also reinforces the importance of continuous learning and adaptation, suggesting that audits can serve as catalysts for institutional development when MSMEs are equipped to absorb and apply audit insights.

Weaknesses

Despite its relevance, RBV assumes that MSMEs possess the absorptive capacity needed to implement audit recommendations and translate them into improved performance. In practice, many small enterprises particularly those operating informally lack the financial literacy, technical skills, or organisational infrastructure to fully benefit from audit findings. This limits the practical utility of RBV in low-capacity settings, where audits may be conducted but not internalised. Additionally, the theory tends to focus on internal dynamics and may overlook external constraints such as the high cost of audits, limited access to qualified auditors, and regulatory complexity. These factors can significantly hinder audit adoption and effectiveness, especially in developing economies like Zambia. Therefore, while RBV provides valuable insights into the potential of audits as internal resources, its assumptions must be tempered with an understanding of the broader institutional and market challenges faced by MSMEs.

In this research, RBV helps to explore how agro-MSMEs in Lusaka view audits not as a tick-box for donors but as something that adds internal value. It supports Objective 3 by looking at how audits help improve financial systems, and Objective 4 by identifying what's needed internally and externally to make audits more useful and more widely adopted. Together, RBV, Agency Theory, and Signalling Theory give this study a strong theoretical base:

- Agency Theory shows audits help manage risk and build trust with outsiders.
- Signalling Theory explains how audits send important messages about credibility.
- RBV highlights how audits can be internal tools for building stronger, more resilient businesses.

This combined framework helps us understand not just whether MSMEs adopt audits, but why, and what helps or blocks them from using audits effectively for their growth and sustainability.

2.4 Conceptual Framework

2.4.1 Introduction

The conceptual framework for this study looks at how financial audits relate to the growth and sustainability of MSMEs. It focuses on how various factors like how audits are perceived, how well finances are managed, the ease of accessing finance, and the level of regulatory support shape or influence the effect that audits have on business outcomes. By connecting these elements, the framework helps to explain not just whether audits are done, but how they impact the day-to-day running and long-term survival of agro-based MSMEs in Lusaka.

2.4.2 Independent Variable

Financial Audit Engagement: refers to whether and how often MSMEs carry out financial audits, the kind of audits they do, and how they view the quality of those audits. It also looks at how involved they are in the audit process and how they connect it to their general business running and future goals.

2.4.3 Mediating Variables

These variables help explain how financial audits influence MSME outcomes by showing the different ways audits shape business operations:

- Perceptions of Audit Usefulness – This is about how MSME owners or managers view the value of audits. It depends on things like whether they trust the audit process, if they think the benefits are worth the cost, and if they believe audits help in making business decisions. When perceptions are positive, businesses are more likely to adopt audits and use them for planning. But if the perceptions are negative,

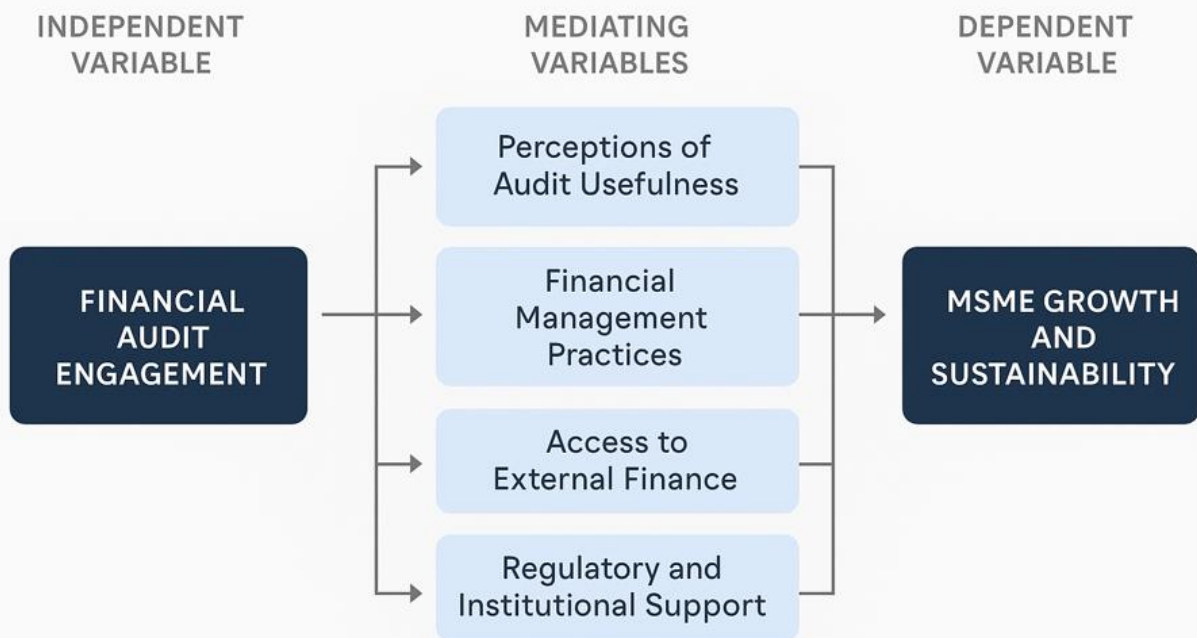
audits may be avoided (Zahra & George, 2002; Coskun & Gungormus, 2024; Kinyua, 2022).

- Financial Management Practices – This looks at how audits affect the way MSMEs handle their finances, like bookkeeping, budgeting, and internal controls. Exposure to audits can lead to better financial discipline, helping improve decisions and run operations more efficiently (Bank of Zambia, 2022; World Bank, 2021; ZDA, 2019).
- Access to External Finance – Audited statements make MSMEs appear more credible, which can help them get loans, donor funds, or investments. Audits act as a signal of trust for banks and investors, making it easier to secure money and sometimes at better terms (Cole & Frost, 2020; Mkhize, 2021).
- Regulatory and Institutional Support – This refers to whether there are audit guidelines, SME-friendly rules, and enough audit professionals available to help MSMEs adopt audits. Support from bodies like ZICA, ZDA, and government regulators plays a big role in either encouraging or limiting audit use (Bank of Zambia, 2022; World Bank, 2021; ZDA, 2019).

2.4.4 Dependent Variables

MSME Growth and Sustainability – This refers to the long-term results that come from engaging in financial audits. It includes things like better financial decisions, stronger planning, the ability to handle economic challenges, and growing the business. MSMEs that use audits as part of how they manage and govern their finances are more likely to see steady growth and improved resilience over time (Apon, Kintu, & Nuwagaba, 2024; Mkhize, 2021).

Figure 2.1: Conceptual Framework for this study, Source (Author, 2025)



This framework positions financial audit engagement as the key independent variable, with perceptions, financial management practices, access to external finance, and regulatory support acting as mediating variables. The framework suggests that these factors collectively influence MSME growth and sustainability, which is the dependent variable. This structure will guide the investigation into how audits affect MSME development, particularly in the context of Zambia's agro-based sector.

2.5. Conclusion

This chapter has looked at both theory and evidence from past studies on financial audits, focusing on how MSMEs see their value, face challenges adopting them, and experience their impact. It shows that audits can help small businesses improve governance,

manage finances better, and gain access to external funding. But barriers like high costs, complexity, and low awareness continue to hold many back.

By using Agency Theory, Signalling Theory, and the Resource-Based View, the chapter offers a solid lens to understand how audits can reduce information gaps, build trust with outsiders, and strengthen internal systems. Still, there are big knowledge gaps, especially in countries where audit systems are weak and many MSMEs have little exposure to them. This is true for Zambia's agro-based MSMEs, and it's this gap that the current study aims to address by exploring how audit perceptions affect adoption and long-term business sustainability.

Below is a summary of all the literature that has been discussed in this section including sources, conclusion and recommendations and existing gaps in relation to this study:

Table 2.1: Literature Review Summary (Source: Author 2025)

Author(s)	Year	Title	Findings	Conclusion	Knowledge Gap	Country of Publication
Abdollahi et al.	2023	A Model for Determining Audit Fees with Emphasis on the Tone of Financial Reporting Based on Grounded Theory in Iran	audit costs vary by size and industry.	Affordability depends on contextual dynamics.	No pricing studies specific to zambian agro-msmes.	Canada
Abouelghit & Gan	2024	Empirical research on the effects of mandatory auditing for SMEs on their internal control quality and management's perceptions: Evidence from Egypt	mandatory audits improve internal controls.	audit acceptance is influenced by owner perceptions.	Voluntary audit context in Zambia remains under-studied.	UK
ACCA	2010	Restating the value of audit	audits enhance credibility of financial statements.	audits are crucial for investor and lender trust.	zambian context unknown	UK
ACCA	2019	Closing the expectation gap in audit	msmes often misunderstand audit scope.	Expectation gap affects audit uptake.	zambian context unknown	UK
Apon, Kintu &	2024	Internal auditing and	audits improve	Firms with audits	Lack of empirical	Croatia

Nuwagaba		sustainability of small and medium enterprises in Uganda	internal governance and sustainability.	more likely to survive long-term.	studies in Zambia on audit benefits.	
Bank of Zambia	2022	2022 MSME Finance Survey Report	Very low audit exposure among msmes.	audits rarely integrated into MSME financial systems.	Quantitative evidence of low uptake but no qualitative insights.	Zambia
Bello, Idemudia & Iyelolu	2024	Navigating financial compliance in small and medium-sized enterprises (SMEs): Overcoming challenges and implementing effective solutions (Study in USA, UK, and Canada)	audits form part of wider regulatory challenges.	smes need support for regulatory compliance.	Contextual burden in Zambia not explored.	India
Chalu.H	2019	Adoption of International Standards on Auditing by Small and Medium-Sized Practices in Tanzania: An Examination of Critical Factors Affordability and client capacity are critical to successful audit adoption.	Successful ISA adoption among Tanzanian SMPs is positively influenced by financial and human resources, regulatory enforcement, client capacity, and organisational	Policies should go beyond compliance to include resource support, client capacity-building, and tailored audit frameworks for SMPs.	Prior studies focused on large firms and national-level adoption, overlooking firm-level success and the multidimensional nature of audit	Tanzania

			characteristics.		implementation.	
Cole & Frost	2020	The Role of Audit in Worldwide Access to Credit: Evidence from the World Bank Enterprise Surveys	audited firms enjoy better loan terms.	audits send strong trust signals to lenders, while also improving internal financial practices.	Sector-specific audit effects not explored.	USA
Connelly et al.	2011	Signaling Theory: A Review and Assessment.	Market information can serve as credible signals of trust and Effectiveness of signals depends on external recognition.	Strength of signal depend on the value of information. audits can signal credibility to external parties if used strategically.	zambian context under-theorised.	USA
Coskun & Gungormus	2024	The impacts of internal audit quality and accounting information systems effectiveness on SME manager's perceptions of external audits (Study in Turkey).	Perceptions influenced by internal systems and support.	Negative views deter voluntary audits.	Relevance to informal msme in Zambia uncertain.	UK

Dahmen & Rodríguez	2014	Financial Literacy and the Success of Small Businesses: An Observation from a Small Business Development Center," Numeracy: Vol. 7: Iss. 1, Article 3 (Study in Florida, USA)	Knowledge boosts tool adoption.	financial literacy improves decision-making.	audit-specific focus missing.	USA
European Federation of Accountants and Auditors for SMEs (EFAA)	2019	Evidence on the Value of Audit for SMEs in Europe.	audits improve controls and funding access.	Voluntary audits linked to strategic planning.	Adaptation to informal businesses not studied.	Belgium
Fama & Jensen	1983	Separation of Ownership and Control	audits reduce opportunistic behavior.	Agency theory applies to MSME-governance too.	zambian context under-theorized.	USA
Francois Coetzee and Pieter W. Buys	2017	SME perceptions of the independent review and accounting skills on bank financing: South African perspective	smes viewed independent reviews as inadequate for securing bank finance and	financial literacy and better-aligned audit services are essential to enhance SME access to financing.	The study does not explore voluntary audit adoption or audit perceptions among agro-based msms in low-	Germany

			showed limited understanding of formal assurance due to low accounting skills.		capacity settings like Zambia.	
Graña-Alvarez et al.	2022	Financial literacy in SMES: A systematic literature review and a framework for further inquiry (study in South America)	Literacy influences audit value perceptions.	financial knowledge linked to adoption.	Limited focus on low-income regions.	USA
Hassan, N.A., Zailani, S. and Rahman, M.K.	2021	Impact of integrated audit management effectiveness on business sustainability in manufacturing firms	Human resource, technological, and quality capabilities significantly influence internal audit processes, which in turn drive integrated audit management effectiveness and support business sustainability	Effective integration of internal audit systems, supported by key organizational capabilities, enhances manufacturing firm sustainability in emerging economies	The study focuses on manufacturing firms in Malaysia and does not explore how integrated audit practices affect sustainability or audit perceptions among agro-based msme in a low-capacity setting like Zambia.	Belgium

Healy & Palepu	2001	Information Asymmetry, Corporate Disclosure, and the Capital Markets: A Review of the Empirical Literature	audits help reduce information gaps.	External users rely on audit signals.	Empirical validation in Zambia not available.	USA
International Auditing and Assurance Standards Board (IAASB)	2023	ISA for Less Complex Entities	Introduced simplified audit standards.	Scalable audit practices promoted.	Adoption and effectiveness in Zambia untested.	USA
International Federation of Accountants (IFAC)	2022	Audit Fees Survey: Global Results for 2022 (Study across US, Canada, and Europe)	found that audit fees have increased in proportion to company revenue across all jurisdictions, with smaller firms bearing a relatively heavier cost burden	audit affordability a global issue	zambian msme's not studied.	USA

International Auditing and Assurance Standards Board (IAASB)	2021	Audit Guidelines	Standards define audit expectations.	Clarifies auditor responsibility.	Uptake and training challenges in Zambia.	USA
Ilubala	2023	An evaluation of the factors that affect Small and Medium Enterprises (SMEs) digital services industry in facilitating economic development in Zambia	financial illiteracy limits growth.	Indirect effect on audit readiness.	Sector-specific audit data missing.	Morocco
Jensen & Meckling	1976	Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure	audits reduce owner-manager conflict.	Theory applicable to MSME structures.	Applied mostly to large firms.	USA
Kinyua	2022	An empirical analysis of factors affecting financing accessibility for small and medium-sized enterprises. PhD thesis (Study of SME's in Kenya/Uganda/Zambia)	Formal practices improve access to finance.	audits part of formalisation process.	audit impact not isolated.	UK
Kunda G.	2021	an investigation of critical	Access to services	Indirect links to audit	audit-specific insights	Zambia

		success factors (Doctoral dissertation, The University of Zambia)	and information key to performance.	engagement.	lacking.	
Lozano Montero et al.	2020	Financial auditing benefits: Perspective of the SME in Celaya	audits linked to risk reduction and credit.	Understanding boosts adoption.	Generalizability to Africa unclear.	Mexico
Lwizi Gladys	2020	The Benefits of Audit and Assurance Services to Start-up Businesses	Supports the idea that audits are valuable for business credibility and managing risk	supports the idea that audits are valuable for business credibility and managing risk	Analysis relies mostly on World Bank data from developed countries, and it doesn't provide any Zambia-specific evidence	Zambia
Mkhize	2021	The impact of financial audits on the sustainable growth of SMMEs: A case study of the eThekweni Municipality (South Africa)	audited firms show better performance.	audits build trust with funders.	audit-learning links underexplored/zambian Context unexplored	South Africa
Newbert S.L.	2007	Empirical Research on the Resource-Based View of the Firm: An Assessment and Suggestions for Future	internal strengths drive performance.	audit viewed as intangible resource.	Link to audit effectiveness in Zambia not tested.	USA

		Research				
Nkwinika & Akinola	2023	The importance of financial management in small and medium-sized enterprises (SMEs): an analysis of challenges and best practices, Technology audit and production reserves (Study in Nigeria)	audits improve financial system credibility.	Better internal control = better funding.	Sectoral application in Zambia needed.	Bangladesh
Oosthuizen, Van Vuuren & Botha	2020	Compliance or Management: The Benefits That Small Business Owners Gain from Frequently Sourcing Accounting Services (South Africa)	Frequent use of professional accounting services improves resilience.	audits support decision-making.	zambian case comparisons needed.	South Africa
Palazuelos et al.	2020	Auditing and credit granting to SMEs: an integrative perceptual model", Managerial Auditing Journal, Vol. 35 No. 1, pp. 152-174 (Study in Spain)	audits influence bank lending decisions.	financial transparency aids access.	Context differences limit generalisation.	UK

Power	1997	The Audit Society: Rituals of Verification	audits often performative.	Limited depth in small business audits.	audit insight usefulness unclear.	UK
Quoted Companies Alliance	2024	The Crisis of Unaffordable Audits (UK)	audit costs rising sharply.	Small firms hit hardest.	Applies mostly to listed firms.	UK
Rodríguez-Aldana et al.	2024	Conscious business practices as a driver of reputational capital in SMEs. Revista Brasileira de Gestão de Negócios	Ethics and transparency build trust.	audits seen as part of responsible business.	Application to smes in Zambia underexplored.	Mexico
Ross	1977	The Determination of Financial Structure: The Incentive-Signalling Approach.	Signals reduce market uncertainty.	audits enhance firm trust.	Role of audit signals in Zambia unstudied.	USA
Seim	2019	Barriers to tax compliance for MSMEs in Zambia	audits feared due to penalty links.	Perceived as government tools.	Voluntary audit potential unexplored.	Zambia
Sikka	2009	Financial scandals, accounting regulation and audit firms	audits often serve symbolic or regulatory roles, offering limited value to	Critique of audit's functional value for businesses including small enterprises.	Zambia context not covered	UK

			businesses.			
Spence	1973	Job market signalling	Quality signals help overcome info gaps.	audits as key SME signal.	Empirical work limited in SSA.	USA
Suman & Ismail	2023	Factors Influencing Voluntary Audit among SME Companies in Malaysia	audits adopted for strategic gain.	Cost and complexity remain barriers.	zambian audit attitudes undocumented.	Pakistan
UNCTAD	2016	Accounting and Financial Reporting by Small and Medium-sized Enterprises: Trends and Prospects	Capacity-building efforts underway.	Standardised frameworks promoted.	Sector-level impact unclear.	Global
Wernerfelt, B.	1984	A Resource-Based View of the Firm	internal strengths drive performance.	nan	nan	USA
Watts & Zimmerman	1983	Agency Problems, Auditing, and the Theory of the Firm: Some Evidence	audits reduce agency costs.	Firms adopt to signal discipline.	zambian MSME applications not yet tested.	USA
World Bank	2021	Financial Reporting Reforms for SMEs in Emerging Economies	audits improve SME investment readiness.	Formal systems enhance resilience.	No in-depth study in Zambia.	Global
World Bank	2024	SME Ecosystem Reforms: Small and Medium	Standardisation aids SME audit	Ecosystem support still limited.	Adoption issues persist in Zambia.	Global

		Enterprises (SMEs) Finance	capacity.			
ZDA	2019	Promoting SME competitiveness in Zambia	Informal msme unaware of audit benefits.	Perception gap prevents adoption.	audit exposure is low among agro-msmes.	Zambia
ZDA	2023	SME Development Report	audits improve finance access and governance.	audit seen as compliance/donor-driven obligation.	Voluntary use and follow-through minimal.	Zambia
ZICA	2024	ZICA Annual Report 2023	Training exists but limited reach.	Support for SME's low.	Programme outcomes not tracked.	Zambia
Zahra & George	2002	Absorptive Capacity: A Review, Reconceptualization, and Extension	Firms must internalise external resources.	audit use requires financial understanding.	MSME application in Zambia unexplored.	USA

CHAPTER THREE: METHODOLOGY

3.1 Research Approach

This study adopted a qualitative research approach using a comparative case study design to explore how financial audits influence the growth and sustainability of agro-based MSMEs in Lusaka. The primary aim was to understand the lived experiences, perceptions, and decision-making processes of MSME owners, managers, auditors, and financiers. Qualitative methods were deemed appropriate because they allow for in-depth exploration of complex social phenomena, such as audit adoption where context, meaning, and stakeholder narratives are central to understanding the issue.

While comparative studies often benefit from mixed-methods designs that combine qualitative and quantitative data, this study focused on qualitative inquiry due to time, resource, and access constraints. Mixed methods would indeed have allowed for statistical testing of constructs such as audit awareness, financial management ability, or perceived audit benefit. For example, the use of survey instruments with multiple related items could have enabled the application of reliability tests such as **Cronbach's alpha**, which assesses internal consistency and validates whether grouped items measure the same underlying construct. This would have strengthened the robustness of the findings and allowed for triangulation between qualitative themes and quantitative patterns.

However, the qualitative approach used here was sufficient to generate rich insights into stakeholder perceptions and experiences. Data were collected through semi-structured interviews, document reviews, and open-ended questionnaires, which allowed participants to express nuanced views that may not be captured through closed-ended survey items. The comparative element was preserved by analysing differences between audit-adopting and non-adopting MSMEs, focusing on themes such as financial discipline, access to finance, and audit literacy.

Future research could build on this study by incorporating a mixed-methods design. This would allow for broader generalisation and statistical validation of key constructs, particularly if the study is expanded to include a larger sample across multiple regions. Quantitative tools such as Cronbach's alpha could then be used to test the reliability of survey scales measuring audit perceptions, financial practices, and governance outcomes.

3.2 Research Design

The study employed a comparative case study design to examine differences between two distinct groups of agro-based MSMEs in Lusaka: those that adopt financial audits and those that do not. This design was chosen to facilitate a systematic comparison of practices, perceptions, and outcomes related to audit engagement. By comparing these groups, the study aimed to identify patterns that could inform strategies for improving audit uptake and effectiveness. The comparative design was implemented through purposive sampling, targeting MSMEs with varying levels of audit experience. The inclusion of auditors, financiers, and institutional representatives further enriched the data by providing external perspectives on audit practices and their impact. Thematic analysis was used to interpret the data, allowing for the identification of recurring themes and contrasts between the two groups.

3.3 Study Population

The study focused on agro-based MSMEs in Lusaka, Zambia mainly those involved in farming and related work. These businesses had different levels of experience with formal financial systems, with some doing audits either by choice or because donors or banks required it. Both those who use audits and those who don't were included to see how they think about audits, what challenges they face, and what difference audits make to how they run things. The sample had business owners, managers, finance staff, and outside players like auditors, funders, and regulators who help shape how audits are done in this sector.

3.4 Sample Size

The sample size in this study was guided by the principle of data saturation, which refers to the point at which no new themes or insights emerge from additional data collection (Braun & Clarke, 2006; Guest, Bunce & Johnson, 2006). This approach is widely accepted in qualitative research, where the goal is depth of understanding rather than statistical generalisation. Unlike quantitative studies that rely on formulas such as Slovin's or Cochran's to determine sample size, qualitative research uses non-probability sampling techniques and focuses on the richness and relevance of the data collected.

To ensure diversity and representation across key stakeholder groups, a target range of 50 to 60 participants was selected. This range is consistent with recommendations from qualitative research literature, which suggests that 20 to 60 participants are typically sufficient for thematic saturation in studies involving multiple stakeholder categories (Creswell, 2013; Mason, 2010). The sample included agro-based MSME owners and managers, auditors, financiers, and representatives from regulatory institutions such as ZDA and ZICA. These participants were selected using purposive sampling, which is appropriate for studies seeking in-depth insights from individuals with specific knowledge or experience.

Additionally, snowball sampling was used to reach specialised participants such as external auditors and institutional staff, particularly where initial outreach yielded limited responses. This flexible and iterative approach allowed the study to capture a wide range of perspectives while remaining manageable within the available time and resources. The final sample size of 48 participants was deemed sufficient, as thematic saturation was achieved and no new insights were emerging during the final stages of data collection.

Table 3.1: Break-down of Sample Size (Source: Author, 2025)

Category	Sample Size	Description
MSME Owners, Managers, and Finance Staff	30	Agro-based MSME owners, managers, and finance staff from both audit-adopting and non-adopting firms, with turnovers between ZMW 600,000–20 million, covering various farming types and locations across Lusaka.
Representatives from Financiers	10	Representatives from a broad spectrum of financiers supporting SMEs in the market.
Auditors and Accounting Consultants	15	Auditors and accounting consultants working with the targeted MSMEs.
Zambia Development Agency (ZDA)	2	2 representatives from the Zambia Development Agency (ZDA).
Zambia Institute of Chartered Accountants (ZICA)	1	1 representative from the Zambia Institute of Chartered Accountants (ZICA).
Ministry of SMEs	1	1 representative from the Ministry of SMEs.

3.5 Sampling Design

A combination of purposive sampling and snowball sampling techniques were employed to select final participants for this study.

3.5.1 Purposive Sampling:

Purposive sampling was used to select key participants who have relevant experience and knowledge about the research topic from targeted MSME's, Financiers and Auditing and Accounting Firms. The main justification for using this technique was to select participants who could provide rich and in-depth insights into the specific issues being studied.

3.5.2 Snowball Sampling:

Snowball sampling was also used to identify additional participants once initial contacts were made from the agro-sector database provided by ZDA. This technique proved very useful in narrowing down useful contacts who fitted the profile of targeted stakeholders in MSME's especially that the 80% of companies contacted in the first wave didn't respond to the first request for participation.

3.5.3 Inclusion and Exclusion Criteria

The study picked participants based on clear criteria. MSME owners or managers had to be running agro-based businesses in Lusaka with a yearly turnover between ZMW 600,000 and ZMW 20 million, and they needed to know about audits whether they used them or not. Auditors had to have worked with agro-MSMEs in Lusaka, and staff from ZICA or ZDA needed to be involved in MSME audit policy or financial transparency work. People from banks or other financial institutions were included if they dealt with MSME finance checks and creditworthiness. Others like donors, the Bank of Zambia, and Ministry of SMEs were part of it too, as long as they had experience with audit-related support for agro-MSMEs. Anyone not working with MSMEs or audits, or who didn't agree to take part, was left out.

3.5.4 Justification for Sample Size and Techniques

The sample size chosen worked well for a qualitative study, as it gave room to dig deeper into each person's views while still being manageable in terms of time and effort. Purposive sampling helped pick participants with the right knowledge, while snowball

sampling made it easier to reach others with relevant experience, especially in areas like auditing and external support. This mix helped bring together a wide range of voices from MSME owners and auditors to regulators and financial institutions giving the study a fuller picture of the issues, benefits, and possible solutions related to audit adoption in agro-based MSMEs.

3.6 Data Collection

The data for this study was collected using a mix of qualitative methods like semi-structured questionnaires, interviews, and where available, document reviews from secondary sources. These methods were chosen to help get deep insights into how agro-based MSMEs in Lusaka view audits, what challenges they face, and what benefits they get from using audits.

3.7 Data Analysis

The data was analysed using thematic analysis following Braun and Clarke's (2006) approach, with support from the web-based tool Atlas.ti. This helped in picking out key patterns or themes from the qualitative data. The process started by going through the data to get familiar with it interviews and documents were checked, validated, and written down to spot early ideas. Then, the data was coded by grouping similar responses, like those about audit costs, perceptions, or finance access. These codes were sorted into larger themes such as "barriers to audit adoption," "benefits of audits," and "institutional support." The themes were reviewed to make sure they made sense and reflected the data well. After that, each theme was clearly described and linked back to the research questions.

3.8.1 Ethical Considerations

The study followed proper ethical guidelines during both data collection and analysis. Approval was first obtained from the University of Lusaka's Research Ethics Committee. All participants gave informed consent after being told clearly what the study was about. Their identities and responses were kept private, and data was stored safely. Taking part was voluntary, and participants could stop at any point without any problem. Care was also taken to reduce bias, so that the findings truly showed what participants shared.

3.8.2 Limitations of the Study

This research design was cost-effective but faced several limitations. One significant challenge was time constraints, particularly in arranging and conducting interviews with busy MSME owners and managers. Additionally, obtaining information from government stakeholders posed challenges, as these stakeholders required substantial time to secure in-house authorization before responding to requests for information.

Furthermore, the generalisability of the findings was limited due to the sample size and the study's focus on Lusaka, meaning the results may not directly apply to all agro-based MSMEs in Zambia or other countries. However, the in-depth case study approach provided valuable insights that can inform future research.

3.9 Conclusion

In conclusion, the qualitative research methodology used in this study was practical and affordable, helping to gain deeper understanding of how agro-based MSMEs in Lusaka view and experience financial audits. Information was collected through semi-structured interviews and Google Forms, which helped cover different angles. Thematic analysis helped make sense of the data, with the goal of filling some of the knowledge gaps and offering useful suggestions to improve audit uptake among these businesses.

CHAPTER FOUR: PRESENTATION AND ANALYSIS OF RESULTS

4.1 Introduction

This chapter presents the analysis of qualitative data collected from key stakeholders to address the research objectives concerning financial audit perceptions, adoption, and impact among agro-based Micro, Small, and Medium Enterprises (MSMEs) in Lusaka. The study employed a qualitative approach using semi-structured questionnaires and interviews administered through Google Forms. Participants included MSME owners, managers, and accountants; auditors and accounting consultants; as well as representatives from financial institutions and government agencies. Thematic analysis was used to interpret the data, drawing on Braun and Clarke's (2006) six-phase framework using Atlas.ti to code the data and inductively derive recurring themes for further interpretation. Findings are organized thematically in line with the four research objectives and corresponding questions.

4.2 Characteristics of Responders

Figure 4.1 below provides a summary of the target versus actual number of respondents engaged across the six key stakeholder groups with an overall total of 48 out of the target of 60. A total of 25 agro-based MSMEs participated in the study out of a targeted 30 (one was disqualified during data validation), comprising business owners, managers, and finance personnel. Among auditors and accounting consultants, 12 responses were obtained against a target of 15, with the majority having more than five years of experience auditing agro-based enterprises. Seven (7) representatives from financial institutions responded out of a targeted ten (10), sharing insights on how audits influence creditworthiness and financial decision-making.

Government and regulatory bodies were approached for participation. Both ZDA and the Ministry of MSMEs fully engaged with the study, while ZICA did not respond during the initial data collection period despite multiple follow-ups. However, ZICA's formal input was received and incorporated after the first round of analysis. These are indicated by the respondents themselves as the limitations, but don't significantly reduce the range and depth of the stakeholders' reactions gleaned for analysis.

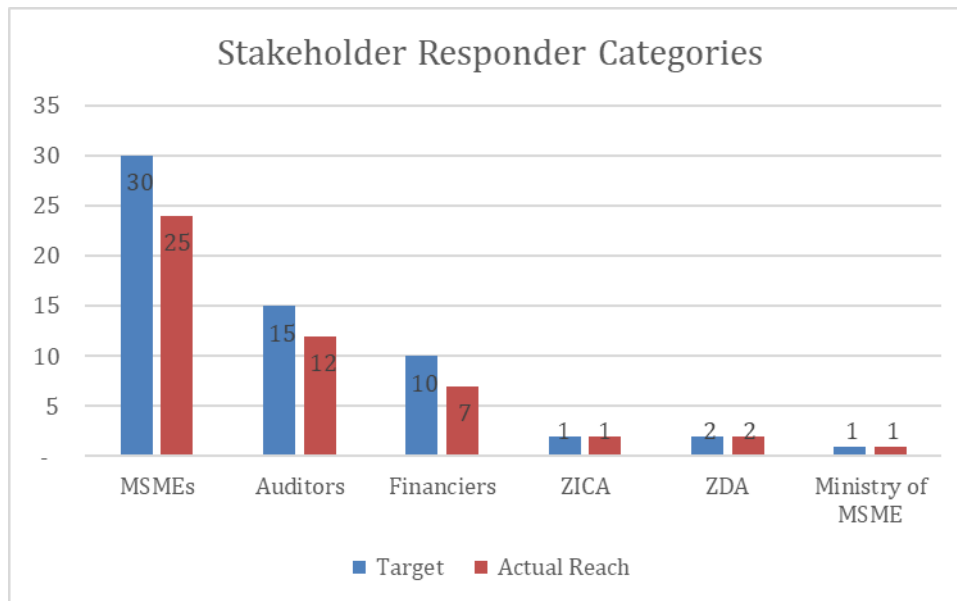


Figure 4.1: Stakeholder Responder Categories (Source: Author, 2025)

The agro-based MSMEs that participated in the study span a range of sectors within Zambia’s agricultural value chain. Among the 25 valid respondents, the highest representation was from the grains sector, accounting for 36% (9 enterprises). This was followed by livestock processing at 24% (6 enterprises), and mixed farming at 20% (5 enterprises), illustrating a strong presence in both crop and animal production segments.

Other sectors represented include horticulture (8%), honey production (4%), and fish farming (4%) each contributing 1 - 2 respondents to the study. These figures highlight the diversity of agro-based enterprises operating in Lusaka, from primary producers to those involved in value addition and niche farming activities (Cashew Grains).

One respondent was excluded from the final analysis after it was determined they were not engaged in an agro-based business. This adjustment was necessary to maintain the integrity and focus of the study on relevant sectors.

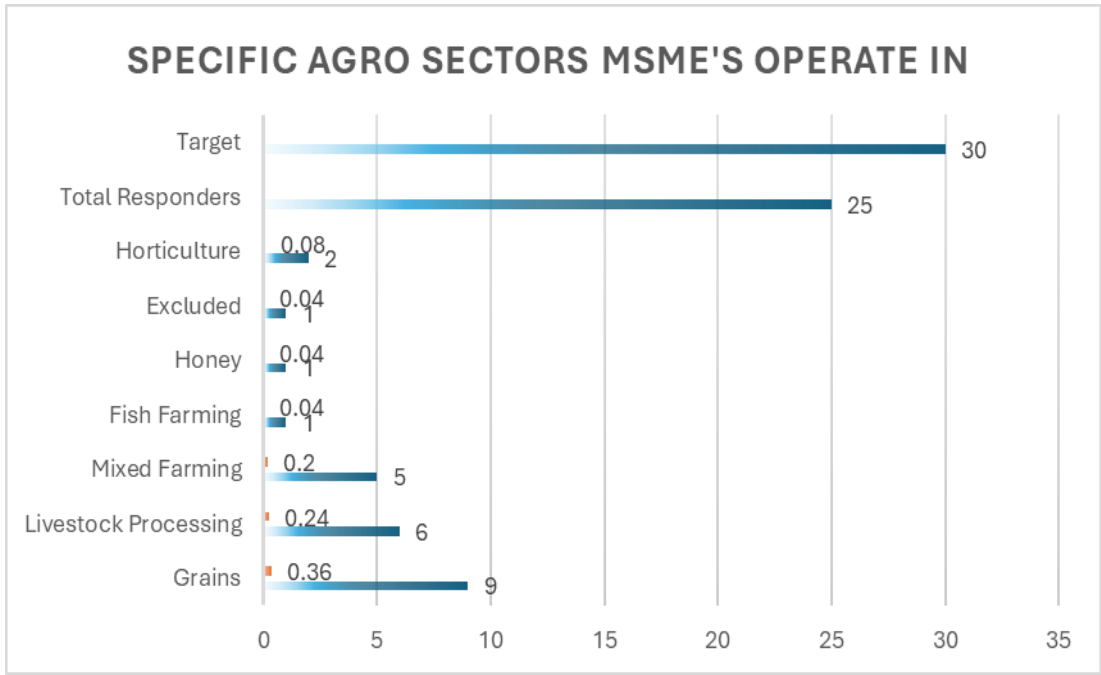


Figure 4.2: Specific Agro Sector MSME operate in (Source: Author, 2025)

Lastly, Figure 4.3 below shows how agro-based MSMEs are spread out based on their annual revenues. Most of them earn between low and middle amounts, which is common for small businesses in this sector. This helps explain why some of them may not afford or see the need for audits, as they might view them as too expensive or not a priority.



Figure 4.3: Annual Revenue of MSME Responders (Source: Author, 2025)

The graph below shows how many years of experience auditors and financiers have working with MSMEs. Most auditors had more than five years of experience, while many financiers had between seven and ten years or more. This shows that both groups have strong experience and understanding of the MSME sector.

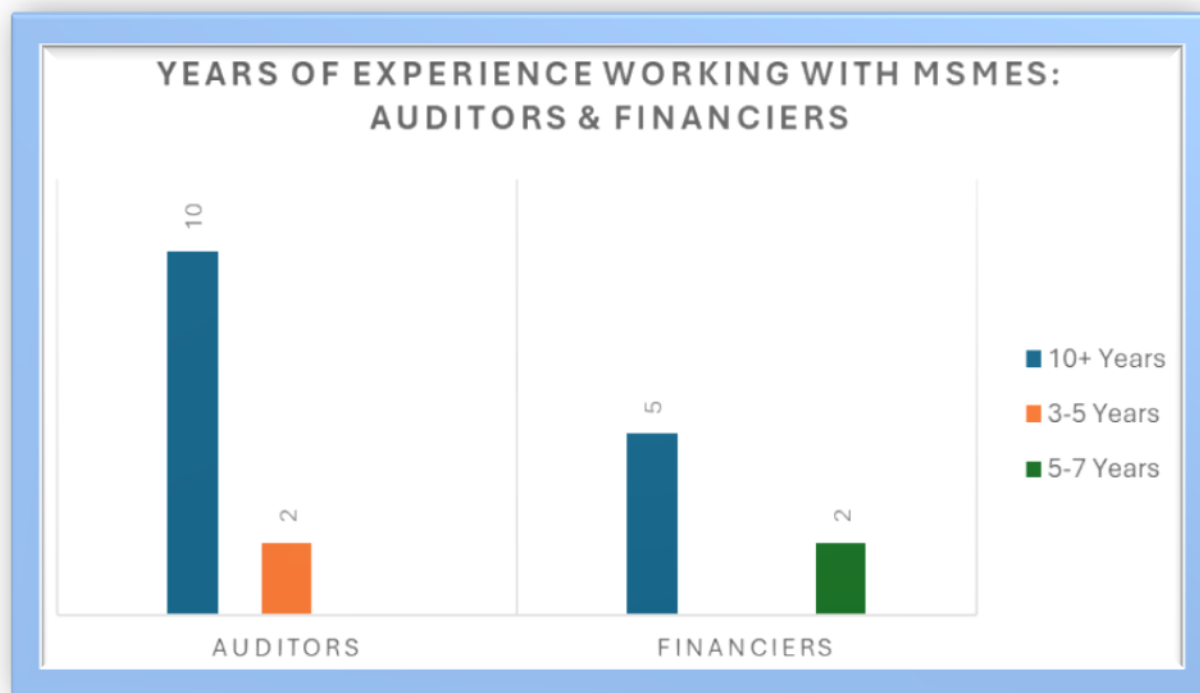


Figure 4.4: Yrs of experience working with MSME's: Auditors & Financiers (Source, Author 2025)

4.3 Objective 1: Thematic Analysis – Perceptions of Financial Audits among Agro-Based MSMEs

This section explores how agro-based MSMEs in Lusaka perceive financial audits, drawing on four key themes: understanding of audits, perceived purpose and value, perceived benefits for growth, and barriers to adoption. The findings are compared with international experiences to provide a deeper, more critical analysis.

Theme 1: Understanding of Financial Audits

Respondents generally demonstrated a practical understanding of audits, describing them as processes for verifying records, detecting errors, and ensuring financial accountability. This aligns with findings from Coskun and Gungormus (2024), who noted that SME

managers in Turkey viewed audits as technical tools for financial verification, especially when internal systems were weak. Similarly, Graña-Alvarez et al. (2022) found that financial literacy significantly influenced how audits were understood and valued among South American SMEs.

In Zambia, this understanding appears to be shaped more by informal experience than formal training. While audit-adopting MSMEs showed clearer comprehension, non-adopters often lacked exposure to audit processes, reinforcing the need for targeted awareness campaigns. This mirrors findings from the Bank of Zambia (2022), which reported that over 90% of MSMEs manage their own financial records without professional support.

Quotation 1 (Owner, Adopter): “It is a process aimed at verifying financial transactions and helping improve records.”

Theme 2: Purpose and Value of Audits

Most MSMEs acknowledged audits as important for regulatory compliance, with fewer recognising their strategic value for business planning and external engagement. This perception gap is consistent with studies in Egypt and South Africa, where audits were often seen as externally imposed obligations rather than internal management tools (Abouelghit & Gan, 2024; Mkhize, 2021).

Globally, the European Federation of Accountants and Auditors for SMEs (EFAA, 2019) emphasised that voluntary audits can enhance governance and competitiveness, especially when SMEs understand their broader value. In Zambia, however, audits are still largely perceived as donor-driven or tax-related, which limits their strategic uptake.

Quotation 2 (Manager, Non-Adopter): “Audits are mostly for compliance – we don’t really see their relevance unless donors ask.”

Quotation 3 (Owner, Adopter): “They help us understand our financial cashflows and support planning.”

Theme 3: Perceived Benefits for Growth

Audit-adopting MSMEs reported tangible benefits such as improved access to finance, better decision-making, and clearer internal reporting. These findings are supported by Cole and Frost (2020), who found that audited SMEs in emerging markets were more likely to secure credit and receive favourable loan terms. Similarly, Palazuelos et al. (2020) showed that audits positively influenced lending decisions in Spain by enhancing business credibility.

In Sub-Saharan Africa, Apon et al. (2024) and Oosthuizen et al. (2020) found that audits contributed to SME sustainability and resilience when integrated into daily operations. These benefits were echoed by Zambian MSMEs in this study, though only among those who had adopted audits.

Quotation 4 (Owner, Adopter): “Audits helped us access funding from three financial institutions.”

Theme 4: Perceptions of Cost and Practical Barriers

Non-adopters frequently cited cost, lack of technical capacity, and business size as barriers to audit engagement. These concerns are consistent with global findings. The IFAC Audit Fees Survey (2022) reported that smaller firms bear a heavier cost burden relative to revenue. In Zambia, Seim (2019) and Kinyua (2022) highlighted affordability and limited audit literacy as major deterrents.

The introduction of the ISA for Less Complex Entities (IAASB, 2023) was a global response to these challenges, aiming to simplify audit procedures for small businesses. However, awareness and implementation of such standards remain low in Zambia. Respondents in this study expressed interest in audits but felt they were not yet feasible for their business stage.

Quotation 5 (Manager, Non-Adopter): “We are still small, we don’t need formal audits right now.”

Quotation 6 (Owner, Non-Adopter): “It is too expensive for us and we don’t have formal books.”

The Table 4.1 below presents the number of MSME respondents, segmented by audit adoption status, who expressed each key perception theme identified in the analysis:

Table 4.1: Frequency Summary by Perception Theme (Source: Author, 2025)

Perception Theme	Adopters 37% (Total 9 of 24)	Non-Adopters 62% (Total 15 of 24)	Total	% of total
Audits improve financial discipline	3	3	6	25%
Audits enhance access to finance	5	1	6	25%
Audits help with compliance	5	4	9	38%
Audits are time-consuming/costly	6	3	9	38%
Audits are essential for business growth	2	0	2	8%

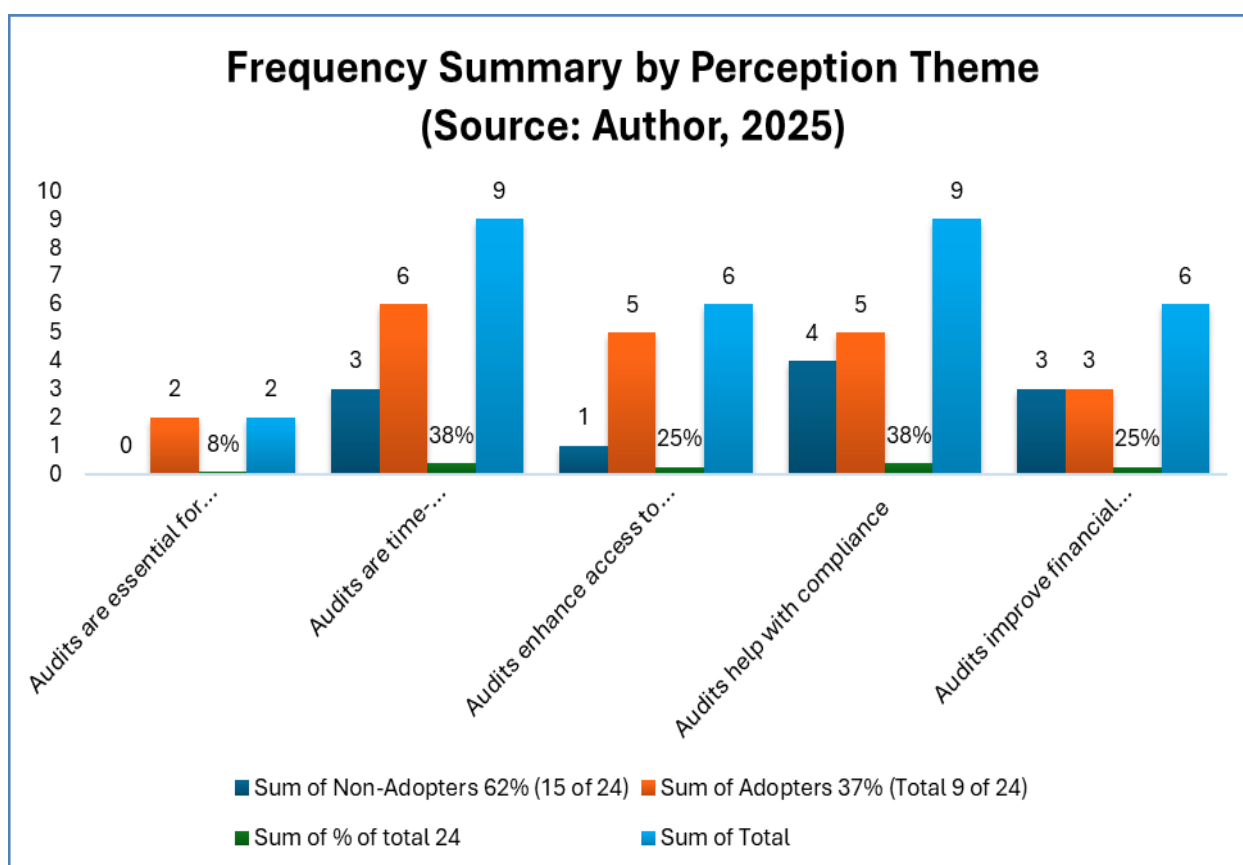


Figure 4.5: Frequency Summary by Perception Theme (Source: Author, 2025)

From this analysis, 62% of responders are non-adopting MSME's while 37% are from audit adopting MSME's totalling 99% response rate on the perception of audits. It's clear that most MSMEs are aware of what audits are, but the way they view them depends on whether they're already using them or not. Those using audits see them as helpful for growing and running the business well. Those not using audits mainly worry about costs and don't see them as immediately necessary.

The findings reveal a clear divide in perceptions between audit-adopting and non-adopting MSMEs. While adopters recognise audits as tools for growth and financial discipline, non-adopters remain constrained by cost and limited understanding. These insights mirror international experiences, particularly in developing economies where audit systems are underdeveloped and MSMEs operate informally. Regional evidence from Tanzania, by Chalu (2019) found that audit adoption among small and medium-sized practices (SMPs) was strongly influenced by organisational culture and client capacity. In Tanzania, SMPs that viewed audits as strategic tools for improving internal governance and client relationships were more likely to adopt them. This reinforces the importance of audit literacy and internal motivation, which also emerged as key factors among MSMEs in Lusaka. To bridge this gap, Zambia can draw lessons from countries like Uganda, Tanzania, and South Africa, where audit adoption has been supported through simplified procedures, targeted training, and financial incentives (Apon et al., 2024; Kinyua, 2022; Mkhize, 2021). Strengthening audit literacy and institutional support will be key to repositioning audits as strategic tools rather than compliance burdens.

4.4 Objective 2: Challenges to Audit Adoption among Agro-Based MSMEs

This section presents the key challenges identified by MSME owners, auditors, and financiers regarding the adoption of financial audits. The analysis revealed four main categories: cost, technical capacity, regulatory compliance, and other contextual factors. These findings are compared with international experiences to provide a deeper understanding of the barriers to audit uptake in similar developing contexts. The table 4.2 below summarises how each stakeholder group perceived these challenges.

Table 4.2: Key Challenges to Audit Adoption (Source, Author 2025)

Theme	MSME Owners	Auditors	Financiers	Regulators	Total	% out of 47 *
Cost	20	12	0	4	36	77%
Other	22	12	7	0	41	87%
Regulatory Compliance	1	2	0	0	3	6%
Technical Capacity	3	10	1	4	18	38%

*This is a % of the total responses received from stakeholders

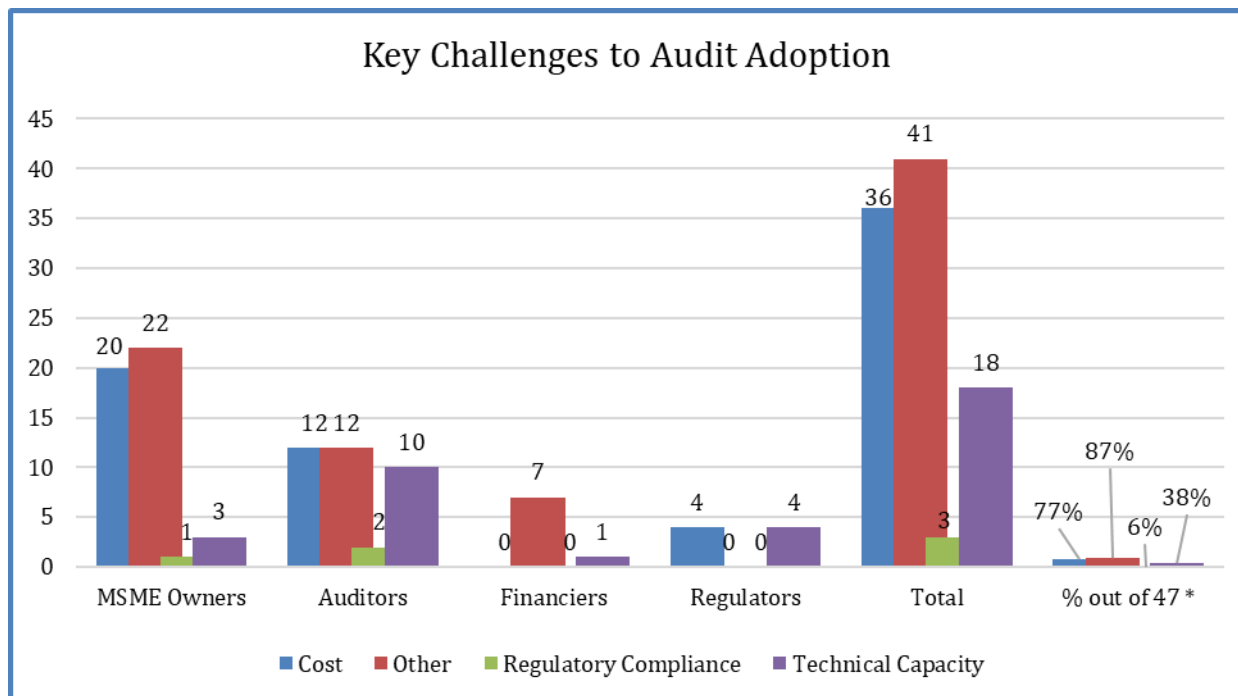


Figure 4.6: Key Challenges to Audit Adoption (Source, Author 2025)

Theme 1: Cost

Cost was the most frequently cited barrier, mentioned by 77% of respondents. MSME owners and auditors consistently described audits as unaffordable for small businesses with limited monthly revenue. This concern is widely documented in global literature. The IFAC Audit Fees Survey (2022) found that audit costs disproportionately affect smaller

firms, often consuming a larger share of their operating budgets. In Zambia, Seim (2019) and Kinyua (2022) similarly identified affordability as a major deterrent to audit adoption.

In South Africa, Mkhize (2021) observed that cost concerns were more pronounced among microenterprises, which often lacked the financial flexibility to engage professional auditors. These findings suggest that without targeted subsidies or low-cost audit models, voluntary audit uptake among MSMEs will remain limited.

- MSME Owner: “Our business can’t afford an audit right now — it’s just too costly compared to what we earn every month.”
- Auditor: “Most small clients don’t even budget for audits. They’d rather keep informal records to avoid spending.”

Theme 2: Technical Capacity

Technical capacity was the second most cited challenge, mentioned by 38% of respondents. Auditors and regulators highlighted the lack of structured record-keeping systems and basic accounting knowledge among MSMEs. This aligns with findings from Uganda and Tanzania, where Apon et al. (2024) and Ilubala (2023) found that technical capacity gaps hindered audit readiness and implementation. Similar challenges were observed in Tanzania, where SMPs faced difficulties in adopting ISAs due to limited financial and human resources, and the perception that international standards were tailored for large firms (Chalu, 2019). The Tanzanian study emphasised that successful audit adoption requires more than regulatory enforcement it depends on contextual alignment, including simplified standards and client education. These insights mirror the barriers faced by agro-based MSMEs in Lusaka.

Globally, the World Bank (2021) has emphasised the importance of building internal financial systems and audit literacy among SMEs to improve governance and access to finance. In Zambia, Kunda (2021) noted that many MSMEs operate informally and lack structured financial documentation, making audits difficult to conduct and sustain.

- Auditor: “The biggest issue is poor bookkeeping. A lot of MSMEs can’t even give you a simple income statement.”

- MSME Owner: “We don’t have anyone full-time handling accounts. That’s why doing an audit would be too much for us.”

Theme 3: Regulatory Compliance

Regulatory compliance challenges were raised primarily by auditors, accounting for 6% of responses. Many MSMEs were unaware of the statutory audit threshold in Zambia—ZMW 20 million in annual revenue and confused audits with tax inspections. This regulatory misunderstanding contributes to low voluntary uptake. In Egypt, Abouelghit and Gan (2024) found similar confusion among SMEs, particularly regarding mandatory audit thresholds and compliance expectations.

In Zambia, the Bank of Zambia (2022) reported that most MSMEs operate informally and are unaware of audit obligations, reinforcing the perception that audits are only relevant for donor-funded or government-linked projects.

- Auditor: “A lot of MSMEs don’t realise that their income means they legally fall into the audit category.”
- MSME Owner: “We thought audits were only for government-funded projects. We didn’t know they were a legal requirement.”

Theme 4: Other Factors

Beyond cost and capacity, 87% of respondents mentioned additional barriers such as time constraints, fear of scrutiny, and general disinterest in formal systems. These responses reflect broader institutional and cultural challenges. In South Africa, Oosthuizen et al. (2020) found that some SMEs avoided audits due to mistrust in formal financial oversight and concerns about exposure to penalties.

Financiers in this study also noted that without proper audits, it becomes difficult to assess MSME creditworthiness, which in turn limits access to finance. This reinforces the need for audit adoption not just as a compliance tool but as a strategic enabler of financial inclusion.

- MSME Owner: “We’re too busy running the farm to be thinking about audits.”

- Financier: “Without proper audits, it’s hard to know if these MSMEs can actually manage to repay loans.”

The challenges identified in this study are consistent with those reported in other developing economies. Cost and technical capacity remain the most significant barriers, compounded by regulatory confusion and limited institutional support. These findings suggest that audit adoption among agro-based MSMEs in Lusaka is not simply a matter of awareness but of structural and systemic constraints. To address these issues, Zambia can draw lessons from countries like Uganda, Tanzania, and South Africa, where audit uptake has been improved through simplified procedures, targeted training, and financial incentives (Apon et al., 2024; Mkhize, 2021; Kinyua, 2022). Institutional reforms, such as the adoption of ISA for Less Complex Entities (IAASB, 2023), and coordinated support from ZICA and ZDA, will be essential to overcoming these barriers and promoting sustainable audit engagement.

4.5 Objective 3: Perceived Impact of Financial Audits on MSMEs

This section looks at how financial audits affect the performance of MSMEs, focusing on two key areas: financial management and access to finance. MSMEs were grouped based on whether they had adopted audits or not. Feedback also came from auditors and financiers to give a balanced view of how audits influence business outcomes. Table 4.3 and Figure 4.7 summarise the results of the study.

Table 4.3: Thematic Summary of Impact of Audit (Source, Author 2025)

Impact Category	Theme	Audit Adopter	Count	% of 24
Access to Finance	Improved Access to Finance	Adopter	6	25%
Access to Finance	Improved Access to Finance	Non-Adopter	1	4%
Access to Finance	Other	Adopter	7	29%
Access to Finance	Other	Non-Adopter	5	21%
Financial Management	Improved Access to Finance	Adopter	4	17%

Financial Management	Improved Financial Management	Adopter	5	21%
Financial Management	Improved Financial Management	Non-Adopter	1	4%
Financial Management	Other	Adopter	3	13%
Financial Management	Other	Non-Adopter	7	29%

Theme: Improved Financial Management

Audit-adopting MSMEs reported significant improvements in financial organisation, including better expense tracking, structured budgeting, and enhanced internal controls. These outcomes were confirmed by auditors, who observed that audits helped businesses transition from informal financial practices to more disciplined systems. The data shows that 21% of audit-adopting MSMEs explicitly linked audits to improved financial management, while an additional 17% associated audits with better access to finance through improved internal systems.

These findings are consistent with global literature. Apon et al. (2024) found that internal audits in Ugandan SMEs contributed to stronger governance and operational efficiency. Similarly, Mkhize (2021) reported that South African MSMEs with regular audits demonstrated better financial discipline and strategic planning. Cole and Frost (2020) also highlighted that audits enhance financial decision-making and risk management in SMEs across emerging markets.

In Zambia, however, many MSMEs still lack the systems needed to fully benefit from audit recommendations. Studies by Ilubala (2023) and Kunda (2021) emphasise the need for capacity-building interventions to help MSMEs internalise audit findings and apply them effectively.

- MSME Owner (Adopter): “We are now able to track expenses better and plan monthly operations.”

- Auditor: “Audit processes have helped MSMEs create order from informal records, enabling better decision-making.”
- MSME Owner (Adopter): “Having audited books made our monthly budget tracking more structured.”
- Auditor: “I’ve seen clients transform their operations after understanding audit recommendations on cost controls.”

Theme: Improved Access to Finance

Audit-adopting MSMEs also reported easier access to loans and credit facilities. Financiers confirmed that audited financial statements enhance business credibility and reduce information asymmetry, making MSMEs more attractive to lenders. The results show that 25% of audit-adopting MSMEs directly linked audits to improved access to finance, compared to just 4% among non-adopters.

These findings align with international evidence. In Malaysia, Suman and Ismail (2023) found that voluntary audits improved investor confidence and credit access. Palazuelos et al. (2020) demonstrated that audits positively influenced bank lending decisions in Spain by signalling financial transparency and reliability.

In Sub-Saharan Africa, Kinyua (2022) and Oosthuizen et al. (2020) observed that SMEs with audited accounts were more likely to secure funding and negotiate better loan terms. In Zambia, the World Bank (2021) has advocated for stronger audit engagement to improve MSME investment readiness, yet uptake remains low among non-adopters.

- MSME Owner (Adopter): “The bank required an audit before releasing our facility. We got help from a consultant.”
- Financier: “We give priority to MSMEs that submit audited financials because we can trust the numbers.”
- MSME Owner (Adopter): “Our loan request was accepted quickly because of the audit report we submitted.”
- Financier: “Audited accounts show transparency, which we rely on when reviewing creditworthiness.”

Theme: Limited or No Impact

Non-adopting MSMEs generally reported no significant impact from audits, largely due to lack of engagement or understanding. Some viewed audits as irrelevant unless required by donors or regulators. This perception is consistent with findings from Egypt and Zambia, where audits are often seen as compliance tools rather than strategic assets (Abouelghit & Gan, 2024; Bank of Zambia, 2022).

Auditors noted that without proper financial systems, MSMEs struggle to implement audit recommendations, limiting the potential benefits. This highlights the importance of absorptive capacity, as discussed in the Resource-Based View (Zahra & George, 2002), and the need for tailored support to help MSMEs internalise audit insights.

- MSME Owner (Non-Adopter): “We don’t see the use of audits if they won’t guarantee us loans.”
- Auditor: “MSMEs may not benefit from audits if they lack the financial systems to implement recommendations.”
- MSME Owner (Non-Adopter): “I’ve heard about audits, but they’re for bigger companies not us.”
- Auditor: “Some MSMEs do audits just for funding eligibility, not to improve operations.”

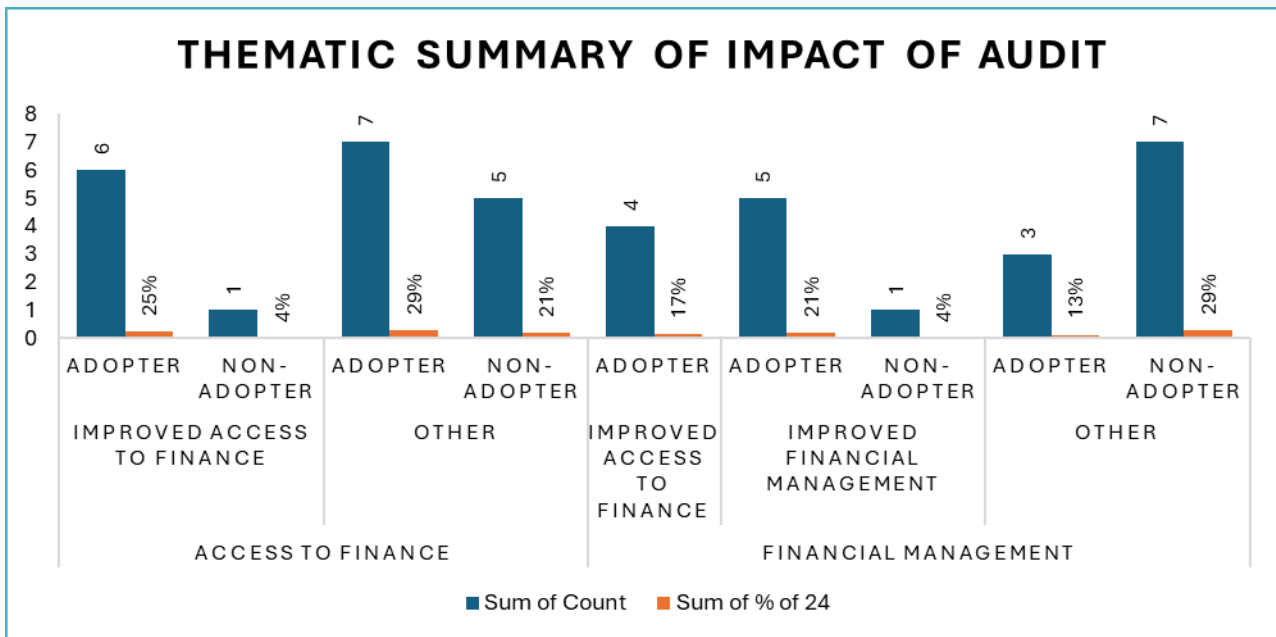


Table 4.7: Thematic Summary of Impact of Audit (Source: Author, 2025)

The findings confirm that financial audits can positively impact MSME performance, particularly in financial management and access to finance. However, these benefits are largely confined to audit-adopting firms with the capacity to implement audit recommendations. Non-adopters remain excluded due to systemic barriers such as cost, technical limitations, and low awareness.

The results also reveal that 29% of non-adopters cited general financial challenges unrelated to audits, suggesting that broader financial literacy and governance issues must be addressed before audit adoption can be effective. This reinforces the need for integrated support systems that combine audit promotion with financial education and institutional strengthening. Chalu (2019) demonstrated that successful audit adoption in Tanzania was multidimensional, requiring firms to meet quality, ethical, engagement, and monitoring standards. MSMEs in Lusaka that had adopted audits reported similar benefits, particularly in financial discipline and credit access. This suggests that audit effectiveness is closely linked to internal capacity and the ability to absorb and apply audit recommendations.

International comparisons suggest that Zambia can learn from countries like Uganda, Malaysia, and South Africa, where audits are increasingly viewed as strategic tools for SME development. To unlock the full potential of audits, Zambia must invest in audit

literacy, simplify audit procedures, and promote audits as enablers of financial inclusion and enterprise growth.

4.6 Objective 4: Strategies to Improve Audit Uptake among Agro-Based MSMEs

This section presents stakeholder-driven strategies to enhance the voluntary adoption of financial audits among agro-based MSMEs in Lusaka. Drawing on thematic analysis, five key areas emerged: cost reduction and incentives, simplification of audit processes, awareness and capacity building, policy integration, and supportive systems. These themes reflect both the challenges previously identified and practical solutions proposed by MSME owners, auditors, financiers, and regulators. The findings are contextualised through international comparisons to highlight actionable insights for Zambia. Table 4.4 below summarises these areas:

Table 4.4: Strategies for Audit Adoption (Source, Author 2025)

Theme	Adopter	Non-Adopter	Total	%
Awareness & Capacity Building	1	1	2	8%
Cost Reduction or Incentives	3	3	6	25%
Other	6	5	11	46%
Policy & Regulation	1	0	1	4%
Supportive Processes	2	2	4	17%
Total			24	100%

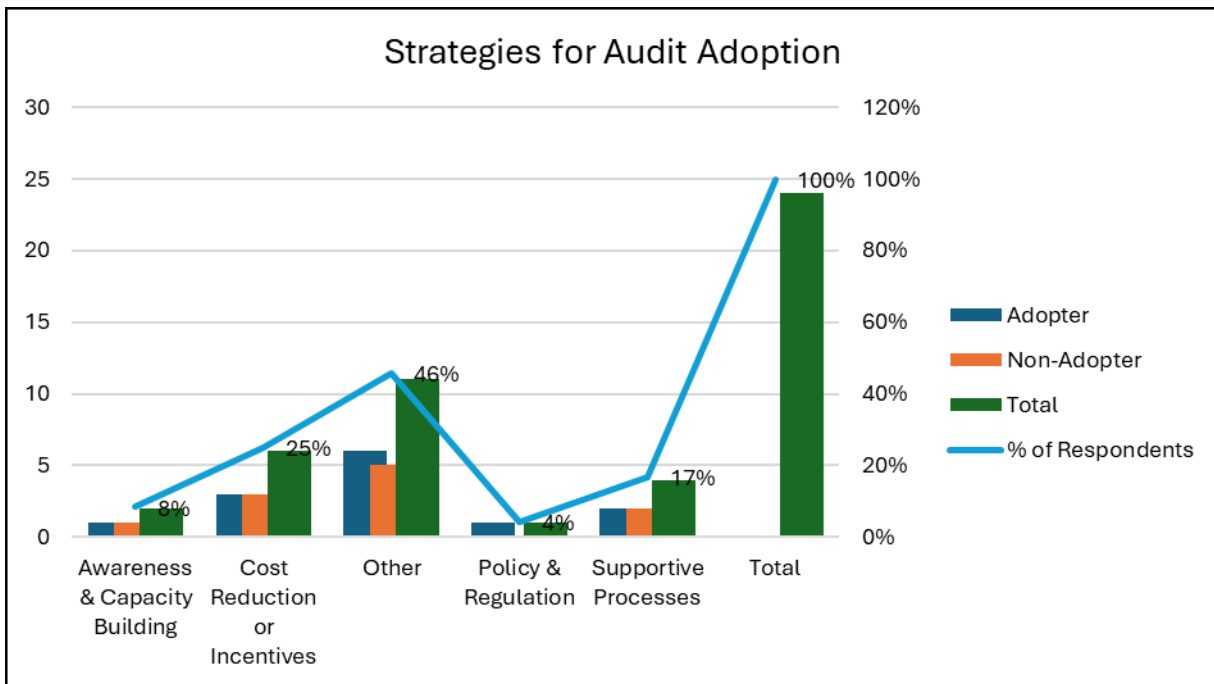


Figure 4.8: Strategies for Audit Adoption (Source, Author 2025)

Theme: Reduce Audit Costs or Offer Incentives

Cost emerged as a recurring barrier to audit adoption, with 25% of respondents recommending financial support mechanisms. MSMEs proposed subsidies, donor-funded audits, and tax incentives to make audits more affordable, especially for first-time adopters. These suggestions align with findings from Tanzania and Zambia, where subsidised audit programmes have been piloted to reduce financial barriers (Kinyua, 2022; ZDA, 2023).

Globally, IFAC (2022) has highlighted the disproportionate cost burden audits place on smaller firms, advocating for scalable and affordable audit models. In South Africa, Mkhize (2021) found that cost was a key factor influencing audit adoption, particularly among microenterprises. These insights suggest that financial incentives could significantly improve uptake among MSMEs in Lusaka.

- Adopter: “Cost.”
- Adopter: “Lower cost of auditing.”
- Non-Adopter: “Simplified audit processes for MSMEs and more affordable options.”

- Non-Adopter: “If the initial costs are covered by grants.”

Theme: Make the Audit Process Easier and More Supportive

17% of respondents called for simplified audit procedures, including the use of templates, digital tools, and clearer guidelines. MSMEs also requested professional support from institutions such as ZICA and ZDA. These suggestions are consistent with global efforts to simplify audit standards for small businesses. The IAASB (2023) introduced the ISA for Less Complex Entities to streamline audit procedures, while the World Bank (2021) advocates for technology-driven solutions to improve audit accessibility.

In Uganda, Apon et al. (2024) found that simplifying internal audit procedures improved SME sustainability and governance. In Zambia, however, awareness of such reforms remains low, and implementation is limited. Stakeholders emphasised the need for institutional support to guide MSMEs through the audit process.

- Adopter: “Financial literacy helps bridge the ignorance gap.”
- Adopter: “To help businesses, especially MSMEs, effectively adopt financial audits, it’s important to focus on education, simplification, and access to resources.”
- Non-Adopter: “Support for audits by government, ZICA, ZDA.”
- Non-Adopter: “Employing knowledgeable people can help the business.”

Theme: Raise Awareness and Build Capacity

Only 8% of respondents explicitly mentioned awareness and capacity-building, yet this theme is critical given the broader findings of the study. MSMEs expressed interest in training, peer-to-peer learning, and digital tools to improve financial literacy and audit readiness. This is consistent with studies conducted in Tanzania and Zambia, which found that audit adoption improves when MSMEs are supported with training and awareness campaigns (Ilubala, 2023; Kunda, 2021). The World Bank (2024) also emphasises the importance of capacity-building initiatives in strengthening SME financial governance.

Globally, UNCTAD (2016) and IFAC (2011) have called for more inclusive audit education to bridge the knowledge gap among small businesses. In Lusaka, MSMEs expressed interest in digital tools and software to support financial management and audit readiness.

- Adopter: “Pro bono services, peer-to-peer capacity building, financial literacy and management trainings.”
- Non-Adopter:
 - “Awareness and education.”
 - “Digital audit tools.”
 - “Accounting software.”
 - “Access to affordable audit services.”

Theme: Include Audits in Business Policy or Regulation

Some MSMEs suggested that audits should be integrated into internal business policies or made mandatory through government regulation. While only 4% of respondents raised this point, it reflects a broader trend in developing economies where regulatory frameworks are used to encourage audit adoption.

In Egypt, Abouelghit and Gan (2024) found that mandatory audits improved internal controls and governance among SMEs. However, they also cautioned that without adequate support, mandatory audits could be perceived as burdensome. In Zambia, ZDA (2023) has yet to fully integrate audit promotion into its SME development strategy, indicating a gap in policy-level engagement.

- Adopter: “In our case audits have been adopted as standard operational policy.”
- No quotes from non-adopters were linked to this theme.

Theme: Other Suggestions

A substantial portion of stakeholder responses (46%) fell outside the predefined categories but offered valuable insights into foundational practices that support audit readiness. These included calls for improved record-keeping, better cash flow management, and enhanced financial literacy. Both adopters and non-adopters emphasised that without strong internal systems, audits may not yield meaningful benefits.

This theme aligns closely with the Resource-Based View (RBV) (Barney, 1991), which posits that internal capabilities such as financial discipline and operational structure are essential for leveraging external tools like audits. MSMEs that lack these capabilities may struggle to implement audit recommendations or use audit findings to improve performance.

- Adopter: “Planning and cashflow.”
- Adopter: “Financial literacy.”
- Adopter: “Already adopted audits.”
- Non-Adopter: “Making sure all transactions are recorded.”
- Non-Adopter: “For business growth.”
- Non-Adopter: “Business viability and heightened financial flows.”

These responses suggest that audit adoption should not be promoted in isolation but as part of a broader financial governance strategy. Interventions aimed at improving basic financial practices such as bookkeeping, budgeting, and cash flow monitoring can serve as stepping stones toward effective audit engagement.

The strategies proposed by stakeholders reflect a nuanced understanding of the barriers and enablers of audit adoption among agro-based MSMEs. While cost reduction and procedural simplification are important, the data reveals that deeper systemic issues such as low financial literacy, weak internal systems, and limited institutional support must also be addressed.

The thematic distribution of responses shows that:

- **Cost-related strategies** (25%) are essential but must be complemented by capacity-building efforts.
- **Simplification and supportive processes** (17%) are necessary to make audits more accessible and less intimidating.
- **Awareness and education** (8%) remain critical, especially for non-adopters who lack exposure to audit benefits.
- **Policy-level interventions** (4%) are underrepresented but could play a transformative role if backed by adequate support.
- **Foundational financial practices** (46%) are the most frequently cited, indicating that audit readiness begins with internal discipline.

International comparisons suggest that Zambia can learn from countries like Uganda, Tanzania, and South Africa, where audit uptake has improved through coordinated efforts involving regulators, donors, and professional bodies (Apon et al., 2024; Mkhize, 2021; Kinyua, 2022). These efforts often combine financial incentives, simplified audit frameworks, and targeted training an approach that could be adapted to the Zambian context. To foster sustainable audit adoption, Zambia must move beyond compliance-driven models and promote audits as strategic tools for enterprise development. This requires a multi-stakeholder approach that integrates financial education, institutional support, and policy reform.

Views from Financiers

Financial institutions expressed strong support for audits as tools that enhance transparency, build trust, and improve MSMEs' access to finance. They emphasised that audited financial statements reduce information asymmetry and help lenders assess creditworthiness more reliably. These views are consistent with findings from Cole and Frost (2020), who showed that audited SMEs in emerging markets were more likely to secure loans and receive favourable terms.

Financiers also highlighted the need for broader support beyond lending. They recommended integrating audits into loan review processes and offering training on

financial literacy and record-keeping. This aligns with global recommendations from IFAC (2022) and the World Bank (2021), which advocate for financial institutions to play a proactive role in strengthening SME financial governance.

In Uganda, Apon et al. (2024) found that financial institutions that partnered with auditors and NGOs to deliver training and subsidised audit services saw improved SME performance and repayment rates. Similar models could be adapted for Zambia, especially within agro-based value chains.

Selected Quotes from Financiers

- *“One key role we can play is teaching MSMEs financial literacy. It starts with proper record-keeping of their daily business transactions.”*
- *“Support shouldn’t just be money, training and capacity building are also very important.”*
- *“Financial institutions can do a number of things to help MSMEs such as:*
 1. *Subsidising the cost of audits or helping cover part of the cost.*
 2. *Offering training on record-keeping and financial reporting.*
 3. *Creating simple audit packages designed specifically for MSMEs.*
 4. *Rewarding good financial habits for example, giving better loan terms to businesses with audited accounts.*
 5. *Working with local accountants or NGOs to offer workshops on financial management.”*

These kinds of support would not only help MSMEs get access to credit but also help them grow and survive in the long term.”

- *“Financial literacy support can also come through simple things like providing sales books or holding seminars.”*

These insights suggest that financiers are not only gatekeepers of capital but also potential enablers of audit adoption. Their willingness to support MSMEs through

incentives, training, and simplified audit packages presents a strategic opportunity for improving audit uptake and financial resilience.

Views from Auditors

Auditors provided practical suggestions focused on knowledge improvement, simplification of audit procedures, and institutional support. They noted that many MSMEs lack awareness of audit benefits and struggle with basic financial documentation. These observations are consistent with findings from South Africa and Tanzania, where audit professionals played a key role in educating SMEs and tailoring audit services to their needs (Mkhize, 2021; Kinyua, 2022).

Globally, IFAC (2011) has emphasised the importance of audit professionals in bridging the expectation gap and promoting audit literacy among SMEs. In Zambia, however, the reach of audit professionals remains limited, especially in informal and agro-based sectors. Auditors in this study called for more coordinated efforts with institutions like ZICA and ZDA to deliver sensitisation campaigns and technical support.

- *“Know how, support with record keeping.”*
- *“Knowledge acquisition on value of an audit and its benefits.”*
- *“Funding but also sensitisation to the important role audits may play in improving the operations of the MSMEs to enhance long-term growth and sustainability.”*

These comments show that many MSMEs need more information about the benefits of audits, help with keeping proper records, and possibly some financial or technical support. The points raised by auditors match what MSMEs themselves said and point to areas where professionals and institutions can step in to close the knowledge and skills gap. These comments reinforce the need for audit professionals to engage more actively with MSMEs, not just as service providers but as educators and advocates for financial governance.

What Government Stakeholders Said: ZDA, Ministry of MSMEs, and ZICA

Government institutions such as the Zambia Development Agency (ZDA), the Ministry of Small and Medium Enterprises (MSMEs), and the Zambia Institute of Chartered Accountants (ZICA) acknowledged the importance of financial audits in supporting MSME

growth. However, they also highlighted significant institutional constraints that limit their ability to promote audit adoption effectively.

ZDA and Ministry of MSMEs

Officials from ZDA noted that audit-related matters are often considered too technical and are typically handled by other agencies, such as the Zambia Revenue Authority. They admitted that audit adoption among MSMEs has not been discussed as a standalone issue within their programming. The Ministry of MSMEs similarly recognised the value of audits but cited limited funding and staffing as major barriers to providing direct support, such as training or capacity-building programmes.

These challenges reflect broader institutional gaps identified in the literature. UNCTAD (2016) and the World Bank (2024) have emphasised that effective audit adoption requires coordinated policy frameworks, adequate funding, and inter-agency collaboration. In Zambia, the lack of a unified strategy for promoting audits among MSMEs has resulted in fragmented efforts and limited impact.

Selected Quotes

- ZDA: “This issue is very technical; you may need to talk to our senior in the planning department.”
- ZDA: “We have not fully discussed audit adoption among MSMEs as a standalone issue. It is complex and often handled by the Ministry.”
- ZDA: “There is limited funding for us to develop targeted programmes to help MSMEs on audits or even train our own staff in financial matters.”
- Ministry of MSMEs: “The Ministry recognises the importance of audits for MSMEs but our support is constrained by low funding allocations, which limits what we can do in terms of training, staffing, and direct enterprise support.”

These responses suggest that while government agencies understand the strategic importance of audits, they are not yet fully equipped to lead audit adoption initiatives. Strengthening institutional capacity and integrating audit promotion into MSME development policies will be essential for progress.

ZICA's Response and Role

Following initial data analysis, ZICA formally responded to the research inquiry, providing detailed insights into its role in promoting audit adoption among MSMEs. ZICA highlighted its efforts in sensitising the public through its website, radio, and television programmes. It also regulates the audit profession in Zambia by prosecuting unregistered auditors and publishing lists of licensed practitioners to ensure quality assurance.

ZICA acknowledged that affordability remains a key barrier for MSMEs and noted the prevalence of unlicensed auditors offering low-cost but poor-quality services. To address this, ZICA has increased stakeholder engagement and enforcement actions. It also recommended developing tailored sensitisation programmes specifically for MSMEs, emphasising that audited financial statements can unlock access to institutional funding and procurement opportunities. These efforts align with global best practices. IFAC (2011) and the IAASB (2023) have advocated for professional bodies to play a proactive role in audit education, regulation, and support. In South Africa, similar initiatives by professional associations have helped improve audit quality and uptake among SMEs (Mkhize, 2021).

Selected Quotes

ZICA: "MSMEs who have audit reports have the benefit of accessing institutional funding and be able to tender for lucrative contracts."

ZICA: "ZICA has increased stakeholder engagement to sensitise the public on the importance of dealing with registered auditors."

ZICA's response demonstrates a commitment to improving audit adoption through regulation, public awareness, and institutional support. However, the effectiveness of these initiatives depends on broader collaboration with government agencies, financiers, and audit professionals.

The perspectives from ZDA, the Ministry of MSMEs, and ZICA reveal a shared recognition of the value of audits but also highlight systemic limitations in policy coordination, funding, and outreach. International experiences suggest that successful audit adoption requires a multi-stakeholder approach, combining regulatory enforcement, public education, and financial incentives. Zambia can draw lessons from countries like Uganda, Tanzania, and South Africa, where professional bodies, government agencies, and financial institutions

have worked together to promote audit engagement among SMEs. Strengthening institutional frameworks, increasing budget allocations, and developing targeted programmes will be key to unlocking the full potential of audits for MSME growth and sustainability.

CHAPTER FIVE: DISCUSSION OF FINDINGS

5.1 Introduction

This chapter presents a detailed discussion of the key findings outlined in Chapter Four, organised according to the study's four objectives. The discussion is guided by relevant theoretical frameworks including Agency Theory, Signalling Theory, and the Resource Based View (RBV). It also draws comparisons with both existing literature and practical experiences. The aim is to offer meaningful insights into how audit adoption can be encouraged among agro-based MSMEs in Lusaka.

5.2 Perceptions of Financial Audits

The study revealed a clear divide in how MSMEs perceive financial audits, largely influenced by whether they had adopted audits or not. Among audit-adopting MSMEs, **56%** described audits as useful tools for strengthening business operations. These businesses reported improvements in financial planning, record-keeping, and internal controls. This supports the **Resource-Based View**, which posits that audits, when internalised effectively, can enhance organisational capabilities and contribute to long-term sustainability (Barney, 1991; Zahra & George, 2002).

These findings are consistent with international studies. For example, Cole and Frost (2020) demonstrated that audits improve transparency and financial discipline in SMEs across emerging markets. Similarly, Mkhize (2021) found that South African MSMEs with regular audits were more likely to engage in structured financial planning and risk management.

In contrast, non-adopting MSMEs tended to view audits as expensive, complex, or only relevant when required by donors or regulators. This perception reflects a **signalling gap**, where audits are not recognised as strategic tools but rather as compliance burdens. Abouelghit and Gan (2024) observed similar trends in Egypt, where SMEs misunderstood audit requirements and undervalued their strategic benefits.

The study also found that some MSMEs feared audits might expose them to penalties or tax scrutiny. This aligns with findings from Seim (2019), who reported that Zambian MSMEs often associate audits with government enforcement rather than business

improvement. These views appear to stem from limited financial literacy, lack of access to professional support, and inadequate awareness of audit benefits.

The Tanzanian experience provides further validation. Chalu (2019) found that SMPs with a culture of adaptability and strategic orientation were more likely to perceive audits as valuable. This aligns with the Lusaka findings, where audit-adopting MSMEs demonstrated stronger internal systems and a clearer understanding of audit benefits. Organisational culture thus plays a critical role in shaping audit perceptions and uptake.

The implications are clear: **targeted awareness campaigns, simplified audit messaging**, and **capacity-building initiatives** are needed to bridge the perception gap. Institutions such as ZICA and ZDA must play a more active role in simplifying audits and promoting them as tools for growth and credibility. This aligns with global recommendations from IFAC (2011) and UNCTAD (2016), which advocate for inclusive audit education and stakeholder engagement to improve SME audit uptake.

5.3 Challenges Affecting Audit Adoption

The findings from this study revealed that agro-based MSMEs in Lusaka face a combination of financial, technical, and informational barriers that significantly hinder the adoption of financial audits. The most prominent challenge identified was cost mentioned by 77% of respondents. A majority of MSME owners and auditors cited affordability as a key constraint, with audit fees perceived as disproportionately high relative to the revenue and operational scale of small enterprises. This aligns with the Bank of Zambia (2022) and Seim (2019), who found that audit costs remain a major deterrent for MSMEs in Zambia. Kinyua (2022) similarly observed that affordability issues contribute to low formalisation rates among SMEs across East Africa. These concerns are not unique to Zambia; the IFAC Audit Fees Survey (2022) reported that smaller firms globally bear a heavier cost burden, often making audits inaccessible without external support. In response, some countries such as Tanzania have implemented cost-sharing models and donor-funded audit programmes to reduce financial barriers, approaches that could be adapted to the Zambian context.

Beyond cost, technical capacity emerged as a significant barrier, with 38% of respondents highlighting limitations in internal systems, record-keeping, and accounting knowledge.

Many MSMEs operate informally, lacking structured financial documentation and trained personnel to support audit processes. This finding is consistent with studies by Apon et al. (2024) and Ilubala (2023), who reported that technical gaps in Uganda and Zambia respectively hinder audit readiness and implementation. Auditors in this study noted that MSMEs often struggle to produce basic financial statements, which not only complicates the audit process but also limits the potential benefits of audits. The World Bank (2021) has emphasised the importance of strengthening internal financial systems and audit literacy to improve governance and access to finance among SMEs, a recommendation that remains highly relevant for Lusaka's agro-based enterprises.

Regulatory understanding was another challenge, albeit less frequently cited. The study found that many MSMEs were unaware of Zambia's statutory audit threshold of ZMW 20 million in annual revenue, with some assuming audits were only relevant for donor-funded projects or large corporations. This reflects a broader gap in financial literacy and regulatory awareness, as also noted by Abouelghit and Gan (2024) in Egypt, where SMEs misunderstood audit requirements and undervalued their strategic benefits. In Zambia, the Bank of Zambia (2022) reported that over 80% of MSMEs operate informally, with limited engagement in formal financial systems or compliance processes. Interestingly, some respondents indicated that even enterprises with annual revenues above ZMW 1 million were expected to provide audited financials when seeking credit or entering supplier agreements, suggesting that practical demand for audits may exceed legal mandates. This reinforces the need for targeted awareness campaigns and clearer communication around audit expectations and benefits.

Finally, the study uncovered a range of other contextual barriers, including time constraints, fear of scrutiny, and general disinterest in formal systems. These concerns were particularly prevalent among non-adopting MSMEs, who viewed audits as intrusive or unnecessary unless externally mandated. Oosthuizen et al. (2020) found similar sentiments in South Africa, where some SMEs avoided audits due to mistrust in formal oversight and concerns about exposure to penalties. Financiers interviewed in this study noted that without proper audits, assessing MSME creditworthiness becomes difficult, further limiting access to finance. This underscores the importance of repositioning audits not as regulatory burdens but as strategic tools for business development and financial inclusion.

In Tanzania, Chalu (2019) identified similar constraints, noting that SMPs struggled with audit adoption due to resource limitations and a lack of tailored audit frameworks. The study concluded that audit standards must be adapted to the realities of smaller firms to be effective. This supports the Lusaka findings and highlights the need for simplified audit models and targeted institutional support.

In summary, the challenges affecting audit adoption among agro-based MSMEs in Lusaka are multifaceted and deeply rooted in both structural constraints and perceptual gaps. Addressing these issues will require coordinated efforts involving financial support mechanisms, capacity-building initiatives, simplified audit procedures, and enhanced regulatory outreach. Lessons from countries such as Uganda, Tanzania, and South Africa demonstrate that targeted interventions, when supported by institutions like ZICA and ZDA, can significantly improve audit uptake and contribute to the long-term sustainability of MSMEs.

5.4 Impact of Financial Audits on Business Outcomes

The findings from this study indicate that financial audits have a measurable and positive impact on the operational and financial outcomes of agro-based MSMEs in Lusaka, particularly among those that have adopted audit practices. Approximately 25% of audit-adopting MSMEs reported improvements in internal financial controls, more structured budgeting, and enhanced decision-making capacity. These businesses described audits as instrumental in identifying inefficiencies, improving record-keeping, and fostering a culture of financial discipline. Financiers interviewed in the study corroborated these views, noting that audited financial statements significantly improved the credibility of MSMEs and facilitated more accurate assessments of creditworthiness. This aligns with the work of Cole and Frost (2020), who found that audited SMEs in emerging markets were more likely to secure loans and receive favourable terms due to reduced information asymmetry and increased transparency.

The study also revealed that audits contribute to better financial planning and operational resilience. MSMEs with audit experience were more likely to track expenses systematically, prepare monthly budgets, and implement internal controls based on audit recommendations. These outcomes are consistent with the findings of Apon et al. (2024), who demonstrated that internal audits in Ugandan SMEs led to stronger governance and

sustainability. Similarly, Mkhize (2021) reported that South African MSMEs with regular audits exhibited improved financial discipline and strategic planning, while Oosthuizen et al. (2020) highlighted the role of audits in enhancing business confidence and risk management among small enterprises.

In contrast, only 4% of non-adopting MSMEs reported any comparable benefits, and most lacked the systems or capacity to engage meaningfully with audit processes. This disparity underscores the importance of internal absorptive capacity, as articulated in the Resource-Based View (Barney, 1991; Zahra & George, 2002). The RBV suggests that the value of external resources such as audits depends on the enterprise's ability to internalise and apply them effectively. In this study, MSMEs with stronger internal systems were better positioned to leverage audit insights for growth and sustainability, while those operating informally struggled to realise similar outcomes.

The Tanzanian study's use of canonical correlation analysis revealed that technology, organisational culture, and human resources were the strongest predictors of successful audit adoption (Chalu, 2019). These dimensions were also reflected in the Lusaka findings, where MSMEs with better internal systems and financial literacy were more likely to benefit from audits. This supports the Resource-Based View, which emphasises the importance of internal capabilities in leveraging external tools like audits.

Moreover, the study found that audits serve not only as tools for financial governance but also as strategic enablers of access to finance. Several MSMEs reported that lenders required audited financials as part of the loan application process, and those with audit reports experienced faster approvals and more favourable loan conditions. This finding reinforces the signalling function of audits, as discussed by Connelly et al. (2011), whereby audits act as credible indicators of business reliability and financial integrity. In Zambia, where many MSMEs operate outside formal financial systems, audits can play a critical role in bridging the trust gap between enterprises and external stakeholders.

Overall, the evidence suggests that financial audits, when adopted and utilised effectively, contribute to improved financial management, enhanced access to finance, and greater business resilience among agro-based MSMEs. However, these benefits are largely confined to enterprises with the capacity to engage with audit processes. For non-adopting MSMEs, the absence of structured financial systems and limited audit literacy remain significant barriers. Addressing these gaps through targeted support and capacity-

building initiatives will be essential to unlocking the full potential of audits as tools for enterprise development in Zambia.

5.5 Strategies to Enhance Audit Adoption

Participants proposed five main strategies to encourage more MSMEs to adopt audits: reducing costs, simplifying procedures, offering training, improving communication around policy, and linking audit adoption to other incentives such as donor funding. These strategies are not only grounded in stakeholder feedback from Lusaka but are also supported by a growing body of global and regional research that highlights similar approaches in comparable contexts.

1. Cost Reduction and Subsidies

Affordability was the most frequently cited barrier to audit adoption. Many MSMEs recommended subsidised audit services or donor-funded programmes, especially for first-time adopters. This recommendation is consistent with initiatives in both Tanzania and Zambia. Chalu (2019) found that SMPs in Tanzania struggled with audit adoption due to limited financial resources and recommended targeted financial support to improve uptake. Similarly, the Bank of Zambia (2022) and Seim (2019) identified cost as a major constraint for MSMEs, suggesting that subsidised audits could help bridge the gap. Globally, IFAC (2022) has acknowledged that audit fees disproportionately affect smaller firms and has called for scalable audit models that reduce cost burdens.

2. Simplification of Audit Procedures and Use of Technology

Auditors and financiers proposed practical measures such as phased audits, simplified packages, and increased use of digital tools to reduce complexity and cost. These suggestions align with global recommendations from IFAC and the World Bank, which advocate for context-appropriate audit models tailored to the needs of small businesses. The introduction of the ISA for Less Complex Entities (IAASB, 2023) is a direct response to this need, aiming to streamline audit procedures without compromising quality. Chalu (2019) similarly emphasised that audit standards must be adapted to the operational realities of SMPs, noting that simplified frameworks and clearer guidance improved audit engagement in Tanzania.

3. Training and Capacity Building

Respondents stressed the importance of financial literacy and audit awareness among MSMEs. Training programmes, peer-to-peer learning, and digital tools were suggested to improve audit readiness. These recommendations are supported by studies in Tanzania and Zambia. Chalu (2019) demonstrated that organisational culture and internal capacity were key predictors of successful audit engagement among Tanzanian SMPs. In Zambia, Kinyua (2022) and Ilubala (2023) identified financial literacy as a critical factor in formalisation and audit uptake. Globally, IFAC (2011) has highlighted the role of audit professionals in bridging the expectation gap and promoting audit literacy among SMEs.

4. Linking Audit Adoption to Incentives

Several participants recommended that audit engagement be linked to access to finance, procurement opportunities, and donor support. This approach is supported by guidance from IFAC and the World Bank, which suggest that audits can serve as trust signals to external stakeholders and improve MSME credibility. In Tanzania, Chalu (2019) found that client capacity and external incentives played a significant role in motivating SMPs to adopt audits. In Zambia, financiers confirmed that audited financial statements improve creditworthiness and facilitate loan approvals, reinforcing the strategic value of audits beyond compliance.

5. Policy Integration and Institutional Support

Some respondents suggested that audits be integrated into MSME development policies and supported through coordinated efforts by institutions such as ZICA, ZDA, and the Ministry of MSMEs. While these institutions recognise the importance of audits, their current capacity to support MSMEs remains limited. The Tanzanian experience shows that successful audit adoption requires a multi-stakeholder approach, combining regulatory enforcement, public education, and financial incentives (Chalu, 2019). Globally, UNCTAD (2016) and the World Bank (2021) have emphasised the need for institutional frameworks that promote audit engagement through policy alignment and resource mobilisation.

5.6 Institutional Views: ZDA, Ministry of MSMEs, and ZICA

The institutional landscape in Zambia reflects both recognition of the importance of financial audits and significant limitations in capacity to support MSMEs in adopting them. Officials from the Zambia Development Agency and the Ministry of Small and Medium Enterprises acknowledged the strategic value of audits in enhancing financial governance and access to finance. However, both institutions cited operational constraints particularly low budget allocations, limited staffing, and unclear mandates as key barriers to providing direct support to MSMEs in this area.

During stakeholder engagement, ZDA staff indicated that audit-related matters are often considered too technical and are typically referred to other agencies such as the Zambia Revenue Authority or ZICA. The Ministry of MSMEs similarly recognised the role of audits in strengthening MSME resilience but noted that audit promotion has not been integrated into its core programming due to resource limitations. These findings are consistent with the results presented in Chapter 4, where institutional respondents expressed interest in supporting audit adoption but lacked the tools, funding, or frameworks to do so effectively.

Despite Zambia's formal adoption of International Standards on Auditing (ISAs), implementation and monitoring remain uneven. ISA usage is widespread among large companies that can afford qualified accountants and structured financial systems. However, among MSMEs mainly those in agro-based and informal sectors adoption is limited due to cost, capacity, and lack of tailored support. This mirrors the Tanzanian experience, where Chalu (2019) found that while ISAs were adopted nationally, successful implementation among small and medium-sized practices (SMPs) was hindered by resource constraints and the perception that standards were designed for large firms.

In Zambia, ZICA has initiated workshops on audit readiness and IFRS for SMEs (ZICA, 2024), and ZDA includes financial reporting in its support programmes. Yet, these efforts remain largely theoretical and underfunded. Many MSMEs lack the financial literacy, formal records, and access to qualified auditors needed to engage meaningfully with audit processes. As in Tanzania, audits are often perceived as donor-driven or regulatory obligations rather than strategic tools for business development (Bank of Zambia, 2022).

Comparative insights from South Africa and Uganda further highlight the importance of regulatory frameworks and implementation capacity. In South Africa, Mkhize (2021) found

that while audit regulations were well-established, smaller enterprises often lacked the internal systems and external support needed to comply effectively. The study emphasised the need for simplified audit procedures and targeted training to improve uptake. In Uganda, Apon, Ismene, and Ismail (2024) demonstrated that internal audits contributed to SME sustainability, but adoption was contingent on institutional support and awareness. Both cases underscore the importance of not only regulatory enforcement but also proactive engagement, education, and financial incentives to support audit uptake.

In Zambia, the absence of a unified strategy for promoting audits among MSMEs has resulted in fragmented efforts and low awareness. Despite multiple follow-ups, initial input from ZICA was not received during the early stages of data collection, further illustrating the disconnect between regulatory institutions and MSMEs. However, ZICA later provided formal feedback, acknowledging the need for targeted sensitisation programmes and confirming that affordability and access to qualified auditors remain major challenges.

These insights point to the need for stronger coordination between public institutions and more investment in support structures that can guide MSMEs through the audit process. A multi-stakeholder approach combining regulatory clarity, financial incentives, and technical assistance is essential to reposition audits as strategic tools for MSME development. Lessons from Tanzania, South Africa, and Uganda suggest that institutional collaboration, simplified audit frameworks, and donor-backed programmes can significantly improve audit adoption and effectiveness.

5.7 Integrating Theory and Findings

The findings of this study reflect the relevance and practical application of all three theoretical frameworks Agency Theory, Signalling Theory, and the Resource-Based View (RBV), in explaining audit adoption and its impact among agro-based MSMEs in Lusaka.

Agency Theory

Agency Theory is evident in the way audits help MSMEs demonstrate accountability to external stakeholders, including investors, donors, and financial institutions. In Chapter 4,

MSME owners and financiers confirmed that audited financial statements improve transparency and reduce information asymmetry, thereby enhancing trust and facilitating access to finance. This aligns with global literature, including Healy and Palepu (2001), who argue that audits serve as monitoring mechanisms that mitigate agency costs and improve stakeholder confidence. Regionally, Chalu (2019) found that in Tanzania, SMPs used audits to signal compliance and professionalism, particularly when engaging with external clients and regulators.

Signalling Theory

Signalling Theory is reflected in the finding that audits improve business credibility and strengthen external relationships. In this study, MSMEs that adopted audits reported faster loan approvals and better procurement opportunities, suggesting that audits serve as credible signals of financial discipline and operational reliability. This is consistent with Cole and Frost (2020), who demonstrated that audited SMEs in emerging markets were more likely to secure credit and receive favourable terms. In Tanzania, Chalu (2019) highlighted that SMPs adopted audits to attract international clients and improve their market positioning. Similarly, in Uganda, Apon et al. (2024) found that internal audits enhanced SME sustainability by signalling sound governance practices to donors and partners.

Resource-Based View (RBV)

The RBV is supported by evidence that audits can enhance internal management practices, provided the business has the capacity to implement changes. In Chapter 4, audit-adopting MSMEs reported improvements in budgeting, expense tracking, and internal controls. These outcomes suggest that audits function as intangible resources that contribute to competitive advantage when absorbed effectively. This aligns with Barney (1991) and Zahra & George (2002), who argue that organisational capabilities such as, financial literacy and structured systems, are essential for leveraging external tools like audits. Chalu (2019) reinforced this view by showing that in Tanzania, successful audit adoption was linked to organisational culture, technology use, and

human resource capacity. In South Africa, Mkhize (2021) similarly found that SMEs with stronger internal systems were better positioned to benefit from audit engagement.

5.8 Conclusion

Audit adoption among agro-based MSMEs in Lusaka is shaped by a complex interplay of financial, technical, and informational factors. While the benefits of audits such as improved financial discipline, enhanced credibility, and better access to finance, are clearly evident among adopters, many MSMEs remain excluded due to practical limitations. These include high audit costs, limited internal capacity, and low awareness of audit value beyond compliance.

The findings from this study, supported by global and regional literature, underscore that addressing these barriers requires a coordinated, multi-stakeholder approach. Policy reform alone is insufficient. Effective solutions must combine donor involvement, targeted training, simplified audit frameworks, and improved access to affordable audit services. Zambia's formal adoption of International Standards on Auditing (ISAs) provides a strong foundation, but implementation and monitoring remain uneven particularly among MSMEs that lack qualified personnel and structured financial systems.

Comparative experiences from Tanzania (Chalu, 2019), South Africa (Mkhize, 2021), and Uganda (Apon et al., 2024) reinforce the importance of institutional collaboration, tailored audit models, and capacity-building. In these contexts, audit uptake improved when regulatory frameworks were supported by practical tools, financial incentives, and stakeholder engagement. Zambia can draw valuable lessons from these models to reposition audits not merely as regulatory obligations but as strategic instruments for enterprise development and long-term sustainability.

By investing in audit literacy, simplifying procedures, and aligning institutional support, stakeholders can help ensure that audits become an integral part of MSME growth, resilience, and accountability in Zambia's agro-based sector.

CHAPTER SIX: CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter presents the main conclusions drawn from the study and offers practical recommendations aimed at improving the adoption and usefulness of financial audits among agro-based MSMEs in Lusaka. The conclusions are directly informed by the study's findings and aligned with its objectives. Recommendations are tailored to key stakeholders, including MSMEs, auditors, financiers, and policy institutions such as ZICA and ZDA. The chapter also integrates lessons from global and regional contexts, including Tanzania, South Africa, and Uganda, to provide a broader perspective on audit adoption strategies.

6.2 Summary of Key Findings

The study revealed a clear difference in how audits are perceived by MSMEs that have adopted them compared to those that have not. Audit-adopting MSMEs viewed audits as valuable tools for growth, improved credibility, and better financial management. In contrast, non-adopters often saw audits as costly, complex, or externally imposed obligations. The main barriers to audit uptake were identified as high costs, limited technical capacity, and confusion around audit regulations.

Audit-adopting MSMEs reported improvements in financial discipline, structured budgeting, and enhanced access to finance. These benefits were largely absent among non-adopters, who lacked the internal systems and awareness needed to engage with audit processes. To address these challenges, several strategies were proposed, including subsidised audit models, simplified audit frameworks for small businesses, targeted training, and stronger policy-level support. These findings are consistent with global research (IFAC, 2022; IAASB, 2023) and regional studies in Tanzania (Chalu, 2019), South Africa (Mkhize, 2021), and Uganda (Apon et al., 2024), which emphasise the importance of contextualised audit solutions and institutional collaboration.

6.3 Conclusions

Based on the findings, the following conclusions are drawn as follows:

- **Perception matters.** MSMEs that view audits as strategic tools for business development are more likely to adopt them and benefit from improved governance and financial outcomes.
- **Cost and capacity are key barriers.** High audit fees and limited internal systems prevent many MSMEs from engaging with audits. These must be addressed through affordable solutions, simplified procedures, and capacity-building initiatives.
- **Audits bring tangible value.** When adopted effectively, audits support financial planning, enhance credibility, and improve access to finance. However, these benefits are mostly realised by MSMEs with the capacity to absorb and apply audit insights.
- **Institutional support is fragmented.** While Zambia has formally adopted ISAs, implementation and monitoring remain uneven. Audit engagement is concentrated among larger firms with qualified personnel, while MSMEs lack tailored support and outreach.
- **Collaboration is essential.** Coordinated efforts between MSMEs, auditors, government agencies, financiers, and professional bodies are necessary to reposition audits as enablers of growth and sustainability. Lessons from Tanzania, South Africa, and Uganda show that multi-stakeholder approaches combining regulation, education, and financial incentives can significantly improve audit uptake.

6.4 Recommendations

Given the exploratory nature of this study and its qualitative design, the recommendations below are intended as practical, scalable interventions that can be piloted or expanded through collaboration with existing institutions. These actions do not require major policy reform but can lay the groundwork for future systemic change.

Recommendation 1: Develop and Disseminate MSME-Friendly Audit Literacy Materials

One of the most immediate and feasible interventions to improve audit engagement among agro-based MSMEs in Lusaka is the development and dissemination of simplified audit literacy materials. The findings from this study revealed that many MSMEs particularly non-adopters lack a clear understanding of what audits entail, how they benefit business operations, and how they differ from tax inspections or donor compliance checks. This informational gap contributes significantly to low uptake and reinforces the perception that audits are burdensome or irrelevant unless externally mandated. To address this, ZICA, in collaboration with ZDA, the Ministry of MSMEs, and MSME associations, should lead the creation of MSME-friendly audit guides. These materials should be designed to demystify the audit process using plain language, visual aids, and sector-specific examples relevant to agro-based enterprises. Topics should include the purpose of audits, what to expect during an audit, how to prepare, and how audit findings can be used to improve financial management and access to finance.

Implementation should follow a multi-stakeholder approach. ZICA can provide technical expertise and ensure alignment with professional standards, while ZDA and the Ministry of MSMEs can support distribution through their existing MSME outreach channels. MSME associations and cooperatives can help tailor messaging to local contexts and facilitate peer-to-peer learning. Materials should be made available in both English and local languages and distributed through radio programmes, WhatsApp groups, community business hubs, and local training workshops.

This intervention is low-cost and scalable, making it ideal for immediate rollout. It does not require legislative change but can significantly improve audit literacy and readiness. Success can be measured through pre- and post-awareness surveys, increased audit inquiries, and uptake of audit services. By improving understanding, this recommendation

lays the foundation for more complex interventions such as subsidised audits and policy integration and aligns with global best practices advocated by IFAC (2011) and UNCTAD (2016).

Recommendation 2: Pilot a Subsidised Audit Voucher Scheme for First-Time MSME Adopters

One of the most practical and high-impact interventions to improve audit uptake among agro-based MSMEs in Lusaka is the introduction of a subsidised audit voucher scheme. The study revealed that cost remains the most significant barrier to audit adoption, particularly for micro and small enterprises with limited financial capacity. Many MSMEs expressed interest in audits but were deterred by the perceived expense and lack of clarity around pricing structures. This aligns with findings from Tanzania (Chalu, 2019), where SMPs struggled to adopt ISAs due to affordability constraints, and similar observations in South Africa (Mkhize, 2021), where audit engagement was concentrated among larger firms. To address this, ZDA, in collaboration with CEEC and ZICA, could pilot a voucher-based subsidy programme targeting MSMEs with annual turnover below ZMW 1.5 million. The scheme would cover a portion of the audit fee, ideally between 50% and 70% for first-time adopters. Participating MSMEs would be matched with vetted audit firms willing to offer capped, standardised pricing for basic audit services. This approach ensures affordability while maintaining professional standards and transparency.

Implementation should follow a phased model. In the first six months, ZDA and CEEC can conduct a needs assessment and stakeholder consultations to define eligibility criteria, pricing benchmarks, and service scope. The next 12–18 months would involve rolling out the pilot in selected districts, with monitoring and evaluation mechanisms in place to track uptake, satisfaction, and impact on financial access. Donor support particularly from institutions already funding MSME development could be mobilised to finance the scheme and support capacity-building for participating audit firms.

The cost-benefit potential of this intervention is substantial. By reducing the financial barrier to entry, MSMEs can begin to experience the strategic value of audits, including improved financial discipline, credibility, and access to finance. Financiers interviewed in this study confirmed that audited financials significantly improve loan eligibility and reduce

risk. Success indicators for the pilot could include the number of MSMEs audited under the scheme, repeat audit engagement, and increased access to credit or procurement opportunities.

This recommendation is realistic, scalable, and aligned with Zambia's existing MSME support infrastructure. It does not require legislative reform but can be implemented through inter-agency coordination and donor partnerships. Over time, the voucher scheme could evolve into a broader audit incentive programme, contributing to a more inclusive and resilient financial governance ecosystem for MSMEs.

Recommendation 3: Integrate Basic Audit Readiness into MSME Training Programmes

A critical and feasible intervention to support audit adoption among agro-based MSMEs in Lusaka is the integration of basic audit readiness into existing MSME training programmes. The study revealed that many MSMEs lack the foundational financial management skills necessary to prepare for and benefit from audits. This includes poor record-keeping, limited understanding of financial statements, and unfamiliarity with audit procedures. These gaps not only hinder audit engagement but also reduce the effectiveness of audits when they are conducted. This finding is consistent with global literature, including IFAC (2011) and UNCTAD (2016), which emphasise the importance of financial literacy and audit preparedness in improving audit outcomes. Regionally, Chalu (2019) in Tanzania and Apon et al. (2024) in Uganda found that internal capacity particularly in financial systems and documentation was a key determinant of successful audit adoption. To address this, ZDA and the Ministry of MSMEs should embed audit readiness modules into their existing financial literacy and business development training programmes. These modules should cover practical topics such as basic bookkeeping, budgeting, understanding audit reports, and preparing documentation for audit engagement. The content should be tailored to the realities of agro-based MSMEs, using examples from farming, processing, and value chain operations. Delivery can be through in-person workshops, mobile-based learning platforms, and community business hubs, ensuring accessibility for MSMEs operating in both formal and informal settings.

Implementation should leverage existing training infrastructure and partnerships. ZDA and CEEC already run MSME support programmes that can be expanded to include audit readiness. ZICA can provide technical input to ensure alignment with professional standards, while MSME associations can help with outreach and contextualisation. Academic institutions and NGOs with experience in financial literacy can also be engaged to support curriculum development and delivery.

This intervention is low-cost and high-impact, as it builds on existing programmes and addresses a foundational barrier to audit engagement. It does not require new legislation or complex systems but can significantly improve MSME capacity to engage with audits meaningfully. Success indicators could include the number of MSMEs trained, improvements in audit preparedness scores (via pre/post assessments), and increased uptake of audit services following training. Over time, this initiative can contribute to a more audit-ready MSME ecosystem, supporting broader goals of financial inclusion, transparency, and enterprise resilience.

Recommendation 4: Establish a Multi-Stakeholder MSME Audit Taskforce

A coordinated and inclusive approach is essential to address the fragmented institutional support for audit adoption among MSMEs in Zambia. The study revealed that while individual institutions such as ZICA, ZDA, and the Ministry of MSMEs recognise the importance of audits, their efforts remain siloed, underfunded, and lacking strategic alignment. This fragmentation contributes to inconsistent messaging, limited outreach, and missed opportunities for joint programming. Similar challenges were documented in Tanzania by Chalu (2019), where audit adoption among SMPs was constrained by weak institutional coordination and limited stakeholder engagement.

Establishing a multi-stakeholder MSME Audit Taskforce would provide a structured platform for collaboration, knowledge sharing, and joint action. The taskforce should include representatives from ZICA, ZDA, the Ministry of MSMEs, CEEC, audit firms, MSME associations, and academic institutions. Its core mandate would be to track audit uptake, coordinate awareness campaigns, develop shared tools and templates, and advise on policy and programme adjustments based on field-level insights.

Initial implementation should begin with a stakeholder roundtable to define the taskforce's structure, objectives, and operating procedures. Within the first six months, the taskforce should produce a baseline report on audit engagement among MSMEs, drawing from existing data and stakeholder consultations. Over the following 12 to 24 months, it can oversee pilot initiatives such as the audit voucher scheme and audit literacy campaigns, ensuring alignment and accountability across institutions.

This recommendation does not require legislative reform and can be operationalised through existing institutional mandates. It builds on Zambia's MSME development infrastructure and leverages the technical expertise of ZICA and the outreach capacity of ZDA and the Ministry of MSMEs. Success indicators may include the formal establishment of the taskforce, frequency of meetings, number of joint initiatives launched, and integration of audit metrics into MSME policy reviews.

A collaborative governance model such as this taskforce can help ensure that audit promotion is not treated as a peripheral issue but becomes embedded within Zambia's broader financial inclusion and enterprise development agenda. Over time, the taskforce can evolve into a permanent advisory body, supporting future reforms and contributing to a more transparent and resilient MSME ecosystem.

6.5 Suggestions for Further Research

This study adopted a qualitative, comparative case study design to explore audit engagement among agro-based MSMEs in Lusaka. While the approach was appropriate for uncovering perceptions and lived experiences, it also presented limitations in terms of generalisability, statistical validation, and geographic scope. Future research can build on these insights by adopting mixed-methods designs and expanding the sample across different regions and sectors.

A comparative study across both urban and peri-urban areas in Zambia would offer valuable insights into how geography influences audit adoption. MSMEs operating in peri-urban and rural settings may face distinct challenges, such as limited access to audit professionals, lower financial literacy, and reduced exposure to formal financial systems. Understanding these spatial dynamics could inform more targeted outreach and support

strategies. Similar geographic disparities have been observed in global studies, including those by the World Bank (2021), which emphasise the need for decentralised audit support in emerging economies.

Further research is also needed to evaluate the impact of donor-funded or subsidised audit programmes. This study proposed a voucher-based subsidy model, but its effectiveness, sustainability, and scalability remain to be tested. Empirical studies could assess how such programmes influence audit uptake, financial performance, and access to finance among MSMEs. Lessons can be drawn from Tanzania (Chalu, 2019), where research highlighted the need for subsidised audit support and institutional capacity-building to improve engagement among SMPs. While direct subsidy programmes were not evaluated, the study emphasised that affordability and client capacity are critical to successful audit adoption. In South Africa, Mkhize (2021) found that audit engagement was concentrated among larger firms and that SMEs were more likely to adopt audits when incentivised by external stakeholders such as banks or donors. These findings suggest that future research should explore the design, implementation, and impact of targeted audit incentives and subsidy models in the Zambian context.

Exploring audit outcomes across different segments of the agro-based sector such as crop production, livestock, horticulture, and agro-processing could help refine sector-specific strategies. MSMEs in these sub-sectors may have varying levels of formality, financial complexity, and audit relevance. A sectoral analysis could identify which audit models are most effective and where simplified frameworks like ISA for Less Complex Entities (IAASB, 2023) are best applied. This would also support the development of tailored audit guidelines and training materials.

Finally, future research should consider incorporating quantitative tools such as Cronbach's alpha to validate constructs like audit awareness, financial management ability, and perceived audit benefit. A mixed-methods approach would allow for triangulation between qualitative themes and quantitative patterns, strengthening the robustness of findings and informing policy-level decisions.

6.6 Conclusion

This study has demonstrated that when MSMEs understand and have access to financial audits, they are more likely to realise tangible benefits such as improved financial transparency, enhanced business planning, and increased access to finance. These outcomes were particularly evident among audit-adopting MSMEs in Lusaka, who reported stronger internal controls and greater credibility with external stakeholders. However, the findings also revealed that many MSMEs remain excluded from these benefits due to persistent barriers including cost, limited technical capacity, and low audit literacy.

Unlocking the full potential of audits for MSMEs will require more than regulatory enforcement. Practical support mechanisms, simplified audit frameworks, and targeted awareness campaigns are essential to reposition audits as strategic tools for enterprise development rather than mere compliance obligations. Collaboration across public and private sectors including institutions such as ZICA, ZDA, CEEC, audit firms, and MSME associations is critical to achieving this shift.

The qualitative nature of this study allowed for a rich exploration of stakeholder experiences and perceptions, but it also highlighted the need for broader, mixed-methods research to validate and expand these findings. Global literature, including studies from Tanzania, South Africa, and Uganda, reinforces the importance of context-specific audit models, institutional coordination, and financial incentives in driving audit engagement among small enterprises.

Ultimately, strengthening audit uptake is not just about meeting statutory requirements it is about equipping MSMEs with the tools to grow sustainably, manage risk effectively, and operate with greater confidence in an increasingly competitive and regulated business environment.

CHAPTER SEVEN: REFERENCES AND APPENDICES

7.1 References

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7.2 Annex1: University Ethical Clearance



UNIVERSITY
of LUSAKA

Pursuing for Quality Education: Our Driving Force

SCHOOL OF POSTGRADUATE STUDIES

Plot No. 37413, Off Alick Nkhata Mass Media. P. O Box 36711, Lusaka.

Phone: +260211258505, 258409 Fax +260211233409; Cell +260976075850,961917862,

E-mail: unilus@zamnet.zm, ictar@zamnet.zm

UNILUS-RESEARCH ETHICS COMMITTEE

Ref no: FWA00033228-39204/25

Date: 30th April 2025

STUDENT NAME: RUTH MULONDIWA

ASSESSING THE ROLE OF FINANCIAL AUDITS IN ENHANCING MSME GROWTH AND SUSTAINABILITY IN LUSAKA: PERCEPTIONS, CHALLENGES, AND OPPORTUNITIES.

The above research was submitted to the research ethics committee for review. The study has no major ethical problems and is approved subject to the following:

1. The study cannot be changed without express permission of the UNILUS research ethics committee.
2. Approval from the necessary authority should be sought.

Congratulations and the committee wishes you success in your work.

Professor Kasonde Bowa

MSc(Glasgow), M.Med(UNZA), FRCS(Glasgow), FACS, FCS, DPH(LSTMH), MPH(UCL)

Chairman- UNILUS REC

Professor of Urology and Consultant Urologist

Deputy Vice-Chancellor – Research and Innovation

Executive Dean - School of Medicine and Health Sciences

Figure 7.1: University Clearance Form

7.3 Annex 2: Informed Consent Form

Title of Study:

The Role of Financial Audits in Enhancing Growth and Sustainability of Agro-Based MSMEs in Lusaka: A Comparative Study of Audit-Adopting and Non-Audit-Adopting Enterprises

Researcher(s):

Ms Ruth Mulondiwa ACCA, FZICA

Contact Information: Email: lulu301010@yahoo.com, Mobile no.: +260 971 252 326

Mr Owen Muteke, Research Supervisor

Contact Information: Email: owenmut88@gmail.com

Introduction:

You're invited to take part in a research study looking at how financial audits help agro-based Micro, Small and Medium Enterprises (MSMEs) grow and stay sustainable in Lusaka. The study aims to understand what MSMEs think about audits, the challenges they face, and any benefits they've seen.

Purpose of the Study:

If you agree to join, you'll take part in a one-on-one interview or a group discussion. The interview will take around 30–60 mins and focus group about 1hr 30 mins. We'll ask open-ended questions about your views and experiences with audits. With your consent, we'll record the conversation just for accuracy.

Procedures:

If you agree to participate, you will be asked to engage in a semi-structured interview or focus group discussion. The interview will last approximately 30 to 60 minutes, and the focus group discussion will last approximately 1hr 30 min. During the interview, you will be asked a series of open-ended questions related to your experiences and views on financial audits. These sessions will be recorded with your consent.

Risks and Benefits:

There's no known risk to taking part. Though you might not benefit personally, what you share can help others by informing better policies and support for MSMEs.

Confidentiality:

Your responses will be kept private. Nothing that can identify you will appear in reports or presentations. All info will be stored safely and accessed only by the research team.

Voluntary Participation:

Taking part is up to you. You can say no or stop anytime, and it won't affect you in any way. If you withdraw, we won't use your data in the study.

Consent to Participate:

By signing below, you agree to join this study. You understand it's voluntary and that you've had a chance to ask questions.

Contact Information:

If you have any questions about this study or your rights as a participant, please contact the Researcher or Research Supervisor (details above).

Consent to Record:

I agree for this interview or discussion to be audio recorded for analysis only.

Participant's Signature: _____

Date: _____

Researcher's Signature: _____

Date: _____

7.4 Annex 3: Interview Guides

Interview Guide for MSME Owners and Managers

Interview Guide for MSME Owners and Managers

1. Introduction Questions

- Can you tell me a bit about your business? (e.g. what products or services you offer, how long you've been in business, number of employees)
- What's your role in the business?

2. Perceptions of Financial Audits

- How would you describe what a financial audit is?
- What do you feel are the main purposes of doing audits for your business?
- Do you think audits are more about meeting regulation or improving how your business runs? Why you think so?

3. Adoption of Audits

- Does your business currently do financial audits? If yes, what made you decide to get audited? If no, why not yet?
- What benefits you think audits can bring to your business?
- What are some things that stop you from adopting audits? (e.g. costs, too complicated, lack of info)

4. Challenges and Barriers

- Did you face any challenges when trying to bring audits into your business?
- Do you feel financial audits are affordable for a business like yours?
- How would you describe the audit process in terms of time and how difficult it is?

5. Impact of Audits on Business Performance

- Can you share some example of how doing an audit has impacted how your business works or makes decisions?
- Has doing audits helped your business get access to money or credit? Can you explain more?

6. Future Adoption and Support

- What would make it easier for your business or other MSMEs to start doing audits?
- How do you think auditors or banks can help business owners like you understand why audits are useful?

7. Conclusion

- Anything else you'd want to add about your experience with audits?

Interview Guide for Company Auditors

1. Background and Experience

- Can you share a bit about your experience auditing agro MSMEs in Lusaka? How long have you worked with such businesses?
- What's your general view of the role audits play in helping MSMEs grow or stay sustainable?

2. Challenges and Barriers to Audit Adoption

- What challenges do you usually find when doing audits for MSMEs?
- Are there issues linked to small size or low resources in these businesses? How do you work around them?
- From what you've seen, why do some MSMEs avoid getting audited?

3. Impact of Audits

- From your point of view, what are the benefits audits can give agro MSMEs?
- Any examples where an audit really helped an MSME improve its finance or get loans?

4. Strategies for Improving Audit Uptake

- What would help MSMEs adopt audits more easily, from your angle as auditor?
- How can auditors or your team help these businesses see audits as more than just rules?

5. Conclusion

- What would you recommend to help more MSMEs adopt audits?

Interview Guide for ZICA, ZDA, and Financial Institutions Representatives

ZICA Representatives

1. Role of ZICA in Promoting Audits

- What is ZICA's role in promoting financial audits for MSMEs, especially agro ones?
- How does ZICA reach out to MSMEs to promote audit importance?

2. Barriers to Audit Adoption

- From what you see, what key things stop MSMEs from doing audits in Zambia?
- What has ZICA done to try solve these?

3. Institutional Support

- Does ZICA offer programs or tools to help MSMEs take on audits? Have they worked?

4. Recommendations for Improvement

- What else can ZICA do to support MSMEs in this area?

ZDA Representatives

1. ZDA's Role in MSME Development

- What role does ZDA play to help MSMEs, especially agro ones, become more financially transparent and get finance?

2. Audit Adoption and Access to Finance

- How do audits affect MSMEs in terms of qualifying for donor or gov't funding?

3. Challenges in Promoting Audit Adoption

- What makes it hard for MSMEs to adopt audits? How does ZDA help?

Financial Institution Representatives

1. Role of Audits in Lending Decisions

- How do audits affect your decision to give loans to agro MSMEs?
- What do you look for in their statements to know if they're credit-worthy?

2. Barriers to Finance

- Do MSMEs without audits have more trouble getting finance? Why is that?

3. Recommendations for MSME Support

- What can banks do to help MSMEs adopt audits and improve how they handle money?

7.5 Annex 4: Correspondence and Approval from Stakeholders

7.5.1 Zambia Development Agency (ZDA)

Figure 7.2: Receipt of Agro-Businesses Dase from ZDA

Ruth MULONDIWA

From: Kawama Banda <Kawama.Banda@zda.org.zm>
Sent: Tuesday, May 20, 2025 3:31 PM
To: Ruth MULONDIWA
Cc: Collins Sifafula; Rebecca Jessica Jangulo
Subject: Re: MSMEs Registered with ZDA.xlsb
Attachments: Selected Businesses to Participate in the Research. 20.05.2025.xlsx



Please be careful when opening emails that originate from outside WFP

Dear Ruth,

Please find attached the companies in Agri-business and their respective contact details as requested.

Should you have further questions, please do get in touch.

Kind regards



Ms. Kawama Tatenda Banda
Policy and Research Specialist
Zambia Development Agency
Privatisation House
Nasser Road
Lusaka, Zambia
P O Box 30819
Phone: +260 211 220177/223859
Mobile: +260 978894408
Website: www.zda.org.zm
Our Mission: To efficiently and effectively promote and facilitate investment, trade and enterprise development in Zambia

From: Ruth MULONDIWA <ruth.mulondiwa@wfp.org>
Sent: Monday, May 19, 2025 12:41:31 PM
To: Kawama Banda
Subject: FW: MSMEs Registered with ZDA.xlsb

** External Email. Treat Hyperlinks and Attachments in this Email with Caution. **
FYA as discussed.

Ruth Mulondiwa Mwando

From: Ruth MULONDIWA
Sent: Monday, April 28, 2025 5:12 PM
To: Kawama Banda <Kawama.Banda@zda.org.zm>
Cc: Collins Sifafula <Collins.Sifafula@zda.org.zm>; Maurice T. Luchen <Maurice.Luchen@zda.org.zm>

1

Figure 7.3: Proof of payment to ZDA for Agro-Data Base

REPUBLIC OF ZAMBIA
Zambia Development Agency
P.O. Box 30819, Lusaka
Tel: 260-211-220177 / 222858
Fax: 260-211-225270
E-Mail: zda@org.zm

No. **1013182**

GENERAL RECEIPT

STATION: _____
Date: 19-May-25

Original	To Payee
Duplicate	To Support Cash Account
Duplicate 2	Customer File

RECEIVED from RUTH MULONDIWA - PROVISION OF INFORMATION UNDER AGRIC. SE

the sum of: (in words) SIX HUNDRED TWENTY KWACHA ONLY

ZMW 620.00

ngwee ZERO

for the credit of code _____

(in account of) PROVISION OF INFORMATION UNDER AGRICULTURE SECTOR - CASH

ZDA
ZAMBIA DEVELOPMENT AGENCY
ACCOUNTS
PAID
19 MAY 2025

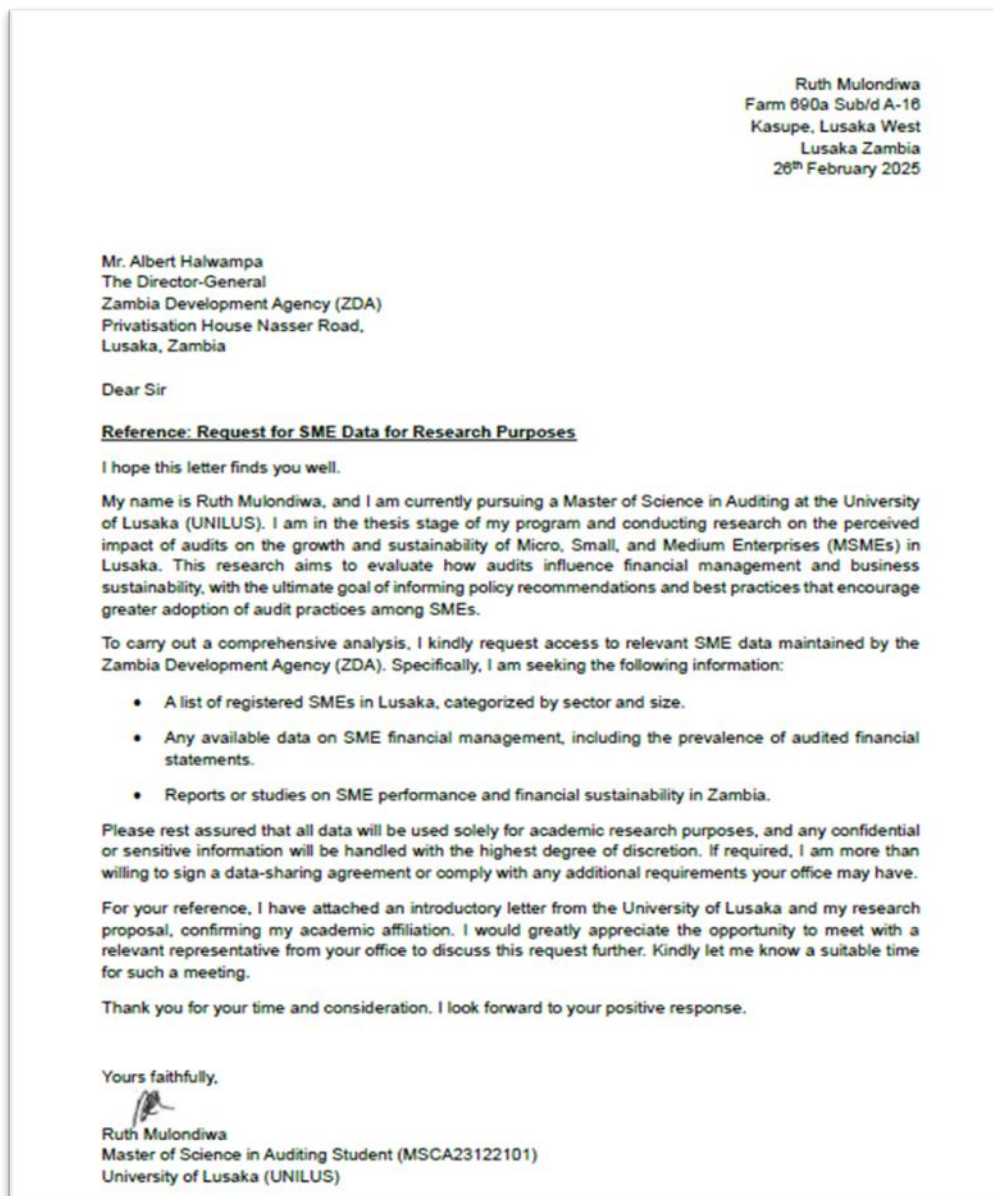
Received by: C. Mulomba
Signature: _____
Designation: AS. Accountant

Cash

OFFICIAL STAMP

Cheque No. 1013182








Figure 7.4: Letter to ZDA Requesting for Agro-sector Data Base




7.5.2 Ministry of SME (ZAPT II Project)

Figure 7.5: Approval from ZAPT II (Ministry of SME)

Re: Request for SME Data for Research Purposes

 wilfred mufwambi <mufwambiwilfred@yahoo.com>
To  Ruth MULONDIWA;  Golden
Cc  'ruth Mulondiwa';  wmufwambi@zapt.org.zm;  'Chiza Ludaka';  'chiza ludaka'

 You replied to this message on 5/14/2025 5:07 PM.
If there are problems with how this message is displayed, click here to view it in a web browser.

Dear Ruth,

Good evening.

Sincere apologies for the delayed response. I have copied my two Specialists to attend to your request.

@Wilfred and Chiza – kindly attend to the request from Ruth in the trailing mail.

Kind regards,

From: Ruth MULONDIWA [<mailto:ruth.mulondiwa@wfp.org>]
Sent: Tuesday, 1 April 2025 1:48 PM
To: gmakayi@zato.org.zm
Cc: ruth Mulondiwa <julu301010@yahoo.com>
Subject: RE: Request for SME Data for Research Purposes

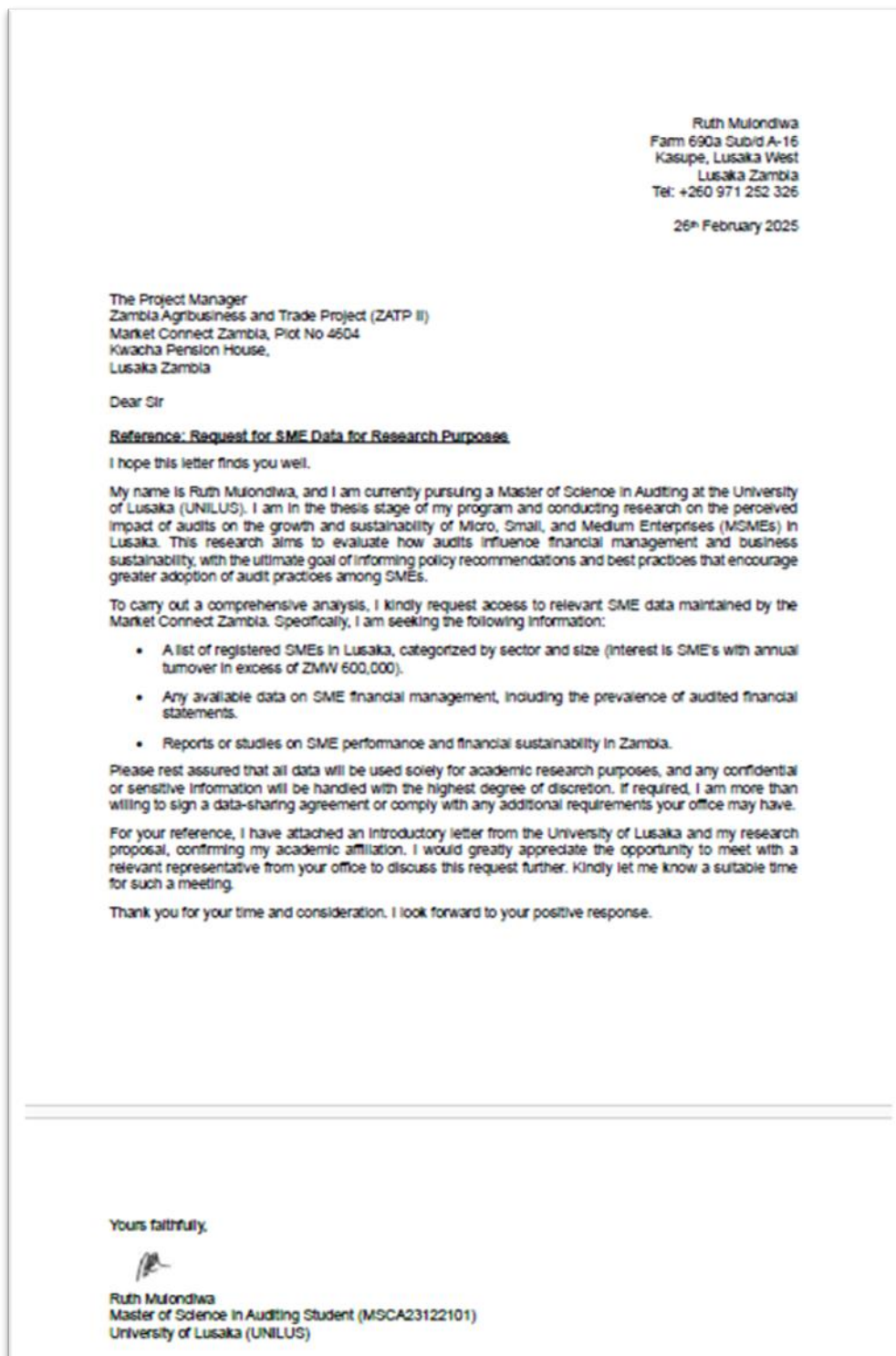
Dear Sir

Hope this email finds you well. I would like to make a follow up on the request below. Your quick response will greatly be appreciated.

Regards

Ruth Mulondiwa Moonde

Figure 7.6: Request to ZAPT II from information



7.5.3 Zambia Institute of Chartered Accountants (ZICA)

Figure 7.7: Request for information from ZICA

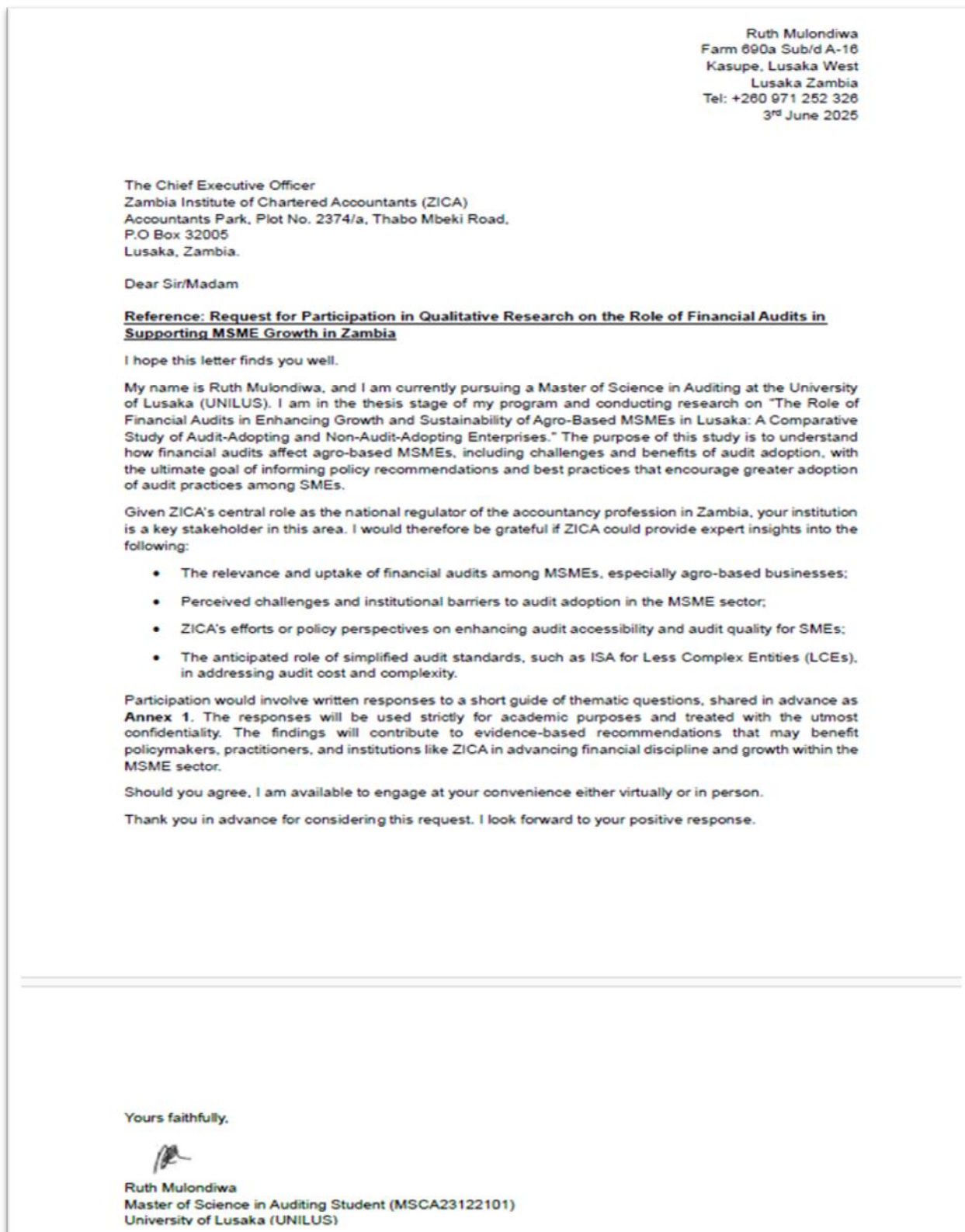






Figure 7.8: Final follow-up with ZICA

Re: F005417: Request for Participation in MSME Audit Research – ZICA Input Sought (Deadline 10 June 2025)

 Contact Centre <contactcentre@zica.co.zm>
To  Ruth MULONDIWA

 If there are problems with how this message is displayed, click here to view it in a web browser.

Start your reply all with:  Feedback





Please be careful when opening emails that originate from outside WFP

Dear Ruth,




Apologies for the delayed response. Kindly note that your request is still being looked into, and we will revert shortly.

Kind regards,
Philemon Mwape

ZICA CONTACT CENTER
Tel: +260 211 374 551-9
Web: www.zica.co.zm

    YouTube

Contact Centre Dial 1982

 Chartered Accountants | Difference Makers  PAFA PAN AFRICAN FEDERATION OF ACCOUNTANTS  IFAC International Federation of Accountants

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Figure 7.9: Response from ZICA

