
INTERNAL AUDIT OUTSOURCING PRACTICES AMONG MICRO, SMALL AND MEDIUM SIZED ENTERPRISES (MSMES) IN LAGOS STATE

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ABSTRACT: *Micro, small and medium scale enterprises (MSMEs) are recognized globally as the engine of growth in any development oriented economy. MSMEs significantly contribute to employment and the Gross Domestic Product (GDP) in emerging economies. As a result of the adverse effect of the COVID-19 pandemic, the Federal Government through the Central Bank of Nigeria (CBN) inaugurated a N75 billion (Seventy-five billion naira) survival fund to revitalize and reinvigorate the MSMEs in the country. Consequently, to ensure effective utilization of the fund, the study investigated the impact of internal audit outsourcing on audit quality of MSMEs in Lagos State. The study adopted survey research designs, using purposive sampling technique to select 170 respondents among the registered MSMEs in Lagos State. A structured questionnaire was used to collect data, validated using Cronbach alpha with 85% response rate. The data was analyzed using descriptive and inferential statistics. Majority of the MSMEs, indicated that they extensively outsourced the function of ensuring compliance with established policies, plans and procedures. The study recommended that owners and managers of MSMEs should ensure that the internal auditors' functions of their firms are outsourced to external audit firms in order to achieve audit independence and high audit quality at a reduced cost.*

KEYWORDS: Internal Audit Outsourcing, Micro, Small and Medium Sized Enterprises (MSMEs)

INTRODUCTION

According to the latest World Bank report for the year 2020, a contribution of collapse in oil prices and COVID-19 pandemic is expected to plunge the Nigeria's economy into a severe recession, the worst since the 1980's. The bank projected that Nigeria's economy would likely contract by 3.2percent in 2020. The International Monetary Fund however estimated a negative growth of 5.4 percent for Nigeria in the same year due to the pandemic, calls for bold policies to save lives and livelihood. The reports opine that the macro-economic impact of the COVID-19 pandemic will likely be significant, even if Nigeria manages to contain the spread of the virus. Oil represents more than 80percent of Nigeria exports, 30 percent of its banking sectors credit and 50percent of the overall government revenue. IMF estimated further that debt servicing may likely gulp the entire revenue accruable to the country in the current year of 2020.

To buttress the position of the World Bank and IMF, the National Bureau of Statistics (NBS) reveals that in the first quarter of 2020, Nigeria revenue performances shows 30 percent deficit in oil revenue, 40percent deficit in non-oil revenue with an overall average of 76 percent adverse variances. The statistics also reveals a 100 percent adverse variances in signature bonus, Domestic

Recoveries, Stamp Duties, Grants and Donor Funding. With the drop in oil prices, government revenues are expected to fall from an already low 8 percent of GDF in 2019 to a projected 5 percent in 2020. This comes at a time when fiscal resources are urgently needed to contain the COVID-19 outbreak and stimulate the economy. The World Bank lead Economist for Nigeria, Marco-Hernandez opined that the unprecedented crisis requires an equally unprecedented policy response from the entire Nigerian public sector, in collaboration with the private sector, to save lives, protect livelihoods, and lay the foundation for a strong economic recovery. To achieve this objective, maximum contribution of MSMEs is required. Consequently, the Federal Government of Nigeria through the Central Bank (CBN) inaugurated a N75 billion (Seventy-five billion naira) survival fund to revitalize and reinvigorate the Micro, Small and Medium Enterprises (MSMEs) in the country. Analysis of the fund indicates that each firm would be credited with N50, 000 (fifty thousand naira) each.

Micro, Small and Medium Enterprises (MSMEs) are recognized all over the world as the engine of growth in any development oriented economy. Due to their inherent labour intensive production processes, they provide a viable platform for job creation. In Brazil, MSMEs account for 62 percent of employment and 50 percent of national value (Punch, 2020) All over the developed world, the contribution of MSMEs to GDP averages about 47 per cent. However, in Nigeria, MSMEs account for only 10 per cent of our GDP. With over 200 million people and only about 6, 000 megawatts of electric power available (compared to South Africa's 51000MW), creating jobs and reducing poverty amid a population growth rate of 2.6 percent is a massive challenge (Punch, 2020). As reported by the Small Medium Enterprises Development Agency of Nigeria (SMEDAN), there are about 17.3 million MSMEs in Nigeria compared to the over 40 million MSMEs in Indonesia, whose population is only a little greater than Nigeria (Jonathan, 2014). Some of the reasons adduced for this disparity are limited access to finance, low technology, poor infrastructure and lack of market access. MSMEs play an important role in a nation's economy. In Malaysia, it represents the largest percentage of economic formations at 99.2 percent. This contributes 32 percent to Gross Domestic Products (GDP), 56.4 percent to total workforce and 19 percent to total exports of the country (SMECORP 2013). Micro, Small and Medium Sized Enterprises (MSMEs) significantly contribute to employment and the Gross, Domestic Product (GDP) in emerging economies (Ale-Ebrahim, Ahmed & Taha, 2010; Devi & Samujh 2010). Many claim that the growth of emerging economies significantly depends on the performance of MSMEs (Ale - Ebrahim *et al.*, 2010; Zohari, 2008; Bayati & Taghavi, 2007). For example, in developing countries, MSMEs help to bring stability to the national economy and help buffer the shocks that came with the boom and burst of economic cycles (Ale - Ebrahim *et al.*, 2010), because MSMEs make up the most part of manufacturing enterprises (Zohari, 2008; Bayati & Taghavi, 2007). For example, Iranian MSMEs employed more than 63 percent of total Iranian manpower in the industrial sector which in total, represents 99.9 percent of all firms in Iran (Zohari, 2008).

In Nigeria, MSMEs contributed over 70 percent of national industrial employment represents about 90 percent of the industrial sector in terms of the number of enterprises. But the MSMEs development only accounted for 10 percent of manufacturing output and a meager 5 percent of gross domestic product (GDP) in 2008 (Ogundele, 2010). Over the years, MSMEs in Nigeria have been an avenue for job creation and empowerment of citizens providing about 70 percent of all job opportunities and also for wealth formation (Dauda & Akingbade 2010). Indeed, MSMEs in emerging economies are a major part of the industrial economies and their survival and development (growth) is an important issue (Ale-Ebrahim et al., 2010; Zohari, 2008). To further increase the generative capacity of MSMEs; outsourcing can be implemented. It is evident that outsourcing can be an important activity that MSMEs can adapt in other to enhance their competitiveness. In this context, this study examines the impact of internal audit outsourcing on the quality of audit in an emerging economy like Nigeria.

Objective of the study

The study aim to determine the extent to which MSMEs outsource internal audit functions in Lagos State.

LITERATURE REVIEW

The term “outsourcing” was created at the end of the 1980s for contracting out information systems (Espino Rodriguez & Padron-Robaina 2004; Hussey & Jenster 2003). For example, in the past, most subcontracted functions related to information systems or component manufacture, even though, in recent years, many other service functions in various sectors have been outsourced (i.e., accounting functions, internal audit functions administrative services, human resources activities, catering services, logistics, procurement etc.) (Espino Rodriguez & Padron-Robaina, 2004). Primarily, the emphasis .is on outsourcing support and professional activities in firms, such as accounting functions or human resources. (Caniels & Troeleveld, 2009). The word outsourcing is seen to be synonymous with the decision to externalise (Espino Rodriguez & Padron-Robaina, 2004, 2006). For instance, many claim that outsourcing involves processing outside the firm to obtain specific activities or services that are not provided inside the firm (Hamzah, Aman, Maelah, Auzair & Amiruddin, 2010; Espino-Rodriguez & Padron-Robaina, 2006). Overall, outsourcing is usually explained as the contracting with an external service provider to make available a functions internally (Nicholson, Jones and Espenlaub *et al.*, 2006 Wood, Barrar, Jones & Sullivan, 2001).

Outsourcing of Internal Audit

According to The Institute of Internal Auditors; UK (Definition of internal auditing, 2013), internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization4s operations. Carey *et al.* (2006) however, described outsourcing as a service that provided or surrendered to external parties. Barac and Motubatse (2010) on the other hand defined internal audit outsourcing as an approach where the functions were executed by the outsider apart from the organization that will provide the benefits of cost advantage, effectiveness and efficiency of the operations and professional gain. Thus, Internal audit outsourcing is an

activity where the firms employ or appoint independent public accounting firms and other professionals to execute the function that have not been done by traditional internal auditors. According to Tahajuddin and Kertali (2018), the study stated that internal auditor independence helps to improve the organization by enhancing the audit effectiveness and quality which will eventually the management to recognize the problems and thus achieve the objectives of the particular organization. Muqattash (2011) says that having the internal audit within the organizations will have more advantage rather than completely outsourced to third parties.

A study found out that in South Africa, company policies, lack of appropriate skills perceived objectivity of the auditors together with the cost implications are major reasons for internal audit outsourcing (Barac & Motinbatses, 2010). But Carey *et.al* (2006) opine that the technical competence of the external provider and perceived cost savings are major factors influencing internal audit outsourcing. According to Okpara, Ezirim and Mohammed (2017), managerial factors that influences internal audit outsourcing decision among MSMEs in Nigeria includes cost saving and professional competence but excludes risk management considerations. In examining the determinants of internal audit outsourcing. Jiem, Nam, Mei, Khoan and Sheemon (2013), post that asset specificity, frequency of the audit, cost of the audit and environmental uncertainty are influencing factors among MSMEs in Malaysia. In Australia, firm size, cost pressure, asset specificity and perceived environmental uncertainty are significant variables affecting firm decision to outsource their internal audit function (Sherman & Subramaniam, 2005). From the perspectives of the Siri-Hankan firms, internal audit outsourcing are significantly influenced by the cost of the audit, expertise knowledge of the service provider and the internal audit quality (Amerageewa, Dedunu & Bandara, 2017). Although, Inna and Abianga (2015) argued that the perception auditor perform full internal audit functions. Partial internal audit function, another audit firm performs the IAF or a separate department within the same audit firm performs the IAF. However, having the outsourced internal audit activities performed by the company is external audit firm does not by itself appear to negatively affect financial statement user's perceptions of auditors independence and others related decisions (Seetharaman, Mowrthy & Saravanan, 2008). According to Sulanjaku and Todri (2015), benefit of outsourcing the internal audit function in Albania is to obtain higher quality services and reducing the administrative cost of the internal control system. In Albania, 90 percent of the establishments are regarded as small companies, 9% are medium while 0.4 percent are big company with over 200 employees. Small companies generally outsource the entire bookkeeping operations to CPA's. However, there are mixed findings on the impact of outsourcing of internal auditing services on quality, cost, independence and availability of resources (Mubako, 2018).

Research studies that examined the major determinants are quite substantial but with contradictory positions. Some of these studies identify auditors independence, cost savings, professional or technical competence, firm and industry size, company policy, assets specificity, environmental uncertainty, Frequency of audit, audit quality, perceived benefits, awareness, behavioural uncertainty and expertise knowledge (e.g. Inua & Abianga, 2015; Okpara, Ezirim & Mohammed, 2017; Barac & Motubatse, 2010; Tahajuddin & Kertali, 2018; Carey, Subramaniam & Ching, 2006, Jie, Nam, Mei, Khoon & Sheemon, 2013; Sharma & Subramaniam, 2005; Seetharaman,

Moorthy & Saravanan, 2008, Amarajeewa, Dedunu & Bandara, 2017; Suleiman & Dandago, 2014, Sulanjaku & Todri, 2015; Lowe, Geiger & Pany, 1999; Plant, 2014; Papageorgiou, Padia & Yassen, 2013; Mubako, 2018; Tazilaha, Majid & Suffarn, 2019; Tto, Bun & Tran 2017, Isokssan & Lantz, 2015 and Scarlata, Garven, Vagner & Bahmanziari, 2019. Using Nigerian experience, Inna and Abianga (2015) examines the impact of internal audit outsourcing on auditor's independence. The study discovered that the perception of auditor's independence vary according to the nature of work undertaken. The perception of auditor's independence is high when the auditor that performs the external audit is different from those performing the IAF or a separate department within the same audit firm perform the IAF. Okpara, Ezirim and Mohammed (2017) evaluates the managerial factors influencing internal audit outsourcing decision among small and medium sized enterprises in Nigeria. The study discovered that significant relationship exist between professional competence, perceived cost savings and internal audit outsourcing. However no significant relationship exist between IAO and risk management consideration. In another study by Okpara et.al (2017), firm size and industry type significantly influences IAO decisions among MSMEs in Nigeria. Barac and Motubatse (2010) investigate the internal audit outsourcing practices in South Africa. The outcome of the study opine that company policies, lack of appropriate technical skills, perceived objectivity of the auditors, together with the cost implications are the major reasons why South African establishments outsourced the internal audit function. In examining the internal audit outsourcing among 304 publicly listed companies in Australia, Carey, Subraivaniam and Ching (2006) concluded that technical competence of the external service provider and the perceived cost savings are major factors influencing IAO in Australia. Jie, Nam, Mei, Khoon & Sheerman (2013) inspect the various determinants of IAO among SMEs in Malaysia. The conclusion of the study indicated that cost of the audit, environmental uncertainty, frequency of the audit assignment and asset specificity are major factors influencing IAO among Malaysian SMEs. The same position was established previously in Australia, when (Sherma & Subranianam, 2005) investigated the outsourcing of internal audit services among the Australian firms. Findings of the investigation reveal that asset specificity firm size, perceived environmental uncertainty together with cost pressure are significant variables influencing IAO. However, Seetharaman, Moorthy and Saravanan (2008) studied the association between the independence of auditors and outsourcing of internal audit. Using case study approach, the outcome of the research opined that having internal audit activities performed by the company's external auditor does not by itself appear to negatively affect financial statement users perception of auditor independence and other related decisions. Based on the Sri-Lankan experience, Amarajeewa, Dedunu and Bandara (2017) interrogated the major determinant affecting an outsourcing of IAF. The study obtained relevant data from management and operational level employee of finance companies which currently outsource their internal audit functions in Kandy urban area. Though correlation and multiple regression analysis, findings of the study posit that IAO as significantly influenced by internal audit quality, cost of the audit and the expertise knowledge of the auditor. Conversely, management support and the independency of the IAF are not affected by IAO. Using Nigerian deposit money bank as a premise, Suleiman and Dandago (2014) examines the extent of internal

audit functions outsourcing among banks. Data were obtained from head of operations, branch managers, internal auditors and area managers of all the 22 DMBs in Nigeria as at July, 2013. The result of the study indicates that (i) establishing accounting systems, (ii) evaluations of the system, (iii) verification of assets, (iv) recruitment of staff and other human resource management activities, (v) ensuring security of documents, and (vi) security of IT database are functions heavily outsourced by deposit banks in Nigeria. Sulanjaku and Todri (2015) inspect the perspectives of outsourcing of internal audit functions in Albania. Based on analytical review procedure, the study observed, that cost reduction are the major reason why Albanian businesses outsourced the internal control functions. The study by Lowe, Geiger and Pany (1999) examined the relationship between internal audit outsourcing and perceived external auditors independence. They discovered that auditor performance of management functions had a significant negative impact on user's perceptions of auditors' independence and financial statement reliability. However, separation of audit firm performing he outsourced internal audit from those that perform financial statement audit had a significant positive impact on financial statement users perception of auditors independence. Also using the South-African experience, Plant (2014) investigate the various internal audit outsourcing practices within the public sector of the economy. Relevant data were obtained from 32 Chief audit executives, 30 of the chairperson of the audit committee and 31 accounting officers from the 40 national departments. Inferential analysis of the data reveals that the respondents preferred in house IAFs to outsourced IAFs because of the perceived commitment to governance by in-house auditors. However, due to lack of technical expertise and shortage of competent internal auditors. IAFs are often outsourced to external audit service providers. Papageorgiou, Padia and Yassen (2013) evaluate the impact of decisions to outsource, the IAF in South Africa. The study adopted purposive sampling technique to obtain data from 80 South African organizations in both the private and the public sector of the economy. Relying on inferential statistics to analyse the data, the outcome shows no significant differences were observed between the private and public sectors with regards to the interactions with the external auditors and threats to independence. Major difference reveals that private companies prefers "Big4" accounting firm more often than the public sector. Through literature synthesis and future direction, Mubako (2018) explore a review of academic and professional literature associated with internal audit outsourcing from 1980 to 2018. The study discovered that as a result of the perceived cost, benefit and improved access to specialized internal auditing services, outsourcing decisions are widespread. However, there are mixed findings on the impact of outsourcing on quality, independence, availability of resources and cost. From the viewpoint of Malaysia, Tazilaha, Majid and Suffari (2019) examines the various factors influencing the decisions to outsource the internal audit function among the SMEs. They discovered that awareness of the internal audit function, perceived benefits associated with internal audit function and the perceived financial cost are the major determination of IAO among SMEs in Malaysia. In a related discourse, Tto, Bui and Tran (2017) interrogated the different factors influencing the decisions to outsource accounting functions in Vietnam. The outcome of the study shows that specificity of accounting significantly and positively influences accounting outsourcing. However, environmental uncertainty, frequency

of accounting transactions and trust in service providers were not significant in influencing accounting outsourcing. Utilizing Common Body of Knowledge (CBOK) survey results data from the Institute of Internal Auditors Research Foundation (IIARF), Scarlata, Garven, Vaguer and Bahmanziari (2019) examine the extent of internal audit outsourcing among small organizations in Anglo-Culture countries (US, Canada, New Zealand, Australia, South Africa, the U.K., and Ireland). Descriptive analysis of the data found that significant association exist between organization financial health and IAO in small organization. Isaksson and Lantz (2015) investigated the association among outsourcing strategies and their impact on financial performance of small manufacturing firms in Sweden. Data were obtained from 400 small firms with employees less than 50. The result of the multiple regression established no relationship between outsourcing strategies and financial performance.

Theoretical perspective of outsourcing

The Transaction cost Economics (TCE) perspective founded by Coase (1937) and developed principally by Williamson (1975, 1985, 1996), situates that there are cost in using a market. TCE perceptive merges economic theory with management theory to posit an ideal type of relationship a firm must possess in the marketplace (McIvor, 2000, 2009). According to Espino-Rodriguez, Hai & Baum (2008) TCE emerges as the main theory to explain outsourcing practice over the past 20 years. TCE perspective has laid the bases for the buying discipline that utilises an investigation of the factors, which establish the internal and external boundaries (e.g., insourcing or outsourcing) of the firm (McIvor, 2009). The notion of TCE is that the properties of a transaction establish what constitute the efficient governance structure market (buy=outsourcing), hierarchy (make=insourcing) or alliance (insourcing and outsourcing) (McIvor, 2000). Markets are assumed to be efficient, but efficiency requires that all information is available to all parties (i.e., firms and service providers) (Marshall *et al.*, 2007). If this condition is not met, firms can incur costs, called transaction costs (Marshall *et al.*, 2007). Inevitably, TCE theory is established to be one of the most popular theoretical paradigms for investigating outsourcing practice (Reeves *et al.*, 2010; Everaert *et al.*, 2010; Lamminmaki, 2007; Espino-Rodriguez & Gil-Padilla, 2005). TCE perspective suggests that firms are organised in such a way that minimises transaction costs (Lamminmaki, 2000). TCE argues a firm seeks to balance transaction and production costs in their decision to internalise (insource) or externalise (outsource) a transaction (Jiang, Belohlav & Young, 2007). Therefore, the greater the transaction costs, the more likely that the transaction form (mode) goes to managing within the firm (i.e., insourcing) rather than buying (e.g. outsourcing) (Jiang et al., 2007). When a firm decides to outsource a service function, it suggests to the market that the cost of this new external transaction mode (form) must be lower than its former in-house transaction cost (Jiang et al 2007).

METHODOLOGY

They study adopted survey research design. Survey method was used to collect primary data from the respondents. Several researchers supported this approach based on argument that people's intention is better measured via survey study and that causal or predictive relationships are better tested with survey (Bryman & bell. 2001); Ogunbameru & Ogunbameru, 2010; Sanders, Lewis &

Thormhill, 2009). The study focused on micro, small and medium sized Enterprises (MSMEs) registered in Lagos State. A sample size of 170 (one hundred and seventy) respondents were purposively selected based on the willingness to complete the data. The study used quantitative approach by measuring respondents' view on a graduated scale for statistical analysis in order to have a reasonable accurate measurement of the constructs rather than using observation. An adapted structured questionnaire was applied to collect the relevant data for this study. The questionnaire was sectionalized to reflect demographic information, independent and dependent variables. Responses were rated using the five-point Likert scale. Internal consistency information using Cronbach alpha reliability test, with the aid of SPSS version 24. Given the result, it is concluded that the instrument is reliable and capable of producing consistent results. The data collected from the 145 copies thoroughly filled and returned, giving a response rate of about 85% were analyzed using descriptive and inferential statistics and consequently draw conclusions.

RESULTS AND DISCUSSION OF FINDINGS

Table 4.1: Distribution of SMEs on Extent of Outsourcing of Internal Audit Functions

Outsourcing function	Not at all	To a little extent	To some extent	To a large extent	To a great extent	\bar{X}	SD
Supervision and evaluation of accounting system	14(9.7%)	15(10.3%)	31(21.4%)	62(42.8%)	23(15.8%)	3.44	1.16
Soundness, adequacy and application of internal control System	9(6.2%)	13(9.0%)	26(17.9%)	60(41.1%)	37(25.5%)	3.70	1.13
Ensuring compliance with established policies, plans and procedures	9(6.2%)	8(5.5%)	28(19.3%)	67(46.2%)	33(22.8%)	3.73	1.07
Examination of financial report before external audit	13(9.0%)	16(11.0%)	28(19.3%)	46(31.7%)	42(30.0%)	3.60	1.26
Detailed test of transaction and balances	14(9.7%)	10(6.9%)	29(20.0%)	52(35.9%)	40(27.5%)	3.64	1.23
Security of documents and information technology (IT) database	10(6.9%)	19(13.1%)	33(22.8%)	37(25.5%)	46(31.7%)	3.62	1.26
Conducting special investigation	12(8.3%)	20(13.7%)	40(27.6%)	43(29.7%)	30(20.7%)	3.40	1.20

Source: Field Survey, 2019

Interpretation: The analysis in Table 4.1 showed the extent of outsourcing of internal audit functions in MSMEs. Majority (69.0%) of the MSMEs indicated that they extensively outsourced the function of ensuring compliance with established policies, plans and procedures; about a quarter of them indicated a little or some extent, while 6.2% indicated that they do not outsource such function. A mean value of 3.73 on a maximum possible point of 5.00 revealed that ensuring compliance with established policies, plans and procedures was outsourced to a large extent. Also, the analysis showed that a high proportion (66.6%) of the MSMEs outsourced the function of soundness, adequacy and application of internal control system to an extensive degree; 26.9% of the MSMEs outsourced such function to a moderate extent, while 6.2% do not engage in outsourcing of such function. A mean value of 3.70 showed that the function was outsourced to a large extent. Concerning the internal audit function of detailed test of transaction and balances, about 63% of the MSMEs outsource such function extensively, 26.9% of the firms indicated a moderate extent, while 9.7% of them do not outsource such function. A mean value of 3.64 showed that detailed test of transaction and balances was outsourced to a large extent. Also, majority (57.2%) of the MSMEs extensively outsourced the function of security of documents and information technology (IT) database, 35.9% of them outsourced the function to a moderate extent, while about 6.9% of the MSMEs do not outsource such function. A mean value of 3.62 showed that the function was outsourced to a large extent. Likewise, the function of examination of financial report before external audit was extensively outsourced by majority (61.7%) of the MSMEs. This was confirmed by a mean value of 3.73. Furthermore, about 59% of the MSMEs indicated that they extensively outsourced the function of supervision and evaluation of accounting systems; about 32% of them indicated a little or some extent, while 10% of the firms indicated that they do not outsource such function. A mean value of 3.44 showed that supervision and evaluation of accounting systems was outsourced to a moderate extent. Besides, the analysis showed that a high proportion (50.4%) of the MSMEs outsourced the function of conducting special investigation to a very large extent; 41.3% of the MSMEs outsourced such function to a moderate extent while 8.3% of the firms do not. A mean value of 3.40 showed that the function was outsourced to a moderate extent. In general, MSMEs in Lagos State outsourced internal audit functions such as ensuring compliance with established policies, plans and procedures, soundness, adequacy and application of internal control system, detailed test of transaction and balances, security of documents and information technology (IT) database, examination of financial report before external audit, supervision and evaluation of accounting system, and conducting special investigation. The extent of outsourcing of these functions could be described as extensive. This finding is in line with prior studies (Everaert *et al.*, 2006, 2007, 2010) which found many MSMEs outsource six types of their accounting tasks to external accountants.

CONCLUSION AND RECOMMENDATIONS

MSMEs in Lagos State outsourced internal audit functions such as ensuring compliance with established policies, plans and procedures, application and adequacy of internal control system, detailed test of transaction and balances, security of documents and information technology (IT) database, examination of financial report before external audit, supervision and evaluation of accounting system, and conducting special investigation. The extent of outsourcing of these functions could generally be described as high. The finding is in line with the position of Kamyabi, 2012 who studied accounting function outsourcing among Iranian MSMEs. Also it is in line with

prior studies (Everaert et al, 2006, 2007, 2010) which found many MSMEs outsource different types of their accounting and auditing tasks to external accountants. The study showed that outsourcing of internal audit functions is a very important way of improving the audit quality of MSMEs. Internal audit function is a value added and core function which can assist any board towards taking decisions that will ensure objectives are achieved in terms of MSMEs' growth. Generally, results of the research showed that MSMEs in Lagos State outsourced internal audit functions to a large extent (between 70 to 80 percent), and the outsourcing of internal audit functions was mainly influenced by such factors as asset specificity, environmental uncertainty, and cost of auditing. The study also showed that outsourcing of internal audit functions had a significant and positive impact on the audit quality of MSMEs in Lagos State. Internal audit outsourcing promotes independence of audit in small and medium-scale companies. Based on the findings of the study, the following recommendations were made. Having discovered that outsourcing of internal audit improves the audit quality of MSMEs, the owners-managers should ensure that the internal audit functions of their companies are outsourced to external auditors in order to achieve audit independence and high audit quality at a reduced cost of auditing. They should also ensure that there should be written rules and procedures for the performance of outsourced internal audit. They should also ensure that timeliness of the audit reports be clearly specified in the contract. As far as we know this study is among the first to examine the outsourcing of internal audit practices and its impacts on MSMEs audit quality in the context of over emerging economy and it also explicitly demonstrate the services currently provided by professional accountants to MSME. Hence, by identifying the broader range of services currently provided by professional accountants to MSMEs and the benefits attached to these services brings into

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