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Auditors Perceptions on the Necessity of Stock Auditing in Start Up and Small Business

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Abstract

The research explores auditors' opinions about the need and importance of performing stock audit in start-up and small business ventures. In the current business scenario and highly competitive market, inventory management occupies a major position in all aspects of financial information, operation system and internal control system. However, startups and SMEs generally underestimate stock auditing for lack of finance and other related support systems, informal accounting system and lack of awareness. The research aimed to study auditors' opinion about the necessity and effectiveness of stock auditing in start-up businesses, major difficulties encountered during stock auditing for start-up business, the benefits derived from stock audit in start-up business and how the auditing could be improved in the given situation.

The research employed a descriptive and analytical research design, primary data were collected through the structured questionnaire distributed among the auditors, accounts professionals and practitioners primarily located in the city of Bengaluru. Convenience sampling has been employed and targeting has been more on beginners and mid-level auditors who were exposed to audit activities for start-up and SME firms. Both descriptive and inferential statistical analysis tool were utilized.

The results indicated that majority of the auditors strongly believed that the stock audit is essential for start-up and SMEs. They highlighted that stock audit is essential to have a clear picture of financial information, safeguard the assets and avoid issues related to theft, loss and ineffective inventory management. Further the result shows that inadequate recording of stock data, staff's non-cooperation and budget limitations are the key challenges encountered during the auditing process and stock audit enhances the transparency, accountability and reliability in the startups business.

In summary, stock audit must not be treated just as a regulatory need but as a valuable instrument to achieve business growth and Financial discipline. The report identifies the shortcomings in record keeping system, implementation of automated/tech based inventory management system and the inadequacy of audit systems for startups and SMEs.

Keywords: Stock Auditing; Startups; Small Businesses; Inventory Management: Auditors' Perception

CHAPTER 1: INTRODUCTION

1.1 Introduction

In the modern-day business world where organisations compete and change at rapid speed, businesses depend heavily on internal controls and accurate financial reporting to protect their assets and ensure long-term viability. An important element of internal controls is stock auditing, the independent assessment of the inventory to verify that the stock taken at the time of assessment on quantity, quality and valuation is accurately recorded and safeguarded from misuse, theft or fraud.

Although stock audits are a commendable practice for large and manufacturing organisations, start-ups and small to medium enterprises (SMEs) may question the relevance and/or necessity of a stock audit. Start-ups and SMEs generally have limited financial means, a rapidly changing business model, and informal record-keeping. Consequently, many business owners may see stock audits as an extra cost and a non-value-adding exercise. Nevertheless, given that start-ups are usually more susceptible to stock misuse, cash flow issues and inefficient operations; the importance of stock has greater relevance given the subsequent costs involved once stock gets mismanaged.

From the viewpoint of an auditor, stock auditing is not only important for identifying inconsistencies between actual stock and stock records, but it also provides insight into the efficiency of inventory management practises. For a small business, this would prevent losses from theft, waste, expired stock or recording inventory inaccurately. Furthermore, as a startup grows and begins to look for funding or outside investors, proper financial reporting, including the valuation of stock will become essential to earning the trust of the investors and stakeholders.

Despite its significance, there is limited literature that solely investigates the perception of the auditors with regard to the need for stock auditing in startups and small businesses. Most of the studies on audits in the past have focused on large corporate stores or view stock auditing under general auditing practices and considering reports of audits, therefore, we are left with little information with regards to the challenges, relevance and effectiveness of stock audit in small businesses.

This research, therefore, will examine auditors' perceptions of the value of stock auditing in relation to startups and small to medium-sized enterprises (SMEs). This study will identify if the auditors believe stock audits are important for protecting businesses assets; if so, what recurrent challenges they experience performing these audits; and to what extent stock auditing is a contributor to the financial accuracy, transparency, and operational efficiency of small businesses.

With this study investigating auditors' perspectives, practical perspectives will be emphasized and recommendations

will help begin to strengthen audit practices related to inventory management for startups and small businesses.

1.2 Scope and Importance of the Study

The study is primarily concerned with the perceptions of auditors, accounting professionals, and practitioners who have been involved in auditing startups and small businesses, particularly from the regional perspective (for example, Bengaluru). However, the main participants in this research were novice to mid-level auditors,

because their experiences were better suited to understand the reality of auditing small businesses from the practical experience perspective. The focus is on auditors' perceptions of the need for stock audits in startups, the challenges, and issues experienced by auditors with respect to the audit when conducting audits of startups, and the efficacy of the stock audits and any improvements that could be made in the startup context in terms of stock audits. However, the study is limited in scope because it does not study large corporations, statutory audits of listed companies, or even audits of specific sectors in-depth, instead it primarily covers the practical issues and realities experienced in the audit of startups and small businesses.

1.3 Scope of Study

This study is limited only to auditors, accounting professionals, and practitioners who are familiar with auditing small businesses and startups in the regional context, for example, Bengaluru. The study has practical relevance for the target group, which is beginning and mid-level auditors, since their experience provides valuable insights into the operational perspective on stock audits of small business. The study addresses three general areas: 1) auditors' perceptions of the importance of stock audits in startups, 2) auditors' perceptions of stock audits in a startup context, and 3) audits' perceptions of stock audits, in terms of the degree of effectiveness and what could make them more useful in startups/ small businesses.

By defining this scope, the research ensures depth and relevance in addressing the specific issues of startups and small businesses.

1.4 Importance of the study

Auditors Perceptions - auditors have a critical role in achieving accuracy and transparency in financial reporting. Understanding perceptions will provide one further view into how auditors view stock audits in the startup context and how necessary they are viewed.

Highlighting Challenges - startups and SMEs often face issues such as poor keeping of records, a clear lack of documentation, and constrained resources. This research will highlight various challenges in terms of how auditors see them, and help business owners identify challenges and gaps in their own processes.

Improving Internal Controls for Startups - for small businesses, inventory is the largest current asset on the balance sheet. Therefore, stock audits can reduce the risk of loss and mismanagement from theft, pilferage and/or mismanagement. Therefore, the study emphasizes that audits are useful when it comes to safeguarding such important assets.

Practical Value to Startups and SMEs - auditing can be a practical, low cost and technology driven process when auditors learn and understand what an auditor expects from their experience. It is also make sense when there is greater accuracy of record keeping of financial statements that can build confidence with investors.

Filing Research Gaps – there are more literature available on corporate audits compared to studies on various auditing relating to startups and other SMEs. The research will be an academic contribution addressing an under researched area of studying audits and auditing.

Policy and training value – the findings of this research can assist both professional bodies and training institutes to develop a framework for audit practice and capacity building for small business audit practices

2.1 Literature review

Research on stock auditing in startups and small businesses has explored multiple perspectives. Ramnath and Iyer (2020) highlighted that professional skepticism plays a critical role in shaping audit depth in owner-managed firms, where overlapping ownership and management often increase fraud risk and necessitate greater reliance on physical verification. Mahmood and Deshpande (2020) similarly identified recurring weaknesses in inventory controls, such as poor documentation and irregular stock counts, and suggested adopting simple yet effective frameworks tailored for SMEs. The financial limitations of micro-enterprises were noted by Balan and Chatterjee (2021), who cautioned that budget pressures frequently narrow audit scope, potentially leaving material misstatements undetected.

The pandemic also reshaped audit practices. Fernando and Kulkarni (2022) observed that hybrid verification methods were more reliable than fully remote approaches during COVID-19 disruptions. Gul and Roy (2020) further argued that small business audits often suffer from inadequate documentation, emphasizing the need for simplified but standardized practices. Ethical dilemmas also surface in close-knit SMEs; Vasudevan and Park (2023) warned that strong personal ties between auditors and clients may compromise independence, stressing the importance of auditor rotation and ongoing ethics training.

Startups, in particular, face unique risks. Olufemi and Singh (2023) discussed challenges in valuing prototype or fast- changing inventory, while Mishra and Adeyemi (2023) highlighted the high obsolescence risks in technology-driven firms, which demand conservative valuation methods and more frequent stock checks. Lal and Mwenda (2020) emphasized that auditors need industry-specific training to evaluate innovative inventories effectively. Reinforcing this, Kumari and Nwachukwu (2021) found that stronger governance structures reduce the extent of audit testing, as reliable oversight enhances the credibility of inventory records.

Practical tools and approaches also feature prominently in prior studies. Reddy and Banerji (2021) showed that supplier confirmations enhance audit evidence, though their reliability decreases when dealing with informal vendors. Iqbal and Ramaswamy (2022) linked thorough stock audits with improved tax compliance, especially in supporting accurate GST/VAT reporting. Bhatt and Lorenzo (2024) evaluated continuous and interim assurance, suggesting it aids in early fraud detection for high-growth startups, though cost and resource demands limit its wider adoption.

Technology adoption has emerged as a consistent theme. Nguyen and Patel (2022) reported that auditors consider stock audits essential for securing investor and lender confidence, and advocated for standardized reporting formats. Zou and Karthik (2024) explored the use of AI in inventory auditing, finding cautious optimism among auditors who value AI for anomaly detection but still regard physical verification as indispensable. Along the same lines, Srinivasan and Ojo (2021) recommended scalable frameworks that adjust audit procedures according to firm size and risk level, ensuring realistic and flexible applications in practice.

2.2 Research Objectives.

- To study auditors' views on the necessity of stock auditing in startups and small businesses.
- To identify the challenges auditors face during stock audits in startups.
- To evaluate the benefits of stock audits and suggest improvements for startups.

2.3 Statement of the Problem

- Perceived Negligence of Stock Audits in Small Firms:

Small business and startup enterprises are often not aware of stock audits since critical resources are not available for this purpose, perceive that they are not needed; or believe the control is meant for larger enterprises. This creates a knowledge deficit for auditors in terms of the extent to which stock audits are conducted in this sector.

- Inconsistent Audit Practices Across Small Enterprises:

Small businesses typically utilize informal or irregular methods of inventory verification, contrary to larger companies whose audit procedures are more formal and subject to oversight. Auditors note wide variations in methodology, resulting in large differences in audit quality, and much times results are indistinguishable and not comparable across companies.

- Underutilization of Technology in Stock Auditing:

Even with the options of inexpensive digital solutions available—barcode, cloud-based inventory, and AI-enabled tracking—many startups and small businesses do not use these systems. Auditors also note that manual practices continue to be used, resulting in higher error rates and less reliability for stock records.

- Gap Between Regulatory Compliance and Practical Adoption:

Although stock audits are important for compliance with tax, GST and accounting standards, small businesses continue to fall short of compliance. Auditors identified this gap as a larger issue to be aware of because it leads to incomplete disclosure, inaccurate financial reporting, and legal exposure risk.

2.4 Limitations of the study

- Limited access to sensitive business information:

Because startups and small businesses typically have proprietary inventory and financial information, the auditors had limited access to specific stock records and audit reports. This limited the study's ability to confirm perceptions with real-time inventory data.

- Sample Size and Sector-Specific Bias:

The study focused on a small number of auditors and a small number of businesses within a limited number of sectors which limits the generalizability of the results to auditors working with different sections of the economy and in larger geographical areas.

- Dependence on Self-Reported Perceptions:

This research relies heavily on auditors' opinions and professional judgements, all subject to potential bias on behalf of the auditors. The realities of stock auditing practices in startups and small businesses may be different

than the perceptions reported.

- Time Restrictions for Data Collection:

Given the time constraints of the research project, it was impossible to observe differences in stock auditing practice across financial years, seasonal reasons or during exceptional business circumstances (e.g., expansion, funding rounds)

3.1 Research Methodology

1. Research Design & Approach

The study adopted a descriptive and analytical research design to examine auditors' perspectives on stock auditing in new ventures and small businesses. The approach emphasized assessing perceptions, challenges, and benefits of stock audits, while also exploring statistical associations between auditor profiles and their views. Both descriptive (summarizing responses) and inferential (testing relationships and differences) approaches were applied.

2. Data Sources

The study used primary and secondary data. Primary data was collected directly from auditors, accounting professionals, and practitioners engaged in auditing new ventures and small firms. Secondary data was obtained from relevant books, journal articles, and previous studies on auditing practices, particularly stock auditing.

3. Tools for Data Collection

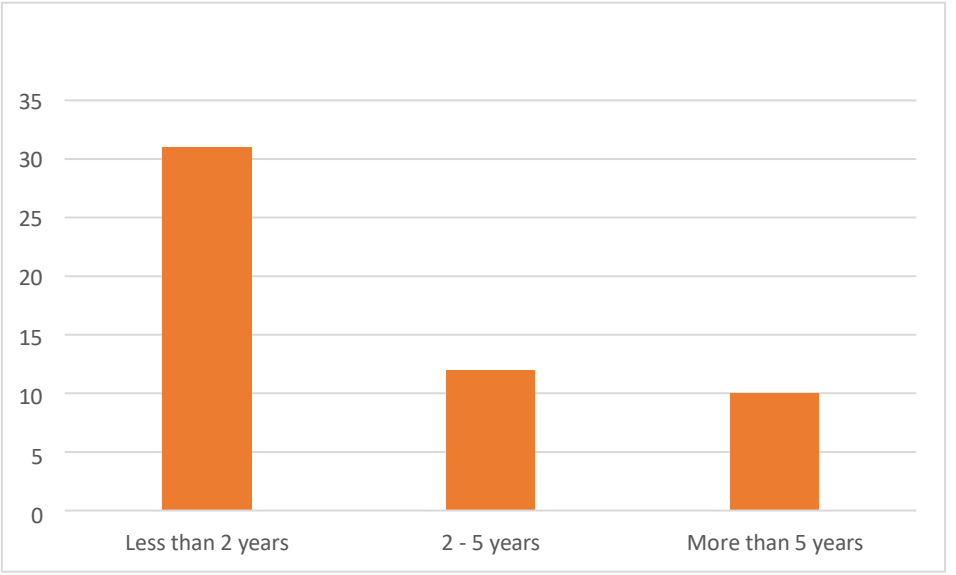
A structured questionnaire served as the main tool for collecting primary data from respondents. The instrument was designed to capture demographic information, professional experience, and opinions regarding stock auditing practices. To analyze the collected data, both descriptive statistics (frequencies, percentages, means, standard deviations) and inferential statistics (Chi-square test of independence, one-sample t-test, ANOVA/Kruskal-Wallis, and cross-tabulations) were employed.

4. Sampling Method & Justification

The study employed a convenience sampling method, selecting auditors who were readily accessible to the researcher. The sample was focused on beginner to mid-level auditors, as their experiences provided insights into the practical challenges of auditing stocks in small firms and new ventures. The final sample size was determined by the number of valid responses received. The geographic scope was limited to Bengaluru, ensuring the study reflected the local context of small business auditing practices rather than statutory or large-company audits.

4.1 Data Analysis

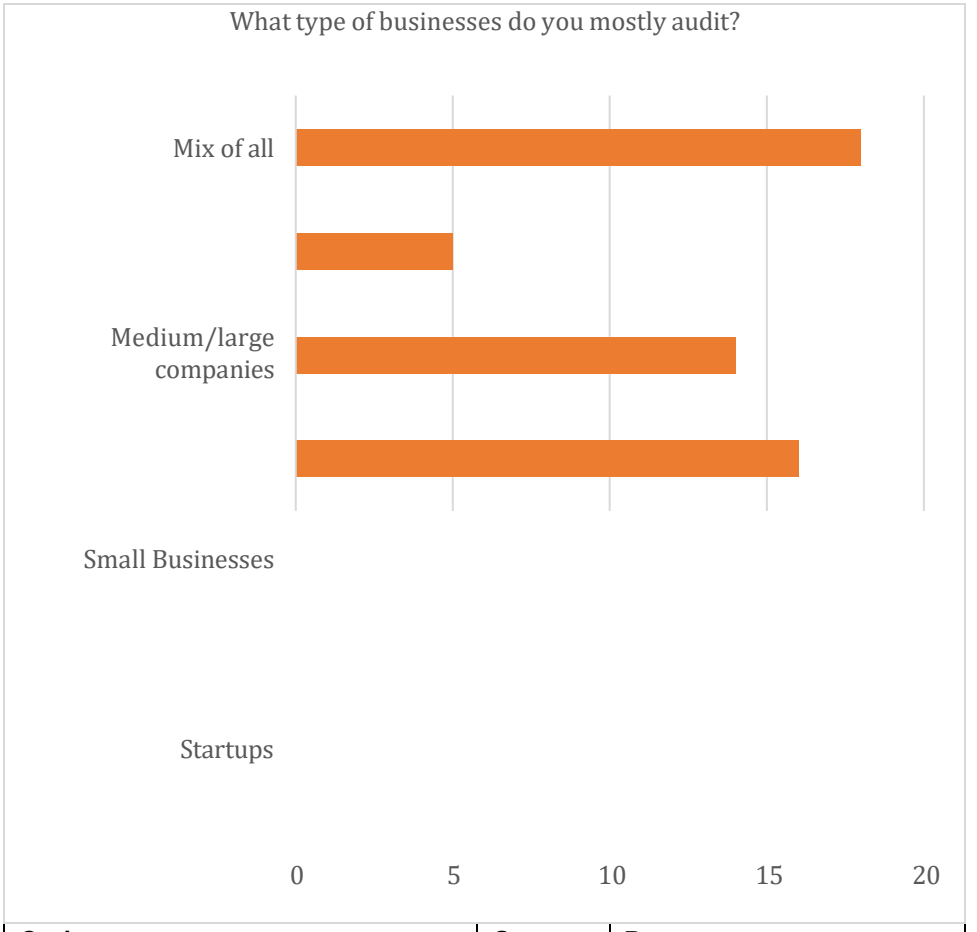
Q1. How many years of experience do you have in auditing?



Option	Count	Percentage
Less than 2 years	31	58.49%
2 - 5 years	12	22.64%
More than 5 years	10	18.87%

Among the 53 respondents, the majority—58.49%—reported having less than two years of auditing experience, suggesting that most participants are still in the early stages of their professional journey. Another 22.64% indicated between two and five years of experience, showing a fair level of practical exposure. In contrast, only 18.87% had more than five years of experience, representing the more established and seasoned auditors in the group. This distribution makes it clear that the study's findings are shaped largely by the views of newer professionals, with fewer contributions from auditors who have long-term experience in the field.

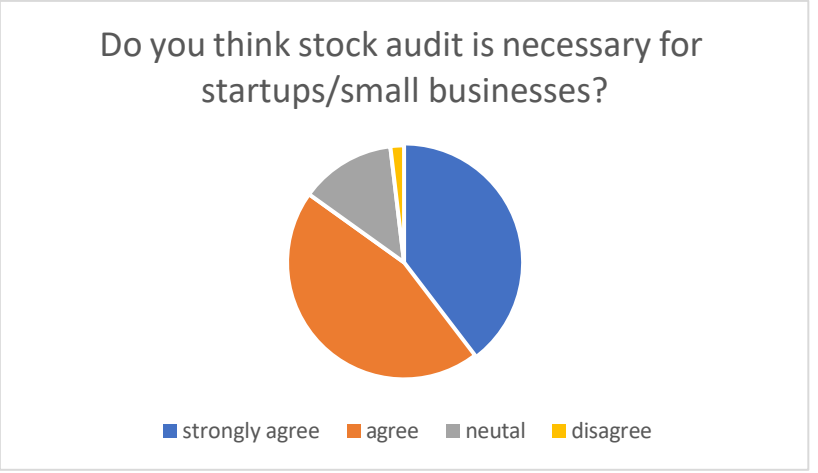
Q2. What type of businesses do you mostly audit?



Option	Count	Percentage
stratups	16	30.19%
Small Businesses	14	26.42%
Medium/large companies	5	9.43%
Mix of all	18	33.96%

Among the 53 respondents, 33.96% reported auditing a mix of different types of businesses, indicating that many auditors work across varied sectors. Startups were the focus for 30.19% of respondents, showing that a considerable share of auditors are engaged with emerging and growing enterprises. Another 26.42% worked mainly with small businesses, emphasizing the strong role of this sector in their professional practice. By comparison, only 9.43% concentrated on medium or large companies, making them the least represented category. Overall, the findings suggest that auditing activities are centered largely on startups and small businesses, with a notable portion of auditors handling clients from multiple categories, while larger companies remain a smaller part of the focus.

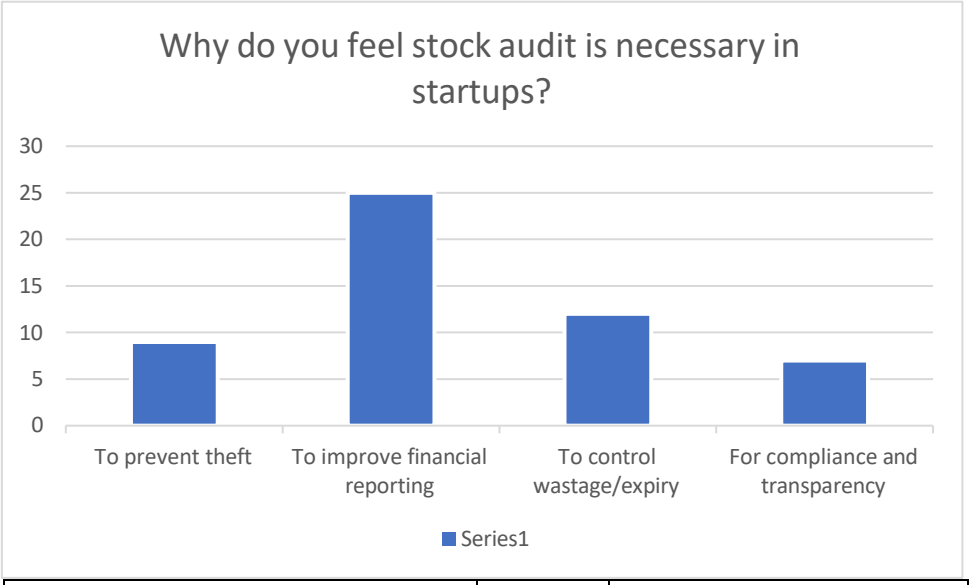
Q3. Do you think stock audit is necessary for startups/small businesses?



Option	Count	Percentage
Strongly Agree	21	39.6%
Agree	24	45.3%
Neutral	7	13.2%
Disagree	1	1.9%

The survey response indicates that there is substantial agreement by respondents that stock audits are important for startups and small businesses. Of the 53 respondents, 45.3% agree and 39.6% strongly agree that stock audits are an essential process, for almost 85% in agreement only 1.9% disagreed with a further 13.2% neutral. This overwhelming agreement indicates a clear appreciation for stock audits' benefits among startups and small businesses. This is likely due to how stock audits can improve financial accuracy, prevent fraud, and where they can improve operational control or governance. Given the small percentage of respondents that disagreed, and the fairly large percentage of respondents that remain neutral can possibly indicate that they have either not had much exposure to audits as a whole or are uncertain about their value. Overall, the data supports the argument that stock audits are relevant in a startup context and further research should explore how stock audits can be implemented in startups and small businesses.

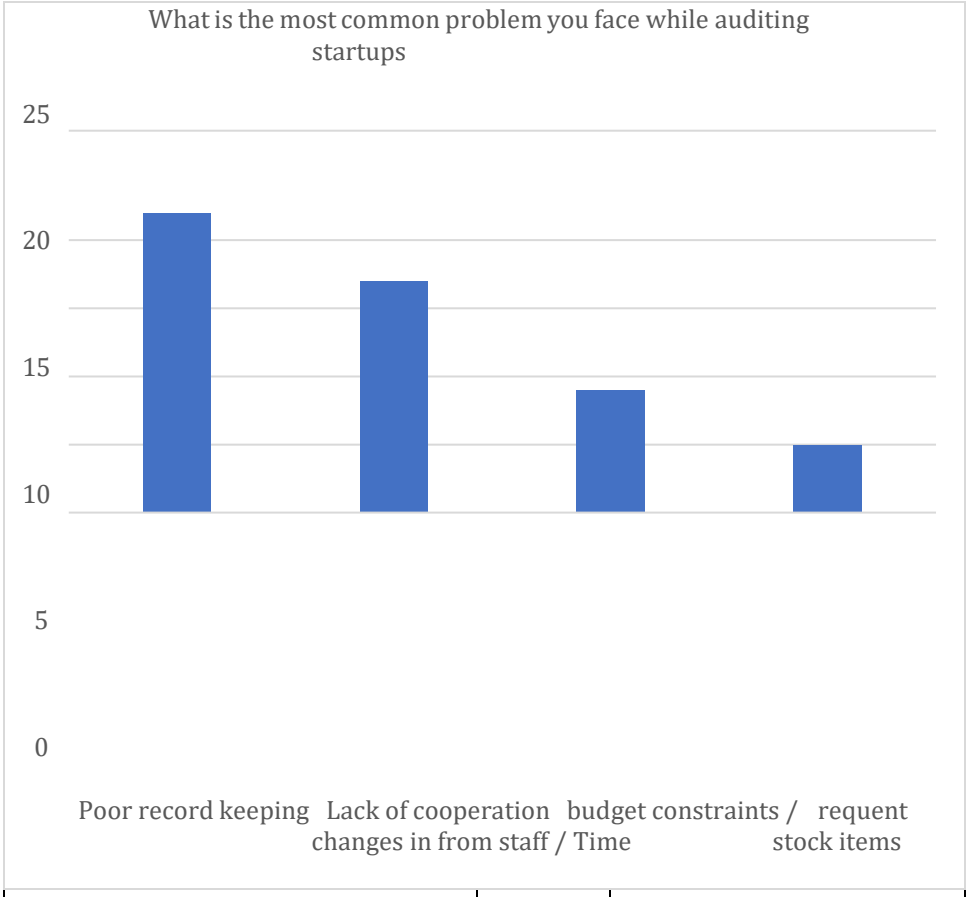
Q4. Why do you feel stock audit is necessary in startups?



Option	Count	Percentage
To prevent theft	9	17.0%
To improve financial reporting	25	47.2%
To control wastage/expiry	12	22.6%
For compliance and transparency	7	13.2%

The purpose for conducting stock audits in startups is improving financial reporting, with nearly half of respondents (47.2%) selecting this as their possible reason. It appears that stakeholders see stock audits ass a platform to enhance financial accuracy and accountability. The second most selected purpose is controlling wastage or expiry (22.6%) which shows that stakeholders are also concerned about operational efficiency. Finally, while theft prevention (17%) and compliance/transparency (13.2%) were the least selected options to justify audits, they represent other important motivations. Overall, the information here suggests that stock audits are valued not only for their safety function but also to strengthen the financial and operational systems of startups.

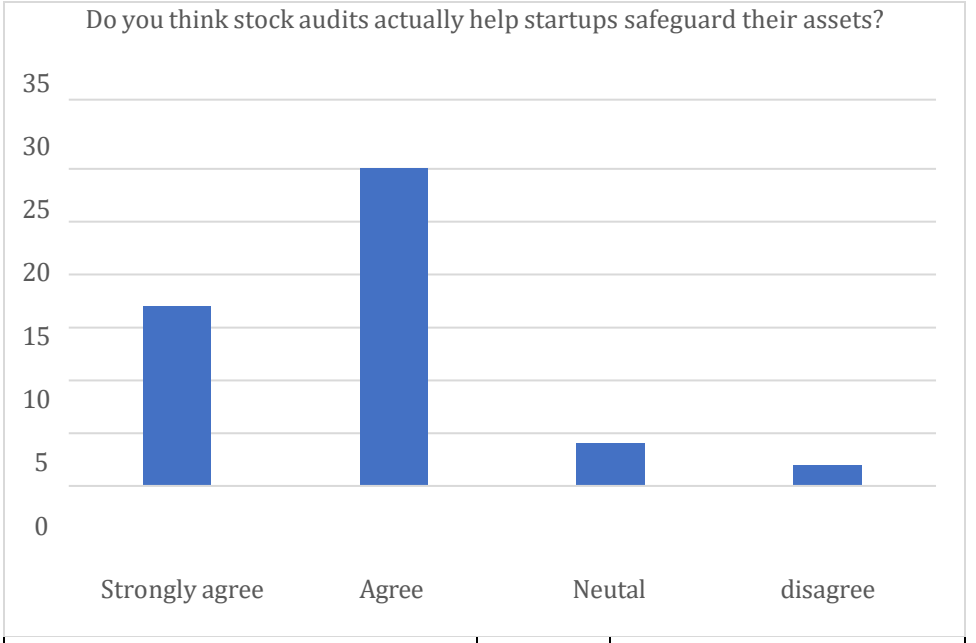
Q5. What is the most common problem you face while auditing startups?



Option	Count	Percentage
Poor record keeping	22	41.9%
Lack of cooperation from staff / Time	17	32.1%
budget constraints /	9	17%
frequent changes in stock items	5	9.4%

In auditing startups, the most common challenge listed by many respondents is poor record keeping at 41.5%. This indicates that many startups are not managing proper documentation for their inventory lists which makes it difficult to conduct audits. Respondents also indicated poor cooperation from staff or resources (32.1%) as associated barriers which may demonstrate issues with operational shortages or staffing limitations. The responses indicated budget constraints (17%) and frequent changing stock items (9.4%) as challenges but less common. Overall, the themes in responses demonstrate more work needs to be done on management of records and engaging employees in the process to improve audit measures when working with startup contexts.

Q6. Do you think stock audits actually help startups safeguard their assets?

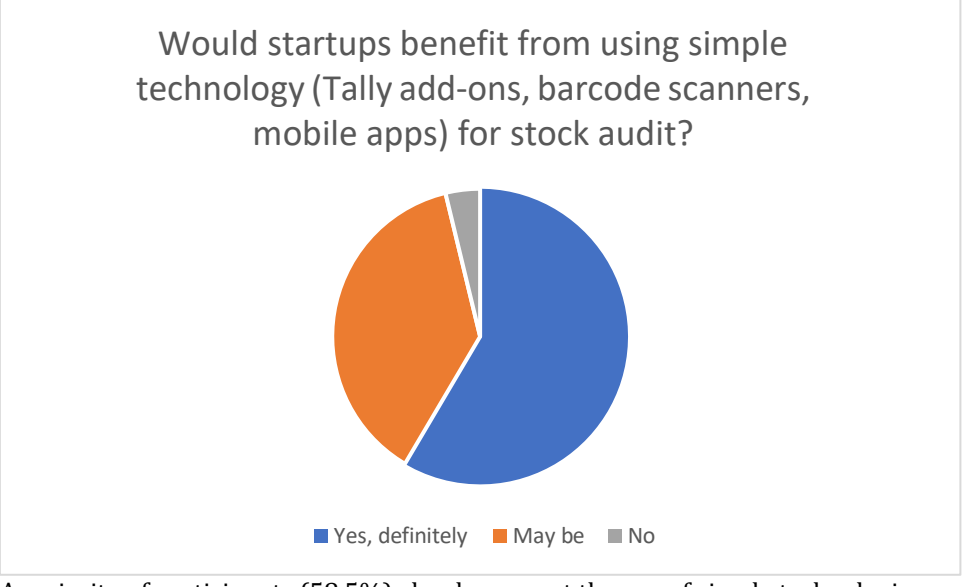


Option	Count	Percentage
Strongly Agree	17	32.08%
Agree	30	56.60%
Neutral	4	7.5%
Disagree	2	3.8%

The survey results indicate strong support for stock audits as a means of protecting startup assets. A combined 88.7% of respondents either agreed or strongly agreed that audits help safeguard inventory and resources. This reflects a high level of trust in audits as practical tools for reducing risk and improving control. Only 3.8% disagreed, and 7.5% remained neutral, showing minimal resistance. These findings suggest that audits are not just seen as a compliance requirement but as a strategic necessity. Respondents recognize their value in maintaining transparency and accountability. The data highlights the importance of regular audits in startup operations. Overall, stock audits are viewed as essential for building financial discipline and operational reliability.

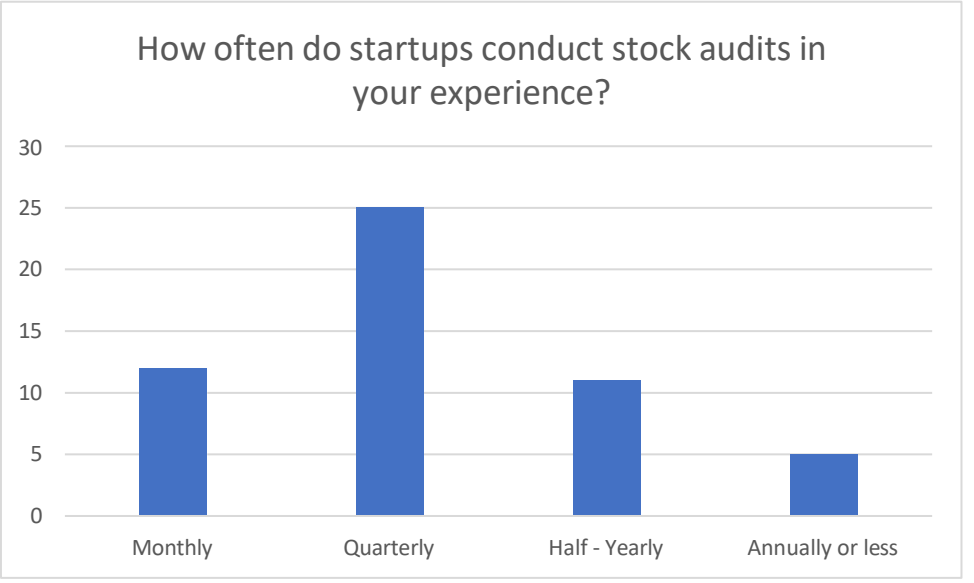
Q7. Would startups benefit from using simple technology (Tally add-ons, barcode scanners, mobile apps) for stock audit?

Option	Count	Percentage
Yes definitely	31	58.5%
May be	20	37.7%
No	2	3.8%



A majority of participants (58.5%) clearly support the use of simple technologies—such as barcode scanners or mobile apps for stock audits in startups. Another 37.7% showed tentative interest, suggesting that while the idea is welcomed, concerns like cost or usability may exist. Only 3.8% opposed the use of such tools, indicating very limited resistance. Overall, the data reflects a strong inclination toward adopting accessible tech solutions to enhance the accuracy and efficiency of audit processes in startup settings Statistically, the distribution is positively skewed toward agreement, with “agree” being the modal response. The concentration of support and limited dispersion suggest high confidence in the value of audits, reinforcing their perceived role as a vital governance tool in startup environments.

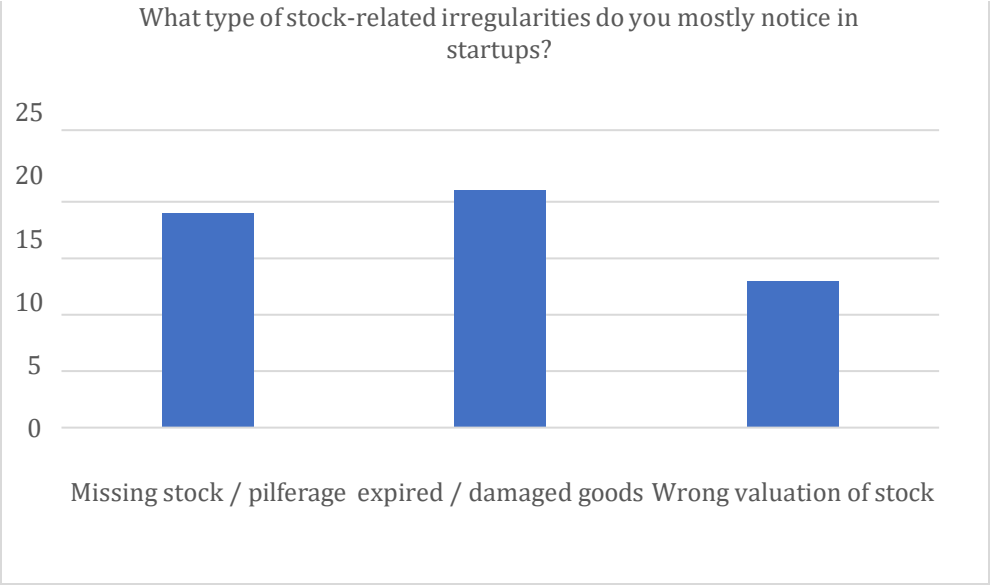
Q8. How often do startups conduct stock audits in your experience?



Option	Count	Percentage
Monthly	12	22%
Quarterly	25	45%
Half-yearly	11	20%
Annaly or less	5	9.%

The data on how often startups conduct stock audits reveals a clear preference for quarterly reviews. With approximately 45% of respondents indicating quarterly audits, this frequency appears to strike a balance between operational oversight and resource efficiency. Monthly audits, reported by about 22%, suggest a more rigorous approach, likely adopted by startups with high inventory turnover or tighter internal controls. Half-yearly audits, chosen by roughly 20%, may reflect moderate oversight, possibly due to staffing or budget constraints. The smallest group around 9% conducts audits annually or less, which could indicate limited prioritization of inventory checks or early-stage operational immaturity. Overall, the data suggests that while quarterly audits are the norm, there is considerable variation in practice, influenced by the startup's scale, resources, and audit awareness

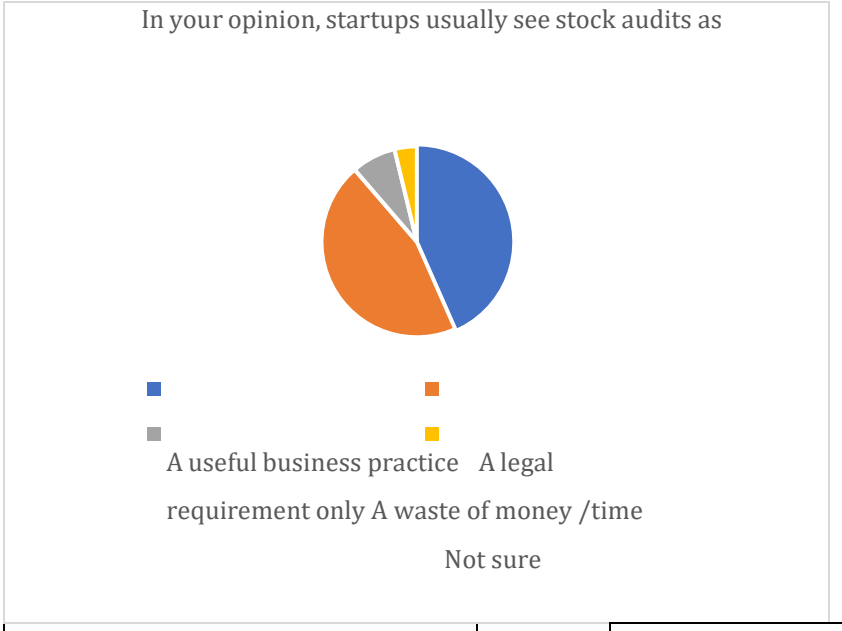
Q9. What type of stock-related irregularities do you mostly notice in startups?



Option	Count	Percentage
Missing stock / Pilferage	19	37%
Expired / Damaged goods	21	41%
Wrong valuation of stock	13	22%

The data on stock-related irregularities in startups reveals that expired or damaged goods are the most frequently observed issue, reported by approximately 41% of respondents, indicating challenges in inventory turnover, storage, and expiry tracking that can lead to financial and compliance risks. Missing stock or pilferage follows closely at around 37%, highlighting concerns around theft and inadequate inventory control systems. Wrong valuation of stock, cited by roughly 22%, reflects potential weaknesses in accounting accuracy and pricing methods. Overall, the findings suggest that startups are more prone to physical inventory issues than valuation errors, reinforcing the importance of regular stock audits to safeguard assets, reduce wastage, and improve operational transparency.

Q10. In your opinion, startups usually see stock audits as



Option	Count	Percentage
A useful business practice	23	45%
A legal requirement only	24	43%
A waste of money / time	4	8%
Not sure	2	4%

The data reveals a split in how startups are perceived to view stock audits. A slight majority about 45% believe that startups see stock audits primarily as a legal requirement, suggesting that compliance is the main driver behind audit practices rather than strategic value. Close behind, approximately 43% of respondents feel that startups recognize audits as a useful business practice, indicating that many do appreciate their role in improving inventory control, financial accuracy, and operational transparency. A smaller portion around 8% consider audits to be viewed as a waste of money or time, reflecting skepticism or possible resistance among some startups. Only 4% of respondents were unsure, showing that most auditors have a clear impression of how startups approach stock audits. Overall, while compliance appears to be the dominant perception, a substantial number of auditors believe startups also see audits as a valuable tool for business improvement

5.1 Summary and Findings.

Q1 showed that the majority of respondents (58.49%) had less than two years of auditing experience, indicating that most participants are still early in their professional journey, while only 18.87% had more than five years of experience, suggesting fewer seasoned auditors contributed to the study. Q2 revealed that most auditors (33.96%) worked across a mix of businesses, followed by those auditing startups (30.19%) and small businesses (26.42%), with only 9.43% focusing on medium or large companies, highlighting that auditing practices are largely centered on smaller and emerging enterprises. In Q3, an overwhelming 85% of respondents either agreed or strongly agreed that stock audits are necessary for startups and small businesses, while only 13.2% remained neutral and 1.9% disagreed, reflecting a strong consensus on their importance in improving financial accuracy, governance, and fraud prevention. Q4 further explored this necessity, where nearly half of the respondents (47.2%) stated that stock audits are primarily useful for improving financial reporting, followed by controlling wastage or expiry (22.6%), preventing theft (17%),

and ensuring compliance and transparency (13.2%), indicating that auditors view audits as both a financial and operational safeguard. Finally, Q5 addressed the challenges auditors face while working with startups, with poor record-keeping (41.9%) emerging as the most common issue, followed by lack of staff cooperation and time constraints (32.1%), budget limitations (17%), and frequent stock changes (9.4%). These findings collectively suggest that while auditors strongly recognize the necessity and benefits of stock audits for startups and small businesses, weak systems, poor documentation, and limited resources continue to pose significant barriers to conducting them effectively.

The responses from Q6 to Q10 highlight both the significance and the practical realities of stock audits in startups. In Q6, almost nine out of ten auditors affirmed that stock audits play a vital role in safeguarding a startup's assets, showing a strong belief in their ability to reduce risks and maintain accountability. Q7 further reinforced this by revealing that most auditors (58.5%) are in favor of adopting simple technologies like Tally add-ons, barcode scanners, or mobile apps to improve audit processes, with another 37.7% expressing tentative support. This suggests that technology is largely seen as a valuable enabler, even though cost and ease of use may still be concerns for some. In terms of frequency, Q8 showed that quarterly audits are the most common (45%), striking a balance between oversight and efficiency, while monthly (22%) and half-yearly (20%) audits also remain common practices depending on resources and business needs. Q9 identified the main irregularities encountered in startups, with expired or damaged goods (41%) and pilferage or missing stock (37%) being far more frequent than incorrect stock valuation (22%). These issues point more toward operational lapses than accounting errors. Finally, Q10 revealed how startups themselves are perceived to view audits: nearly half (45%) treat them mainly as a legal requirement, while 43% see them as a useful business practice, with only a small proportion dismissing them as unnecessary. Collectively, these findings suggest that while compliance is often the starting point for audits in startups, there is a growing recognition of their strategic value in strengthening financial discipline, curbing irregularities, and building trust in day-to-day operations.

5.2 Key Findings:

1. Auditing Experience

The majority of respondents (58.5%) have less than two years of experience in auditing, indicating that the study largely reflects the perspectives of early-career professionals, while only 18.9% had more than five years of experience.

2. Types of Businesses Audited Most auditors (34%) work across a mix of business types, but startups (30.2%) and small businesses (26.4%) form the core of their clientele. Medium and large companies (9.4%) are the least audited, highlighting auditors' stronger engagement with smaller enterprises.

3. Perceived Necessity of Stock Audits A clear majority (85%) either agreed or strongly agreed that stock audits are necessary for startups and small businesses, underscoring their recognized role in ensuring accuracy, governance, and fraud prevention.

4. Reasons for Stock Audits The most common reason for conducting stock audits was to improve financial reporting (47.2%), followed by controlling wastage or expiry (22.6%), preventing theft (17%), and ensuring compliance and transparency (13.2%).

5. Challenges in Auditing Startups Poor record-keeping (41.9%) and lack of staff cooperation or time (32.1%) were identified as the biggest challenges. Budget constraints (17%) and frequent stock changes (9.4%) also added difficulties, reflecting operational inefficiencies in startups.

6. Stock Audits as Asset Safeguards Nearly 89% of respondents agreed that audits help startups safeguard their assets, indicating strong confidence in their value as tools for risk reduction and accountability.

7. Role of Technology in Audits A majority (58.5%) supported the use of simple technologies such as Tally add- ons, barcode scanners, and mobile apps, while 37.7% were cautiously supportive. Very few (3.8%) opposed it, reflecting overall openness to digital solutions for efficiency.

8. Frequency of Stock Audits Quarterly audits (45%) were most common, followed by monthly (22%) and half- yearly (20%) practices. Annual or less frequent audits (9%) were least reported, suggesting that startups generally value regular oversight.

9. Stock-Related Irregularities Expired or damaged goods (41%) and missing stock or pilferage (37%) were the most common issues, while wrong valuation of stock (22%) was less frequent. This indicates startups face more operational challenges than accounting errors.

10. Startups' Perception of Audits Almost half (45%) of respondents believed startups view audits mainly as a legal requirement, while 43% considered them a useful business practice. Only a small proportion saw them as a waste of time (8%) or were unsure (4%).

5.3 Recommendations

1. Institutionalize Regular Audit Cycles

Given the strong consensus among auditors, startups should adopt quarterly stock audits as a standard practice. This frequency balances oversight with resource constraints and helps detect discrepancies early, improving inventory accuracy and financial reporting.

2. Invest in Basic Audit Technology

With over half of respondents supporting tech adoption, startups should consider implementing affordable tools like barcode scanners, mobile apps, or Tally add-ons. These solutions can streamline stock tracking, reduce manual errors, and enhance audit efficiency without requiring heavy investment.

3. Strengthen Inventory Documentation

Poor record keeping was the most cited challenge. Startups should prioritize building structured inventory logs, training staff on documentation standards, and using digital systems to maintain real-time records. This will reduce audit friction and improve traceability.

4. Educate Teams on Audit Value

Since some startups view audits mainly as a legal requirement, founders and managers should be educated on the strategic benefits of audits—such as fraud prevention, operational control, and decision-making support.

Internal awareness can shift perception from compliance to value creation.

5. Tailor Audit Practices to Business Maturity

The variation in audit frequency and irregularities suggests that startups should customize audit intensity based on their size, inventory complexity, and operational maturity. Early-stage ventures may start with semi-annual audits and scale up as systems evolve.

6. Address Staff Engagement and Resource Gaps

Lack of cooperation and budget constraints were notable barriers. Startups should involve staff in audit planning, clarify roles, and allocate minimal but consistent resources to ensure audits are not sidelined. Even lean teams can conduct meaningful audits with proper coordination.

7. Monitor and Act on Irregularities

With expired goods and pilferage being common issues, startups should implement preventive controls like FIFO inventory methods, secure storage, and periodic reconciliation. Audits should not just identify problems but trigger corrective actions.

5.4 Conclusion:

The overall findings of the survey highlight that stock audits play a crucial role for startups and small businesses, serving not only as a compliance requirement but also as a strategic tool for protecting assets and promoting financial discipline. Since most respondents were early-career auditors, the insights largely reflect the experiences of professionals working closely with young and growing enterprises. The results also show that auditors are predominantly engaged with startups and small businesses rather than large corporations, emphasizing the significance of audits in resource-limited environments.

A strong majority of participants agreed that stock audits are essential, with nearly nine out of ten confirming their importance in strengthening financial reporting, reducing risks, and improving operational efficiency. Despite this consensus, challenges such as inadequate record-keeping, lack of staff cooperation, budget restrictions, and frequent changes in stock items remain major obstacles, signalling the need for stronger systems and better involvement of employees.

The responses also pointed to technology as a practical enabler. Tools such as barcode scanners, Tally add-ons, and mobile apps were widely supported as ways to make audits more accurate and efficient. Quarterly audits emerged as the most common practice, showing that startups aim to balance oversight with resource efficiency, although some adopt monthly or half-yearly reviews depending on their needs.

When it comes to irregularities, most issues arise from operational shortcomings—such as expired or damaged stock and pilferage—rather than misevaluation, highlighting the need for tighter controls in day-to-day inventory management. Interestingly, while many startups are still perceived to treat audits mainly as a legal requirement, a large proportion also acknowledge their business value, signalling a shift from compliance-driven motives toward recognizing audits as a tool for growth and accountability.

In conclusion, the study suggests that although startups often begin viewing audits through a compliance lens, they are gradually realizing their broader benefits in ensuring transparency, safeguarding assets, and strengthening governance. To maximize these benefits, startups need to improve record-keeping, engage employees in the process, and adopt affordable technologies that support efficiency. Ultimately, stock audits not only protect resources but also help build trust, efficiency, and long-term sustainability in startups and small businesses.

6.5 Direction for Future Research:

- Although this study highlights the importance and benefits of stock audits for startups, several areas remain open for further exploration. Future research could begin by using larger and more diverse samples to see whether the results hold true across industries, different sizes of businesses, and various regions. A comparison between startups and more established companies could also shed light on how audit practices develop as organizations grow.

- Another promising area is the role of technology in audits. Tools such as barcode systems, mobile applications, and AI-based inventory management deserve closer examination to understand how they improve efficiency, accuracy, and cost-effectiveness—particularly for resource-constrained startups.

- Researchers may also focus on the long-term effects of regular audits. For instance, it would be valuable to study whether startups with structured audit practices enjoy greater financial stability, reduced fraud, or higher investor trust than those that audit less frequently.

- Lastly, future studies could include the perspectives of startup founders, employees, and investors, not just auditors. Bringing in these voices would create a more complete picture of both the benefits and the practical challenges of stock auditing in startup contexts.

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