Auditor assurance and related services: motives and implications for small and medium-sized enterprises' development

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Keywords
Small and Medium-Sized Enterprises' obstacles; Alternatives to audit; Independent limited review; Compilation of financial statements; Assurance and related services.

Abstract

Purpose: *The purpose of this paper is toinvestigate theoretically the motives behind SMEs' demand for auditor assurance and related services and the potential effect of those services on credit officers' decisions in case of lending SMEs.*

Methodology: *This paper is analytical research that reviews and analyzes the accounting literature that examines the SMEs' demand for auditor's assurance and related services, and their role in mitigating the financing obstacles facing SMEs.*

Findings: *There are multiple motives behind the SMEs voluntarily demand for assurance and related services, such as the agency problems both between owners and management, and those between owners and creditors, as well as the cost and benefit analysis of those services. In addition, there is an agreement on the importance of the SMEs financial statements for getting credit, and that the audited financial statements are more reliable than those attached with limited review report or report on the compilation of financial statements.*

Practical Implications: *By analyzing the effects of auditor's services on granting credit to SMEs from a diverse range of research topics, the study informs the discussion on the costs and benefits of SMEs' using of auditor assurance and related services. Furthermore, this paper provides some recommendations to policy makers interested in improving the performance of SMEs in an emerging economy such as Egypt. Also, this paper helps SMEs to recognize the importance of engaging auditors, hence, enhancing the credibility of their financial statements and, subsequently, helping their users make sound decisions.*

Originality/value – *To the author's knowledge, there are no Egyptian studies to date examining the SMEs' demand for auditor assurance and related services. Consequently, this paper contributes to the limited literature by shedding light on the auditor's role in mitigating the severity of financing constraints facing SMEs; the biggest obstacle to the development of these entities.*

1. Introduction

Small and Medium-Sized Enterprises (hereafter, SMEs) contribute significantly to the achievement of economic and social development in both developed and developing countries. According to Egypt's General Authority for Investment and Free Zones, SMEs account for 80 percent of Egypt's domestic economy and 75 percent of the private-sector labor force(Ministry of Planning and International Co-operation, 2011).Despite their significant contribution to economies of countries worldwide, SMEs face many difficulties in running their businesses, especially in getting funds. SMEs significantly rely on borrowing from banks compared to larger enterprises; it is known that commercial banks use both financial and non-financial information for granting credit decisions (Kim and Elias, 2007). However, credit officers often face more challenges when dealing with SMEs, because of the difficulty of getting financial information compared to larger enterprises (Cole et al., 2004; Berger &Udell, 2006).Thus,SMEs suffer from weak financial resources, leading to their inability to compete in the current business environment.

The decision of granting credit for SMEs is affected by the information asymmetry between the entity demanding credit and the bank granting the credit, as the available information about those entities are often unreliable.The problem of non-availability of financial information is, in part, due to

the lack of awareness of owners/managers of those entities about the importance of the accounting function and the resulting information. Also, SMEs are also exempted from auditing their financial statements in many countries, in an attempt to ease the burden on these entities, but without regard to the benefits associated with the preparation and audit of financial statements (e.g., Shenet al., 2009;Zambaldiet al., 2011).

Hence, SMEs may resort voluntarily for auditor's assurance and related services in order to assist them in the preparation of reliable financial statements that meet the needs of both internal and external interested parties. However, most of the Egyptian studies conducted on SMEs, in the field of accounting, focused on the extent to which those entities need accounting standards suit their needs and capabilities, with the overlooking of their need to auditor's services. While several studies (e.g., Carey et al., 2000;Tauringana& Clarke, 2000; Allee&Yohn, 2009) examined the demand for assurance services provided by auditors to SMEs, others (e.g., Wright & Davidson, 2000; Miller & Smith, 2002; Kim & Elias, 2007) examined the relationship between assurance services provided by auditors and the granting of credit decisions for SMEs, but most of these studies conducted in developed countries. Accordingly, this paper attempts to answer the following research questions: what are the main obstacles facing SMEs in Egypt? what are the motives behind using auditor's assurance and related services?, and, What is the role an auditor could play in developing SMEs?.

More specifically, this paper reviews and analyzes the accounting literature that examines the SMEs' demand for auditor's assurance and related services, and their role in mitigating the financing obstacles facing SMEs. The paper begins by analyzing the main problems faced by SMEs, which lead to the necessity of using auditor's services in order to provide more reliable information. Next, the motives behind the demand for auditor assurance and related services, and the effect of these services on granting credit for SMEs are analyzed. By analyzing the effects of auditor's services on granting credit to SMEs from a diverse range of research topics, the study informs the discussion on the costs and benefits of SMEs' using of auditor assurance and related services.

With regard to the constraints faced by SMEs, the problem of obtaining external finance is the most important obstacles facing those entities, especially in Egypt, which is due to the non-availability of the necessary information to make the decision of granting the credit. Regarding the motives behind the SMEs' voluntarily demand for assurance and related services, there is multiple motives such as (1) the entity size, where there is a positive relationship between the entity size and the demand for these services, (2) the agency problems both between owners and management, or between owners and creditors, and (3) cost and benefit analysis of using those services.

Regarding the impact of the different assurance levels on the SMEs from the granting of credit perspective, there is an agreement that the audited financial statements is more reliable than those attached by limited review report or the report on the compilation of financial statements. However, for the effect of the assurance level on any of the decision to grant the credit, or the amount of the credit to be granted, or the interest rate to be charged, there was no agreement among prior studies in this regard. This may be due to the different environments, or methodologies used, or the sample type and size, or the timing of conducting studies. Finally, it is concluded that whenever the assurance level increases, it is better from the standpoint of credit officers.

One of the motives behind doing this research is to meet the direction of research focused on possible ways for the development of SMEs, through focusing on auditor's services that might improve the credibility of the financial statements of those entities. This research contributes to the literature and practice in several ways. First, examining the impact of auditor's services provided for SMEs on the credit decisions is an important issue due to the major contribution of this sector to any economy. Second, despite the significance of SMEs to the Egyptian economy, there is little research conducted on this sector in the audit area in particular. Thus, SMEs provide an opportunity for further research on the demand for the auditing profession. Thus, this research provides more insights to policy makers interested in improving the performance of SMEs in an emerging economy such as Egypt. Also, this

research helps SMEs to recognize the importance of engaging auditors in order to enhance the credibility of their financial statements.

The remainder of this paper is organized as follows. The next section provides some SMEs' definitions. The third section presents the obstacles faced by SMEs, and then the fourth section discusses the motives behind the demand for auditor assurance and related services, followed by the effect of assurance and related services on granting credit for SMEs. The final section concludes the study and gives some recommendations and directions for future research.

2. SMEs' definitions

Unfortunately, SMEs have multiple definitions that vary from country to country depending on the economic conditions, the extent of technological progress, and the stage of growth attained. Definitions within each country also vary depending on the party that deals with those entities. Here are some of the SMEs' definitions in developing countries, as well as in some international bodies.

2.1SMEs' definitions in some developing countries

There are multiple SMEs' definitions in developing countries, like that of the developed countries. For example, SMEs in Malaysia are classified, according to the industrial sector, to micro-enterprises, if they have less than five employees, and achieved annual sales of less than 250 thousand RM; small- sized, if have a number of employees ranging from 5 to 50 workers and annual sales ranging from 250 thousand to 10 million RM, and medium-sized if have a number of employees ranging from 51 to 150 workers and annual sales ranging from 10 million to 25 million RM, and that for industrial entities (Central Bank of Egypt, 2011, p. 9).

In Indonesia, SMEs are defined according to the Indonesia Central Statistics Bureau as follows; "small-sized enterprises are those that employ five workers to 19 workers, and medium-sized are those that employ 20 workers and less than 100 workers" (Kushnir, 2010: p. 58).While it is referred to SMEs in Vietnam, according to Government Decree 90/2001 as "those businesses registered with registered capital not exceeding VND 10 billion or annual labor not exceeding 300 workers" (p. 133).

In Egypt, there are numerous SMEs' definitions depending on the party dealing with them. According to the Small Enterprises Development Act No. 141 of 2004 in its first clause, the small enterprise is defined as "each company or individual entity exercising productive, commercial or service economic activity, with paid capital not less than 50 thousand pounds and not exceeding one million pounds, and number of workers over 50 workers" (Small Enterprises Development Act, 2004, p. 2).

While according to the Federation of Egyptian Industries (FEI),SMEs are defined as follows; micro-enterprises that have less than 10 employees, and its capital less than 50 thousand L.E., and its annual sales exceed 5 million L.E., and small sized enterprises that have a number of employees ranging from 10 to less than 100 workers, its capital ranging from 50 thousand to less than 5 million L.E. and annual sales ranging from 5 million to lower than 50 million L.E.; and medium-sized entities which have a number of employees ranging from 100 workers and up to 1,000 workers, capital ranging from 5 million and up to 50 million L.E., and annual sales from 50 million and up to 250 million L.E. (Ministry of Foreign Trade, 2004, p. 23).

However, SMEs are also classified into three categories according to the Ministry of Industry depending on number of employees and capital; micro-entities if they have fewer than 10 employees, and capital does not exceed 500 thousand pounds, while small-sized entities are those have a number of workers range from 10 up to 50 workers, and capital ranging from 500 thousand to 5 million L.E., while the medium-sized are those that have from 50 workers to 100 workers, and capital ranging from 5 million to 10 million L.E. (Ministry of Foreign Trade, 2004, p. 25).

While according to the Central Bank of Egypt, SMEs are defined as one sector according to the annual sales and capital as "those entities with the total annual sales not less than one million L.E. and

do not exceed 20 million L.E., and paid-in capital ranges from 250 thousand L.E. to five million L.E." (African Development Bank, 2009, p. 115).

It is concluded from the foregoing the multiplicity of SMEs' definitions in developing countries, and the widespread use of the number of employees in most of the definitions, with some limiting their classification of SMEs on the use of this criterion, while others use a combination of the number of employees and some other criteria, such as total sales and capital. One of the shortcomings in Egypt is the multiplicity of agencies that deal with SMEs sector, and the lack of agreement among those agencies on a single definition of what is regarded as belonging to the SMEs sector. While Malaysia is distinguished from others by reaching to one definition depending on a combination of the number of employees, and total sales criteria for the classification of SMEs, according to the type of industry.

2.2 SMEs' definitions in some international bodies

There are multiple international bodies that define SMEs, for example the European Union Commission classifies SMEs as (1) micro-enterprises which employ fewer than 10 workers, and/or have total annual sales, and/or have total assets of no more than 2 million Euros, (2) small-sized entities which employ less than 50 workers, and/or have total annual sales, and/or have total assets do not exceed 10 million Euros, and (3) medium-sized enterprises that employ less than 250 workers, and/or have total annual sales do not exceed 50 million Euros, and/or have total assets of less than 43 million Euros (European Commission,2005).

However, Organization for Economic Cooperation and Development (OECD) defines SMEs as follows; micro: 1-4 employees; very small: 5-19 employees; small: 20-99 employees; medium: 100-500 employees. The World Bank classifies SMEs in developing countries into three categories as follows; micro: less than 10 employees; small: 10-49 employees; medium: 50-200 employees (Meghanaet al., 2003, p. 8-9).

Also, there are various professional accountancy bodies deal with SMEs, for example the IASB defines SMEs through the IFRS for SMEs as "those entities that do not have public accountability, and publish general purpose financial statements for external users, such as owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies" (IASB, 2009, p. 10).

Many professional accountancy bodies, such as the AICPA, and the IAASB, and the Auditing and Assurance Standards Board (AUASB), agreed that smaller entity is "an entity which typically possesses qualitative characteristics such as concentration of ownership and management in a small number of individuals, and one or more of the following; a simple record-keeping, and/or the simplicity of the internal control structure, and/or a small number of business lines, and/or a small number of products within each business line, and/or straightforward or uncomplicated transactions, and/or a small number of personnel and administrative levels"(IAASB, 2009, p. 97; AICPA, 2012, p. 92-93;AUASB, 2013, p. 27).

In Egypt, the Egyptian Auditing Guidance No. 1005 issued by the Minister of Investment's decree No. 166 for the year 2008 defines small enterprises as "those entities that are characterized by the concentration of ownership and management in a small number of individuals, and has one or more of the following; few sources of income, and/or simple record-keeping, and/or limited internal controls"(The Ministry of Investment, 2008, p. 8).

It is concluded that there is a lack of agreement among international bodies on the SMEs' definition, but they agreed to use the number of employees. The European Union was also distinguished by using a combination of quantitative criteria. While professional accountancy bodies tended to rely on qualitative characteristics in their definition of SMEs that distinguish those entities from larger corporations; this tendency may be because of using those qualitative characteristics to determine the required auditor's workload.

In general, it is concluded that there is a lack of a precise definition of SMEs in the developing countries and even international bodies. But there are definitions based on qualitative characteristics that focus on the basic features of SMEs that distinguish them from larger entities, as stated in the definition of some professional bodies such as the IAASB, the AICPA. On the other hand, there are some definitions that rely on quantitative criteria such as number of employees, total sales, capital, and total assets; however, the number of employees is the most common criterion because of its ease of use. There are also some parties categorize SMEs into micro-enterprises, small-sized, and medium-sized, while others define SMEs as one sector without dividing it into categories, as they receive the same benefits or services from the relevant authorities. Also, it is clear that what is considered SMEs from the viewpoint of one party may not considered from the viewpoint of another, and that applies both in different countries and within the single country.

Also, it is noted that there is different definitions depending on its purpose, since the definition may aim to determine the category that deserve getting fund from the competent authorities; for example, the definition stated in Small Enterprises Development Act No. 141 of 2004 in Egypt; or might be designed to identify enterprises that can apply accounting and auditing standards, and those that can be exempted from applying those standards, as stated in the definition of some professional bodies such as the IASB and the IAASB. The target may, also, be to prepare statistics on the number of entities and their contribution to the country as stated in the definition of the Indonesia Central Statistics Bureau.

Regarding the quantitative criteria commonly used to identify SMEs, each has its own advantages and disadvantages, which can be illustrated as follows (Gibson & Van der Vaart, 2008):

• **Number of employees**: is the most common used criterion, and fits industries that are characterized by high labor intensity. This criterion is used assuming the availability of accurate data on the actual number of workers, so as to enable the correct classification of SMEs; however, it does not reflect the true size of the entity, since there are entities need huge capital and a few workers, and therefore may not be considered small businesses. Employment is not the only element in the production process, and, hence, this criterion cannot be used alone in the classification of entities in terms of size.

• **Capital**: The capital is an important element in determining the production capacity of the entity, and, therefore, is used for classification of entities in terms of size. It fits entities that belong to the industrial sector where the intensive use of capital. However, it is not possible to identify the true size of the entity due to the different production methods used among entities in different sectors. Also, many SMEs in developing countries, especially in Egypt, tend to reduce the registered capital in order to reduce the burden of registration fees. In contrast, some entities may resort to increasing the capital for the purpose of obtaining the necessary credit.

• **Total Assets**: using this criterion may face difficulty in making comparisons, where under inflation periods long-lived assets are being undervalued, as they are recorded at historical cost. Also, with the widespread use of outsourcing, the long-lived assets may be undervalued despite the increase in revenue and number of employees. However, using this criterion fits defining entities that rely on assets and belong to the industrial sector.

• **Total Sales**: using this criterion requires the availability of accurate information on the annual sales of entities. Sales are characterized by the possibility of converting its value to the dollar value for purposes of comparison among countries, but it is difficult to apply this criterion for comparisons among entities in different sectors. Also, banks often need information about sales to deal with its credit applicants, which can be obtained through financial statements.

Thus, it is concluded that there is no optimal criterion could be used alone for the classification of entities in terms of size, but it is preferred to use a combination of at least two criteria, such as number of employees and total annual sales, and/or total assets, or capital, commensuration with the nature of the different sectors within a single country.

3. Obstacles faced by SMEs

SMEs in Egypt, like in many countries, facing many obstacles which can be summarized as follows (Central Agency for Public Mobilization and Statistics, 2010):

3.1 Financing Obstacles

Getting fund is considered one of the most important obstacles facing SMEs. Despite the presence of a large number of banks and programs run by the government and non-governmental bodies in Egypt in order to provide the necessary fund for these entities, they receive only 10% of the available bank financing (Saif, 2011).Among the most important financing problems facing the majority of SMEs, the large number of collateral required due to the high risk of granting credit for this sector. As well as the inability of those entities' owners, in many cases, to provide the required guarantees, with relatively high interest rates on credit granted to those entities, in addition to the militancy in providing grace periods, and in payment methods.

3.2 Marketing Obstacles

The most important marketing problems faced by SMEs are the weak marketing capabilities of these entities' owners, and the insufficient financial resources to hire specialized marketing experts, with the lack of marketing information in relation to the needs of the markets, consumer preferences and product specifications, as well as the weakness of the relationship between those entities and large corporations, and the lack of coordination that allows the use of their products as inputs for large-sized enterprises.

3.3 Administrative and Legislative Obstacles

The most important of these obstacles is the multiplicity of authorities and bodies dealing with SMEs, and who have the right to control and oversight these entities, with the multiplicity of laws and regulations related to the issuance of licenses, and the scarcity of technical highly-skilled workforce. In addition to the tax problems that lead the majority of these entities to operate without licenses.

3.4 The lack of Information

This is the most important and most dangerous constraints facing SMEs' development process, and it includes the lack of basic skills associated with bookkeeping and records. Also, the weak financial resources could turn between those entities and the advantage of hiring consulting services, along with the poor educational level of owners, and their belief that accounting is not feasible. Even in the case of the availability of financial information, the lack of accounting expertise hinders the possibility to use and benefit from them, as well as, the lack of adoption of appropriate information systems, leads to the lack of useful information to make informed decisions, which could affect their performance.

Thus, it is clear from reviewing the obstacles facing SMEs in Egypt, that the shortage of funding of the most important problems facing those entities, as the lack of information is considered one of the main reasons for all the problems facing those entities. Notably, the lack of accounting information may increase the severity of financing problems. In this context, this research focuses on the importance of the auditor's role in providing reliable information to overcome one of the obstacles facing SMEs, namely, financing constraints.

4. The motives behind SMEs' demand for auditor assurance and related services

Most prior studies regarding factors influencing the level of assurance demanded by SMEs was conducted in advanced environments (such as the United Kingdom, the United States of America, and Australia) where the increased attention toward SMEs through developing assurance and related services to become more suitable for those entities, thus encouraging researchers to study the motives behind the demand for such services.

Some studies focused on voluntary demand for auditing financial statements (e.g., Tauringana& Clarke, 2000;Dedmanet al., 2014;Clatworthy& Peel, 2013) may be due to the importance

of auditing service compared to limited review and compilation of financial statements, as it provides a positive level of assurance about the absence of material misstatements in the financial statements as a whole. Also, auditing financial statements is mandatory for listed companies, but for unlisted SMEs, there are motives drive their demand for the audit service. While others addressed the other types of assurance and related services (e.g., Martin et al., 1988; Abdel-khalik, 1993;Barefieldet al., 1993;Allee&Yohn, 2009) to determine the extent of SMEs financial statements' users acceptance of the limited review and compilation of financial statements as alternatives to the audit service.

Also, most studies conducted in this area has been dominated by using SMEs' actual data (e.g., Abdel-Khalik, 1993;Barefieldet al., 1993;Tauringana& Clarke, 2000;Allee&Yohn, 2009;Dedmanet al., 2014), due to the availability of databases that will enable them to apply such methodology, while others adopted the survey method (e.g., Martin et al., 1988; Collis et al., 2004), and personal interviews (e.g., Marriott et al., 2006).

Regarding the results of those studies, the researcher concludes the multiplicity of motives behind SMEs demand for assurance and related services. These motives are the entity size, and the agency problems, whether between owners and management, or between owners and creditors, and the degree of ownership dispersion, and the extent of perceiving the cost and benefits of those services, which can be analyzed as follows:

- **Entity Size**: Most studies (e.g., Abdel-khalik, 1993;Barefieldet al., 1993; Tauringana& Clarke, 2000; Collis et al., 2004;Allee&Yohn, 2009;Dedmanet al., 2014) agreed on the positive impact of the entity size on SMEs' demand for assurance and related services, while they differ on the measurement of the entity size. Some studies conducted in the United Kingdom (e.g., Tauringana& Clarke, 2000; Collis et al., 2004;Dedmanet al., 2014) agreed on the effect of entity size, as measured by total sales, on the demand for auditing service, and results did not differ with different methodologies used, however, Dedmanet al. (2014) distinguished by using the latest data for a larger sample and for a longer period. While others (e.g., Barefieldet al., 1993;Abdel-khalik, 1993;Allee&Yohn, 2009) conducted in the United States, and reached tithe impact of the entity size, measured by the number of employees, on the demand for audit, or limited review, or compilation of financial statements services. Thus, the extent of data availability and applying studies in different environments lead to different results. Also, studies focused on the criteria of total assets, sales and number of employees; as those criteria are used in defining SMEs in those countries.

The effect of the entity size, whether measured by total assets or sales or number of employees, on the demand for assurance and related services can be explained as follows; the assets are used as collateral for bank credit, and, thus, whenever total assets increases there would be a need for control and verification of their value; which can be provided through assurance and related services. As well as, in the case of increasing the number of workers where there is a possibility to separate the tasks and increase the likelihood of problems in the oversight and delivery of information. Also, sales is significant number for banks in calculating financial ratios in order to determine the creditworthiness of the entity requesting credit, and therefore whenever the sales is high, there would be a need for assurance and related services.

- **Agency conflicts between owners and management**: both Barefieldet al. (1993) conducted in the United States, and Tauringanaand Clarke (2000) in the United Kingdom, agreed on the negative relationship between the percentage of shares owned by directors and the demand for audit, as the increase in this ratio would lead to mitigating conflicts of interest between owners and management, and generate incentive for management to improve the entity's performance.
- **Agency conflicts between owners and creditors**: Most studies (e.g., Martin et al., 1988;Barefieldet al., 1993;Tauringana& Clarke, 2000; Collis et al., 2004;Dedmanet al., 2014) agreed on the existence of a positive relationship between SMEs' external funding from banks and their demand for assurance and related services, in spite of the different environments, the size of samples, the methodologies used, and the time periods of these studies. This may be due to the fact that some financial ratios are

often calculated when deciding the granting of credit, and most important of those ratios is the debt ratio; increasing this ratio is a risk indicator for granting credit, and thus the need to assurance services to increase the confidence in the financial statements.

- **The degree of dispersion of ownership between family and non-family**: some studies (e.g., Collis et al., 2004; Dedmanet al., 2014) agreed on the positive impact of the dispersion of ownership on the demand for auditing service, in spite of the different environments and methodologies used and the size of samples. This is due to that, with the increasing number of owners, and their dispersion between family and non-family ownership, it becomes difficult to control the performance of the entity, and thus auditing help in this case.
- **Considerations of cost and benefit of assurance and related services**: there is an agreement on the importance of auditing financial statements of SMEs, as this help improving the quality of their financial statements and increase its credibility (e.g., Martin et al., 1988; Collis et al., 2004;Clatworthy& Peel, 2013), and strengthen the internal control structure (Abdel-khalik, 1993;Collis et al., 2004), as well as managers/owners' perception of its importance to creditors (Marriott et al., 2006), as well as mitigating the agency problems (Martin et al., 1988;Barefieldet al., 1993; Tauringana& Clarke, 2000; Collis et al., 2004;Dedmanet al., 2014). Also, according to Collis et al. (2004), the expected benefits from auditing the financial statements outweigh its cost.

Thus, there are multiple motives behind SMEs' demand for assurance and related services. It is noted that most studies agreed on the importance of assurance and related services to increase confidence in SMEs' financial statements and make it easier to get necessary credit. However, most studies focused on the audit service may be due to its importance compared to the limited review and the compilation of financial statements services. So the next section reviews the impact of different level of assurance on the granting of credit decision for SMEs.

5. The effect of assurance and related services on granting credit for SMEs

Notably, most of the previous studies were conducted in developed countries (such as the United Kingdom, the United States, and Canada) where the increased attention to SMEs, with little interest in developing countries. Studies conducted in this area adopted a variety of methodologies, including the use of actual data (e.g., Blackwell et al., 1998; Kim et al., 2011;Minnis, 2011; Lennox and Pittman, 2011;Dedman&Kausar, 2012), or experimental design within-subjects (Bandyopadhyay& Francis, 1995), or experimental design between-subjects (e.g., Nair &Rittenberg, 1987; Wright & Davidson, 2000; Miller & Smith, 2002), or conducting a survey (Kim & Elias, 2007).

Regarding the results of those studies, some issues are concluded as follows; regarding the importance of the financial statements to the granting of credit, Kim and Elias (2007) found that financial statements are important to decisions of granting credit, regardless of the level of professional assurance. With regard to the possibility of relying on SMEs' financial statements, there is an agreement among studies (e.g., Nair &Rittenberg, 1987;Bandyopadhyay& Francis, 1995; Kim & Elias, 2007;Minnis, 2011) that the financial statements accompanied by the audit report can be relied upon to a greater degree than those attached by the report of a limited review or the compilation of the financial statements.

However, Kim and Elias (2007) found that the presence of limited review or the compilation of the financial statements report is better than the absence of an auditor's report at all, which is consistent with the fact that the presence of an independent party associated with the financial statements increases the confidence in these statements, as this give an impression that the financial statements prepared in accordance with Generally Accepted Accounting Principles.

Regarding the impact of the different levels of assurance on the granting of credit decisions for SMEs, Bandyopadhyay and Francis (1995), in the United States, found a positive impact of the levels of assurance on the decisions of granting credit in terms of accepting grant the credit and determining the interest rate, while other studies, for example, Miller and Smith (2002) in the US and Wright and Davidson (2000) in Canada found that there is no significant difference between the different assurance

levels in influencing any of the decision to accept granting credit or to determine the interest rate; this result may be due to the lack of credit officers' awareness of the differences between assurance levels. The differences in studies' findings may be attributed to differences in the methodology used and the sample size, where these studies are consistent in the use of experiments, but with different experimental design, for example, Bandyopadhyay and Francis (1995) adopted within-subjects experimental design with relatively small sample size compared to other studies that adopted between-subjects experimental design.

However, assurance level may affect the credit decision from some other aspects, as Miller and Smith (2002) concluded that there is a significant difference between the assurance levels in affecting the amount of the credit to be granted, this study is characterized by sizeable sample compared to other studies. While some studies (e.g., Blackwell et al., 1998; Minnis, 2011; Kim et al., 2011) focused on the cost of credit, as one of the aspects related to the decision of granting credit. These studies agreed that there is a negative relationship between the level of assurance and the interest rate charged, where entities with audited financial statements paid lower interest rates compared to those with unaudited financial statements, or with the limited review, or compilation reports, or may be just prepared by management. This result is in spite of the different environments, and the periods covered by these studies and the size of the samples used. Also, each of these studies characterized by using actual data, while both Minnis (2011), and Kim et al. (2011) distinguished by using latest data for larger sample size.

In contrast, Allee and Yohn (2009) did not found a significant relationship between auditing financial statements and the cost of credit granted to privately-held small enterprises, but it is concluded that it is easier for entities that have audited financial statements to access credit compared to those entities with unaudited financial statements, while the results were not significant for the limited review or the compilation of financial statements.

Accordingly, it is concluded that the results were mixed regarding the impact of the different level of assurance on the decision of granting credit for SMEs, where the studies did not agree on the impact in terms of accepting the granting, but there may be a difference in influencing the decision of the credit from other aspects, such as the reliability of the financial statements provided by the entity demanding credit, credit rating of the entity, the amount of credit to be granted, and the expected interest rate to be charged.

6. Conclusion and Recommendations

It is concluded that auditor's services add value for SMEs, by increasing credibility of the financial information provided by those entities for the purpose of getting credit, which helps credit officers to make a better granting credit decision, and thus getting the necessary fund to develop its operations, and, therefore, help in enhancing its role in the economic development. Accordingly, there may be a demand for auditor's assurance and related services that have the ability to meet the needs of SMEs' financial statements users.

This study has implications for Egyptian credit officers since there should be an increased awareness about the different types of attestation services available for SMEs. Therefore, it would be beneficial to held seminars in order to educate Egyptian credit officers about the services that can be provided by the auditor for SMEs. This research sheds light on how an auditor can help SMEs getting access to fund. Thus, this research provides more insights to policy makers interested in improving the performance of SMEs in an emerging economy such as Egypt. Also, this research helps SMEs to recognize the importance of engaging auditors, hence, enhancing the credibility of their financial statements and, subsequently, helping their users make sound decisions.

It is recommended to set a uniform definition of what can be considered as belonging to the SMEs sector, combines both qualitative and quantitative criteria which vary according to the type of industry, in order to ease dealing with this sector, and directing adequate development programs, and determine what suits this sector from requirements for the preparation of reliable financial statements.

In addition to building a database, to provide detailed information on the financial statements of SMEs, and the extent of using the auditor's services.

In fact, there is a qualitative and quantitative gap in auditing standards applicable in Egypt; therefore, it is recommended updating the Egyptian auditing standard for related services No. 4410 in accordance with international counterpart ISRS 4410 (Revised) in line with the Egyptian environment, in order to become more understandable by users. Also, a standard equivalent to the ISRE 2400 should be issued in order to deal with conducting the independent limited review service for SMEs' financial statements.

7. Research limitations and direction for future research

It is important to recognize that one limitation of this research is the omission of other variables that may affect credit decisions such as reputation of the firm, firm's status in the industry, board of directors' characteristics, and size of audit firm; future research could handle those factors. Also, it lacks the practical application; consequently, future research could be conducted to examine the impact of outsourcing the process of preparing SMEs' financial statements on the quality of accounting information. Also, the impact of auditing or reviewing SMEs' financial statements on their financial performance; or on the earnings management practices in SMEs; and whether the impact of the different levels of assurance on credit decisions varies with the size of the audit firm and its reputation represent directions for future research.

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