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The impact of the expanded audit report content on SMEs' bank financing

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ABSTRACT

Standard setters and regulators have gradually changed the form and content of audit reports to enhance their clarity and comprehensibility, aiming to reduce the expectation gap. This research investigates the perceived usefulness of the latest expanded audit report (EAR), focusing on the evaluation of its key sections, within the context of bank financing. Additionally, the study explores the potential impact on credit granting decisions, particularly in relation to the accessibility, processing times and financing conditions for SMEs. A structural equation modelling (SEM) methodology was employed to analyse the responses of 225 bank loan officers to a self-administered online questionnaire. The results show that the perception that the audit service is useful has a positive impact on credit granting (access, time and conditions), but it is only influenced by the Opinion section. Basis of Opinion, Other Information and Key Audit Matters (KAM) sections do not appear to be significant. Consequently, additional audit report extensions should be carefully considered before making new decisions, as they are not necessarily perceived as informative.

El impacto del informe de auditoría ampliado en la financiación bancaria de las Pymes

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RESUMEN

Los emisores de normas y los reguladores han cambiado gradualmente la forma y el contenido de los informes de auditoría para mejorar su claridad y comprensibilidad, con el objetivo de reducir la brecha de expectativas. Este trabajo investiga la utilidad percibida del último informe de auditoría ampliado, centrándose en la evaluación de sus secciones clave, dentro del contexto de la financiación bancaria. Además, el estudio explora el impacto potencial en las decisiones de concesión de crédito, particularmente en relación con la accesibilidad, los tiempos de procesamiento y las condiciones de financiación para las PYMEs. Para analizar las respuestas de 225 oficiales de crédito bancario a un cuestionario en línea autoadministrado, se empleó una metodología basada en ecuaciones estructurales (SEM). Los resultados muestran que la percepción de que el servicio de auditoría es útil tiene un impacto positivo en la concesión del crédito (acceso, tiempo y condiciones), pero sólo está influenciado por el apartado de Opinión. Las secciones Fundamento de la opinión, Otra información y Cuestiones clave de auditoría (CCA) no parecen ser significativas. En consecuencia, las extensiones adicionales de los informes de auditoría deben considerarse cuidadosamente antes de tomar nuevas decisiones, ya que no necesariamente se perciben como informativas.

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1. Introduction

The auditing profession has gone through various periods of crisis of identity and social trust. This has caused users of financial statements to increasingly demand more complete, transparent and valuable information for decision-making (Litjens et al., 2015). The urgency to recover and overcome such situations has led to a notable increase in efforts to bring the expectations of users closer to the real work of the auditors. That is, to reduce the audit expectation gap. In this regard, the standard setters and regulators worldwide have gradually expanded the content and modified the structure of the audit report (FRC, 2013; European Parliament and Council of the European Union, 2014; IAASB, 2015a; PCAOB, 2017). The key purpose is to restore and enhance the confidence of users in the audited financial statements.

The present work focuses, specifically, on analysing the perception of the usefulness that loan officers attribute to the audit service based on the content of the expanded audit report (EAR)[1] in its main sections and determining if this contributes to their willingness to grant greater access to credit, to shorten application-processing times and to apply better financing conditions to small and medium enterprises (SMEs).

A significant stream of research has traditionally dealt with the relevance of external audit for decision-making and addressed how different stakeholders use and react to communications in the audit report (Vanstraelen et al., 2012). Indeed, the last version of the EAR has gained renewed importance and has become one of the key elements under study within the audit field from the last few years (see Velte and Issa, 2019; Pérez et al., 2021; Mashayekhi et al., 2023). However, the existing findings to date are inconclusive and current audit report requirements are still questioned (Kend and Nguyen, 2020; Coram and Wang, 2021; Minutti-Meza, 2021; Nguyen and Kend, 2021; Gambetta et al., 2023; Liu et al., 2023). Additionally, several studies have historically examined the influence of the audit service and the audit report on the perceptions and decisions of bank loan officers, since they are considered among the principal users of financial information (Berry et al., 1993). Nevertheless, to the best of our knowledge, just one (Boolaky and Quick, 2016) has focused specifically on the banking sector and the content of the EAR since the International Auditing and Assurance Standards Board issued new guidelines (IAASB, 2015a). In this sense, the introduction of the Key Audit Matters (KAM) is one of the most significant changes to the audit reporting model in the past 90 years, being a very important issue that deserves further research (Kend and Nguyen, 2020; Coram and Wang, 2021; Minutti-Meza, 2021; Seebeck and Kaya, 2023).

The first and main contribution of this study is clear: providing additional evidence regarding the usefulness of the EAR in the specific context of bank credit granting. Additionally, there are some important differences between our study and previous ones that lead to several relevant contributions. The first is that we ask not only about the substantial change in the content of the audit report, KAM, but also about its other three main informative sections: the Opinion, the Basis of Opinion and the Other Information. That way, we can jointly assess the effect of all the informative content included in the audit report. In the same way, we inquire not only into the probability of accessing credit, but also into the probability of doing so faster and with better conditions. The second difference is the timing of our study, as we analyse the perceptions of bank loan officers once the latest EAR model has already been adopted, and users are expected to have dealt with it. The third one is the methodology, as previous research mainly used experiments or archival data, but our study is based on a sample of credit decision-makers who express their perceptions regarding audit reports and credit granting for a general and real market situation. In addition, we focus on SMEs, while others have mostly paid attention only to large companies, for whom it is mandatory to hire the audit service. And, finally, the geographical context, as the majority of studies in Europe related to the EAR have been carried out in the UK.

For our purpose, we analyse the responses of 225 bank loan officers in Spain, which reveal that receiving the audit report together with the annual accounts is highly valued when assessing the creditworthiness of an SME, leading to a greater willingness to grant access to credit, to shorten application processing times and to apply better credit conditions. However, our results show that KAM included in the EAR do not have an impact on the perception of the usefulness of the service, which is in fact only determined by the opinion expressed by the auditor about the true and fair view of the financial statements.

The remainder of the paper is structured as follows. In the second section, a theoretical review of the relevant previous literature is made, justifying the proposed research hypotheses and establishing the research model to be tested. In the third section, the methodology is explained. In the fourth section, the results are reported. Finally, in the fifth section, the most relevant conclusions drawn from the work are included.

2. Theoretical Framework and Research Hypotheses

2.1. *The audit expectation gap and the relevance of the audit report*

Accounting scandals in the recent past and the world economic and financial crises have widened the audit expectation gap (Litjens et al., 2015), understood as the difference between what users expect from the auditor's work and the perception that the auditors themselves have of their work (Humphrey et al., 1993). Although it is considered practically impossible to completely eliminate the gap (Sikka et al., 1998; Chong and Pflugrath, 2008), there is extensive literature focused on analysing its causes and proposing different actions that can help narrow it. Specifically, two major strategies are identified, namely lowering the public's expectations or improving audit performance (Humphrey et al., 1992; Koh and Woo, 1998; Gonzalo-Angulo and Garvey, 2018). As far as the first approach is concerned, authors such as Houghton et al. (2011) emphasize the importance of making the public aware of the objectives of the audit work and the role and responsibilities assumed by the auditor. However, this defensive approach focused on education implies a long-term horizon for achieving results. The second strategy actually forks into two. On the one hand, regulators have progressively strengthened the measures to ensure auditor's independence, especially through the regulation of certain personal situations, the prohibition of the provision of other complementary services and the mandatory rotation in public interest entities (Ruhnke and Schmidt, 2014). However, those measures have led to a general atmosphere of discontent among professionals in the sector, who have been sub-

[1] Previous research has also referred to the "expanded audit report" as "enhanced audit report" or "extended audit report", sometimes with the abbreviation "EAR".

jected to increasingly greater demands in carrying out their work and experienced a reduction in their profit margins. On the other hand, efforts to narrow the gap have been made through the improvement of the audit reports. In fact, several authors consider that the most interesting way to bring positions between the profession and the recipients of the service closer is through the audit report (Gray et al., 2011; Vanstraelen et al., 2012; Ratzinger-Sakel and Gray, 2015), as it is the only information publicly available for external users (PCAOB, 2017; Goicoechea et al., 2021; Lennox et al., 2023).

In the audit report, auditors provide an independent professional opinion on whether the financial statements give a true and fair view of the company, which means they are free from material misstatements and faithfully represent the financial performance and positioning of an entity (Parte et al., 2022; Lennox et al., 2023). However, the audit report has been widely criticized for being strictly standardized and, therefore, for having little useful, informative and communicative value (Church et al., 2008; Humphrey et al., 2009; Turner et al., 2010; Gray et al., 2011; Asare and Wright, 2012; Carcello, 2012; Vanstraelen et al., 2012; Mock et al., 2013; Simnett and Huggins, 2014; Sirois et al., 2018). Thus, it has been observed that not only shareholders and investors, but all other stakeholders have progressively demanded more information from auditors with the aim of increasing transparency and the trust in companies (Litjens et al., 2015), especially regarding what were the key areas on which the auditor focused his/her attention (Hatherly et al., 1998; Vanstraelen et al., 2012; Ratzinger-Sakel and Gray, 2015; Sirois et al., 2018).

In the aftermath of this criticism, regulators and standard setters started seriously questioning the informative value of the auditor's report. Consequently, they initiated measures to change from the traditional pass/fail model to a more individual and valuable report, in order to meet the public concern and the informational needs of financial statement users (Gold and Heilmann, 2019; Minutti-Meza, 2021; Pérez et al., 2021; Lennox et al., 2023). After years of consultation, dialogue and deliberation, the International Auditing and Assurance Standards Board issued six revised standards and one new one related to the auditors' reporting (IAASB, 2015a). Those changes became effective for audits of financial statements for periods ending on or after December 15, 2016. Before the change, the audit report described the financial statements being audited, the respective responsibilities of management and the auditor, the audit process, and ended with the auditor's opinion. After that date, both the structure and the content of the audit reports were modified. With regard to the structure, the main change was to place the audit opinion (clean, qualified, adverse or disclaimer) at the beginning of the report, according to the ISA 700 (Revised) – Forming an Opinion and Reporting on Financial Statements (IAASB, 2015b). Furthermore, the most significant content change relates to the ISA 701 (New) – Communicating Key Audit Matters in the Independent Auditor's Report (IAASB, 2015c). This standard expanded the audit report, including a new separate section that describes "*those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period*". In other words, the auditor is now asked to explain the especially challenging, subjective or complex concerns pertaining to the financial statements and the significant events/transactions in the audit work (Pérez et al., 2021). Kend and Nguyen (2022) also point out that KAM disclosures are now an additional mechanism for auditors to report back to stakeholders on management's behaviour.

The auditor's report is the primary means of communication between auditors and financial statement users (PCAOB, 2017; Gold and Heilmann, 2019; Goicoechea et al., 2021), and it has different implications and usages in many areas of the business environment. With the latest changes and the implementation of the EAR, further evidence is claimed about its usefulness, its value added to different stakeholders and their decisions (Kend and Nguyen, 2020; Coram and Wang, 2021; Minutti-Meza, 2021; Seebeck and Kaya, 2023). The aim of the regulators and standard setters was to increase the prominence of potentially valuable information of audit reports (IAASB, 2015a). However, research to date on the impact of KAM disclosures is inconclusive (Kend and Nguyen, 2020; Coram and Wang, 2021; Minutti-Meza, 2021; Nguyen and Kend, 2021; Gambetta et al., 2023; Liu et al., 2023).

On the one hand, some studies have found that the disclosure of KAM increases the communicative value of the auditor's report, making it more relevant and useful (Christensen et al., 2014; Prasad and Chand, 2017; Altawalbeh and Alhajaya, 2019), especially when a Non-Big 4 firm conducts the audit (Moroney et al., 2021) or when the investors are professional (Köhler et al., 2020; Liu et al., 2022). For example, Liu et al. (2023) recently found that firm-specific KAMs, longer KAMs, more readable KAMs and more accurate KAMs reduce the insider trading profitability, highlighting the decision-making usefulness of KAMs for external investors. And Zhai et al. (2021) documented causal evidence that KAM disclosures provide incremental firm-specific information and reduce stock price synchronicity. Also, KAM disclosure has been sometimes associated with better abnormal accruals (Li et al., 2019; Reid et al., 2019; Kitiwong and Sarapaivanich, 2020), improved audit quality (Botes et al., 2020; Zeng et al., 2021; Hu et al., 2023) and shorter audit report lag (Baatwah et al., 2022).

Meanwhile, several other studies showed that the disclosure of such information does not affect the expectation gap and has more of a symbolic than an informative value (Boolaky and Quick, 2016; Gutiérrez et al., 2018; Bédard et al., 2019; Segal, 2019; Coram and Wang, 2021; Al-mulla and Bradbury, 2022; Liao et al., 2022; Lennox et al., 2023; Seebeck and Kaya, 2023), is difficult to understand (Parte et al., 2022) or is associated with even lower perceived audit quality (Sirois et al., 2018).

As the previous literature finds contradictory findings, we posit our first four research hypotheses (H1–H4) following the regulators' expected outcome of the EAR. The IAASB stresses that "*enhanced auditor reporting is critical to influencing the value of the financial statement audit*" (IAASB, 2015a). Based on that argument, we propose that the four main informative sections of the latest EAR might have a positive effect on the bank loan officers' perceived usefulness of the audit service.

The first one is the Opinion section, in which the auditor expresses whether the financial statements show the true and fair view of the company. The Opinion section of an audit report serves as a conclusive statement by auditors regarding the fairness of financial statements, and therefore, stakeholders often rely on this section to make informed decisions about the financial health of an entity. Following this reasoning, if the Opinion section is perceived as valuable, it is likely to enhance bank loan officers' confidence in the audit process, leading to a positive impact on the overall perceived usefulness of the audit service.

H1: The value attributed to the Opinion section of an audit report has a positive effect on the perceived usefulness of the audit service.

The second one is the Basis of Opinion section, where the auditor explains the reasons for reporting an opinion other than the clean one (material misstatements and/or lack of evidence). The Basis of Opinion section provides crucial information about the foundation and justification for the auditor's opinion. That is why stakeholders may find this section valuable in understanding the reasoning behind the auditor's conclusions. A positive perception of the value in this section is expected to contribute to a deeper comprehension of the audit report by the bank loan officers, thereby increasing the perceived usefulness of the audit service.

H2: The value attributed to the Basis of Opinion section of an audit report has a positive effect on the perceived usefulness of the audit service.

The third one is the Other Information, focused on the Emphasis of Matter and Other Matter paragraphs. On the one side, Emphasis of Matter refers to specific matters that, while not affecting the overall opinion, are deemed significant enough to warrant the attention of the users. On the other side, the Other Matters often includes supplementary details beyond the core financial statements. This additional context, explanations, or warnings about certain aspects of the financial statements may be considered by stakeholders as valuable for gaining a more comprehensive understanding of the audited entity's performance and risk factors. Recognizing and appreciating the value contained in that Other Information may lead to a more informed and confident decision-making process for bank loan officers relying on the audit service.

H3: The value attributed to the Other Information section of an audit report has a positive effect on the perceived usefulness of the audit service.

The fourth one is the KAM section, with the detail of those areas of significant auditor attention in performing the audit, those areas identified as significant risks and/or those areas in which the auditor encountered significant difficulty during the audit. In other words, the KAM section highlights areas that are deemed most significant in the audit process, providing insights into complex and critical aspects of the financial statements. Stakeholders may find value in understanding these key audit matters as it helps them focus on material issues. Accordingly, a positive perception of the KAM section's value is expected to enhance bank loan officers' confidence in the audit process and consequently contribute to the overall perceived usefulness of the audit service.

H4: The value attributed to the KAM section of an audit report has a positive effect on the perceived usefulness of the audit service.

2.2. Access to bank financing by SMEs and the influence of the audit report

SMEs are the economic engine of many countries and often seek bank financing to develop their activity, or even survive, since they do not usually have access to organized capital markets. That is why financial institutions can be considered among the principal stakeholders of these types of companies (Palazuelos et al., 2018).

However, it is frequently difficult for lenders to determine whether these companies have the ability and/or the willingness to pay (Hyytinen and Väänänen, 2006), as they tend to have a short history, lack formal or public records, or poor internal control systems (Berger and Frame, 2007; Bruns et al., 2008), any of which may lead to a situation in which the company faces problems in both accessing credit and in obtaining sufficiently favourable borrowing conditions (Beck et al., 2005).

In this context, commercial loan officers, when considering whether or not to grant financing, try to gather and analyse information that allows them to reduce uncertainty about the probability of repayment. Moreover, financial statements play a key role in the evaluation phase of a commercial loan (Danos et al., 1989; Berger and Udell, 2006; Berry and Robertson, 2006), especially if analysed together with the audit report (Duréndez Gómez-Guillamón, 2003; DeFond and Zhang, 2014). De La Torre et al. (2010) point out that in many, if not most, cases, credit risk management is not automated and is ultimately based on the judgement and perceptions of a loan officer, with the understanding and interpretation of the audited financial statements being a key factor in the proper allocation of credit (Guiral-Contreras et al., 2007).

Several studies in the previous literature have addressed the influence of external audit in credit rating processes. In particular, there is a stream of research that finds that audited firms, compared to those who are not audited, are more credible and reliable (Cassar, 2011; Asare and Wright, 2012), benefit in the form of greater access to credit (Allee and Yohn, 2009; Palazuelos et al., 2018; Briozzo and Albanese, 2020) and pay significantly lower interest rates (Blackwell et al., 1998; Minnis, 2011). In addition, another group of studies has analysed the effects that the change from mandatory audits to voluntary audits had on credit ratings. In the UK, Lennox and Pittman (2011) and Dedman and Kausar (2012) found that companies attract upgrades to their credit ratings because they send a positive signal by submitting to an audit when this is no longer legally required. In contrast, those who chose to opt out of the audits suffered downgrades. A similar result was found by Kim et al. (2011) in Korea, who showed that voluntarily audited companies have a significantly lower cost of debt. Huguet and Gandía (2014), however, did not find a significant association between voluntary audits and cost of debt in Spain, but found that companies that breach the audit requirement have a higher cost of debt than the mandatorily audited ones. Finally, Chy et al. (2021) found that an exogenous increase in auditor litigation risk leads to an increase in both clients' likelihood of receiving bank loans and the average amount of the bank loans that clients receive.

With regard to the audit report, previous research has also considered different aspects that might have an impact on borrowing costs. On the one hand, some studies have focused on the type of auditor, as a proxy for audit quality (Pittman and Fortin, 2004; Fortin and Pittman, 2007; Causholli and Knechel, 2012; Kim et al., 2013; Huguet and Gandía, 2014). On the other hand, other studies have paid attention to the type of opinion expressed by the auditor, in order to find evidence of whether it plays a significant role when making lending decisions (Bamber and Stratton, 1997; Guiral-Contreras et al., 2007; Duréndez Gómez-Guillamón and Sánchez Vidal, 2008; Niemi and Sundgren, 2012; Liu et al., 2020; Tian and Pan, 2022). Finally, a few studies have investigated the impact of the format or the additional information of the audit reports on bankers' perceptions and decisions. For example, Elias and Johnston (2001) investigated whether the explanatory paragraph about going concern has any information content, although their results showed that the explanatory paragraph appeared to convey no additional information content and that loan officers did not feel less confident when taking their decisions. Furthermore, Litjens et al. (2015) observed that changes to the format of audit reports do not really reduce the audit expectation gap of bankers, contradicting the results previously obtained by Miller et al. (1993). More recently, and contrary to previous studies, Porumb et al. (2021) provide preliminary evidence that the EAR disclosures contain relevant information for loan contracting in the United Kingdom, resulting in reduced loan spread and longer maturity for loan facilities. Additionally, Boolaky and Quick (2016) examined the impact of the additional information that could be included in the audit report, namely information on the assurance level, materiality levels and KAM. In that study, carried out as an experiment, they only found a significantly positive impact of the disclosure of the assurance level, while they could not demonstrate a material effect of expanding the audit report to include the materiality level or KAM on bank director perceptions of the quality of the financial statements, the audit and the audit report, as well as on their credit approval decisions.

The next three hypotheses (H5–H7) aim to give further evidence on the value of an external audit on credit granting decisions in the European context. As recognised by the IAASB (2015a), "*investors and other users of financial statements have called for the auditor's report to be more informative*", so the latest changes are expected to influence their economic decisions. In our model, we measure the informative and communicative value by the perceived usefulness, as it is usually understood as the extent to which information facilitates decision-making or saves time in the process (Pankoff and Virgil, 1970; Siering et al., 2018). And, in particular, we propose that the bank loan officers' perceived usefulness of the audit service has a positive effect on the access to credit, on the processing times of credit applications and on the credit conditions applied to SMEs, following the results obtained by Liu et al. (2022) specifically for KAM and debt contracting in China.

First, the positive effect on SMEs' access to credit is based on the premise that a reliable and high-quality audit can enhance transparency and confidence in a company's financial information. Lenders tend to view this transparency and confidence positively, which could facilitate SMEs' access to credit by reducing lenders' perception of risk.

H5: The perceived usefulness of audit service has a positive effect on SMEs' access to credit.

Second, the positive effect on the processing times of SMEs' credit applications is justified insofar as an efficient and comprehensive audit can provide lenders with necessary information promptly and accurately, thereby expediting the credit evaluation process. As a result, SMEs may experience shorter processing times for their credit applications.

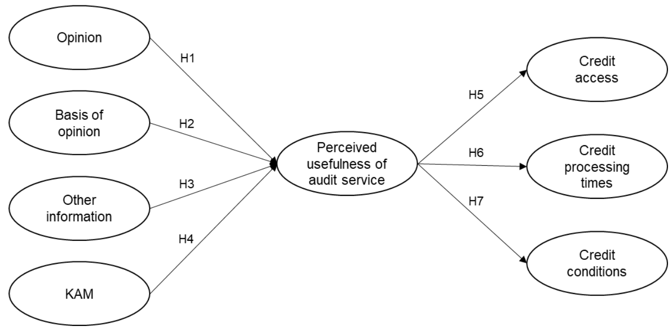
H6: The perceived usefulness of audit service has a positive effect on the processing times of SMEs' credit applications.

Third, the positive effect on the credit conditions applied to SMEs is grounded in the idea that an audit that enhances the quality of a company's financial information can lead to a more accurate assessment of its repayment capacity and credit risk. Consequently, lenders may offer more favorable credit conditions, such as lower interest rates or more flexible repayment terms, to SMEs that have reliable and useful audit reports.

H7: The perceived usefulness of audit service has a positive effect on the credit conditions applied to SMEs.

Figure 1 summarizes the theoretical model according to our research hypotheses.

Figure 1. Research model



3. Methodology

Quantitative research was carried out to test aforementioned hypotheses. In this section, a detailed description of the process followed to collect information is provided, referring to the design of the questionnaire used, the fieldwork carried out through a survey, and the composition of the final sample of loan officers participating in the study.

3.1. Measurement

The information was collected through a self-administered online questionnaire addressed to the loan officers of a major Spanish financial entity, listed on the Ibex-35 and established in the international context.

The questionnaire used was structured in three differentiated blocks. The variables of the model were measured using multi-item instruments (see Appendix 1), which allowed us to obtain evaluations of psychological variables that cannot be quantified directly (Churchill and Iacobucci, 2002). In the first block, the personal and professional profile of the participants was identified. They were asked about their place of residence, the level of responsibility of the position they currently held in the entity, their gender, age, level of education achieved to date and years of experience in the banking sector. In the second block, using 7-point semantic differential scales, they were asked about the importance of receiving the audit report together with the annual accounts and, in that regard, whether they valued the content of the report. In particular, they were asked about the degree of usefulness, value and importance of the most relevant sections of an audit report, namely: Opinion, Basis of Opinion, Other Information (Emphasis of Matter and Other Matter paragraphs) and KAM. Finally, in the third block, using 7-point Likert scales, the loan officers were asked a series of questions related to the process of credit granting to audited SMEs. Specifically, they were asked about three different aspects: the access to credit; the processing times of applications; and the financing conditions.

In particular, the scale used to measure the 'perceived usefulness' was based on the proposed by Sussman and Siegal (2003), which has a multidisciplinary character and has been applied into several fields of study, such as consumer behaviour or technology adoption. Besides, the scale for the measurement of the 'credit access' variable was based on the paper of Wagner et al. (2011), assuming that the intention of a buyer to establish future collaboration with a supplier is similar to the intention of a loan officer (funder) to grant credit (and thus establish a relationship) to a SME (fund applicant). In the scale of 'credit conditions', following Palazuelos et al. (2020), the main variables that are applied in the credit policy have been included: volume granted, interest rates, and additional guarantees/collateral required. Finally, a new variable regarding the processing times was included, considering the three main stages of the credit grating process: application/formalization, evaluation and resolution (Chakravarty and Yilmazer, 2009).

It is necessary to note that, in order to avoid potential problems related to common-method variance (CMV) bias, the anonymity of the participants was guaranteed, and it was indicated clearly in the introductory screen of the questionnaire that there were no right or wrong answers. In this way, we tried to reduce the level of fear and make respondents less likely to edit their responses so that they were socially desirable or more in line with what they thought the researcher wanted them to answer (Chang et al., 2010).

3.2. Fieldwork and sampling design

Prior to the quantitative research, the fieldwork began with the contact with one of the heads of the Risk Analysis Department of the collaborating bank. After that, several conversations took place and two more managers confirmed the appropriateness of the questionnaire.

The financial entity was responsible for distributing the link to the questionnaire internally via email to its loan officers' population, distributed throughout the whole national territory. In particular, the recipients were loan officers responsible for examining the credit quality of companies with a turnover of between 2 and 50 million (euros), following the EU definition for SMEs. All those clients receive individualized treatment by the analysts. Micro-enterprises were excluded from the study as the collaborating financial entity stated that they are assessed, in most cases, through an automatic scoring procedure.

Finally, the survey was launched from May to June 2021 to a group made up of 427 loan officers, with the participation of 225 loan officers. This represents a response rate of 52.7%, which is considered very high for studies focused on the banking sector.

Table I summarizes the main data of the sampling design.

Table I. Sampling design

Geographical scope	Spain
Population	Loan officers - Infinite (>100,000)
Sampling frame	427 loan officers
Information collection	Online survey
Test procedure	Not applicable
Sample size	225 valid responses
Sample error	±6.53%
Confidence level	95% (z=1.96) for the worst case p=q=0.5
Data treatment	SPSS 21.0 and EQS 6.1

4. Results

In this section, we present the main results of the research. First, we present the descriptive statistics related to the perceptions of bank loan officers regarding the main parts of the audited report, perceived usefulness of the audit service and their willingness to grant greater access to credit, shorten the application processing times and apply better financing conditions to SMEs. Second, the research model is empirically tested following the CB-SEM approach (covariance-based structural equations model), using the software EQS 6.1. This statistical method comprises two-steps: 1) the estimation of the measurement model (confirmatory factor analysis – CFA) to test the psychometric properties of the measurement scales; and 2) the estimation of the structural model that integrates all the direct relationships proposed in the research hypotheses. In particular, the robust maximum-likelihood estimation procedure is used, as it minimizes potential problems associated with non-normality of the data (Byrne, 2006).

4.1. Descriptive statistics

The results of the descriptive statistics corresponding to the main variables considered in this study are important in order to obtain a first general picture of the decision-makers' perception regarding the value of the main parts of the audited report and its impact on the credit granting process in the case of audited SMEs. Table II summarize the average values and the standard deviation of the responses given to all the items.

Table II. Descriptive statistics

Factor	Item	Mean	St Dev
Opinion	OPI1	6.36	0.89
	OPI2	6.27	0.90
	OPI3	6.38	0.84
Basis of opinion	BOP1	6.49	0.80
	BOP2	6.42	0.81
	BOP3	6.51	0.76
Other information	OIN1	6.41	0.75
	OIN2	6.32	0.78
	OIN3	6.37	0.79
KAM	KAM1	6.46	0.79
	KAM2	6.41	0.83
	KAM3	6.44	0.80
Perceived usefulness of audit service	PUS1	5.86	0.82
	PUS2	5.85	0.81
	PUS3	5.91	0.81
Credit access	CAC1	5.02	1.08
	CAC2	5.00	1.05
	CAC3	4.85	1.11
Credit processing times	CPT1	5.11	1.04
	CPT2	5.16	0.99
	CPT3	5.13	1.02
Credit conditions	CCO1	4.78	1.02
	CCO2	4.61	1.10
	CCO3	4.40	1.11

With regard to the evaluation of the different sections of the audit report, the results show that, on average, bank loan officers perceive a very high helpfulness, value and importance of every section (Opinion, Basis of opinion, Other information and KAM). Thus, all the items in the measurement instruments take values over 6 in a scale from 1 (minimum) to 7 (maximum), which evidence a general support of the content of the EAR for the decision-makers under research. Moreover, credit loan officers also consider that the audit service is useful (average values over 5.5 in a scale from 1 to 7). Additionally, the decision-makers' opinions regarding the access to credit by audited SMEs is also positive but more moderate. More specifically, the average values of the items show that SMEs that present audited financial information may benefit from shorter processing times (average values over 5 for all the items), more probability of getting funded (average values between 4.85 and 5.02) and better financing conditions (average values between 4.40 and 4.78).

4.2. Estimation of the measurement model

First, we tested the correct specification of the measurement model, analysing the main goodness of-fit indices provided by EQS 6.1 and that are widely used in the literature (Hair et al., 2010). In particular, we used the following indices: 1) measures of absolute fit – Bentler–Bonett Normed Fit Index (BBNFI), Bentler–Bonett Non-Normed Fit Index (BBNNFI) and Root Mean Square Error of Approximation (RMSEA); 2) measures of incremental fit – Incremental Fit Index (IFI) and Comparative Fit Index (CFI); and 3) measures of parsimonious fit – Normed 2. The results, summarized in Table III, confirm that the BBNFI, BBNNFI, IFI and CFI statistics are above the recommended minimum value of 0.9, RMSEA is located under the maximum limit of 0.08 and normed 2 do not exceed the recommended maximum value of 3.0 (Hair et al., 2010).

The inner reliability of the constructs is tested through the Cronbach's alpha, composite reliability and AVE coefficients (Table III), which are, in every case, clearly above the required minimum values of 0.7 and 0.5, respectively (Hair et al., 2010). The convergent validity of the scales is also confirmed, since all items are significant to a confidence level of 95% and their standardized lambda coefficients are higher than 0.5 (Steenkamp and Van Trijp, 1991). The discriminant validity of the scales was tested following the procedure proposed by Fornell and Larcker (1981), which requires the comparison of the variance extracted for each pair of constructs (AVE coefficient) with the squared correlation estimate between these two constructs (Table IV). In all cases, the variances extracted for each construct are greater than the squared correlation between them.

Table III. Confirmatory factor analysis

Factor	Item	Stand. Coef.	R^2	Cronbach's alpha	Composite Reliability	AVE	Goodness of fit indices
Opinion	OPI1	0,87	0.75	0.93	0.93	0.81	
	OPI2	0,92	0.85				
	OPI3	0,91	0.83				
Basis of opinion	BOP1	0,88	0.78	0.95	0.95	0.85	
	BOP2	0,94	0.89				
	BOP3	0,95	0.91				
Other information	OIN1	0,91	0.83	0.96	0.96	0.88	
	OIN2	0,96	0.92				
	OIN3	0,95	0.90				
KAM	KAM1	0,94	0.89	0.97	0.98	0.93	Normed χ^2=1.75 BBNFI=0.91 BBNNFI =0.95 CFI=0.96 IFI=0.96 RMSEA=0.06
	KAM2	0,97	0.95				
	KAM3	0,98	0.95				
Perceived usefulness of audit service	PUS1	0,93	0.86	0.96	0.96	0.89	
	PUS2	0,97	0.94				
	PUS3	0,93	0.86				
Credit access	CAC1	0,94	0.89	0.95	0.95	0.87	
	CAC2	0,95	0.91				
	CAC3	0,91	0.82				
Credit processing times	CPT1	0,97	0.94	0.98	0.98	0.95	
	CPT2	0,98	0.96				
	CPT3	0,97	0.95				
Credit conditions	CCO1	0,97	0.93	0.88	0.88	0.72	
	CCO2	0,88	0.77				
	CCO3	0,67	0.45				

Table IV. Discriminant validity analysis

	OPI	BOP	OIN	KAM	PUS	CAC	CPT	CCO
OPI	**0,81**[a]							
BOP	0,70	**0,85**[a]						
OIN	0,32	0,34	**0,88**[a]					
KAM	0,34	0,48	0,57	**0,93**[a]				
PUS	0,15	0,14	0,07	0,11	**0,89**[a]			
CAC	0,05	0,03	0,01	0,02	0,06	**0,87**[a]		
CPT	0,05	0,04	0,03	0,04	0,11	0,44	**0,95**[a]	
CCO	0,02	0,01	0,02	0,01	0,04	0,55	0,47	**0,72**[a]

[a] AVE Coefficient / Out of main diagonal: squared correlations among factors.

4.3. Estimation of the structural model

Once the psychometric properties of the scales were adequately examined in the previous stage, the model was estimated using the Robust Maximum Likelihood method. Table V summarizes the results for the estimation of the proposed research model.

On the one hand, the obtained results confirm that the perceived usefulness of audit service is significantly determined by the value attributed to the Opinion section (hypothesis H1 is supported). That means that it serves as a critical assessment by the auditor regarding the accuracy and reliability of the financial statements, thereby carrying significant weight in stakeholders' evaluation of the audit service's usefulness. However, contrary to initial expectations, the analysis did not reveal any significant effects of the Basis of the Opinion, Other Information, and Key Audit Matters (KAM) sections on the perceived usefulness of audit service (hypotheses H2 to H4 are not supported). According to this finding, the attribution of usefulness to the audit service by loan officers is only determined by the general Opinion expressed by the auditor on whether or not SMEs' financial statements show the true and fair view of the company. This suggests that loan officers primarily attribute the usefulness of the audit service to the overarching assessment provided by the auditor at the very beginning of the audit report, rather than specific details or disclosures contained in other sections of it.

On the other hand, the empirical findings from this research corroborate the significant impact of audit usefulness, as perceived by loan officers, on several crucial aspects of SMEs' credit granting process (hypotheses H5 to H7 are supported). This assertion is closely aligned with the theory of the "expectation gap" in auditing, which underscores the importance of enhancing the confidence and value of the auditor's report to address disparities between users' expectations of financial statements and auditors' perceptions of their work.

Firstly, the perception of audit usefulness affects the probability of SMEs gaining access to credit. This implies that loan officers value the presence of audited financial statements when assessing the creditworthiness of businesses. In other words, the results confirm that a useful audit report can help reduce perceived uncertainty about the reliability of a company's financial information, thereby potentially increasing lenders' willingness to extend credit. Secondly, the perception of audit usefulness also influences the speed and efficiency of the credit application process. This suggests that loan officers may make quicker decisions when provided with audited financial statements that offer reliable and useful information about a company's financial situation. This relationship reflects the importance of effective communication between auditors and financial statement users. Lastly, the perception of audit usefulness also impacts the credit terms offered to SMEs. This implies that loan officers may be willing to offer more favorable credit terms, such as larger volumes of funding, lower interest rates or lesser supporting guarantees/collateral, to companies presenting audited financial statements. This could be attributed to increased confidence in the provided financial information, once again underscoring the importance audited accounting information in credit decision-making.

In summary, the findings of this study reinforce the notion that the auditor's report is not merely a technical document but also significantly influences the financial and credit decisions of SMEs. This underscores the importance of enhancing the communication and informational value of the auditor's report to bridge the expectation gap in auditing and strengthen confidence in financial statements.

According to these results, the higher the usefulness of the audit service perceived by bank loan officers, the more opportunities for SMEs that present audited financial statements to obtain credit and to experience shorter processing times and better conditions.

Table V. Structural model

Construct	Stand. Coeff	t-student	Goodness of fit indices	Required value
H1: Opinion → Perceived usefulness of audit service	0.28**	2.32	Normed χ^2= 1.73	< 3.00
H2: Basis of opinion → Perceived usefulness of audit service	0.05	0.33	BBNFI = 0.90	> 0.90
H3: Other information → Perceived usefulness of audit service	-0.06	-0.62	BBNNFI = 0.95	> 0.90
H4: KAM → Perceived usefulness of audit service	0.17	1.40	CFI = 0.96	> 0.90
H5: Perceived usefulness of audit service → Credit access	0.25**	3.62	IFI = 0.96	> 0.90
H6: Perceived usefulness of audit service → Credit processing times	0.34**	4.61	RMSEA = 0.06	< 0.08
H7: Perceived usefulness of audit service → Credit conditions	0.21**	2.98		

** p-value < 0.05; * p-value < 0.10.

5. Conclusions

Global financial scandals have diminished public confidence in the functioning of the accounting profession in society, leading to a wave of amendments to government laws and regulations and accounting and auditing standards to gain back the public trust. Within the audit framework, there were mainly two important changes introduced by the International Auditing and Assurance Standards Board (IAASB, 2015a) in order to narrow the expectation gap and enhance the communication and informational value of the auditor's report. On the one hand, there was the location of the Opinion section at the beginning of the report. On the other, there was the disclosure of KAM, designed to deliver firm-specific information on financial reporting risks to investors and other stakeholders.

This paper explores the perception that bank loan officers have about the usefulness of the audit service based on the content of the last EAR (four main informative parts). Additionally, it analyses the effect of the external audit in terms of the willingness to grant greater access to credit, reduce application-processing times and apply better financing conditions to SMEs. For that purpose, data were collected through an online questionnaire, and the opinions of 225 bank loan officers were obtained.

From a theoretical point of view, on the one hand, our study contributes significantly to the ongoing debate surrounding the impact of expanded audit reporting. Until now, there have been mixed findings in the accounting literature about the effect of KAM disclosures on the financial statements and audit report users (Kend and Nguyen, 2020; Coram and Wang, 2021; Minutti-Meza, 2021; Nguyen and Kend, 2021; Gambetta et al., 2023; Liu et al., 2023). In particular, our findings are consistent with prior research showing that stakeholders do not regard auditors' risk disclosures as incrementally informative and valuable (Boolaky and Quick, 2016; Gutiérrez et al., 2018; Bédard et al., 2019; Segal, 2019; Coram and Wang, 2021; Al-mulla and Bradbury, 2022; Liao et al., 2022; Lennox et al., 2023), as we find no significant evidence of KAM influencing the perceived usefulness of the audit service among bank loan officers. That means that our results align with the notion that the auditor's opinion plays a pivotal role in shaping stakeholders' perceptions of the audit process, and reinforce those obtained by previous studies that suggest that the audit Opinion alone may signal sufficient relevant information to users (Turner et al., 2010; Carcello, 2012; Gold et al., 2012). As with the KAM, neither the Basis of Opinion nor the Other Information included in the audit report appear to influence significantly bank loan officers' perceptions about the usefulness of the audit service for decision-making.

On the other hand, our findings give further evidence to previous literature focused on examining the effects of external audit in general and, in lending processes, in particular. We find that bank loan officers' perceptions of the audit report usefulness positively affect their willingness to grant credit, to shorten processing times and to apply better financing conditions to SMEs. These results add to the consolidated stream of research that finds that audited firms benefit in the form of greater access to credit (Allee and Yohn, 2009; Palazuelos et al., 2018; Briozzo and Albanese, 2020) and pay significantly lower interest rates (Blackwell et al., 1998; Minnis, 2011). However, we do not find support, as other recent studies do, that the EAR disclosures contain relevant information for loan contracting (Porumb et al., 2021; Liu et al., 2022). Although the bank loan officers in our study consider that additional information other than the Opinion is valuable, helpful and important, it really doesn't have an impact in their global assessment of the audit service. This finding resonates with the conclusions drawn by Boolaky and Quick (2016) in their experiment, where they failed to demonstrate a substantial effect of expanding audit reports to include materiality levels or KAMs on bank directors' perceptions of financial statement quality, audit quality, audit reports, or credit approval decisions.

From a practical perspective, these results may be of interest to different groups, but mainly to the following three: first, our findings should assist the regulators and standard setters with their post-implementation review of the new audit reporting standard. It underscores that the relevant content of the audit report primarily centers around the auditor's opinion. Therefore, any additional extensions to the audit report should be carefully considered before making new decisions, as they may not substantially influence users' decision-making processes; second, to companies, in general, and to SMEs, more specifically, since we demonstrate that bank loan officers are more willing to give access to credit and to do so faster and under better conditions when the financial statements are received together with the audit report. Consequently, firms that are not required to audit their financial statements should consider that possibility if they seek improved access to bank financing; third, to the auditors, as a compelling argument to advocate the advantages and value inherent in the review and verification services they provide. Our study underscores the importance of auditing in bolstering confidence among stakeholders and facilitating favorable outcomes for audited entities.

All of this must be taken into consideration and interpreted with due caution. Above all, it must be taken into account that responses from bank loan officers in the questionnaire reflect their perceptions and intentions rather than their actual behavior, although intention is widely regarded as the best predictor of behavior (Conner and Norman, 2022). Besides, another potential limitation of this study relates to the level of understanding among loan officers regarding the contents of audit reports (Zeng et al., 2021). Given that loan officers may lack expertise in accounting, their comprehension of the audit report's significance could be incomplete, potentially influencing their responses due to a lack of awareness regarding certain aspects of the audit. For instance, despite the questionnaire provided brief descriptions of each section, there is a possibility that respondents may either overestimate or underestimate the depth and implications of those sections. Moreover, the data used is cross-sectional and sourced solely from the opinions of bank loan officers within a single Spanish financial institution. Finally, it should be noted that the study omitted the category dedicated to going concern issues, which are typically reported in a separate section of the audit report. While this area has been subject to previous research (see Geiger et al., 2021), it was not considered in our analysis. Nevertheless, it is conceivable that it might have had an impact on loan officers' decision-making, suggesting a potential avenue for future research to explore the value of such information contained in the audit report for credit granting purposes. In the same way, it is worthwhile to explore the usefulness of audit services in financing processes from alternative economic agents, such as crowdfunding or public subsidies. Additionally, there is an interesting avenue for research in examining the value that the disclosure of non-financial information provides to companies, especially when reviewed and verified.

Conflict of interest

The authors declare that they have no conflicts of interest.

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Appendix (Measurement scales)

Audit Service

Perceived Usefulness: In general, I consider that receiving the audit report together with the annual accounts of a SME is…

Unhelpful	1	2	3	4	5	6	7	Very helpful
Invaluable	1	2	3	4	5	6	7	Very valuable
Unimportant	1	2	3	4	5	6	7	Very important

Audit Report

Please, assess the degree of usefulness of the following information included in the audit report:

Opinion: The opinion reported by the auditor on the true and fair view of the financial statements (clean, qualified, adverse or disclaimer of opinion).

Unhelpful	1	2	3	4	5	6	7	Very helpful
Invaluable	1	2	3	4	5	6	7	Very valuable
Unimportant	1	2	3	4	5	6	7	Very important

Basis of Opinion: The explanation of the motives that lead the auditor to report an opinion other than the clean one.

Unhelpful	1	2	3	4	5	6	7	Very helpful
Invaluable	1	2	3	4	5	6	7	Very valuable
Unimportant	1	2	3	4	5	6	7	Very important

Other Information (Emphasis of Matter and Other Matters): The allusion to matters of significant importance related to the entity's financial statements (which are disclosed appropriately in the financial statements) and the allusion to matters related to the audit that are relevant to users' understanding of the audit.

Unhelpful	1	2	3	4	5	6	7	Very helpful
Invaluable	1	2	3	4	5	6	7	Very valuable
Unimportant	1	2	3	4	5	6	7	Very important

KAM: The description of those areas of significant auditor attention in performing the audit, those areas identified as significant risks and/or those areas in which the auditor encountered significant difficulty during the audit.

Unhelpful	1	2	3	4	5	6	7	Very helpful
Invaluable	1	2	3	4	5	6	7	Very valuable
Unimportant	1	2	3	4	5	6	7	Very important

Credit process: In general, SMEs that present their financial statements audited…

Credit Access

Have a high probability that the bank will make a positive assessment of their overall position	1	2	3	4	5	6	7
Have a high probability that the bank will feel predisposed to work with them	1	2	3	4	5	6	7
Have a high probability of getting funding	1	2	3	4	5	6	7

Processing Times

Have a high probability that the application procedures / formalization of the operation will be fast	1	2	3	4	5	6	7
Have a high probability that the evaluation process of the operation will be agile	1	2	3	4	5	6	7
Have a high probability that the resolution period of the operation will be short	1	2	3	4	5	6	7

Credit Conditions

Have a high probability of accessing large volumes of funding	1	2	3	4	5	6	7
Have a high probability of being charged with low interest rates	1	2	3	4	5	6	7
Have a high probability of being required to have limited guarantees/collateral	1	2	3	4	5	6	7