¿Importa la auditoría de los estados financieros de las Pymes a los analistas de riesgo de crédito?

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Are credit risk analysts concerned about the audit of the financial statements of SMEs?\(^1\)

¿Importa la auditoría de los estados financieros de las Pymes a los analistas de riesgo de crédito?

1. INTRODUCTION

In a globalized, highly competitive environment, managing relationships with different stakeholders is critical to ensure successful organizations (Freeman and Phillips, 2002). In this sense, it should be noted that the financial and economic crisis that is significantly still affecting the world economic activity, and the Spanish one in particular, has caused them to become increasingly demanding in their requirements, demanding greater transparency to enable them to develop their own value judgments and perform accordingly.

This causes auditing to be of particular importance, due to its ultimate purpose of providing reliability to the financial information provided by companies, and thus providing a solid basis on which the different stakeholders can base their economic decisions (Ruiz Barbadillo et al., 2002). Therefore, there is a need to deepen the study of the auditing role in the specific context of decision-making in the banking sector, focusing attention on small and medium-sized enterprises (SMEs).

On the one hand, SMEs are extremely relevant for the creation of wealth and employment in any economy. On the other hand, banking institutions are positioned, even more so in the current context of crisis, as the main interest group of SMEs, since many of them depend on financing for the development of their business activity, and sometimes even for their survival.

To this end, this paper aims to analyze, from the responses provided by 471 risk analysts, the usefulness of auditing in processes of credit granting to SMEs. In particular, it was considered whether the fact that...
EXECUTIVE SUMMARY
This paper analyzes the usefulness of auditing in processes of credit granting to SMEs. A survey of 471 risk analysts in Spain shows that the fact that financial statements are audited increases perceived quality of accounting information, reduces perceived risk in operations, increases trust in companies and has a positive impact both on the probability that SMEs will have better access to credit and on obtaining better financing conditions.

RESUMEN DEL ARTÍCULO
Este trabajo analiza la utilidad de la auditoría en los procesos de concesión de crédito a Pymes. Mediante una encuesta a 471 analistas de riesgos en España, se demuestra que el hecho de que los estados financieros estén auditados aumenta la calidad percibida de la información contable, disminuye el riesgo percibido en las operaciones, aumenta la confianza depositada en las empresas y repercute positivamente tanto en la probabilidad de que las Pymes tengan un mejor acceso al crédito como en la obtención de mejores condiciones de financiación.
the financial statements are audited increases the probability of SMEs having better access to credit and/or getting better financing conditions. To complement this, its influence on other psychological variables that could influence such credit granting processes is analyzed, such as the quality of the accounting information, the perception of risk in transactions and the trust that decision-makers (risk analysts) place in their clients (SMEs).

All this contributes to previous literature focusing on the analysis of SMEs obtaining finance from a subjective approach, taking into account the influence of auditing on the perceptual variables that underlie the credit decision of risk analysts. In addition, the study may also be of interest from a practical point of view, providing relevant information to both regulatory bodies and companies themselves.

The rest of the paper is structured as follows. In the next section, the importance of management of SME relationships with banking institutions is examined more closely, highlighting the role that auditing can play in this process. The variables analyzed are described below. The fourth section specifies the information collection process and the sample composition. The results are then analyzed and discussed. Finally, the conclusions reached and the implications are presented, together with the limitations and future lines of research.

2. SMES AND ACCESS TO BANK CREDIT: THE ROLE OF AUDITING

Most external finance obtained by SMEs comes from financial institutions, since in general, the structure of the European financial system and the Spanish one in particular, shows a clear predominance of banking intermediation (Stock Market National Commission, 2010).

However, these smaller companies generally face the phenomenon known as “credit rationing”, which corresponds to a situation where the company does not obtain the desired funds (quantity) or obtains them in conditions (interest rate, term or guarantees), that are worse than might be expected (Casasola-Martínez and Cardone-Riportella, 2009). This is mainly due to a greater relative complexity involved for lenders when assessing their credit position, due to the lower quality and quantity of information available on their financial situation (Berger and Udell, 1995).
If in general terms, SMEs are subject to certain restrictions due to their greater opacity and high concentration of risks, in times of crisis such as the present one, these difficulties tend to become more pronounced, since the possibilities of distinguishing between companies according to their risk profile are reduced in an environment of increasing uncertainty (Paulet et al., 2014).

The surveys available on SME access to finance, such as those carried out by the European Central Bank (ECB) for the countries of the Economic and Monetary Union (EMU), or those developed by the Chambers of Commerce and the Official Credit Institute (ICO) for Spain, show how in recent years, there has been a decline in this access, which has been particularly intense in Spain, in line with a greater depth of economic crisis (Bank of Spain, 2013). In this line, the latest Reports on Strategic Analysis for SME Development in Spain (FAEDPYME, 2013, 2015) reveal how the financial crisis has had a negative impact on the conditions of funding facilities of most of these companies, which in general see an increase in the bank’s response time, the financing cost, expenses and commissions, and the guarantees and security related with their transactions, as well as a reduction in the financing volume granted. Faced with this reality, where business financing is a vital factor, many have seen how credit granting was paralyzed, which led them to radically change their policy, to restructure or directly to disappear.

Therefore, in the relationship between SMEs and banking entities, credit risk assessment processes are particularly relevant. They consist of expressing an assessment of the applicant company’s ability to generate sufficient resources to fulfil the commitment it makes, i.e. to take a decision on credit granting and where appropriate, on the conditions applicable in the transaction, based on the expectation that the client can return the resources lent (loan repayment and interest payment) (Mayland, 1993).

This assessment should be made of different information sources, including accounting information (Ruiz Barbadillo et al., 2002). However, due to the uncertainty prevailing in the market, the mere presentation of accounting information of interest is insufficient, being credibility, relevance and usefulness that financial groups attribute to such information, a more important factor or at least as important. Casasola-Martínez and Cardone-Riportella (2009) emphasize that one of the management implications that SMEs
should take into account is the need to strive to be more transparent in their relationship with financial institutions, in order to reduce the lack of information that they have when assessing to grant financing. In fact, Elsas and Krahnen (1998) state that banks that obtain more extensive and relevant information support SMEs more, granting them more credit. Thus, audit reports, which validate or correct the accompanying financial statements, may contribute to the achievement of that purpose, as the independent technical opinion they contain should help to mitigate or defuse information asymmetries between the companies and the financial groups which they are involved with, providing reliability and facilitating users’ decision-making (Ruiz Barbadillo et al., 2002). In fact, a large number of studies have demonstrated the ability of auditors to limit accounting manipulation practices (see García Osma et al., 2005), which could certainly be of interest to risk managers. Nevertheless, most of the studies focus on the perception of the relevance and usefulness of the audit report from the point of view of SMEs themselves (see, among others, Collis, 2008; Montoya-del-Corte et al., 2014; Palazuelos Cobo et al., 2017). However, this line of research focused specifically on credit granting processes and analyzed from the perspective of information users can be described as scarce (Guiral-Contreras and Gonzalo Angulo, 2005), in particular when dealing with SMEs (Niemi and Sundgren, 2012).

Hence, the general research question that arises in this article is: **Are there differences in credit granting processes between SMEs that present their financial statements audited and unaudited?**

### 3. INFLUENCING FACTORS AND EXPECTED RESULTS FROM THE CREDIT RISK ASSESSMENT PROCESS

This study analyzes the influence of auditing on three relevant variables in the processes of granting bank credit to SMEs. Specifically, it examines possible differences in the quality of accounting information, as the main expected result of the service provided, and in perceived risk and trust, traditionally identified as two of the most influential variables in decision-making. In addition, the impact on the results of the credit granting process is examined: own access to finance and financing conditions.
3.1. Accounting information quality

Petersen and Rajan (1994) consider that the key factor for accessing to bank finance is the reduction of information asymmetries, which in turn depends on multiple factors, such as proximity in the interaction between the analyst and the company’s management, the physical distance between the two or the duration of the relationship. However, some people think that the information provided by SMEs is the most important element, so that the better the information in terms of quantity and quality, the greater the probability of access to credit (Ennew and Binks, 1999) and its volume (Moro et al., 2015), and the lower the guarantees or security required (Zecchini and Ventura, 2009) and the interest rates applied (Elsas and Krahnen, 1998). And in this sense, as already noted, a significant proportion of this information comes from accounting information systems and financial statements (Ruiz Barbadillo et al., 2002).

Consequently, since the quality of accounting information may have a positive impact on the credit granting process, the following research question is proposed:

PI-1: Are there differences in the perceived quality of accounting information by risk analysts of banking entities between SMEs that present their financial statements audited and unaudited?

3.2. Perceived risk

The concept of “perceived risk” was introduced by Bauer (1960), as the subjective belief that there is a probability that something bad will happen. In this way, it is stated that behaviour involves risk, because “any action of a consumer will produce consequences which he cannot anticipate with anything approximating certainty, and some of which at least are likely to be unpleasant” (Bauer, 1960, p. 24).

In this study, the conceptualization of perceived risk is understood as the belief of decision-makers (risk analysts as credit providers), that there is a probability that clients (SMEs as credit seekers) are not economically viable and cannot fulfill their obligations under the stipulated terms (repayment of loan and interest payment in the agreed terms).

Dowling and Staeling (1994) argue that perceived risk generates feelings of uncertainty, nonconformity or anxiety, thus influencing the decision-making process. In this sense, there is empirical evidence that, for example, when the level of risk associated with a purchase increases, consumers try to reduce nonconformity and avoid
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purchasing the product by decreasing purchase intentions (Van der Heijden et al., 2003). Therefore, it is logical that similarly, when the risk perceived by creditors is potentially very high, they may prefer to restrict their supply of funds, or apply stricter financing conditions (Stiglitz and Weiss, 1981; Petersen and Rajan, 1994; Larrán Jorge et al., 2010).

In this way, perceived risk is positioned as a variable of interest in credit granting processes, so it is relevant to formulate the following research question:

PI-2: Are there differences in the risk perceived by risk analysts of banking entities between SMEs that present their financial statements audited and unaudited?

3.3. Trust

One of the most widely accepted definitions of “trust” is the one proposed by Rousseau et al. (1998, p. 395), who understand that it is a generic form of “a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another”.

This variable is defined, in the scope of this investigation, as the expectation of decision-makers (risk analysts as well as credit providers) on the future behaviour of clients (SMEs as credit seekers) and specifically, their belief that they will comply with their obligations in the relationship in the terms stipulated (repayment of loan and interest payment in the agreed terms).

Moreover, the literature has proposed that trust should be a multidimensional construct. In particular, there are three dimensions that have most frequently been associated with the concept of trust: honesty, competence and benevolence (e.g. Flavián et al., 2006). Honesty refers to the belief in sincerity, truthfulness, frankness, and keeping the partner’s promises (Morgan and Hunt, 1994). Competence shows the ability, knowledge and skills that the partner has in order to carry out those activities which it is committed to (Mayer et al., 1995). Finally, benevolence indicates the belief that one party is genuinely interested in the welfare of the other, without the intention of carrying out opportunistic behaviour and is motivated to seek a joint benefit (Doney and Cannon, 1997).

With all this, many studies have included trust as a key variable in business management, as its influence has been proven on multiple factors that improve the quality of relationships, such as commitment
Morgan and Hunt, 1994, or satisfaction (Geyskens et al., 1998). In addition, it favours decision-making in situations where information is scarce (Luhmann, 2000). Thus, it seems clear that in the case of credit granting processes, trust could also help to compensate information asymmetries, improving access to credit and SME financing conditions. Therefore, it is appropriate to ask the following research question:

PI-3: Are there differences in the trust placed by risk analysts of banking entities in SMEs that present their financial statements audited and unaudited?

3.4. Results of the credit granting process

It is important to note that within the credit granting process, two different “results” are generally considered. The first one is included in the variable “access to finance”, and refers to the willingness of the financial institution to establish relationships with the company, i.e., to grant credit (Petersen and Rajan, 1994). The second dependent variable is “financing conditions”, and refers to possible restrictions once the companies have access to it, i.e., the specific credit conditions that are applied in the transaction. In this sense, the financial institution may impose a limitation on the amount initially requested or on the cost of resources, in addition to demanding greater guarantees or applying higher expenses and commissions (FAEDPYME, 2013, 2015).

Therefore, the last two research questions that are raised in this work are the following:

PI-4: Are there differences in the decision to grant credit by risk analysts of bank entities between SMEs that present their financial statements audited and unaudited?

PI-5: Are there differences in the credit conditions applied by the risk analysts of banking entities between SMEs that present their financial statements audited and unaudited?

4. A STUDY WITH RISK ANALYSTS

Once the interest group and the relevant variables have been identified, a structured questionnaire is designed in order to collect the information required for the research. For the best approach to the study and above all, to perfectly define which group to aim the study at, preliminary interviews were conducted with three employees.
of banking entities with different posts. Thus, based on an initial draft of the survey, changes in response to the experts’ suggestions were made, and we decided to focus the study on workers directly involved in the process of accepting risk (risk analysts). This approach is in line with the results by De la Torre et al. (2010), that state that in most large banks, SME credit risk management is not automatic, but rather the responsibility of a credit risk analyst. The universe of the study is made up of risk analysts with different responsibility levels in the decision-making process, in such a way that both bank employees at local level and members of Territorial Committees and Credit Operations Organs of Central offices participate, who are responsible for the assessment of credit risks of transactions of higher amounts.

Information collection was carried out using a questionnaire administered by Internet. Of the total of 12 questions, the first 7 referred to the respondents’ personal/professional profile, the following 4 corresponded to each of the four variables analyzed (30 items altogether were rated on Likert and Semantic Differential Scales [1-7]), and in the last one, they were free to express any additional comment of interest. According to the dynamics proposed in the study, the participants assessed the items of each variable (5 for the scale of the accounting information quality, 5 for perceived risk, 4 for each of the three dimensions of trust, and 4 for access to credit and for financing conditions), first for companies with unaudited financial statements, and immediately after that for those that present audited financial statements. Specifically, 1,069 emails were sent to risk analysts, obtaining a total of 471 valid responses, representing a response rate of 44.1%.

Table 1. Technical sheet of research

<table>
<thead>
<tr>
<th>Geographical scope</th>
<th>National (Spain)</th>
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<tbody>
<tr>
<td>Population</td>
<td>Risk analysts in Spain — Infinite (&gt;100,000)</td>
</tr>
<tr>
<td>Sample framework</td>
<td>1,069 Risk analysts</td>
</tr>
<tr>
<td>Information collection</td>
<td>Personal survey (administered by internet)</td>
</tr>
<tr>
<td>Sampling procedure</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Field research date</td>
<td>March-April 2016</td>
</tr>
<tr>
<td>Sample size</td>
<td>471 valid surveys</td>
</tr>
<tr>
<td>Sampling error</td>
<td>±4.52%</td>
</tr>
<tr>
<td>Confidence level</td>
<td>95% (z=1.96) for the most unfavourable case p=q=0.5</td>
</tr>
<tr>
<td>Data processing</td>
<td>SPSS v.21.0</td>
</tr>
</tbody>
</table>
Table 2 summarizes the socio-demographic and professional characteristics of the risk analysts sample obtained in this research. As can be seen, of the total number of participants, 66% are male; the mean age of the sample is 49 years. 50% have higher University Studies, which is related to the qualification level generally required to work in the banking sector. In addition, the vast majority (86.4%) occupy a post with local responsibility. This is also consistent with the hierarchical structure of financial institutions, where as the level of accountability increases, the employee number decreases. In addition, those surveyed have been working in the sector for an average of approximately 20 years.

<table>
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<th>Table 2. Sample description</th>
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<tr>
<td><strong>Sex</strong></td>
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<td><strong>Age (mean value)</strong></td>
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<tr>
<td><strong>Level of education</strong></td>
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<tr>
<td><strong>Responsibility level of post</strong></td>
</tr>
<tr>
<td><strong>Years of experience in the banking sector (mean value)</strong></td>
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</table>

5. RESULTS

The main results obtained in the research are shown below. In particular, Graphs 1-7 show the mean values obtained for the measurement scales of the variables. In this sense, it can be seen how the mean values of all the items are higher in the case of the companies that submit their audited financial statements (generally between 0.5 and 1 point more than for the unaudited ones).

Once the mean values are obtained, the mean difference test (Student’s T test for related samples) is performed in order to know if the points assigned to the scales are statistically different depending
on whether they are audited or unaudited. In fact, the results show that the p-values obtained in the tests for all items reflect that such differences are statistically significant for a confidence level of 99% ($p-value = 0.000<0.01$).

As seen in **Graph 1**, it is revealed, firstly, that in the case that SMEs present audited financial statements, the perceived quality of the accounting information is greater, so risk analysts believe that it is more timely, accurate, complete, relevant and reliable. That is, the audit fulfills its “information role”, improving the desirable characteristics of the financial information presented by companies in their financial statements (Huguet and Gandía, 2016). Secondly, as shown in **Graph 2**, the risk perceived in the transaction is lower. Risk analysts consider that security is significantly greater if the financial statements are audited. In this way, they believe that the loss potential and the probability of non-payment or default are reduced, resulting in an overall result of a lower risk perception.
Graph 2. Perceived risk

- Security minimum / maximum: 4.26
- Probability of non-payment maximum / minimum: 4.33
- Probability of default maximum / minimum: 4.32
- Loss potential maximum / minimum: 4.27
- Risk maximum / minimum: 4.20

Graph 3. Trust (Honesty)

- They are transparent: 4.15
- They provide sincere and honest information: 4.28
- They are reliable in keeping their promises: 4.66
- They will probably fulfil their commitments: 4.77
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Graph 4. Trust (Competence)

- They provide guarantees about their skills to carry out their activities: 5.10 (Audited FS), 4.49 (Unaudited FS)
- They have the ability/skills to fulfil their commitments: 5.20 (Audited FS), 4.62 (Unaudited FS)
- They have sufficient experience in the activity performed: 5.31 (Audited FS), 4.67 (Unaudited FS)
- They are managed by competent and diligent staff: 5.27 (Audited FS), 4.35 (Unaudited FS)

Graph 5. Trust (Benevolence)

- They take into account the impact that the actions have on the bank: 4.28 (Audited FS), 3.62 (Unaudited FS)
- They seek to establish relationships with the bank in which mutual benefit is a priority: 4.39 (Audited FS), 3.94 (Unaudited FS)
- They make efforts/sacrifices to fulfil their obligations with the bank: 4.79 (Audited FS), 4.52 (Unaudited FS)
- They are concerned about the interests and needs of the bank: 4.18 (Audited FS), 3.59 (Unaudited FS)
Thirdly, the trust placed in companies increases. Risk analysts consider that SMEs with audited financial statements are more transparent and reliable in keeping their promises (more honest – Graph 3), have a higher ability or skills to meet their obligations (more competent – Graph 4) and are to a greater extent more concerned about the bank’s needs (more benevolent – Graph 5).

Lastly, access to credit (Graph 6) and the application of favourable conditions (Graph 7) are also more likely to be reported among companies that submit their financial statements to the bank. Decision-makers consider that not only do audited SMEs obtain finance more easily, but they are also likely to have access to a larger volume of credit (most pronounced gap: 1.37 points), which will be applied at a lower cost of debt and lower expenses and commissions, or will be required less guarantees and security. Finally, it should be noted that further analysis reveals that the differences in the assessments between the item pairs (for audited and unaudited companies) remain significant regardless of whether the total sample is divided according to the classification variables “sex”, “level of studies”, “responsibility level of the post” and “years of experience in the banking sector”. That is, the results are consistent.
and generalized for the different segments in which the global sample of 471 risk analysts can be divided.

**Graph 7. Financing conditions**

- They have a high probability of being required limited guarantees and security: 3.94 (AUDITED FS), 4.64 (UNAUDITED FS)
- They have a high probability of being applied low debt costs: 3.75 (AUDITED FS), 4.85 (UNAUDITED FS)
- They have a high probability of being applied reduced expenses and commissions: 3.74 (AUDITED FS), 4.77 (UNAUDITED FS)
- They have a high probability of accessing to high volumes of finance: 3.59 (AUDITED FS), 4.96 (UNAUDITED FS)

**6. CONCLUSIONS**

This study shows that auditing is a relevant instrument for the management of SME relationships with banking entities, providing valuable information for different groups, among which the following two stand out.

Firstly, for the SMEs themselves that go to banks in search of finance, so that they can be aware that the presentation of audited financial statements affects the decision-making process of risk analysts, that perceive an improvement in the quality of accounting information, rely more on the company and attribute a lower risk to credit transactions. In addition, it not only affects the psychological variables that influence decision-making, but also favours access to credit and the applicable financing conditions.

Secondly, for regulatory bodies, as some of the statutory provisions on accounting and auditing do not appear to act in favour of the needs of corporate interest groups, which ultimately has an impact on their competitiveness. SMEs are generically not obliged to present information as complete as that of larger companies. In this line,
one of the measures adopted through the issuance of the new Law 22/2015, of July 20, Account Auditing, is that small companies are no longer required to formulate, in addition to the Cash Flow Statement, the Statement of Changes in Net Equity. That is, from now on, they have the possibility of presenting even less complete information. In addition, the possibility of increasing exemption thresholds of the auditing obligation, are being considered. However, this study clearly calls for greater reflection, since banking entities, which are one of the main users of accounting information, value its quality for credit granting processes positively (that among other aspects, it should be complete and reliable), being auditing a relevant factor for the achievement of such desirable characteristics. Thus, the preparation and verification of financial information should not be understood merely as an administrative burden for SMEs, since bureaucratic requirements could be reduced without decreasing the protection of users’ interests (ICJCE, 2012).

All of the above must be interpreted with due caution, as there are some limitations. It must be taken into account that the geographical scope of the study is limited to the Spanish environment, with particular characteristics that may differ from those of other contexts. In any case, during the period of crisis, Spain became a reference country for the study of the difficulties of SMEs and in particular, for access to credit, so it is considered that it can be a model of behaviour relevant at international level. Likewise, the high sample size reduces the possibility of bias. On the other hand, the cross-sectional nature of the data can also be considered a limitation, which does not allow a study of the actual behaviour of decision-makers over time. In any case, cross-sectional data are considered to provide a meaningful insight into the problem under study, since decision-makers are faced daily with the decision to grant credit, and their responses to the survey show their consistent behaviour throughout the crisis period.

In the first place, it would be interesting to replicate the study in other contexts and in times of economic boom, as well as to obtain longitudinal data, in order to contrast the results obtained in this research. It would also be important to analyze the effect of other explanatory variables of the credit granting decision by risk analysts, such as previous experience with the client, the commercial objectives set by the organization, the general risk policy of the company and the size and type of auditor, among others. Finally, it would be interesting to extend the scope of research to other possible users of financial
statements, such as suppliers, who are currently facing high levels of default and delays in payment as a result of the financial difficulties of their clients.

REFERENCES


NOTES

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