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LECTURE 1 NOTES

- Assurance service: services that improve the quality of information for decision makers.
- Five Elements:
    - Three party relationship
        - Responsible party (party putting out this information – the subject matter), intended users, competent and independent person.
    - Subject matter
        - Information (financial statements)
    - Suitable criteria
        - Accounting standards/ Corporations Act
    - Sufficient appropriate evidence
        - Enough evidence and is good quality/appropriate
    - Report.
- Responsible party (board); financial report (subject matter); shareholders (intended users); external auditor (competent independent person); auditing standards (determine what is sufficient appropriate evidence); suitable criteria (accounting standards).
- Other information in financial reports are only commented upon if inconsistent with the financial report.
- Audit strategy - Balance of types of tests
- Audit program – directions to be undertaken (go to client's warehouse, collect a sample of 30 items of inventory, inspect and crosscheck them with inventory).
- Benefits of audit:
    - Gain access to capital markets
        - Credible financial statements
    - Lower cost of capital
        - Lenders have the risk/return tradeoff
        - Risk is less as the financial statements are a fair and representative view – confidence in this view
    - A deterrent to inefficiency and fraud
        - Save time and money if it is known that work will be checked.
    - Control and operational improvements
        - Suggestions of improvements and best practices.

READINGS: CHAPTER 1 – DEMAND FOR AUDIT AND ASSURANCE SERVICES

Assurance Services

- Assurance services are independent professional services that improve the quality of information for decision makers.
    - Helps improve the reliability and relevance of the information they base their decisions on.
- Attestation service is a type of assurance service in which the public accounting firm issues a written communication that expresses a conclusion about the reliability of a written assertion of another party.
    - Audit of historical financial statements:
        - Auditor issues a written report expressing an opinion about whether the financial statements are in material conformity with accounting standards.
        - Required by the *Corporations Act* but also do voluntarily to secure finance or instill confidence in external parties.
    - Review of historical financial services:
        - Whereas an audit provides a high level of assurance, a review service requires less evidence and provides a moderate amount of assurance on the financial statements.
        - Required by *CA*.
    - Other Attestation services:
        - Mostly an extension of the audit of historical financial statements.
- Other Assurance Services:
    - Similar in that the public accountant must be independent and provide assurance about information used by decision makers, but differs in that may not be required to issue a written report and the assurance doesn't have to be about the reliability of another party's written assertion about compliance with specified criteria.
    - Rather, the assurance is about the reliability and relevance of information.
    - Common feature is the focus on improving the quality of information used by decision makers.
- Non-Assurance Services:
    - Accounting and bookkeeping, tax and management consulting services.
        - Management and consulting: purpose is to generate a recommendation to management, whereas assurance services is to improve the quality of information.

Information Risk

- Reflects the possibility that the information on which the business risk decision was made was inaccurate (inaccurate financial statements).
- Causes of information risk:
    - Remoteness of information: third party information that may be un/intentionally misstated.
    - Biases and motives of the provider: Information provided by someone whose goals are inconsistent with those of the decision maker.
    - Voluminous data: The volume of information increases the likelihood that improperly recorded information will be included in the records.
    - Complex exchange transactions: The more complex, the more difficult to record.
- Reducing information risk:
    - User verifies information: Although potentially economically inefficient, a user may go to the business premises to examine records and obtain information about the reliability of the statements.

- User shares information risk with management: Inaccurate information relied upon opens the door for legal action. Sharing information risk with management may mean that users cannot collect on losses as if a company is unable to repay a loan because of insolvency, management is unlikely to have sufficient funds to repay users.
- Have an independent audit performed.

Nature of Auditing

- Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria.
  - Auditing should be performed by a competent, independent person.
- Information and established criteria:
  - Information must be in a verifiable form and there must be some standards to evaluate the information against.
- Accumulating and evaluating evidence:
  - Evidence is any information used by the auditor to determine whether the information being audited is stated in accordance with the established criteria.
- Competent, independent person:
  - Must be qualified to understand the applicable criteria and must be competent to know the types and amount of evidence required to reach the proper conclusion after the evidence has been examined.
- Report:
  - Audit report is the communication of audit findings to users.

Types of Audits

- Financial Statement Audits:
  - Determines whether the overall financial statements are stated in accordance with specified criteria (accounting standards).
    - Tests are conducted to determine whether any material errors or other misstatements are present.
  - Holistic, top-level understanding of businesses are required due to the increased complexity of accounting transactions.
    - Strategic systems audit – approach based on understanding the client's business strategies and processes and external relations and factors that affect those strategies.
- Performance Audits:
  - A review of any part of an organisation's operating procedures and methods for the purpose of evaluating efficiency and effectiveness.
- Compliance Audit:
  - Determines whether the client is following specific procedures, rules or regulations set by some higher authority.

Auditing Standards

- Should be considered minimum standards of performance rather than maximum standards or ideals.
- If the proscribed procedure cannot be performed, an alternative procedure can be undertaken – documented in the auditing papers.
  - If not feasible, the auditor is required to consider the impact of this limitation of scope on the audit opinion.
  - If immaterial, not necessary to follow the standard.
    - Burden of justifying such departures falls on the practitioner.
- More specific guidelines can be obtained from less authoritative sources such as textbooks, journals or research publications.

- Reasonable Assurance: is the level of confidence that the financial statements are not materially misstated that an auditor, exercising professional skill and care, is expected to attain from an audit.
- The objective of an audit of a financial report is to enable the auditor to express an opinion as to whether the financial report is prepared, in all material respects, in accordance with an applicable financial framework.
- If the auditor is convinced that the client has an excellent structure, one that includes controls for providing reliable data and for safeguarding assets and records, they require significantly less audit evidence than they would for an inadequate structure.
- If an auditor in Australia is auditing historical financial reports also in accordance with International Standards on Auditing (ISA), the auditor must meet and ISA requirements that extend beyond Australian auditing standards.

Quality Control

- A system of quality control is required to provide reasonable assurance that the firm complies with auditing standards, relevant ethical requirements, and applicable legal and regulatory requirements, and that reports issued by the firm are appropriate.
    - Quality controls: the procedures used by the public accounting firm to help it meet these requirements consistently on every engagement.
- Peer review is the review, by public accountants, of a public accounting firm's compliance with its quality control system.
- Peer reviews and quality reviews help firms meet quality control standards.
    - Results in improved practitioner performance and higher quality audits.

READINGS: CHAPTER 4 – AUDIT RESPONSIBILITIES AND OBJECTIVES

Responsibilities

- Management responsibilities: Adopting sound accounting policies, maintaining adequate internal controls and making fair representations in the financial statements.
- Auditor's responsibilities:
    - Material v immaterial misstatements:
        - Material if the combined uncorrected errors and fraud in the financial statements are likely to have changed or influenced the decisions of a reasonable person using the statements.
        - Auditors are responsible for obtaining reasonable assurance that this materiality threshold has been satisfied.
    - Reasonable assurance:
        - Assurance is a measure of the level of certainty that the auditor has obtained at the completion of the audit.
        - Reasonable assurance is less than certainty but more than a low level of assurance – indicates that the auditor is not an insurer or guarantor of the correctness of the financial statements.
            - Samples taken may miss errors or fraud, auditors may make mistakes and errors in judgment even in good faith.
            - Collusion by management to fraudulently prepare financial statements may be difficult to uncover.
    - Errors v fraud:
        - Error is unintentional; fraud is intentional

        - Fraud:
            - Misappropriation of assets (defalcation): employee taking cash at point of sale but not entering the sale in the system
            - Fraudulent financial reporting: intentional overstatement of assets.
    - Professional scepticism:
        - A questioning mind and a critical assessment of audit evidence
    - Detecting material fraud:
        - Pressure or incentive to commit the fraud?
        - Perceived opportunity to be able to commit a fraud?
    - Discovering illegal acts:
        - Direct effects: violation of taxation law will impact tax expense
        - Indirect effects: Only affects statements if there is a fine or sanction – disclosure needs for contingent liabilities.
        - Levels of responsibility:
            - Evidence accumulation when there is no reason to believe indirect effect illegal acts exist
                - Should not search for indirect effect illegal acts unless there is reason to believe they may exist.
                - Reading minutes of the board of directors and inquiring of the client's solicitors about litigation and management's policies
            - Evidence accumulation and other actions when there is reason to believe direct or indirect effect illegal acts may exist.
                - Inquire of management at a level above those likely to be involved, consult with the client's legal counsel, accumulate additional evidence to determine whether there actually is an illegal act.
            - Actions when the auditor knows of an illegal act.
                - If the auditor concludes that the disclosures relative to an illegal act are inadequate, the auditor should modify the audit report accordingly.
                - Consider the involvement of management – can they be trusted with other assertions made?
- Cycle Approach to Segmenting and Audit: a method of dividing an audit by keeping closely related types of transactions and account balances in the same segment.
    - Sales and collection:
        - Journals included in the cycle: Sales; Cash receipts; general
        - Balance Sheet: Cash at bank; trade accounts receivable; other accounts receivable
        - Income Statement: Sales/ returns and allowances; bad debts expense; Allowance for doubtful debts
    - Acquisition and payment:
        - Journals included in the cycle: Acquisitions; cash payments; general journal
        - Balance Sheet: Cash at bank; inventories; prepaid expenses; land; buildings; equipment; furniture and fixtures; accumulated depreciation; trade accounts payable; other accrued payables; accrued income tax; deferred tax
        - Income Statement: Expenses
    - Payroll and personnel:
        - Journals included in the cycle: Payroll; General
        - Balance Sheet: Cash at bank; accrued payroll; accrued payroll tax

        - Income Statement: Salaries and commissions; sales payroll tax; executive and office salaries; administrative payroll tax
    - Inventory and warehousing:
        - Journals included in the cycle: Acquisitions; sales; general journal
        - Balance Sheet: Inventories
        - Income Statement: Cost of goods sold
    - Capital acquisition and repayment:
        - Journals included in the cycle: Acquisitions; cash disbursements; general journal
        - Balance Sheet: Cash at bank; notes payable; long term notes payable; accrued interest.
        - Income Statement: Interest expense; share capital; retained earnings; dividends/payable.

How Audit Objectives are Met

1. Plan and design an audit approach:
    a. Two concerns: sufficient appropriate evidence must be accumulated to meet the auditor's professional responsibility and the cost of accumulating the evidence should be minimised.
    b. Obtaining knowledge of the client's business: A reasonable understanding of the client's business and industry is required by ASA 300.
    c. Understanding Internal control and assessing control risk: If the client has excellent internal controls, the amount of audit evidence to be accumulated can be significantly less than for internal controls that are not adequate.
        i. After gaining an understanding of internal controls, the auditor is in a position to evaluate how effective it should be in preventing and detecting errors and fraud.
2. Perform tests of controls and substantive tests of transactions:
    a. Test of controls: audit procedures to test the effectiveness of controls in support of a reduced assessed control risk.
    b. Substantive tests of transactions: audit procedures testing for monetary misstatements to determine whether the six transaction related audit objectives have been satisfied for each class of transactions.
3. Perform analytical procedures and tests of details of balances:
    a. Analytical procedures: use comparisons and relationships to assess whether account balances or other data appear reasonable.
    b. Tests of details of balance: are specific procedures intended to test for monetary misstatements in the balances in the financial statements.
4. Complete the audit and issue an audit report.

READINGS: CHAPTER 11 – OVERALL AUDIT PLAN AND AUDIT PROGRAM

Auditing Tests

- Tests of controls are audit procedures to test the effectiveness of controls in support of a reduced assessed control risk.
    - Helps auditors to evaluate whether controls over transactions in the cycle are sufficiently effective to support the reduced assessment of control risk and thereby allow reduced substantive testing.
    - Auditors perform a system walkthrough to gain an understanding to help determine whether controls are in place.
    - The amount of additional evidence depends on two things:
        - The extent of evidence obtained in gaining the understanding of internal control
        - The planned reduction in control risk

    - If auditors verify that sales and cash receipts transactions are correctly recorded in the accounting records and posted to the general ledger, they can conclude that the ending balances in accounts receivable and sales are correct.
- Substantive tests are procedures designed to test for dollar misstatements that directly affect the correctness of financial statement balances.
    - Three kinds: substantive tests of transactions, analytical procedures, and tests of details of balances.
- Substantive tests of transactions are audit procedures testing for monetary misstatements to determine whether the six transaction related audit objectives have been satisfied for each class of transactions.
    - When auditors are confident that transactions were correctly recorded in the journals and correctly posted, considering all six transaction related objectives, they can be confident that general ledger totals are correct.
- Analytical procedures involve comparisons or recorded amounts against expectations developed by the auditor to assess whether account balances or other data appear reasonable.
    - Emphasises the overall reasonableness of transactions and the general ledger balances.
    - Two most important purposes of analytical procedures in the audit of account balances are to:
        - Indicate the presence of possible misstatements in the financial statements
        - Provide substantive evidence
- Tests of details balances focus on the ending general ledger balances for both balance sheet and income statement accounts.
    - Emphasises the ending balances in the general ledger
    - Audit procedures testing for monetary misstatements to determine whether the eight balance related audit objectives have been satisfied for each significant account balance.
    - Help to establish the monetary correctness of the accounts they relate to and therefore are substantive tests

Phases of the Audit Process

- There are four aspects of a complete audit:
    - 1. Plan and design an audit approach:
        - Accept client and perform initial planning; understand the client's business and industry; assess client business risk; perform preliminary analytical procedures; set materiality and assess acceptable audit risk and inherent risk; understand internal control and assess control risk; gather information to assess fraud risks; develop overall audit plan and audit program
        - Types of tests:
            - Risk assessment procedures: procedures to understand client business and industry, internal control and planning analytical procedures.
        - Evidence decisions: Audit procedures, timing
        - Types of evidence: Documentation inquires of client; Analytical procedures
    - 2. Perform tests of controls and substantive tests of transactions:
        - Obtain evidence in support of the specific controls that contribute to the auditor's assessed control risk
            - Tests of controls
        - Obtain evidence in support of the monetary correctness of transactions
            - Substantive tests of transactions
        - Transaction related audit objectives:
            - Occurrence; completeness; accuracy; posting and summarization; classification; timing
        - Types of tests:
            - Procedures to obtain an understanding and tests of controls;

        - Substantive tests of transactions
    - Evidence decisions:
        - Audit procedures; sample size; items to select; timing
    - Types of evidence:
        - Documentation, observation, inquiries of client; Re-performance; Recalculation
- 3. Perform analytical procedures and tests of details of balances
    - Objective is to obtain sufficient additional evidence to determine whether the ending balances and footnotes in financial statements are fairly stated.
        - Substantive analytical procedures that assess the overall reasonableness of the transactions and balances
        - Tests of details of balances, which are audit procedures to test for monetary misstatements in the balances of financial statements.
    - Audit objectives:
        - Balance related audit objectives – existence; completeness; accuracy; classification; cutoff; detail tie in; realizable value; rights and obligations
    - Types of tests:
        - Analytical procedures
        - Tests of details of balances
    - Evidence decisions:
        - Audit procedures; timing
        - Audit procedures; sample size; items to select; timing
    - Types of evidence:
        - Physical examination; Confirmation; Documentation; Inquiries of client; Re-performance; Analytical procedures; Recalculation
- 4. Complete the audit and issue the audit report
    - Audit procedures performed relating to contingent liabilities and subsequent events.
    - Accumulate final evidence:
        - Perform financial analytical procedures; evaluate the going-concern assumption; obtain a client representation letter; read information in the annual report to make sure that it is consistent with the financial statements
    - Issue audit report
    - Communicate with audit committee and management:
        - Significant deficiencies in internal control to an appropriate level of management
    - Audit objectives:
        - Presentation and disclosure related audit objectives – occurrence and rights and obligations; completeness; accuracy and valuation; classification and understandability
    - Types of tests:
        - Analytical procedures
        - Tests of details of balances
    - Evidence decisions:
        - Audit procedures; timing
        - Audit procedures; sample size; items to collect; timing
    - Types of evidence:
        - Analytical procedures; documentation inquiries of client.

AUDITING: OTHER READINGS

Overview of the audit of financial statements

- Benefits of audits:
  - Access to capital markets – without an audit a company may be denied. This provides a level of protection for investors.
  - Lower cost of capital – audits help to obtain bank loans or more favorable borrowing terms. Improves an entity's credibility and therefore reduces risk for investors and creditors.
  - Deterrent to inefficiency and fraud – knowledge that an audit is to be performed is likely to result in fewer errors and reduces the likelihood that employees will misappropriate assets. Audits are not designed to detect fraud (ASA 240).
  - Control and Operational Improvements – Auditors can suggest how controls could be improved and how greater operating efficiencies within the entity's organisation may be achieved.

Audits can be key to growth

a) Yearly health check and a tool for identifying growth opportunities.
b) Facilitate financing decisions by banks – reluctant to agree without an auditor's tick of approval.
c) Auditors see different approaches to business; SME's can learn how things are done differently by others which they may be able to learn from.
d) SME's in the high growth stage can learn from auditors how to achieve sustainable expansion and movement into bigger playing fields. Things to consider when preparing for growth.
e) Risk areas can be assessed by auditors and valuable insight and efficiencies can be delivered by the auditor.
f) Can help to have a history of audits to give confidence if the need to sell occurs – potentially more attractive to potential investors and can command a higher price.

TUTORIAL 1 SUBMISSION

Review Question 1.4

- Information risk reflects the possibility that the information on which the business risk decision was made was inaccurate. This is potentially due to inaccurate financial statements.
- Causes of information risk:
    - Remoteness of information: third party information that may be un/intentionally misstated.
    - Biases and motives of the provider: Information provided by someone whose goals are inconsistent with those of the decision maker.
    - Voluminous data: The volume of information increases the likelihood that improperly recorded information will be included in the records.
    - Complex exchange transactions: The more complex, the more difficult to record.
- Reducing information risk:
    - User verifies information: Although potentially economically inefficient, a user may go to the business premises to examine records and obtain information about the reliability of the statements.
    - User shares information risk with management: Inaccurate financial information relied upon opens the door for legal action. An issue with sharing information risk with management is that users may not be able to collect on losses - if a company is unable to repay a loan because of insolvency, management is unlikely to have sufficient funds to repay users.
    - Have an independent audit performed.

Review Question 1.14

- Reasonable assurance is the level of confidence that the financial statements are not materially misstated that an auditor, exercising professional skill and care, is expected to attain from an audit. Reasonable assurance is less than certainty but more than a low level of assurance; it indicates that the auditor is not an insurer or guarantor of the correctness of the financial statements. This is partly because an auditor takes samples of the data to form an opinion. Samples taken may miss errors or fraud, auditors may make mistakes and errors in judgment even in good faith. Additionally, complex estimations based on many contingencies are often involved in the calculation of financial reports. Consequently, auditors have to rely on evidence that is persuasive but not always convincing. Furthermore, collusion by management to fraudulently prepare financial statements may be difficult to uncover as they are more able to control and influence financial statements.
- If the responsibility of an auditor extended to the certification that all assertions in the statements were correct, the amount of evidence needed would cease to be economically viable. Despite this, it is still not certain that all errors or frauds would be uncovered.
- Thus, audits help give reasonable assurance to users that the financial statements are not materially misstated, and that they can have a greater confidence in relying on them had they otherwise not been audited.

Question 2

1. NEXTDC
2. PricewaterhouseCoopers
3. Independent auditor's report to the members of NEXTDC Limited
4. Members of NEXTDC
5. Financial report and remuneration report of NEXTDC.
6. The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the

directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

7. To express an opinion on the financial report based on the audit.
8. PwC complied with the independence requirements of the *Corporations Act*.
9. Opinion was unmodified and complies with section 300A of the *Corporations Act*.

Question 3

1. Three Party Relationship:
    a. Responsible party: NEXTDC Board; intended users: shareholders; competent and independent person (PwC auditors).
2. Subject Matter:
    a. The financial statements of NEXTDC is the subject matter of the auditor's report.
3. Suitable Criteria:
    a. The Australian Accounting Standards / *Corporations Act 2001* would be the criteria by which the financial statements of NEXTDC would be assessed against.
4. Sufficient Appropriate Evidence:
    a. The audit report states that sufficient appropriate evidence was obtained in formulating the auditor's opinion regarding the financial statements of NEXTDC per the Australian Auditing Standards.
5. A Written Assurance Report:
    a. A written assurance report, directed to the users, is contained in the Annual Report of NEXTDC.

Question 4

a. Financial statements are needed to facilitate the decision making capabilities of a multitude of users. Financial statements provide owners with information about the stewardship of management; a basis for investors' decisions about whether to buy or sell securities; for credit rating services' decisions about the credit worthiness of regulators, and others outside of the entity.
b. In the process of providing reasonable assurance that the financial statements are fairly presented, an auditor addresses whether:
    - Transactions and amounts that should have been recorded are reported in the financial statements (consider whether the financial statements are a complete record).
    - The assets and liabilities reported in the financial statements existed at the balance sheet date, and the transactions reported in the financial statements occurred during the period covered by the statements.
    - Reported assets are owned by the entity and all liabilities owed by the entity at the balance sheet date are reported.
    - The financial statement amounts are properly measured and appropriately valued in conformity with accounting standards.
    - The financial statement amounts are properly classified, described and disclosed in conformity with accounting standards.
c. Management is responsible for the financial statements – the auditor simply adds credibility to management's financial statements by auditing the underlying evidence and issuing an audit report. Although the audit does not guarantee financial statement accuracy, it provides users with a reasonable assurance that an entity's financial statements give a true and fair view of its financial position, financial performance and cash flows in conformity with accounting standards. An audit enhances users' confidence that financial statements do not contain any material misstatement due to error or fraud that

would affect this true and fair view because the auditor is an independent, objective professional who is knowledgeable of the entity's business and financial reporting requirements.

Question 5 (Reading 2)

a. Information risk reflects the possibility that the information on which the business risk decision was made was inaccurate. Such inaccuracies could be due to the possibilities of inaccurate financial statements. Indeed, there lies an economic demand for audits to reduce such a risk and to enable better decision making. Although an audit does not guarantee the accuracy of financial statements, it nonetheless provides users with a reasonable assurance that an entity's financial statements give a true and fair view of its financial statements in conformity with accounting standards. An audit allows users to have confidence in the financial statements of entities in that they do not contain any material misstatement due to error or fraud that would affect this true and fair view because the auditor is an independent, objective profession who is knowledgeable of the entity's business and financial reporting requirements.
    i. To take an example: a bank may be less likely to grant a loan to an entity – or instead charge a higher interest rate – if they cannot be sure of the accuracy of that entity's financial statements. However, the information risk is reduced if an audit is completed, for the reasons stated above. Consequently, the bank can be reasonably assured of the financial stature of the entity and provide a loan (where it may not have done so without an audit) and/or reduce the overall interest rate to reflect the decreased information risk.
    ii. From the above example, it is clear that there is an economic demand for audits. The bank's demand for audits lies with being assured that the loan can be repaid, whereas the entity seeking the loan affects its ability to obtain capital at a reasonable cost.

b. State the financial reporting requirements, the audit and/ or review requirements and the auditor/ reviewer conditions:
    i. Public Interest Entity:
        i. Must prepare financial reports (s292 (1)); Must be audited (s301 (1)); Auditor must be a Registered Company Auditor (RCA) (s324BA).
    j. Small Proprietary Limited Company:
        i. Financial report only if directed (s292 (2)); Audit only if required by the director/ASIC direction (s301 (2)); If audited, the auditor must be RCA unless ASIC approves otherwise (s324BD).
    k. Charity with revenue greater than $1m:
        i. Must prepare financial reports s60-10 (unless the entity is a basic religious charity); Must be audited s60-25; Auditor must be RCA s60-30.
    l. Prescribed Association (SA AIA 1985):
        i. Must prepare financial reports s35(2)(a); Financial report must be audited s35(2)(b); Auditor must be RCA, member of CPA Australia or ICAA or otherwise approved by the Commission. s35(2)(b).

Question 6

a) The article claimed audits may act as a yearly health check, a tool for identifying potential growth opportunities, risk areas can be assessed by auditors and valuable insight and efficiencies can be delivered by the auditor. In the lecture, it was mentioned that audits are capable of acting as a deterrent to inefficiency and fraud, which will help maintain the health of the entity by saving time and money when workers know their actions will be checked or scrutinized. Furthermore, the lecture argued control and operational improvements may be obtained by auditors suggesting improvements and best practices that should be undertaken. This resonates with the potential growth opportunities highlighted in the article. More specifically, the article claimed that as auditors see different approaches to business, SME's can learn how things are done differently by others which they may then be able to learn from and adapt. The article went on to argue that SME's in the high growth stage can learn from auditors how to achieve sustainable expansion and movement into bigger playing fields and things to consider when preparing for growth. Such a benefit was not mentioned in the lecture.

b) The article claimed audits facilitate access to capital markets such as financing decisions by banks, as banks may be reluctant to agree without an auditor's tick of approval. Similarly, the lecture suggested that the credibility of financial statements given by auditors would help entities gain access to capital markets. In addition to this access, entities may also enjoy a lower cost of capital according to the lecture, as the information risk will have decreased with an audit, because there is confidence in, and a reasonable assurance that, the financial statements are of a fair and representative view.

c) The article also suggested that it can help to have a history of audits to give confidence if the need to sell occurs as an entity is arguably more attractive to potential investors and can command a higher price if there is a reasonable assurance that the financial statements of the entity are of a fair and representative view.