THE VALUE OF AN AUDIT TO SMALL AND MEDIUM SIZED BUSINESSES

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EXECUTIVE SUMMARY

This paper presents support for an economic policy that promotes good business practices throughout the economy. While expectations for good corporate governance in our capital markets are clearly understood and upheld through strong regulatory oversight, the role of government in the oversight of small and medium sized business is less clear. The objective of reducing 'red tape' and 'regulatory burden' is well founded when used to remove a 'one-size-fits-all' approach to regulation. However, in a growing economy it is important that certain checks and balances remain in place, so that growing businesses establish good management practices as they become economically significant.

Auditing standards require close examination of an entity and its environment, including the entity's control environment and internal control. Auditors are required to assess how management identifies and mitigates risk as part of the audit risk assessment. The annual audit for a small or medium sized business provides opportunity for an owner-manager to receive an external "health check" on the reliability of the financial information it uses for decision-making purposes, including the way transactions are captured, measured, recorded and evaluated, by comparison to recognized reporting frameworks. As smaller businesses rarely employ internal experts, the external audit is often a cost-effective trigger for identifying where expert advice might be needed. Consequently the external audit has an important role as a business grows, and responds to the increasing level of interest from external stakeholders in an entity's financial position.

A regulatory approach which promotes external audit not only reduces the risk of business failure but also equips smaller businesses with an understanding of how to develop management practices that enable them to grasp opportunities while mitigating risk. These skills are essential for continued growth and prosperity in a vibrant SME market.

CONTENTS

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Introduction

The role of audit in the context of our capital markets is well understood. In the mid-1990s Sir Arthur Levitt then chairman of the SEC brought importance of the role of independent audit to the attention of the world's capital markets. In 2010 Jeff Lucy, chairman of the Australian Financial Reporting Council has emphasised the same sentiment:

"A robust financial reporting and auditing framework plays a critical role in well-functioning capital markets. An independent and quality audit provides a necessary external check on the integrity of financial statements. Transparent and credible financial reporting together with an effective audit function underpins confidence in our financial system and is essential for sound economic growth." [1]

There is minimal opposition concerning the value of audit to our capital markets. It is an established fundamental necessity to ensure high quality financial information is delivered to all capital market participants.

The value of audit to non-listed entities is less well understood. In recent times audit has been labeled as a "compliance cost" which is not needed in the private arena. While upholding capital markets as the primary target market for audit, regulators have started to think of audit as an onerous obligation in other market segments.

The audit function has a long history in the western world and has contributed to the efficient development of established economies. The emerging view that audits are only concerned with public accountability raises significant concerns for public policy to promote well managed economic growth.

It is our view that independent audits provide far more than "public accountability" and have a key role in promoting *good business practices* throughout the economy. Further the role of audit is critical to guiding good governance in smaller companies *before* they become economically significant, thereby reducing the risk of business failure. This paper seeks to explain the value of audit to small and medium sized entities.

Corporate Governance

"Governance" is a term that has made its mark in the past decade. The ASX Corporate Governance Principles and Recommendations (2nd edition issued August 2008) quotes Justice Owen (HIH Royal Commission) in its explanation of corporate governance as:

' "the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations". It encompasses the mechanisms by which companies, and those in control, are held to account.'

Good corporate governance in the listed market segment is expected and external audit is considered to be an important part of corporate governance.

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[1] The Treasury, "Audit Quality in Australia – A Strategic Review" March 2010, Foreword by Mr Jeff Lucy AM, Chairman Financial Reporting Council, page iii

Good corporate governance in small and medium sized entities (SMEs) is equally important for sound decision-making. Good decision-making in the SME sector will promote successful businesses and contribute to solid economic growth. However, the attributes of “good corporate governance’ in the SME sector must be set in context. It would not be appropriate to overlay the ASX principles onto smaller, non-complex organisations. Nonetheless, although small business may not be complex, the business *environment* today is complex and is regulated by both operational and financial reporting regulation. SMEs need to have appropriate procedures in place to ensure that their businesses grow *within* the regulatory framework, so that they are not penalised at a later stage for non-compliance.

Australian businesses are geographically placed in the midst of the developing, fast growing economies of the Asia-Pacific region. Local businesses of all sizes, including SMEs, are grasping opportunities for trade within the region. While auditors cannot be expected to have the skills needed to advise on international trade regulations, their broader business experience will enable matters to be brought to the attention of management for follow up action on a timely basis. In contrast to SMEs in established western economies, Australian SMEs have exceptional opportunities to share in the predicted economic prosperity of the region. However, regulatory oversight over business activity in these developing economies is still being established and consequently the exceptional opportunities may also bring unprecedented risks. Australian SMEs should anticipate and prepare for these opportunities from a foundation of strong business practices. While an external audit will not solve every problem, it will provide a robust structure for matters to be identified and resolved before the scale of operations and associated business risk increase significantly.

Simple examples of business risk with financial impacts include the scenario where an SME is importing or exporting for the first time and does not have appropriate procedures in place to recognise and mitigate foreign exchange risk. At a broader level an SME which is not familiar with the way GST applies to its products and service, may be faced with substantial unexpected assessments that have an adverse impact on their incomplete cash flow projections.

Typically in SMEs, owners are involved in the daily management of the business. Consequently, during the course of an audit, there is opportunity for frequent and open communication between the auditors and the owner/managers. This means that the auditors become aware of matters of significance to the owner/managers and that many issues otherwise outside the scope of the audit are often brought in and examined within the scope of the audit. Examples include controls over payroll, superannuation contributions, indirect taxes, comments on efficiency and effectiveness of business practices.

SME’S typically grow to a point where the owners can no longer make all the operational decisions and are forced to put in management and controls .This is a particularly vulnerable stage for any business and may carry on for an extended period during the growth phase. During this period an audit can add considerable value in identifying controls, management and system issues as well providing regulatory oversight. The current threshold at which audits are mandated in Australia are broadly set at the level where transition to a management structure is likely to have commenced in Australian business. Consequently, in our view, the “large company” thresholds as set out in section 45A of the Corporations Act 2001[2] are consistent with a policy to promote good business practices in companies that are economically significant.

Other stakeholders in SMEs

In the era before capital markets became dominant "agency theory" was the term applied to the environment in which auditors carried out their responsibilities. Audit costs were considered to be agency costs. In many ways corporate governance is an extension of concerns raised in agency theory regarding conflicts of interest that arise from a divergence of interest and asymmetric information between an agent and a principal. Corporate governance principles extend the agency problem typically considered between shareholders (owners) and managers, to a wider consideration of management and various groups of stakeholders (of which shareholders are only one group).

The needs of other parties who may be interested in the financial position of an SME are often overlooked. For example, the tax office obtains assurance from an audited set of financial statements provided with a tax return. Banks and finance providers are always influenced by the existence or otherwise of audited financial information when considering funding applications. Hence the existence of a history of audit will impact on the ability of an entity to obtain preferential finance facilities. A history of audit delivers the message that there as been regular external oversight by an independent expert into the affairs of the SME. Access to finance is important to enable an SME to seek continued business growth. An SME frequently does not have internal expertise and therefore regular audit not only ensures that the financial information being used for decision-making purposes is reliable and fairly stated, but also that prerequisite "health-checks" are in place so that the entity can be ready to respond to opportunities as they present.

An external audit of an SME draws to the attention of the SME's directors, the need to understand their roles and responsibilities under the Corporations legislation, and particularly regarding the need to maintain their business as a going concern and to give due consideration to the prevention of insolvent trading. An independent audit indicates to all stakeholders that an independent expert has examined these business practices, thereby giving them some protection in respect of these considerations. Where an audit does not exits there is a lack of external oversight until a collapse happens, and then it is too late.

In our experience companies that are audited tend to take a more professional approach to good governance including consideration of internal controls, use of

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[2] Section 45A contains following criteria to define a l*arge proprietary company*

(3) A proprietary company is a large proprietary company for a financial year if it satisfies at least 2 of the following paragraphs:

(a) the consolidated revenue for the financial year of the company and the entities it controls (if any) is $25 million, or any other amount prescribed by the regulations for the purposes of paragraph (2)(a), or more;

(b) the value of the consolidated gross assets at the end of the financial year of the company and the entities it controls (if any) is $12.5 million, or any other amount prescribed by the regulations for the purposes of paragraph (2)(b), or more;

(c) the company and the entities it controls (if any) have 50, or any other number prescribed by the regulations for the purposes of paragraph (2)(c), or more employees at the end of the financial year.

external advisory boards etc, and generally these audited companies will outperform those companies that do not have an external audit.

SMEs with the protection of limited liability have a corporate responsibility to the communities in which they operate. The monthly statistics produced by the Australian Securities & Investment Commission (ASIC) demonstrate a reasonably consistent number of companies which go into external administration or receivership each month. We consider that early intervention is likely to promote economic health and prevent business failure.

Other stakeholders with interests in the audited financial information of SMEs include employees, unions, creditors, credit-rating agencies and other regulators such as ASIC and the ATO.

Auditing standards and accounting standards

The application of auditing and accounting standards to the operations of SMEs has also been raised as onerous obligations in recent times. In these debates the focus has been on cost rather than an assessment of the benefits. We support the view that 'an audit is an audit' and that auditing standards can be applied to entities of all sizes. However, the audit of an SME will have different areas of focus to those identified in the audit of a large listed entity. The audit of an SME is likely to focus on risks that arise due to their relatively small size and evolving management structures. The audit of an SME is unlikely to be concerned with complex accounting issues. In contrast, the audit of a large listed entity is more likely to focus on areas of risk arising from diversity in operations and complex transactions, which in turn raise more complex accounting issues.

It is our view that the "onerous costs" of an audit are associated with developing the extensive documentation requirements of auditing standards. However, these costs can be minimized if a standardised SME audit approach is implemented. The AUASB's guidance statement GS 009 "Auditing Self Managed Superannuation Funds" clearly demonstrates how auditing standards can be applied to very small entities, and consequently the same principle can be applied to the audit of SMEs. We consider that the professional accounting bodies should be developing a standardized SME audit approach in accordance with auditing standards for small practitioners. The SME audit approach should be explicitly designed to reflect a typical SME environment with the ability to enter entity specific data, which can be updated at minimum cost each year to reflect changes in the entity's operations.

The role of a "trusted advisor" in working alongside an SME has been encouraged by the professional accounting bodies over many years. However, the "trusted advisor" role runs the risk of self-interest as the practitioner finds opportunities to sell a broad range of services rather than focusing on issues of relevance to the SME. The application of auditing standards to the audit of SMEs ensures that a structured approach is adopted to consider all aspects of the business following a comprehensive framework. Perceived deficiencies in the mitigation of risk, the lack of appropriate internal control or the use of inappropriate accounting measures for decision-making purposes are critical aspects of business practice, which will be reported by the auditor to management if encountered during the course of the audit.

Further, consideration of the accounting principles set out in accounting standards also promotes many good internal management and reporting practices, and enables benchmarking of performance with other industry participants.

The tables provided in Appendix 1 and Appendix 2 include some of the most important characteristics of the auditing and accounting standards, from a governance perspective, in the context of small and medium sized entities. The appendices do not include "good governance" attributes implicit in application of *all* the auditing and accounting standards, but rather those that are considered the most relevant. Neither are these tables intended to extend auditor responsibilities beyond those anticipated by the authoritative standard listed. However, they may provide indicators of audit quality in the SME segment. While the governance aspect may not be the primary consideration of the standards noted, the application of the auditing standard, and the consideration and/or application of the accounting standard will promote good business practice.

Other non-audit services

Regulators are currently looking for other services that might be more appropriate for SMEs rather than an audit, which might provide other stakeholders with some confidence (rather than assurance) that the financial information produced by SMEs is reliable. In the March 2010 IAASB Staff Project Update, various general observations about the environment in which assurance and related services other than financial statement audits are undertaken are described:

"The needs of SMEs in relation to financial information and financial reporting reflect the different environmental circumstances of such entities. Relevant factors include: ownership and related governance and accountability arrangements; sources of funding and financing; related information needs of owners, creditors, and other stakeholders with an interest in an entity's operations, including national authorities that have the ability to impose taxes or other types of levies; and the capacity such entities have to effectively address the complexities of financial reporting. Often, SMEs engage professional accountants to assist them in fulfilling their financial reporting obligations." [3]

Assurance and other related services that are being considered by the IAASB are reviews and compilations. However, the March 2010 IAASB Staff Project states

"While the objective of the IAASB's project at this stage is to revise the existing review and compilation standards, the IAASB understands that these services should be considered in terms of how they can be used in combination with other services to meet user needs. At present, reviews and compilations are able to be combined with agreed-upon procedures, when appropriate, to address an entity's unique needs in the area of financial reporting. The IAASB intends that its revised standards should continue to allow flexible use of reviews and compilations in combination with other services."[4].

Within the Australian context, the special needs that arise in a region where there is exceptional economic growth must be considered when assessing the services that will be of most benefit to the SME market segment. The table provided in the next section describes how audit services are currently provided in Australia

[3] Refer IAASB Staff Project Update issued March 2010, page 2
[4] Refer IAASB Staff Project Update issued March 2010, page 3

Regulatory oversight for healthy economic growth

From the perspective of local regulators the questions to be considered are:

- Does the size of the entity (as a proxy for its economic significance) warrant the level of regulatory oversight that is demanded?
- Does the regulatory oversight demanded impose costs that exceed benefits?
- Does the regulatory oversight promote good business practice to promote economic growth in smaller entities?
- What is the appropriate threshold for regulatory intervention?

The table below summarises the status quo in Australia. It is our view that large entities (as defined in s 45A of the *Corporations Act 2001*) [5] should have established financial reporting practices prior to reaching a size threshold that indicates economic significance. This means that medium-sized entities will have a reliable basis for decision-making as they "grow" into large entities, and will have a more comprehensive understanding of their financial obligations.

Size **Threshold based on revenue**	**Typical service offering in Australia** **Nature of the reporting framework applied**
Small entities: Revenue <$10m	Compilations provided by a practitioner with management recommendations. Use of a special purpose reporting framework appropriate to the information needs of the entity.
Medium entities Revenues >$10m and <$25m	Compilation engagements (as above) and voluntary independent audit (at discretion of the entity's owners). • The benefits of a voluntary audit is likely to increase as the level of complexity of regulation applying to the entity's operations increases, or if there is complexity in the goods/services offered by the entity. • As the entity size approaches $25m, an owner-manager is less able to exercise control over all operations and has an increasing need to depend on staff employed to manage the business. At this stage of growth it is critical that good control systems are established, which operate effectively without direct participation by an owner-manager. Use of a special purpose reporting framework appropriate to the information needs of the entity, but with introduction of the general purpose financial reporting framework as entity size approaches $25m.

[5] Refer to footnote 2 above, which details the criteria set out in section 45A to define a *large proprietary company*.

	An increasing size, towards a threshold for economic significance, indicates that there may be a broader range of stakeholders with interests in the financial information of the entity.
Large entities Revenues >$25m	Compilation engagements (as above) provided by a practitioner, if there is limited internal expertise. Mandatory independent audit to provide a structured approach to promote good business practice and appropriate reliable financial reporting, in accordance with a recognized reporting framework.

Compilation engagements

Compilation engagements have previously been seen as private arrangements between an entity and a practitioner. However, as the compiled financial information is often used by a third party, application of a rigorous compilation process adds to the perceived reliability of the financial information produced. Rigor in the process will be achieved when a compilation is conducted in accordance with the (proposed revised) international standard ISRE 4410 in relation to financial statement compilation engagements.[6]

There is also anecdotal evidence that third parties place reliance on the compilation report provided by a practitioner. For smaller entities compilation engagements enable access to professional expertise in a cost effective manner, and replaces the need to employ a highly skilled professional employee. Transaction recording is likely to be maintained by a book-keeper, and financial information for decision-making is prepared by a practitioner.

In our experience, these engagements extend beyond a "pure" exercise in compilation, as practitioners will also explain the significance of the accounting measures used and their impact on decision-making to promote "good economic health". This service is critical to a smaller entity who may not otherwise understand the impact of future transactions on their cash flows and liquidity, whether this is settlement of a tax liability or necessary capital expenditure to support expansion of business activity.

[6] Currently being developed by the IAASB.

Review conducted by a practitioner, rather than an auditor

An independent review, rather than an independent audit, is another assurance service that is being developed by the IAASB for financial statements. Review procedures comprise mainly analytical review and inquiry. Analytical review procedures include examination of expected outcomes based on past history and the relationships between various transactions and account balances. ASA 520 "Analytical Procedures" contains the following definition:

For purposes of the Australian Auditing Standards, the term "analytical procedures" means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

However, prerequisite conditions for a review are reliability in the information produced and the ability for owner/managers to respond appropriately to queries raised by the reviewer. It is often difficult to predict the "plausible relationships" as anticipated above, when entities experience rapid growth and past history does not necessarily provide appropriate indicators for the future. Therefore an SME with an established business that is *not* actively seeking growth opportunities is likely to present the prerequisite conditions for an external review. In contrast, an SME with a growing business, which is still in the process of establishing good internal controls and reliable reporting practices, is less likely to be able to demonstrate that these preconditions exist.

Perhaps of more significance, a small but growing entity that has a review rather than an audit, will not receive the benefit of an annual structured examination of its business risks and reporting practices.

APPENDIX 1: Application of auditing standards which prompt good governance

Auditing Standard	Title	Importance from a governance perspective
ASA 240	The auditor's responsibilities relating to fraud in an audit of a financial report	While fraud may not be a primary concern of management, discussions with the auditor about the risk of fraud increase management's awareness that fraud is not limited to misappropriation of assets, but may also arise through inappropriate accounting practices. These discussions, together with more formal communications, remind those charged with governance of their responsibilities to establish internal controls that mitigate the risk of fraud.
ASA 250	Consideration of laws and regulations in an audit of a financial report	Invariably non-compliance with laws and regulations are likely to have an adverse financial impact. An auditor's wider experience of business practice and consequently the inquiries made to management can increase awareness of the need to address regulatory compliance. For example, a builder may need to place greater emphasis on OHS laws than a provider of professional services. Similarly, some industries attract more complex indirect taxes due to eg. common salary packaging practices. An audit provides a structured approach to identifying business risks (refer ASA 315 below) in conjunction with regulatory compliance generally expected in certain types of businesses.
ASA 260	Communication with those charged with governance	The mandatory requirements of auditing standards prompt formal communication of matters arising during the audit, including the auditor's views on the entity's accounting practices and any significant difficulties. This formal structured approach effectively provides management with an annual appraisal of matters relating to its reporting practices.
ASA 265	Communicating deficiencies in internal control to those charged with governance and management	A financial report provides information on an entity's financial performance and financial position. Internal controls are designed to prevent, detect or correct misstatements in the financial report on a timely basis. Typically the controls that are operative for the annual financial report will be the same controls that are applied to the aggregation of periodic financial reports for management purposes. The formal communication of deficiencies enables management to understand the reliability risks in the information they depend on for decision-making.
ASA 315	Identifying and assessing the risks of material misstatement through understanding the entity and its environment	The auditor is required to obtain an understanding of factors that impact the entity including the industry, operations, ownership interests, operating objectives, strategies and business risks, measurement and review of

Auditing Standard	Title	Importance from a governance perspective
		financial performance. This means that the auditor can evaluate policies, procedures and controls in an appropriate context when conducting risk assessments, and can provide meaningful feedback to management where necessary under ASA 260.
ASA 450	Evaluation of misstatements identified during the audit	The reasons underlying misstatements identified during the course of an audit are fundamental to addressing the risk of material misstatement and in improving reporting practices. A misstatement may be attributed to numerous different causes which require a different response. For example, a misstatement may represent a one-off inadvertent error, or a deliberate fraudulent act. A misstatement may highlight a more pervasive reporting risk in the way information is gathered and processed, or may relate to a misunderstanding of reporting requirements. A misstatement may mislead users through an inappropriate description or classification of items in the financial report. The evaluation of errors and their communication to management is important, not only to ensure the financial report is fairly presented, but also for improving reporting practices.
ASA 501	Audit evidence – specific considerations for inventory and segment information	For entities that produce goods and carry inventory, verification of physical stock quantities is important to the determination of gross margins and reportable profit. Segment information not usually required for SMEs.
ASA 502	Audit evidence – specific considerations for litigation and claims	The appropriate management of litigation and claims by an SME is fundamental to ensuring that the risk is provided for in the financial result or appropriately mitigated. The external view provided by an auditor is important to ensuring that management has given such issues due consideration.
ASA 505	External confirmations	As an elected audit procedure, the use of external confirmations is a useful tool for determining whether the account balances as
ASA 540	Auditing accounting estimates, including fair value accounting estimates, and related disclosures	The auditor's examination of accounting estimates considers both the process for obtaining reliable input data and the outcome as reported in the financial statements. The auditor's ability to benchmark practice between entities, and to evaluate the level of expertise applied is fundamental not only to the fair presentation of the outcome, but to improving understanding of the internal controls needed.
ASA 550	Related parties	Frequently smaller businesses do not have a clear understanding of regulation surrounding related party transactions. As the business

Auditing Standard	Title	Importance from a governance perspective
		grows and the interests of external stakeholders increase, it is important that the entity has appropriate controls over the authorisation, recording and disclosure of RPTs. The auditor's consideration of RPTs is important for establishing appropriate procedures and an understanding of reporting requirements at an early stage.
ASA 570	Going concern	The entity's ability to continue as a going concern is fundamental to application of the appropriate accounting framework. Further, ASIC has provided guidance for indications of that a company is at risk of insolvency in ASIC Info Sheet 42, which includes the adoption of many basis business practices examined during the course of the audit. The auditor's requirement to consider going concern at the date of signing the auditor's report prompts audit inquiry to ensure that operations are continuing as expected and that cash flow forecasts demonstrate that the entity can pay its debts as and when they fall due.
ASA 800	Special considerations – audits of financial reports prepared in accordance with special purpose frameworks	The nature of the accounting framework applied can have a significant impact on the way financial performance and financial position is reported. The auditor examines the acceptability of the accounting framework in the context of the purpose for which the financial report is prepared and its intended users. This objective evaluation, together with appropriate disclosure of the accounting policies adopted, are essential to mitigating the risk that users might be misled.
ASA 805	Special considerations – audits of single financial statements and specified elements, accounts or items of a financial statement	A single element of a financial report when presented in isolation has the potential to be misleading to users. The application of ASA 805 prompts broader objective consideration by the auditor of the way in which the financial information will be prepared and whether it will be adequate for users.

APPENDIX 2: Application of accounting standards which prompt good governance

Accounting standards	Title	Importance from a governance perspective
AASB 3	Business combinations	The value transferred and the net assets acquired may be a simple transaction or remarkably complex depending on the nature of the business acquired. With inappropriate accounting, what seems to be a bargain purchase may in fact be costly acquisition. The application of a rigorous methodology to all business combinations enables a more comprehensive evaluation of assets acquired, liabilities assumed and consideration transferred.
AASB 102	Inventories	For entities that produce or hold goods and carry inventory, attributing costs to inventories recognized as an asset at the period end is important to the determination of gross margins and reportable profit. The determination of cost (including both purchase and conversion costs) and net realizable value, on a consistent basis in accordance with the accounting standard, is important to deriving a meaningful measure of profit.
AASB 112	Income taxes	Many transactions attract a consequence for taxation purposes either in the current or future periods. Understanding the differences between accounting profits and taxable profits is important to determining future cash flows, to ensure debts to the ATO can be paid as and when they fall due.
AASB 116	Property, plant and equipment	Plant and equipment used to generate income is generally consumed over their useful lives. The allocation of their cost against business activity enables a business owner to understand, to some extent, the need to allocate funds for capital expenditure. The use of different accounting bases for property, plant and equipment may also be useful to demonstrate how financial position might have improved through eg. holding profit that has increased in value.
AASB 117	Leases	When an entity enters into a leasing contract there will be access to a benefit (typically use of an asset) and the commitment for future contracted payments. Application of the leasing standard enables a user to understand the long-term financial consequences of entering into different types of leasing arrangements.
AASB 118	Revenue	Except for simple exchanges of goods and services for cash, accounting for revenues can be complex, yet essential to a true determination of profitability of contracts executed to deliver goods and services. The inappropriate early

Accounting standards	Title	Importance from a governance perspective
		recognition of revenue can be detrimental to future performance.
AASB 119	Employee benefits	Employee benefits in the form of annual, long-service and sick leave, and related on-costs, are generally legal obligations under employment laws. Due regard to future obligations that relate to payroll expenses incurred in the current period are important to an assessment of profitability. Accounting for employee benefits is an area of weakness in many smaller entities that are not audited, and payment of benefits that have not been anticipated can have an adverse impact on cash flows.
AASB 124	Related party disclosures	As noted above, whether or not related party disclosures are made, smaller businesses often do not have a clear understanding of regulation surrounding related party transactions. The auditor's consideration of RPTs is important for establishing appropriate procedures and an understanding of reporting requirements at an early stage
AASB 136	Impairment of assets	The economic modeling that is implicit in value-in-use calculations provides important financial information regarding the *performance* of assets utilized by the business. This standard forces the entity to determine whether the value of assets used is supported by the present value of the cash flow stream that they will generate through their use in the business.
AASB 137	Provisions, contingent liabilities and contingent assets	An appropriate anticipation of future costs that arise as a consequence of past transactions is important not only in determining profit, but also to manage future cash flow needs.
AASB 139	Financial instruments: recognition and measurement	Although the financial instrument standard is considered complex, it is essential to ensuring that all financial instruments held by an entity are appropriately reflected in the financial statements. For example, if an entity does not record forward foreign exchange contracts at inception, the financial statements will not reflect their future financial commitment to settle that contract, nor the unrealized gain or loss that they are currently committed to realizing in the future.