Business owners and organizations typically regard the annual audit as a cost, or “a necessary evil,” that adds little or no value to the business. In contrast, auditors routinely “say” that their audit is different and does add value to the business or organization. To be sure, all audits have a purpose as they are generally required to maintain financing or to meet regulatory requirements. But is the auditor truly adding value?

There are numerous dictionary definitions of “value,” all centering around the concept of something being useful. “Adding value” then should mean to make something more useful. Do you set out on every audit with the plan to add value by making it “more useful” for your client?

Unfortunately, most clients will say that the audit is not adding value to their decision-making processes. In a 2008 survey conducted by KPMG of 200 small to medium-sized companies, 56% saw the audit as a routine chore that varied little from year to year. Just over 60% of the companies said their auditor did not raise any issues or ideas that were used in their business to enhance their processes or decisions. By taking the opportunity to truly understand your client’s business and going above and beyond the mandatory requirements and typical “accountant’s speak,” you will bring value to the audit. As you gain new insight into the client’s business and operations, you will continue to increasingly add value to the audit.

The remainder of this article discusses ideas on how to gain business insight during the audit process and steps to follow to facilitate a meaningful discussion with your client.
Gathering business insight is just one click away. Advances in the speed and functionality of search engines on the internet are an invaluable tool for the auditor. The auditor can quickly gather information about the client, their industry, and the general business climate in the area where they operate.

This information can be used for two key purposes; namely, 1) to facilitate the identification of risk areas in planning the audit, and 2) to gain business insight about the client and their industry. Both are important to the audit process. The greater the insight about the client’s business, the better the audit approach. This will lead to a greater likelihood that the auditor and the client will have a meaningful business discussion.

It is surprising to me to find out how infrequently the auditor uses the internet to gather information about their client and their industry. This should be a routine step on every audit for audit planning and to gain insight about their business.

The amount of information that a business or organization puts on their website is growing exponentially. This volume of information, however, does have its drawbacks if the auditor spends an inordinate amount of time in “hunt and peck” or random search mode. That is why I recommend that the auditor create a targeted and efficient on-line research plan.

Consider the following items in your on-line research plan:

- Client website
- Industry association website
- Press releases
- News articles about the client
- Performance measures
- Economic update in the client market area

To better focus your research, start out with the advanced search feature of the search engine. For example, since I always look for performance measures on my clients, I go to the advanced search page and type in the “industry and key performance indicators.”

If your on-line research plan is specifically laid out, it is also possible to delegate the information gathering phase to an administrative person. S/he can go on-line to look for recent news articles, updated performance measures, and economic updates.

The audit team needs to know that the partner expects them to understand the client’s business and to add value to the audit by identifying areas where the client can improve. Audit staff will not gain a tremendous amount of understanding of the client’s business by completing audit checklist after audit checklist, so the partner may need to jumpstart the process.

In my experience, all too often the only client personnel that the audit team talks to during fieldwork are those in the accounting department. So years ago I started a process where I assigned each member of the audit team to “interview” someone outside of accounting and to prepare a brief written summary of that interview.

The interview consisted of the following 5 questions:

1. What is your role in the organization?
2. In your view, what is the greatest strength of your area or department?
3. In your view, what is your area or departments greatest opportunity for improvement?
4. In your view, what is your company’s greatest strength?
5. In your view, what is your company’s best opportunity to improve upon?

These questions served as an effective way to get a dialogue started between the audit team and client personnel outside of accounting. They allowed the team member to ask open-ended questions that gave them insight about other areas in the company which, in turn, helped them better understand the client’s business. A better understanding of the client’s business, in turn, caused them to be better auditors as well as business advisors.

The next step in my approach toward getting the audit team involved was to have an open-ended discussion about what they learned about the client’s business. At the end of every audit, I would convene a meeting of the audit team. We would start by discussing the results of their interviews of client personnel and what these viewpoints meant to the business. Finally, starting with the newest member of the team, each member completed the following sentence:

IF I WERE RUNNING THIS BUSINESS, I WOULD......

This process has several benefits. The audit team has a much better understanding of the client’s business. The team must put on a “business hat” and think like a busi-
ness person. This also helps them to become better auditors. Most important, the process serves as the platform for adding value to the audit by identifying meaningful ideas to be discussed with the client.

**COMMUNICATE TO ADD VALUE**

Adding value to the audit does not happen by accident. It happens when the audit team plans and creates an approach to make the audit different by purposefully adding value. The use of the internet and involving the team in identifying potential opportunities, as discussed above, serve to gather information. This information is then used to discuss ideas for improvement with the client’s team.

This communication must be a two-way exchange of ideas between the auditor and the client. And the ideas are just that——— ideas, not answers or mandates. In this type of scenario, a PowerPoint type of presentation is more effective than a detailed letter because the presentation is more flexible and the creative process can expand during an idea exchange where the client provides additional insight. A letter is seen as a formal document that may inhibit open-ended dialogue and discussion.

For every audit, I recommend a standard PowerPoint type of presentation be used to discuss the audit, including both required communications as well as ideas for business improvement. This is the best means to facilitate open-ended, two-way communication.

The following outline is recommended for each presentation:

- Results of the audit
- High level overview of the financial statements
- Industry and/or competitor trends
- Economic climate
- Key Performance Indicators (KPI’s) compared to the industry (both financial and strategic)
- Operating improvement ideas
- SAS 115 communication
- Governance communication

The format for the presentation should be in bullet-point format without excessive wording to stimulate discussion rather than to force a lot of reading.

**IN CONCLUSION**

The best client relationship is one that is long term. Long-term relationships need to be constantly nurtured and cared for. Providing total client service to your clients will promote long-term client retention. In addition, total client service will move you out of the stereotype of being seen as just another provider of commodity services.

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“WHAT BRINGS VALUE TO THE AUDIT? VALUE-BASE AUDITS?”

DESCRIPTION: This session discusses ways to bring better value to the audit and the concept that is often times referred to as “value based audits.”

COURSE TYPE: Self-study

CPE HOURS: 2

DESIGNED FOR: Audit partners, managers and staff who want to provide high quality client service while streamlining and making their audit process more cost effective.

OBJECTIVE: This session will help you and your audit team, design, build, inspect and deliver an efficient audit that has more meaning for your client.

PREREQUISITES: Experience as a member of an audit team.

ADVANCED PREP: None.