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Value added audit

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Globally professionals are providing different types of audit and assurance services to fulfill different client needs. Among those, the most frequently performed and well-known audits are financial audits, performance audits, compliance audits, risk-based audits, internal audits, external audits, operational audits. Little known but one of the very useful audits is Value-Added Audit.

In the past half a century, audit firms in Bangladesh are blaming a lower amount of audit fees as the major reason for deteriorated audit quality. The lack of ethics and credibility of the audit profession is increasing day by day. The trend of low audit fees has occurred largely because many business people view the audit as a commodity-like service. While the authors strongly disagree with the notion that audits are commodities, it is easy to understand why many companies have difficulty distinguishing between the audits performed by different CA firms. First, all CA firms are required to use the same language when issuing their audit reports; therefore, each firm's major deliverable looks virtually identical. In addition, many auditors conduct their audits in similar ways. CA firms may tend to follow standardised audit programmes and may fail to display creativity in the design of audit approaches. Finally, the most critical factor is that client performance and superior client service simply are not high priorities on many audit engagements. Engagement teams focus the bulk of their efforts on the performance of audit procedures and the appearance of the financial statements. As a result, traditional audits often are not helping organizations manage their businesses more successfully.

Many clients, however, are interested in value-added advice and are disappointed by the auditor's lack of emphasis on helping them manage their business. Consider this comment from James Emerson, publisher of Professional Services Review: "If the traditional audit has had one major shortcoming over the last several decades, it is in the area of not being able to provide constructive advice to improve operations and performance. Most clients do not understand how independent auditors can spend more time than any other outsider looking at their business and end up with just a signature on the bottom of the page. After all those hours of observations and analysis, aren't there a few pearls of wisdom that could add value? The reality is that regardless of what firms hope and sometimes promise to deliver, the traditional audit approach is very narrowly focused on the numbers..." It is time for CA firms to become aware of this reality and take steps to offer Value-added services to their clients. Consulting departments or niche groups have to be formed or expanded and auditors have to search for new ways to add value for their clients. However, many of the services offered by those are provided by either non-auditors (that is, consultants) or by very experienced auditors (such as partners or managers). As a result, a large number of audit professionals have played only a minor role in the profession's shift toward providing more consulting and other value-added services.

Many practitioners have maintained the opinion that an audit is essentially a commodity. Its real value, they argue, is that it creates relationships that are useful for selling, consulting and other services. The authors disagree with that viewpoint and believe that audits, when done properly, can be an extremely profitable and rewarding segment of a public accounting firm's business.

To be competitive in providing audit services, CA firms have typically focused on cost (that is, efficiency) rather than value. Numerous CA firms have produced substantial gains in profitability by reengineering their audit practices to cut costs. When reengineering is done properly, client service and quality are enhanced. But the primary goal of such initiatives is generally to improve efficiency. As a result, such programmes produce tremendous bottom-line benefits for many CA firms but do not result in a dramatic increase in value for clients. Some CA firms have changed to a risk-based audit approach to improve audit efficiency and effectiveness. The risk-based approach focuses on better understanding the client's business and its risks and tailoring audit procedures accordingly. The goal is to conduct the audit in such a way that efforts are concentrated in higher-risk areas and procedures are limited in lower-risk areas. While the risk-based approach Offers more potential to add value for the client than a traditional audit approach, the overall approach is often still financial statement-oriented rather than client service-oriented. Unless the risk-based approach is applied with a greater emphasis on client service, significant value-added opportunities may be missed.

Progressive audit firms in Europe and America have further challenged their audit approach to add more value for the client. Those firms have considered how to make the audit more valuable, rather than just cheaper. The goal is to conduct the audit in a fundamentally different way so the process adds value for the client while still complying with professional standards.

This article provides glimpses on how auditors can add value to their clients while still performing an effective and efficient audit by International Standards on Auditing (ISA). The phrase value-added has become popular in many industries and professions. Many people use this buzzword, however, without really understanding its meaning. A simple definition is that an audit professional adds value by doing something that helps the client.

It is extremely important to realise that the words value-added and adding value is relative (that is, they mean different things to different people). What adds value for one client may be of little importance to another client. In other words, it is essential to remember that the client is ultimately the sole judge in concluding whether a CA firm is successful in adding value. For example, an auditor might write an insightful management letter that addresses long-term strategies and critical succession issues. But the management may be disappointed because it wanted detailed recommendations to strengthen controls in the accounting department. That does not necessarily mean CA firms should ignore important value-added opportunities in which the client displays little or no interest. If the engagement team members believe an item to be important, they may need to educate or persuade the client that the topic warrants attention.

That does mean, however, that auditors should understand the client's needs and expectations if they want to add real value. The best way to understand the client's needs is to understand the client. Therefore, the basic premise underlying value-added auditing is that, by gaining an understanding of the client and its industry beyond that required by professional standards, the auditor puts himself in a position to add significantly more value. The value-added audit is characterised by performing new or different procedures, with a proper mindset, to generate opportunities to add value for the client. However, it is not necessary to perform extensive new procedures to identify value-added opportunities.

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