

The Value-Add Audit

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While auditing is generally accepted as an integral process in the good governance of an association, the true value an association can gain from its audit is often less understood.

The auditor's role is, essentially, to independently verify the accuracy of the association's financial statements. However, the present competitive environment dictates that boards and governing committees have an obligation to their members to ensure that the audit is more than an external validation of the financial statements. The question for governing bodies is "Does your audit add value to your association?"

We have identified the following key areas in which your audit should add value:

Best practice financial and annual reporting

While the financial reports are management's responsibility, an auditor can add value to the financial statements and annual report by giving insight from a broad experience based on what information is valued by the members of organisations. This improves communication, increasing member engagement and satisfaction. For example, best practice annual reporting now covers matters such as transparency in governance, efficiency of the organisation, outcomes and impacts rather than activities, and links activities to strategy. Auditors are at the front line in providing input to the organisation on how you perform and where you stand.

True independence

Auditors are most effective when they are truly independent. True independence is when the auditor is both free from conflict and objectively engaged as to how their role supports the overall strategy of the organisation. An auditor with a long tenure will be familiar enough with the organisation to be able to perform the audit, but they may not add the same value to your organisation because of this familiarity. If the auditor becomes too ingrained in the process, you could miss out on valuable insights into how the organisation can become more aligned to its strategic direction through its financial reporting processes. The longer the tenure of the auditor, the greater the risk that there is strategic disengagement and loss of true independence.

Is there value for money?

It is a curious situation that in most organisations there is a drive for efficiency, yet there is a tendency for audit costs to rise annually. An important consideration for management is whether the efficiency of the audit performed is improving or declining over time.

While the input costs of audits (labour) continually increase there are measures of efficiency that need to be monitored:

- > Is the audit identifying areas of the organisational process to enhance the efficiency of future audits?
- > Does the audit firm have a continuous improvement program providing incrementally increasing efficiency within the actual audit process?

If management cannot confirm that these two efficiency drivers are working then it is likely that the audit is not providing value for money, irrespective of the cost.

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When tendering for audit and assurance services most associations, include the following evaluation criteria:

- > Will the audit be completed in a timely and professional manner?
- > Is the auditor independent?
- > Value for money? and
- > What relevant experience does the auditor have?

If you add the following questions to your tender evaluation criteria you will know whether you are getting a value adding auditor:

- 1 What role does the audit have in relation to our strategy?
- 2 What continuous improvement processes does the auditor operate in relation to audit services?

An audit is an essential part of good governance for any association. Ensure that you get maximum efficiency and value from your audit.

Guild Accountants has developed the following materials to assist you in selecting a value-adding auditor:

- > Changing Auditor – time line and decision chart
- > Pro Forma Audit Tender Specification

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For more information on how an audit can add value to your association
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