

Value Added Auditing

Update from Working Group



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Background

- ↷ Numerous discussions during 14001 colloquia and other fora on how the value of audits can be improved.
- ↷ Stakeholders have expressed a desire to improve the usefulness of audits and dissatisfaction with the current state of auditing.
- ↷ At Colloquium VI, the concept of value added auditing was explored and a small working group was formed in late 2014.
- ↷ Membership of the WG includes;
 - registrants,
 - certification bodies,
 - the Standards Council of Canada (SCC) (the Canadian Accreditation Body),
 - the Auditing Association of Canada (AAC),
 - EcoCanada (the auditor certification body), and
 - other stakeholder groups (e.g. consumers).

Stakeholder Expectations

- ↷ It is recognised that audit stakeholders need to both receive and perceive value from any audit engagement.
- ↷ The perception of value varies between stakeholders, changes with changing external circumstances and evolves as organizations mature.
- ↷ To remain relevant and to maximise value to clients and other stakeholders, audit must meet changing needs while remaining true to core auditing principles.



How Do You Define It?

Task 1

Auditing vs. Consulting



Stakeholder feedback is that they need to derive more 'value' from the audit engagement.

- ↔ Simple conclusions related to the state of conformity are of limited & diminishing value.
- ↔ Feedback suggests that many would find value in the auditor making corrective or improvement recommendations.

Many auditors would be able to provide suggestions, recommendations or benchmarks. However they are reluctant to do so for fear of crossing the line into consulting thereby violating the principles of audit objectivity and independence.

Value Added Auditing

International Standards' definitions do not provide sufficient guidance.

The WG has developed the following working definition:

Value-added Auditing – auditing and administration of the audit function which reinforces strong adherence to standards, yet enables Canadian business, certification bodies and the public and consumers to full value from International Standards and for business to get a legitimate leg-up in the domestic and international marketplaces.

Defining the boundary between auditing and consulting for all circumstances was elusive, so the WG decided to delineate the boundary through the use of examples which can help determine what may be acceptable value-added and what might offend the non-consulting rule.

Example

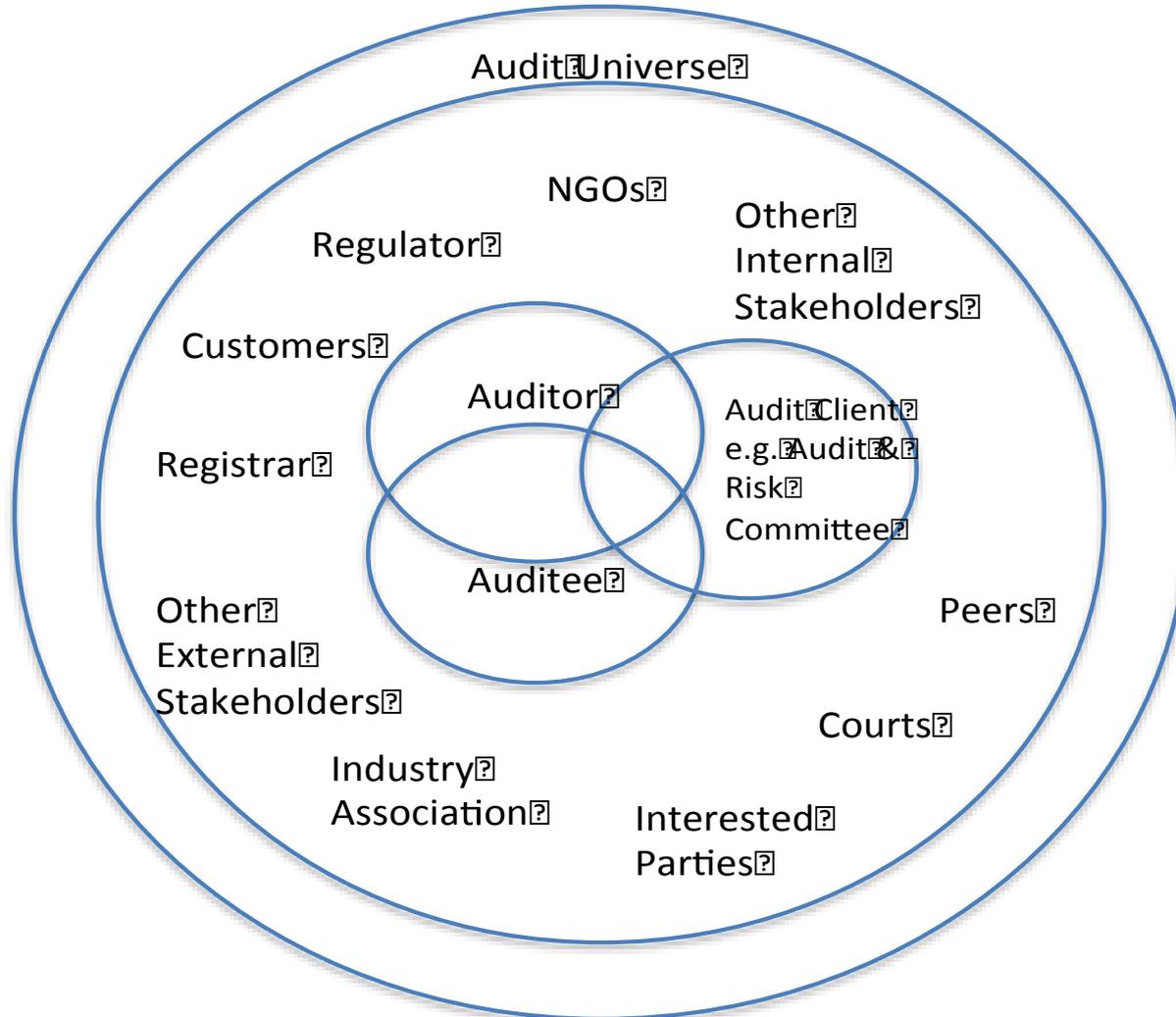
SITUATION	Language that might offend the Consulting Rule	Language that might add value without offending the Consulting Rule
<p>A lab which tests/stores materials that are sensitive to temperature and humidity is required to monitor the climate in the facility. A concern was raised because the facility is only equipped with a mercury thermometer and a paper log to monitor the climate. There was no evidence to show that the temperature was maintained at night or over the weekend.</p>	<p><i>“The lab should purchase an XYZ-1000 Computer-Automated Thermometer and Temperature Recording Unit.”</i></p>	<p><i>“The lab currently records temperature using a standard mercury thermometer and a paper log. This method has an increased potential for human error.”</i></p> <p><i>“The lab currently records temperature using a standard mercury thermometer and a paper log. The lab may want to consider a more automated method for recording temperature, with less risk of human error.”</i></p>

TASK 2 - Determination of Client Readiness for Enhanced, Value-added Auditing

There are three related aspects identified:

1. Identifying & Understanding Stakeholder & Interested Party Relationships.
2. Optimizing Productive Relationships.
3. Recognizing and Meeting Needs.

1. Understanding Stakeholder & Interested Party Relationships:



2. Optimizing the Productive Relationships

The relationship between auditor & auditee itself does not inherently create value.

Positive & productive relationships between the auditor & the auditee are essential to evolving to value added auditing.

Audit Characteristics that contribute to value-added engagements include;

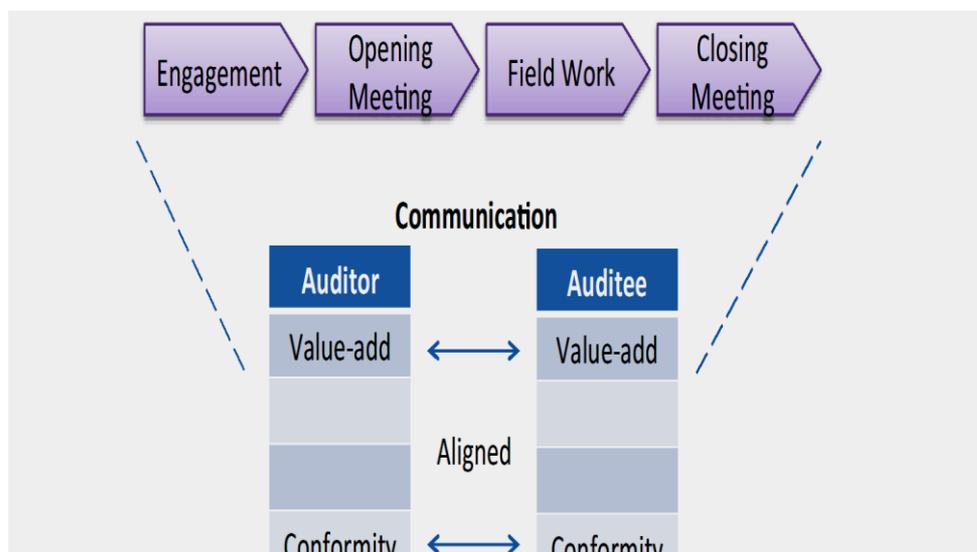
- ↷ communication,
- ↷ appropriate competencies,
- ↷ mutual respect.

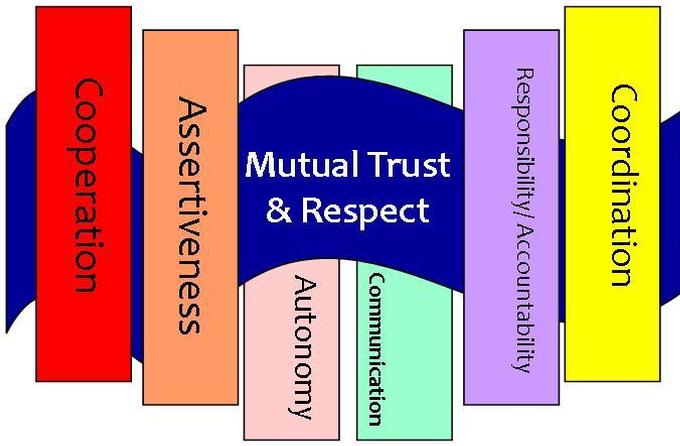
Communication

Effective communication throughout the engagement is essential. It must be open, transparent, honest and aligned.

It must be aligned to the nature of the engagement and auditee/client e.g. not all auditors will be equally effective in their ability to communicate with front line workers vs. senior management.

The dialogue needs to establish and build on how the audit can meet the expectations of all stakeholders.





Mutual Respect and Trust

Productive relationships must be built and maintained on a foundation of mutual trust and respect.

TASK 3 – Aligning the Audit Approach with the Client’s Needs and System Condition.

To determine where and when a value-added approach might have application, we will need to assess the current management system condition, and the nature of its and the organization’s strengths and weaknesses.

To define a continuum of system condition one must establish appropriate elements to measure the system status.

Four possible elements related to system condition:

- ↗ **Age** of the management system – (not useful in determining condition)
- ↗ **Maturity** of the management system – (maturity determines whether system is ready for value added auditing).
- ↗ **Effectiveness** of the management system
- ↗ Existing and recent **trends** of system evolution

System Maturity Criteria & Measurement

Measuring the State of each maturity criterion:

In consultation with the organization assess each criteria (scale of 1 – 10).

Using the scale to determine if a value-added approach is warranted

Not all criteria would necessarily need to score high for an organization to be a candidate for the value-added approach. However, an organization would need at least an 8 or a 9 for each of:

↔ “state of development”,

↔ “attitude towards continual improvement” and

↔ “depth of use”.

↔ extent of engagement of senior management in MS

Using the scale to determine the nature of value-added output most appropriate for the organization

Systems which are sufficiently mature to benefit from value added auditing should be **assessed for system effectiveness & trends** to determine the nature of value added auditing which would be of most benefit.

Effectiveness (5 aspects) (1-10)

- ↔ performance,
- ↔ sharing or ownership of the system,
- ↔ does it unite management and staff in a common cause,
- ↔ has the system scope been expanded to manage issues beyond what it was created to manage,
- ↔ would the system survive without 3rd party auditing.

Trends in system evolution – (progressing, stagnating, regressing) (1-10)

Designing the correct value-added program would take into account the relative attainment and needs for each of the other elements of the criteria.

Considerations of where an organization might best benefit from a value-added approach include;

- ↔ where the augmentation will reap the greatest benefits the most quickly.
- ↔ which elements are most important to the organization and it's competitiveness.
- ↔ elements that score low in effectiveness.

Fundamental to the ability to conduct the assessment is a trusting relationship.

Involvement

1. Review and feedback on the discussion paper.
2. Engagement on the Working Group.
3. Provision of examples of audit vs. consulting
4. Suggestions re definition of maturity models?

