

How does the involvement of Client Service Partners in an audit engagement contribute to audit value co-creation?

Introduction

Our objective in this research project is to investigate how the quality of the auditor-client relationship is affected by the involvement of an audit firm's Client Service Partner (CSP)¹[1].

We propose to achieve this research objective by examining the following three specific research questions:

1. How do audit clients perceive their level of audit service satisfaction when CSPs are involved?
2. How do auditors (engagement partners and CSPs) and audit clients perceive the CSP's role in auditor-client value co-creation (i.e., the value of the audit service, as perceived by the client and by the auditor)?
3. How do auditors (engagement partners and CSPs) and audit clients perceive how CSPs' involvement in the audit process affects audit quality?

To address these research questions, we will conduct face-to-face interviews with auditors (including auditors and CSPs) and audit clients (CFOs and other members of management involved in the financial statement audit). We will conduct these interviews in Halifax, Montreal, and Toronto.

The proposed research is important because public accounting firms across Canada are investing their resources (e.g., employee salaries and time) in auditor-client relationships with the use of CSPs. In addition, this proposal is the first research project that will use a marketing perspective to determine how the use of a Client Service Provider could help increase the value of the audit service as well as increase the level of customer satisfaction.

¹[1] Customer Service Partners (CSPs) are also referred to as Lead Client Service Partners in some audit firms.

Related Literature

Customer Service Provider (CSP)

In this research project, we explore how the level of client-satisfaction, audit-value, and audit-quality of the audit service could be affected by the use of a Customer Service Provider (CSP). A CSP, also referred to as a Lead Client Service Partner, is a recently developed position in professional auditing firms, usually held by a high-level employee of the firm. The audit firm mandates the CSP to manage all the aspects of the auditor-client relationship, including dealings and communications with the client, acquiring the client, agreeing on the fees, and dealing with all service issues for client locations, locally and globally.

The CSP has a different role than the auditor (also known as the Engagement Partner), who is only responsible for the audit service provided to the client. Audit firms differentiate the CSP from an auditor, with the latter being strictly responsible for delivering the audit service which results in an opinion on the client's financial statements. The separation of responsibilities between the CSP and the auditor is thought to be important by the firms because it allows the CSP to engage more directly in managing the overall client relationship. This client relationship is difficult for the auditor since the auditor needs to maintain a level of independence with the client and exercise professional skepticism (to not be overly trusting).

The unique auditor-client relationship

The auditor-client relationship is different from other seller-buyer relationships primarily because the auditor (seller) sells a service to an audit client (buyer), and it is not the client that is the intended beneficiary of the audit service, but rather a third party (investors/creditors), even though the client hires and pays the auditor. Therefore, to protect the interests of the third-party user, the auditor needs to refrain from being overly trusting of the client (the auditor needs to exercise professional skepticism) and the auditor needs to remain at arm's length from the client (independent) (Fontaine and Pilote 2012; 2011).

This professional skepticism and independence between the auditor and the client are unique characteristics of the auditor-client relationship (Herda et al 2014; Herda and Lavelle 2012). But notwithstanding these characteristics, audit clients have information that the auditor needs (information asymmetry); consequently, the auditor and client must interact regularly and be collaborative. But collaborative relationships documented in the marketing literature depend on trust and interdependency between the sellers and buyers (Chen et al 2017; Williams, 2012). Therefore, this begs the question of how can an auditor and client develop a successful

collaborative relationship in an environment of independence and skepticism. This is where the use of CSPs by audit firms could help re-establish trust and interdependency. The CSP, being distant from the actual audit service, and having the responsibility for the overall relationship, could allow the auditor to focus on the more technical aspects of the audit service. Moreover, Grönroos and Voima (2012) argue that the co-creation of value is achieved when two or more parties interact; it is throughout the interactions with the client that the service provider influences the value perceived by clients.

The need for the audit client perspective

In the auditing literature, to the best of our knowledge, the auditor-client relationship has only been studied as a dyadic relationship (auditor and client), mostly from the auditor perspective. However, value co-creation during an audit process is driven by multiple, meaningful interactions between auditors and auditees (Lambert et al. 2015 ;), but no study to-date has investigated the role of CSPs in this process, especially perceived by the client. The client perspective is important because the audit firms are investing resources in CSPs and we do not know if the client values this investment. In addition, inquiring directly from the client is important since the client plays an important role as a co-creator of value (Vargo and Lusch, 2008). Moreover, Gronroos and Helle (2012) stress that relationships are two sided and it takes two parties for a relationship to exist.

To corroborate the importance of the client perspective, Viio and Grönroos (2014) demonstrate, by conducting a case study, that when a service provider invests in a relational approach while the client desires a transactional approach, the service provider wastes resources. In the context of our proposed project, if an audit firm allocates additional resources to investing in CSPs whose role is not appreciated by the client, then the audit firm misallocates resources. Yet, some clients may be frustrated if they desire a deeper relational approach when an audit firm is more transactional, i.e.(focusing only on the core audit service. This could result in the client looking for an alternative service provider (Viio and Grönroos, 2014). Consequently, it is important for the audit firm to know the client perception of an audit firm's CSP and if this client relationship tactic adds value. Indeed, service marketing researchers caution against the seller determining what creates value for the customer, since not all clients see value in relationships (Grönroos and Voima, 2012).

Accordingly, we maintain that it is important to investigate how CSPs, by interacting with the client, could help increase the value of the audit service, as perceived by the client and the audit firm (auditors and CSPs). This leads us to the following three Research Questions:

1. How do audit clients perceive their level of audit service satisfaction when CSPs are involved?
2. How do auditors (engagement partners and CSPs) and audit clients perceive the CSP's role in auditor-client value co-creation (i.e., the value of the audit service, as perceived by the client and by the auditor)?
3. How do auditors (engagement partners and CSPs) and audit clients perceive how CSPs' involvement in the audit process affects audit quality?

Research Method

To address these research questions, we will conduct face-to-face interviews with auditors (including auditors and CSPs) and audit clients (CFOs and other members of management involved in the financial statement audit). We will conduct these interviews in Halifax, Montreal, and Toronto. The two co-authors will conduct the interviews, and the taped interview transcriptions will be analyzed and interpreted with the help of a research assistant (graduate student). The co-authors of this proposal have an extensive experience in securing and conducting interviews with senior business professionals. The complete Interview guide is in Annex 1, where there are a set of questions for the audit clients and a second set of questions for the client (both the auditor and CSPs)

Conclusion/Contribution

This proposed research is important because public accounting firms across Canada are investing important resources (e.g., employee salaries and time) in auditor-client relationships with the use of CSPs. Therefore, it is important to determine if this resource allocation is effective. In addition, this research is important for the educators of auditors, as well as for the organizations that regulate and oversee auditors, and the services they provide. The results of this research should provide insight into the impact of the CSPs on audit quality and audit value co-creation.

Lastly, there is a great deal of debate, both in the academic audit literature as well as the audit practice, that close relationships between auditors and their clients could decrease auditor independence, negatively affecting audit quality. This is based on the premise that the auditor who develops a strong collaborative relationship with the client would apply lower professional scepticism and become overly trusting of client management. However, in this same debate, the opposing argument is that a strong relationship with the client results in productive auditor-client interactions, which helps the auditor better understand the client's business, resulting in improved audit quality and audit value. The results of this study should provide insight into this debate.

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Annex 1

Interview Guide

Context:

Hello. Our objective in this research project is to explore how the quality of the auditor-client relationship is affected by the involvement of an audit firm's Client Service Partner (CSP), also known in some firms as the Lead Service Partner (LSP) or Global Service Partner (GSP) . We will refer to this document to guide this interview, so please free to discuss any issue beyond the question we ask. And if possible, if you could provide us with specific examples, this would be quite helpful.

Questions for Audit Clients

(Interviewer should ask for examples after each of the following questions)

1. How would you describe an audit firm's CSP?
2. How would you describe your company's use of a CSP?
3. How would you describe the value of the CSP to your year-end financial audit?
4. How would you describe the value of the CSP to any other part of your business?
5. How would you define audit quality?
6. How would you describe a good audit?
7. How would you describe a poor audit?
8. How would you describe an audit that would satisfy you as a client?
8. How would describe an audit that would dissatisfy you as a client?
- 9 How could the CSP increase your level of client satisfaction?
10. How could your audit firm increase audit quality?
11. How could your audit firm increase your level of customer satisfaction?
12. How could an Audit Firm use a CSP to better serve you as a client?

Questions for Auditors and CSPs

(Interviewer should ask for examples after each of the following questions)

1. How would you describe your audit firm's CSP?
2. How would you describe your audit firm's use of a CSP?
3. How would you describe the value of the CSP to your client? (and to your Firm ?
4. How would you describe the value of the CSP to any other part of your client's business?
5. How would you define audit quality?
6. How would you describe a good audit?
7. How would you describe a poor audit?
8. How would you describe an audit that would satisfy the client?
8. How would describe an audit that would dissatisfy the client?
9. How could the CSP increase the level of your client's satisfaction?
10. How could your audit firm increase audit quality?
11. How could your audit firm increase customer satisfaction?
12. How could an Audit Firm better use a CSP to increase audit quality?
13. How could an Audit firm better use a CSP to increase client satisfaction?
13. How would you describe the resources you allocate towards your firm's CSP function?