

How Does the Involvement of Client Service Partners on an Assurance Engagement Help Add Value: A Client's Perspective

1. Context and Problem

During an audit engagement, audit firms across Canada invest a great deal of resources (staff time and money) to not only provide a high-quality audit service, but to also add value to their clients. To do so without jeopardizing auditor independence, firms have invested in creating special roles of so-called “Client Service Partners” (“CSPs”), which are different from lead audit engagement partners. A CSP, who is also referred to as a “Lead Client Service Partner,” is responsible for the entire auditor-client relationship, not limited to the audit service in a specific corporate location; s/he do not, however, participate on technical aspects of the audit engagement per se (which remains lead audit engagement partner responsibility).

Specifically, a CSP is responsible for the interactions with the client, on a global level, to ensure that the client benefits from the overall service offering of the accounting firm, including both audit and non-audit services. This could include acquiring the client, agreeing on the audit fee for all global services, and planning the audit service. Importantly, the CSP also deals with all matters that affect auditor-client relationship and service satisfaction issues.

With CSPs taking care of auditor-client relationship and service satisfaction matters, the engagement partner can completely focus on a high-quality, independent audit, without worrying about any of the other client issues or jeopardizing independence. Therefore, CSP presence on an audit engagement may help improve audit quality and increase client satisfaction, as the audit firm tries to provide value to the client beyond the core audit service. However, no one has conducted research to determine how the audit client perceives the CSP role. This is an significant issue, because audit firms are investing a large amount of time and money in CSPs,

and at this point it is not clear if this investment indeed translates into increased client satisfaction and audit quality.

2. Objective

Given the above-mentioned context and problem, our objective is to determine the client's perspective on the audit firm's CSP. More precisely, we seek to find out how the client perceives the role of the audit firm's CSP, that is, if CSP adds value to the audit and increases client satisfaction. We also wish to examine if and how the client perceives the role of the CSP in increasing audit quality.

3. Significance of the Proposed Study

We uncovered the practical importance of this study after we conducted a preliminary discussion with a Big 4 audit partner. Our discussion centered around the areas which subsequently captured in the proposed interview guide (see Appendix 1). The partner indicated that our research questions and interview questions were important and had practical relevance. He confirmed that public accounting firms are investing substantial resources in CSPs, without systematic evidence how their clients perceive the importance and value of this role. Our partner contact stressed the importance of asking clients if the CSP role is valuable and how could it become more valuable, in terms of both client satisfaction and audit quality.

With respect to the scholarly contribution of the proposed study, there are two areas where it could be significant. First, the audit literature dealing with the client-auditor relationship has generally neglected the client's perspective. However, the client's perspective on the audit-client relationship is important because the auditor needs information and collaboration from the client to conduct an effective and efficient audit (Rennie et al. 2010). Therefore, to enhance client collaboration and to contribute to the knowledge about auditor-client relationship, it is important to learn what audit client's think about opportunities to improve the auditor-client relationship.

Our second contribution to the academic literature on auditor-client relationship is that we adopt a theoretical lens of service marketing, a perspective that has not been used by prior auditing studies. We believe this lens is appropriate to better understand the client-auditor relationship because it is, in a fact, a buyer-seller relationship, which has been modeled in-depth by scholars in the service marketing area, including the idea of the client helping to co-create value by collaborating with a service provider (Gronroos, 2008; 2017).

4. Relationship to Existing Research (Literature Review)

In this section, we first review the auditing studies indicating that the client perspective has been overlooked with respect to the auditor-client relationship. We then present the service marketing literature that emphasizes the importance of the client involvement in value co-creation, and the importance of understanding the role of a CSP from the audit client perspective.

In the auditing literature, the client perspective is generally absent in studies involving the auditor-client relationship. For example, Gul et al. (2013) analyze the individual characteristics of 800 individual auditors to determine if these characteristics affect audit quality. In this research, the authors argue, based on past audit research, that individual auditor characteristics, and not client characteristics, affect audit quality (Gul et al 2013); that is, the researchers essentially assume that the client plays no role in audit quality.

Similarly, Koch and Salterio (2017) conduct an experiment with 144 auditors to determine the auditor's willingness to accept the client-preferred accounting policy. The researchers manipulate the client's pressure on the auditor and they find that the more the auditor perceives pressure from the client, the less s/he is willing to accept the client-preferred policy. This study also does not consider the client perspective.

In yet another client-auditor study, Svanberg and Ohman (2015) survey 141 practicing auditors and find that auditors that identify with their clients are more likely to acquiesce to client

-preferred treatment of accounting policies. Here again, the authors did not consider the client perspective.

Lastly, Herda and Lavelle (2013) rely on social exchange theory to survey 204 auditors about auditor-client relationship. They conclude that client-auditor relationships of better quality are associated with higher value-added service to the client, which, in turn, is associated with higher client commitment. These authors encourage future research that includes the client perspective on the client-auditor relationship and the value of audit.

Based on the service marketing literature, it becomes clearer why the client perspective is important in buyer-seller relationships, such as the client (buyer) -auditor (seller). Gronroos and Helle (2012) stress that buyer-seller relationships are two sided, and thus, it takes two parties for a relationship to develop and flourish. According to Gronroos (2000), communication and interactions between service suppliers and their clients create value for the client. The theory that explains how clients perceive value is explained by the *Customer-Perceived Value (CPV)* model (Gronroos 2000): $CPV = Core Value +/ - Added Value$, where components are as follows:

- The *Core Value* is the main, or core service provided. In the case of the audit service it would be the actual financial statement audit service for which the client is billed.
- The *Added Value* component of the equation includes additional services, beyond the Core Value services, such as enhanced communication, multiple interactions, and helpful advice (Gronroos, 2000).

Recently, the service marketing literature has further developed the concept of *Added Value* in the buyer-seller relationship into the theory of *value co-creation* (Gronroos and Voima 2013; Vargo and Lusch 2008). This theory states that the client co-creates value along with the supplier, and that the client plays an important role as a co-creator of value (Vargo and Lusch, 2008). To assure that the client participates in value co-creation fully and effectively, the supplier

must conduct multiple interactions with different actors from different levels of the client organization (Gronroos 2011). These interactions are a form of communication that builds trust, which then leads to client's cooperation with the supplier (Morgan and Hunt 1994).

From CPV model and the theory of value co-creation, we note that the added value of a service extends beyond the core service, by adding enhanced communication and multiple client interactions with the service provider. We posit that this added value is what the audit firms are seeking by investing in CSPs, a position that allows to engage the client in value co-creation without jeopardizing independence. Therefore, we propose to examine the following Research Question:

RQ: How do audit clients perceive the role of an audit firm's Client Service Provider (CSP) in the co-creation of value?

5. Method

To address our research question, we will conduct face-to-face interviews with audit clients, i.e. CFOs and other members of management and accounting functions involved in the financial statement audit, such as controllers and middle management. We will conduct these interviews in Halifax, Montreal, and Toronto. The two authors and a PhD student will conduct the interviews; the taped interviews will be transcribed analyzed with the help of research assistants (two Master's students with help of the PhD student).

We will aim to conduct approximately 40 one-hour interviews. The interviews will be audio-taped with the participants' consent. The two authors of this proposal have an extensive experience in securing and conducting interviews with senior business professionals. To solicit interview participation, we will use our and or business schools' professional networks. In addition, we will seek the assistance of CPA Canada, CPA Quebec, and CPA Atlantic to help us identify potential participants from across Canada.

The interviews will be based on an interview guide approach (Patton, 2005), which serves to guide the conversation to let the participant talk and reveal rich, in-depth data. (See Appendix 1 for the proposed interview guide.) The interviews will be analysed using the approach recommended by Creswell (2003). The interview tapes will be transcribed and coded based on pre-established concepts from the auditing literature on auditor-client relationships and service marketing literature. The codes will be then identified and grouped to identify common themes. The data analysis will be conducted using the qualitative research software, nVivo 12. A complete proposal along with the questionnaire will be sent to our universities' Research Ethics Boards for review and approval prior to the interviews.

6. Contribution to Academia and Practice

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. Therefore, it is important to determine if this resource allocation is effective.

This research is important to academia because prior audit research has often neglected the client perspective on auditor-client relationship and value from audit service that extends beyond the audit opinion. The client perspective is important because the service marketing literature highlights that it is the client that co-creates value along with the service provider. This perspective could help us better understand how to better measure and achieve audit quality, as well as client satisfaction.

This research is important for the educators of future 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.

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Appendix 1: Preliminary Interview Guide

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?
7. How would you describe a good audit?
6. How would you describe a poor audit?
7. 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?
8. 9 How could the CSP increase your level of client satisfaction?
9. How could your audit firm increase audit quality?
10. How could your audit firm increase your level of customer satisfaction?
11. How could an Audit Firm use a CSP to better serve you as a client?