

Should CPA firms add consulting services to their stable?

 By [Richard Firth](#)

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The number of audit firms that are offering consulting and software development services to boost their revenues has been on the rise.



Richard Firth, CEO of MPH Holdings

Increasingly, these businesses are seizing opportunities to deliver consulting services across the board, including financial planning, tax, due diligence, HR, Information Technology, and suchlike.

The heads of CPA firms see consulting services as a means to give their clients additional value, as well as create new revenue streams. However, they are making a crucial mistake. They are managing these auditing services as if they were consulting practices, which could – and is – causing impact on audit integrity.

This should be a major concern to the corporate governance community, boards, audit committees, and their legal teams, considering that key to the integrity of SA's economy is auditor independence, which puts these services beyond reproach.

Many of the most prominent audit firms have started to provide consulting services to their clients over the past few years, driving concerns that the auditor's interest in developing or maintaining a non-audit services relationship with their customers could overtake their interest in the primary audit relationship. Moreover, investors are understandably worried that non-audit services, when given to an audit client, create core conflicts that fly in the face of auditor objectivity.

“ I would love to see an industry statistic that denotes all listed companies where an audit partner has performed software development work on behalf of their client. Many audit companies can justify technology consultancy as a key delivery in a technology risk investigation and in terms of potential IT security risk aversion. However, when an audit firm provides development capability to a customer, is this not stretching the boundary of audit practises a little too far? I also believe that many of the consultancy practices provided by audit companies are stretching the ever-increasing grey area of audit ”

Possibly the most scandalous allegation relating to an audit company is KPMG's involvement in the wedding of one of the Gupta sons in 2013, which was purportedly funded by R30m of South African taxpayers' cash. This was allegedly done by funnelling funds that were meant for poor Free State farmers through Dubai and then bringing the funds back to the country through an organisation called Linkway Trading - a Gupta company. The family is alleged to have claimed these as business expenses, no income tax was paid, and the transactions were signed off by their auditors.

This is why several nations have put legislation in place to lower any risk of conflict of interest. In the USA, for example, accounting firms are not allowed to provide non-audit services to companies for which they perform audits.

South African legislation or the audit industry needs to publish a definition of what audit should and should not entail. So far, the law isn't so strict in South Africa, but given the scandals that have littered the headlines, I wouldn't be surprised if that changes soon.

ABOUT RICHARD FIRTH

A stalwart of the South African IT industry, Richard has been involved in the technology arena since 1989. With diplomas in Information Technology and Business Process Re-engineering, his successful career in IT has spanned various roles, including programming, IT implementation, and various management positions culminating in his current responsibilities as Chairman & CEO of MP Holdings. He sits on the Boards of both Iterate and Waytag.

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