



## STRATEGIC AUDIT AND ITS ROOTS WITH-IN THE ECONOMY


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Being a part of shark tanks and start-up supporting economy, it is nearly a common idea to start a new business venture. But despite the commonness, the business world is growing, earning greater returns and boosting the economy's GDP. Also alongside our profession is working together with such businesses to build a fruitful marketplace. But having similar businesses throughout the industry is not the reason for such immense success of the business world. Then what is it that makes the business industry so fruitful? Glitter and shine as a Market? So tempting? So profitable? And at the same time dynamic and uncertain altogether. Continue reading so that you can dig-in into the reality and also nurture the knowledge of business world along with its links with our chartered accountancy profession and the inter dependency between streams and other areas of the economy.


Business industry is by itself a macroeconomic factor which acts as a support system to our economy, but when we consider the question of a characteristic which differentiates the businesses within the industry is their way of undertaking the business. The way of dealing with the problem, the solutions, choosing appropriate marketplace, customer relationships, goals, mind-sets, organizational structures, methods of working, and much more. When we sum it up: it is their own STRATEGY. Strategy is considered as one of the major key ingredient to the success stories of flowering business ventures. When the major aspects of profitability are to be identified, Strategy gains majority of the marks and because of which it is the important factor of the business world. But what it has to do with the Chartered accountancy profession? There comes the concept of "STRATEGIC AUDIT". Having heard of tax audit, statutory audit and even GST audit, strategic audit is a new term, even for me it was a new concept when I chose this topic. Considering the book or google definition of Strategic audit : it is defined as "An audit, or strategic diagnosis, which focuses on understanding and evaluating products and services, development areas, customers and markets, competitors, internal teams and skills, organization, processes, methods and technologies of a company". Now this is what is available when you google it. But what is actually this audit and why it is required in the modern business world? Strategy is something which is the foundation of the organization. It is a pathway for its functioning, the growth factor, and the problem dealing ability, the identification of the opportunities, responses to the threats, understanding markets and many more aspects. When considered the bigger picture, it is what an organization is able to achieve through its resources, identifying the resources, usage and the outcome of the resources. Now when this aspect is attached to the audit stream, so it constitutes the examination of all such factors and implementation of appropriate procedures to identify the flaws and drawbacks in the strategy and get through the unprofitable means and turn them to profitable ventures.

So strategic audit is something which helps you gain an edge over your competitors by just identifying what is wrong in your strategy or what can be done to improve your current strategy to the next best level. When we relate to our syllabus it can be considered as a top level management function and can be covered under operational audit, management audit and also has attachments with internal audit functions and other audit environment. Now in layman's language strategy and its audit can be simplified as what is your way of undertaking the business and whether such methodology is acceptable? But this is not as simplified as it seems, once considered strategic audit is something which requires good knowledge of business, its impacting areas, its functions, its statutory obligations, and the complete business process chain & cycle. When we consider management audit it is compliance with management guidelines and whether management is complying with the given guidelines, on that similar pace, strategic audit can be understood as compliance with strategic & futuristic guidelines made for company and adherence to such pre decided strategic path so as to achieve the given organizational goal and other objectives, and



at the same time ensuring that there is no deviation in the internal control functions, statutory functions and other branches of the organization as a whole. So strategy is not just top management function, it has got its presence with the other roots of the functioning aspects of the organization as well. It can be related with the internal function, management function, statutory function, business processes, market and even industry as a whole. From a small change in the business personnel within the organization to a big move like take-overs, mergers between the businesses, strategy and its audit has got presence. It has major presence when it comes to due-diligence. So different audit environments can be traced along with strategic audits and when strategic audit is considered in isolation, different audits are part of strategic audits. When we elaborate the term “strategic audit”, it defines itself as audit of the strategy of the organization. And when strategy is considered individually, it automatically captures the complete functioning of the organization, as a small change in the strategy can impact the working of the organization to a greater extent and this is the reason that not every strategy but to a certain extent some strategies should be audited. Strategy of the organization is a blueprint which enables the company to achieve its goals (whether short-term or long term), sustain in the environment and as well grow in different aspects of business, also survive through the times of difficulties and rise again with flying colours. The strategy needs to be updated as a response to the business needs, industry needs, statutory needs, economic needs and much more. But once a problem is identified and needs a solution, direct implementation without proper planning may result into an ad-hoc situation and may impact the routine cycle of the business, which urges the need for proper analysis of the problem, planning of the solution and its successful implementation together with the post implementation follow-up. All can be combined and put together in one phrase as “Strategy and its audit or Strategic audit”. So even for a successful implementation or failure of an implemented decision, strategy is responsible to some extent. And to identify any such flaws or draw a cost-benefit analysis it is the function of strategic audit. Strategic audit is audit of what strategy is, what is its outcome, the resources needed, analysis of the opportunities and threats involved, its implications on the different aspects of the company and its functioning, together with an analysis of its impacts on various levels within the organization. Strategic audit is regarded as an important tool for an organization for assessment of its strategy, goals, method of functioning, organizational structure and connection of such different aspects of organization with the strategy of the company on different levels as well as an organization as a whole. Strategic audit cannot provide a clear picture at isolation and hence we can connect the term along with other sections of the organization as well. Summarizing them includes strategic audit along with internal audit, tax audits, due diligence, management audit etc. etc. By referring the above analysis we can understand that strategic audit is a top management function, in alignment with internal audit team and due diligence. Specialized knowledge and depth analysis of the external and internal environment of the company is required, using which the professional can rely and make necessary judgements to reach to an appropriate conclusion. The various types of audits and steps involved under this type of audits are also dynamic in nature and need an open understanding of the market as well to reach to a clear outcome that can be used by management for further improve their strategies along with the way of functioning, structures, approaches, researches and major decisions impacting core areas of businesses. These methods can be summarized as under:

- 1) **Resource Audit:** identifying the available resources within the entity and as well with the engagement team so as to obtain a clear understanding of the current environment, organization and creating a blue print which helps allocate the resources in an appropriate manner. These resources can be in-house/owned resources or can be obtained through partnerships, joint ventures, supplier arrangements with other businesses, leased assets etc.
- 2) **Value chain analysis:** complete business cycles of an organization depend clearly upon various activities with the supply or value chain of the company. These different set of activities together form the complete product and business cycles. Careful analysis of the same will help understand the visible and hidden opportunities, competitive strengths and help formulate appropriate strategies in response to identified weaknesses. These activities can be grouped under two headings :

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- a. **Primary activities:** activities directly connected and concerned with creating and delivering a product (e.g. component assembly)
  - b. **Support activities:** activities not relatable directly to the product but may increase effectiveness or efficiency (e.g. human resource management).

**It is a rarest case for a business to undertake all primary and support activities.**

- 3) **Core Competence analysis:** capabilities which are of supreme importance are critical to achieve a competitive advantage over the competitors. An edge over other players in the industry can help achieve something extra over what is actually the industry average. This can be achieved through a thorough analysis of what are the core areas which can act as a strong base for the company on which it can rely for building its position in the market and also at the same time on such core areas it can build and work with the motive of achieving a special position or mastery which differentiates and help company stand out from the crowd.
  - 4) **Performance Analysis:** the strategic capabilities of a business are analysed through the above mentioned procedures but after going through the above procedures, the main aim is to consolidate all the findings and use them for evaluation of the performance of the business as a whole and conclude as to the actual position of the business in the marketplace. This answers a series of question:
    - a. What and how did the resources that were deployed changed overtime? **Historical Analysis.**
    - b. Comparison between the resources, capabilities and availabilities. **Industry Norm Analysis.**
    - c. Qualitative analysis of the resources against that which are available as best-in-class which can be useful for comparison to identify the true standard of the resources. **Benchmarking.**
    - d. Change in the financial analysis and performance of the company which is indicated through financial ratios and how they can be compared with key competitors and industry as a whole? **Ratio Analysis.**
  - 5) **Portfolio or Product Analysis:** analyses of the overall balance of the strategic business units of a business **and SWOT (Strength Weakness Opportunities and threats) Analysis.**
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