Podcast Transcript: Adrian Jenkins (Financial Progression) and Darren Woolley (Managing Marketing) Chat On The Role Of Audits In Marketing And Advertising-aac.m4a

[Intro music fades]

Darren Woolley: [00:00:00] Welcome to Managing Marketing, and today we're in the Chartered Accountants Hall in the City of London having a chat with Adrian Jenkins, who is the founder and director of Financial Progression.

Adrian Jenkins: [00:00:12] Hi there!

Darren Woolley: [00:00:14] Welcome, Adrian!

Adrian Jenkins: [00:00:14] Thank you very much. It's great to be here.

Darren Woolley: [00:00:15] And well, thank you for having us at your professional club.

Adrian Jenkins: [00:00:20] Yeah, it's… quite a place! It's uh, not… somewhere you join, but it's somewhere that comes with the membership of being a chartered accountant.

Darren Woolley: [00:00:27] Well, look, I'm glad you raised that early because, er, chartered accountants traditionally were those who have joined a profession of, erm, trust and integrity. And… that's a very important thing doing what you do with Financial Progression, isn't it?

Adrian Jenkins: [00:00:46] It is. And it's… key, to be honest, it's absolutely key to everything that we do. And… the foundation of the business, erm, because, you know, end of the day, if you can't trust your auditor, erm, who can you trust?

Darren Woolley: [00:00:59] Well, exactly. I mean, auditing people, I know… going to university when people were doing their PY year because they were going to become a chartered accountant. You know, people would snigger because there is an attitude, I guess, that… y'know, chartered accountants are synonymous with auditing. But it's not exclusively auditing, is it?

Adrian Jenkins: [00:01:19] No, it's not. I mean, look, there's obviously, particularly here in the UK there's a — going back to the days of Monty Python — there's a view of your accountant as a man in a brown suit with a kipper tie, erm! who's dreadfully dull and gets up and is on the 6:33 from Surbiton every morning (laughter) into London. But, you know, times change. And I would say it's a fantastic qualification, business qualification to have, a lot of people will have it instead of having an MBA, for example. And it gets you, you know, when you're training — to see lots of different businesses and how they work and how they should run from a financial perspective.

Podcast Transcript: Adrian Jenkins (Financial Progression) and Darren Woolley (Managing Marketing) Chat On The Role Of Audits In Marketing And Advertising-aac.m4a

Adrian Jenkins: [00:01:58] And you've only got to look at, you know, large businesses, FTSE 100 companies, many, many more than — I don't know. I think it's something like 30 percent of FTSE 100 CEOs are chartered accountants because they've got that… grounding in business. And often they've seen, they've worked in other functions as well and already have an understanding of the business and how it works and what's going on.

Darren Woolley: [00:02:18] But you've got a very particular focus, and that's the advertising and marketing industry.

Adrian Jenkins: [00:02:23] Yes, it is. And I guess —

Darren Woolley: [00:02:25] Which is not boring —

Adrian Jenkins: [00:02:26] No, it's quite the opposite! And I guess it's almost a bit of, uhm, it's almost never the twain shall meet insofar as, you know, accountancy is very process driven, very structured and much — obviously but not all — of the advertising and marketing is not like that because it's a creative industry. And yes, of course, there's process and structure within that. But the types of people that work in those professions tend to have… a different mindset, shall we say.

Darren Woolley: [00:02:55] Well look… you know, often we hear people say, well, you can't really have process around creativity, but they've got to remember that underlying that is a business supporting it. And business needs measurement, control—

Adrian Jenkins: [00:03:09] —Yes.

Darren Woolley: [00:03:10] —And a process to actually make sure that it stays profitable.

Adrian Jenkins: [00:03:13] It does. And I think one of the things that we do in our audits is actually — that's perhaps different to some of our competitors, actually — is to look at those underlying processes in the agency, but also between the agency and the brand that are kind of… that the contract's trying to support or that are trying to support the contract, depending on which way you look at it. And often what we find is that both on the client side and on the agency side they've not really sat down and had those conversations about process, and expect things to happen without — well, by osmosis in some cases! And often a lot of it is like, guys, you know, we've noticed these issues with your process. Please. As a result of this audit, sit down and talk about these things because it will make you more efficient. It will reduce your levels of frustration. It will get your product to market more quickly… uh, it's yeah, it's really fundamental…

Darren Woolley: [00:04:08] I like what you've just picked up on there. I often say to people the relationship between their agencies and their clients is sometimes like the worst personal relationship where you almost have to be a mind reader to even have an understanding of what the expectation of both parties are.

Adrian Jenkins: [00:04:23] — Yes!

Darren Woolley: [00:04:23] — And on extending that metaphor, the contract ends up becoming like the marriage certificate. So you stand up there and you make vows to each other. You sign the marriage certificate and then you file it away and forget about it for the next 20 years until divorce comes around. It doesn't quite take 20 years with agencies and clients these days, but I think that's quite a strong metaphor. A relevant metaphor.

Adrian Jenkins: [00:04:48] Yeah. And I think, you know, your — sort of — strengthening of it there is totally apt. It is like a marriage. And I've even had situations where, y'know, we've been in, we always interview the account director. First day of the audit, that's one of the first things that we do to find out how things are going, what's working well, what do you wish were different? And then we ask to see them again, sort of probably on the penultimate day of the audit, to — because we've then had a look at a lot of information, have a view on things, want a bit of additional clarification. And by that time, we've normally built up a bit of a rapport with the account director. And I remember one, one — actually she was an American lady working for an agency in Amsterdam and working with, uh, global clients with complex brand marketing relationships, shall we say, across different territories that made briefing a bit of a challenge, and we sort of looked at our watch. And sorta… two hours had passed —

Darren Woolley: [00:05:42] —Wow!

Adrian Jenkins: [00:05:43] —And she sort of sat back and just went, oh, my God, that was the best therapy session I've ever had! (laughter)… So I did feel like I was giving a kind of relationship counselling, I have to say.

Darren Woolley: [00:05:54] Well, I think we have something similar, except that obviously the audit has a very specific process and structure. And I wouldn't mind just clarifying some things with you. So the first thing is the industry, the marketing and advertising and specifically the media component has almost bastardised the term audit, haven't they? —

Podcast Transcript: Adrian Jenkins (Financial Progression) and Darren Woolley (Managing Marketing) Chat On The Role Of Audits In Marketing And Advertising-aac.m4a

Adrian Jenkins: [00:06:18] — They have.

Darren Woolley: [00:06:18] — Because people will phone up and they go, can you do a media audit? Now, that's really not an audit. It's a what I'd call a benchmarking exercise. —

Adrian Jenkins: [00:06:30] — Correct.

Darren Woolley: [00:06:30] How do you let people understand what an audit is and what is an audit? How does that express itself as a particular function or service that you provide?

Adrian Jenkins: [00:06:41] Ok, so the way we describe what we do is typically we would call it — clients would often call it a financial audit. We would call it a contract compliance audit. So being separate and distinct from that media benchmarking exercise, which is very much looking at what was bought off relative to some kind of benchmark, be it a pool of advertisers or a market price or whatever. —

Darren Woolley: [00:07:02] — But it's not an audit. Technically it's not an audit.

Adrian Jenkins: [00:07:03] — It's not an audit. No, it's not. It's… a benchmarking exercise. Erm, so an audit — there are probably books outside this room that would tell us technically what the definition of an audit is… but from our perspective, it's looking, it's taking a contract and looking at the financial and financial process elements within that and saying as to what extent has this contract been implemented as written in terms of charging of — if we take the media example — in terms of media costs, technology costs, agency fees, tracking of time through to, you know, what I call risk management errors, like have you got the correct insurances in place… checking that all of these things that go into the contractual and commercial relationship are happening as intended.

Darren Woolley: [00:07:56] So what sort of ways is that expressed? Because, you know, they could — you hear about people doing a full audit —

Adrian Jenkins: [00:08:04] — Yes.

Darren Woolley: [00:08:04] — And then they say, you know, production audits. And—

Adrian Jenkins: [00:08:08] — Yes.

Podcast Transcript: Adrian Jenkins (Financial Progression) and Darren Woolley (Managing Marketing) Chat On The Role Of Audits In Marketing And Advertising-aac.m4a

Darren Woolley: [00:08:08] —What are all the different ways, there's probably a long list, but the main ones that you would be involved in?

Adrian Jenkins: [00:08:14] Ok. So we would have typically what (we would call) a standard contract compliance audit… is something that would happen after a year, sometimes two years of a contract running. And typically when the contract is still 'live', as it were, we would we would go in and look for — we would ask for literally all the billing that the client has received and all the underlying transactions at the agency — be that the fees that they charge and the related time records, be it the media that they bought or the production that they've commissioned or the expenses. Everything that's basically in their books to do with that client. We take that data, we analyse it, and from that we would select a subsample, typically about 10 percent by value, because that should give you a statistically significant sample, and then go in detail all the way through. So taking typically a campaign or a job from start to finish right all the way from brief through to cash moving. And… on top of that, we would then look at ways of working. So we'd interview the account director trying to figure out what's working well, what could what could be different… We would be looking at cash movements, so working capital on the accounts as well, is it favoring one party or the other, or is it broadly neutral? We'd be doing a review of the contracts not to say whether this is a good or bad contract, but just to say these are the key things that are in the contract that we need to look at. And by the way, against the sort of an eighty-point template that we've got, these are the clauses we would expect to see in your agency contract, this is missing or this isn't very well defined or it's not clearly enough defined… to avoid ambiguity. (And) sure enough, if there is ambiguity in that contract that'll come through in the numbers. So that's what I would call kind of a full-blown contract compliance audit.

Adrian Jenkins: [00:10:13] We also do implementation audits…

Darren Woolley: [00:10:18] What are they?

Adrian Jenkins: [00:10:18] So that would be… literally right at the start of a new — typically it's with a new agency client relationship — and a new contract—

Darren Woolley: [00:10:28] —So coming into the honeymoon or just out of the honeymoon?

Adrian Jenkins: [00:10:31] So it would be still during that honeymoon period—

Darren Woolley: [00:10:36] Ah ok, when everyone's loved up….

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Adrian Jenkins: [00:10:37] (laughs) Where everyone's loved up, all the vows are remembered, the parties still fresh in, you know, the wedding and the honeymoon is still fresh in mind…

Adrian Jenkins: [00:10:44] So… with that we would typically take the first three months worth of data and we do the audit within the first six months. And what we're doing there is, whereas a contract compliance audit might be relatively narrow and very deep, an implementation audit would be very broad and very shallow. So we're looking at all the promises, if you like, that the happy couple have made to each other and look to see actually are those, have those been implemented as intended. So we would take – and I'll use a media agency example – so we take maybe one campaign from each medium that's run in the first three months and say, if you've set out a process, how's that working? Again, from brief all the way through to payment. Are there any issues with that? And if there are, let's flag it and raise it now and fix it now. So the implementation audit is very much about while there's still a lot of goodwill, if there are things that we haven't fixed, that we haven't implemented as we would want to, let's recognize that now, fix it now so it doesn't fester and become a problem two years down the line.

Darren Woolley: [00:11:49] It's funny because we do relationship management with surveys and things and the number of clients that say to us, oh, we've just appointed the agency, why should we be thinking about this now? We said to them, well, if you do it early, you can pick up potential bad behaviours that will become habits.

Adrian Jenkins: [00:12:10] Yes.

Darren Woolley: [00:12:11] And they're really hesitant to do it because that honeymoon period. "Ah yeah, but we get along so well. I don't want to upset the agency by bringing in a level of compliance or measure." Do you get that pushback with implementation audits?

Adrian Jenkins: [00:12:25] No. In fact, quite the opposite. Not at all. The agencies absolutely love it because believe it or not… they want to comply with the contracts.

Darren Woolley: [00:12:36] Of course, it costs a lot of money if you don't!

Adrian Jenkins: [00:12:39] Well, exactly. And, you know, they've just spent all this money and time pitching for the client. They want this to go well, right? So actually, they really welcomed it. And it's not… I think it's a service that I don't think our competitors offer. It's pretty unique. And so the agencies, when we go in, we've never been into the same place twice yet to do one. When we go in there, like, they're a bit suspicious, you know, what is this? We don't know what it is. But very quickly, they're like, this is fantastic. To the extent that when we did it first, we actually got recommended to the IPA to say, well, this is really helpful—

Darren Woolley: [00:13:09] —It sets the relationship up on the right foot. And I mean that everyone knows exactly what's expected of them. And it's been aligned up front. What's the role of the contract in that implementation audit? I mean, I imagine would be quite central because the contract should be reflecting the expectations about—

Adrian Jenkins: [00:13:28] —It's absolutely central. And critical. So we write the scope of work based on that contract. And the more the more detailed the contract, the more depth we can go into. So we have one client who actually has five divisions. They all have their own P&L. So they all run slightly different systems and ways of working. But very helpfully, the client had spent – recognising that – the client spent the time actually writing out process maps from start to finish in terms of briefing all the way through to payment. So we were then able to audit those for each division and see, you know, had the agency been able to get its head around that level of complexity. And the answer was no, they hadn't. But because you're doing it early on, no one's judging, no one's pointing a finger. They're just saying, look, this is recognising it is what it is. … We've recognized that we've not done it quite as we would like to have done. Let's fix it. And so actually then from from our perspective they're the nicest sort of audit to do, because there's nothing contentious in that. No one's pointing a finger at anybody. It's just like, okay, we haven't done it. Let's make sure we do it—

Darren Woolley: [00:14:36] —Because nothing's necessarily gone wrong. It's more about getting alignment up front.

Adrian Jenkins: [00:14:40] Yeah. And… even if you could say, well, this has or hasn't happened, you can frame it in a way that's positive. Everyone's trying to do their best, right? And so—

Darren Woolley: [00:14:50] —Of course… So you've got the full contract compliance… You've got the implementation audit—

Adrian Jenkins: [00:14:56] —Yes.

Darren Woolley: [00:14:56] —Is that it?

Adrian Jenkins: [00:14:57] We've got two more… (sorry!)

Darren Woolley: [00:14:59] No, no I'm interested… because you're right. That second one, I haven't heard of anyone else offering.

Adrian Jenkins: [00:15:06] No.

Darren Woolley: [00:15:07] Everyone focuses on the full compliance audit. And the word compliance almost comes with a sense of trying to catch the agency out.

Adrian Jenkins: [00:15:15] Yes. And I think that's also… there's an auditor mindset around that as well. And that's where agencies sort of think, oh, is this person coming to catch me out, to look for mistakes and that kind of thing. And certainly one thing that we do and agencies tell us that we do differently is that we don't go in with that mindset. Our mindset is very much, how can we make this agency relationship better? Yes, look, we're still really thorough. And in fact, I think we've got a reputation – well, I don't think, I know, because the agencies keep telling us – we have a reputation for being the most thorough. But at the same time, we're doing it in a way that's saying, OK, how do we take this and turn it into a positive to make this function, you know, better in future for both of our…

Darren Woolley: [00:15:55] I think that approach would make you more effective as well. Because… I've noticed when an auditor comes in with a reputation of trying to catch the agency out, the agency is less disclosing, less helpful, less… involved. There's almost like a barrier goes up, which almost makes the whole relationship poisonous—

Adrian Jenkins: [00:16:17] —completely! And… we had a fantastic example in Singapore last year… a creative agency. And at the end, when we have the debriefing meeting, we asked the agency for feedback. You know, how did you find this experience? And the FD actually said to me, because of the way you handled it and because you understand our business so well, we've been way more open with you than we would, not just with other auditors, but actually – and he said even particularly so with our internal audit— because actually, you know, you're working in a very collaborative way.

Darren Woolley: [00:16:51] Fantastic.

Adrian Jenkins: [00:16:52] Which was a great testimony.

Darren Woolley: [00:16:53] There's two more. What are the others?

Adrian Jenkins: [00:16:55] … So the next one is what we call always-on audits.

Darren Woolley: [00:17:00] Ooh, okay!

[00:17:01] So this is where so rather than going in—

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[00:17:03] You mean an agile audit, because, uh, agile is the hot topic in marketing! So you should call it an agile audit!

Adrian Jenkins: [00:17:11] So this is… particularly for creative agencies or agencies (outside of media) where there's a lot of pass-through going on… and in markets where the client is typically paying most or all of the the project cost based on an estimate. And then there's a reconciliation done. So in a traditional contract compliance audit, whilst contractually agencies are required to do reconciliations of jobs frequently and pass money back to clients if they're under-spends against those estimates, the reality is that that process doesn't often function very well. And so often we'll go in there after the year end or every two years and they'll just be a whole load of money sitting there that needs to that needs to go back. Now, from a marketing perspective, that's a real nightmare, because let's say there's a hundred thousand pounds there – to pick a number – it's a sizable amount of money that you can do an activity with. And yet, if it goes back after the year end, the first reaction of the finance director is he or she… is gonna want to trouser that—

Darren Woolley: [00:18:18] —Of course, spend it or lose it!

Adrian Jenkins: [00:18:22] Yeah, exactly. So from a marketer's budget management perspective, what they want is that money to come – to those reconciliations to be done – And ideally for that money to come back in within the same financial year so they can spend it and recycle it. And essentially an always-on audit is doing just that. It's taking typically a quarterly sometimes a six monthly look at all the reconciliations, reviewing them at a high level, maybe going into detail on one, perhaps two, depends on the size of the account… and getting that money reconciled and back into the brand as quickly as possible. So it's, um, it's a more frequent… hands-on check.

Darren Woolley: [00:19:01] One of the things that has impacted this is the payment terms. You know, as client payment terms have shifted beyond 30 to 60 to 90 to 120 days. And some of that's getting passed down the supply chain. … So agencies are now trying to pay their suppliers longer and longer… It means the reconciliation can take six months… (before) all the invoices are in and they've all been paid. So it completely, you know, this flow-on effect from what was seen as a, possibly cash flow management for the client paying longer payment terms has actually had an effect on the industry and an effect on the ability of the agencies to comply—

Adrian Jenkins: [00:19:42] —Yes.

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Darren Woolley: [00:19:43] —With a reconciliation brought back to the client in the same financial year.

Adrian Jenkins: [00:19:48] I think it's really true. And I would say… I would extend that six months even to a year. You know… even to a year. Because a lot of creative agencies particularly might be working with smaller businesses who are not quite so hot on their invoices. They might take 4, 5 months to actually invoice something. I mean, goodness knows how they stay alive… But that's not my issue!

Adrian Jenkins: [00:20:08] But, you know. And so let's say it takes four or five months and then, you know, many agencies will wait, as you say, will wait until they've been paid by the client before dispersing the money out through the… they're not a bank, not a bank.

Adrian Jenkins: [00:20:25] So. Yeah, so anyway. So that's always-on audits. And then the final one would be an exit audit, which is … when the client and agency have decided to part ways. And you know, and they basically—

Darren Woolley: [00:20:39] —Just suddenly reminded when you said the exit audit, I used the metaphor earlier of a marriage.

Adrian Jenkins: [00:20:46] —Yes!

Darren Woolley: [00:20:46] —So… you have the divorce lawyer going through the assets of the relative spouses, working out who gets what.

[00:20:54] —Yes. Yes! It's basically that, going through the agency's books to make sure that … neither party – well from the client's perspective, that the agency doesn't get a golden goodbye. So it's really making sure those reconciliations are done, any credit notes that have been raised have being recognised, that there aren't any outstanding invoices or unpaid invoices. It's making sure that everything winds down in an orderly and professional manner. So that should those parties wants do business again in the future, and let's face it… you know, the agency world is a small world. And, you know, you might have lost an account now, but actually in five year's time, things could be very different and that client might be coming back to you. Um… you know it's just to make sure that everything is done—

Darren Woolley: [00:21:31] —If you can't separate on good terms, at least separate on professional terms.

Adrian Jenkins: [00:21:37] Correct.

Darren Woolley: [00:21:38] So one of the things that we've noticed with exits and contracts. And I'd love your input here… is that especially for creative or where they are producing content, a little bit with media, but much more, is that there is so much volume and so much complexity in the things that the agency is doing. And they're creating huge amounts of assets and intellectual property and most contracts assign the intellectual property to the client. Even though formally it should be piece by piece, it's just a general blanket term…

Darren Woolley: [00:22:17] On exits, we've had a number of times where the client's phoned us up and said they've been hit with a cost for transferring all of that IP, an asset, from the agency's servers to the client or to the next agency that's taking over. Or in the case of media, you know, things like all the tags on all the digital display ads. That's a huge amount of work to actually map all those and transfer them across because you could be mid-campaign because they're always on. What's your opinion about that? And how do you, what's the role of the contract in defining the sort of terms of exit – which is quite relevant, sitting here in London at the moment!

Adrian Jenkins: [00:23:01] (laughs) Exit or lexit or Brexit, yeah!

Adrian Jenkins: [00:23:04] I think it's… a really good point. And it's actually something, reflecting on it, that's probably – no, not probably, it is – underdeveloped in most agency contracts that we see. Probably what we do see is on termination there might be, you know, there'll be a clause that says, y'know, we need to agree a transition plan and we reserve the right to charge additional amounts if it's particularly complex. And I think – again, I suppose it comes back to, you know, defining what could be possible, as much as possible… And it's not an area that I think's done well. I think my view is if the agency, uh – but it also depends, I suppose, how the agency's run itself, if the brand has encouraged the agency or asked the agency to work in a certain way that's very structured, or got its own asset management system, if we're talking about assets – then it should just be, you know, lift up in one agency and drop it in the other agency. If, however, there's a sizeable amount of work to go, that needs to take place, then I didn't see an issue with the agency being remunerated to do that… um, as long as the parties can agree (a fair and reasonable remuneration…)–

Darren Woolley: [00:24:21] –fair and reasonable, a great legal term!

Adrian Jenkins: [00:24:23] –whatever that is! I mean, I don't know what that is, but–

Darren Woolley: [00:24:25] –So many court cases have been around defining fair and reasonable in a case by case basis. So it's great for barristers.

Adrian Jenkins: [00:24:32] Yes!

Darren Woolley: [00:24:35] Um, so now just to talk a little bit – uh, because I'm interested in the competitive set, OK? Because, you know, there are lots of people that do, say they do, audits. Now, we've briefly touched on the benchmarkers…

Adrian Jenkins: [00:24:49] Yes.

Darren Woolley: [00:24:49] I think it was John Billets that invented the term media audit—

Adrian Jenkins: [00:24:54] —yes

Darren Woolley: [00:24:54] —for benchmarking.

Adrian Jenkins: [00:24:55] That's right.

Darren Woolley: [00:24:55] Yeah. Beyond the benchmarking, it seems to be that there's… sort of the big accounting firms that offer audit services—

Adrian Jenkins: [00:25:05] —Yes.

Darren Woolley: [00:25:06] And then there's the… there's some that are just set up as, y'know, groups of ex-agency finance directors.

Adrian Jenkins: [00:25:13] Yes.

Darren Woolley: [00:25:13] Some are qualified accountants, some are not.

Adrian Jenkins: [00:25:17] Yup!

Darren Woolley: [00:25:17] Um, and they're offering those services… you seem to fit somewhere in between there because you've got industry experience and knowledge. But you're actually chartered accountants.

Adrian Jenkins: [00:25:28] Yes. And so I think we're… a bit unique in that way. And I think your observation is… spot on. I feel that we sit in the middle. I… like to think we've got the best of both worlds in that we have that… we've got the regulatory oversight. And, you know, we get audited as well, by the ICAEW, to make sure we're doing things… that we're doing what we say we're doing…

Darren Woolley: [00:25:49] And that's important because auditing is a very specific profession with very specific, uh, rules of practice, isn't it?

[00:25:57] International standards and guidelines… yes, and while we don't, we don't sort of commit to our clients to do everything strictly against a particular guideline, we do – in general terms of all our processes and practices. So when we get a practice assurance visit, we do describe it as, look, this is… these are the guidelines that we follow… and this is how we've turned them into something that's relevant to contract compliance to the what we're looking at. Because also what we're doing, is not – although we're auditing, we're not doing a statutory audit.

Darren Woolley: [00:26:27] Right—

Adrian Jenkins: [00:26:27] —So technically—.

Darren Woolley: [00:26:27] —ah OK—

Adrian Jenkins: [00:26:29] —So people in this build—

Darren Woolley: [00:26:30] —Now, now that's a really important, um, distinction there, because statutory audits are a very specific legal requirement aren't they—

Adrian Jenkins: [00:26:38] —Yes. Yes. And so the type of audit that we do isn't… a legal requirement. And so in this building, it would be known as… an assurance engagement. Where you're bringing auditing principles and standards that you would use for a statutory audit to something else. In this case, a contract—

Darren Woolley: [00:26:58] Because there's been a number of agency groups and, uh, holding companies that have said as a blanket principle with their client, they will only allow a statutory audit by a – and usually one of the big audit firms or accounting firms—

Adrian Jenkins: [00:27:15] —a compliance audit by one of the Big Four… Yes. So… anyone who's read anything, things I've put out in recent years. That's one of my hobby… horses is this Big-Four-only audit clauses.

Darren Woolley: [00:27:28] So cynically, people have said that it's because they are very good at auditing, you know, but they actually don't understand the industry. And so while they'll give you an absolute, uh, tick for, well, what we were reviewed fits the guidelines—

Adrian Jenkins: [00:27:46] Yeah—

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Darren Woolley: [00:27:46] —It doesn't necessarily give you the picture, does it?

Adrian Jenkins: [00:27:49] Correct. And I guess that… being a competitor in that marketplace, what I would say and the ICAEW supports us, me, in this because we've raised that with them and they wrote recently to the FDs and the legal counsel of all the big six holding companies (is but) the IPA, WFA and the ANA, to say that actually those Big-Four-only audit clauses are, well, they're anti-competitive, it's anti-competitive practice and very much frowned upon. And I think the phrase was, y'know, you should appoint an auditor based on their competence rather than on their size—

Darren Woolley: [00:28:26] —and their experience with the category as well—

Adrian Jenkins: [00:28:29] Yes. Which should be part of the competence… uh sort of factor—

Darren Woolley: [00:28:32] Which is very different. And yeah, indulge me in a small joke that I heard years ago that I like about an agency employing a new FD. And the first candidate came into the agency CEO and had impeccable credentials, was a chartered accountant presented in a beautiful suit. And they did the interview. And the uh, the agency's CEO said uh, well, look, just one last question. What's two plus two? And he said, well, of course, it's four. And he said, well, y'know, thanks for coming in, y'know. We'll call you if we, uh, decide on you.

Darren Woolley: [00:29:10] The next person came in. Y'know, not quite well presented. Had a-an accountancy degree. He'd worked in a few agencies. They did the interview. And at the end of it, he said, the CEO said, to the candidate, what's two plus two? And he said, well, it could be three or it could be five. And he said well, I like the cut of your jib, we'll get back to you next week.

[00:29:33] The third guy turned up late. Bit dishevelled… no qualification, had worked in agencies of all different sizes. And at the end of the interview, the CEO said, what's two plus two? He went and opened and closed the door. He took the phone off the hook. He closed the blind and he reached— leaned down and whispered in the year of the CEO, what do you want it to be? (laughter) And he said, can you start tomorrow?

Adrian Jenkins: [00:29:59] (laughter, applause) Fantastic! Fantastic!

Darren Woolley: [00:30:00] And I think that's uh… y'know, it's funny. I hope it's funny! But it also goes to the point about matching the competency to the job at hand.

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Adrian Jenkins: [00:30:12] Yeah. Yeah, absolutely. And understanding the environments in which people are working and, uhm, you know, what might seem acceptable in one sphere might not be seen as acceptable in another sphere as well. So. So, yeah. So I would say, I think we sorta… blend the two, uh, in terms of yes, we've got that regulatory oversight, but we also fundamentally understand how agency works and the pressures that they're under. So we have people who've worked in agencies, but also people who have worked for brands and supporting brand marketing teams and also media owners. So I'd like to think that our people have got a, you know, a good sense of how this industry works from different angles and different perspectives.

Darren Woolley: [00:30:58] Yeah, I think, you know, as you say, it's got a basic commercial foundation—

[00:31:03] —Yes—

[00:31:03] —But there are nuances—

[00:31:05] —Yes—

Darren Woolley: [00:31:05] —That would change for… even from client to client. But you're also working internationally. There must be nuances that change from market to market or region to region…

Adrian Jenkins: [00:31:16] There are… And, uh—

Darren Woolley: [00:31:18] —Because you've got international standards—

Adrian Jenkins: [00:31:21] —Yes—

Darren Woolley: [00:31:21] —For audit… but it's just the way people do things.

Adrian Jenkins: [00:31:24] And I think that's right. Because fundamentally, wherever we go in the world — and people say, oh, it must be, you know, doing an audit in China must be totally different to doing one in the US, and totally different to doing one in Russia or South Africa or wherever it may be. And I would say to that, to answer that question, I would say — fundamentally, the agency business model for a media agency is the same wherever you going to be going in the world… for a creative agency, the same where you're gonna be going in the world, and so on. What… what is different are the business practices. And that's where the subtle nuances are. What I would say also, though, is… let's take media and perhaps media trading. That's not an area that I guess we would get into. And I would suspect that more of the nuances would happen around that area, that perhaps we we wouldn't necessarily see them on the accounting, because the accounting increasingly is getting very international… with international's accounting standards coming, coming to… to the fore. So what we tend to see is more in terms of behaviours of individuals within agencies. And if there is a problem, uhm, uncovered, uhm, how that might be dealt with and being sensitive to cultural norms and… that kind of stuff. And I guess also seeing, observing, I think we've become very good as individual auditors observing body language and behaviour of the individuals that we're dealing with. And I actually—

Darren Woolley: [00:32:43] —Which is more insightful than the numbers on the page! (laughs)

Adrian Jenkins: [00:32:47] —in many cases, yes! Because if you're asking particularly, you know, if you're asking an FD about, you know, a sensitive issue such as rebates — and this probably giving away some trade secrets, but there are agency people who… listen to this — but, you know, I'm absolutely looking out for body language. And if I've got someone who is, you know, sitting on their hands and shifting from one… buttock to the other, you know (laughs) I'm taking in that as much as, you know, what they're saying to me and what's on the page in front of me.

Darren Woolley: [00:33:13] Well, and as I said before, we don't do audits, but, uh, we're looking at a… remuneration. And I just, uh, I said to a regional FD, you're getting a good price for your, uhm, colour copies. And he goes, oh, that's my biggest profit centre! And I went, I'll pretend (laughter) I didn't hear that!

Adrian Jenkins: [00:33:33] Because with all these things, there are some things that, you know, are—

[00:33:35] —Sorry. Sorry, I'll just clarify that. I think it's because he got squeezed on every other charge—

Adrian Jenkins: [00:33:41] —I'm sure—

Darren Woolley: [00:33:41] —That… why it was his profit centre! (laughs)

Adrian Jenkins: [00:33:42] No, no, I'm… sure and and, you know, so… And because also, you know, we… If you build a — it's like when you build a rapport with, there will be things said … that you… typically pick up on. And typically we, you know, we're there for a week. We're seeing these guys and girls, you know, regularly during the course of that week, and you do build a rapport with them. But at the end of the day, fundamentally, you are… you're auditing the contract. So… your report must be focused on what's in that contract. Yes, there are other things you are invariably going to sort of, you know, to pick up on. And then it's down to your professionalism and discretion as to, you know, what you do or don't do with that information.

Darren Woolley: [00:34:20] Now, just, uh, want to — and I've just noticed the time but, uhm, just wanted to follow up or raise the issue of SOX [Sarbanes-Oxley Act] compliance.

Adrian Jenkins: [00:34:29] Yes.

Darren Woolley: [00:34:30] Because it gets used as a, sort of… a barrier for a lot of conversations around audit and financial performance. Um, we have to remember that SOX was introduced in the US—.

Adrian Jenkins: [00:34:41] —Yes—

Darren Woolley: [00:34:42] —Because of a failure of the auditing process back then, that we had consultants and auditors in the same company that were often, er, conflicted in providing the sort of clarity and advice—

Adrian Jenkins: [00:34:54] —And… internal controls not properly documented within… businesses, and not operating properly as well. So it came, you know, came to a head 2002—2003 after… after Enron…

Darren Woolley: [00:35:06] Yeah.

Adrian Jenkins: [00:35:06] It's funny you should raise that because I got asked a question, one of our global clients asked me about that last week. One of its agencies was pushing back. They said, we can't do this because of SOX compliance—

Darren Woolley: [00:35:15] And we… hear that all the time.

Adrian Jenkins: [00:35:17] Utter nonsense! Complete and utter nonsense! All SOX is doing is ensuring that the companies in the — typically listed companies in the U.S. — have a clear and structured framework of internal control. And that is then followed. That's it! So it's… essentially, you know… SOX compliance is how do I… run my business from a financial perspective, effectively? What… am I expecting to happen? So actually, being SOX compliant should make it easier for an auditor to come in and understand what this… the process and systems are. And audit them. So if anyone ever throws up "Oh, SOX compliance", complete and utter red herring.

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Darren Woolley: [00:36:00] And that's exactly how it's thrown up. (They'll say) Oh, we can't do it because the SOX. Well then, please explain that to me. Well, it's just SOX. (laughter)

Adrian Jenkins: [00:36:07] They don't understand it. Someone's just—

Darren Woolley: [00:36:09] —Yeah, they've been told by someone down the phone that, y'now, no we can't do that because of SOX compliance.

Darren Woolley: [00:36:14] Adrian, it's been fantastic, uh, sitting down and having a chat.

Adrian Jenkins: [00:36:18] Likewise!

Darren Woolley: [00:36:18] And, uh, final… final question for you, erm, before we go. And that is, obviously in an audit if you find something that, uh, is in the agency's favour but not compliant with the contract—

Adrian Jenkins: [00:36:32] —Yes—

Darren Woolley: [00:36:32] —Then the agency would need to make, uh, recompense for that—

Adrian Jenkins: [00:36:36] —Yeah—

Darren Woolley: [00:36:37] —But what about if you find in an audit with [indistinct] by the client—

Adrian Jenkins: [00:36:41] —Yeah—

Darren Woolley: [00:36:41] —That is actually in favour of the agency. Do you think that the, uh, client should pay…

[Outro music fades]