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a consulting methodology gaining favor in the accounting profession for its focus not ...

Roman Kepczyk • Jun. 08, 2015

LEAN SIX-SIGMA



The application of **Lean Six Sigma** principals has helped countless organizations objectively re-evaluate and streamline their production processes. Lean Six Sigma is a consulting methodology gaining favor in the accounting profession for its focus not only on fostering operational efficiency, but also improving audit quality and the client's interactions with the firm, which in the end helps grow the audit practice. Traditional audit practices can take advantage of the lessons learned from firms that have implemented "Lean" processes and below we point out ten opportunities for firm consideration:

1. **Engagement Planning:** A cottage industry of audit re-engineering firms has

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the highest audit firms that have multiple engagements in the same segment have found that planning these engagements at the same time, helps optimize their time as well as educate the seniors on directing the process. Lean principles point to taking the time to plan thoroughly before the engagement starts so every knows what is expected and minimizes later rework.

2. Engagement Measurement: We've all heard the saying "what gets measured, gets done," so what KPIs (Key Performance Indicators) are utilized within your audit practice to manage engagements? Oftentimes, there is an engagement budget and expected hours, which are only looked at when they are busted. Lean Six Sigma success relies heavily on measuring key audit metrics that consistently point to engagement success. The easiest metrics to track are "discrete" measurements, meaning they can be answered with a "yes" or "no." Within each engagement, firms can track whether or not the client provided the documents required on time, was the field work completed on schedule, and was the report delivered according to the agreed upon date with the client. Lean Six Sigma also utilizes "continuous" measurements that quantitatively track information such as number of days from completion of field work to final review, hours over/under budget, and profit margin on the engagement which are ideally reviewed after completion to determine where the firm should do more audits and where there needs to be improvements in the process.

3. Client Planning: We rely on clients to provide us with the necessary information before the audit begins and the firm should get agreement from the client that they will have all information to you by an agreed upon date, or "they" will be responsible for delaying the delivery of the engagement. This may entail having to re-educate the client on the firm's portal and how to provide information, but this information should be recorded by the firm as well so that new staff learn to utilize these standard tools. Having ALL documents and client personnel available at the start of the engagement is critical to minimize false starts and delays, which negatively impacts the start of the next engagement, which makes scheduling a

continual nightmare.

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planning to be flexible and not to force a new engagement opportunity between existing scheduled engagements when there is no wiggle room available. Forcing more work into an already full schedule are one of the major causes of auditor discontent.

5. **Appropriate Staffing:** Another Lean Six Sigma tenant focuses on insuring that the right number of “needed” personnel are on the job. While firms may require a larger number of staff for inventory observation, are all the personnel required to be at the client site for the entire engagement or can they perform portions of this engagement back in the office if it is fed to them from the staff in the field? For personnel that are only required for a portion of the day, work can be performed from the office utilizing remote collaboration tools (Skype, Lync, FaceTime). The hours saved by not having to commute to/from client sites can be spent doing productive audit tasks.
6. **Prioritized Field Processes:** Part of the engagement planning process should entail the risk assessment which prioritizes the most important areas of the audit and identifying those that may be the most difficult. These should be prioritized first so that work can be completed and reviewed while still in the field, allowing the audit staff to work on the easier steps (instead of doing those the first few days of the engagement and then having to scramble to complete those near the end).
7. **Field Review:** Lean Six Sigma promotes quality review/completeness before passing on any work, which suggests that the review process begin while the audit staff is still in the field. Clearing the more complex components of the audit while the staff are onsite allows the reviewer to get insight and provide corrective direction with the goal of having a draft of the financial reports and footnotes completed in the field. With the collaboration tools mentioned above, the reviewer can connect from offsite locations to review the work and communicate with the staff without having to be onsite.
8. **Centralized Data Set:** For most metropolitan/suburban audits, we see auditors getting reliable Internet access more than 90% of the time, allowing the audit

binders to be centralized in one location and independently accessed by everyone

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Spinning down when working on the central data set.

9. **Standardized Formats:** Standardization of report formats is another key tenant to promote “Lean” efficiency. Too often we see staff having to learn the financial report preferences of specific partners so that their audit will pass that partners unique review requirements. This makes it harder to train new staff as well as to share staff amongst different engagements, so creating a firm standard for financial reports promotes firm efficiency. With the standardization of the editing tools within Word and Excel, firms are pushing the initial creation of all financial reports while onsite so they become part of the field review. Cosmetic quality control is then done by an administrative person back at the office prior to final delivery.
10. **Client Delight:** A final tenant of Lean Six Sigma is to focus on optimizing the audit client’s experience from “their” viewpoint. With traditional auditing this can be a stretch as auditors are often seen as an intrusion into the client’s ability to get their day to day work done. Every team member should be given the responsibility to identify at least one opportunity for the client to improve their business. These ideas can be consolidated at the end of the engagement and presented to the client as a “value add.” Inviting the client to lunch a few months after the engagement to follow up on these ideas is a way to transition the relationship to a “consultative advisor” status which helps the client’s business, instead of an audit engagement which is to be endured.

It’s important for firms to debrief their current processes at least annually to identify opportunities for improvement and the introduction of Lean Six Sigma provides a fresh perspective. We suggest you discuss the ten processes above and determine which single item would have the greatest impact on your audit practice and then push that through completion. A successful first step often leads to confidence in trying another.

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