Incorporating Lean Six Sigma into the Internal Audit Process

Ernest Anunciacion, CIA – Senior Product Marketing Manager, Workiva
Agenda

• Background
• Learning Objectives
• Six Sigma vs Lean Overview
• Tools of the Trade
• Audit Management Process Review
• Conclusion and Questions
Introduction – Why should I listen?

• Not your typical auditor
  • General Electric – IMLP & Corporate Audit Staff
  • Ceridian Corporation – Enterprise Risk Management
  • The Mosaic Company – Risk Advisory & Assurance
  • Grant Thornton – Business Advisory Services
  • Workiva – Product Marketing

• Professional Certifications
  • Certified Internal Auditor (CIA)
  • Six Sigma Black Belt
Learning Objectives

• Gain an understanding of the fundamental differences between Six Sigma and Lean principles

• Provide an overview of “Lean Thinking” and the most commonly used Lean Six Sigma tools

• Identify opportunities to integrate Lean Six Sigma principles within the Audit Management process
Why do companies fail?
Why Do Companies Fail?

"If your firm does not have the ability to learn and improve, it will soon be out of business."

- Professor Arthur Hill, Carlson School of Management
Motivation

1. All “work” is a process.

2. All processes can be improved.

3. All processes can be improved by making them better, faster, stronger, and cheaper.

4. Better, faster, stronger, and cheaper processes add more value to the world.
Six Sigma vs Lean Overview
# Six Sigma vs. Lean Six Sigma

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Motorola Quality Function and Toyota Factory Floor are the origins of Six Sigma and Lean, respectively.

Source: [Workiva](https://www.workiva.com)
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Best of Both Worlds – Principles

**LEAN**
Reduce waste by reorganizing a process

**SIX SIGMA**
Reduce defects by solving problems

**LEAN SIX SIGMA**
Reduce waste and solve problems to become faster and more efficient
Lean Six Sigma & the IPPF Standards

According to the Institute of Internal Auditors (IIA):

“...an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”
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**GOAL: To become a trusted business advisor that adds value**

- How do we add value?
- Why is it so difficult to achieve?
Lean Thinking
“Lean Thinking”

Values:
- Simplicity
- Visibility
- Error-Proof
- Waste-less
- Standard
Find the 8 Types of Waste

- Downtime
- Overproduction
- Waiting
- Non-Utilized Talent
- Transportation
- Inventory
- Motion
- Extra Processing
The 5S Program

- Sort
- Set in Order
- Shine
- Standardize
- Sustain

1. Identify Waste
2. Simplify
3. Error-Proof
4. Increase Flow
5. Standardize
Implement Products & Processes

- Automatic Controls
- Automatic Shutdown
- Automatic Warnings
- Human Factors
- Selection, Training, Discipline
Focus on Time

- Pull, don’t push
- Reduce setup cost
- Reduce lot size
- Level the schedule
- Lean the supply chain
Strive for Perfection

- Work instructions
- Respect for people
- Measure metrics

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Lean Six Sigma Tools
RACI – Contract Example

R = Responsible  A = Accountable  C = Consulted  I = Informed
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### SIPOC Example – Risk Assessment

#### Suppliers
- Audit Committee
- Management
- Regulators
- External auditors
- Prior audits

#### Inputs
- Surveys
- Interviews
- Research
- New regulations
- Open audit findings

#### Process
- See Below

#### Outputs
- Risk assessment
- Annual audit plan
- Reports

#### Customers
- Audit committee
- Executive management
- Regulators
- Business process owners

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![SIPOC Diagram](image-url)

1. **Identify Risk**
2. **Determine Criteria**
3. **Assess Risks**
4. **Prioritize Risks**
5. **Create Audit Plan**
Value Stream Map Example

What is the Customer Willing to Pay For?

START: Request Account Setup

Search for contact on web

Call Account Specialist

Transfer call to IRA specialist

Rep explains process for opening account on web

Type in account info on web

END: Setup Complete

Verify account linked by logging in

Customer service links new account to existing account

Call customer service to verify opening

Check back to confirm opening

Process Statistics

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Value Stream Map Example

What is the Customer Willing to Pay For?

START: Request Account Setup

Search for contact on web (NVA 15 min)

Call Account Specialist (VA 5 min)

Transfer call to IRA specialist (NVA 5 min)

Rep explains process for opening account on web (NVA 15 min)

Type in account info on webs (VA 15 min)

Verify account linked by logging in (NVA 10 min)

Customer service links new account to existing account (NVA 15 min)

Call customer service to verify opening (NVA 10 min)

Check back to confirm opening (3 Xs –10 min each, NVA 30 min)

END: Setup Complete

Process Statistics

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- Start and end with the Customer in mind
- Evaluate from the customer’s point of view
- Focus on cycle and wait time
Why do we have high employee turnover?

**Culture**
- Closed door policy
- Overly competitive atmosphere
- Increased competition
- Better benefits externally

**Process**
- Inadequate recruiting
- Lack of quality training programs
- Too much manual work
- Old systems cause frustration
- Inappropriate skill sets filling job roles
- Feeling of being underpaid and overworked

**People**

**Technology**

**Externalities**
The Audit Management Process
Audit Management Lifecycle

Cyclical nature of process
- Driven by organizational risks
- Key challenges & pain points
- Continuous improvement
Audit Planning and Scoping

Building the Audit Plan
- Risk assessments
- Planning memos
- Project plans
- Resource assignments
- Audit budget
- Audit kick-off presentations
Data Requests and Collection

Managing the Documentation

- Review/request documents
  - Process flow charts
  - Process narratives
  - Risk and control matrix
  - Process walk-throughs
  - Audit program guide
  - Test plans
Fieldwork and Testing

Conducting the Audit Work

- Workpapers and review
- Supporting evidence
- Test of design
- Test of effectiveness
- Observations
- Status update meetings
Conclusion and Reporting

Closing the Audit

- Issues/findings log
- Management responses
- Final report
- Closing meeting
- Budget to actuals
- Summary memo
- Audit surveys
Follow Up and Monitoring

Continuing Engagement
- Issues/findings management
- Balanced scorecards
- External audit reports
- Audit committee materials
- Regulatory reports
What are your challenges?
Universal Audit Process Challenges

PLANNING

STRUCTURED

GENERAL LEDGER

UNSTRUCTURED
Universal Audit Process Challenges

PLANNING

FIELDWORK

Structured:
- General Ledger

Unstructured:
- Files (.xlsx, .pptx, .docx)

Diagram shows the integration of structured and unstructured data in the planning and fieldwork phases of an audit process.
Universal Audit Process Challenges

PLANNING

FIELDWORK

REPORTING

STRUCTURED

GENERAL LEDGER

UNSTRUCTURED

AUDIT

BUDGET

OPS
Universal Audit Process Challenges

- Manual effort (comments, notes, roll forward, copy, paste, updates, format, reformat, tick and tie, foot and cross-foot totals, etc.)
- Unintended or missed changes
- Consistency within and across documents
- Babysitting data
- Tracking deliverables and status
- Version control
- Review and approval
- Audit trail (who changed what, when, where, and why)

The entire process is extrapolated by the number of audits!
Solving Challenges with Technology

- Value vs. non-value time (analysis, more audits, process improvement)
- Reduce risk (inaccurate findings, delayed timing, turnover)
- Repeatable, sustainable, documented process
- Improve overall quality, reliability, consistency
- Effective control management/audit trail
- Increase overall productivity
- Work-life balance (less stress, less overtime)
- Fulfilling job responsibilities

Ensure the solution supports your process; not the other way around!
Conclusion
Learning Objectives

• Gain an understanding of the fundamental differences between Six Sigma and Lean principles – *Eliminate waste from the customer’s perspective to provide value add*

• Provide an overview of “Lean Thinking” and the most commonly used Lean Six Sigma tools – *Embrace the mentality and leverage tools where applicable*

• Identify opportunities to integrate Lean Six Sigma principles within Audit Management process – *Opportunities exist with people, processes, and technology*
Questions?

ernest.anunciacion@workiva.com