

“Just in Time” Auditing – and How to Achieve It

What Auditors Can Learn from the Manufacturing Industry

Key Contributor:

Alan Anderson
Founder & President
Account-Ability Plus

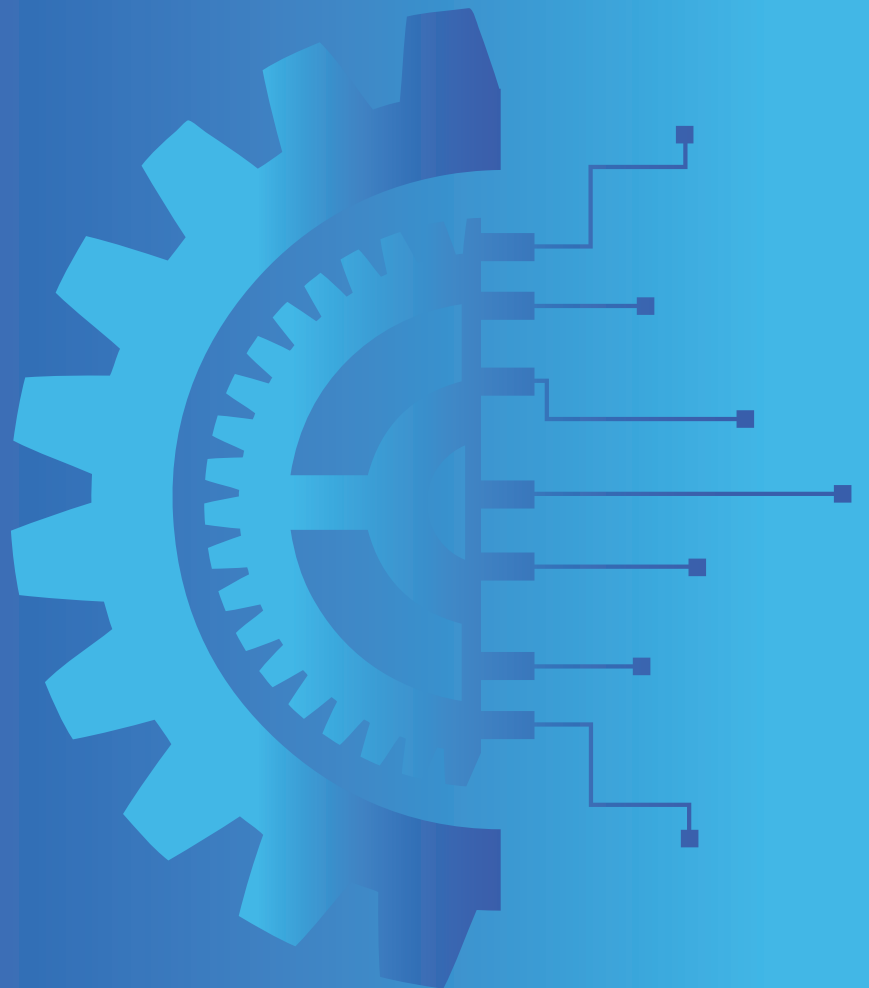
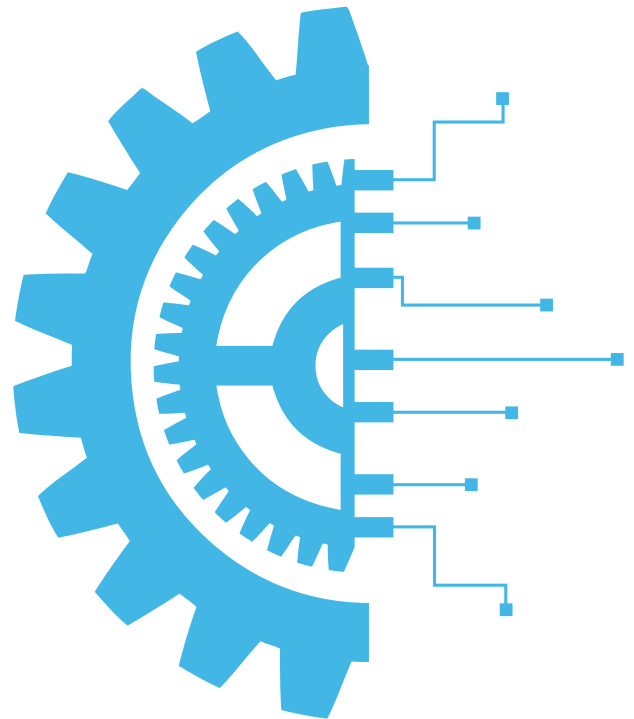


Table of Contents

3	Introduction
4	Design/Plan – It's Not "SALY"
4	Build/Fieldwork – "Let's Audit the Easy Areas First"
5	Inspection/Wrap-up – "Creating Rework and Wasted Time"
5	Delivery – "Just in Time" or "Finally"?
6	Avoiding Audit Workflow Bottlenecks
7	Planning – The Key to Success
8	Develop a Fieldwork Plan
9	Improving Workflow Requires More than Technology
10	About CPA.com
10	About XCM



Introduction

The concept of "just in time" has a clear meaning in the manufacturing world. Just in time (JIT) manufacturing is an inventory management system designed to improve a business's cash flow by reducing in-process inventory and associated carrying costs. JIT requires well-coordinated manufacturing workflow and timely actions throughout the entire process.









In the context of an audit, however, "just in time auditing" usually means something else entirely. After a tremendous amount of starting and stopping, the audit team is finally able to deliver the completed audit to the client "just in time." They breathe a sigh of relief and move on to the next "just in time" audit. This is the polar opposite of the JIT manufacturing process, which is comprised of workflow coordination and timely actions.

But there are a number of parallels between the manufacturing process and the audit process that warrant closer scrutiny, because the audit is the result of a series of sequential steps that can be closely compared to the manufacturing process. Manufacturers follow four basic steps to get products to their consumers: design, build, inspect, and deliver. In an audit context, these steps correlate to planning, fieldwork, wrap-up and delivery.

4 Basic Steps









Just in Time (JIT) Auditing

Parallel Between
the Manufacturing Process
and Audit Process

 <p>MANUFACTURING Design</p>	 <p>AUDIT Plan</p>
 <p>MANUFACTURING Build</p>	 <p>AUDIT Fieldwork</p>
 <p>MANUFACTURING Inspection</p>	 <p>AUDIT Wrap-up</p>
 <p>MANUFACTURING Delivery</p>	 <p>AUDIT Delivery</p>

Audit quality, client service and overall efficiency can be improved by borrowing best practices from these basic manufacturing workflow steps to incorporate a JIT approach to workflow techniques in the audit process. Technology can play an outsized role in this effort, building on and enhancing the workflow strategy once it is set.









The right technology can essentially enforce the workflow strategy, playing an instrumental role in helping firms keep audits on deadline and under budget – particularly in the pre- and post-audit stages. This paper examines JIT workflow techniques that have been applied successfully in an audit setting, and identifies how technology capabilities can help manage these techniques effectively.

 <small>MANUFACTURING</small> Design	 <small>AUDIT</small> Plan
 <small>MANUFACTURING</small> Build	 <small>AUDIT</small> Fieldwork
 <small>MANUFACTURING</small> Inspection	 <small>AUDIT</small> Wrap-up
 <small>MANUFACTURING</small> Delivery	 <small>AUDIT</small> Delivery

It’s Not “SALY”

The design step in manufacturing correlates to scheduling and planning in the audit. This step is easy to understand in concept but difficult to deploy: Many audit teams talk about how important this step is, but when it’s all said and done, they follow the same audit steps and same fieldwork timeframe as the previous year. Same as last year – “SALY” – ends up being the design by default.









Scheduling for most audits is not complete. Most audit teams will only schedule the dates for audit work to be carried out at the client location – fieldwork. Manufacturers, meanwhile, schedule and track the entire process from beginning to end to meet product delivery date to the customer. A JIT manufacturer pays close attention to capacity and potential bottlenecks and incorporates those constraints into the workflow.

 <small>MANUFACTURING</small> Design	 <small>AUDIT</small> Plan
 <small>MANUFACTURING</small> Build	 <small>AUDIT</small> Fieldwork
 <small>MANUFACTURING</small> Inspection	 <small>AUDIT</small> Wrap-up
 <small>MANUFACTURING</small> Delivery	 <small>AUDIT</small> Delivery

“Let’s Audit the Easy Areas First”

The build stage in manufacturing closely corresponds to the fieldwork stage of an audit. The manufacturing process has a well-thought-out production workflow, which is constantly monitored. It is designed to minimize downtime and to maximize throughput. The production line halts when the manufacturer runs out of raw materials.

Ideally, the fieldwork stage for an audit should have minimal downtime, with the audit team completing all the detail work in the field, including completing drafts of the financial statements. But too often there is not a fieldwork workflow plan beyond scheduled dates of fieldwork – instead, everyone merely hopes that most of the work can be completed during that time, because there is another audit starting the following week.

 MANUFACTURING Design	 AUDIT Plan
 MANUFACTURING Build	 AUDIT Fieldwork
 MANUFACTURING Inspection	 AUDIT Wrap-up
 MANUFACTURING Delivery	 AUDIT Delivery

“Creating Rework and Wasted Time”

Manufacturers know they must deliver a quality product in order to retain their customers. This is why any manufacturing process includes an inspection stage – to ensure that the product meets the desired specifications and quality guidelines. In the audit, this is known as the review stage. The purpose of the review stage is to ensure that professional standards have been met and that the audit is of high quality.

Manufacturers realized several years ago that saving the inspection step for the end of the line led to rework and/or waste. In response, many began performing inspection steps throughout the entire process, so that defects could be identified at the earliest possible moment to minimize waste and rework.

After-the-fact audit reviewer comments are the primary driver of rework on audits. Since these comments are written well after the work was performed, the auditor has to relearn what they initially did in order respond and resolve the comment.

 MANUFACTURING Design	 AUDIT Plan
 MANUFACTURING Build	 AUDIT Fieldwork
 MANUFACTURING Inspection	 AUDIT Wrap-up
 MANUFACTURING Delivery	 AUDIT Delivery

“Just in Time” or “Finally”?

In the end, the goal of the manufacturer is to deliver a high-quality product to the customer on the timeline that the customer needed, at a fair price. This goal is no different than that of the auditor – to deliver high quality service to the client at a fair price.

The manufacturer’s job is not complete until they have delivered on 100% of the order. The audit team’s job is also not complete until they have delivered 100% of the services to the client on a timely basis.

Avoiding Audit Workflow Bottlenecks

An audit team that typically does not complete the audit in the field may not know how to set the audit in motion in a way that helps ensure successful completion.

In manufacturing, an understanding of capacity and throughput is key to delivering products on schedule and on budget. In audit, the first step to delivering an audit on time is understanding the bottlenecks that prevented the delivery of the prior year's audit on time.

The following table contains a partial list of typical audit bottlenecks and actions that can eliminate them:

BOTTLENECK	ACTION(S)
Client not completely ready	<ul style="list-style-type: none"> • Place due dates on required client schedules • Track receipt of PBCs received • Call client a week before field work to ensure readiness • Be prepared to reschedule fieldwork start date
Not enough time scheduled for fieldwork	<ul style="list-style-type: none"> • Prepare a detailed time budget and workflow plan match it to the scheduled staff time in the field
New accounting standard(s) not addressed in a timely manner	<ul style="list-style-type: none"> • Design audit approach to address the new standard(s) during planning • Discuss the new standard(s) with the client early • Draft the proposed new footnote(s) for the client to read early
Reviews not completed in a timely manner	<ul style="list-style-type: none"> • Perform real-time reviews and don't wait until all areas are complete • Schedule reviews in the workflow process and monitor dates completed • Perform reviews in the field
Critical confirmations not received in a timely manner	<ul style="list-style-type: none"> • Mail confirmations as soon as possible after year end • Perform Attorney procedures first day of fieldwork or at interim and mail attorney letter no later than the first day of fieldwork • Request any covenant waiver letters as early as possible
Client prepared schedules incomplete	<ul style="list-style-type: none"> • Have the client send the schedules in advance so the In-charge can review • Return incomplete schedules to the client rather than fixing them yourself • If you must fix the incomplete schedule, gain client agreement to additional billing and then track that time separately

These are all areas where commercially available tools, developed specifically for the workflow challenges of audits, can play an instrumental role. For example, XCMworkflow® and XCMscheduler® help audit teams set and manage clear, shared milestones in each of these areas, as well as identify (and address) specific bottlenecks. XCMworkflow and XCMscheduler for Audit help A&A professionals manage their pre-engagement scheduling and post-engagement reporting, peer review, and more. They are designed for firms who need a solution for the critical business process and resource challenges impacting engagement profitability, risk mitigation, client service, quality of work, peer review, and work/life balance. Essentially these solutions help auditors and practice leaders manage multiple engagements with multiple team members, to deliver quality client service, on time and under budget.

Planning – The Key to Success

The build phase in JIT manufacturing requires thoughtful planning of workflows and capacity to ensure that all inputs are available when needed. Similarly, the fieldwork phase of "just in time auditing" also requires thorough planning. Eliminating the bottlenecks listed above is a good first step but developing a plan that specifically addresses audit procedures and planned workflow is essential.

Unfortunately, auditors often do not pay adequate attention to audit planning, which is the most important determinant in delivering a quality audit on time and on budget, and with the appropriate strategies to minimize risk. Instead, they use the "same as last year" approach to planning – "SALY". A SALY approach can lead to a directionless audit, especially if workflow is not considered.

Here are eight steps that should serve as a foundation for planning an audit. Following these steps will result in higher quality audits that take less time.

1. Kick off the planning by talking to your client
2. Gain a clear picture of what happened during the year
3. Prepare a complete list of items that are needed from the client to complete the audit
4. Identify when the client needs the audit report
5. Update the draft financial statements and footnotes for new accounting standards and client changes during the prior year
6. Develop a plan to complete all the work while carrying out fieldwork, which will minimize the number of starts and stops
7. Link the extent of planning and related audit procedures with the level of client complexity and risk
8. Identify which additional services are needed, and when they are required

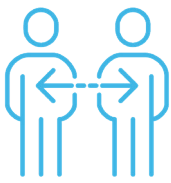
The optimum way to ensure these steps become a normal routine is to prepare a workflow plan and schedule that covers the audit from beginning to end. JIT manufacturing requires a tightly managed workflow that accounts for resource constraints, but most audit firms schedule staff for fieldwork only. Planning and wrap-up end up taking place only as time allows – and it often doesn't. Planning in this mode perpetuates the SALY approach to planning. Wrap-up that remains unscheduled tends to lead to an unexpected pileup of audit hours near the end of the process. This wrap-up work is where technology like XCMworkflow really helps firms keep their audits on deadline and under budget.

It's not enough to schedule the entire job from start to finish – the plan should also be monitored. Attachment 1 of this paper includes a sample workflow plan that offers one view of the workflow procedures and decisions that these commercially available tools can support. When the entire process is scheduled and monitored, the audit team will be set up for success to deliver a high-quality audit, exceed client expectations and dramatically reduce time on the audit.

[Download Sample Workflow Plan](#)

Develop a Fieldwork Plan

Unlike a JIT manufacturer, most audit teams today launch into their fieldwork without a plan. A JIT manufacturer carefully considers the inputs required for every step and choreographs the entire process to minimize bottlenecks and down time. An audit fieldwork plan is similarly instrumental in identifying the who/what/by when details that are required for real success in the field, visible to all audit staff on the engagement.



Know the “Who”

A JIT manufacturer requires adequate resources of raw materials, machinery and personnel for a successful build stage. Likewise, a JIT audit requires the resources of adequate staff and time to complete fieldwork successfully. The in-charge needs to know who is assigned to the audit and the amount of time each staff is expected to dedicate to the audit.



Know the “What”

A JIT manufacturer assigns work and utilizes available resources to maximize capacity while maintaining quality. For a JIT audit, the in-charge should assign audit responsibilities to match audit complexity with the skill set of the audit staff. Fieldwork assignments should consider the required steps and complexity within a section rather than simply assigning a section to one staff person as is common practice. This is especially relevant for the most significant and difficult audit sections.



Know the “When”

JIT manufacturers operate according to a strict timetable of completion so that the input for each stage is available at the correct time. A JIT audit fieldwork plan should identify hours assigned to each audit area as well as to each individual procedure within an audit area. This step can be set up as a “days” and “hours in a day” timeline. A timeline that includes this granular level of detail will help the entire audit team understand what is expected of them and by when.

A successful audit process depends heavily on workflow management and the skills of the audit in-charge to monitor the workflow and react when issues surface. A solution like XCMscheduler can not only take activity data from XCMworkflow to forecast daily workload but can also give the entire audit team that granular view of real-time work assignment. And, if there are any audit fieldwork scheduling changes (there always are), a tool like XCMscheduler lets you find availability based on role, skill level, work assigned, anticipated work, as well as budgeted or remaining hours—along with click-and-drag functionality to simplify rescheduling.

Improving Workflow Requires More than Technology

Most firms assume technology is the solution to improving workflow – without first determining the workflow needs of the audit. While technology plays a vital role in upholding a JIT audit workflow, overlooking two vital components can negate its contribution. These two additional components are the people and the audit processes.

The people on an audit team may need additional training or mentoring to develop the skills and knowledge base needed to become effective auditors. This knowledge base also includes understanding how to use the firm's selected technology tools. In JIT manufacturing, a well-trained workforce is essential to keeping everything moving through the process efficiently.

JIT manufacturers continuously monitor and improve their processes to minimize constraints. Likewise, audit processes should be continuously evaluated to minimize redundancies without introducing unnecessary risk. Grafting efficient technology onto an ineffective process may simply produce a faster ineffective process.

When these needs are addressed, adding a technology tool like XCMworkflow to uphold your optimized business processes can enable your firm to manage each engagement individually, while consolidating all engagements into a unified business process. XCMworkflow offers firms an easy way to communicate engagement status across partner groups, service lines, locations, and/or departments. It also provides a method to ensure real-time data is accessible in one place, so that you don't have to manually aggregate it from multiple systems. Unlike

other workflow solutions, XCM lets firms modify existing business processes, without rebuilding them from scratch. It also offers a central, easy-to-use location for review points and unstructured information.

Conclusion

Application of a JIT approach to the audit process will make substantive improvements in the workflow. Firms will benefit by eliminating wasted time and improving efficiency without increasing risk. Clients will benefit when they receive higher quality service, and a process that minimizes inconvenience to them.

Adding a workflow tool like XCMworkflow is key to achieving a JIT audit workflow. Creating a central location with all audit processes clearly defined makes it easy to assign work, monitor progress, and reassign work when needed. Following a consistent workflow not only improves efficiency, but it also improves the quality of the work.

Dashboards like those in XCMworkflow improve visibility into the status of tasks and promote accountability. They ensure that crucial tasks are not overlooked or left until the last minute but are completed at the right time to prevent bottlenecks. The dynamic nature ensures that each person's tasks are continuously updated and make it easy to see the status of the work at a glance.

The biggest benefit of combining a JIT approach with a workflow management tool is a smoother and more predictable audit process, which makes it possible to provide the best possible service to your clients while enhancing work-life balance for your team.

About CPA.com

[CPA.com's](#) mission is to empower CPAs for the digital age by providing targeted technology solutions, education and best-in-class strategic resources to help position CPAs and their firms for success in today's digital world.

CPA.com's partnership with [XCM](#), a leading provider of workflow automation, provides CPAs a proven partner that can expertly consult on business process improvement to achieve productivity enablement via workflow automation. XCM has helped more than 25,000 users realize the value of automating workflow.

Explore the [resources](#) CPA.com and XCM offer, including white papers, success stories and educational webinars on how to build a fully automated, end-to-end workflow in your firm and get more out of your human capital. CPA.com is a subsidiary of the American Institute of CPAs (AICPA), the world's largest member body representing the accounting profession. For more information, visit [CPA.com](#) and stay connected on [Twitter](#) and [LinkedIn](#).

About XCM

[XCM](#) offers a complete productivity enablement and workflow platform that empowers you to manage all types of work – within all departments, across multiple offices.

It's an open platform system that works horizontally across tax, accounting, finance, audit, and operations applications. XCM manages millions of processes per year, enabling professionals to complete more work, in less time, with greater quality. Our device and browser-agnostic cloud solutions offer real-time anywhere, anytime access to work.

Though we integrate with several popular tax and accounting packages, the real payback is through your greatest asset – your people. XCM is the only productivity enablement and workflow platform endorsed by the AICPA, and complies with the controls and applicable criteria of the AICPA Trust Service Principles.

For more information, visit [XCM](#) and stay connected on [Twitter](#) and [LinkedIn](#).

Learn more: [CPA.com/XCM](#) Call: 781.356.5152