



# AGILE AUDITING

Sprinting to change: Reimagining internal audit in a digital world



**Financial Services**  
AUDIT CENTER

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# AGILE AUDITING

## Sprinting to change: Reimagining internal audit in a digital world

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### Introduction

**The world is changing dramatically.** The way we do business is changing. The pace of innovation is steady and swift; and everything is bigger, faster, and more intense. The changes spring from global forces, industry trends, and enterprise factors, and with emerging technologies in play, stakeholder needs are evolving. With that, stakeholders expect internal auditing to evolve at the same pace to meet those needs.

Internal auditors are consistently challenged to provide more value amid the changing business landscape as stakeholders demand greater anticipation of risks, deeper insights, and more efficient assurance. This makes for huge opportunities for the profession. To capitalize on those opportunities, internal auditors must develop a different perspective — for speed, efficiency, and assurance.

This knowledge brief examines Agile auditing and its ability to increase efficiencies in internal audit. It takes a close look at the fundamentals of an Agile approach, observes key factors and practices to consider for internal audit to shift the mindset and elevate performance, and specifically highlights how one large corporation adopted and implemented the Agile methodology successfully.

# AGILE: A CASE FOR TRANSFORMATION

## Disruption is inevitable

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### A different perspective

**The role of internal audit has become** more and more crucial to the total success of an organization. There are emerging risks to recognize, and new and changing compliance requirements to understand. As such, internal auditors must quickly change direction when needed. They need to be nimble enough to pivot, refocus, and reposition; if they don't, CAEs will see the dire effects of disruption within their organizations.

It is not a matter of *if* an organization is going to be affected by or experience disruption, it's a matter of *when*. With this in mind, internal auditors must implement or update an approach and framework to sufficiently meet stakeholder demands and align their auditing plan with their organization's strategic plan. Auditors have been put on the front lines, and in order to survive, they must adapt.

**Agile.** Recently, there has been a great deal of conversation about business operations — including internal audit — becoming Agile to keep pace with the churning business landscape. It is a hot topic; but, is this methodology the right move for internal audit, or is it simply the latest *buzz* word?

Traditionally, IT and audit projects used rather strict standards and frameworks, resulting in rigid engagement constraints. However, IT projects evolved from the formal waterfall models, to more efficient models, collectively known as *Agile*.

While its origination (2001) was for practices relevant to software development, 17 years later, the Agile methodology has become a contender for an alternative approach to traditional business operations. Similar to [Six Sigma](#), Agile is primarily about increasing efficiency; however, it is one of the most misunderstood and most underutilized approaches in industry today.

Agile's foundational document is the [Manifesto for Software Development of 2001](#), which describes the values that drive a *mindset* focused on creating results and addressing stakeholder and user needs:

'We are uncovering better ways of developing software by doing it and helping others do it. Through this work we have come to value:

- **Individuals and interactions** over processes and tools
- **Working software** over comprehensive documentation
- **Customer collaboration** over contract negotiation
- **Responding to change** over following a plan

That is, while there is value in the items on the right, we value the items on the left more.'

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# THE JOURNEY TO AGILE

## Willing to tackle the problems

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### Moving forward adds value

**Change is uncomfortable**, and so is changing methodology. One reason for the discomfort experienced in transitioning to the Agile method is that there is no one formula for *how to do it*. It is a methodology that is tailored to organizational need. Undoubtedly, the path toward agility and innovation will include pitfalls, dead-ends, and even some false starts. While each organization's journey will be different, it is almost certain that a smooth transition will depend on a *willingness* to move forward and develop new perspectives, try new technology, and not continue to do the same *old* thing when the business world is moving forward with a *new* thing.

A traditional [waterfall](#) audit model, although effective, can be long and arduous. Divided into different phases, one phase must be completed before the next one begins, in a connected sequence of items that add up to the overall deliverable — there is no overlap. In Agile audit models, the rigid plan is substituted (without doing away with planning), design and specification documentation is kept to the minimum required, and the major part of documentation is created at the operations and support levels ([Agile Audit](#)). Slow and traditional processes are no longer tolerated.

Agile allows value to be delivered *incrementally* and *early*. While still prompting internal auditors and stakeholders to honestly determine the desired outcome from an audit or a project, Agile helps prioritize the work based on importance, urgency, and the team's readiness to take on the work.

### Rejecting the myths and misconceptions changes perception

But even as the Agile methodology has gained some support over the traditional waterfall method because of its promised speed, adaptability, and continuous iteration, a number of misconceptions and confusion remain that are holding back its full acceptance. Common to the misconceptions is the belief that Agile projects are somehow “free-for-all,” and lack proper planning, rigor, or formal processes.

The reality is that Agile projects present the same inherent risks as traditional projects. The only difference is the process itself, and therefore, how risks are addressed and mitigated. For this reason, audit teams need to take a step back, change perspective, and adopt a different approach when auditing agile projects ([Auditing Agile Projects](#)).

## COMMON MYTHS ABOUT AUDITING AGILE

MISCONCEPTION	REALITY
Agile teams can do whatever they want.	Agile actually builds controls directly into the development process that the team follows. The concept of acceptance criteria is one example. For each user story (activity), the team will define the criteria that determines when the story is complete and working as expected.
Agile projects produce no documentation.	On the contrary. While there is not the same stage-gate documentation, there is documentation embedded within user stories. Evidence of stakeholder sign-off may be found in a sprint review meeting. When adopted well, Agile development projects produce more relevant and usable documentation. Requirements are guided by professional standards and remain constant.
Agile projects do not follow project management practices.	Agile simply adopts a different approach to project management, but the objectives are the same as with traditional methods. For example, with status updates, Agile may not call for sit-down status meetings, but project status is captured on the visual display/tool in real time, as well as in daily “stand-ups” where teams assemble briefly to discuss the work for the day and update the board. The need for a single project manager is expelled in Agile because the team is self-organized and self-sufficient, and there is more granular management of the work.

Source: [Agile Audit](#)

Audit leaders will need much more flexibility in scoping and understanding a risk. That might mean closer communication with the first line of defense in an effort to understand what the operational threats are, and close communication with the second line of defense in an effort to understand how the organization has been trying to manage the risk so far ([Global Perspectives and Insights: Agility and Innovation](#)). Once an Agile project is in flight, planning happens continuously and inherently, and draft objects are continuously refined throughout the duration of the project.

# HOW CAPITAL ONE MADE THE JOURNEY

## Defining the end-state vision prepares the path

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### Rethink, discover, and research

**Capital One aggressively set out to test**, and eventually adopt Agile to get ahead of the challenges of today's business landscape. When considering whether or not Agile was right for the internal audit team, Capital One realized that it was important to not only understand the process, but also to define the end-state *vision*, according to executives who spoke at the 2017 IIA Financial Services Exchange.

For this to happen, all decision makers needed to be present throughout the exploratory process. Agile auditing comprises the *entire team*, including senior management and the organization's owner. By coming together on goals, principles, and practices, Agile provides a path toward efficiency and increased impact and influence. A significant amount of time was taken to test, refine, and adapt the delivery model using feedback for all parties and affirming the direction of the approach.

The rethinking required a discovery process, a research process, and an envisioning process from the organization's perspective and the auditors' perspective, resulting in a kind of *experience map*. The experience map identified the highs and lows, and the pain points of the audit process; allowed for discovery of what is done through the audit lifecycle; and even discovered how auditors *experienced* the audit lifecycle:

Organization pain points:

- Feeling of re-educating the audit team.
- Rules of engagement may differ across audits.
- Numerous, disparate requests; flurry of questions at end.
- Black Box – uncertainty until draft report.

Auditor pain points:

- Limited time for research and education prior to engagement.
- Information not available in a timely manner.
- Elongated delivery cycle times.
- Waterfall report reviews and revisions.
- No break between audits – running from one to the next.

Instead of insisting on compliance with methodology and protocol, an Agile audit gives auditors more freedom during the engagement phase to come in contact with the system, settings, data, and the people and processes being audited, making for a better understanding of the issues and risks and for how to go about testing them ([Agile Audit](#)).

## Reimagining taps into the transformative power

Using Agile as the foundation, Capital One engaged a team of designers to reimagine the audit service delivery experience. The organization tailored the Agile audit process and transformed their legacy waterfall audit service delivery model to one that included key human-centered design elements, such as cross-functional audit pods, an audit information team, streamlined executions, and simplified reporting to maximize Agile’s transformative power.

Capital One auditors discovered that organizing in pods is foundational to implementing Agile audit. The audit pods — built one team at a time — are self-sufficient teams that include all of the resources and the skillsets (e.g., operational auditors, compliance auditors, data analysts, IT auditors) necessary to perform the audits. The audit pods remain together for an entire year and are assigned a *book of work* that covers the year. This way, the team is empowered, within certain guardrails, to make adjustments to the schedule to suit the audit plan — the greatest benefit.

The audit information team is a central team, whose sole purpose is to support the audit pod and to stage information, including preparing workpaper files, reconciling entity mappings, delivering specific business area reports, aggregation of emerging risks, trends, etc., and importing data from source systems into the planning memo. During the preplanning session, the pod meets with the audit information team, and it is at that time that the pod can ask for administrative help in preparing the audit file and request data.

The ultimate objective of this meeting is to lay the groundwork for a package of information that will be available to the pod when they are ready begin. The up-front planning is enhanced and receipt of information is accelerated — giving the pod a head-start.

The audit work is then delivered in sprints (two-week periods) for tracking all work activity. Each sprint officially begins with a *planning ceremony* and progresses with additional ceremonies (stand-ups, sprint reviews, and retrospectives). If the work is found to be incomplete, it is returned to the backlog.

### TRADITIONAL AUDIT DELIVERY TEAMS VS. AGILE AUDIT PODS

TRADITIONAL AUDIT DELIVERY TEAM	AGILE AUDIT POD
Resources assigned to audit based on start and end dates	Pod stays together from January 1 <sup>st</sup> to December 31 <sup>st</sup>
Team assembled one audit at a time	Pod is assigned a “book” of audits for the year
Integrated team scheduling reduces flexibility	“All In” – Pod owns book and is fully empowered
Invested in audit completion	Invested in pod success (delivery, coaching, and growth)

Source: Financial Services Audit Center (FSAC). “[Vision for Agile Audit IIA Session](#)” (Conference Session presented by Capital One, 2017). Accessed October 10, 2018.

Simplified reporting practices such as concurrent reviews, flexible and established office hours, and redesigned audit reports yielded greater efficiency, transparency, and impact for Capital One.



# AGILE COMPETENCIES DRIVE AGILE PERFORMANCE

Investing in talent, training, and tools completes the journey

## Just the right blend

To be Agile, audit departments need to elevate their performance and bring new capabilities to the risk assessment processes — ones that allow for keeping pace with the sometimes muddled, and always demanding, business landscape. The journey to agility cannot be completed without the right competencies; therefore, internal audit leaders must be prepared to invest in the talent, training, and tools necessary.

It starts with a change in mindset and with auditors who have a broadened perspective toward special qualities. To get there, CAEs will need to assemble the correct blend of human talent:

- Transformational leadership
  - Digital fluency
  - Adaptable – champion for change
  - Navigates ambiguity
- Analytical mindset
  - Data proficiency
  - Learning agility
  - Recognizes dimensions and contextualizes risk
- Customer focused
  - Exceptional business acumen
  - Influences strategically
  - Innovative and creative problem solver

## Audit Focus

### IIA Standard 1210: Proficiency

**Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.**

**“Our profession’s history of successfully pivoting when the need arose was reactive. Stakeholder demands changed our focus or direction, and we responded. We no longer have that luxury. We must become proactive and agile, effectively anticipating change and disruption that could impact our organizations. Creating agile internal audit functions requires changing our mindset, preparing to quickly refocus on disruptive risks and opportunities, prioritizing our work to what matters most, creating teams with the right blend of skills, and coordinating with other resources in the organization.”**

**Richard Chambers,  
President and CEO of The IIA**

Source: *Four Urgent Keys to Transforming Internal Audit*

- Cultural beacon
  - Open communications
  - Authentic, inclusive connections
  - Meaningful contributions
- Forward-thinking
  - Think about what's coming next and prepare for it.

Source: Financial Services Audit Center (FSAC). "[Vision for Agile Audit IIA Session](#)" (Conference session presented by Capital One, 2017). Accessed October 10, 2018.

Internal audit leaders need to encourage "outside-the-box" thinking, agility, and innovation; facilitate the gathering of information to support the Agile process, results, and conclusions; encourage industry-leading practices; consider the use of data analytics information, and consider all functional and organizational intersections with auditing areas ([Internal Audit Competencies: Understanding and building competencies for success](#)).

# CONCLUSION

## Putting in the work yields success

### A change of attitude is required

Because internal audit sits on the front lines, being proactive, adaptive, progressive, and aggressive is vital for preparing for what is to come. An Agile internal audit approach provides the opportunity and methodology to change internal auditors' perspective toward traditional processes and procedures. While the traditional auditing approach is very effective, Agile has been proven to perform at a faster and higher level. But it requires a *change of attitude* for auditors.

The journey toward agility may present challenges, the biggest of which is obtaining buy-in from all parties — a commitment of time and attention to the change. It will not be easy; it will take time, but it will be well worth putting in the work. Capital One's success story — a three-year journey — highlights improvements to their audit function, including a faster time to market, cost reductions, and generally landing their audit function in a very positive and productive position. As with any methodology, once the purpose and objectives are understood, it becomes much easier to create *habits* and execute the plan. Important to the Agile journey and the final transition are:

- A bold vision and a clear commitment communicated from the top.
- Going beyond technology.
- Engaging leaders.
- Putting people first.

Source: McKinsey & Company Back to Digital Blog [Agile transformation: No formula, but common success factors](#)

With the rising expectations of internal audit, using the Agile method offers a proven approach to building flexibility, saving time, and consistently adding value.

### Audit Focus

#### IIA Standard 2100: Nature of Work

**The Internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.**

### Suggestions for CAEs considering Agile

- Identify the pain points of the audit process.
- Engage leaders to honestly determine the desired outcome from an audit.
- Compare the traditional waterfall model to the Agile methodology.
- Encourage outside-the-box thinking during the discovery process.
- Reject the myths and misconceptions concerning Agile.
- Commit to the time and attention needed to implement the change.
- Invest in talent, training, and tools.

Source: Financial Services Audit Center (FSAC). "Vision for Agile Audit IIA Session" (Conference session presented by Capital One, 2017). Accessed October 10, 2018.

#### ABOUT THE FINANCIAL SERVICES AUDIT CENTER

The Financial Services Audit Center (FSAC) is a specialty offering of The IIA for financial services auditors. FSAC was established to provide financial services auditors with targeted high-quality professional development; networking opportunities for knowledge sharing among financial services stakeholders; and ongoing, timely, and relevant reporting on trends, benchmarking, and thought leadership in the internal audit profession. For more information, visit [www.theiia.org/FSAC](http://www.theiia.org/FSAC).

#### ABOUT THE IIA

The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 190,000 members from more than 170 countries and territories. The association's global headquarters are in Lake Mary, Fla. For more information, visit [www.theiia.org](http://www.theiia.org).

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**Financial Services**  
AUDIT CENTER

#### Global Headquarters

The Institute of Internal Auditors  
1035 Greenwood Blvd., Suite 401  
Lake Mary, FL 32746, USA  
Phone: +1-407-937-1111  
Fax: +1-407-937-1101  
[www.theiia.org/FSAC](http://www.theiia.org/FSAC)