



Executive Book Summary

# AGILE AUDITING

Transforming the Audit Process

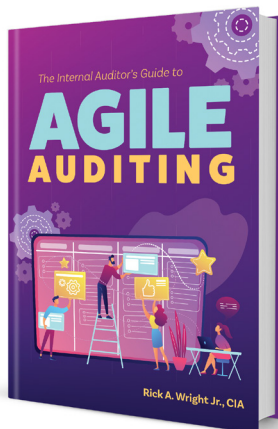
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## About the Expert

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# INTRODUCTION

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In *Agile Auditing: Transforming the Internal Audit Process*, author Rick Wright provides readers with a look at the value, design, and implementation of the Agile auditing process as it compares to the traditional approach to internal audit processes.

This summary provides:

- An examination of the traditional waterfall approach to internal audit processes and why this approach must evolve and change.
- A brief overview of how the agile software development process can be applied to auditing, driving such evolution.

Agile internal auditing (Agile IA) is the use of agile software development values, principles, frameworks, methods, and/or practices in the execution of internal audit engagements.

# AGILE INTERNAL AUDITING OVERVIEW

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Traditional risk-based internal audit processes involve a waterfall approach, where one phase in the process (i.e., planning) must be substantially completed before a new phase (i.e., fieldwork) is started. In this approach, it is rare for internal auditors to repeat work at an earlier phase, due to the inefficiencies, budget, and resource setbacks it may cause. Due to its linear progression and other design weaknesses, this approach also lends itself to other concerns, including reluctance to release audit results before thoroughly reviewing and validating the work, delays in obtaining action plans from management once a draft report is complete, disagreements about facts within the audit, and subsequent rework after testing is complete.

## What Is Agile Internal Auditing?

The term “agile” in the internal audit context may mean different things to different people. To some, it is a macro-level mindset focused on improving internal audit engagements and activities in a way that minimizes waste and is responsive to providing timely insights nimble enough to accommodate the dynamic risk environment. To others, it is a specific, defined approach to executing internal audit engagements that enhances value to stakeholders. These two different definitions are referred to as agile (little “a”) and Agile (big “A”), respectively.

- **agile (little “a”):** a verb used to describe process improvement efforts (exclusive of a specific methodology) employed by internal audit functions to achieve a more nimble, less wasteful internal auditing process. For example, a chief audit executive is looking for opportunities that will make audit processes more agile so that internal auditing services are more capable of addressing the dynamic risk environment.
- **Agile (big “A”):** a noun used to describe the use of specific agile software development methodologies and an associated mindset shift to achieve more value and agility from the internal auditing process. For example, an internal audit function is using Agile software development approaches to innovate the internal auditing process in an effort to better address the dynamic risk environment.

The implementation and execution for these distinct approaches to improve internal auditing is very different. The process improvement path to becoming a more agile internal audit function (i.e., agile little “a”) is important to recognize because practitioners are driving real value from these efforts. However, this path has no universal underlying approach. For this reason, the latter path (i.e., Agile big “A”) is the primary focus of attention from this point forward, because it does have an associated methodology to be implemented.

## Big “A” and Agile Software Development

Agile internal auditing (Agile IA) is derived from popular agile software development (Agile SD) methodologies and uses the values, principles, and practices of these in the execution of internal audit engagements. Agile SD values and principles (defined in the Manifesto for Agile Software Development) focus on uncovering more efficient and effective ways of developing software. Some of the key elements of this software development methodology include iterative planning, time-boxed work increments (referred to as “sprints”), rationalization of documentation, close collaboration with stakeholders throughout the project, iterative releases of work products, and prioritization of work based on dependencies. While there are many methodologies that fall under the umbrella of Agile SD, scrum is one that has become widely adopted. The use of the scrum process is a growing trend for managing projects of various types, including internal audit engagements.

Comparing and Contrasting Methodologies: Agile Internal Auditing vs. Traditional Waterfall Auditing		
Attribute	Agile IA	Traditional Waterfall Auditing
Guiding Focus	Defined value expectations	Audit objectives
Engagement Sequence	Sequential work cycles	Linear stages/ phases
Client Relationship	Collaborative for the purpose of: - Exploiting subject matter expertise - Facilitating agreement on observations - Enhancing timeliness of risk response	Arm's length to ensure independence and auditor objectivity
Audit Observations/ Findings/ Conclusions	Aligned with business strategies and corresponding objectives; collaborative discovery	Risk- and controls-focused with potential for excessive cleansing by internal audit management; sterile
Planning	Iterative and incremental	Semi-rigid master plan
Ownership	Team based	Exclusive to internal audit team
Resource Management	Managed in time-boxed increments	Master engagement budget (overruns approved on as-needed bases)
Risk Assessment	Multi-level assessments tied to business objectives	Risks identified and assessed for business objectives
Status Updates	Daily stand-up meetings; incremental readouts with audit client and other key stakeholders	Ad hoc; as needed or as defined by organization-specific audit methodology
Documentation	Rationalized; value based; 80/20 rule	Completeness and thoroughness are highly valued to ensure work is defensible
Professional Standards	Aligned with The IIA's International Professional Practices Framework	Aligned with The IIA's International Professional Practices Framework

Source: Adapted from *Agile Auditing: Transforming the Internal Audit Process*. Used by permission.

# THE CASE FOR ADOPTING AGILE INTERNAL AUDITING

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Before making the shift from traditional waterfall auditing practices to Agile IA, it is important to understand the strengths and weaknesses of traditional methods and how the common features of Agile auditing help offset the inherent weaknesses. Some of the strengths of the traditional waterfall approach in internal audit include:

- **The process is intuitive.** Each phase in the process has a defined purpose and is easy to understand.
- **The process is time tested.** This approach has stood the test of time, is still the predominant method used for internal auditing engagements, and it works.
- **The process is supported by tools.** Most internal audit tools are designed to support this traditional approach.

There are also weaknesses inherent in this traditional approach:

- **The process is rigid.** This waterfall approach is a linear model, assuming one phase must be complete before a new phase is started. It is inflexible.
- **Clients are not engaged often enough.** There may be long periods of time where internal audit teams are carrying out audit tasks in isolation.
- **Timeliness of insights.** Audit results may not be shared until well after audit observations are made.
- **Visibility of progress.** Progress during the audit process is often unknown. While it is possible to monitor what phase the process is in, there are many blind spots to actual audit progress during each phase.
- **Disagreements between audit team and audit client.** Ineffective and/or infrequent communication with the audit client during the audit process may lead to disagreements about audit observations.

Many of these weaknesses have been worked around by internal audit teams for years. However, these “fixes” are simply retrofitted solutions and do not address the design weaknesses inherent in the traditional waterfall approach. Agile IA improves upon many of these drawbacks in the nature of its design.

## Common Features of Agile Internal Auditing

Features of Agile IA that drive value include:

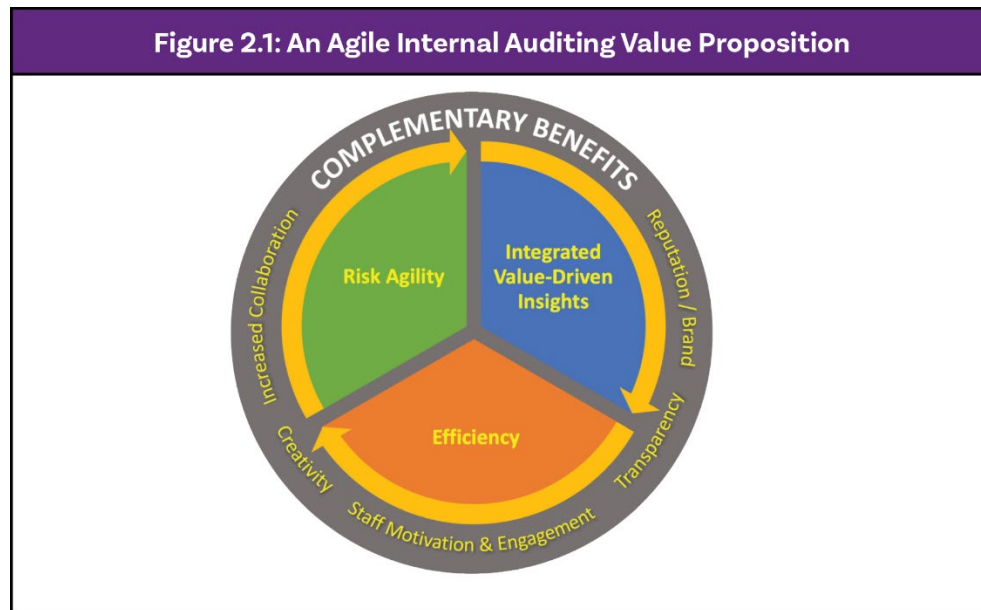
- **Focus on value, not audit objectives.** While traditional processes focus on defining audit objectives during the planning phase, Agile IA defines the value to pursue during the audit engagement up front. In this way, the goal of producing value happens when audit deliverables align with the objectives and strategies of the organization.
- **Clients are involved.** Audit clients are an integral part of the project team. This allows for more regular interaction between the audit team and audit client compared to traditional methods, which results in improved, frequent communication.
- **Time-boxed discipline.** During Agile IA, fixed length work cycles are defined. This allows for built-in discipline to complete audit engagements on time.
- **Timely insights and responses.** Since audit clients are engaged during Agile IA, they receive concurrent feedback and insight throughout the audit process. Audit insights are not delayed while being validated, as in the traditional approach, so clients can begin to formulate risk responses immediately.
- **Fewer disagreements.** Because audit clients are more intimately engaged as an Agile IA engagement progresses, there are opportunities for audit results to be discussed, mutually vetted, and agreed upon concurrently with the audit team. This involvement increases the likelihood that audit clients will embrace audit results and take stronger ownership positions toward responses.
- **Document rationalization.** Simplicity (the art of maximizing the amount of work not done) is a key element in Agile IA. The focus is to make the audit process more efficient and eliminate unneeded items.

## An Agile Internal Auditing Value Proposition

To be truly transformational, the Agile IA value proposition must generate an outcome that supersedes the value from the traditional waterfall approach. There is a strong case to be made that Agile IA can deliver a more agile, more insightful, and more efficient audit outcome than traditional waterfall approaches in some circumstances. Below is a discussion of the components that comprise the Agile IA value proposition. These components are further discussed in *Agile Auditing: Transforming the Internal Audit Process*.

- **Risk agility.** Enable internal audit functions to flexibly deploy resources to support dynamic risk.
- **Integrated value-driven insights.** Reporting that produces insightful, point-of-view commentaries that are value-driven (i.e., integrated with organizational strategies, corresponding risks, and value chains).
- **Efficiency.** Reduce audit cycle times and resource consumption to increase risk coverage capacity.

- **Complementary benefits.** Return on investment that builds energy to sustain quality and high-value outcomes (e.g., staff motivation and invigoration, enhanced collaboration, internal audit function brand augmentation, etc.).



Source: Adapted from *Agile Auditing: Transforming the Internal Audit Process*. Used by permission.

## Benefits of Agile Internal Auditing

There is a compelling list of benefits associated with Agile IA:

- **Resource constraints.** Most organizations are regularly challenged to do more with the same or fewer resources, and internal audit functions are no different. Agile IA methodology promotes values that create opportunities to gain efficiency, which in turn can increase available capacity.
- **Highly complex audit engagements.** One reason Agile SD frameworks were originally designed was to tackle highly complex and ambiguous projects. Agile IA methodology has similar features that make it suitable for complex audit projects (e.g., iterative planning and product delivery, time-boxed work increments, close audit/client collaboration, and adaptability).
- **Relationship building.** Agile IA places high value on collaborative relationships with audit clients. In an environment where audit clients are providing feedback that is more constructive than positive (e.g., communication challenges, trouble understanding issues faced by the business, etc.), an Agile IA approach could help close the gap on some of the common relationship issues faced by internal auditors. Agile IA invites audit clients to have a more participatory role in audit engagements and can significantly enhance the auditor/client relationship.
- **Re-branding.** Sometimes internal audit functions and their corresponding value proposition within the organizations they serve grow stale and may lose their edge. When a brand grows stale, a fresh start can recharge and bring new life to the internal audit activity. A radical change such as Agile IA



may be a good prescription to reinvigorate an organization's internal audit brand and compel stakeholders to embrace a new internal audit paradigm.

- **Meet stakeholder expectations.** Internal auditing is a service. While professional standards dictate to a large extent how our service is performed, if stakeholder expectations are not met, they will look elsewhere to have their needs fulfilled. Agile IA may provide a solution to address changing stakeholder expectations and/or enhance stakeholder audit experiences and outcomes.
- **Optimization of effort.** Traditional waterfall auditing approaches are inherently prone to waste. While Agile IA is not the only way to address wasteful internal audit practices, it is designed to value lean principles that seek to eliminate waste and gain efficiency in the audit process.
- **Specialized knowledge.** One of the most important requirements while executing an internal audit engagement is for the audit team to have the requisite knowledge and competency for the audit subject. Agile IA is designed to accommodate the participation of subject matter expertise on the audit team without the organizational infrastructure needed to support guest auditor or rotational programs. Having this subject matter expertise as part of the Agile IA team may also provide internal audit staff with learning and development opportunities.

# AGILE INTERNAL AUDITING IMPLEMENTATION AND DESIGN

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## End-to-End Agile Internal Audit Process Overview Using the Scrum Framework

While every Agile IA process will have its own nuances, an Agile IA process generally flows according to beginning, middle, and end segments that represent distinct Agile IA process activities. The activities described below are indicative of an Agile IA approach that mirrors the Agile scrum framework. Scrum is compatible with almost any type of project, and internal audit engagements are no exception. For simplicity, the discussion below uses laymen's terms to describe the Agile IA process using scrum; however, be aware that scrum has its own vernacular. As the discussion progresses, scrum terminology is introduced to help familiarize readers with some of this lexicon.

### The Beginning

During this activity, which represents development of the initial project plan, the audit team collaborates with key stakeholders of the audit project to define the project at a high level. A key difference between this beginning activity and a traditional audit planning phase is the level of detail. In a traditional planning phase, the audit work plan is built out in fine detail, up to and including specific test plans. The initial planning performed in an Agile IA project defers detailed planning until the middle work cycles of the project. The initial plan developed at the beginning of an Agile IA project focuses on defining the scope and key objectives for the project, identifying management concerns and known issues, and establishing the concludable areas that will direct the focus of planning, testing, and reporting. Another key focus of the initial plan is on identifying a value proposition for the audit project. Think of this as a kind of treasure hunt that seeks to synchronize key value outcomes expected from the audit to business strategy and goals. This is also where discovery of key risks for the area being audited begins.

### The Middle

The middle section of an Agile IA project takes place in sequential work cycles commonly referred to as "sprints." Think of these work cycles as chapters in a story, where some chapters build off their predecessor while others may stand on their own. The first step of each sprint is to create a work plan (referred to as a "sprint backlog"). The sprint backlog determines what is to be accomplished during each sprint.

Each sprint has a set length (two weeks is common but can range from one to four weeks) with a defined beginning and ending date that does not change regardless of whether all work in the sprint backlog is completed or not. Also, each day during the work cycle there is a short update meeting (referred to as a "daily stand-up") where audit team members review work done the previous day, work planned for the current day, and any impediments to progress that have been encountered.

While it may initially appear that this middle section of an Agile IA project mirrors the fieldwork phase in the traditional internal audit process, a closer look reveals some substantial differences, specifically as it relates to embedded sprint meetings (referred to as “ceremonies”). Each sprint begins with a planning exercise (i.e., “sprint planning” ceremony) where goals for the current cycle are identified, risks are prioritized, and testing procedures are defined. Once the sprint planning ceremony is complete, audit testing begins. On the last day of the sprint, a review meeting (i.e., “sprint review” ceremony) is conducted where observations are discussed with audit team members and other relevant stakeholders (audience is dependent on the goals and content of the sprint).

The sprint review ceremony represents an incremental reporting exercise and may produce an actionable report item for which the audit client will begin developing responses or action plans. This is different from traditional audit reporting where reportable items may be held from formal communication to stakeholders until all fieldwork activities and audit reviews are complete. Incremental, formal communication of observations during each sprint facilitates better understanding and agreement of findings with stakeholders and allows management to begin developing risk responses throughout the engagement as issues are discovered. Time-boxed sprints, along with sprint ceremonies, are key features that enhance discipline and accountability of the Agile IA process.

Finally, an important element of the middle section of Agile IA that is unique to this process is for the audit team to evaluate its own performance in each sprint and make changes or other adjustments to improve work in subsequent sprints. This activity (conducted in a “sprint retrospective” ceremony) helps the audit team to continuously improve its performance throughout the Agile IA project. The sprint retrospective ceremony is the last activity performed in each sprint. At the conclusion of each sprint, a new sprint starts with a sprint planning ceremony. Any tasks not completed in a prior sprint are added back to the project backlog and reassessed for inclusion in subsequent sprints.

## The End

The final segment of the Agile IA process involves final reporting and wrap up of the audit project once all activities from the middle segment are complete. The final report should be an accumulation of the reporting increments that were delivered during sprint review ceremonies throughout the Agile IA project. The actual report format and distribution process is organization-specific and will be unique for each internal audit function. As with the traditional internal audit process, a final written audit report will be issued, including any responses developed by management. The audit team will also perform wrap-up procedures to close out the audit according to its own internal processes.

## Summary

Several distinguishing features make Agile IA a very different undertaking than traditional waterfall auditing practices. Defining a standardized Agile IA process template is inherently difficult because Agile IA is based on principles rather than a single process structure; however, common elements of scrum do seem to resonate in organizations that have implemented Agile IA. Examples of the Agile IA process are discussed in *Agile Auditing: Transforming the Internal Audit Process*. These examples highlight in a more practical way how Agile IA processes are developed and executed, using real-world examples.

# CONCLUSION

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Transition to Agile IA can be a complex but fruitful venture. As is the case for any major paradigm shift, proper change planning and leadership are critical to success. Identify implementation obstacles early and anticipate strengths and weaknesses in the environment that will influence success or precede setbacks.

Agile IA is conceptually intuitive; however, due to its fundamental departure from traditional waterfall internal audit approaches, it can be a deceptively challenging methodology to implement. This should not discourage internal audit functions from pursuing Agile IA if it is the right fit. With a thoughtful implementation plan, the transition to Agile IA can be accomplished with minimal apprehension. For more detailed information on the Agile IA process, including further discussion of scrum principles, please see *Agile Auditing: Transforming the Internal Audit Process*.

## Suggested readings from *Internal Auditor* magazine

- [Agile Planning](#)
- [Agile Performer](#)
- [A Blended Approach](#)

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