

## Agile Internal Audit - The need For Change in Traditional IA Methodology

*Enterprises in every industry have been innovating and changing rapidly over the past few years. The pace at which such innovations have evolved has been tremendous. With faster changes in organizations and their environments than ever before and in ways that are, less anticipated, internal audit is at an interesting crossway. Organisations have been facing increasing number of uncertainties. The speed of change is unprecedented, adoption of new technologies such as automation and machine learning create new risks, and the extensiveness of risk continues to expand. This has forced internal audit to innovate as well but the reality remains that the Internal Audit profession traditionally was never forced to innovate. Additionally, stakeholders need a lot more from Internal Audit, their need for assurance are ever expanding. Internal audit role has shifted from providing only assurance to stakeholders to advising stakeholders, from being a backward check to being more proactive and forward looking, from focusing only on protecting business to actually increasing the value addition in the business. All this calls for a rethink on how as internal auditors we are evolving and innovating.*



### What is Agile methodology

Before moving to Agile internal audit, it is important to understand the concept of Agile. Quite simply put, Agile is a process that helps make any project to become more flexible and forward looking by providing opportunity to respond to feedback almost on a real time basis. Work is completed in short branches called ‘sprints’ which helps in assessing if the project is meeting the overall objectives.

The Agile manifesto focuses on the left side of the

below table whereas generally people find value in the right side of the table:

Agile focuses on	Traditional approach focuses on
Individuals and Interactions	Process and procedures
Working software	Comprehensive documentation
Customer collaboration	Contract negotiation
Responding to change	Following a plan



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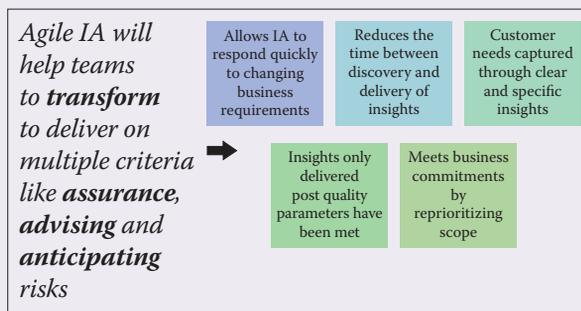
### Agile Internal Audit

Agile Internal Audit (‘IA’) uses an iterative, time-boxed approach to planning, fieldwork, and reporting. Audits are executed by self-organising, cross-functional teams with an emphasis on collaboration and frequent communication with stakeholders. Reflection on what did and did not

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work well is built into the process to instigate continuous enhancement. It is the outlook an Internal Audit function adopts to focus on stakeholder needs, accelerate audit cycles, drive timely insights, lessen wasted effort, and generate fewer documentation. It prompts internal auditors and stakeholders to determine, upfront, the value to be delivered by an audit project. As the internal audit function considers its specific challenges and contemplates a custom solution, agile helps prioritise audits based on risk and the readiness as well as importance and urgency to undertake the work. Even though it presents the same risk as traditional projects, the difference, however, is that the Agile process itself aims at how the risks are addressed and mitigated. Agile IA is not only a significantly dramatic change in the way we do things, but the methodologies and ceremonies serve as guardrails to achieve the optimal outcome. Agile helps to respond quickly to changing business needs, reduces the time between discovery and delivery of insights, building risk specific insights based on customer needs, avoiding delivery insights without quality problems and meeting business commitments by reprioritising scope. Agile directs teams to higher risk areas and higher value of work, and helps the function to attract, develop, and retain talent. As a result, Internal Audit teams, which experience Agile, almost never want to revert to traditional methods. However, adapting agile methods to Internal Audit work presents predictable hurdles as well.

In summarisation Agile internal audit helps to deliver meaningful, timely and real-time insights.



Agile calls for no special technology, only a willingness to work in a different way. This means not only learning new ways of working together but also unlearning what we have been practicing for years. This is not just an alteration within Internal

Audit but we also need to bring our key stakeholders on the journey. Carefully premeditated pilots are almost always successful, particularly when they include proficient agile coaches. Then, we have to consider transformation, moving fast enough to capitalise on the momentum but deliberately slow enough for the organisation to absorb and sustain the change.

Specific areas of changes for the organisation's management to consider will include the physical space for our teams (to create more collaborative work areas), performance measurement and rewards (to assess the performance of teams as well as individuals), and our target organisational structure (to define new roles versus titles, and a flatter structure).

## Phases of Agile

Agile internal audit just like traditional audit can be divided into mainly three phases – Elaboration/Discovery, Execution and Close Out.

### Elaboration/Discovery Phase

The first phase in any internal audit assignment can be called as the Elaboration or Discovery phase. This is the phase where internal audit planning, Risk assessment, identification of controls etc. are done.

Agile internal audit also does pretty much the similar things but in a more structured and objective driven manner. Often internal auditors have been criticised of not meeting 'management expectations' or not providing enough 'value add'. The critical focus for first phase of agile IA is on understanding the management expectations from Internal Audit and aligning the IA plan towards it. Post the discussion with the management and arranging critical information a 'Project Canvas' is made which basically answers the following questions :

- What are the business' objectives? What are the risks to the business achieving its objectives?
- Why is this project important to the business? What is the value-add (relevance) to the enterprise? What questions will be answered at the end of the review?
- Key IT systems/reports supporting and/or monitoring the business process.

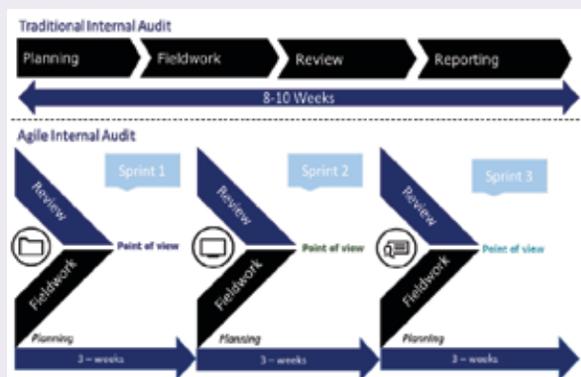
- Who is most concerned about the value of the audit?
- What is needed to achieve the audit objectives?

Mapping the above critical questions and preparing a 'Project Canvas' will help the internal audit in making its vision for the review.

## Execution Phase

Traditional IA followed a very standard approach whereby one phase followed the other in a linear fashion. Agile IA helps in breaking this stereotype and breaking the audit in critical phases.

### Traditional Audit vs. Agile Audit



As can be seen in the image— Traditional IA which most of us follow today is a straight forward approach whereby separate timelines are given for planning, fieldwork, review and reporting. Agile on the other hand breaks the internal audit into various 'sprints'. Sprints are time-boxed intervals in which tasks must be completed. Sprints provide a process, structure and cadence for the work. A time box—the team gives itself to complete a task or set of tasks that should provide the motivation of a tight deadline without stressing resources.

Separate Planning, Fieldwork and Review phase is there for each of these sprints. At the end of each sprint a Point of View ('PoV') is shared with the stakeholders giving them almost real time views about the internal audit observations and findings. This helps in taking feedback from the stakeholders almost instantly and modifying the PoV or the follow up audits accordingly.

Another issue which the traditional audit generally faces is that the internal audit teams connect

with the internal audit lead very rarely and that too during the end phase of the fieldwork and reporting. This may hamper the audit progress as there is lack of clear visibility and also if any bottlenecks are not resolved in time. Often team leads pose difficult review comments at the end of the audit to the IA team which they are then unable to resolve due to lack of time or support from management. To tackle this there is a concept that is unique in Agile called the 'Daily Standup'. What it essentially means is that on a daily basis the internal audit team meets up with the internal audit lead and checks on the daily progress, current observations/findings and plan forward. It not only helps in keeping the internal audit team under check, it helps the IA lead to understand the impediments which may be hampering the audit. The following key questions need to be addressed in these 'Daily Standup' meets:

- What I did yesterday against what was planned?
- What I am going to do today?
- My impediments/bottlenecks
- Incremental Point of View sheet

### Close Out

The close out phase involves revisiting all the Point of Views which were sent out at the end of each sprint and aligning them in a Project Point of View. The project level PoV is determined at the start of the project, updated throughout and finalised at the end based on project learnings. The project



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level PoV should connect with the company's strategic objectives and expectations from internal audit. Post which a summary of Observations, Impact and Management Action Plans are given to the management explaining to them how internal audit has met their expectations.

## Challenges in Implementation of Agile IA

Internal auditors face number of challenges in

today's world. Yet the key word for today's internal audit is change. Adopting Agile internal audit gives the opportunity to overcome the need for change in current environment. Agile also operates at a higher level as a change methodology for the Internal Audit group and its stakeholders. However, adopting Agile IA has its own set of challenges for which we need to be ready.

Challenges faced by Agile IA	Implementing Leading Practices to overcome the challenges
Failing to brainstorm on pain points may effect IA in losing focus on what needs to be achieved.	Use the initial project manifesto as a strategic document to discuss the expectation with executive management.
Managing the sprints within a short time frame can be a challenge. Teams often end up planning for more work in a particular sprint than what can be achieved.	Involve the product owner in understanding requirements and mapping the sprint planning.  On IT projects, industry experience indicates that two-week sprints are the norm. Internal Audit should look at one-or two-week sprints.
Miscommunication can occur if the stakeholders are not involved at sprint closing and if there is nothing provided in documented form.	A leading practice is the use of workflow visualisation boards displayed in the team working area, which is open to all stakeholders. This approach provides complete Transparency.
Waiting until the end to share anything with stakeholders in writing can lead to challenges with acceptance.	Sprint PoVs are used to provide the management a glimpse of what is going to be presented as a final PoV.
Managements are often not able to see value in internal audit.	Final PoVs should reflect "what you really think" and be supported by the facts. It should be tied to strategy and answer the question "so what?"
Decentralisation of decision-making is key to Agile IA and can be a difficult switch to make.	The team must be empowered to make decisions about what to do. They will need a team lead who is also good at training.
Agile IA leads to leaving the core method of auditing. This may lead to a challenge of completing documentation. In addition, Quality Assurance Review will be a challenge in absence of clear documentation.	Documentation requirements from a legal as well as internal review standpoint needs to be frozen right at the beginning of Agile IA. Also, at the end of each sprint the team needs to maintain the documentation to support the Point of View given for that sprint.

### Case Study on Traditional vs Agile IA – Purchase to Pay

One of the most common areas of internal audit in any organisation is Purchase to Pay ('P2P'). Generally top management is interested to know

'what', 'where' and 'how' money is being spent in an organisation. To demonstrate what changes in P2P audit while following Agile methodology, please see the following:

	Traditional Audit	Agile IA	What changes?
Planning	Audit Scope. Data Collection, Planning memo. Identification of Risk and Controls.	Engagement of senior leadership to understand expectation. Preparation of P2P Canvas (Project Drivers, About the business, value proposition, project scope, risk and control matrix). Initial Point of view.	An initial PoV is given post planning phase. The clear expectation setting from leadership helps determine objectives for a P2P audit.
Execution	Detailed Plan, Test and analyse, Communicate Results, Work Program review is prepared for all scope areas at one go. Progress review done internally during execution on need basis.	Prioritisation and Scope breakdown done. <i>Sprint 1:</i> Vendor Management <i>Sprint 2:</i> Indenting <i>Sprint 3:</i> Purchasing <i>Sprint 4:</i> Payments.  Updated PoV given at the end of each sprint.	In Agile IA, there will separate sprints for all sub areas with PoV given separately at end of each sprint. There will be multiple meetings with process owners and at each stage views of process owner will be taken.  Daily stand outs to be done within the team to check the progress.
Close Out	Draft Report and Final Report prepared for all areas.	Final PoV prepared basis all the sprint PoVs.	This stage becomes comparatively shorter and smooth in Agile since Sprint PoV are already available with process owners comments.

### Way Forward for Agile IA

Agile internal audit has now started gaining momentum. Key benefits of agile internal

audit demonstrate that there is amplified potential in improved risk management through innovative technologies and ways of working.

Adopting the agile method provides ways of enhancing flexibility in audit planning, execution, and reporting. For such reasons as of today 55 percent of internal audit groups are either using agile internal audit methods or are considering to adopt them. Further awareness regarding agile has to be created. More and more organisations should adopt Agile IA as it is better, faster and more sustainable. Better because audit results are more linked to business risks and relevant to stakeholder needs. Faster because internal auditors work with stakeholders in a collaborative, focused, iterative manner to quickly identify what they need—and don't need—to do. Sustainable because they are working as a team with autonomy to determine how to get the work done effectively. ■

