Internal Audit (IA) is in a race to transform and innovate to ensure that they continue to stay relevant and deliver the value and assurance required, back to management, boards, and audit committees. Changes in the business and risk environments have prompted the need to identify process improvement opportunities and minimize any possible surprises.

The rapid changes in the regulatory, technology and business environment (e.g. Intelligent Automation) and the introduction of new regulations globally (e.g. The EU General Data Protection Regulation (GDPR)) have had a significant impact on organizations. Over the past few years, the internal audit function has had to maintain a balance between providing advisory/consulting services along with their traditional assurance and compliance role.

Internal audit is now being asked to do a lot more. Executives, board members, shareholders, and regulators ask questions and demand more strategic focus from their internal audit functions. Boards and audit committees are looking for their internal audit functions to become more forward looking and help anticipate risks. More organizations realize the need to revitalize their internal audit function – focusing far beyond their traditional role.

To be able to take on these challenges, internal audit needs to be able to adapt and deliver at a faster pace, while maintaining their standards and quality. As an organization continues to change and evolve, so does the level of maturity and complexity of the areas of focus, and hence, driving the need for internal audit functions to become more nimble/agile in what they do and acknowledging the need for more specialized resources to deliver value on those projects.

For example, traditionally, audit planning and scoping is finalized far in advance of the commencement of the audit itself. This leaves little room for any changes in the scope of an audit as a result of changes in conditions that might have come up in the time between audit planning and the fieldwork. Further, any insights that might be gleaned during the audit itself, which could have a significant impact on the outcome of the audit, would not be appropriately factored into the audit itself, which could have a significant impact on the outcome of the audit. There is a need for more flexibility to be built into this process. This is where internal audit can learn from the transition to Agile in the field of software development.

Software development has evolved from the formal waterfall model, which has predefined steps and long iterations, to less formal, but very often more efficient, models. These more efficient models are usually collectively referred to as Agile. In the waterfall model, proportionally more effort is put into design and specification documentation. In Agile models, design and specification documentation are kept to the bare minimum required and the major part of documentation is created at the operations and support levels (e.g. user manuals), which occur much later in the system life cycle.

The term “Agile” often refers to software development and emphasizes individuals and interactions over processes and tools, working software over comprehensive documentation, customer collaboration over contract negotiation, and responding to change over following a plan.

Internal audit departments could benefit from an Agile approach. In particular, the planning and execution of audits can benefit greatly from Agile IA. Our Agile Internal Audit (Agile IA) methodology applies concepts from Agile to internal audit activities.

In the next few sections we will highlight some of the main advantages of using this approach and also delve into our methodology.
Main goals and reasons for Agile IA

Internal audit departments need to adapt to the constant changes in the environment and the various requests of them by figuring out ways to increase their flexibility, to respond to requests, and continuing to add value in everything that they do. This is not to say that internal audit departments do not add value with a traditional approach; however, the structure and processes can be more effective and tailored to the needs of the business. The main goals of Agile IA are:

1. **Adapt to changing external developments**
   Changes in market, technology and regulatory requirements could result in a shift in risks. With an Agile approach in scoping, internal audit departments have the flexibility to address these risk areas on short notice and streamline the delivery of the individual projects.

2. **Focus on the core risks**
   The iterative nature of project sprints will allow audits to focus on the key aspects of the risks and ‘what-could-go-wrong’. Data analytics is key in this area, as it helps in streamlining an audit and applying focus. As an example, if there is a high level of issues/irregularities in one location, it might not be necessary to audit all locations in the same manner. Any critical issues identified during an earlier sprint, will be added to the backlog of risks, which could be addressed in a later sprint during the project.

3. **Provide pragmatic findings and recommendation in short intervals**
   At the end of the project sprint, a finding and recommendation discussion is held with the control and process owners. This way, issues are provided in quick intervals and can be acted upon immediately. Within a project, the last sprint could be used as a catch-all for any pending items, as well as a follow up on management’s actions.

4. **Prevent over-analysis of findings**
   Through the Agile concept of ‘definition of done’, stakeholders can align on the definition of when activities are finalized. This can for instance prevent auditors from identifying findings and subsequently over-analyzing all findings aspects. After identifying a finding and discussing it with management, the audit team should move on to the next topic. Once the finding has been resolved, a new review can be performed on the topic.

5. **Add value by addressing current and emerging business and technology concerns**
   Organizations are not static and their threat/risk profile will change throughout the year. Agile planning enables internal audit to take emerging concerns from management into account. An unexpected departure of a high risk position or the launch of a new service could create critical risks for the organization. Providing timely insights and recommendations could prevent adverse impact on the organization. In addition, requests from management to look specifically into an area can be included on short notice, when the request is still relevant.
Differences to Traditional IA

Our Agile IA approach has a few key differences with the traditional approach. Our approach is built on the principles of Agile. The primary differences lie in organizing the work into increments called ‘sprints’, the documentation requirements and effort, and more frequent reporting to the stakeholders.

Flexibility

Internal audits can easier adapt to changes encountered during the audit. Change is accounted for in the plan itself and hence, teams find it easier to adapt to it, be it in terms of risk evaluation or even in terms of audit procedures to be performed.

Collaboration

Teams meet frequently and also meet their business counterparts. As a result, everyone is aware at all times of what is going on in the audit, which results in fewer surprises especially when it comes to the reporting of issues.

Organization of work “Sprints”

Traditionally, internal audit projects have a set structure and schedule with very specific requirements of what the outcome of each phase will be. In an Agile environment, the work will be divided into different ‘sprints’. At a high level the expected outcome will be decided prior to the commencement of the project. However, these will be revisited at the start of each sprint and the results of the prior sprint will be taken into consideration prior to the commencement of the next sprint.

Incremental reporting

Rather than having a report at the end of the project, findings and recommendations will be reported after each sprint. In addition, control owners need to be able to get a quick overview of risks and their activities and be facilitated in addressing the risks swiftly. Agile IA relies on visualization to provide control owners with the necessary insights.

Flexible resourcing approach

Traditionally, internal audit functions operate with mainly generalist resources. To address the wide variety of risk areas and enable flexible scoping, organizations are forced to rethink their resourcing. Internal audit functions should continue leveraging successful rotational programs within their organizations as well as current co-sourcing or outsourcing models, where applicable. However, new ways of resourcing should be explored to expand the skillset of the group, in an as needed basis. This new way of thinking could include options such as, project based in-sourcing, which leverages in-house specialists from other departments who would work as part of the specific internal audit project and team, to provide the right skillset (e.g. nuclear engineers) during delivery. Another disruptive way of resourcing would involve working with various organizations to leverage unique skillsets from around the world through crowd sourcing models.
Considerations for using Agile IA

Fit for all?
Although Agile IA is a solution for emerging topics and enables flexible scheduling for auditing risks and consulting activities, certain audit activities might require a traditional approach. For compliance and regulatory audits (e.g. SOX, ICOFR audits), where the scope of controls and timelines are predefined, a traditional approach might prove to be a better fit. In these situations, there is no use case for a flexible schedule and scope, and all activities can be pre-planned for the year.

Documentation challenge
While Agile IA might be perceived to have a different documentation approach than that of a traditional approach, this does not mean that there is no documentation. Organizations will have to adapt to different ways of documenting activities and approvals in order to meet quality assurance and the Institute of Internal Auditors (IIA) standards. Key to addressing this challenge is defining the requirements for specific documents or artifacts and assigning the responsibilities. In addition to project management documentation (i.e. schedule and plan), there are operational and reporting documentation requirements that the audit team need to adhere to. Operational documentation includes the work papers, memo’s, and evidence that the audit team prepares during the audit. Reporting documentation includes the report with findings, recommendations, and action plans for control and process owners, the board, and the audit committee. Abiding by the time boxed sprint constraints requires efficient processing of the documentation.

Change of mindset in scoping
Changing from an annual audit plan (or multi-year) to a flexible approach, requires a different mindset for determining the exact scope. Periodically (e.g. quarterly), the organizational risk register should be re-evaluated based on the priority and the severity of the risks. This means that the order and schedule of projects may change.

During the audit, certain risks and potential deficiencies might be identified in areas outside of the audit scope that require further assessment. These areas for follow up need to be added to the organizational risk register and become part of the scoping refinement exercise. In order to perform the sprint effectively, the planned scope of activities and controls must be followed.

Data analytics
Internal Audit departments are increasingly relying on data analytics for their scoping and testing. Building on the change of mindset in scoping, a strong data analytics team should support the Agile IA function by helping them to make audits more targeted, and therefore more efficient and effective. Due to the flexible nature of the Agile IA scope, the data analytics team should continually reassess data throughout the year to ensure that the scope remains valid, or identify any required changes. Data analytics can identify anomalies or determine a risk profile for different locations, which can inform and refine the scope. Data analytics should be a continuous activity to monitor changes and ensure that they are used to refine or change the scope where required.

Agile IA methodology
Our Agile IA methodology is based on the IIA framework, the Scaled Agile Framework (SAFe) and KPMG’s best practices. The following sections describe the key components of our Agile IA methodology and approach.

The main drivers of the approach are the:

- **Organizational risk register**: list of risks and auditable areas for the organization
- **Project backlog**: list of risks related to a specific audit project
- **Sprint backlog**: list of control objectives related to the sprint

These backlogs are updated and refined during planning. Gathering input should be a continuous activity performed by internal audit throughout the year.

**Sprints**
In our methodology, audit projects are built on several sprints. A sprint is a time-boxed event, where predefined activities are completed. Sprints follow a traditional audit cycle of activities, although the turnaround to findings and recommendations is much shorter. At the end of each sprint, the findings and recommendations are discussed with the control owners. Each sprint will have a different sub-set of controls that go through the same cycle.
Sprints typically have a predefined set of events. For Agile IA these could include:

- **Sprint kick-off**: determine control scope and schedule with auditee
- **Daily stand-up**: 15 minute daily meeting to encourage collaboration between the audit team and auditee, and discuss pending items, process challenges and upcoming activities
- **Findings and recommendations**: discuss findings and obtain feedback and management response
- **Sprint team evaluation**: discuss and evaluate each sprint and identify improvement opportunities

The number of sprints is dictated by the organizational structure and type of audit being performed. Typically, the length of the engagement determines the duration of each sprint (e.g. two to three week sprints).

The last sprint of the project should not include any additional controls, assessments or testing. Instead, the audit team should leverage the final sprint to focus on following up with management and control owners on action plans, addressing any outstanding items to improve file quality, and updating the project backlog. Although both the audit file and the backlogs should be maintained on an ongoing basis throughout each sprint, certain opportunities for improvement might be identified during this final sprint. The last sprint should also offer a moment of final reflection, taking the input from the individual sprint evaluations and identifying opportunities for process improvement and innovation.

**Project Planning**

During the first sprint of the project, the project planning event should be held to align business stakeholders and the internal audit department on the priorities, scope of work, definition of done and dependencies between teams. The planning event should define a plan that sets out the overall schedule for the project and the long term goals, as well as the audit objectives. After the meeting, the objectives and interdependencies for the project, as well as the schedule and audit objectives, should be clear to all involved. The following are some key inputs or considerations for the project planning event:

- Business strategy and goals
- Prior reviews
- Business developments
- Market developments
- Specific requests (audit committee, boards, management)

**Reporting**

At the end of each sprint, the findings and recommendations will be discussed with management. The time between risk identification and formal reporting becomes shorter,
in reference to the traditional approach. At the end of the audit project, management will receive a consolidated report, but already had time to address findings. Due to the incremental reporting, management should be able to assess risks and actions swiftly and prioritize key risks accordingly. Visualization of risks helps in providing an overview showing the open action items as well as severity of the risks in reference to other findings.

The figure below depicts an illustrative example of a project with five 2-week sprints.
How to implement

One of the main prerequisites for implementing Agile IA is management support. In order for the implementation to be successful, internal audit should adopt a top-down approach, which primarily focuses on top management buy-in and educating key stakeholders. Once the key stakeholders are committed to the new way of working and to their role, the Agile IA methodology can be tailored to the organization and the internal audit staff trained accordingly. Implementing the new methodology works best by performing a trial or pilot to evaluate and update the methodology as needed.

Trial/Pilot

Once management support is in place, internal audit staff need to be trained on the Agile IA process in order to gain an understanding of what will be expected from them and what will change. Internal audit should appoint a change champion to ensure that the project team adheres to the Agile IA methodology and does not fall back to the traditional approaches of auditing.

A trial or pilot is usually the best way to put the methodology to the test. Ideally, two full projects should be performed, going through each of the Agile IA stages twice. During the pilot, it is important to communicate requirements, as well as what is expected from management to make the pilot a success.

After the trial/pilot has been completed, the methodology should be updated based on feedback from management and any relevant stakeholders.

Evaluation and next steps

The Agile IA process should be evaluated in intervals. After completing the pilot, methodology evaluations should not stop. Obtaining feedback from management and improving the process should be an ongoing activity. The frequency of audits utilizing Agile IA will likely increase over time. Internal audit should continuously seek management input to identify additional audits that can be performed using the Agile IA methodology.

Internal Audit should be aware that personnel may be resistant or reluctant to make the changes required to effectively transition to the use of Agile IA methodologies. Therefore, the change champion plays a key role in providing continuous guidance, as well as soliciting evaluation and feedback to help the organization effectively adopt Agile IA.

Conclusion

Agile IA enables internal audit departments to address new developments and emerging risks, while streamlining the audit process and ensuring continuous collaboration with management throughout the projects. The method requires top management buy-in and organizational education in order to be successful. By utilizing data analytics and focused scoping, audit teams are able to address the main risks and to report on findings and recommendations in shorter intervals. Due to these shorter intervals, management is informed of and provided with the opportunity to address gaps earlier on, which should reduce overall organizational risk exposure.

Management support and roadmap

In order to realize the benefits of the transition to Agile IA, the change champions need to obtain top management buy-in. Management, who are the auditees, need to be aware of the new ways of working and how this could affect the organization and business lines. In order to get the whole organization to transition effectively, management will need to be an advocate of Agile IA. The business should be convinced that the internal audit function is changing towards a more streamlined, value-focused and flexible function. A key to obtaining buy-in is to develop and share a roadmap that highlights the benefits and value proposition of an Agile IA approach.

The main change from management’s point of view will be the audit intake process and scheduling. During the intake process, IA identifies the audit objectives that will be addressed with Agile IA. Not all types of audits are necessarily the best fit for Agile IA (i.e. compliance and regulatory audits) and may be best suited to a traditional IT approach. The distinction on whether Agile IA is applicable should be made at an early stage. Management input should be obtained regularly by internal audit in order to update and refine the organizational risk register. Stakeholders should be aware of what topics they can provide input on and where the Agile IA process is not suitable.

Education of the Audit Committee

The direction and involvement of the audit committee is paramount for the success of the Agile IA transition. The committee members need to obtain an understanding of what changes to expect in the transition to Agile IA and how they can achieve their goals. During regular audit committee meetings, the results of the projects should be shared along with the current organizational risk register and prioritization. Internal audit should educate the audit committee on the concepts of scope refinement and the evolving nature of this Agile IA process throughout the year.
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