



Adapting Agile to internal audit

**A deeper dive into the Agile
framework for internal audit**

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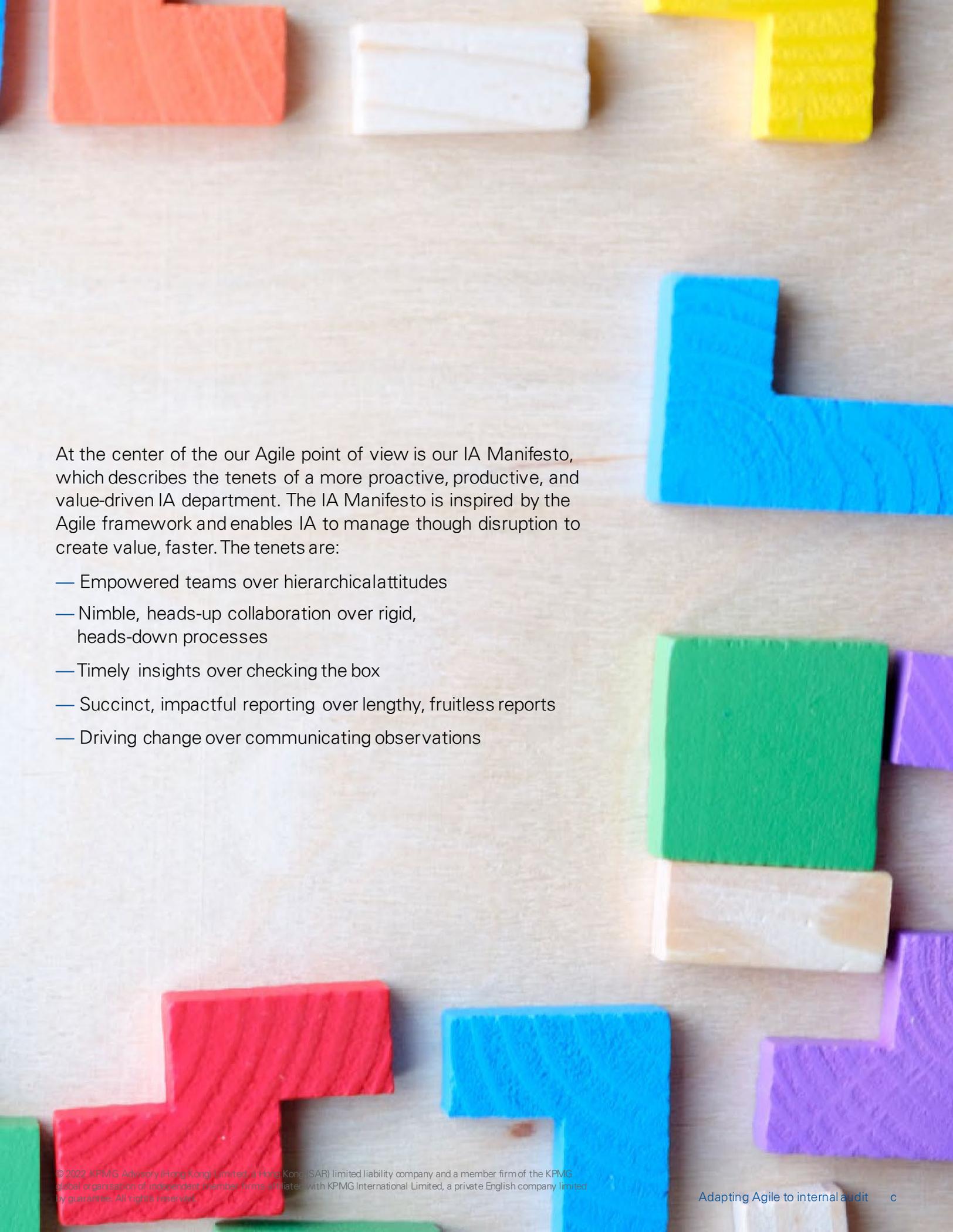




Executive summary

Fundamentally, adoption of Agile is not an all-or-nothing strategy. With the value of Internal Audit (IA) on the line, are you willing to explore how Agile can be fit for purpose? The marketplace has proven that IA functions need to pivot and adjust their priorities and methods to match dynamic business conditions. If IA is not aligned with the velocity of risk and modernization of the enterprise, the value of the IA function will diminish.

Agile methods and practices are another effective tool on the path forward for IA functions; however, it is adoption that seems like the largest obstacle. The thought of introducing Agile may seem overwhelming, so it is pushed aside as innovation for the future and the opportunity to be a step ahead is lost. KPMG believes that each organization should align the adoption of Agile methods/practices to where they are culturally and in the domains they require. KPMG can tailor the approach to meet you where you are.



At the center of our Agile point of view is our IA Manifesto, which describes the tenets of a more proactive, productive, and value-driven IA department. The IA Manifesto is inspired by the Agile framework and enables IA to manage through disruption to create value, faster. The tenets are:

- Empowered teams over hierarchical attitudes
- Nimble, heads-up collaboration over rigid, heads-down processes
- Timely insights over checking the box
- Succinct, impactful reporting over lengthy, fruitless reports
- Driving change over communicating observations





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The value of Agile



CEOs have narrowed the gap between digital transformative objectives for their organizations and investing in the future of work and a digitally enabled workforce. Technology advancement is still vital for businesses to remain competitive, but hiring talented people is equally important.



—**Carl Carande**, KPMG Global Head of Advisory,
in the KPMG 2021 CEO Outlook

Change is the only consistent factor in today's business environment. Organizations are expected to adapt quickly and in more innovative ways to remain successful.

Agile or Agile-inspired methods sit near the top of the agenda for IA. In May and June in 2021, the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Institute of Internal Auditors Hong Kong (IIA HK) jointly organized a series of webinars covering trends and forward-looking technologies that help IA add value to businesses¹. Faced with the global pandemic and a business environment changing faster than ever before, a technology-enabled and responsive IA function is needed to innovate and transform itself.

Some IA departments are leveraging Agile concepts as an enabler of this transformation. A KPMG poll of audit and finance professionals found that Agile approaches are gaining momentum in IA. A recent KPMG survey found that 26 percent of IA functions had already adopted Agile-inspired or dynamic approaches in internal auditing and another 45 percent are planning to introduce more Agile and data-driven concepts.² Yours may be interested in doing the same.

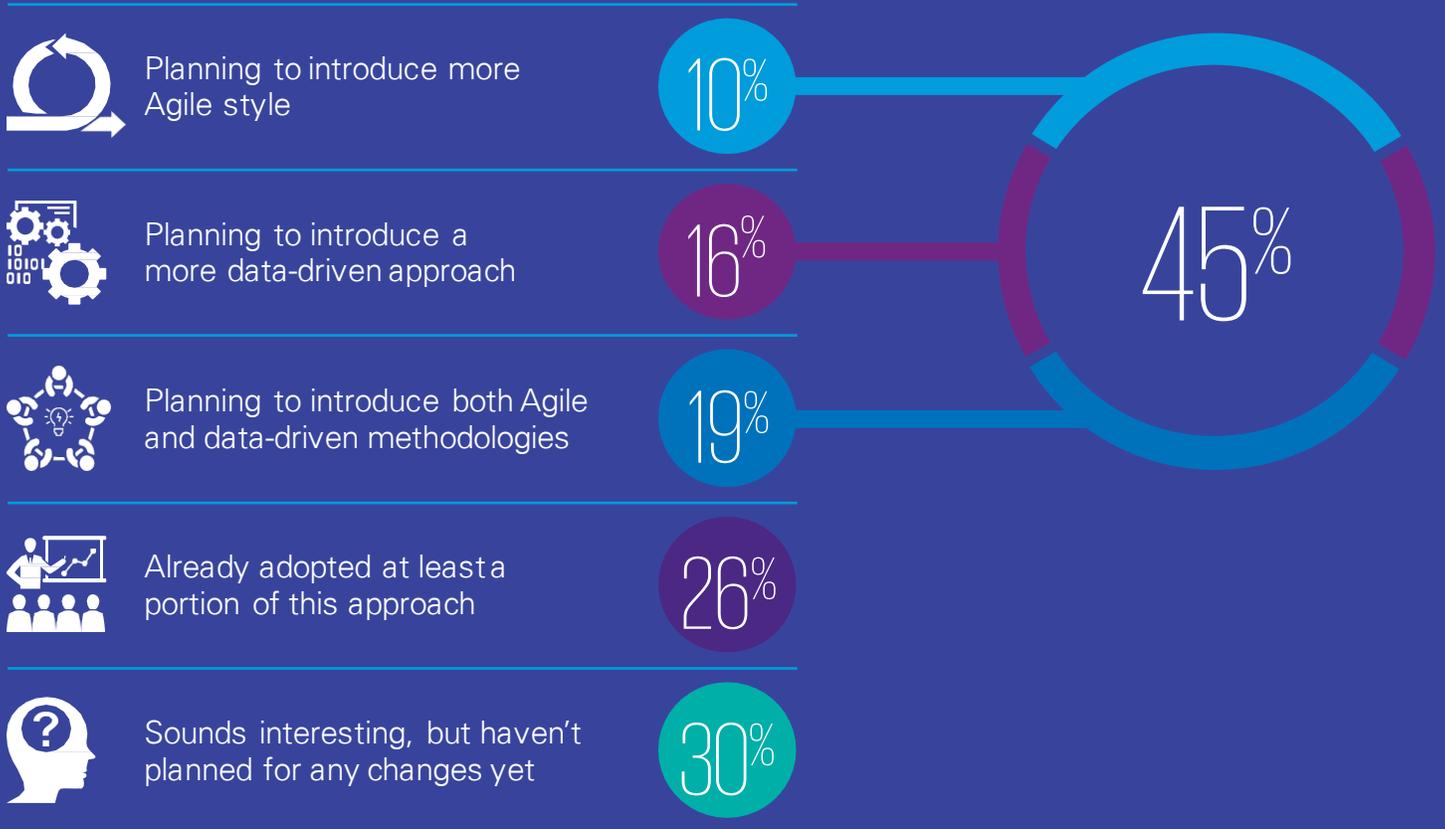
While introducing Agile can seem overwhelming, your IA team can benefit from leveraging some key Agile principles without the need to do a full transformation, such as more regular touchpoints, greater collaboration, earlier reporting, and more data behind your decisions. KPMG believes that formally embracing Agile is neither an all-or-nothing nor a one-size-fits-all journey. The right mix of Agile is dependent on your organization's culture and needs.

¹ HKICPA/IIA HK Joint Webinars – Internal Audit Series (May to June 2021)

² KPMG online survey of 736 audit and finance professionals, June 2019

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To what extent is your IA function interested in, or adopting, a more dynamic approach?



³ KPMG online survey of 736 audit and finance professionals, June 2019

Agile versus Waterfall

Traditional internal audits have been performed using Waterfall, a decades-old software development methodology that is now applied to project management of all kinds. With Waterfall, rigorous design occurs up front, followed by development and testing.

Projects using Waterfall often follow seven phases, as featured in the graphic on page 5. The project plan is largely fixed once set, and each phase commences only once the previous one is complete, leading to long lead times from initiation to delivery and often increasing the chance for failure.

Projects using Agile, by contrast, follow an iterative approach that draws on the Agile methodology, a development framework that originated more than 50 years ago and was ultimately formalized in the 2001 Agile Manifesto. With Agile, adjustments to the project are made while performing the work. The project team delivers an iterative and incremental product in frequent early timeboxed releases, gets valuable feedback, adjusts focus accordingly, and regularly reprioritizes the backlog or scope.

The use of Agile methods in IA can help deliver real-time reporting, accelerate escalations, improve stakeholder relationships, and increase alignment to organizational objectives and visibility to risk and issues—all while ensuring project objectives are achieved.

Waterfall

- Linear, sequential lifecycle model
- Rigid methodology with assumption for little need to change
- “Big Bang” delivery for go-live
- Fewer points of collaboration between project team

Agile

- Known for flexibility with built in opportunity for change
- Incremental design, test, and deploy approach
- Increased points of collaboration between project team and stakeholders throughout project

Waterfall versus Agile: By the numbers



44% of projects use traditional Waterfall approaches



30% of projects use Agile approaches



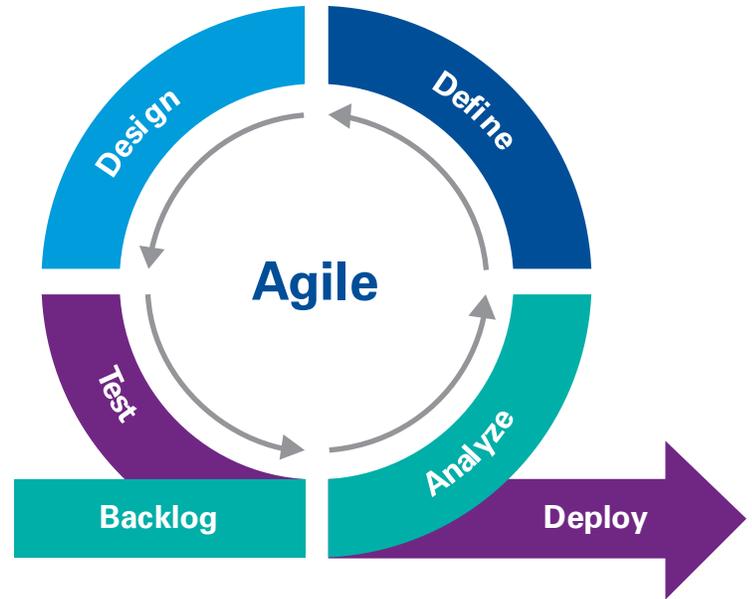
23% of projects use hybrid approaches⁴

⁴ *Success in Disruptive Times (PMI's Pulse of the Profession: 10th Global Project Management Survey, 2018)*

Waterfall



Agile



Agile Manifesto

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

Source: Agile Alliance

Agile internal audit

Agile internal audit is a mindset and method IA professionals use for evolving the profession, adapting to disruption, and managing change. Applying the Agile method empowers IA teams to focus on the needs of stakeholders, improve the audit plan, accelerate audit delivery cycles, and provide timely and impactful insights.

KPMG IA Manifesto

At KPMG, we work with IA functions to enhance and protect organizational value by evolving how they approach audit projects leveraging Agile principles. Through this experience we have uncovered five core tenets of effective Agile IA, which we have developed into the KPMG IA Manifesto:



Empowered teams over hierarchical attitudes. IA departments that apply an Agile approach are collections of proactive and collaborative thinkers, not just individuals focused on their discrete tasks and responsibilities. All ideas matter, and everyone is actively involved. Working together, teams initiate and perform audits to solve real problems—not simply because the business tells them to. People on the ground are authorized and even encouraged to question and to adjust the audit based on interim findings or misalignment with priorities.



Nimble, heads-up collaboration over rigid, heads-down processes. The old way of performing an audit was to dust off the same audit year after year. While IA teams will have recurring audits, adopting Agile principles promotes them to think critically about how the business or control environment is evolving, take ownership of the audit, and make decisions throughout based on diverse perspective and expertise.



Timely insights over checking the box. Agile requires engaging regularly with stakeholders, allowing IA to identify adjustments to the audit based on stakeholder and team feedback. No longer are stakeholders waiting for results until the end of the audit, when months have passed and findings are stale or less relevant. No longer is precious time lost when the finding could have been resolved. Through more frequent reporting on progress and results (ideally weekly), IA is more connected and delivers timelier insights—not just findings—that the business can quickly act on. Engaging regularly with stakeholders also allows IA to identify additional adjustments to the audit based on stakeholder and team feedback.



Succinct, impactful reporting over lengthy, fruitless reports. The Agile-inspired audit approach enables reporting early and often, doing away with lengthy page audit reports that no one reads. Findings are shared more quickly and in a more streamlined fashioned. Just as importantly, critical results that could have a huge impact on the business are elevated and emphasized, with only the most important findings being included.



Driving change over communicating observations. Audit work should extend beyond where it typically stops. Applying more of a consultative mindset will help drive change. A consultative mindset involves offering objective, strategic, and realistic input to resolve top issues and take advantage of opportunities. Driving change means staying involved longer to help see the organizational objectives are met.

Translating Agile principles for internal audit

The KPMG IA Manifesto helps us understand why applying Agile tools more effectively meets IAs mandates to enhance and protect organizational value. Here, we explain how Agile translates to IA activities and what benefits these Agile concepts can deliver across the audit lifecycle.

Audit planning

In traditional audits, a detailed set of tasks are planned for the audit before beginning any work and documented in a formal statement of work, audit scoping memo, and Audit Program Guide (APG).

In contrast, Agile audits leverage:

- **Stories**, the smallest unit of work and must be completed during a single sprint. Stories are defined tasks for the audit written by the team with input from the auditee.
- **A definition of ready**, a set of criteria that must be known about the story to be included in the sprint.
- **A definition of done**, defining the intended outcome of the story and must be defined to be included in the sprint.

- The **sprint**, a repeatable, time-boxed phase that includes the stories to be worked by the audit team during the audit.
- A **Kanban board**, used to visually represent where each story is in the audit project, including what is being done, what needs to be done, and what has been done.

Benefits

Leveraging Agile allows the team to dive in before every detail is understood; gain consensus on what needs to be performed and the intended outcome; and reduce delays, rework, overwork, and confusion. It also enables IA to reprioritize tasks as they go and evolve the direction of the audit based on observations gained during the planning. This helps focus the audit on the risks and topics with the biggest impact and highest ROI.

Roles for Agile internal audit



Audit delivery and reporting

Traditional audits are performed in a linear manner. The audit team provides process owners with high-level results during periodic touch points or through status reports. It concludes with a final audit report and postaudit follow-up.

Agile audits are performed through iterative **audit sprints**, a series of short work periods focused on achieving a specific end goal. Results are provided during the **daily stand-up**, a quick daily meeting, with the audit team, focused on immediate roadblocks and real-time issues. Each sprint is followed by a **sprint review**, designed to review the results of the last sprint, findings, and any implications for remaining sprints. A **retrospective** is performed at the end of each sprint to review what went well, what did not work, and what should change before the next sprint or audit.

Benefits

Performing the audit in focused segments and reviewing results iteratively enables more frequent delivery of results and closer collaboration with stakeholders. This allows the audit team to pivot to immediate actions, make adjustments based on management feedback, and apply improvement opportunities within the audit sooner. The daily stand-up also provides process owners with results earlier and at a more granular level, allowing them to see and react to opportunities and issues sooner—in days rather than weeks or months.

Agile and regulatory

Many IA departments are responsible for regulatory-required or compliance audits. These audits can have clearly defined scope, required focus areas, and specific testing objectives that may be defined by the regulators. In these cases, Agile concepts can be applied for audit execution to gain value for the organization. While the scope may be fixed, Agile presents an opportunity for increased collaboration with the business, enhanced communications throughout the audit, and the ability to course-correct in real time.

Case study: Value from the pivot

When a leading automotive supplier wanted to ensure compliance with new lease accounting standards, the company collaborated with KPMG internal auditors to conduct a lease assessment audit. After reviewing existing processes and sample documentation, the KPMG team quickly saw that the company had already completed much of the preadoption work.

Rather than duplicating efforts, the KPMG team pivoted the audit plan to focus on higher-risk areas, continually reassessing risks as issues were discovered. The KPMG team performed further procedures using advanced analytics to help verify the company was completely and accurately capturing all leases. This investigation helped identify gaps in regional lease processes that may have presented a risk to the organization and reduced confidence in its control environment.



This approach facilitated more focused effort by the audit team during fieldwork, enhanced transparency with our stakeholders and reduced the period of identified risk exposure. Issues were immediately surfaced with management which enabled remediation activities to begin sooner in the audit cycle. As a result, both the audit function and the business have benefited from the approach.



—Chief Audit Executive

Leading worldwide supplier of automotive maintenance products and services

Adoption continuum

Where does your organization fall?

At KPMG, we believe adoption of Agile should be on a continuum. IA departments don't have to take an all-or-nothing approach to adoption. Rather, you can pull different levers based upon where your organization falls on the continuum and get the benefits of different Agile concepts.

Now that you understand the benefits of Agile internal audit, you can select the right mix of tools, concepts, and approaches for your IA program. Based on your organizational culture, identify where your organization falls on the continuum below. For each level, we have identified some actions you can take to begin seeing the benefits of Agile.

Level 2: Ad hoc Agile projects throughout the organization

Representative organizational attributes of level 2

- Top-down/centralized annual planning with no regular cadence for revisions
- Some stakeholder engagement in project planning
- Beginning to define Agile practices and planning for pilot (usually IT)

Actions and capabilities for IA

- Set up a regular cadence of meetings with auditee and stakeholders to share findings
- Hold regularly defined team status meetings
- Continue to enhance report for greater impact by including data

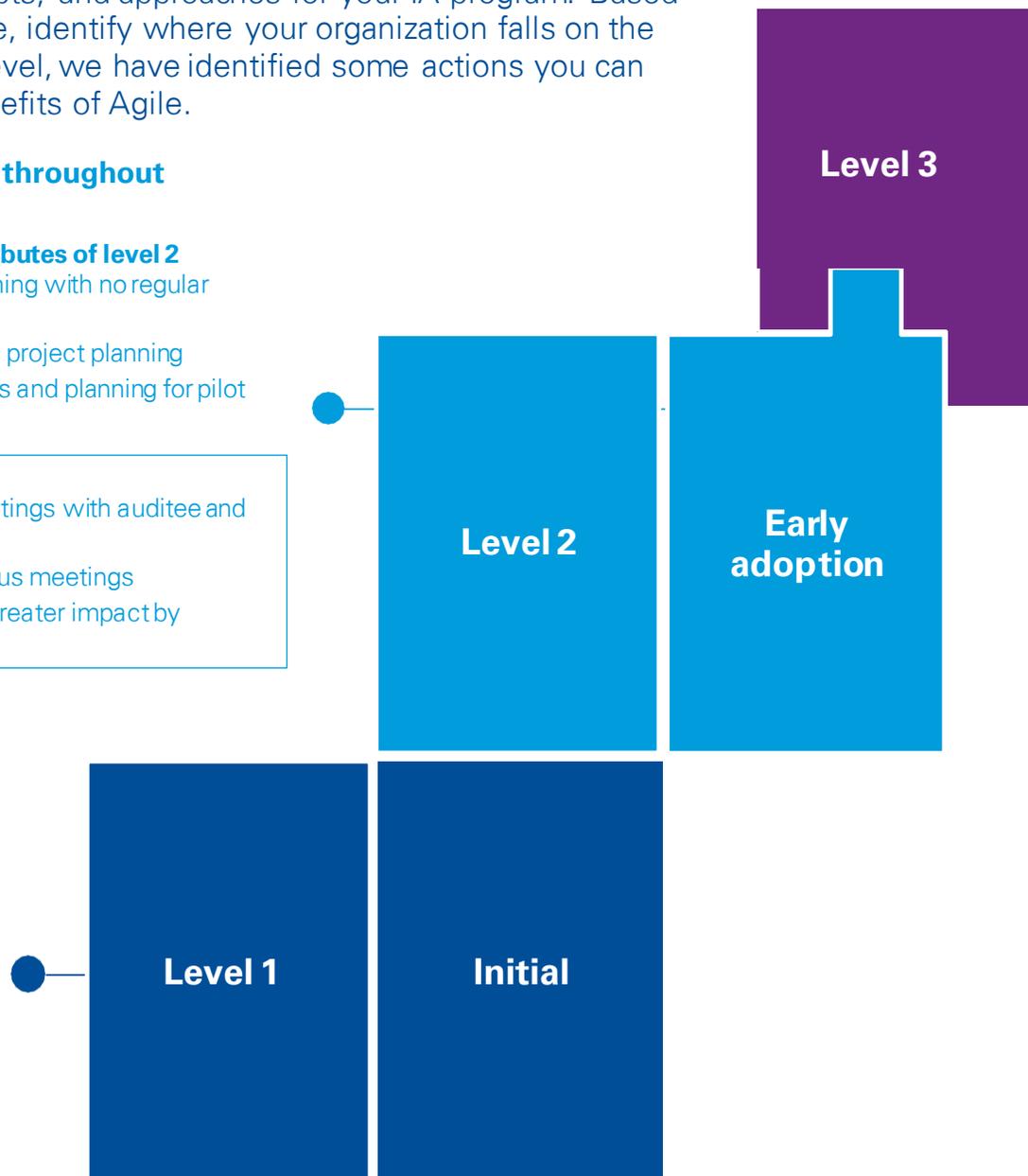
Level 1: Organization has not adopted Agile attributes

Representative organizational attributes of level 1

- Thinking about Agile, no adoption, formal or informal
- Limited collaboration in annual planning and budgeting

Actions and capabilities for IA

- Set office hours with auditee
- Optimize collaboration and reporting
- Increase auditor knowledge of the business
- Concise informative reporting (10 pages or less)



Level 3: Initial Agile adoption in the organization (often IT)

Representative organizational attributes of level 3

- Annual planning and budgeting with planned meetings for frequent review and adjustments
- Organizational approach for Agile defined, some but not all projects have adopted the Agile methodology
- Completed an Agile pilot project (usually in IT)

Actions and capabilities for IA

- Centralize planning with involvement from audit teams
- Develop Agile-inspired templates and leverage on audit projects
- Define standards for Agile processes, roles, and responsibilities
- Hold scheduled sprint or audit team meetings
- Increase proactive communication with stakeholders and business
- Increase transparency into the early findings and observations
- Continue to enhance report for greater impact by including data and analytics

Level 4: Agile adoption in multiple areas in the organization

Representative organizational attributes of level 4

- Quarterly planning and budget review
- Organizationally adopted Agile principles to guide teams, stakeholders, and leadership
- Adopted leading practices that best fit the organization
- Completed multiple Agile projects
- Clearly defined cross-functional Agile teams

Actions and capabilities for IA

- Hold daily sprint meetings
- Agile IA teams trained and operating
- Align audits to organizational goals and objectives
- Collaborate with stakeholders and incorporate feedback throughout the audit
- Department drives enhanced impact for the organization by providing interim deliverables early and often
- Flexible audit plan, a plan to adjust the audit as the organizational risk profile changes

Initial Agile adoption in the organization

Level 4

Agile adoption in multiple areas in the organization

Level 5

Agile organization

Level 5: Agile organization

Representative organizational strategies of level 5

- Adopted a lightweight, fluid approach to planning and budget cycles
- All internal projects have adopted Agile principles
- Agile teams defined across the enterprise
- Organizational mindset shifted
- Focused on continual delivery
- Every leader fully supports and reinforces the concepts in the Agile Manifesto
- Scalability solved

Actions and capabilities for IA

- Adopt continual auditing and focus on automation opportunities
- Audit decisions facilitated through real-time reporting
- Use Agile tools such as backlog, Kanban, retrospectives, and scoping techniques for internal audit
- Apply Agile tools throughout the audit cycle
- Colocate Agile audit teams
- Fully optimize Agile audit process
- Agile audit results feed continuous risk assessment

Getting started

Ready to reap the benefits of Agile for IA, but not sure where to start? Here are some practical actions to take to begin driving IA value through the adoption of Agile principles:

1 Plot IA's pain points.
The IA function—like any function—will have different reasons for adopting Agile principles. Before embarking on an Agile journey, it's essential to understand what specific problems you are trying to solve. Start by having a frank discussion about the pains and challenges within the department, incorporating feedback from IA leaders and professionals as well as business stakeholders. Is risk assessment and reporting too slow or off topic? Are audits regularly completed behind schedule? Are people spending too much time on routine work and not enough on strategic work? What about the current environment prevents IA from delivering full value to the organization?

2 Use Agile to drive IA's strategic alignment.
There is no value in performing audits no one wants or needs, providing insight on risks no one is concerned about, or improving audit processes no one thinks are broken. IA's relevance depends on its ability to support the organization's strategic objectives and priorities and pivot its activities when things change. Achieving better alignment with the enterprise requires more dynamic planning on the part of IA, especially in today's rapidly changing business environment. By incorporating Agile concepts in departmental and project planning activities, IA can be more adaptable to business changes, allowing IA to deliver more meaningful insights on critical risk.

3 Make a plan to scale Agile.
The majority of IA functions begin to adopt Agile concepts through targeted pilots focused on enhancing the efficiency and effectiveness of certain processes and activities through a handful of relatively easy changes. But that's not where the Agile journey should end. For Agile principles to really take hold and deliver results, IA must move beyond pockets of experimentation and scale the relevant components of Agile across its entire delivery model. Start by setting some milestones you hope to achieve in one year's time, such as completing a specific number of Agile internal audits, delivering all IT audits using certain Agile principles, or improving auditee satisfaction scores. Be clear: IA does not necessarily need to become fully Agile. Scaling Agile is about having a systematic and consistent approach that pulls in all the right Agile concepts for your organization.



How KPMG can help

If your IA department is exploring or in the process of transforming, KPMG can help you incorporate aspects of Agile to improve efficacy, collaboration, assurance, risk management, and organizational value.

Leveraging our framework, and embracing the tenets of the tried-and-tested KPMG IA Manifesto, we'll work with you to pick which Agile elements are a fit for your organization and adopt them in a way which empowers your team to deliver impactful, insightful, and timely audit reports.

When you earn and deserve the trust of all your stakeholders, you create a platform for responsible growth, confident decision-making, bolder innovation, and sustainable advances in performance and efficiency.

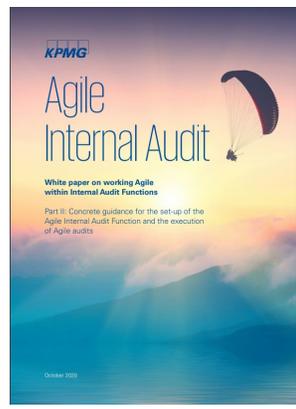
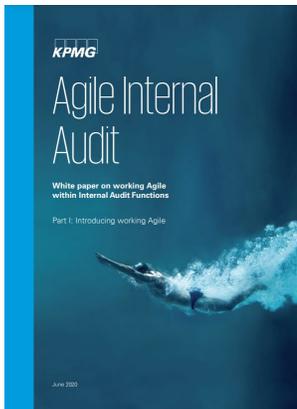
KPMG concentrates deep skills in risk and regulation, advanced digital solutions, and well-established change know-how in one powerful and global capability. We can help you build trust with everyone who has a stake in your business, from customers, employees, and suppliers to regulators, shareholders, and the communities in which you operate.

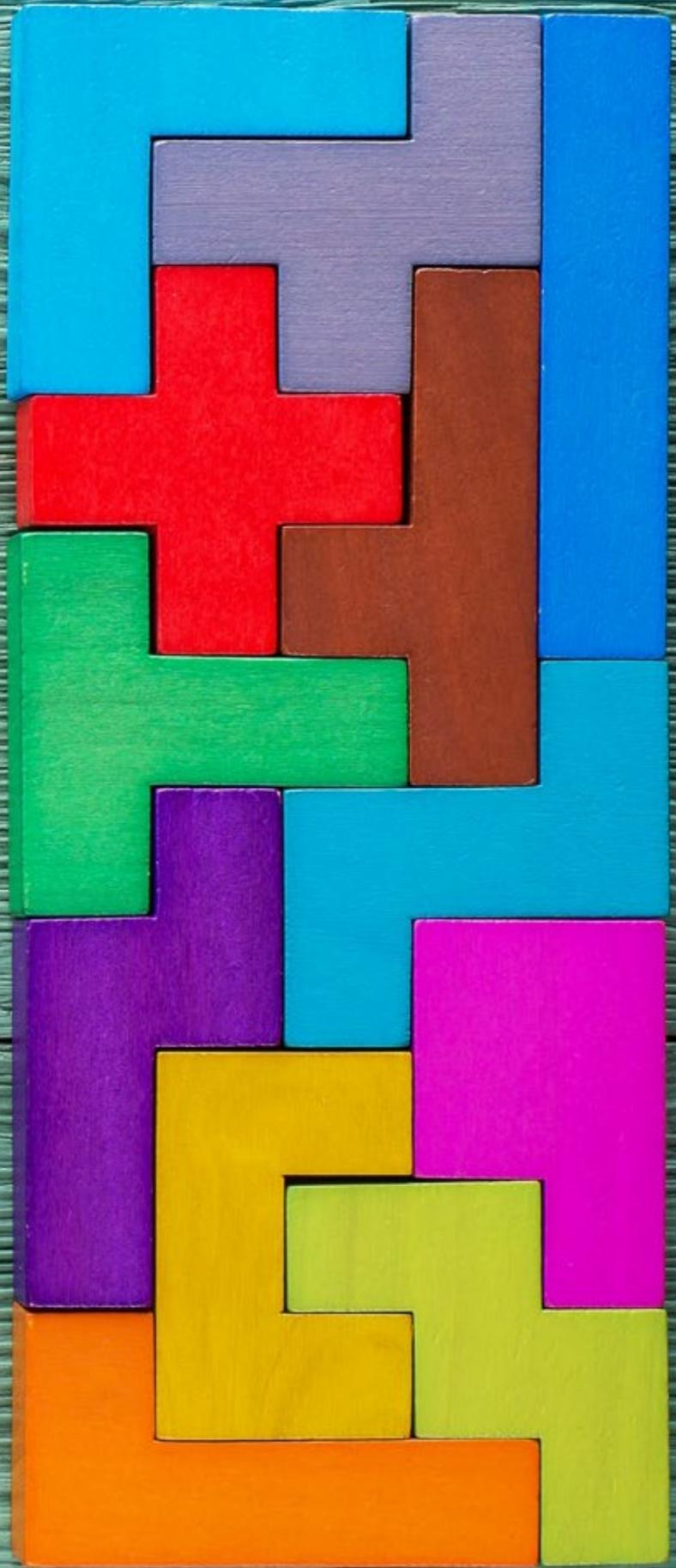
Our approach to Agile focuses your attention on the business outcomes and strategic priorities that matter most to you. By doing the right things, in the best possible way, you can secure a future that is successful and sustainable.

Learn more at,

<https://home.kpmg/cn/en/home/services/advisory/risk-consulting/internal-audit-risk.html>

Related reading





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