

Internal Audit functions that adopt 'Agile' can increase their impact by accelerating the delivery of insight

Agile auditing

Mindset over matter



Internal Audit. Expect More.

Championing the profession

When progressive thinkers come together something interesting happens. Provocative points of view are aired, innovative ideas are shared and challenges that may be well understood get revisited from a mix of different perspectives. As part of our commitment to championing the internal audit (IA) profession, we are keen to harness that energy and insight. We invited a diverse group of internal audit leaders and stakeholders from across a cross-section of organisations, to help us explore the issues and opportunities facing IA functions as they step up to the challenge to innovate and evolve. This paper seeks to capture the insights and points of view that were uncovered when we came together to talk about ‘Agile Auditing’.



Understanding Agile

There are many 'flavours' of agile working practice. Originally developed as an efficient and effective way of iterating software development, it has gained wider traction in an increasingly complex, dynamic and digital business world. Its basic elements include:

- rapid planning processes and task prioritisation
- 'sprints' of two to four weeks to achieve specific goals
- daily 'scrum' meetings of the entire team to check on progress and brainstorm solutions to emerging problems,
- regular pauses for reflection – often called sprint reviews – by the team on what has been achieved and for planning the next sprint of activity.

'Agile' is often contrasted with 'Waterfall' – a method of working which tends to be more structured, with defined stages which are completed in a linear fashion. Whereas most IA functions recognise they operate in a waterfall fashion, many are seeing the value of moving to a more collaborative and iterative approach to audit planning, scoping and delivery.

The Agile Imperative

It is fair to say that there is growing imperative for organisations to adapt more agile ways of working across functions and programmes. In some sectors this is even more acute due to the competitive landscape and pace of change. This poses both a challenge and an opportunity for IA. The challenge is for IA functions to learn how to audit in an agile environment, understand the language of 'Agile', the implications on the audit methodology and provide timely assurance. The opportunity is to embrace 'Agile' to further align and evolve IA into their own ways of working.

Internal auditors in our session were both excited and cautious about adopting 'Agile Auditing'. *"A world in which there is increasing uncertainty and more discretion about what and how you are going to audit lends itself to adaptation, learning and rapid changes in direction,"* said one. *"The risk is that we carry on as we are and lose credibility with the business,"* said another.



Agile in Action

One global organisation is eighteen months into its agile journey. The business has adopted an agile approach in three key stages of its audits – planning, fieldwork and reporting. Its objective is to get to the fieldwork as rapidly as possible. The first sprint in each audit is often a two-week planning phase. The outcome of that sprint can be a rough overall plan for the audit and the details for the first sprint.

An agile audit at the business has five key attributes:

1. Full team involvement is maintained for the duration of the audit. There is clarity over roles and responsibilities. Junior staff attend all planning, scrum and retrospective meetings. Each audit has a designated leader who signs off on the work at the end of each sprint. The business tries to keep a core team of 3 to 4 people together on consecutive audits out of an average compliment of 5 people.
2. Audit work is visualised and updated on scrum boards. The business has refused calls to provide technology to run the agile audit projects because it has found verbal communication to be the fastest and most effective way to brainstorm problems and unblock issues preventing the audit's completion. A block is represented on the board by a physical object, which is only removed once the issue is resolved.
3. Audit work is delivered in sprints, which are two-week periods each with its own well-defined objectives and goals.
4. Each sprint is structured with key events: sprint planning, daily scrum, sprint review and sprint retrospective. All team members must attend the daily 15-minute scrum and the audit client is also invited. Those auditees in the business most likely to attend have experienced their own agile working practices. They understand the value of rapid problem-solving. The scrum board is often located within the office of business section being audited to make the audit team accessible. If the scrum decides that work can stop in one area, they take that decision immediately and move to the next step in the sprint. *"When external stakeholders come to the daily scrum, they can send a text and remove a blocker during the meeting. It can be amazingly effective at clearing up misunderstandings with the client."*

5. Internal and external stakeholders with a vested interest in the audit are invited to the sprint reviews. *"There is always tangible feedback on audit's findings at the end of it, including the good, the bad and the unknown. You are delivering some of your assurance without issuing a final report and removing the chance that the auditee will be surprised by the results."*

Tangible results have included a 20% time saving on regulatory audits and a 10% time saving on less standard audits. Quality assurance reviews are consistent with pre-agile levels.

Anecdotal feedback from the team and from auditees has been positive, although difficult to quantify. Not all internal and external stakeholders are ready for an agile approach, but the audit team plans to continue adopting an agile approach where possible over the coming twelve months.

The benefits of IA functions moving to agile auditing

- When an organisation or programme is using an agile approach, 'Agile Auditing' delivers better alignment and provides real-time assurance rather than retrospective assurance.
- An 'Agile' approach helps the audit team eradicate low value work and realise efficiencies that allow them to focus more time and effort on higher value, complex audits.
- Stakeholders have a better audit experience as they receive informal assurance early in the audit process and have more opportunity to clear up misunderstandings at the outset.
- Huddles: Junior members benefit from closer involvement in all aspects of the audit and are able to demonstrate competency earlier.
- Audit teams stay together during the course of most audits, challenging the view that continually moving people into new teams is effective or efficient.

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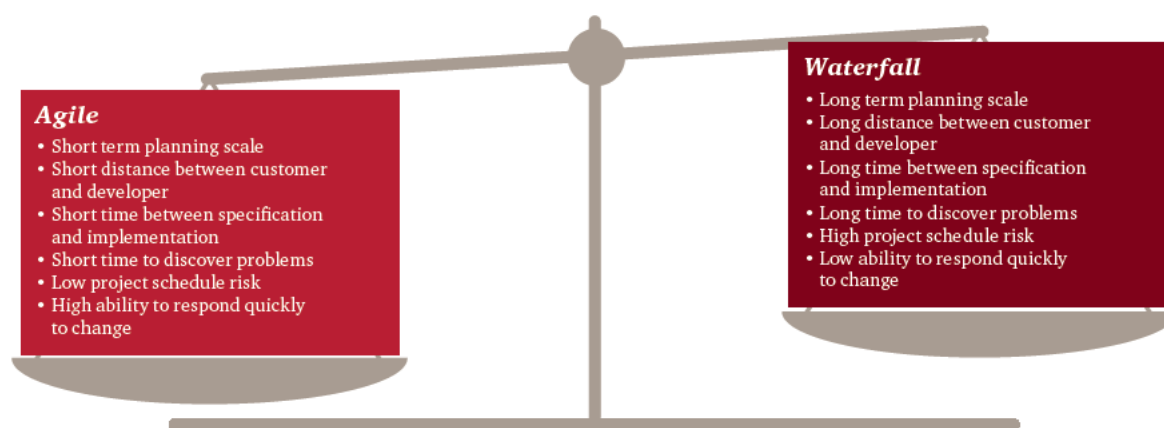
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Key considerations for Internal Audit

Heads of audit attending the PwC event were at different stages on their 'Agile' journey. The discussion during and after the case study presentation highlighted some key themes for internal auditors.

1. When is agile appropriate?

'Agile' can be used to improve the speed at which IA performs compliance-based audits, but its real value tends to arise in audit areas where there are high levels of uncertainty or the audit subject is moving at pace e.g. a programme that is using an iterative approach to solution design. It can quickly highlight areas which are not in a state to be fully audited, enabling the team to move on to other areas and return at an appropriate time. The sprint planning approach highlights which areas need audit's attention and which do not. *"We have put our pens down and allowed management to finish rolling out their new initiative, rather than giving them a load of red marks simply because the project has not concluded,"* said one attendee.

'Agile' methodologies are often promoted as a cure-all for waste and inefficiency in the audit process, but in the real world, 'Agile Auditing' works better for some projects (e.g. those adopting an agile approach) and in some businesses (e.g. those that are more dynamic rather than traditional) than others.

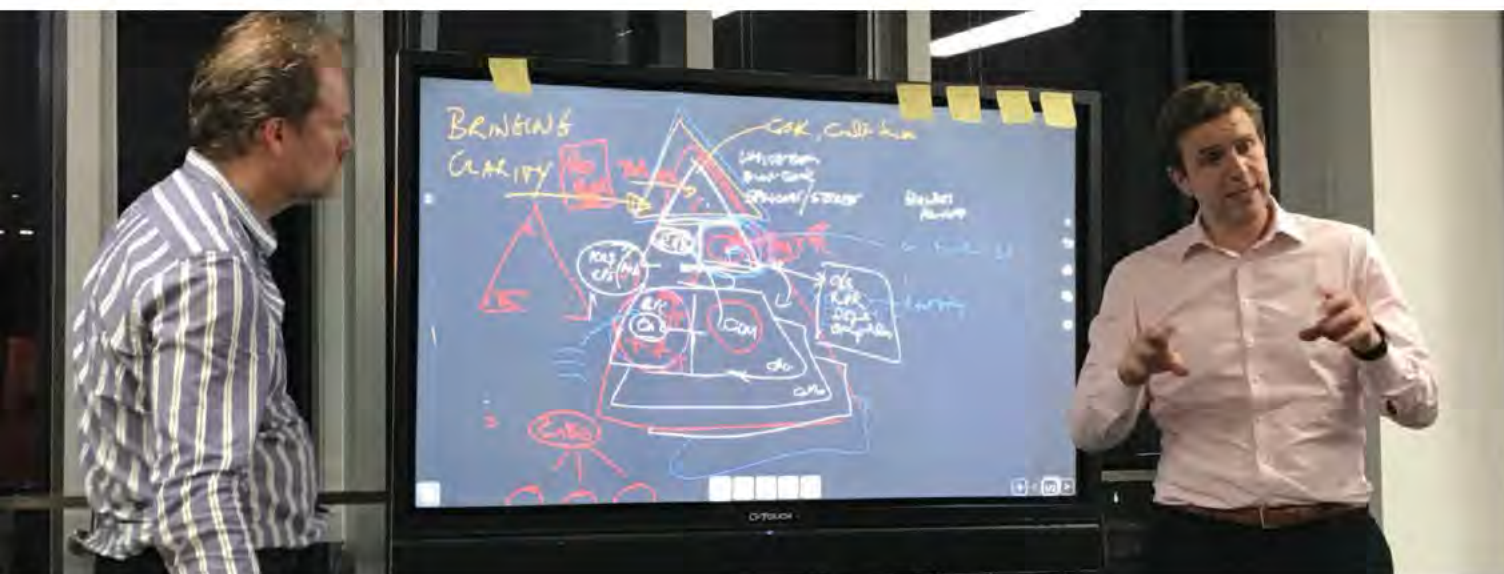
2. Agile assurance and reporting

Internal and external stakeholders sometimes require a traditional audit report as the assurance product from internal audit. Stakeholders who experience 'Agile' audits appreciate the opportunity to receive regular verbal assurance over their internal controls as early as the first sprint retrospective. Static audit reporting is useful for oversight, but the inflight verbal reporting during the scrum meetings and retrospectives is what management needs to make the changes right there and then. Some heads of audit expressed concern that the agile audit approach involved increased levels of verbal reporting, which could fail to raise important issues at a high enough level in the business. *"Relying on dialogue is an uncomfortable place for audit sometimes,"* said one attendee. 'Agile' tends to use memo formats rather than audit reports to update the audit committee.

Agile Project Delivery is based on four values:

People	Over	Processes and tools
Working prototypes	Over	Documentation
Customer collaboration	Over	Rigidity in requirements
Responding to change	Over	Following a set plan

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3. The talent agenda

Most Heads of Audit in attendance agreed that ‘Agile Auditing’ created a very positive experience for the more junior members of the team. It also provided an opportunity for those with aptitude to demonstrate their competency and take on more responsibility earlier in their careers. *“When junior members understand what is going on, it improves the quality of their execution,”* said one workshop participant. *“When the junior members of the team are involved in every stage of an ‘Agile’ audit, they have a better grasp of why their tasks are important. They are also invited to summarise what they have achieved every day in a concise statement during the daily scrum – and to challenge others in the same forum.”*

In addition, it’s clear that keeping teams together over several audit projects and allowing them to focus on one audit at a time improves morale. *“In traditional audit teams, junior staff could be allocated to an audit while still finishing off another piece of audit work, as well as also having other tasks – with no idea which takes priority,”* said another participant. *“Adopting an agile approach enhances the development of junior people because they are much more connected. They are not just tickers and they are learning to challenge.”*

Having full-time ‘Agile’ coaches has been key for those who have demonstrably succeeded and securing access to such skills to work alongside agile IA teams is a critical success factor. Strong coaching and facilitation can deliver significant tangible benefits, for example, using a huddle to write reports in an accelerated timeframe - one organisation present had achieved this in under three hours.

4. Focusing on what matters

Views were mixed on how to describe ‘Agile’ is it a methodology, a set of behavioural changes, a cultural shift, or simply a way of refining a risk-based approach to auditing? Most saw it as a mix of all those things but agreed that it tended to cut waste, save time and improve the quantity of audit work done in areas that mattered to the organisation. *“The biggest weakness in the internal audit industry is wasting vast amounts of time on things that don’t matter,”* said one person. *“Agile has helped us reduce that wastage and repetition.”*

5. Mindset

Across our participants, ‘Agile’ represented a big cultural change for the audit team and some auditors said they found the transition to an agile mindset difficult to make. *“You can start introducing ‘Agile’ concepts within the traditional structure, but it can be difficult to get passed that point to a totally agile mindset because auditors can be uncomfortable with the large cultural shift it demands,”* said an attendee. If you are going to successfully adopt ‘Agile’, you need to commit to the mindset change it demands. This is a further reason why ‘Agile’ coaches can be helpful in the early stages of adoption.

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So how do you get Agile and stay Agile?

In our view, it is essential to understand the components of an agile approach and to have an appetite to adopt the behavioural changes that this will require. In addition, you may need further support and a structured change management approach to get there and realise the benefits predicted. Buy-in from executive management is also critical – if it's counter-cultural, it's unlikely to work, certainly in the long term.

PwC has developed an award winning approach called **Perform**, which seeks to teach and facilitate management to move towards an 'Agile' way of working in addition to delivering significant productivity, quality and consistency gains. Applying the Perform approach to Internal Audit, IA Perform, involves an intensive 8-10 week period of facilitated working and engagement with the end result being a rhythm, toolset and level of commitment which can deliver embedded agility. A key design principle of IA Perform is around self-enablement i.e. allowing you to learn, adapt and embed the ways of working for yourselves so that you can continue to operate with agility after the IA Perform engagement concludes.



Our event

The event took place in London in Spring 2018 and was attended by Heads of Internal Audit from several leading organisations. One organisation presented a case study, during and after which there was lively debate. PwC would like to thank the attendees for a stimulating and useful discussion. The comments have been anonymised in order to report what was said more openly.



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