

Presentation on
**AGILE INTERNAL AUDIT
METHODOLOGIES**

By: CA Ram Agarwal

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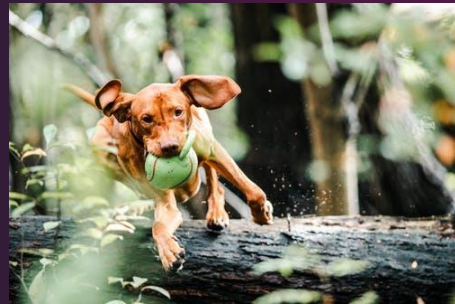
Sr. No	Topics Covered
1	Agile – Meaning, Concepts and Principles
2	Agile – Internal Audit
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4	Traditional Waterfall Audit v/s Agile Internal Audit
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What is Agile?

The term **AGILE** was originally used in software development in 2001 to describe the flexible nature of software developed in iterative stages. Today, it is being used in all functions of an organization including the second- and third line functions.

Agility means the *“ability to move quickly and easily”*. It is also defined as *“the ability to think quickly and in an intelligent way”* when it is referenced to the mind-set.

EXAMPLES:



Not Agile

- Train
- Aeroplane

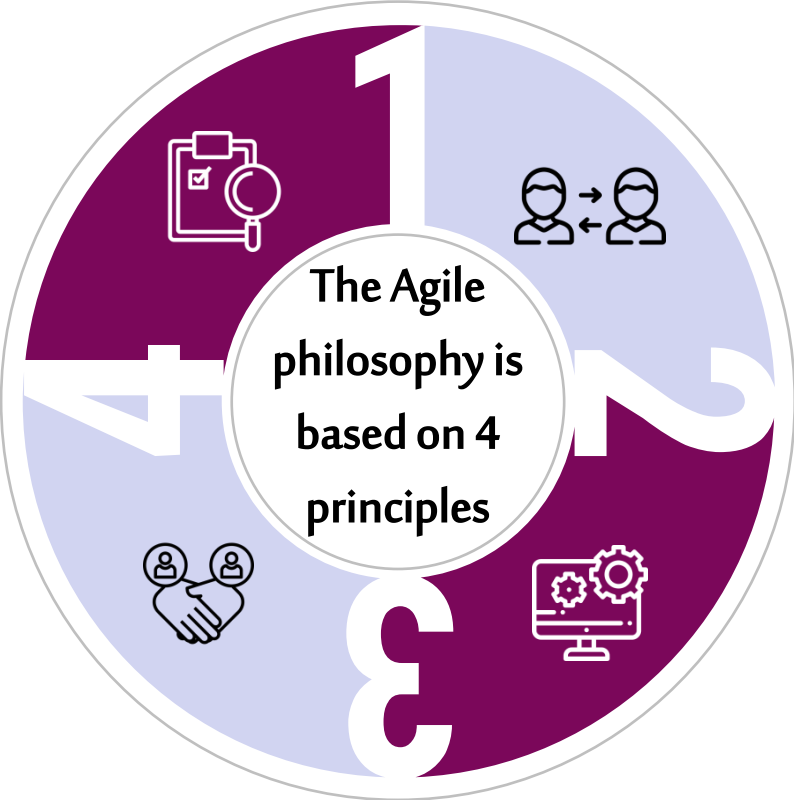
How Agile Concept is applied?



- The agile methodology is a type of project management method and was mainly developed by the software development industry to **reduce costs, time and improve quality & delivery**.
- It achieves this by breaking a project into several **short incremental and repeatable tasks** (known as sprints that are usually 1-4 weeks in length) and by seeking the collaboration of all stakeholders and by conducting daily scrum meetings.
- Agile development follows an incremental model, which develops **collaboration within the team** and **continuous planning**, as well as everlasting evolution and learning.
- Agile methodologies should respect the software development cycle – **planning, execution and final delivery** – therefore allowing software to be developed in stages; this makes it easier to identify and resolve bugs.

Individuals and Interactions over processes and tools

Responding to change over following a plan



Working software is more important than comprehensive documentation

Customer collaboration over contract negotiation

Agile Internal Audit is the mindset and method that an IAF uses to focus on the needs of stakeholders



– Accelerate the audit cycles,



– Providing timely insight



– Increase audit quality and



– Reduce the waste of resources

The key features of an Agile Internal Audit

- ✓ Other mindset of the auditors
- ✓ The approach of the audit is flexible
- ✓ The use of day starts (scrum meetings)
- ✓ Increased involvement of the auditee
- ✓ Less documentation
- ✓ Continuous coordination of the product (report)
- ✓ Applying Agile principles that are relevant

By applying an Agile method, the productivity and added value of the IAF can be increased and the lead time of an audit can be reduced.

Core Components

There are three basic structural components to an Agile audit:



Audit Backlog — Similar to an audit plan, the backlog is a collection of scoped items (as per stakeholder needs i.e. AC / Board etc.) that must be reviewed by the audit team.

Unlike an audit plan, scoped items can be removed or added to the backlog based on perceived risk and value add of the item.

Rather than focusing on items that were predetermined during annual audit planning, **auditors can address emerging issues** that the stakeholders are currently experiencing, by using backlogs.

Internal auditors and stakeholders must agree on how an item in the backlog will be tested, as well as the expected value from the test, prior to adding the item to the backlog.

Audit Sprints — During the execution of the audit, the item is unlisted from the audit backlog and the various scope elements will be divided into defined auditable subjects, so-called sprints.

A sprint is a time period within which a task must be completed. Sprints are typically one to four weeks long, with two weeks being the average.

Sprints ensure audit teams meet required deadlines through accelerated delivery cycles.

Scrums — Scrums are short and concise meetings, typically lasting 15 to 30 minutes, that are held daily between audit team members and key business stakeholders.

The meetings cover

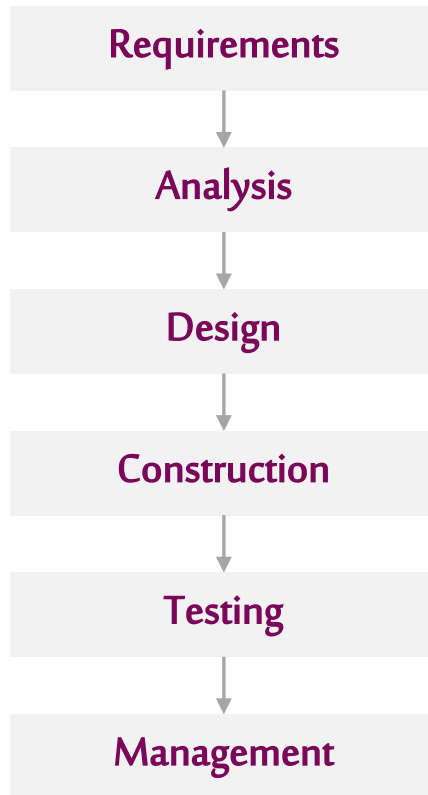
- 1) what was done yesterday,
- 2) what will be done today,
- 3) roadblocks to the current sprint and
- 4) potential issues.

Methodology:

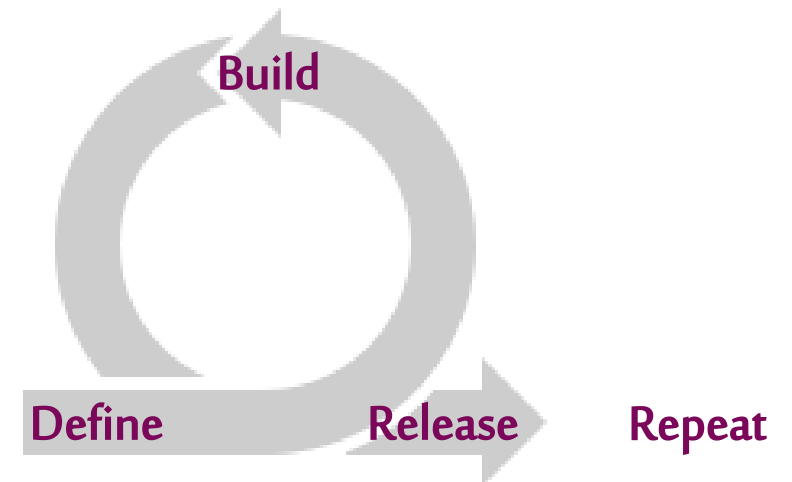
1. Active and broader involvement in disruption
2. Being prepared and adaptive
3. Assessing the risk of future disruption
4. Proactive involvement in disruptive events
5. Flexible talent management
6. Flexible planning
7. Meaningful collaboration with other lines of defence



Waterfall



Agile



Traditional Audit v/s Agile Internal Audit

Traditional	Agile
Waterfall Model	Scrum Framework
Planning	Backlogs
Fieldwork & Review	Sprints & Retrospectives
End of Project Reporting	Iterative Reporting

Traditional Audit v/s Agile Internal Audit

Differentiator	Traditional	Agile
Team	<p>Independent operating audit teams organized according to the structure of the organization. These teams are usually fixed and have a hierarchical structure.</p> <p>The audit teams are managed by senior auditors or audit managers.</p>	<p>Collaboration between multidisciplinary teams, supplemented with Agile experts per sprint, so that all the necessary knowledge for the execution of the sprints is available.</p> <p>These teams are determined per sprint, whereby the division of tasks depends on the work to be performed (instead of the job level).</p>
Planning	<p>Established annual plan and planning for a long period (year or multi-year plan) which is not, or hardly, updated based on relevant developments.</p>	<p>Flexible planning with regular (for example quarterly) coordination moments with the Executive Board or Audit Committee. The risk analysis is carried out more frequently, resulting in an Agile audit plan.</p>
Approach	<p>Focus on the (waterfall) process of the audit. The audit steps should be completed before proceeding to the next step and audit.</p> <p>Within the audit team itself and with the auditors, there are few interim coordination moments.</p>	<p>Focus on the result of the audit. Frequent stand-ups to discuss together what everyone is doing and whether there are requests for help.</p> <p>There is a lot of iterative contact, and more coordination moments with the auditee.</p>
Lead Time	<p>Audit products consist of audits that look at complete processes or topics with relatively long lead times.</p> <p>The focus here is mainly on providing assurance. An audit must be carried out according to the planning.</p>	<p>The audits, including the sprints, generally have a shorter lead time. If the objective of the audit is achieved earlier, the result will be immediately reported.</p> <p>Additionally, if the audit no longer provides any added value, the audit is stopped more quickly.</p>
Reporting	<p>Fixed written reporting format.</p>	<p>In addition to full-scope audits, the IAF has other audit products, such as quick scans.</p> <p>There is a flexible form of reporting in which at least objectives and scope of the audit, conclusions, recommendations and action plans are reported.</p>

Benefits of Agile Internal Audit

There are many benefits of applying Agile to internal audits which may include:



Higher-quality insights and faster insight generation



Increased client satisfaction



Enhanced internal audit planning



Empowered internal audit teams



Faster responses to changing business needs



Less documentation








Accelerated delivery cycle



Clearer outcome

Does Agile Auditing Positively Impact IAF

Aspects	Traditional IAF	Agile Impact
 <p>Mission, vision and objectives</p>	<p>IAFs providing retrospective assurance about processes and objects in the organization.</p>	<p>Aims to provide ongoing advice and insight on a short-cyclical basis, able to respond more flexibly and swiftly to the changing needs, thus acts as an advisor and sparring partner to the organization.</p>
 <p>KPIs and performance</p>	<p>Assessed on its productivity, the percentage of the annual audit plan completed or the results of the (external) quality assessment.</p>	<p>These KPIs shift towards customer satisfaction, the number of interaction moments with the auditee and the turnaround time of the audits.</p>
 <p>Competencies and skills</p>	<p>At times, it becomes difficult to find the skills & competent resources to check the new type of risks or areas...</p>	<p>The audit team is more than ever composed based on the required competences and experience with Agile for the various sprints and activities to perform.</p>
 <p>Behavior and culture</p>	<p>Resistance in accepting the audit findings due to lapse of time, less interactions with auditee and usual behavioral distance being auditor and auditee</p>	<p>Not only requires auditors to learn a different way of working, it also asks auditors to adjust their mindset. The IA team and the auditee enter into discussion through transparency in the communication about the interim (sprint) results.</p>
 <p>Department and team composition</p>	<p>Traditional hierarchical structure with the Head of IA, audit managers and (senior) auditors</p>	<p>An Agile IAF has flat organizational structure. The Scrum Master ensures that the team remains focused, makes progress and meets the deadlines in an Agile way.</p>

How Does Agile Audit Works



1. **Cross-functional teams** — Each sprint team should be equipped with all of the skill sets (IT, compliance, operational, etc.) required to complete the assigned tasks.

Close collaboration and continuous communication within the sprint team break down traditional silo walls, increasing efficiency and allowing the team to work with a sharper focus.

This also strengthens relationships and builds trust between internal auditors and their business partners.

2. **Continuous integration** — Elements of the project from different groups should be pulled together on an ongoing basis to prevent any single element of the project from becoming a silo. Usually, this concept is associated with larger and more complex audit initiatives or projects.


They provide transparency to the project scope, status and results, and they facilitate collaboration within the team through information sharing.

Agile principles focus on face-to-face or co-located interaction but have been necessarily augmented with technology, as teams are more frequently structured in a distributed manner.

The Agile audit process can be divided into the following three main phases:




Planning and preliminary research



Determine audit object under the responsibility of the Product Owner, based on audit backlog, stakeholder input, and key elements — Planning and preliminary research to include the relevant aspects in the audit — Pre-defining the added value / purpose of the audit in the Definition of Ready




Audit execution



Distribution of work to be performed, based on different sprints which have to be performed. Depending on the sprint results determine what the next steps of the audit are — Stand-ups with auditee to discuss progress and new insights



Completion and evaluation



Formally completing sprint activities and tasks through Audit Product, which is shared with auditee and stakeholders — Audit Product contains objective, scope, conclusion, recommendations and action plans

Case Studies

Industry / Business Process	Risks & Challenges	How Can be Best Done Thru Agile Audit
FMCG / Retail – Import Logistic Function	<ul style="list-style-type: none"> • Large no. of SKUs to be imported with FCL • Each SKUs have different CBM • High Lead time in import • Delay in planning would miss the hit time of goods 	<ul style="list-style-type: none"> ✓ Take small audit sprint of nearest consignments to be received ✓ Check only specific risks of planning – Container wise CBM planning ✓ Audit team and logistic teams having knowledge of CBM / Consignment plan ✓ Raise issues of under utilization and planning gaps
Sales Functions	<ul style="list-style-type: none"> • Risk of supplies more than the credit limits • Adhoc credit assessment getting into repetitive practices • Possibility of business loss 	<ul style="list-style-type: none"> ✓ Instead of taking whole Sales Order management cycle, focus on selected samples of customers having open SO but credit limits exhausted ✓ Carry the audit along with SCM team to check on despatch glitches leading to loss of sales / delay in supplies
Insurance – Premium to Policy	<ul style="list-style-type: none"> • Customer dissatisfaction due to delay in issue of policies or repetitive request for seeking information • Cross functional gaps – Marketing team, Underwriter and Operations team 	<ul style="list-style-type: none"> ✓ Take limited audit sprint and see if there is particular issue (function / team / KYC issues) which is leading to iterations ✓ Close interactions with process owners will lead to quick audit output to departments and possibility to take quick corrective measures
BFSI / Govt. Sector	<ul style="list-style-type: none"> • Increase repayment defaults • Potentials of higher business opportunities with clients not known at right time • Knowing the early trends of well planned & channelized frauds for Regulatory / Govt. watchdog agencies 	<ul style="list-style-type: none"> ✓ Through use of IT applications, detect the trends in sales and cash flows ✓ Govt. dept. have adopted Agile way working instead reacting at the end of year

Do's

- ✓ Continuously take the objective of the audit into account to determine if the results provide sufficient evidence to achieve this objective
- ✓ Focus on the result: complete a sprint and (re)consider the next steps (are all steps relevant?)
- ✓ Use a flexible schedule: continue with prioritization of audit areas, problems and risks together with the stakeholders.
- ✓ Provide regular updates on the progress of the audit and adjust the audit if necessary.

Don'ts

- ✗ Perform an audit at once on a complete function or process with all controls in scope
- ✗ Focus on the audit process: complete the full test procedures instead of starting reporting.
- ✗ Use a fixed detailed schedule for a long period without updating it.
- ✗ Do not schedule meetings between the IA team and the auditee to discuss and reconcile progress and adjust as necessary.

Challenges – Agile Internal Audit



1. Organizational culture change
2. Support from sponsors & Stakeholders
3. Preventing burnout
4. Correctly apply agile concepts
5. Adhere to time boxes
6. Dedicated Resources

1. **Adopting everything** — Trying to adopt all aspects of Agile is counter productive and goes against the core principles of Agile methodologies. When applying Agile, it is best to pick and choose the practices that are most appropriate for that particular organization. Every organization will be different.
2. **Top-down approach** — It is similarly counterproductive for audit executives to try to dictate change, from the top down and all at once. Agile is, at its core, a flexible framework to be explored by teams and applied as circumstances require, in a phased manner, from the bottom up, to promote innovation and collaboration.
3. **Abandoning core internal audit principles** — Adopting Agile does not eliminate the need to meet internal audit standards or regulatory requirements related to providing assurance, quality of execution or reporting.

Rather, implementing Agile components in a manner conducive to internal audit principles allows organizations to realize the benefits without compromising those principles while enhancing quality and adding value. Defining methodology and intended outcome on the front end of an audit will help ensure that all of the core internal audit principles are continuously followed.
4. **Maintaining coverage** — Flexibility within Agile requires increased transparency and ability to track coverage decisions. It may also require teams to rethink their coverage approach. Special care should be taken to ensure that this does not result in reduced risk coverage or documentation.
5. **Skill sets** — This is really focused on how to optimally structure teams so that all necessary skill sets are available on each team. As mentioned in the discussion of supporting elements above, ensuring that all of the individuals involved in a cross-functional team have the skill sets necessary to accomplish the team's tasks will ensure efficiency and remove traditional silos.

At last, why Agile Internal Audit for IAFs?



Focus on continuous **prioritization** of focus areas and thereby providing **relevant insight**.



Shorter audit cycles and faster delivery of (sub) product.



Increased **audit quality**.



More **interaction** between the audit team and the auditee which improves the management of expectations.

**Thank
You**