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White paper

Agile Internal Auditing

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Background

Purpose

This White Paper has been written to discuss how an agile internal audit approach can provide a more timely internal audit service to the board (or equivalent governing body), audit committee and senior management. This can be achieved by leveraging agile project management techniques such as sprints to split the internal audit engagements into manageable chunks, enabling internal auditors and stakeholders to collaboratively work together to stay timely and quickly deliver internal audit services.

Background

This White Paper takes a principles focus, exploring the alignment between five key principles from the Agile Manifesto and internal audit processes and products, while discussing the potential benefits and consequences of implementing Agile internal audit practices. Throughout this White Paper, any reference to 'Standards' refers to the 'International Standards for The Professional Practice of Internal Auditing' (International Internal Auditing Standards Board, 2016) within the 'International Professional Practices Framework' (IPPF).

Discussion

Issue

Many internal audit activities have a history of slow delivery, and it is not uncommon for internal audit projects to take up to 12 months to complete.

The issue to be discussed is how can internal audit deliver value-adding services in a more timely way, while collaborating more closely with stakeholders?

History

In recent years, there has been increasing popularity in exploring implementation principles from the Agile software development methodology into internal audit activities to reduce inefficiencies and improve delivery timeframes. Historically, internal audit activities have been delivered through a structured 'waterfall' approach in which each phase, such as planning, is completed before a new audit phase, fieldwork, commences (Internal Audit Foundation, 2020, p. 4). Agile techniques that can be applied to internal audit delivery include "iterative planning, time-boxed work increments referred to as 'sprints', rationalisation of documentation, close collaboration with stakeholders throughout the project, iterative releases of work products, and prioritisation of work based on dependencies" (Internal Audit Foundation, 2020, p. 6).

Agile Principles

The claimed benefits of adopting an 'agile' approach include:

- › Reduced delivery times – brought about by accelerated delivery cycles.
- › Greater flexibility – ability to adjust reviews to emerging information.
- › Improved product – direct support of process improvement and development.
- › Greater client satisfaction (ACL Services Ltd, 2020, pp. 14-15).

Of particular interest in this context are the following principles that have been adapted for the internal audit context from 'The Agile Manifesto' (Beck, et al., 2001). While the Agile Manifesto is focused on development and delivery of software, within internal audit the focus is on the delivery of audit insights.

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Principle	Description
Principle 1	Our highest priority is to satisfy the customer through early and continuous delivery.
Principle 2	Welcome changing requirements, even late in development. Agile processes harness change for the customer's competitive advantage.
Principle 3	Deliver useful results frequently – every couple of weeks to every couple of months.
Principle 4	The business area and internal audit must work together daily throughout the engagement.
Principle 5	Build projects around motivated individuals. Give them the environment and support they need, and trust them to get the job done.
Principle 6	The most efficient and effective method of conveying information to and within a team is face-to-face conversation.
Principle 7	Delivery of insight is the primary measure of progress.
Principle 8	Agile processes promote sustainable performance.
Principle 9	Continuous attention to technical excellence and good practice enhances agility.
Principle 10	Simplicity – the art of maximising the amount of work not done – is essential.
Principle 11	The best results emerge from self-organising teams.
Principle 12	At regular intervals, the team reflects on how to become more effective, then tunes and adjusts its behaviour accordingly.

These principles interact and this paper focuses on five of the 12 principles that are most relevant to delivery of internal audit services – Principles 1, 2, 5, 8, 12.

Principle 1 – Our highest priority is to satisfy the customer through early and continuous delivery.

The Institute of Internal Auditors (IIA) defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations...”. The purpose of the internal audit activity is to ‘add value’ and, therefore, aligns with Principle 1.

The Agile technique of ‘sprints’ can be used to deliver condensed components of audit planning, fieldwork and reporting to reduce delivery times and eliminate disparity between phases (Wright, 2020).

Fieldwork components can be split by dividing elements of the audit scope into sub-products, with audit fieldwork then being delivered in more iterations but with shorter timeframes (KPMG, 2020, p. 9). This approach would still require upfront planning and be documented within the overarching work program to meet Standard 2240 ‘Engagement Work Program’.

The benefits of delivering audit phases by scope can lead to reduced delivery times and assist the internal audit activity to meet “deadlines through accelerated delivery cycles” (Berger, 2020). Delivering elements of the audit scope in sprints allows for the audited business function to benefit from early and continuous delivery of audit testing results to develop and commence corrective actions.

Another key technique used in Agile methodology is that of a daily ‘scrum’ or stand-up session in which the current sprint’s approach, results and any roadblocks are discussed in a short, concise and targeted meeting. It arises from Agile Principle 4 ‘The business area and internal audit must work together daily throughout the engagement’ and Principle 6 ‘The most efficient and effective method of conveying information to and within a development team is face-to-face conversation’ (Beck, et al., 2001).

Daily scrums can be applied in the delivery of internal audit engagements by having frequent meetings inviting all audit team members and selected business stakeholders to understand progress and emerging observations. Although IIA–Norway (2021) warns that the limited time and resources of the functions being audited may lead to those audited staff preferring to “focus on their daily tasks rather than be continuously involved in the internal audit”.

Regional Internal Audit Director for Citigroup, Lorraine Hogan, presented at the IIA-Australia’s 2018 South Pacific and Asia Conference (SOPAC) on Citigroup’s pilot of Agile techniques of scrums and sprints within their internal audit activity. Hogan identified improved audit quality and efficiencies had been gained, calling out the benefits of scrum meetings to enable the sharing of senior stakeholder insights on an ongoing basis (Hogan, 2018).

Bryan (2019) expands on this, identifying that iterative feedback can lead to higher-quality audit insights and improved findings.

Use of sprints and scrums can result in reduced delivery times for audit services and better buy-in on audit outcomes from business stakeholders. A potential risk would be the possibility for invited business stakeholders to try to influence audit practices during the scrum sessions, potentially compromising audit independence and objectivity as required under Core Principle 3 of the IPPF ‘Is objective and free

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from undue influence (independent)' (The Institute of Internal Auditors, Inc, 2019) and Standard 1100 'Independence and Objectivity'.

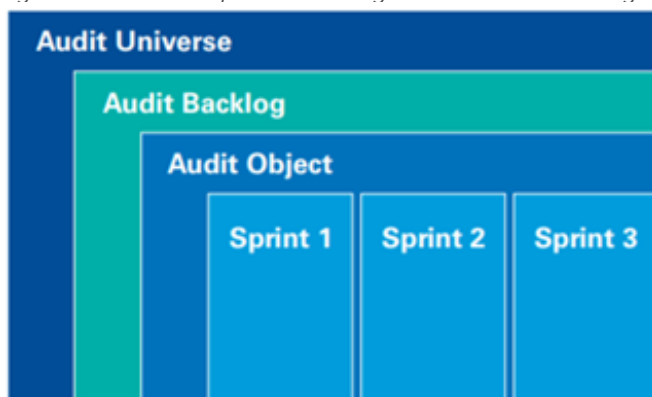
Resistance may also be experienced when trying to implement these techniques if senior managers feel business areas are spending too much time involved in the audit, whereas the audit committee may be hesitant to allow the audit team to share early and continuous findings to stakeholders prior to chief audit executive approval of audit outcomes as required under Standard 2440 'Disseminating Results'. Upfront communication with stakeholders could mitigate this. While more commitment would be required, there is the trade-off of increased transparency (Al-Dawaf, et al., 2019).

Principle 2 – Welcome changing requirements, even late in development. Agile processes harness change for the customer's competitive advantage.

KPMG (2020) and Berger (2020) both discuss the core concepts of an Agile internal audit activity as having three components:

- › The audit universe – all possible audit topics in an organisation.
- › The audit backlog – a collection of scoped items that are to be reviewed, similar to an internal audit plan.
- › The audit object – the focus or 'object' of audit, similar to an internal audit engagement from a traditional internal audit plan.

Figure 1 – KPMG's depiction of an Agile internal audit activity



(KPMG, 2020, p. 10)

As depicted in Figure 1 above, these elements of an Agile internal audit activity then are broken down into further sprints within individual audit engagements or 'objects'. A benefit of compiling an 'audit backlog' as opposed to a static internal audit plan is that individual engagements can be reprioritised according to business pressures and emerging risks. The backlog should be evaluated more regularly than a traditional work program, for example quarterly rather than annually

or semi-annually (KPMG, 2020) to increase stakeholder feedback and allow for adjusted internal audit engagements. Implementing an audit backlog allows the internal audit activity to adapt to and welcome changing organisational pressures, while allowing for prioritisation of audit work based on business dependencies.

The significant shift in mindset required to transition from an annual planning cycle to an audit backlog approach may face resistance from senior managers and the audit committee. The audit committee may be concerned about maintaining appropriate coverage and may be wary of the apparent loss of structure to the program. Implementation of an audit backlog should have regard for the documented expectations set by the governing body in the audit committee's charter. Development and revision of the backlog should be informed by an assurance map reflecting current organisation risks and associated assurance activities.

Accepting agile means 'not working on items that do not add value'. This may represent a significant shift in the mindset of an internal auditor becoming comfortable with stopping work and moving on to the next activity (Al-Dawaf, et al., 2019, p. 4). In particular, it means not working on aspects that will not deliver a useful product. This concept can help internal audit activities to rationalise existing internal audit activity. It is also reflected in Agile Principle 10 'Simplicity – The art of maximising the amount of work not done – is essential'.

The iterative planning approach used in sprints allows for more detailed planning on discrete items. Sprint planning can be approached from the perspective of a risk-based approach in which there is a risk and control analysis at the beginning of each sprint, or a topic-based approach in which the audit objective is divided into topics such as ICT, governance, legislation (KPMG, 2020, p. 11). This means only those aspects of a subject area (audit object) that are of current interest need be examined.

An internal audit activity can still meet the requirements of Standard 2240 'Engagement Work Program' in which work programs that achieve the engagement objectives must be developed and documented – it is just planned and documented in an iterative rather than linear approach. Further, the related Attribute Standard 2240.A1 identifies that "the work program must be approved prior to its implementation, and any adjustments approved promptly". An Agile approach provides scope for adjustments to be made during engagement delivery.

Principle 5 – Build projects around motivated individuals. Give them the environment and support they need, and trust them to get the job done.

Standard 1210 'Proficiency' requires that the "internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities".

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The Agile methodology can facilitate knowledge sharing and improve the proficiencies of internal audit team members, in particular junior auditors as seen in Citigroup's pilot. At Citigroup, adoption of scrums provided greater opportunities for junior auditors to develop their communication skills by having more exposure and more time to speak and respond to senior stakeholders (Hogan, 2018).

Agile approaches can also keep core teams together on consecutive internal audit engagements to improve morale as the teams become more connected. Maintaining team involvement throughout not only the individual engagement, but a consecutive series of engagements, assists in gaining clarity of roles and responsibilities and provides junior auditors opportunity to further develop, challenge ideas and understand priorities (PricewaterhouseCoopers, 2018).

Senior stakeholders and audit committee members may express concern around the potential for a lack of clarity in roles. However, this can be alleviated through upfront communication and consistent messaging as "agile defines the roles and responsibilities within an audit, not within those of the organisational hierarchy" (Al-Dawaf, et al., 2019, p. 4).

The impact of changes in roles and responsibilities will most likely be felt within the internal audit team and may face resistance from team leads who fear a loss of control. This could be managed by empowering internal audit team leaders to understand their role and how it interplays with other teams to ultimately support the chief audit executive. Organisations could structure blended teams for the delivery of engagements and supplement them with subject matter specialists as required on selected sprints. This would facilitate better cross-skilling and development of staff to collectively improve the competencies of the internal audit team.

Principle 8 – Agile processes promote sustainable performance.

A key benefit from Agile methodology is rationalisation of documentation. This, in turn, promotes more sustainable workloads and consistency of pace for delivery. This would reduce the impacts of 'busy season' and ties into the principle of early and continuous deliverables in Principle 3 'Deliver useful results frequently – every couple of weeks to every couple of months'. Alvero and Cassels (2019) discuss the importance of documentation as the foundation of process understanding and that it "represents the expected state that the process is audited against".

The focus should be on rationalising and prioritising documentation needs. In doing so, the chief audit executive must remain cognisant of the requirements under Standards 2200 'Engagement Planning', 2240 'Engagement Work Program', 2330 'Documenting Information' and 2400 'Communicating Results' to develop and document engagement plans, work programs and audit outcomes.

Further, Standard 2330 'Documenting Information' requires that "internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions". The potential loss of managerial control by the chief audit executive would need to be managed to ensure they retain sufficient oversight over audit activities, as required by Standard 2340 'Engagement Supervision'. Nevertheless, there are benefits from moving away from a traditional audit approach in which internal audit observations are vulnerable to excessive cleansing by management (Internal Audit Foundation, 2020, p. 5).

Adoption of the iterative findings discussed in scrums can reduce the tendency of internal auditors to write long reports justifying their approach and crafting a defensible position, and instead focus the internal auditors on delivering "briefer, timelier reports with fewer words and more visuals" (Deloitte, 2017, p. 3). Implementation of sprints and scrums can not only improve delivery timeframes, but also improve communication with stakeholders. They may reduce the need for lengthy reports as stakeholders better understand the issues and can commence corrective actions before the internal audit has been completed (The Institute of Internal Auditors - Norway, 2021).

Principle 12 – At regular intervals, the team reflects on how to become more effective, then tunes and adjusts its behaviour accordingly.

Standard 1300 'Quality Assurance and Improvement Program' requires the chief audit executive to develop and maintain a quality assurance and improvement program (QAIP). The related Standard 1311 'Internal Assessments' articulates the requirements for periodic self-assessments. The 'Interpretation' component of Standard 1300 indicates that the QAIP "assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement". Agile Principle 12 provides a vehicle to better support the QAIP. The regular scrums and conclusion of sprints provide an ideal opportunity to reflect upon the recent audit activity and identify areas to adjust.

Conclusion

Summary

Agile principles can be effectively applied to the delivery of internal audit services:

- › Principle 1 – Our highest priority is to satisfy the customer through early and continuous delivery.
- › Principle 2 – Welcome changing requirements, even late in development. Agile processes harness change for the customer's competitive advantage.
- › Principle 5 – Build projects around motivated individuals. Give them the environment and support they need, and trust them to get the job done.

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- › Principle 8 – Agile processes promote sustainable performance.
- › Principle 12 – At regular intervals, the team reflects on how to become more effective, then tunes and adjusts its behaviour accordingly.

Conclusion

Many internal audit service providers have issued guidance material and white papers on benefits, risks and challenges of adopting Agile into internal audit practice. Common across all is the reiteration that Agile requires a significant change in mindset. Protiviti (Berger, 2020) advises that “trying to adopt all aspects of Agile is counterproductive ...it is best to pick and choose the practices that are most appropriate for that particular organisation”.

However, this approach must still be supported by a strong governance framework with a defined ‘why’ for the implementation of Agile (Wolters Kluwer, 2021). The IIA–Norway (2021) discusses how it is possible to adopt “some of the useful ideas from Agile audit approach without subjecting an established internal audit function to unnecessary transformation”, a view supported by Gartner (Bryan, 2019) that when a “combination of outcomes is desired, leaders should consider a hybrid approach”.

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Purpose of White Papers

A White Paper is a report authored and peer reviewed by experienced practitioners to provide guidance on a particular subject related to governance, risk management or control. It seeks to inform readers about an issue and present ideas and options on how it might be managed. It does not necessarily represent the position or philosophy of the Institute of Internal Auditors–Global and the Institute of Internal Auditors–Australia.

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Emily is an experienced internal audit manager with Axiom Associates in Canberra. She delivers internal audit, assurance and risk advisory services to the public sector as an outsourced service provider. She has managed and delivered a large range of operational, compliance and performance audits across a broad portfolio of Australian Government and State Government entities. Emily's experience includes delivering audits examining the appropriateness of governance and assurance models as well as providing real-time project assurance employing agile techniques for Australian Government projects and events.

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About the Institute of Internal Auditors–Australia

The Institute of Internal Auditors (IIA) is the global professional association for Internal Auditors, with global headquarters in the USA and affiliated Institutes and Chapters throughout the world including Australia.

As the chief advocate of the Internal Audit profession, the IIA serves as the profession's international standard-setter, sole provider of globally accepted internal auditing certifications, and principal researcher and educator.

The IIA sets the bar for Internal Audit integrity and professionalism around the world with its 'International Professional Practices Framework' (IPPF), a collection of guidance that includes the 'International Standards for the Professional Practice of Internal Auditing' and the 'Code of Ethics'.

The IIA-Australia ensures its members and the profession as a whole are well-represented with decision-makers and influencers, and is extensively represented on a number of global committees and prominent working groups in Australia and internationally.

The IIA was established in 1941 and now has more than 200,000 members from 190 countries with hundreds of local area Chapters. Generally, members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.

Historians have traced the roots of internal auditing to centuries BC, as merchants verified receipts for grain brought to market. The real growth of the profession occurred in the 19th and 20th centuries with the expansion of corporate business. Demand grew for systems of control in companies conducting operations in many locations and employing thousands of people. Many people associate the genesis of modern internal auditing with the establishment of the Institute of Internal Auditors.

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