Business Agility & Agile Audit

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Welcome

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Learning Objectives

• Understand Agile principles & how they apply to business
• Agile Audit overview
• Agile Audit approach
• Agile Audit resources
  − Current publications
  − Research & working groups
Agile Audit CPE Training

- **WHAT IS AGILE**
  - Principles, Values, and Mindset

- **UNDERSTANDING AGILE AUDIT**
  - Roles and Components

- **IMPLEMENTING AGILE AUDIT**
  - Breaking it down into Audit phases

- **TRANSFORMATION TO AGILE AUDIT**
  - Approach to transformation

- **Q&A**
  - Open questions

**Time Breakdown:**
- Intros & Objectives: 3 min
- WHAT IS AGILE: 5 min
- UNDERSTANDING AGILE AUDIT: 10 min
- IMPLEMENTING AGILE AUDIT: 15 min
- TRANSFORMATION TO AGILE AUDIT: 15 min
- Q&A: 2 min
“Success today requires the agility and drive to constantly rethink, reinvigorate, react and reinvent”

Bill Gates
Agile comes from long line of success

**Pre 1990**
- Lean Manufacturing
- Toyota Production System
- Just In Time
- Waterfall

**1990’s**
- Lean for Construction
- Lean for Quality & Supply Chain
- Scrum Method Published
- Rapid Application Development
- Extreme Programming

**2000’s**
- Agile Manifesto
- Agile Methodologies
- Lean Software Development
- Agile Unified Process
- Rational

**2010’s**
- Agile Dev Ops
- Agile Marketing
- Agile at Scale
- Agile HR
- Agile Supply Chain
- Agile UX
- Enterprise Agile

**2020’s**
- Growth Mindset
- Customer First
- Value First
- Resilience

**Lean**
Initial uses of Lean were focused on engineering/manufacturing to optimize the creation of products and Waterfall used for everything from construction to product development.

**Software Dev Hits Big**
Lean evolves and expands to quality and supply chain while the light-weight software development hits the mainstream.

**Agile Lands**
Agile Manifesto is crafted and software development continues to evolve with Lean Software Development.

**Agile Matures**
Digital arrives and Agile moves from IT to operations and beyond.

**Agility**
Agile matures to help organizations react quickly and effectively to meet changing markets.
Agile Manifesto – 4 Values

Agile is a mindset that drives a set of values and principles

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

*That is, while there is value in the items on the right, we value the items on the left more*
Agile Manifesto – 12 Principles

1. Satisfy the Customer
2. Welcome Change
3. Deliver Frequently
4. Work Together
5. Trust & Support
6. Face-to-Face Conversation
7. Working Product/Service
8. Sustainable Development
9. Continuous Improvement
10. Maintain Simplicity
11. Self-Organizing Teams
12. Reflect & Adjust
What is Business Agility?

Simplest Answer: New way of working

Agile Tools & Techniques
(Scrum, Kanban, Lean, etc.)

Agile Mindset
(Value First, Collaboration, Decentralized, Outcome based)
Benefits of Agility

**ALIGNMENT**
Aligns audit plan to the business owner expectations

**SHORTER CYCLES**
Shorter audit lifecycle from assessment to reporting

**PRIORITIZATION**
Audits the most urgent risks in an organization.

**INSIGHTS**
Focuses on gaining and sharing insights with management

**PRODUCTIVITY**
Formalizes an approach to monitoring progress

**QUALITY**
Maintains compliance to a time budget and builds in quality
What is Business Agility?
Understanding Agile Audit Roles & Process
Key Agile Roles

Product Owner
Audit Plan Owner
A person responsible for maximizing the value of the product and the work of the development team (product backlog and managing priorities)

Scrum Team
Agile Audit Team
Consists of professionals who do the work for delivering a potentially releasable increment of “Done” product at the end of each sprint, self-organizing, cross-functional

Scrum Master
Audit Lead
A person ensuring that scrum is understood and enacted, sets up meetings and monitors everything
Scrum Roles: Audit Plan Owner

Key Responsibilities

- CAE or Audit Director
- Coordinates senior management and the board to create and prioritize the audit plan
- Adjusts risks and audit priority continually to enable delivery of highest value work
- Accepts or rejects work delivered by the team
- Determines insight reporting release date based on management’s need and opportunity
Scrum Roles: Scrum Master/Audit Lead

**Key Responsibilities**

- Acts as a servant leader and the voice of the Agile Audit Team
- Coaches team improvement with values, principles, and best practices
- Facilitates effective Scrum events
- Enables close cooperation across all roles within the cross-functional team
- Assists Audit Plan Owner in preparing and refining the backlog
- Removes impediments
- Protects the team from external influence
Scrum Roles: Agile Audit Team

- Agile Audit Team is cross-functional with typically 3-5 people
- Defines, builds, tests, and delivers risk and control testing
- Members are dedicated to the specific value-stream delivery
- Some roles may be shared among multiple teams (ex. Data Analytics, IT, Compliance, etc.)
- Plans for, and commits to audit goals for each audit
- Applies quality review practices per IIA Standards
- Participates in Scrum ceremonies to deliver value, gather feedback, and ensure relentless improvement as an Agile Audit Team
Elements of a Program Increment

Program Increment
- A Program Increment (PI) is a timeboxed planning interval during which a team plans and delivers incremental value in the form of working, tested software and systems.

Objectives
- Objectives are a summary of the business and technical goals that a team or train intends to achieve in the upcoming Program Increment (PI).

Stories
- Stories are short descriptions of a small piece of desired functionality, written in the user’s language. Agile Teams implement small, vertical slices of system functionality and are sized so they can be completed in a single iteration.

Sprint
- Sprints are the basic building block of Agile development. Each sprint is a standard, fixed-length timebox, where teams deliver incremental value in the form of working, tested software and systems. The recommended duration of the timebox is two weeks.
Elements of an Agile Audit Program

Program Increment

Audit Plan

- The Audit Plan is a quarterly planning interval during which the audit team plans and delivers insights to the organization.

Objectives

Objectives

- Objectives are a summary of the business and technical goals that a team intends to achieve in the upcoming Audit Plan.

Stories

Risks

- Risks are any exposure that threaten the organization from achieving the Objectives.

Audit

- Audits are the basic building block of the Audit Plan. Each audit is a standard, fixed-length timebox, where teams deliver incremental value in the form of tested controls related to risks. The recommended duration of the timebox is 4-6 weeks.

Sprint

Program Increment Objectives Stories Sprint
Agile Audit Process

Product Owner
Sarah

Scrum Master
Bill

Scrum Team

OBJECTIVES

RISK 1

RISK 2

RISK 3

AUDIT PLAN BACKLOG

RISK 1

RISK 2

2-4 week Sprint

24 hours

Daily Scrum

DEFINE PREORITIZE PLAN COMMIT EXECUTE REVIEW REPORT
What is an ideal risk assessment frequency?
Implementing Agile Audit
Implementation Approach

PLANNING
- Risk Assessment
- Audit Plan
- Agile Team Scheduling

EXECUTION
- Risk Prioritized
- Iterative Completion
- Daily Standup
- Audit Iteration Reporting

REPORTING
- Management Reporting On Demand
- Quarterly Formal Reporting
- Risk and Control Insights Focus
**Traditional**

- Entity Based Audit Universe
- Focus is on subjective risk ranking and entity coverage
- Risk Assessment is annual with updates
- Audit Plan is 1-3 years
- Emerging Risks are not well represented

**Agile**

- Risk Based Audit Universe
- Focus is on business objectives and strategic risks
- Quarterly Assessment that captures updates from audit and senior management
- Audit Plan is quarterly
- Emerging Risks are always considered
- Can scale for aggregated combined assurance planning
Dynamic Risk Prioritization

Shift to Quarterly, Risk-Based Planning

- The world is unpredictable, and risks can emerge in new forms with unknown results.
- Risk Assessments are currently entity-based and need to move to objective/risk based.
- Our planning process needs to encompass a smaller window of time.
- We start by rethinking the audit universe as risks and reducing our annual plan down to a quarterly plan.
How often **should** the internal audit department be able to produce Audit Committee Insight reports?
Quarterly Risk Assessments

Since new risks emerge constantly and organizations modify objectives to meet changes in the world, the audit department must also be prepared to react quickly.
Sources for Risk Information

**Input from Financial Reports**
- Strategic Objectives
- Risk Statements

**Inputs from Senior Management**
- New Initiatives
- Risk Conversation

**Inputs from Completed Audits**
- Emerging Risks
- Control Ratings
# Example Entity Based Assessments

1. The entity is rated with a simple high, moderate, or low rating.

<table>
<thead>
<tr>
<th>Example</th>
<th>Department</th>
<th>Risk Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td>High</td>
<td></td>
</tr>
</tbody>
</table>

2. The entity has high level risks associated and rated.

<table>
<thead>
<tr>
<th>Example</th>
<th>Department</th>
<th>Risk</th>
<th>Risk Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td>Strategic Risk</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Operational Risk</td>
<td>Moderate</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financial Risk</td>
<td>Moderate</td>
<td></td>
</tr>
</tbody>
</table>

3. The entity has detailed, process level risks associated and rated.

<table>
<thead>
<tr>
<th>Example</th>
<th>Department</th>
<th>Risk</th>
<th>Risk Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td>Hiring practices</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Appropriate pay</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Employee retention</td>
<td>Moderate</td>
<td></td>
</tr>
</tbody>
</table>

While many auditors will call the approach “risk-based planning”, in practice they perform entity-based audit planning.

The base, or starting point, for the assessment was an entity-oriented audit universe, not risks.
## Example Objective/Risk Based Assessment

<table>
<thead>
<tr>
<th>Strategic Objective</th>
<th>Strategic Risk</th>
<th>Process Risk</th>
<th>Impact</th>
<th>Likelihood</th>
<th>Control(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accelerate the world’s transition to sustainable energy</strong></td>
<td>Delays or other complications in the design, manufacture, launch, and production ramp of our vehicles, energy products, and product features</td>
<td>No guarantee that we will be able to successfully and timely introduce and scale any such new processes or features.</td>
<td>High</td>
<td>Moderate</td>
<td>Reducing the levels of automation and introducing semi-automated or manual processes. Used a number of new manufacturing technologies, techniques, and processes for our vehicles, such as aluminum spot-welding systems and high-speed blow forming of certain difficult to stamp vehicle parts.</td>
</tr>
</tbody>
</table>

In an agile audit environment, the audit universe will change to include the organization’s most critical objectives and risks.
### Traditional

- End to end process-based execution
- Variable end dates impacted by roadblocks:
  - Delays receiving supporting documentation
  - Scope creep due to expanding testing and low risk testing
  - Manager review and auditor rework at the end of the audit
  - Arguments with management over the audit report
- Limited involvement with business owners

### Agile

- Risk based execution that excludes low risk processes
- Daily Standup Meeting that include a rep from management to facilitate delays
- Eliminate scope creep by performing priorities work within set timebox
- Manager review is near real-time
- Agree to all issues in iteration presentations during the audit (retrospective format)
- Audit reporting can be eliminated or reduced to a formality
- Final retrospective on audit process
Story flows through the Scrum process
Risk flows through the Audit process

- OBJECTIVES
- DEFINE
- PRIORITIZE
- PLAN
- COMMIT
- EXECUTE
- REVIEW
- REPORT

- RISK 1
- RISK 2
- RISK 3

AUDIT PLAN BACKLOG

AUDIT SPRINT BACKLOG

RISK 1

RISK 2

2-4 week Sprint

24 hours

Daily Scrum
Daily Scrum and Scrum Board

Daily Scrum

- Daily Scrum is a 15-minute time-boxed event for the Development Team to synchronize activities and create a plan for the next 24 hours.
- The Daily Scrum is held every day of the Sprint. At it, the team plans work for the next 24 hours. This optimizes team collaboration and performance by inspecting the work since the last Daily Scrum and forecasting upcoming Sprint work. The Daily Scrum is held at the same time and place each day to reduce complexity.

Scrum Board

- A Scrum Board is a tool that helps Teams make Sprint Backlog items visible. The board can take many physical and virtual forms but it performs the same function regardless of how it looks.
Daily Audit Scrum

• Daily Audit Scrum is a 15-minute time-boxed event for the Audit Team to synchronize activities and create a plan for the next 24 hours.

• The Daily Audit Scrum is held every day of the audit. At it, the team plans work for the next 24 hours. This optimizes team collaboration and performance by inspecting the work since the last Daily Audit Scrum and forecasting upcoming test work. The Daily Audit Scrum is held at the same time and place each day to reduce complexity.

• Ideally, a member of the management from the auditee should be present in the Daily Audit Scrum.

Audit Scrum Board

• An Audit Scrum Board is a tool that helps the audit team visualize risks. The board can take many physical and virtual forms but it performs the same function regardless of how it looks.
Primarily an audit plan status update
Issues are categorized for simple trending
Variable communication cadence (1-4 times each year)
Heavy workload for data aggregation and presentation building

Goal for the meeting is sharing insights related to emerging and critical risks and the associated control environment
Issued are categorized by strategic and enterprise risk in addition to common trend categories
Set cadence for formal reporting with optional reporting on demand
Bottom up data capture with real-time review enables faster data aggregation
Can scale for combined assurance aggregated reporting
Audit Reporting

Interim Reports

Interim Reports are organized meetings, split into four steps, and the entire meeting lasts just 45 minutes. The meeting is to cover the results from the past 1-2 weeks. Here are the steps:

1. Review Sprint Scope (5 min)
2. What went well? (10 min)
3. What needs improvement (Issues)? (10 min)
4. Innovation discussion to address issues (15 min)
5. Final Management Responses (5 min)

Final Audit Report

The Final Audit Report is a cumulative report of the issues reviewed in each of the interim reports.

The point of the final report is to communicate both what went well and issues identified to those closest to the risks and controls.
What is the internal audit department’s main product?
Board Reporting

**Internal Audit’s Final Product**

- The Audit Committee Report is the cumulative risk insights report.
- The report should include information about:
  - Risk and control gaps
  - Trending of issue categories
    - By Strategic Risk category
    - By Type
    - By Root Cause
    - By Regulation
    - Etc.
  - Management Responsiveness to Issues
- The report should be producible on demand based on information captured by the Agile Team and reviewed by the Scrum Master.
Questions?
Agile in Action --


Agile Internal Audit. KPMG. 2019

Agile Internal Audit - Leading practices on the journey to becoming Agile. The Institute of Internal Auditors. 2019.


Implementing a combined assurance approach in the era of King III. PwC. 2010.

Thank You,
Fellow Human!