Becoming agile

A guide to elevating Internal Audit's performance and value

Part 2: Putting Agile IA into action

One size fits one

Given that every organization and their Internal Audit group is unique, Deloitte has developed Agile Internal Audit (Agile IA) as a flexible methodology for adapting Agile to the specific needs of an Internal Audit function and its stakeholders. This document explains the methodology as it applies to internal auditing.

This is not a solution in search of a problem. The problems are myriad as covered in Part 1 of this series—Understanding Agile IA. As highlighted earlier in the series, Deloitte's research and experience have repeatedly found that organizations want and need more from Internal Audit. Piecemeal efforts that lack the context of a coherent, methodical approach often fail in holistically addressing the needs without the mind-set change required.

Yet Internal Audit groups vary widely in their capabilities, resources, skill sets, organizational charters, and readiness for change. By the same token, organizations vary in their cultures, needs, and views of Internal Audit.

Therefore, successful adoption of Agile in Internal Audit depends heavily on leadership in the function, on the audit committee, and among senior executives and business partners.

In Part 2, we elaborate on our experience working with clients to implement Agile IA and reflect on our conversations with various companies on the same journey. It is a point of view (POV) we could not have written six months ago, when Part 1 was drafted, because we were early in our journey. What better way to write a point of view on Agile IA than using an iterative, Agile approach!

Here is a great way to think about Agile: Let's say you're a homesteader with a bit of land and you need some shelter. Do you spend months preparing blueprints; buying materials; hiring crews; and building, finishing, and furnishing a five bedroom, four bath house? Or do you first pitch a tent, then set up a lean-to, and then, as you learn your family's requirements—and what you are doing—build a shack, then a cabin, and then a house?

Agile would recommend the latter approach.

The impact of Agile IA

Agile Internal Audit has the potential to:

- Define a shorter path to more insightful results
- Engage stakeholders earlier and more frequently
- Generate less documentation and fewer words, but frequent communication
- Accelerate Internal Audit cycle times and redeployment of resources
- End an Internal Audit activity at the point of diminishing returns (minimum viable product)
- Empower Internal Audit teams to decide, with stakeholders, what to do, how much to do, and when to do it

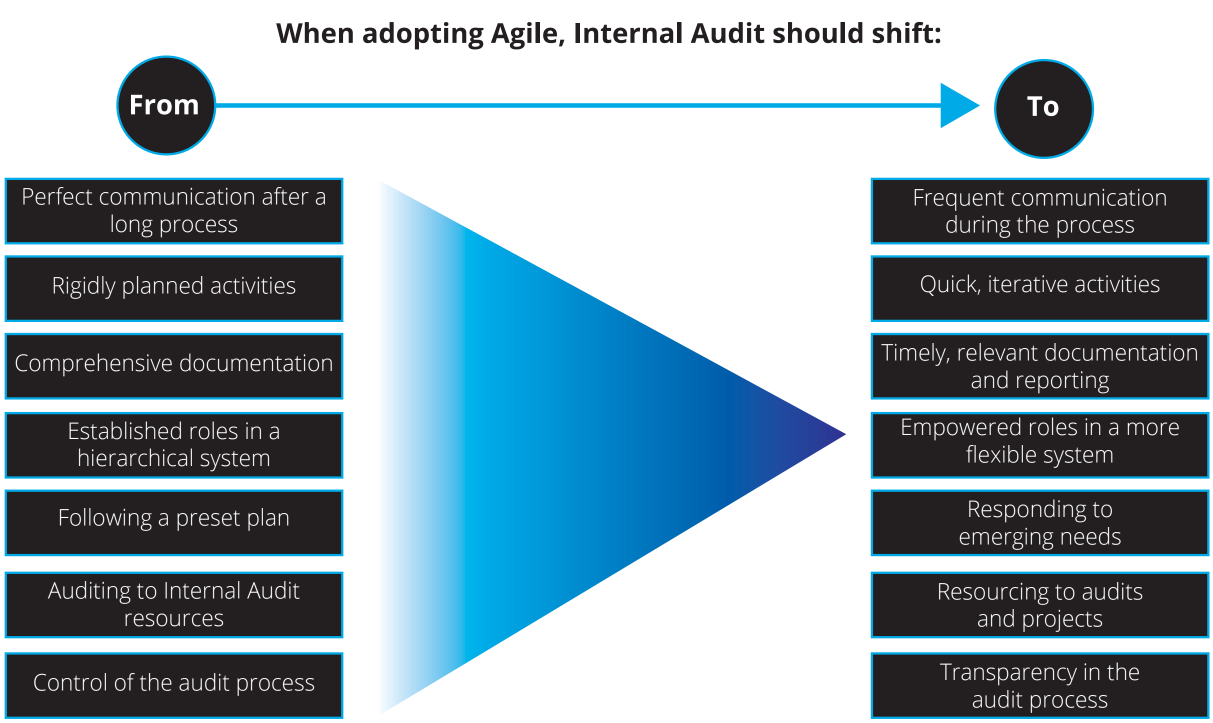
Adopting Agile IA calls for several shifts, as indicated in Figure 1.

Agile IA is not a one-size-fits-all approach

There are multiple Agile methods based on iterative development where requirements and solutions evolve through collaboration between self-organizing, cross-functional teams. Examples include Lean, Scrum, and Kanban, among others. We have adopted Scrum but find some methods from the other approaches, such as the use of Kanban boards, work well.

However, take care as cafeteria-style picking across various methods, and choosing trends, does not work. Pick-and-choose approaches lead people to believe they are implementing Agile IA when they are not. As a result, Internal Audit (along with the organization) may not only fail to reap the benefits of Agile IA but may blame the methodology for not delivering targeted benefits. It is a leading practice to build your foundations on a selected method, make changes based on your objectives and the culture of your organization, and then implement your tailored approach. Trial and learn as you go.

Figure 1: Considerations when adopting Agile for internal auditing



Get comfortable with being uncomfortable

In the following sections of the paper, let's reflect on guidance, challenges, and leading practices based on our experiences with clients and others on the Agile IA journey.

From formal to fluid

Instead of formal audit plans, Agile IA maintains a backlog of audit risks within the project—a list of areas to be audited (concludable areas). This audit backlog is comprised of areas in which Internal Audit and the stakeholder believe that an audit or project can yield a useful conclusion. A key Agile IA difference is the development and management of this list, with the final product being the audit POV or audit report. See Figure 2 for a sample Agile IA workflow.

The following concepts—and the related tips—can facilitate workflow management:

Define your Agile IA manifesto: Each Internal Audit group is different and functions in a unique culture. Modify the Agile IA manifesto[1] so that it works for your organization. Think about your pain points and the internal audit problems that you want Agile IA to solve. What are your have-to-haves? Your want-to-haves? Going through this tailoring process is the first step in developing your custom Agile approach and will influence the change management steps you will need to take.

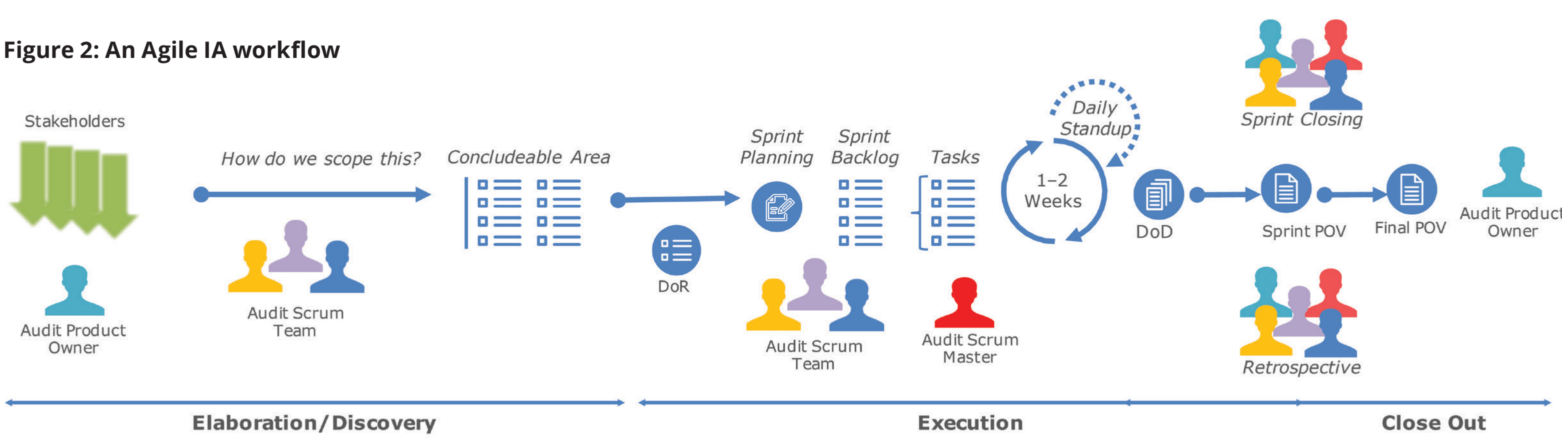
- ***Challenges/leading practices:***
  - ◊ Failing to think through pain points can lead the team to lose focus on what concrete change they want to drive.
  - ◊ Use the manifesto as a strategic document to discuss the initiative with executive management. It's a useful tool because it reflects the goals and values of the organization.

Project or audit canvas: Do you struggle with multi-page Internal Audit planning documents? Do you get to the audit reporting stage only to find out the stakeholders didn't read the planning memo? We've adopted an artifact called the product canvas and modified it to be known as the audit project canvas, a one-page planning document co-developed by the audit team, product owner, and key stakeholders (See Figure 3).

- ***Challenges/leading practices:***
  - ◊ Failing to involve the stakeholders in the development of the audit project canvas can lead to disconnects at the end of the audit.
  - ◊ Bring key decision makers and team members together at one time to develop the audit project canvas. Doing so can make it quick to develop.

User stories and audit backlog: A user story is the basic unit of work representing some value to the audit, or the requirements for the audit. The audit backlog is a list of all the user stories. A user story should have enough detail to enable the project team to make planning decisions by capturing the key elements "who," "what," and "why" in a simple and concise way.

Figure 2: An Agile IA workflow



[1] Refer to *Part 1: Understanding Agile Internal Audit* for a sample Agile Internal Audit manifesto; www.deloitte.com/us/becoming-agile

Figure 3: Audit project canvas

1 | About the business

- How does the business area align with the corporate strategy?
- What are the business's objectives?
- What are the risks to the business achieving its objectives?

2 | Project drivers

- Why is this project important to the business?
- Why is it on the audit plan? Drivers from the risk assessment?
- What is the value-add (relevance) to the enterprise?

3 | Value proposition

- What is the value of doing an Agile Internal Audit in this area?

4 | Cross-functional impact

- Key IT systems/reports supporting and/or monitoring the business process?
- Compliance considerations?
- Financial reporting/impact?

5 | Key stakeholders

- Who is most concerned about the value of the project?
- Cross-functional: Who will be most impacted?
- Internal Audit Market Leader

6 | Metrics/KPIs

- Key metrics used by the business to measure achievement of its objectives?
- What are the measures of success for the audit? Audit timeline and target dates? Number of findings? Business acceptance of findings?

7 | Project scope

- What is needed to achieve the project objectives?
- What are the concludable areas for the project?

8 | Risk and control log

- Business risks and controls
- Identify and prioritize the sprint backlog
- Define project sprint timeframe

9 | CORE project team

- Key business owner: Finance/Operations/IT/Compliance/International (as applicable)
- (RACI) Responsible, Influencer, Decision Maker, Need to be Informed

Insights from Walmart's journey with Agile IA

"As one of the world's largest retailers, Walmart embarked on this Agile IA journey with Deloitte to better equip our teams to maintain the speed of change at which our businesses are evolving. We are still on the journey to adopt Agile IA, and some of our successes include:

- Tremendous enthusiasm at the staff and senior level to adopt a new and reenergized method to audit;
- Shortened planning times spent in preparing for an audit;
- Enhanced empowerment of the teams to engage the right level of stakeholders throughout the audit; and
- Quick wins - Deferring an audit within the first two weeks. Under the traditional audit approach it would have taken a much longer time to reach the same conclusion; however, the mind-set of moving with speed to address risk and drive value and quality empowered the team to make the right decision earlier."

- Brandi Joplin, senior vice president and chief audit executive, Walmart
- Shondae LeGrand, senior manager, Walmart
- Mauri Myers, senior director, Walmart

Key elements of a user story

An effective user story is one that considers the risks, complexities, and relevance of the story. There are three key components to a story – the actor, the action and the outcome. Who is the responsible party (actor) for the key elements of the story, what are the concludable areas in the story (the actions), and what are the expected end results (the outcome)?

The backlog may never be complete. The team should continually revise and refine user stories to ensure that the backlog is prioritized and organized.

- ***Challenges/leading practices:***
  - ◊ Creating a story that is small enough to be completed within a sprint can be a challenge. Teams often want to bite off more than what can fit into a one- to two-week sprint.
  - ◊ Make sure the story has concrete business value and is testable by itself, after which audit conclusions can be initially determined.
  - ◊ Involve the product owner in understanding requirements and mapping the stories. Continue to stress to your teams that the initial backlog will not be the final backlog; it's ok to get started with some unknowns.

Definition of Ready (DoR): An item on the audit backlog has a DoR when the product owner and stakeholders agree on what will be tested, examined, or reviewed; on the goal of the work and expected value; and requirements for the auditee. When the DoR has been met, the scrum team can begin work on that audit or project.

- ***Challenges/leading practices:***
  - ◊ There needs to be agreement between the scrum team, product owner, and stakeholders that the project can start.
  - ◊ DoR should be viewed as the starting line.

Sprints and time-boxing: When Internal Audit's work begins, the user stories are grouped into sprints. Sprints—time-boxed intervals in which specific tasks must be completed—provide a process, a structure, and a cadence for the work. The time-box should provide the motivation of a tight deadline to keep the teams focused.

- ***Challenges/leading practices:***
  - ◊ People sometimes do a poor job estimating time. Don't expect the first sprint to be perfect.
  - ◊ On IT projects, industry experience indicates that two-week sprints are the norm, even for companies that have tried longer ones. Internal Audit should shoot for one- or two-week sprints.
  - ◊ Having a dedicated scrum master/coach is a leading practice. The "coach" role may be the most important part, as teams need someone who can facilitate their learning.
  - ◊ Many teams use the first sprint as a "discovery" sprint in order to undertake preliminary work, such as defining needed data or gathering required information.

Definition of Done (DoD): A DoD defines the value to be delivered in a sprint. It can be expressed as a level of assurance; a list of identified issues, risks, or recommendations; or a report or POV. DoD helps define when a story has been completed to the satisfaction of the audit product owner and meets an objective of an audit. It should not be lengthy or complex or it will likely not work at the sprint level.

- ***Challenges/leading practices:***
  - ◊ Think of a DoD as a checkpoint rather than a destination to enable the team to modify or redirect the work as it proceeds.
  - ◊ The DoD defines the level of assurance needed or the desired quality of the final product. Often, low levels of assurance or a quick review of certain controls is all that's needed. Other times, higher levels of assurance and deeper reviews are necessary.
  - ◊ As the objective source of assurance, Internal Audit has significant input into the DoD. The needs of the audit

"At United, the Agile approach has positioned us to more frequently ask ourselves, 'As a stakeholder, would this bring me value?' The enhanced collaboration, iterative process, and story development force us to answer that question every day and justify why we do what we do. In turn, this has generated focused work linked to objectives, insightful and relevant outcomes, and a faster audit cycle-time via time-boxed iterations."

- Jennifer Schwierzke, managing director Internal Audit, United Airlines, Inc.
- Ricky Barr, managing director Internal Audit, United Airlines, Inc.

committee and regulators, as well as those of the business, must be considered.

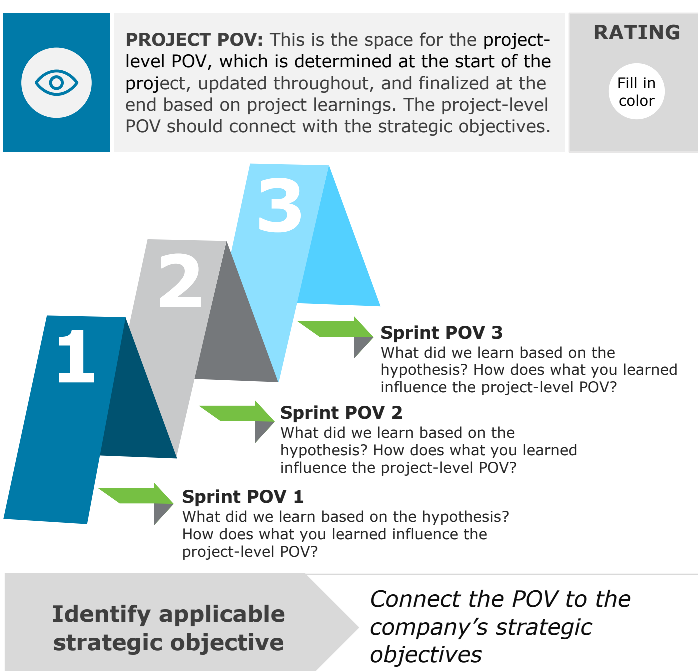
Sprint closing: At the end of each sprint, the scrum team holds a sprint closing meeting with stakeholders to review the backlog items that were completed (according to DoD). The aim of sprint closing is to formally close out all activities related to a sprint. At this stage, teams often develop a sprint POV, a condensed understanding of the area with insights of the state of risk and controls as well as any observations that will require action by the stakeholder.

– ***Challenges/leading practices:***
  - ◊ Use the sprint closing to document use of resources, cycle times and elapsed time, resourcing models, and other salient features of the audit or project.
  - ◊ Miscommunication can occur if the stakeholders are not involved at sprint closing and if there's nothing provided in writing.
  - ◊ A leading practice is the use of workflow visualization boards displayed in the team working area open to all stakeholders. This approach provides complete transparency for completed and backlog sprints.

The final product: In Agile IA, the report is developed iteratively, just like planning and fieldwork. Upon completion of the sprints, a final POV is developed to tie the sprints together (see Figure 4). A final POV provides focus and articulates the relevance of the work performed. It fuels brainstorming and helps to obtain buy-in from various stakeholders. And it should contain Internal Audit's factual opinion on current state and contain insights to risks and exposures.

– ***Challenges/leading practices:***
  - ◊ Final POVs should reflect "what you really think" and be supported by the facts. It should be tied to strategy and answer the question "so what?"
  - ◊ A final POV is also a condensed understanding of the area with a summary of relevant insights into the state of risk and controls within it.
  - ◊ The final POV is only as good as the sprint POVs. Sprint POVs should drive your backlog refinement process, leading to the final POV.
  - ◊ Waiting until the end to share anything with stakeholders in writing can lead to challenges with acceptance.

Figure 4: Final project point of view



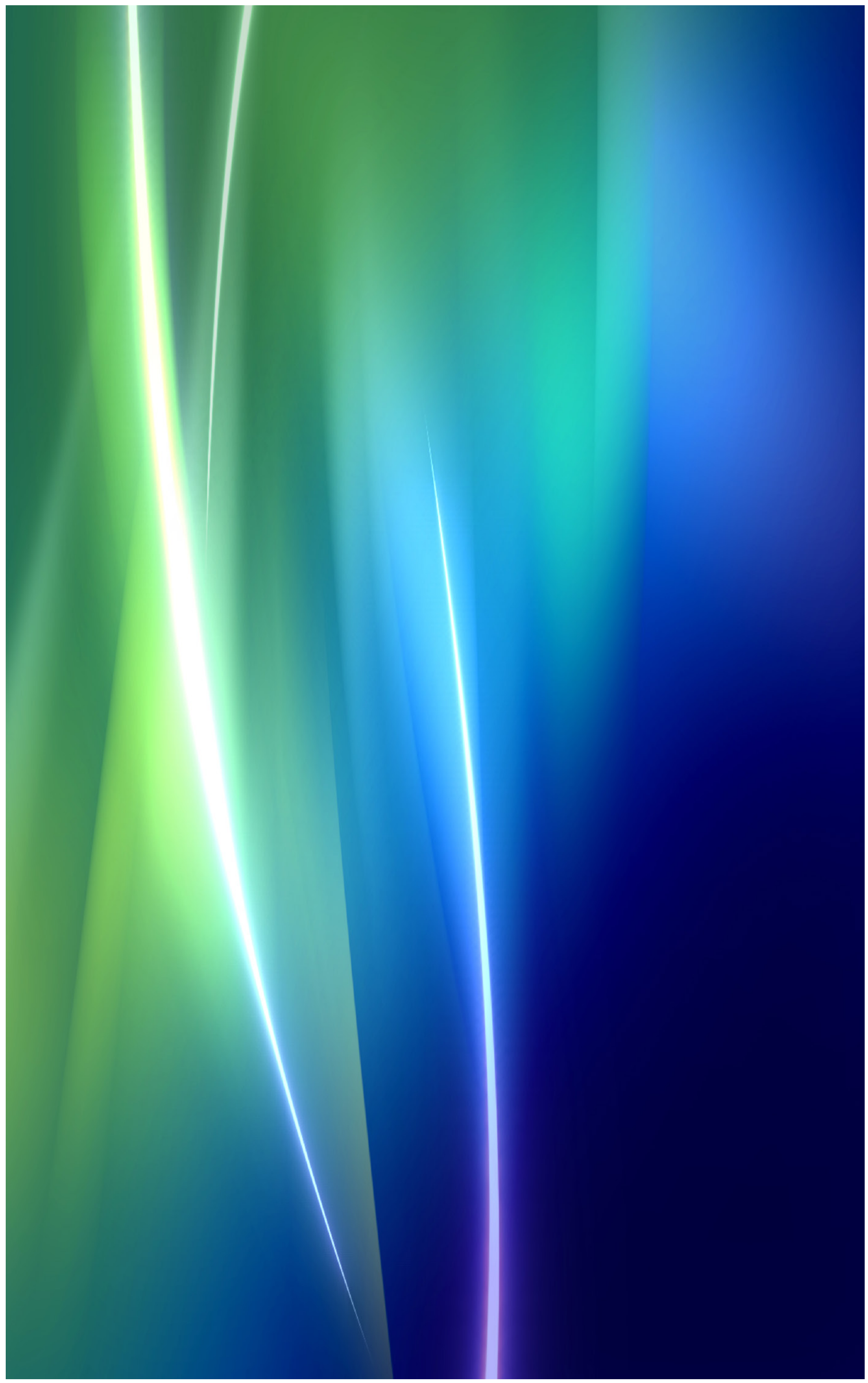
Summary observations, impact, and management action plans (MAPs)

Observation	Impact	MAP	Rating
Summary sentence of the issue (including applicable control breakdown) based on the results of the review	Summary sentence of realistic impact/risk if the issue noted persists.	Summary sentence capturing the essence of management's planned action. Sept 2017	
Summary sentence of the issue (including applicable control breakdown) based on the results of the review	Summary sentence of realistic impact/risk if the issue noted persists.	Summary sentence capturing the essence of management's planned action. Oct 2017	
Summary sentence of the issue (including applicable control breakdown) based on the results of the review	Summary sentence of realistic impact/risk if the issue noted persists.	Summary sentence capturing the essence of management's planned action. Nov 2017	

Rating: High Moderate

Some final words about the team:
The concepts of Agile IA are simple, but they have shown to be more difficult to implement than one would think. This is truly a change management concern. The mind-set change is not easy, but the potential benefits are worth it from reduced time from start to finish, more insightful observations and recommendations, collaboration with stakeholders, and an effectively engaged Internal Audit team.

- ***Challenges/leading practices:***
  - ◊ Decentralization of decision making is key to Agile IA and can be a difficult switch to make. The team must be self-organizing and empowered to make decisions about what to do. They will need a scrum master who is also good at coaching.
  - ◊ It may be too early to tell definitively, but deployment of Agile IA may increase retention of staff. From our experience, the teams working in this way have reported a positive experience because it's more engaging and effectively harnesses their brain power. As attracting and retaining talent continues to be an area in which Internal Audit struggles, this can be seen as very good news.



Insights from Barclays Internal Audit on their own Agile transformation

"We started our Agile journey at Barclays (BIA) in Nov 2015—initially piloting audits utilizing Scrum as our delivery framework. BIA now utilizes an Agile approach on more than 20 percent of our audits and we have adapted these ideas to help us with areas such as annual (6+6) risk assessment/planning and resourcing. With the help of professional coaching and training, our ambition is to affect a mind-set shift across BIA. Wholesale Agile change requires patience, openness, and trust to truly succeed—we have to be prepared to learn and adapt from our findings.

What have we done?

- We have a team of seven full-time Agile coaches and Scrum masters, drawn from both Agile and IA backgrounds. The sole focus of these colleagues is to support our Agile implementation—coaching audits, delivering training, and facilitating lessons-learned sessions.
- We have delivered a half-day introductory training session for all of our 600+ auditors globally and are now rolling out a two-day Professional Scrum Foundation training.
- We have not currently changed our BIA methodology—our focus has been the process, behaviors, and mind-set through which we execute. We have not mandated an Agile approach. Instead, we encourage our audit teams to innovate their audit approaches, try new things, review the success, and share learnings.
- A great example, innovated by one audit team, was to rethink the way in which we write audit reports. Historically, the audit lead would draft an audit report, which would go back and forth in review for weeks—an inefficient and demoralizing experience. This audit team decided to get everyone in a room with a blank report template on a screen—and collectively wrote the report in three hours. This created a collective ownership of the final report; increased the quality and accuracy of its messaging; and reduced the time and effort required significantly. This example has been shared with many other audit teams who have adapted this idea to fit their teams.
- Our office space is unrecognizable—we have Kanban boards on every available wall (and window!) to enable the teams to visualize the work backlog for each audit. We encourage our audit stakeholders (auditees) to join us for our daily scrums to better understand the audit focus, facilitate quick removal of blockers to our audit process, and to build trust and openness.
- Beginning January 2018, our audit team structure and roles will change, with a far flatter audit team structure, facilitating self-organizing and stable teams.

We have seen tremendous benefits so far, from more engaged audit teams to an overall reduction of time spent per audit by 10-20 percent already. We liked Deloitte's incorporation of lean canvas in creating the audit canvas idea. It's great to be able to share ideas and collaborate with others in their journeys and we encourage that. We look forward to performing more of our audits in an agile way and to our next discussion with Deloitte to share experiences."

- Nick Curle & Chris Spedding, BIA Strategy & Change

Contacts

Please share your experiences with us or contact our team if you need help getting started on your Agile IA journey.

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