Agile Internal Audit

Paradigm Shift in Internal Audit

2021

Introduction

The mission for internal auditing is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Business expectations from the internal audit has resulted in a paradigm shift in the internal audit approach from a typical checklist-based approach to a more comprehensive risk-based audit.

The current business environment is changing constantly. Adoption of new technologies, automation, changes in tax laws and global uncertainty create new risks. As a result, internal auditors need to stay dynamic in order to develop a plan and conduct audits that are aligned to the business changes. This dynamism of the business environment and the expectations of the stakeholders requires internal auditors to be **Agile i.e.; become more flexible and provide feedback on a real time basis.**

The Agile process originated in software development as an alternative to the traditional linear process of project development. However, it has also been adopted in other fields as a way to increase efficiency, provide more flexibility, and respond to rapidly changing business environments.

Agile Methodology

Agile methodology is a way to manage a project/audit area by breaking up into several stages and involves constant collaboration with the stakeholders/auditee and continuous improvement on completion of each stage. This also provides opportunity to stakeholders/auditee to respond almost on a real time basis

Agile process, uses sprints in which planning, fieldwork, review, and reporting are done in a cycle of one to two weeks.

Sprints are time-boxed intervals in which tasks must be completed. The sprints are repeated until the audit is finished and Points of view (PoV)/audit findings are shared with the auditee at the end of every sprint.

Example when you conduct an internal audit of Purchase to Pay Process, Sprints would be defined in the following manner:
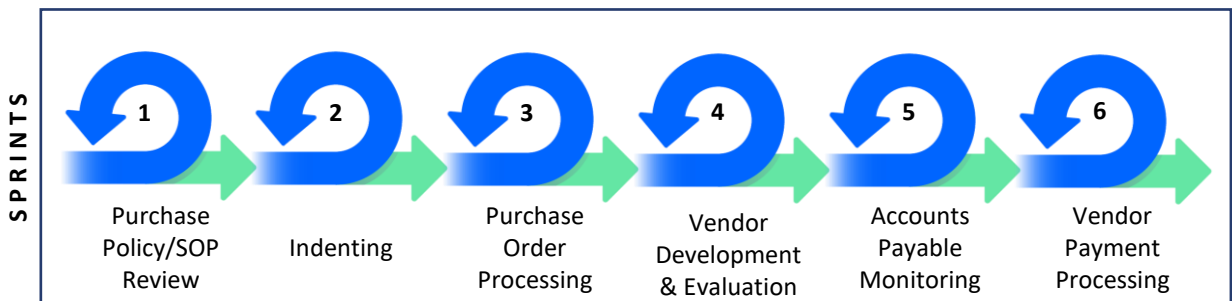
Benefits of Agile Internal Audit

- Objective and expectations of the audit are identified
- Collaboration between stakeholders and audit team
- Transparency of audit
- Faster turnaround in issue of audit reports

Traditional Approach	Agile Approach
Limited focus on business objective and client expectations	Objective of audit of each function and client expectations are discussed to design the audit scope
Involves planning, field work, review and reporting.	Uses sprints in which these four components are done in a cycle of 1-2 weeks
Work planned is more for a limited time frame. Teams often end up planning for more work in a particular sprint than what can be achieved.	Involve the process owner in understanding the requirement and mapping the sprint.
Often Team Leads pose difficult review comments at the end of the audit to the Internal Audit team which they are unable to resolve due to lack of time or support from the Management	In Agile there is a concept called 'Daily Standup' which means that the IA team interacts with the team lead on a daily basis and checks on the daily progress, observations and plan forward.
Findings and reports are delivered to the clients at the end of the audit leading to challenges with acceptance of findings and negotiations	Updated PoV is given at the end of each sprint, allowing the auditee to work on the findings and remove deficiencies as quickly as possible.
Bottlenecks are not resolved in time which delays the audit execution, closure and reporting	The improved collaboration and transparency allows potential misunderstandings with auditees to be resolved quickly with minimal draft responses.
Management is often not able to see value in internal audit	Final audit findings/PoVs should be tied to strategy and answer the question "so what?"

Some Concerns with Agile Internal Audit

(*Source- Agile Internal Audit Document Published by The Institute of Internal Auditors*)

Too Many Meetings?

Under the Agile framework, it looks at first as if more meetings are being held. However, it's more about different sequencing, e.g. the reviews are held at the end of each sprint, so at the end of an audit, auditees are already aware of the observations. As a result, there is less negotiation compared with the old format, where alignment meetings often took place after the final review.

Pre-planning means that multiple-level stakeholders with defined roles are in the room during meetings, which increases efficiency by eliminating the need for multiple meetings with different levels of management.

Can audits miss information?

Agile meant that observations from earlier sprints could be updated with additional information, resulting in extra value in the audit function. The clear objectives established using Agile also mean that audit teams work more efficiently, spending less time in the field and not over-auditing.

Conclusion

Agile is a change of mindset not adoption of another process. The results of adopting Agile — the collaboration, the transparency, and the faster turnaround time have been viewed favourably by Stakeholders and Audit Committees.

As a management tool, internal audit report should encourage timely action in the right direction. It helps businesses to implement processes and controls on a real time basis which are the most crucial for the current and future success of the organisation.

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