University of California
2019 Ethics, Compliance and Audit Symposium
REACHING NEW HEIGHTS

Agile Auditing

Chris Pattillo

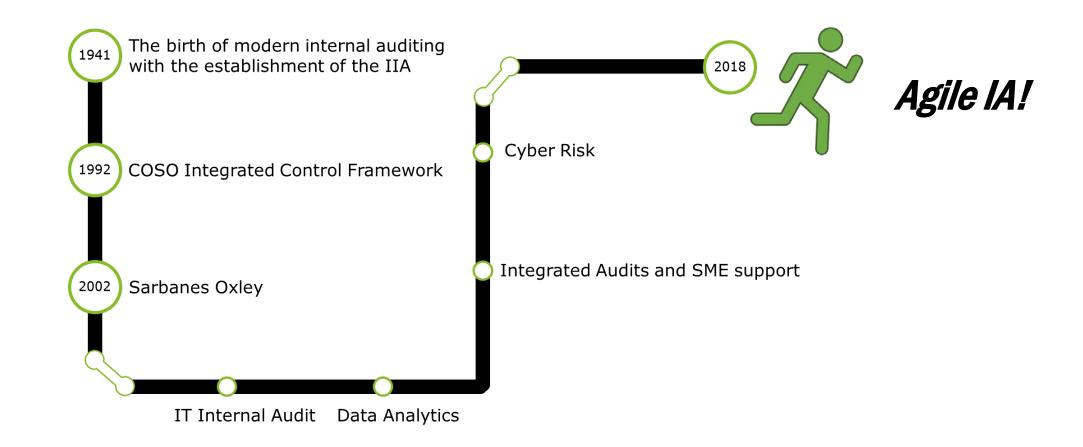Deloitte

"I have never started a poem yet whose end I knew. Writing a poem is discovering."

— Robert Frost

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TIME FOR INNOVATION IS **NOW**

- **1941** — The birth of modern internal auditing with the establishment of the IIA
- **1992** — COSO Integrated Control Framework
- **2002** — Sarbanes Oxley
- IT Internal Audit
- Data Analytics
- Integrated Audits and SME support
- Cyber Risk
- **2018**

Agile IA!

What agile is and is not

Various frameworks were developed after the Agile Manifesto was published in 2001. While each framework takes a different approach to agile, all are founded on the principles of the Agile Manifesto.
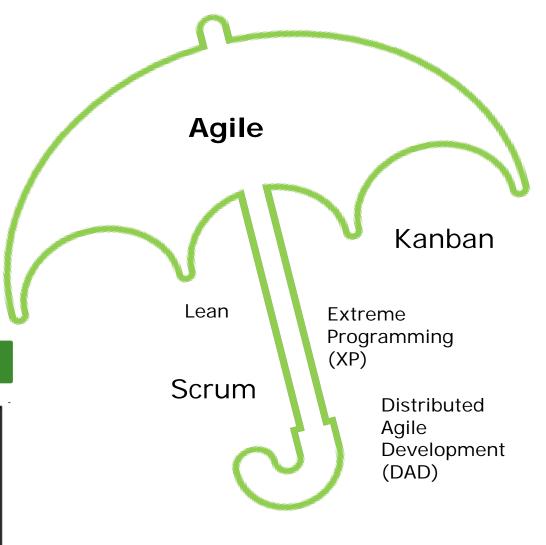
Collectively, they are referred to as agile frameworks.

Remember: Agile is not a silver-bullet

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Agile

Kanban

Lean

Scrum

Extreme Programming (XP)

Distributed Agile Development (DAD)

What agile is and is not

Identify high-priority business problem → Hypothesis for solution → Build & test rapidly with real users → Learn → Deploy

Agile is a group of methods based on iterative development, where requirements and solutions evolve through collaboration between self-organizing, cross-functional teams.

Agile is not:
- It is not a single methodology
- It is not a set of tools
- It is not that easy (it is easy to understand, not easy to implement)

Agile Manifesto

While we find value in the items on the bottom, the Agile process values the items on the top more.

Moreover, this manifesto can be applied to any industry.

INDIVIDUALS & INTERACTIONS OVER PROCESSES AND TOOLS

WORKING SOFTWARE OVER COMPREHENSIVE DOCUMENTATION
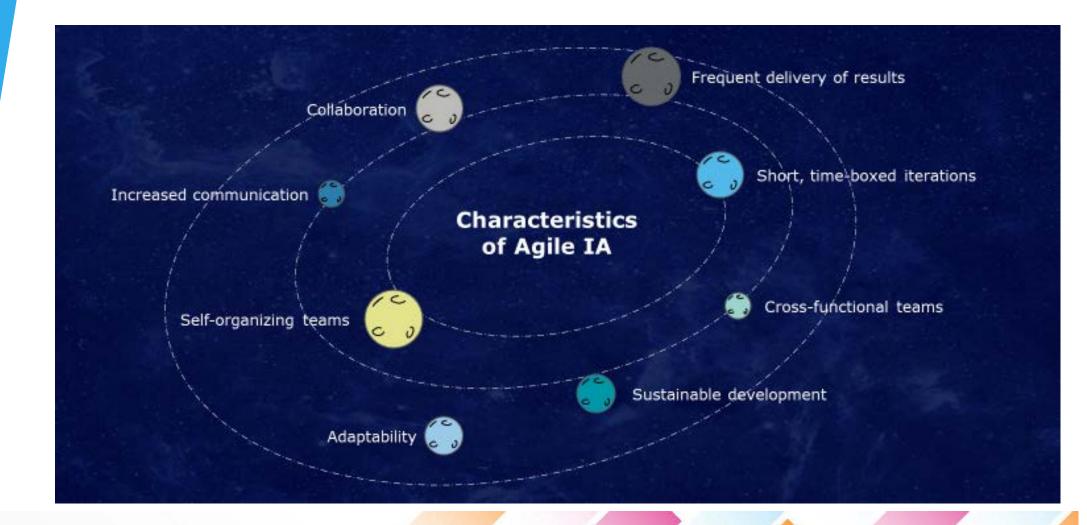
CUSTOMER COLLABORATION OVER CONTRACT NEGOTIATION

RESPONDING TO CHANGE OVER FOLLOWING A PLAN

Source: www.agilemanifesto.org

Agile Characteristics
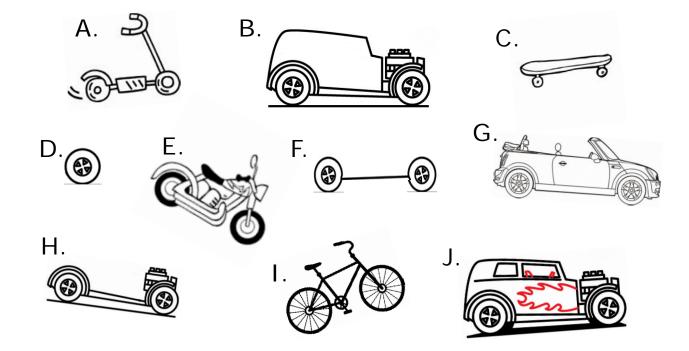
Characteristics of Agile IA

- Frequent delivery of results
- Collaboration
- Short, time-boxed iterations
- Increased communication
- Cross-functional teams
- Self-organizing teams
- Sustainable development
- Adaptability

Is this what you built?

This...

D. F. H. B. J.

Or this...

C. A. I. E. G.

✓ Highest priority is to satisfy the customer through early and continuous delivery of valuable, working products

✓ Deliver products frequently

✓ Working products are the primary measure of progress

The cognitive science behind Agile

PRODUCTIVITY — TEAM STAGES (FORMING, STORMING, NORMING, PERFORMING)
STABLE TEAMS PERFORM BETTER

PRODUCTIVITY — WORK HOURS / WEEK
THE LONGER WE WORK THE LESS PRODUCTIVE WE ARE

VALUE — TIME (ITERATIVE DELIVERY, WATERFALL DELIVERY)
ITERATIVE WORK LEADS TO EARLIER AND HIGHER VALUE

PROJECTS — TIME AVAILABLE — LOSS
MULTITASKING CREATES WASTE

THE COGNITIVE SCIENCE BEHIND AGILE

Source: Tuckman, Team Development Model 1965.

THE COGNITIVE SCIENCE BEHIND AGILE

Source: Sutherland, Scrum 2014.

THE COGNITIVE SCIENCE BEHIND AGILE

VALUE

ITERATIVE DELIVERY

WATERFALL DELIVERY

TIME

ITERATIVE WORK LEADS TO EARLIER AND HIGHER VALUE

Source: Tuckman, Team Development Model 1965.

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THE COGNITIVE SCIENCE BEHIND AGILE

PROJECTS	TIME AVAILABLE					LOSS
1	100%					0%
2	40%	40%				20%
3	20%	20%	20%			40%
4	10%	10%	10%	10%		60%
5	5%	5%	5%	5%	5%	75%

MULTITASKING CREATES WASTE
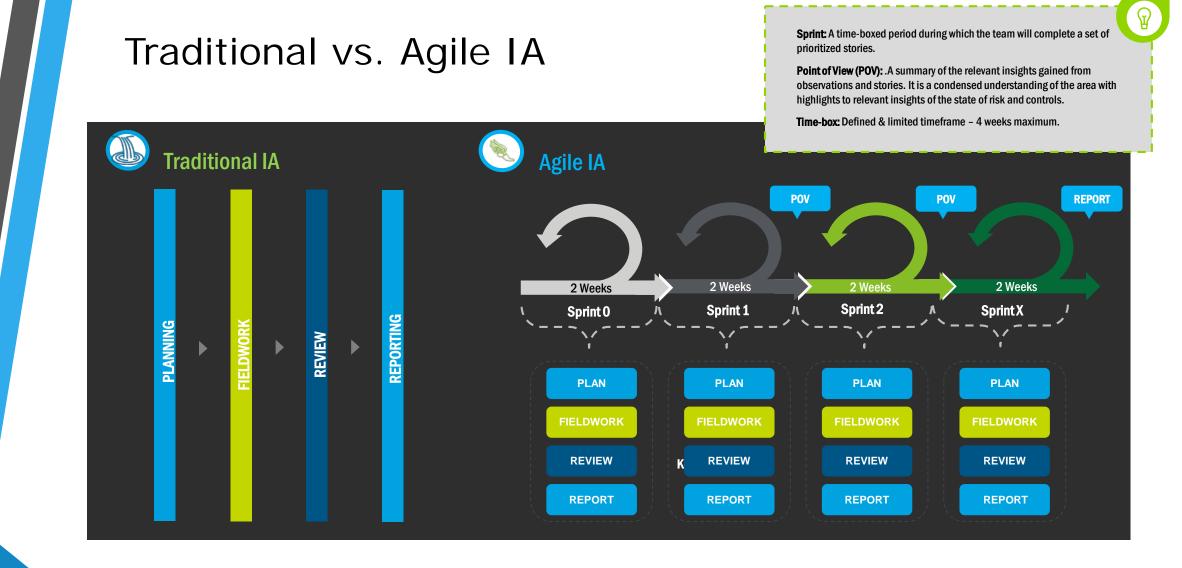
Source: Weinberg, Gerald M. Quality Software Management (New York: Dorset House, 1991)

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Making it real

Why bring Agile to IA?

IA should **transform** to deliver on a broader set of expectations, providing **assurance** but also **advising** on and **anticipating** risks…

Objective: To deliver meaningful, timely and real time insights.

Go beyond controls and compliance. Offer actionable insights to build resilience and create value

+ Anticipate Foresight

+ Advise Insight

+ Assure Confidence

Business Value

Agile is **iterative** and will allow us to **continually revisit current risks** and reprioritize as a continual process for the audit – both individual audits and the annual audit planning process.

Speed & Agility

The velocity of business is faster than ever before, and the way we have always done IA is simply no longer adequate to serve as an effective third-line of defense in the faster paced world in which we and our clients operate.

Allows IA to respond quickly to changing business needs

Reduces the time between requirement and delivery

Builds the risk specific insights the customer needs

Enhances the ability to drive meaningful, high quality insights

Meets business commitments by reprioritizing scope

To **assure, advise and anticipate risk effectively**, we need Agile IA processes!

Traditional vs. Agile IA

Sprint: A time-boxed period during which the team will complete a set of prioritized stories.

Point of View (POV): .A summary of the relevant insights gained from observations and stories. It is a condensed understanding of the area with highlights to relevant insights of the state of risk and controls.

Time-box: Defined & limited timeframe – 4 weeks maximum.

Agile IA
4 roles ● 4 ceremonies (events) ● 5 artifacts (documents)

Project Roles

A Scrum team is a cross-functional, self-organizing delivery team who will develop iterative audit deliverables to accomplish a sprint.

Characteristics of a Scrum Team

- **Cross-functional**: Comprised of a team of IA individuals.
- **Stable**: Membership of the teams does not change. The team works together full-time throughout the release. This builds trust and results in efficient delivery of working features. Ideally, the team stays together for multiple audits.
- **Collaborative**: Team works hand-in-hand to define testing, conducts testing and validates results iteration by iteration.

- **Audit Champion:**
  - Strategic decision maker
  - Relationship manager
  - Socialize and advocate internal audits
- **Product Owner:**
  - Set the direction and vision for the team
  - Translate stakeholders needs into value/outcomes
  - Accept or reject project iterative results

- **Scrum Master**
  - Servant leader for agile process
  - Facilitate team ceremonies
  - Escalate and remove team impediments
  - Grow the team capabilities
- **Scrum Team:**
  - Manage "How the Work" gets completed
  - Backlog prioritization
  - Identify, draft, and communicate

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What does your Agile IA future look like?

Sprint Documentation

Scope & objectives
- What are the sprint goals?
- What questions do we want answered at the end of the Sprint?
- What is needed to achieve the Sprint objectives?
- What are the parameters for the Sprint?

Risks & controls
- Relevant risks and controls for the specific sprint as applicable.
- NOTE: This may be documented within a work program template or a document created by the team.

Risks & controls

Scope & objectives

Procedures performed

Results & conclusions

Procedures performed
- What procedures/analysis was performed to achieve the Sprint objectives?
- NOTE: This may be document within a work program template or a document created by the team
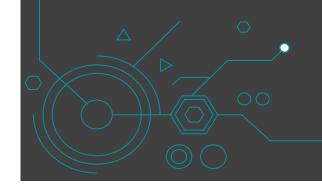
Results and conclusions
- What are the results of the procedures/analysis performed?
- How do the results influence future sprints?
- Answer the questions identified as the sprint objectives?
- What is Audit's Point of view of the sprint?
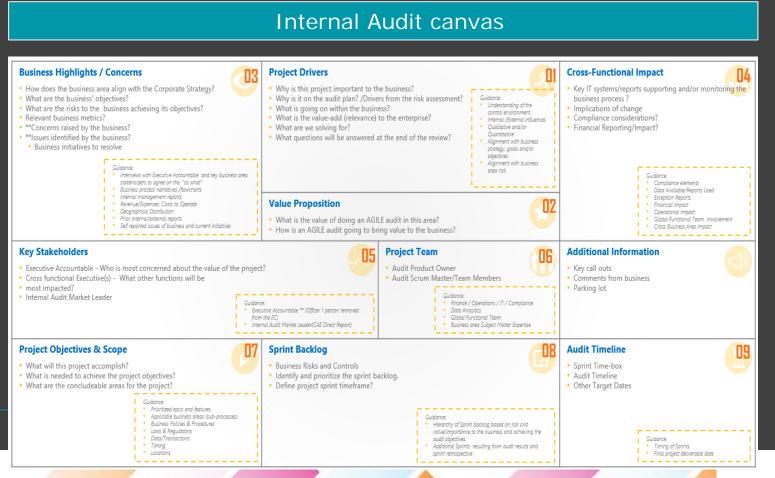- How does the sprint influence the project-level Point of View?

How is audit planning different?

Planning differently

- Executive engagement
- Approaching from top down
- Flexible planning cycle
- Epics / features / user stories

Internal Audit canvas

Business Highlights / Concerns 03
- How does the business area align with the Corporate Strategy?
- What are the business' objectives?
- What are the risks to the business achieving its objectives?
- Relevant business metrics?
- **Concerns raised by the business?
- **Issues identified by the business?
  - Business initiatives to resolve

Guidance:
- *Interviews with Executive Accountable and key business area stakeholders to agree on the "so what"*
- *Business process narratives /flowcharts*
- *Internal management reports*
- *Revenue/Expenses; Costs to Operate*
- *Geographical Distribution*
- *Prior internal/external reports*
- *Self reported issues of business and current initiatives*

Project Drivers 01
- Why is this project important to the business?
- Why is it on the audit plan? /Drivers from the risk assessment?
- What is going on within the business?
- What is the value-add (relevance) to the enterprise?
- What are we solving for?
- What questions will be answered at the end of the review?

Guidance:
- *Understanding of the control environment.*
- *Internal /External influences*
- *Qualitative and/or Quantitative*
- *Alignment with business strategy, goals and/or objectives.*
- *Alignment with business area risk.*

Value Proposition 02
- What is the value of doing an AGILE audit in this area?
- How is an AGILE audit going to bring value to the business?

Cross-Functional Impact 04
- Key IT systems/reports supporting and/or monitoring the business process ?
- Implications of change
- Compliance considerations?
- Financial Reporting/Impact?

Guidance:
- *Compliance elements*
- *Data Available/Reports Used*
- *Exception Reports*
- *Financial Impact*
- *Operational Impact*
- *Global Functional Team Involvement*
- *Cross Business Area Impact*

Key Stakeholders 05
- Executive Accountable - Who is most concerned about the value of the project?
- Cross functional Executive(s) - What other functions will be
- most impacted?
- Internal Audit Market Leader

Guidance:
- *Executive Accountable ** (Officer 1 person removed from the EC)*
- *Internal Audit Market Leader(CAE Direct Report)*

Project Team 06
- Audit Product Owner
- Audit Scrum Master/Team Members

Guidance:
- *Finance / Operations / IT / Compliance*
- *Data Analytics*
- *Global Functional Team*
- *Business area Subject Matter Expertise*

Additional Information
- Key call outs
- Comments from business
- Parking lot

Project Objectives & Scope 07
- What will this project accomplish?
- What is needed to achieve the project objectives?
- What are the concludeable areas for the project?

Guidance:
- *Prioritized epics and features*
- *Applicable business areas (sub-processes)*
- *Business Policies & Procedures*
- *Laws & Regulations*
- *Data/Transactions*
- *Timing*
- *Locations*

Sprint Backlog 08
- Business Risks and Controls
- Identify and prioritize the sprint backlog.
- Define project sprint timeframe?

Guidance:
- *Hierarchy of Sprint backlog based on risk and value/importance to the business and achieving the audit objectives.*
- *Additional Sprints resulting from audit results and sprint retrospective*

Audit Timeline 09
- Sprint Time-box
- Audit Timeline
- Other Target Dates

Guidance:
- *Timing of Sprints*
- *Final project deliverable date*

How is audit execution different?

How is audit reporting different?

Reporting differently

Point of view (POV)

- Faster feedback look
- Ties back to strategy
- Focuses on the relevance of work performed
- Articulates the 'so what?'
- Insights to relevant risks and exposures

Project POV: This is the space for the project-level POV; which is determined at the start of the project, updated throughout and finalized at the end based on project learnings. The project level POV should connect with the strategic objectives.

Rating
Fill in color

Sprint POV 3
What did we learn based on the hypothesis? How does what you learned influence the project-level POV?

Sprint POV 2
What did we learn based on the hypothesis? How does what you learned influence the project-level POV?

Sprint POV 1
What did we learn based on the hypothesis? How does what you learned influence the project-level POV?

Identify applicable strategic objective — Connect the POV to Strategic Objective

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

Challenges

Limited Executive Sponsorship

Delivering audit results without bringing the executives along the journey upfront on the have to haves

Failure to Transform Leadership Behavior

For true mindset shifts and transformations there needs to be executive level mindset shift

Not Harnessing the Power of the Audit Canvas

Upfront buy in on why-what-and how much to audit impacts stakeholder buy in and shorter reporting cycle

Lack of Emphasis on the Right Risks

Successful auditors are those that know when to stop and how much to deep dive into

Depending on Distributed Teams

Coordinating with resources across the globe can be challenging (leveraging technology)

Lack of a Transformation Leader + Change Agents

Transformations need a central POC to drive the transformation vision

Minimal Commitment to Fast Feedback

Audit Scrum teams that don't socialize results at the end of every sprint (one big bang report)

Limited Emphasis on a Collaborative Culture

Agile relies on cross functional teams that audit through cross functional collaborations

Common Results

BETTER	FASTER	HAPPIER
VALUE TO USER	TIME TO VALUE	STAKEHOLDERS
QUALITY	PRODUCTIVITY	TEAMS
TEAM PERFORMANCE	ADAPTATION	INDIVIDUALS
DECISION MAKING	REDUCED WASTE	SUSTAINABLE

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What do others have to say?

"What we did in 20 minutes with the Audit Canvas would have taken 2 weeks the old way"

- Director FS Company

[We] are already seeing the benefits in the pilot project… We're looking forward to the completion of audit by early July."

- CAE P&U Company

"Team members are stepping up and contributing in ways we didn't know they were capable of"

- Director FS Company

"With the use of artifacts such as the canvas and the POV, as well as elevating the stakeholder communications to one level below executive team, we have been able to drive more meaningful insights"

- CAE Global Retailer

"…the audit process eliminates unnecessary audit work in areas where there are not likely to be findings, allowing us to focus on higher risk areas. Overall, we are pleased with the increased efficiency and quicker feedback of our audits."
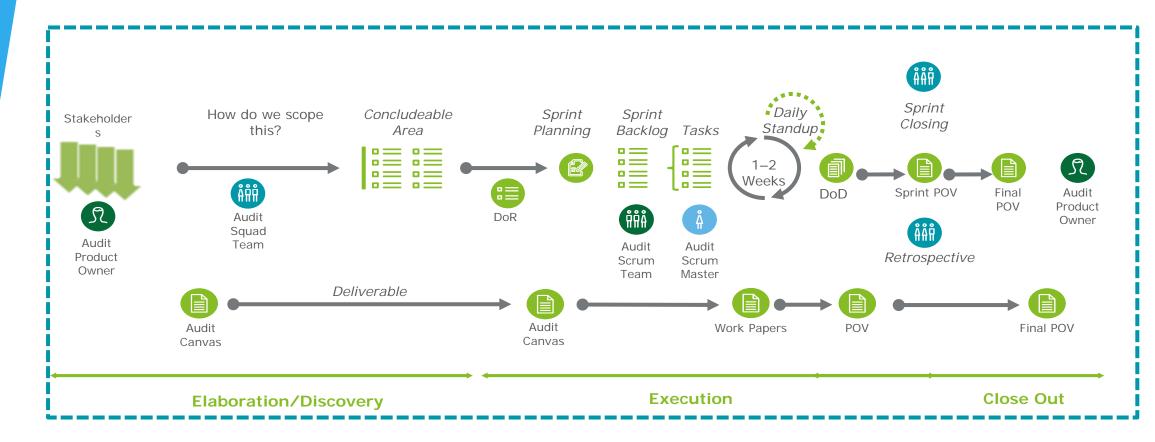
- Controller, Insurance Company

"I like the fact that the Agile framework provides for **regular feedback** during the audit following each sprint and that we don't have to wait until the end of the overall review for Internal Audit's observations. In this way, we get opportunities throughout the audit process to **provide input and reconcile any information gaps** at key junctures, ensuring that we're **all on the same page**."

- Director, T&E Auditee

"The biggest impact we have seen since we engaged a coach is the engagement and empowerment of the team — teams have more visibility into why they are doing what they are doing as well as risk prioritizations"

- Audit Scrum master, Global Retailer

"I felt more tied in to what was going into the audits because I had more frequent updates…the perfect complement to an overall audit strategy."

-Vice President, Insurance Auditee

Summary of the Agile IA Framework

Questions?

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