

WHITE PAPER

Agile Auditing: It's all in the mindset

How agile audit teams can create
operational resilience.

Executive summary

The past few years have brought extraordinary change in the business environment. As well as navigating the fallout of the global pandemic, organisations today are dealing with innumerable risks and ever-tightening regulations. Whilst this undoubtedly poses a challenge for internal audit, it also provides a golden opportunity to evolve.

As stakeholders place greater demands on the internal audit (IA) function to deliver more value, assurance, advice and insights, auditors must double down on their efforts if they are to remain effective amid the rapidly transforming landscape.

In the wake of Covid-19 especially, businesses worldwide have been looking at ways to come out stronger on the other side. Emerging risks, by their nature, are unpredictable. Internal audit, with its unique skillset and positioning, must be the eyes and ears of management, protecting and arming the business with up-to-date, relevant information so that business-critical decisions can be made at speed.

Consequently, audit professionals have been forced to abandon their existing piecemeal and sporadic strategies in favour of change methodologies that enable them to respond quickly and effectively. One such methodology – and perhaps the most pertinent to IA's existing challenges – is agile auditing.

Agile auditing may have been in the 'something to consider' box of many audit professionals for a while, but in a world of increasing uncertainty, the need for agility cannot be ignored.

In this white paper, we explore:

- **The meaning of agile audit and why it should be adopted as a mindset.**
- **The benefits of using 'agile' principles.**
- **How technology can support you on your journey to greater internal audit agility.**

The agile revolution

Agile methodology originated in the software development world in the early-2000s. It was presented as an alternative to the traditional 'waterfall' method of development, which many perceived to be too rigid, time-consuming and unfit for purpose.

In an effort to keep up with new technologies and a fast-paced market, agile was born. It follows a set of values and principles laid out in a 2001 creation dubbed the **'Agile Manifesto'** and has gone on to influence several industries that have adopted the same framework for planning and project delivery.

With a focus on delivering tested products in short iterations and refining requirements through customer input, agile reduces cost and timescales whilst improving quality and communication.

What is agile auditing?

The term 'agile auditing' simply means applying the basic principles of the agile methodology as an alternative way of working to traditional auditing.

In many respects, it is considered a mindset; one that can represent a positive cultural change for countless audit teams. Not least since it is built on the principle of continuous communication and collaboration, both among the internal audit function, and more importantly, with stakeholders.

By prioritising stakeholders' needs and jointly agreeing from the outset the key audit deliverables, internal audit can make a higher impact and thus increase its value to the organisation.

In the current environment, leveraging this methodology is crucial as risks and priorities are continuing to shift daily. With a traditional auditing approach, there is a danger that management become consumed in executing plans to handle what they *believe* is occurring, whilst losing sight of what *has* changed. The flexibility and responsiveness of agile auditing mean that internal audit is well-positioned to help management make this connection.

Even though it is still a fairly new approach, agile audit practices are gaining momentum. A recent KPMG survey found that 26% of internal audit functions had already adopted agile-inspired or dynamic approaches, whilst 45% are planning to introduce more agile and data-driven concepts in the near future.¹

"If you are going to successfully adopt 'agile', you need to commit to the mindset change it demands." – PwC²

Accelerating the audit delivery cycle

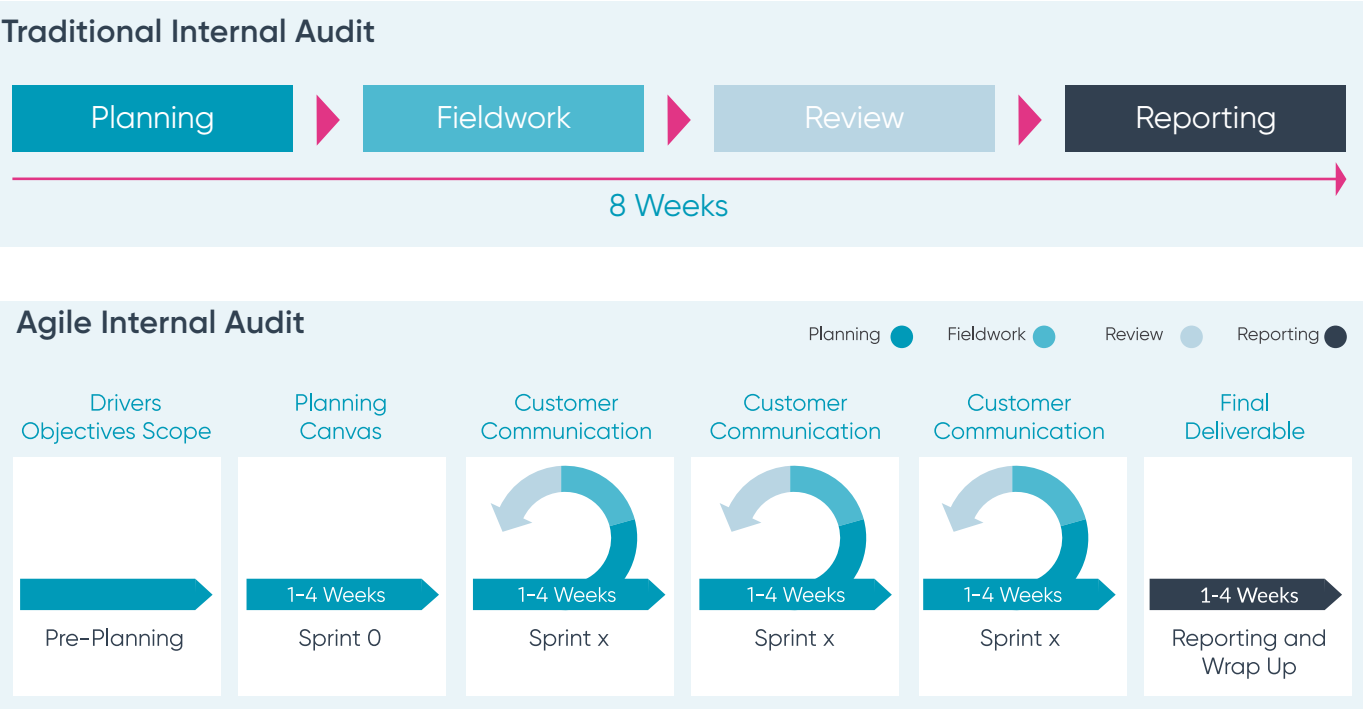
Agile auditing steers an audit through the key phases of planning, scoping and delivery by using short, iterative cycles. The basic structural elements include:

- **Backlog** – A collection of scoped items frequently reviewed by internal audit, where items can be added or removed based upon their perceived risk or opportunity to add value. This is the point at which auditors can address the emerging issues most pressing in the eyes of stakeholders.
- **Sprints** – Typically spanning one to four weeks to complete specific tasks, sprints ensure audit teams remain on track to meet the required deadlines and provide the opportunity to reflect on what has been achieved ahead of the next sprint.
- **Scrums** – Daily meetings between audit teams and key stakeholders to check on progress, discuss roadblocks within the current sprint, and devise solutions to emerging problems.

¹ <https://advisory.kpmg.us/content/dam/advisory/en/pdfs/2021/adapting-agile-internal-audit.pdf>

² <https://www.pwc.co.uk/audit-assurance/assets/pdf/agile-auditing.pdf>

To give you a clearer idea of what this looks like from a process perspective, here are the two methods of internal auditing compared:



And some of the key differences between traditional and agile auditing compelling teams to make the transition are:

TRADITIONAL	AGILE
Perfect communication after a long process	Frequent communication during the process
Rigidly planned activities	Quick, iterative activities
Comprehensive documentation	Timely, relevant documentation and reporting
Established roles in a hierarchical system	Empowered roles in a more flexible system
Following a mandated plan	Responding to emerging needs
Auditing to internal audit resources	Resourcing to audits and projects
Control of the audit process	Transparency in the audit process

Whilst this is just a snapshot of how an agile audit methodology can streamline the IA process, what are some of the wider benefits of an agile approach that are enabling teams to transform their operations?

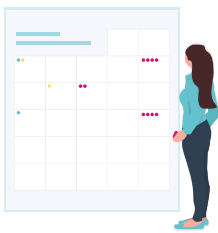
The benefits of becoming agile

In 2018, Deloitte hit the nail on the head in their 'Becoming agile' report, in which they stated: 'The need to change is clear. The time for change is now.'³

The economic disruption over the past couple of years has only heightened this urgency, where unique challenges on how to work and respond to emerging risks at a rapid pace have driven the need for:

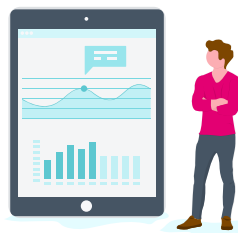
- Efficiency over thoroughness.
- Real time over retrospective assurance.
- Collaborative working on value-based outcomes over objective-driven activities.

Adopting an agile approach to internal audits provides a variety of advantages that can support organisations' ever-evolving needs:



1. Greater flexibility

Instead of following a rigid internal audit plan, auditors can refer to a continually updated backlog of items that are prioritised with both the risk landscape *and* stakeholders' needs in mind.



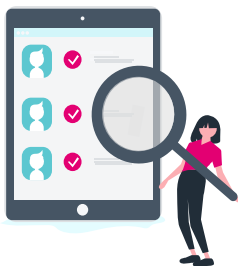
2. Increased stakeholder satisfaction

Regular meetings with stakeholders ensure that they are engaged consistently throughout projects. This also enables the audit team to get under the hood of how risks are affecting different groups and what their current priorities are.



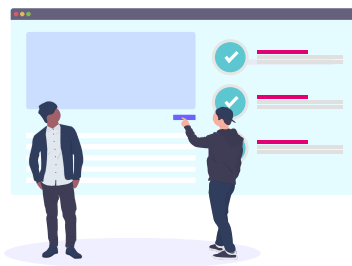
3. Enhanced documentation

Flexible reporting allows stakeholders to receive internal audit's points of view on a near real-time basis with more succinct, timelier reports with an emphasis on visuals to make the information easier to digest and act upon.



4. Rapid response times

As priorities inevitably change, agile auditing allows auditors to reassess and adjust their plans as soon as issues arise, rather than being on the backfoot at the end of an eight-week-long audit project.



5. Empowered teams

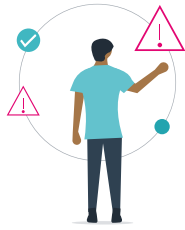
Clear parameters and guidelines established by senior management from the outset mean that auditors at lower levels are empowered to make more decisions; whether that involves continuing a project to provide greater assurance or bringing it to a close.



6. Better-quality insights

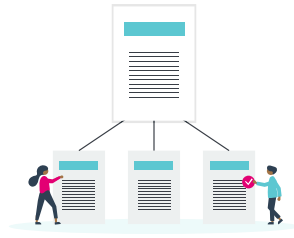
Since feedback and retrospective meetings are incorporated into every sprint, more focus is placed on assessing findings versus simply completing fieldwork. Stronger communication between IA and the business also helps to ensure insights deliver the right level of impact.

3 <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Finance/gx-fa-agile-internal-audit-introduction-elevating-performance.pdf>



7. Faster delivery cycles

With sprints in place to set structured deadlines for certain tasks, audit professionals can work through projects at an accelerated pace to achieve their goals, as opposed to wasting time and resources on needless documentation exercises.



8. Clearly defined outcomes

Whereas traditional auditing sends auditors in search of findings, an agile approach encourages teams to confirm or disprove either a hypothesis or point of view. In which case, with a specific end goal in mind, fieldwork and reporting have a clearer course to track.

A recent report indicated that organisations using PwC's agile approach have witnessed up to a **20% time saving** on regulatory audits and a **10% time saving** on less standard audits.⁴

Internal audit's top 5 risks in 2022

The Chartered Institute of Internal Auditors (IIA)'s latest Risk in Focus report revealed that organisations consider their leading risks in 2022 will be:

1. Cyber security and data security.
2. Changes in laws and regulations.
3. Digital disruption, new technology and AI.
4. Human capital, diversity and talent management.
5. Business continuity, crisis management and disaster response.⁵

With much change and uncertainty on the horizon, internal audit must continue to adapt to not only understand the risk environment but also identify how well relevant risks are being managed.

The beauty of an agile approach is that no matter the magnitude or complexity of the risk, auditors can prioritise audits based on their importance and urgency, enabling them to pivot rapidly to protect and enhance organisational value.

⁴ <https://www.pwc.co.uk/audit-assurance/assets/pdf/agile-auditing.pdf>

⁵ <https://www.iaa.org.uk/media/1691900/risk-in-focus-2022.pdf>

How technology can facilitate agile auditing

What was once a nice-to-have for many internal audit teams, technology has now become a major cornerstone to operations. Today, with workforces distributed like never before, audit professionals need the tools to enhance collaboration with stakeholders, access and share key insights quickly, and assist an agile approach.

Audit management software allows auditors to streamline core internal audit processes and deliver true strategic value in a central, connected online application. This helps to facilitate agile auditing through:



Iterative planning

- Quickly and easily plan iterative sprints where priorities can be reassessed and reassigned, and key areas of focus re-evaluated whilst maintaining a 'spine' of obligatory projects.

Dynamic project management

- Promote responsiveness to unplanned issues, so that you and your team can rapidly react to the evolving risk environment and business needs.

Accelerated delivery cycles

- Segregate fieldwork and set precise deadlines to tasks, meaning less time is spent on documentation and more effort is channelled into providing assurance.

Better communication

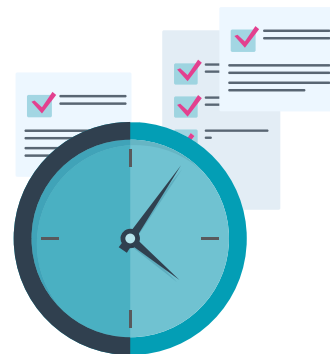
- Provide a constant line of communication between your internal audit team and stakeholders, enhancing collaboration and ensuring the right outcomes are achieved to support key decision making.

Improved reporting

- Produce quick, bite-sized reports presenting findings at the end of a sprint to keep stakeholders informed from an early stage in the process and more frequently.

Greater efficiency

- Streamline audit work and documentation, allowing your agile audit team to focus their attention on value-adding activities and the risks and opportunities that really matter.



Conclusion

Internal auditors are constantly facing new and varied challenges in their position as the third line of defence. Now more than ever, the importance of having an internal audit department that delivers timely and impactful business intelligence to senior management is paramount.

As we have seen in recent years, no industry is immune to the effects of economic disruption. Internal audit departments of all sizes should consider adopting agile techniques to address the immediate risks affecting their organisation's ability to implement strategies and achieve their goals. As well as provide a more permanent solution to the long-term challenges facing the profession that better aligns assurance with the dynamic conditions of the new world.



Ready to take an agile approach to audit? Pentana Audit can deliver real-time assurance and simplify the agile auditing process.

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