Business Agility & Agile Audit

January 2021

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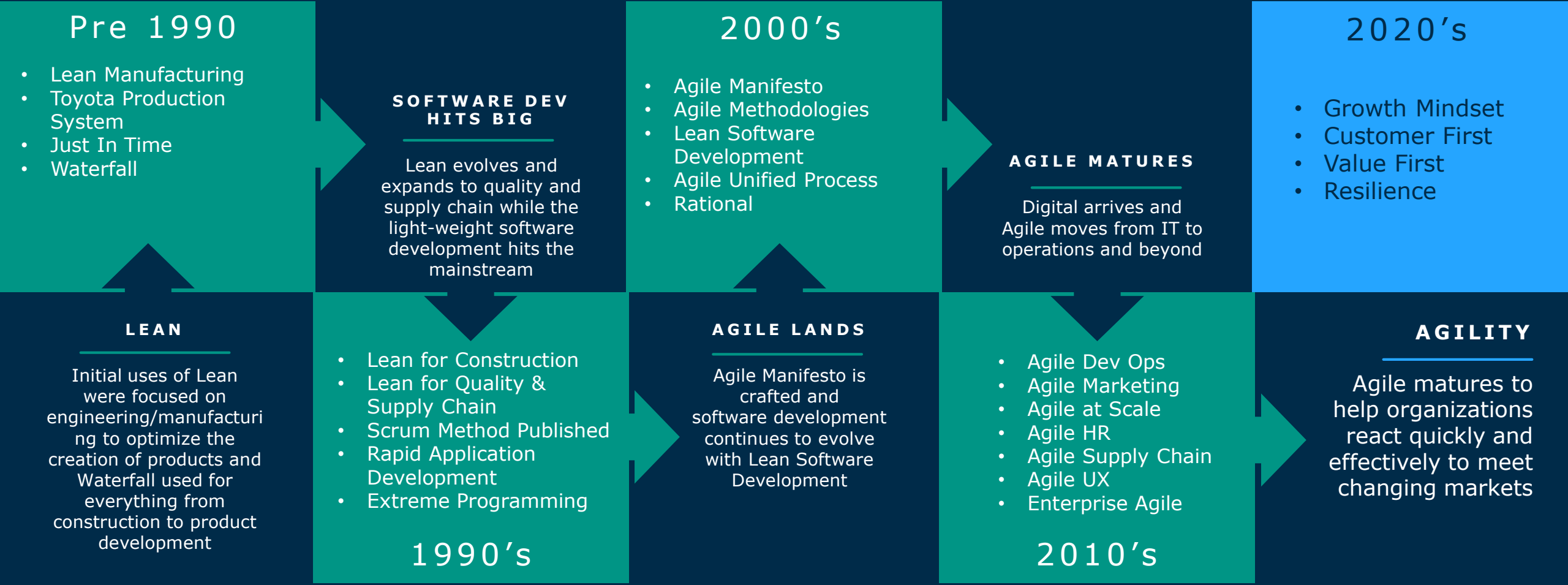To the Power of Human™

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To the Power of Human™

"**Success today requires the agility and drive to constantly rethink, reinvigorate, react and reinvent**"

Bill Gates

What does that mean for business?

Agile comes from long line of success

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

SOFTWARE DEV HITS BIG
Lean evolves and expands to quality and supply chain while the light-weight software development hits the mainstream

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

AGILE MATURES
Digital arrives and Agile moves from IT to operations and beyond

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

AGILE LANDS
Agile Manifesto is crafted and software development continues to evolve with Lean Software Development

AGILITY
Agile matures to help organizations react quickly and effectively to meet changing markets

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

1990's

- Agile Dev Ops
- Agile Marketing
- Agile at Scale
- Agile HR
- Agile Supply Chain
- Agile UX
- Enterprise Agile

2010's

What is Business Agility?

Simplest Answer: New way of working

Agile Mindset

(Value First,
Collaboration,
Decentralized,
Outcome based)

+
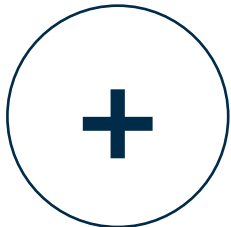
**Agile Tools
& Techniques**
to change the
way you work

(Scrum, Kanban, Lean, etc.)

Agile Manifesto – 4 Values

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Agile is a mindset that drives a set of values

Individuals and interactions over processes and tools

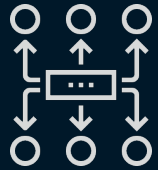**Working products/services** over comprehensive documentation

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

Satisfy the Customer — 1

Welcome Change — 2

Deliver Frequently — 3

Work Together — 4

Trust & Support — 5

Face-to-Face Conversation — 6

Working Product/Service — 7

Sustainable Development — 8

Continuous Improvement — 9

Maintain Simplicity — 10

Self-Organizing Teams — 11

Reflect & Adjust — 12
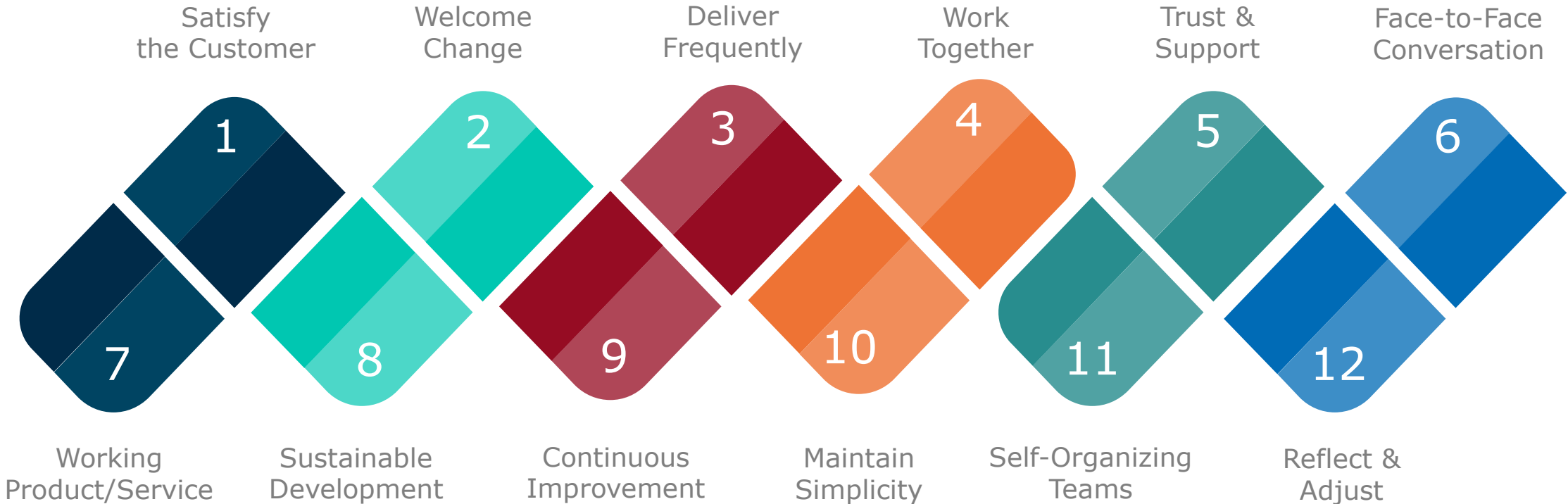
Benefits of Agile Audit

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
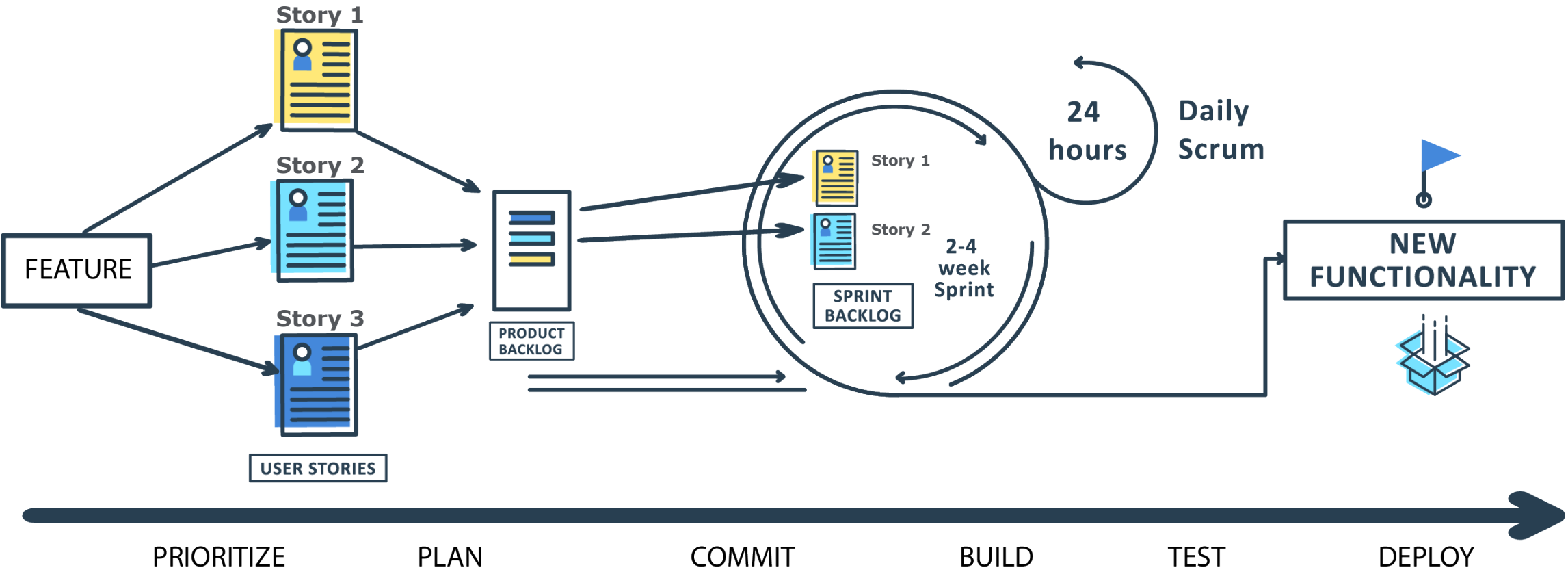Maintains compliance to a time budget and builds in quality
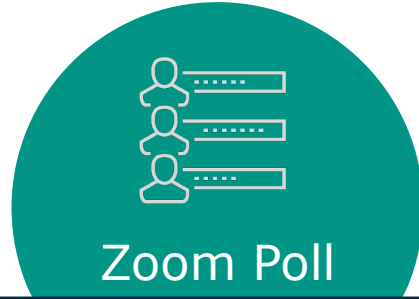
What is Business Agility?

Understanding Agile Audit Roles & Process

# Story flows through the Scrum 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
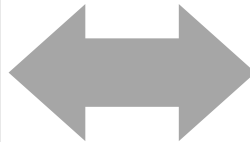
Scrum Master
Audit Lead

A person ensuring that scrum is understood and enacted, sets up meetings and monitors everything
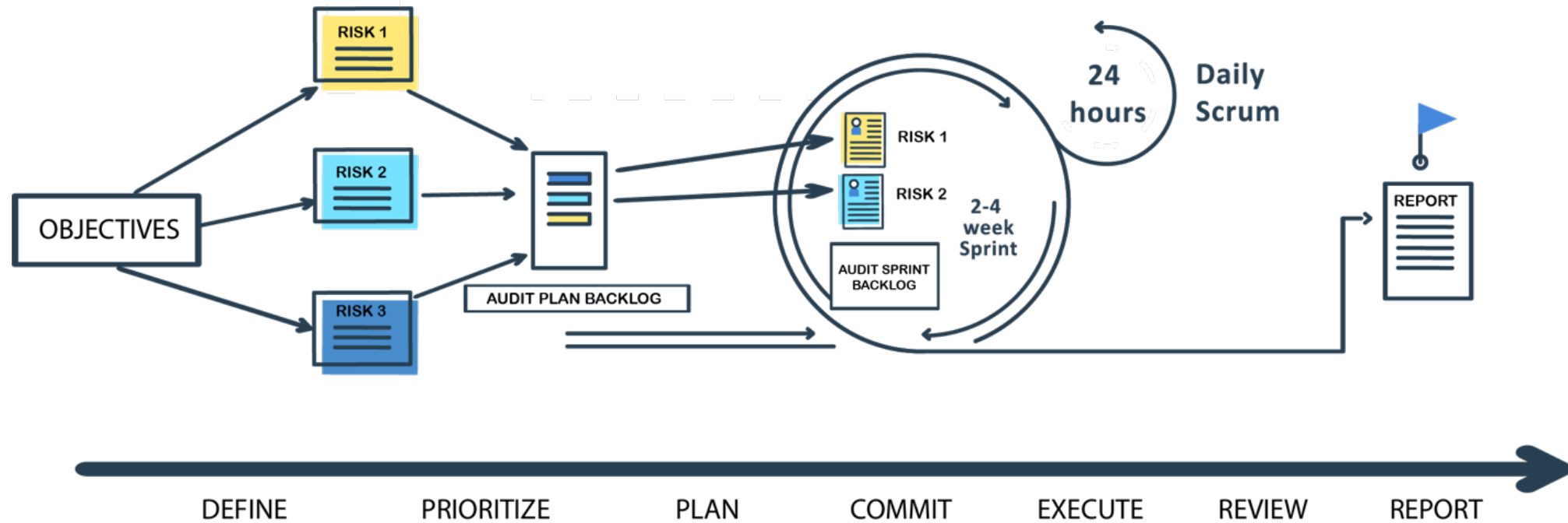
Agile Audit Process

Elements of a Program Increment

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Program Increment
- A Program Increment (PI) is a timeboxed planning interval during which a the 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).
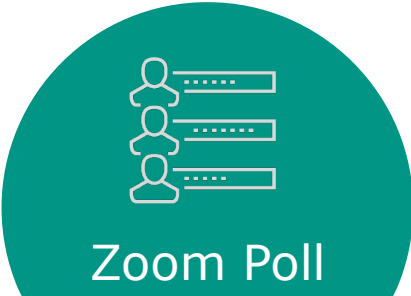
Stories
- Stories are short descriptions of a small piece of desired functionality, written in the user's language. Agile Teams implement small, vertical slices of system functionality and are sized so they can be completed in a single iteration.

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

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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.

Sprint

⬇

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.

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Zoom Poll

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

VALUE

Planning

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.

Zoom Poll
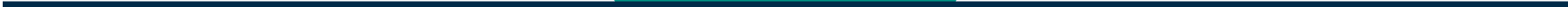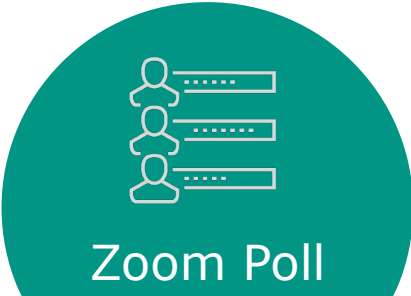
How often **<u>should</u>** the internal audit department be able to produce Audit Committee Insight reports?

Quarterly Risk Assessments

Q1 — Initial Assessment

Q2 — Quarterly Update

Q3 — Quarterly Update

Q4 — Quarterly Update
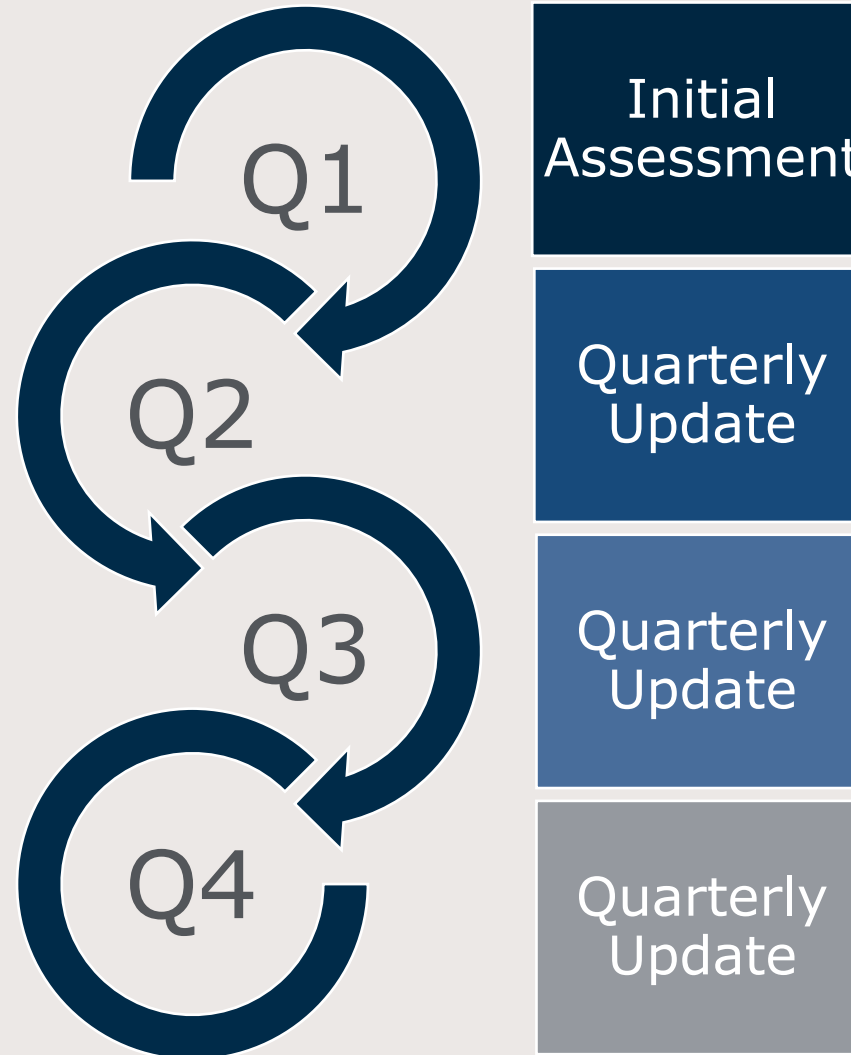
Since new risks emerge constantly and organizations modify objectives to meet changes in the world, the audit department must also be prepared to react quickly.

Sources for Risk Information

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Input from Financial Reports	Inputs from Senior Management	Inputs from Completed Audits
Strategic Objectives	New Initiatives	Emerging Risks
Risk Statements	Risk Conversation	Control Ratings

Example Entity Based Assessments

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

Example	Department	Risk Rating
	Human Resources	High

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

Example	Department	Risk	Risk Rating
	Human Resources	Strategic Risk	High
		Operational Risk	Moderate
		Financial Risk	Moderate

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

Example	Department	Risk	Risk Rating
	Human Resources	Hiring practices	Low
		Appropriate pay	High
		Employee retention	Moderate

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

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Strategic Objective	Strategic Risk	Process Risk	Impact	Likelihood	Control(s)
Accelerate the world's transition to sustainable energy	Delays or other complications in the design, manufacture, launch, and production ramp of our vehicles, energy products, and product features	No guarantee that we will be able to successfully and timely introduce and scale any such new processes or features.	High	Moderate	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.

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

Execution

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

Daily Scrum and Scrum Board

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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.

Story Backlog	To Do	Doing	Done
Story 1	Story 3	Story 5	Story 7
Story 2	Story 4	Story 6	Story 8

Daily Audit Scrum and Scrum Board

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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.

Risk Backlog	To Do	Doing	Done
Risk 1	Risk 3	Risk 5	Risk 7
Risk 2	Risk 4	Risk 6	Risk 8
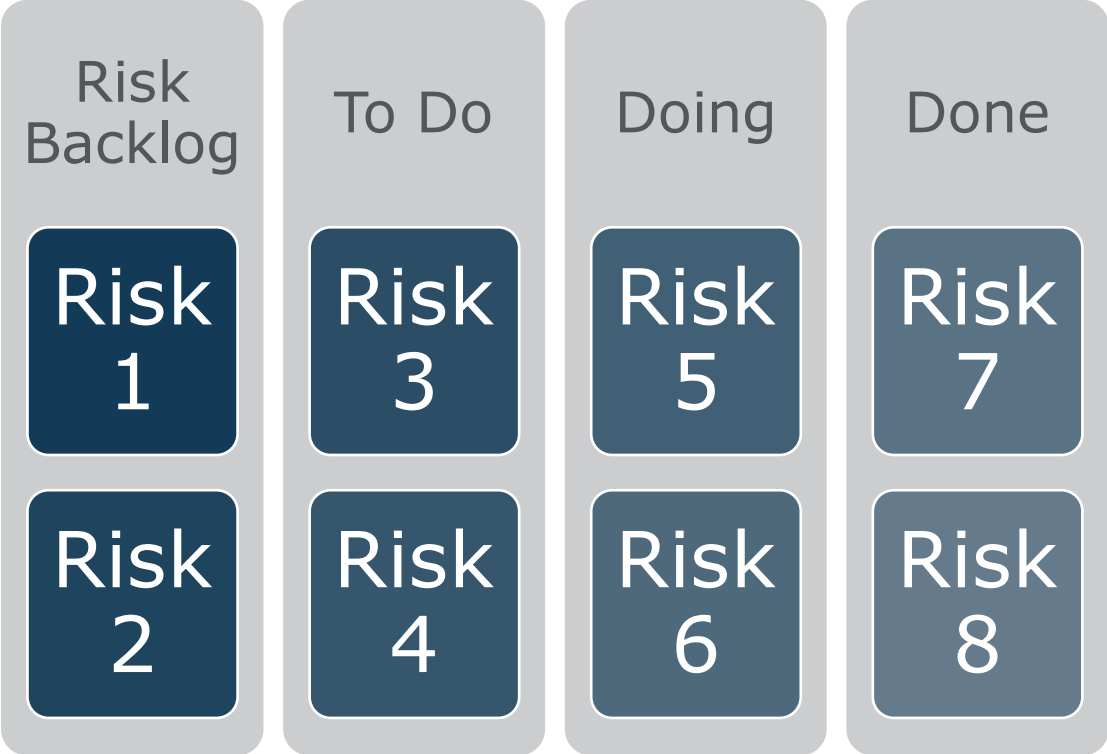
Audit Committee Reporting

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Traditional

- 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

Agile

- 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.
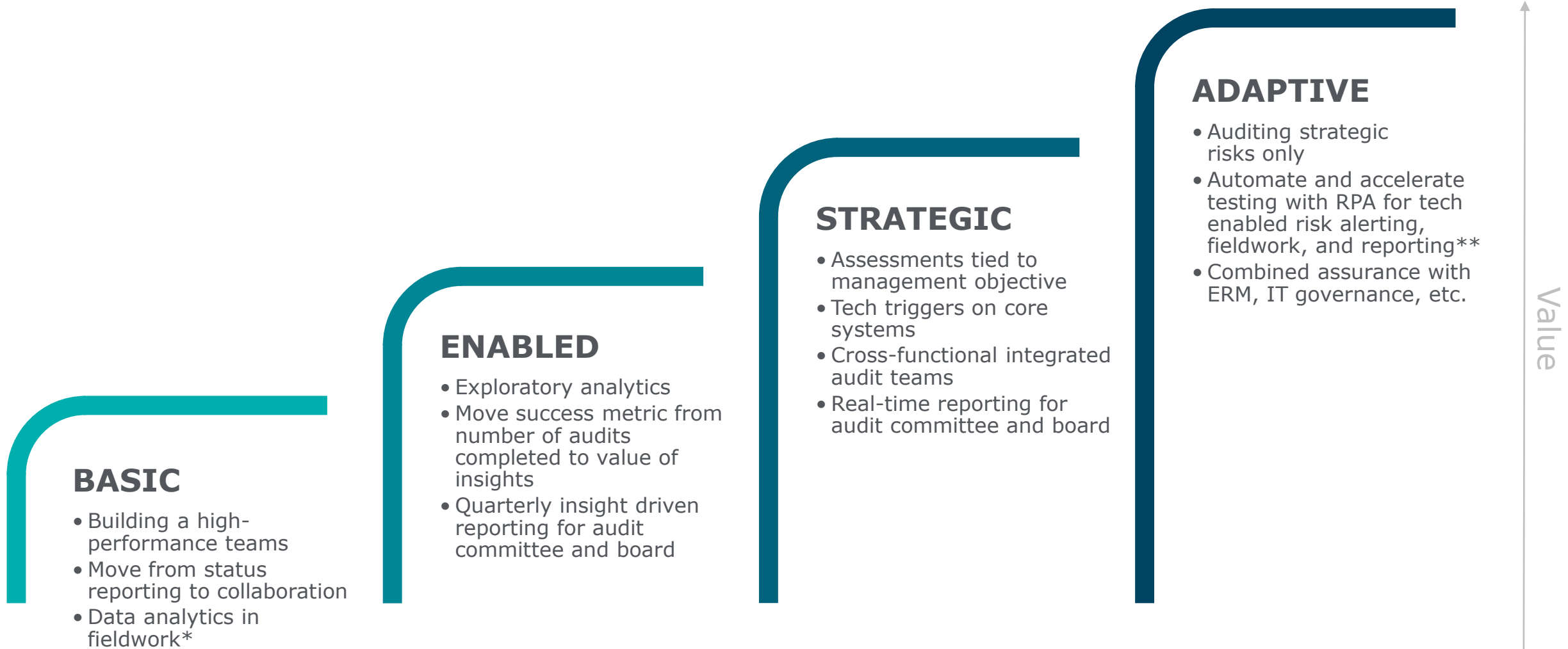
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Zoom Poll
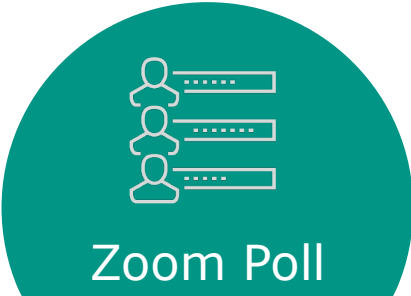
What is the internal audit department's main product?

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.

Agile Audit Maturity – The Process

ADAPTIVE

- Auditing strategic risks only
- Automate and accelerate testing with RPA for tech enabled risk alerting, fieldwork, and reporting**
- Combined assurance with ERM, IT governance, etc.

STRATEGIC

- Assessments tied to management objective
- Tech triggers on core systems
- Cross-functional integrated audit teams
- Real-time reporting for audit committee and board

ENABLED

- Exploratory analytics
- Move success metric from number of audits completed to value of insights
- Quarterly insight driven reporting for audit committee and board

BASIC

- Building a high-performance teams
- Move from status reporting to collaboration
- Data analytics in fieldwork*

Value

*RGP partners with Alteryx for data analytics solutions
**RGP can provide consulting for PowerAudit RPA solutions

Questions?

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Agile in Action --

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Mind Over Matter: Implementing Agile Internal Audit. Wall Street Journal. August 6, 2018.

Welcome

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RGP Blog: Agile Audit: Real-time Insights & Value

Thank You,
Fellow Human!

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