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The Future of Internal Audit

Agile Auditing



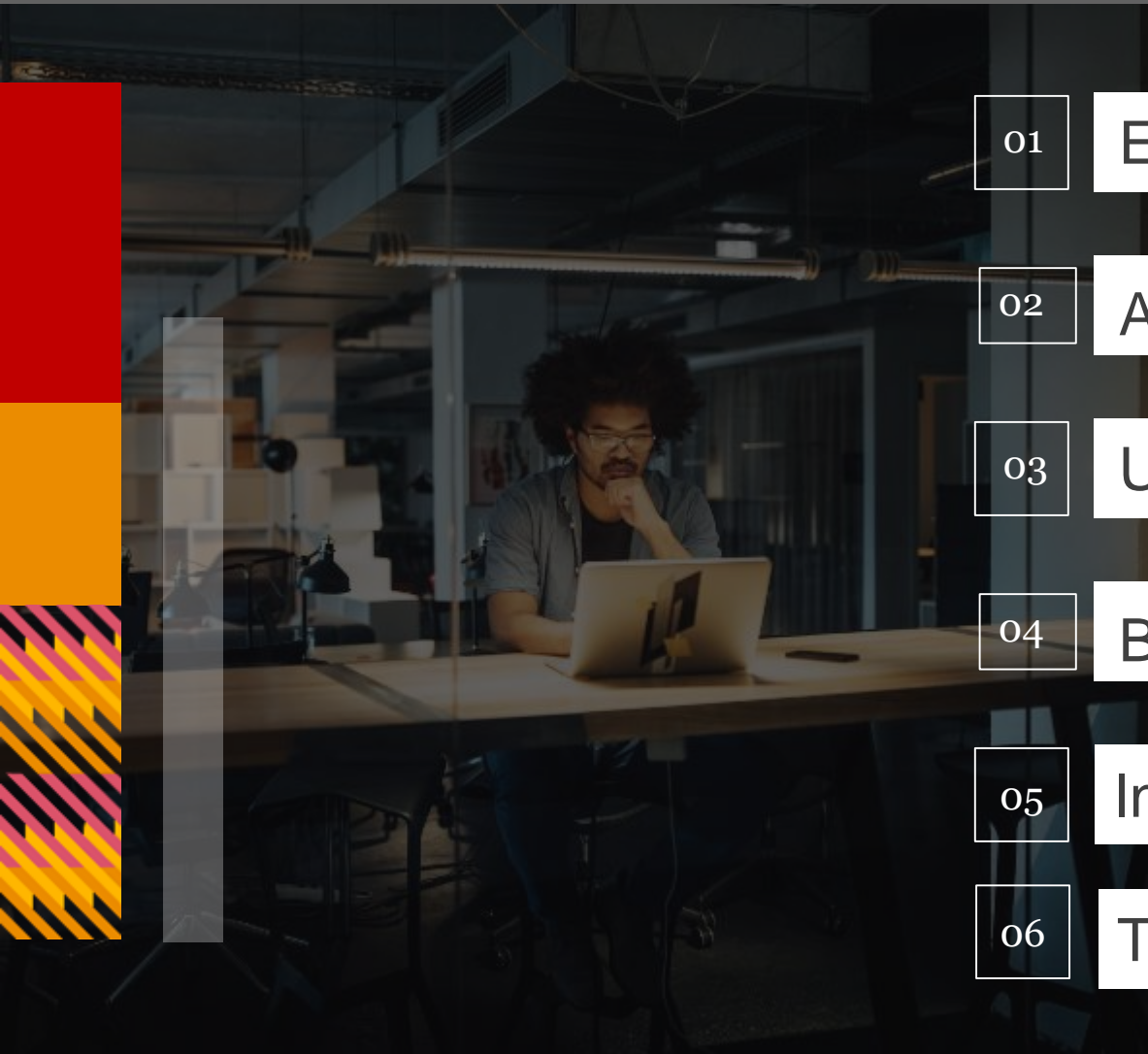
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Evolving Internal Audit processes



1



Drivers for an Agile Internal Audit Profession

The top five risks that your organization currently faces. Experts say:



Source: <https://www.iaa.org.uk/policy-and-research/research-reports/risk-in-focus>

Shifting Landscape in Financial Services

Financial institutions are increasingly adopting Agile development methodology to win productivity over red tape in order to succeed in today's technology landscape.



Regulatory Change

Institutions are implementing a series of **system and process changes that are mandatory and have fixed deadlines** to meet new legal and regulatory obligations.



Efficiency Imperative

Current ultra-low interest rates have created **pressure on many financial firms to sustain revenue and profitability yet reduce the costs** which have remained unchanged from high interest & revenue times. Legacy IT ecosystems are large scale, wide in scope, and highly sophisticated. Therefore, FS IT orgs. are undertaking projects for complexity trade-offs, applications simplification, and products subtraction/consolidation.



Digital Disruption

The financial services institutions are facing greater competition in the digital space. Increasing number of **customers are demanding personal, relevant, differentiated, and innovative experiences.**



Outdated Systems

Many financial institutions need to implement newer systems that can support **needed enhancements to risk management, data collection and digital platforms** geared towards operational improvements and rationalization to meet today's client service offerings.

The agile internal audit function



The agile internal audit function is the internal audit function that plays a valuable role in helping their companies anticipate and respond to disruptive events.

This poses both a challenge and an opportunity for IA. The challenge is for IA functions to learn how to audit in an agile environment, understand the language of “Agile”, the implications on the audit methodology and provide timely assurance. The opportunity is to embrace “Agile” to further align and evolve IA into their own ways of working.

Agile = Prepared + Adaptive

Response to Disruption

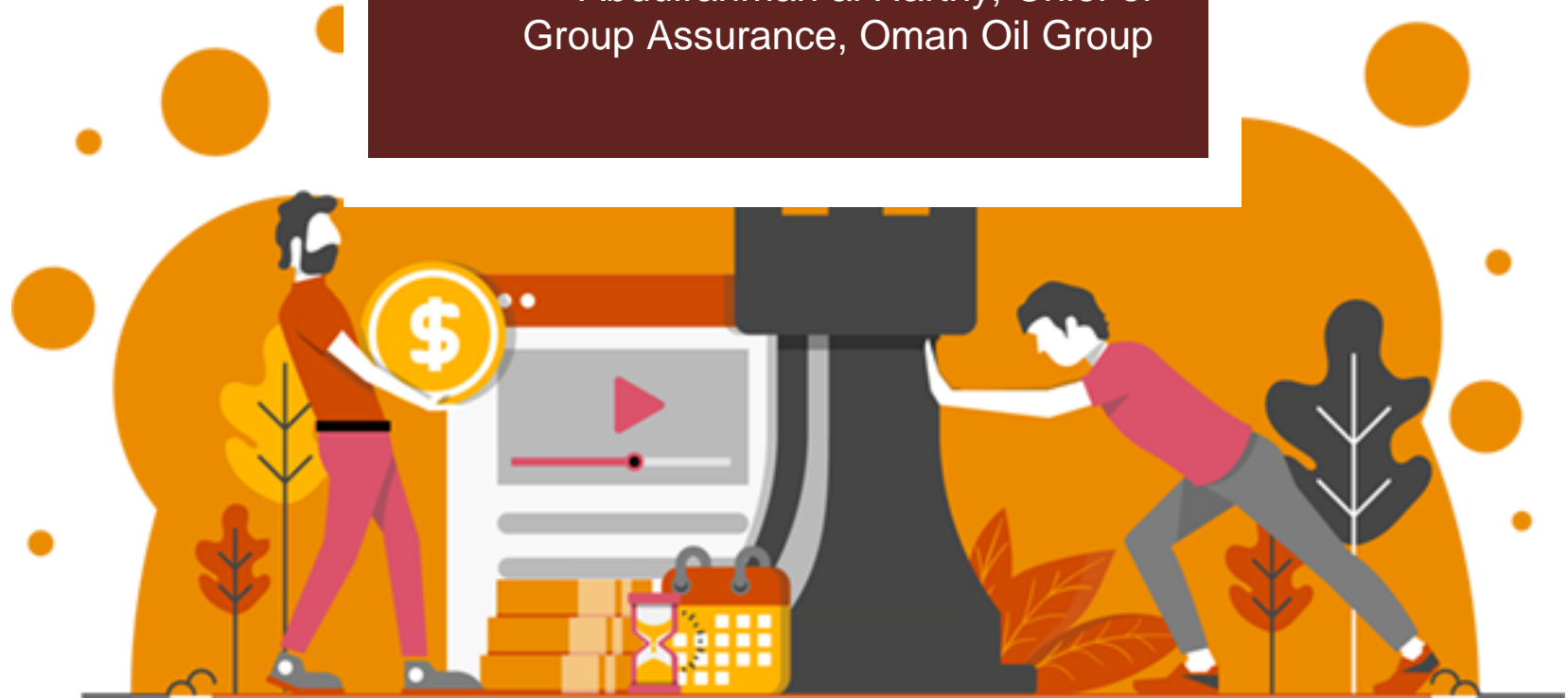
Prepared

Distinctive Behaviors:

1. Build the likelihood of disruption into planning and risk assessment
2. Meaningfully collaborate with other lines of defense
3. Invest in and elevate business and technical IQ

“It is a role of Internal Audit to be pioneering and proactive, and if there are changes it has to be ready.”

– Abdulrahman al Harthy, Chief of Group Assurance, Oman Oil Group



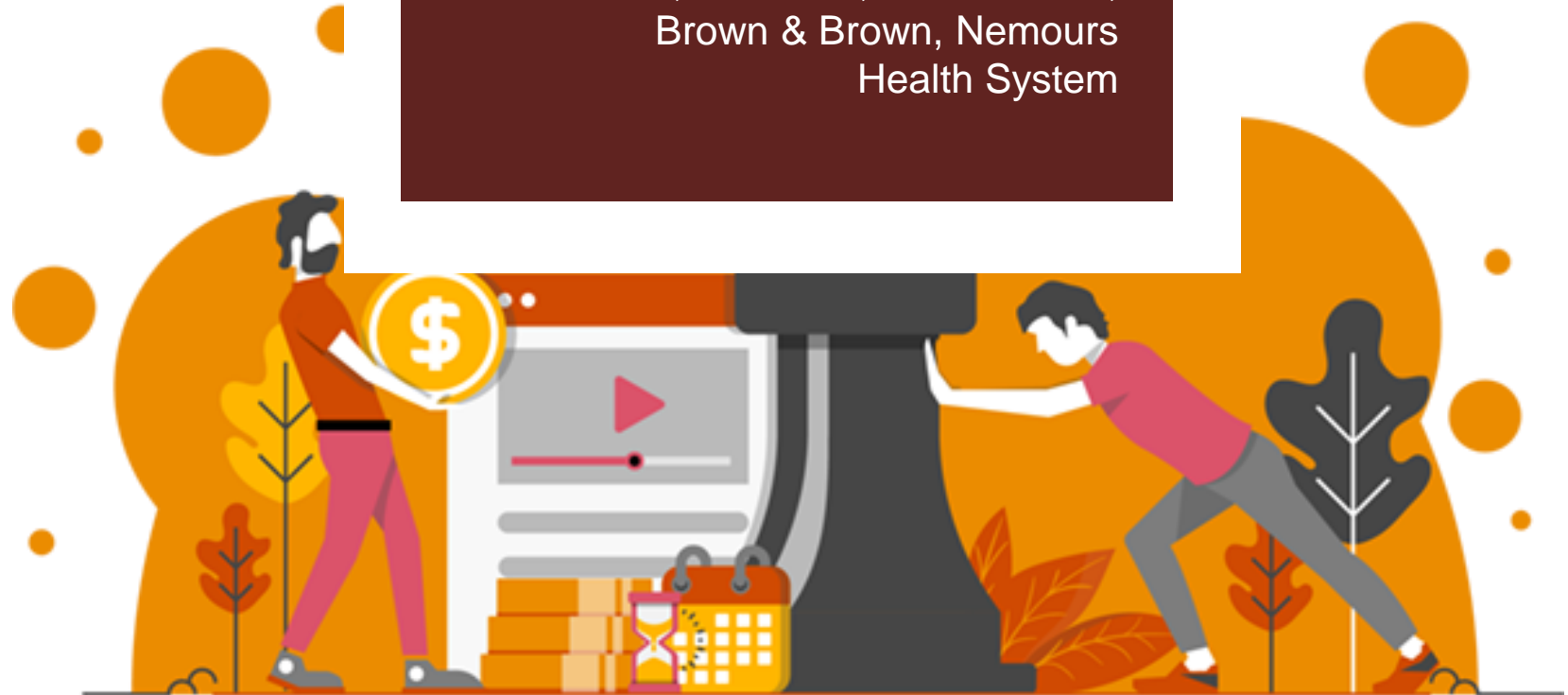
Adaptive

Distinctive Behaviors:

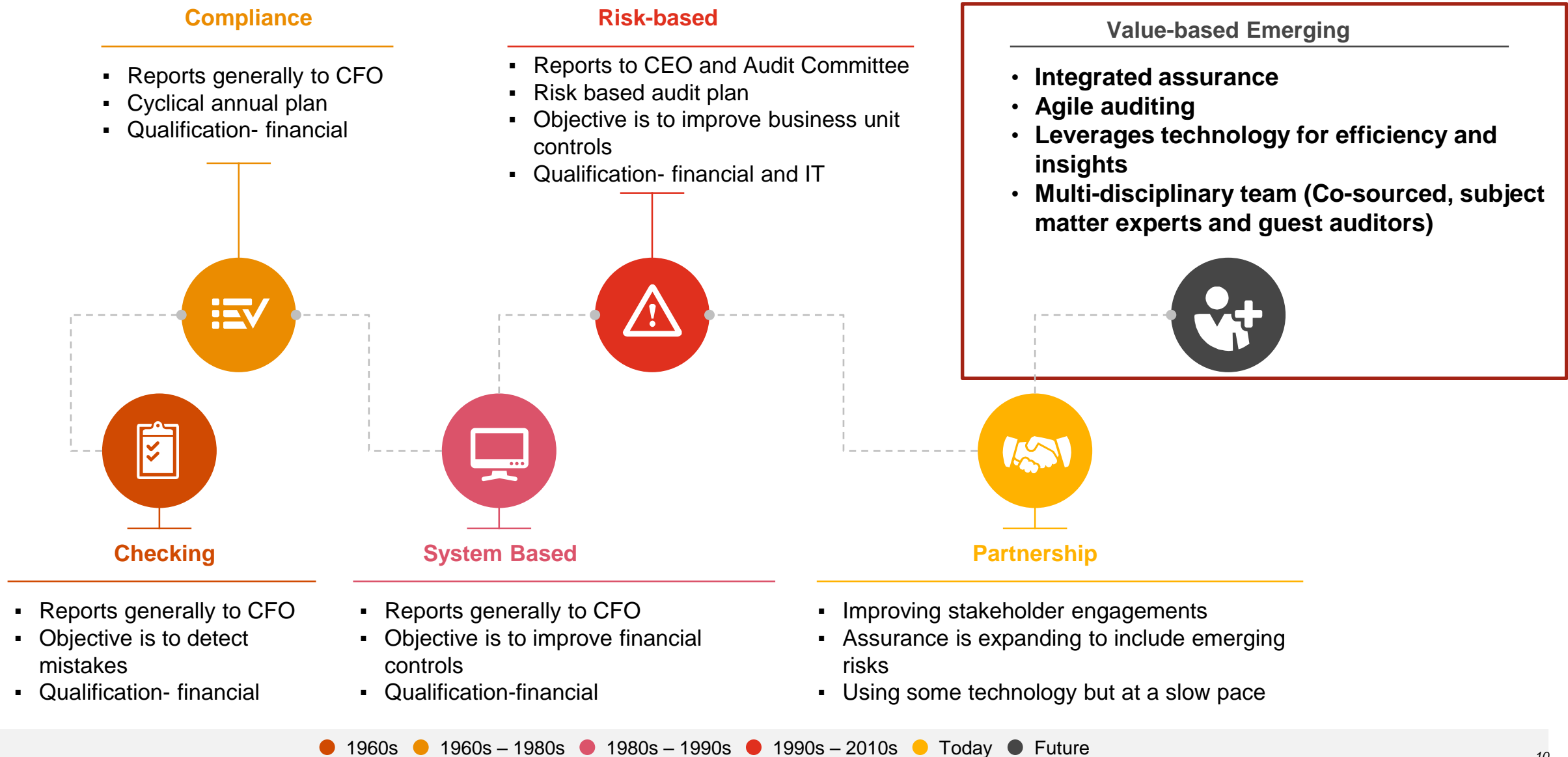
1. Create more flexible processes and reporting mechanisms
2. Drive the use of data analytics and technology
3. Implement flexible talent models

“We need to be innovative to respond to disruption, which takes courage and capacity.”

– Jim Hunt, AC Chair, Penn Mutual,
Brown & Brown, Nemours
Health System



Internal audit has evolved over time





Rotimi Oguntoye

**Senior Manager, PwC
Internal Audit**



Agile Auditing

Agile Methodology – Brief History



2



A brief History

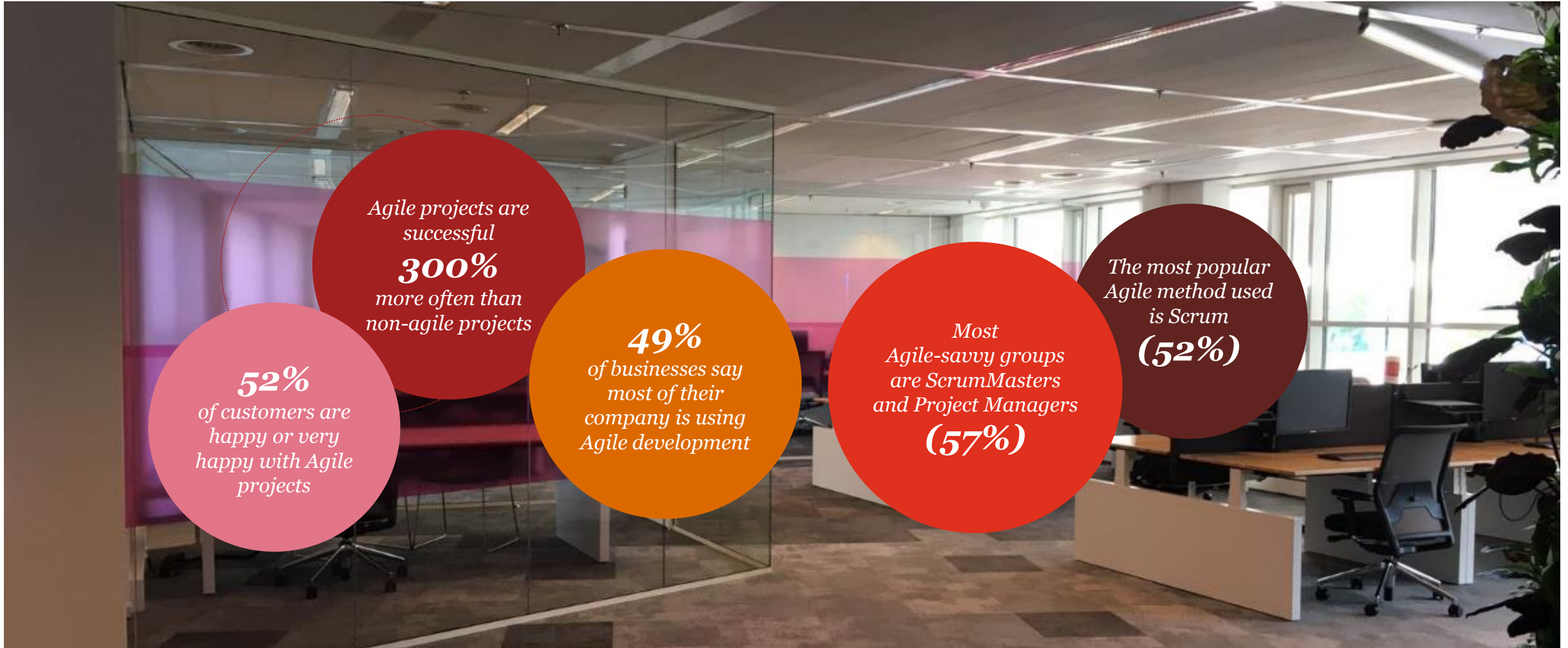
In 2001, a team of 17 developers created what is now known as the “Agile Manifesto” which guides Agile activities. The manifesto lays out four key values:

- ❑ Individuals and interactions over processes and tools
- ❑ Working software over comprehensive documentation
- ❑ Customer collaboration over contract negotiation
- ❑ Responding to change over following a plan

The agile approach can be traced to its roots in software development, but it has since transformed many business functions

Although the agile approach was originally created for software and IT, its framework is relevant and translatable across every industry, including internal audit.

Why Agile?



Agile vs Waterfall

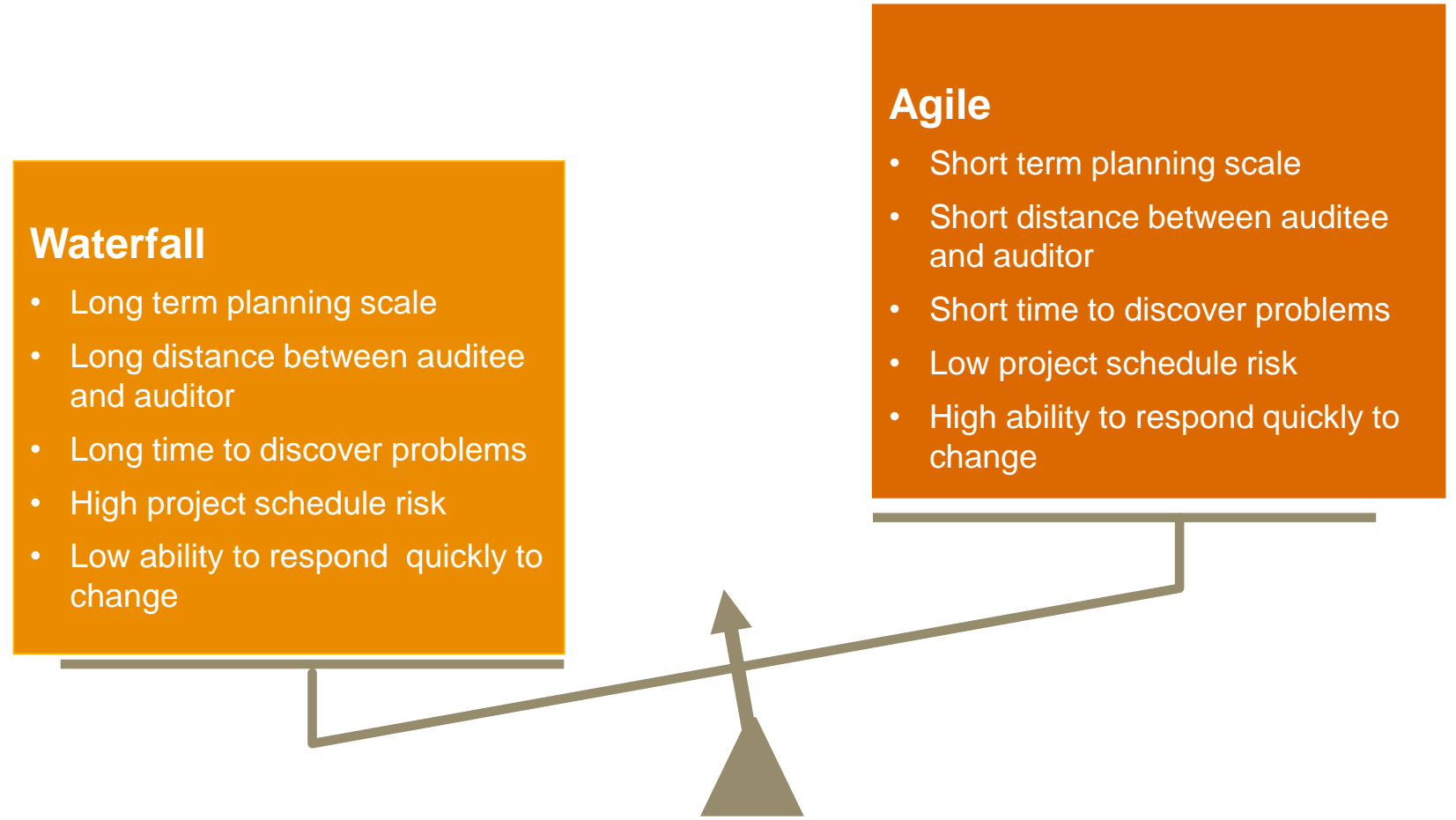
“**Agile**’ is often contrasted with ‘waterfall’ – a method of working which tends to be more structured, with defined stages which are completed in a linear fashion. Whereas most IA functions recognize they operate in a waterfall fashion, many are seeing the value of moving to a more collaborative and iterative approach to audit planning, scoping and delivery.

Waterfall

- Long term planning scale
- Long distance between auditee and auditor
- Long time to discover problems
- High project schedule risk
- Low ability to respond quickly to change

Agile

- Short term planning scale
- Short distance between auditee and auditor
- Short time to discover problems
- Low project schedule risk
- High ability to respond quickly to change



Understanding Agile Auditing

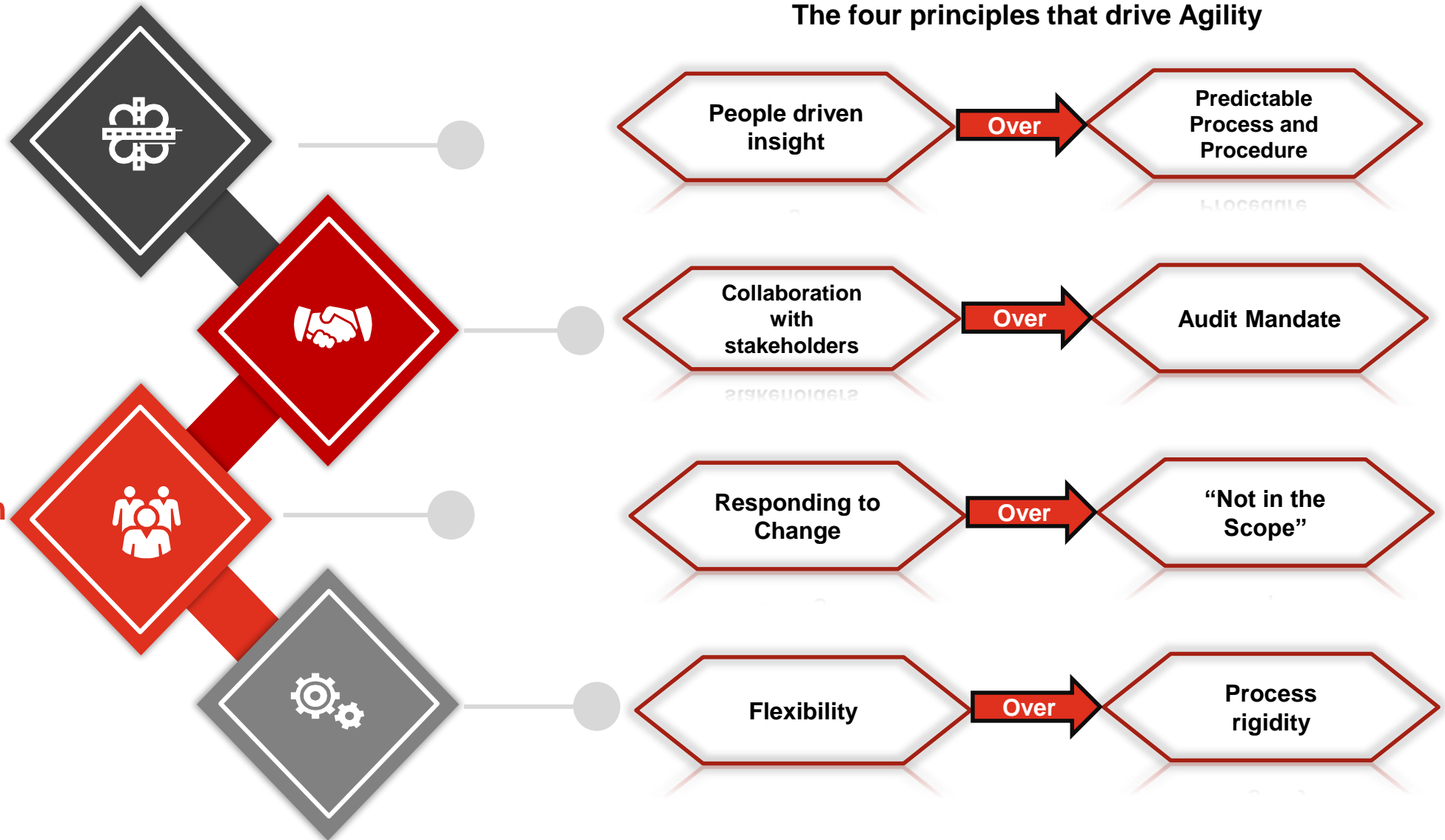


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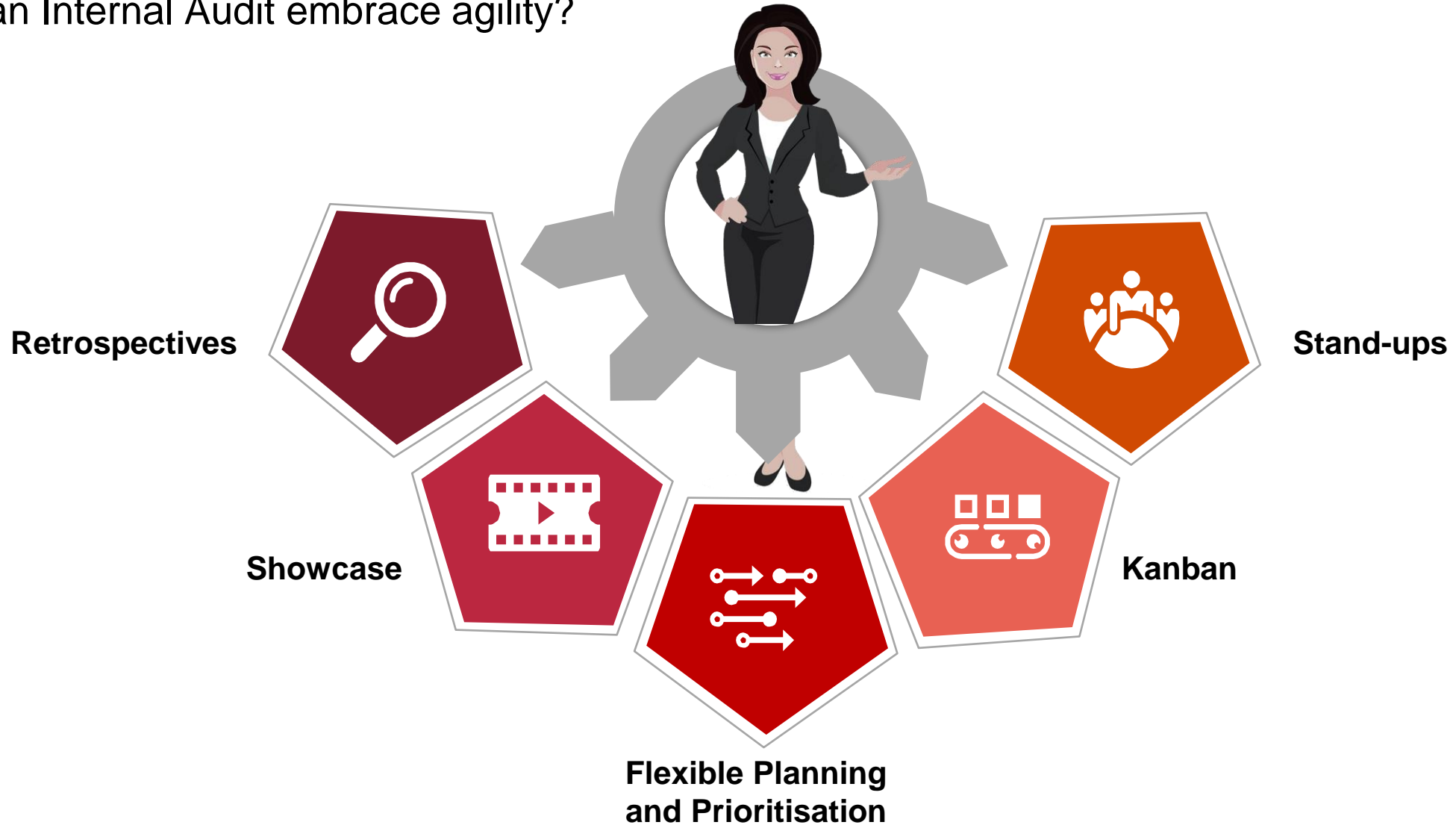
Principles guiding Agile Auditing

The main difference between agile auditing and traditional auditing is **flexibility**. Instead of rigid, single-phase planning, agile auditing centers around **fluid, iterative planning on an ongoing basis**.



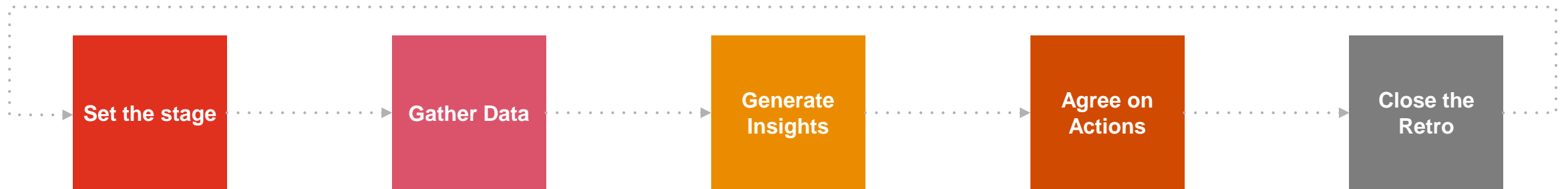
Application of Agile to Internal Audit

How can Internal Audit embrace agility?



Application of Agile to Internal Audit

1. Retrospectives



- Prepare the team for the work they are about to do
- Review the goal, agenda, or working agreements
- Use activities to help team openly share (post-its, survey etc)

- Create the shared picture of what happened during the iteration
- Help the team stay focused on relevant facts rather than speculation

- This is a time for evaluating the data and turning it into meaningful information
- Help uncover the implications for change

- Focus turns to next iteration
- Determine the highest priority items
- Identify experiments to resolve issues
- Create action items

- Allow for retro on what just happened
- Allow time for expressing appreciation (especially if the retrospective unusually charged or emotional)

Application of Agile to Internal Audit

2. Incremental Delivery through Showcases

Agile Concept

- Allows team to show what team has produced to the Product Owner, business and interested parties
- A chance to see new functionality, ask questions and give feedback
- Demonstration, not training session

Application to IA

- Ongoing discussion of the draft findings internally with team/Review Lead/Head of Group Audit
- Ongoing discussion of draft findings with business or auditees with aim of giving them an heads up and providing them the opportunity to respond or provide more information

Application of Agile to Internal Audit

3. Flexible Planning & Prioritization

Agile Concept

- The Product Owner prioritizes the stories from the backlog
- Teams use techniques like MoSCoW for arriving at prioritised list
- Team starts working on the order of priority

Application to IA

- Prioritise series of tasks for the internal audit
- IA Audit plan - priority of one audit over other based on value to the customer
- Risk based prioritisation of draft findings (identification of must dos)

Application of Agile to Internal Audit

4. Kanban

A Kanban board is often used in scrum to visualize the team's progress at various stages and to promote transparent communication. A Kanban board displays cards and columns to help teams commit to and complete tasks.

Kan = "card"

ban = "signal"



Application of Agile to Internal Audit

5. Stand up Meeting

Agile Concept

- Daily Stand-up (5-15 minutes, Everyone's Invited)
- Not for Problem Solving
- Each team member with tasks answers three questions:
 - What did you work on yesterday?
 - What are you committing to today?
 - Do you have any impediments?
- Delivery Team Speaks, Observers Listen

Application to IA

- Periodic stand ups within IA teams (could be weekly, once in 2 days or daily)
- Use technology in case of cross location teams for stand up meetings
- Invite Head of Group Audit for specific sessions
- Highlight risks, findings and blockers

Agile in action – triggers and reason for action

When might you consider trying an agile approach.....

1

You are part of an agile environment where the company is already trialing or using Agile

2

You have a particular project which lends itself to a more agile approach – an IT development or fast moving programme

3

You have the feeling/recent feedback that you need to shake things up and try to do something different

4

Some newer/younger(!) team members that want to work differently and are willing to try something new

5

Cost cutting initiatives across the organisation which mean you want to try to be more productive/cost effective

6

You have an Audit Committee/business stakeholders who encourage you to be innovative

Benefits of Agile

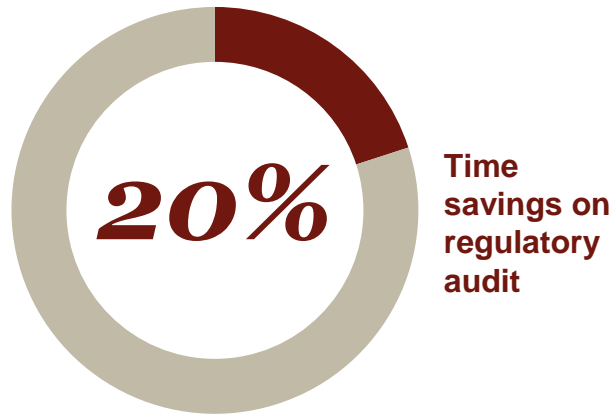


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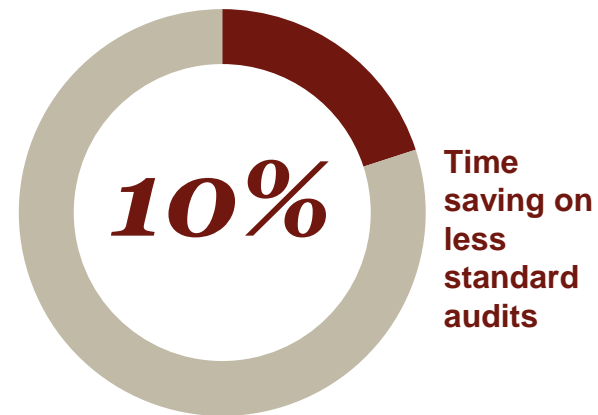


Benefits of Agile Auditing

Tangible results have included



Time savings on regulatory audit



Time saving on less standard audits



Auditees are happier

With agile internal audit, there are no surprises. The more an auditor knows—and the sooner they know it—the better they can help the business address potential control and risk issues. Because you’re limiting the negative impact on auditees, management will also be pleased.



Improved engagement and transparency

Open communication is encouraged and welcomed, so issues are surfaced before they become blockers. Management gaps are bridged by frequent and holistic reviews. All stakeholders are involved throughout the entire process, so nobody is left out of the loop.



Increased ability to analyze data

Agile audit integrates data analysis more thoroughly into the audit process through routine indicator monitoring and trend analysis. Because of that, auditors tend to have greater access to data, systems that house data, and to line of business data experts



Limits financial losses by recognizing broken controls sooner

Through indicator monitoring and trend analysis, audit teams recognize potential control breaks—and the financial ramifications—sooner. Whether it saves the company millions of dollars or isn’t a significant loss, discovering control breaks early on allows for timely remediation/action.

Benefits of Agile Auditing



Real-time assurance

Because you're working with accelerated delivery cycles, you can reassess your work every two to three weeks. This means that results and insights are realized more quickly, feedback is faster, and teams can immediately incorporate their findings into ongoing development phases.



More timely recognition of emerging risk

Because agile audit relies a lot on data analysis, the establishment of risk indicators and trend analysis will alert the audit team to emerging trends that can be either positive or negative. Reacting to those trends as they start to emerge can mitigate significant impacts much earlier than in traditional auditing techniques.

Inhibitors to Agile Auditing



5



Challenges to Agile Auditing

Agile requires a significant shift in practices and behaviours that directly affect governance, human resources, risk management and internal controls. Below are inhibitors to Agile Practices:



Challenges to Agile Auditing

1. Organisational culture and governance not supportive of agile



1

Accountability structures are not clearly defined, preventing the delivery teams from working towards common goals.

2

Process owner, team members and business representatives do not have enough capacity and are still dedicated to business-as-usual activities, resulting in inadequate performance of agile activities

3

Risk and assurance functions are not supportive of transparent programme status, resulting in a lack of transparency around quality controls and assurances; assurance is no longer providing proactive insight and challenge to programme sponsor and senior management.

4

Silo organisational structures and implemented governance create conflicts with cross-functional delivery teams and hinder self-organisation in agile teams.

5

Inability of executives and management to understand and champion agility due to audit leadership's lack of ability to drive agility.

Challenges to Agile Auditing

2. People's experience and discipline not supportive of agile



1

Limited confidence in the delivery teams achieving the desired outcomes due to lack of knowledge or experience with agile.

2

Too many part-time team members prevent efficient and effective continuous delivery of agile.

3

Process owners do not continuously update processes based on business needs, and do not actively participate in agile ceremonies.

4

Relevant internal and external stakeholders other than business end users are not involved in agile activities (e.g. legal, compliance, risk, internal control).

5

People's experience and discipline not supportive of agile. This is true especially for those who operate under the old model of Internal Audit being a 'policeman' tasked with catching crimes instead of being partners

Transitioning to Agile Auditing – Practical Steps

6



Closing the Gap

Practical Steps

1

Get an agile coach

Who knows how this should work and will keep you honest. Could be someone from the business

2

Requires a mindset change

The team needs to buy-in and be happy and willing to do things differently. Think about who these people are in your team

3

Choose the right audits

Pick one where the scope is faster moving and the sponsor already understands agile so it's more likely to succeed

4

Bite sized chunks

Don't expect the whole team to go agile in one go. Do a trial audit and see what happens

5

Think about logistics

Do you need to change physical location or ways of working e.g. to do a daily huddle?

What you can be doing now

Internal audit must evolve to keep pace. Business is changing fast, our stakeholders expect more, and we need to disrupt ourselves to deliver maximum value in a disrupted business environment.

Closing the value gap and achieving “Trusted Advisor” status will require:

- **Increasing the team’s operational capabilities**, specifically, around risk focus, business alignment, talent and technology
- **Increasing leadership effectiveness** to inspire confidence in the team and among stakeholders
- **Increasing the team’s agility** to contribute on the disruptive risks affecting the company



Closing the Gap

What you can be doing now

- ❖ Be deliberate about building preparedness and adaptability into the departmental DNA.
- ❖ Take the time to think more strategically about where you are operating today and what your ideal state is.
 - Is your function doing anything different today than it did three years ago?
 - Are those differences marginal or more transformative?
 - Are you realizing value in those changes?
 - Should you rethink how you are measuring your value?
 - Is transformation and disruption within your internal audit function required to remain relevant to the business?



Transitioning to Agile Auditing

In Summary...



Create a culture of innovation & technology

- The Company needs to invest in creating a culture of technology innovation and adoption.



Bring in fresh, diverse ideas and perspectives

- There is need to bring fresh, diverse ideas and perspectives into the review process i.e. continuous review of Control templates in line with current evolving risk or current realities.



Encourage cross-functional rotation in the audit team

- Improve knowledge/ competence through a cross-function rotational model within the organisation that allows staff exchange.



Institute continuous learning

- Improve knowledge through training and continuous learning.



Get Management buy-in and Audit Committee Sign-off

- Get management support buy developing a roadmap stating the value agile brings to the organisation. Audit Committee is to sign off on any change required



Develop and pilot a process

- Develop an audit process and documentation requirements.
- Pilot the process with one business leader.
- Review the pilot, adjust the process and update your implementation plan

“

We cannot keep doing things the same we always have, it's time for us to practice what we preach on our audits when we say the excuse of “that's the way it's always been done” isn't valid.

Questions





Thank you



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