



GLOBAL KNOWLEDGE BRIEF

AGILE INTERNAL AUDIT

Leading practices on the
journey to becoming Agile

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About the experts

André Al-Dawaf

André Al-Dawaf leads the concept and transformation practice as an assurance partner at Siemens AG in Germany. He is currently focused on adapting Agile methods and practices for the companywide internal audit function. In Al-Dawaf's 20-plus years with Siemens, he has successfully delivered multiple transformation projects across and beyond governance functions, such as enterprise risk management, internal control, and internal audit. Most recently, he combined those areas into one assurance function.

Jamie DuBray, CIA, CRMA

Jamie DuBray joined Schlumberger Limited as Western Hemisphere audit director in 2016, after serving as IT audit client manager at Chevron Corp. and general manager of internal audit at CITGO Petroleum Corp. She had prior experience auditing at Valero Energy and Tesoro Petroleum, as well as positions in information technology and public accounting. DuBray's background includes more than 18 years in audit and more than 15 years in the energy industry.

Jeff Jarczyk

Jeff Jarczyk is the chief auditor of FMR LLC, Fidelity Investments' parent company. He leads FMR's internal audit function in adding value to and protecting Fidelity by providing risk-based and objective assurance, advice, and insight. His team of business operations and technology auditors cover all of Fidelity's business units and functions. Earlier in his career, Jarczyk served in audit partner roles at Arthur Andersen LLP and Deloitte.

Brandi Joplin

Brandi Joplin assumed the position of senior vice president and chief financial officer at Sam's Club in July 2019. Prior to her current role, she served as senior vice president and chief audit executive at Walmart, where she led the global team that provides assurance on the effectiveness of risk management and the adequacy of the control environment across all of Walmart's businesses. Joplin joined Walmart in 2009 as vice president of Walmart's Global Internal Audit Services for North America. Prior to joining Walmart, she worked for Alltel Corp. and for Arthur Andersen, LLP.

INTRODUCTION

Pros and cons of adopting the Agile process

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

Rather than the traditional linear process involving planning, fieldwork, review, and reporting, an Agile internal audit uses sprints in which these four components are done simultaneously in a cycle of one to two weeks; the sprints are repeated until the audit is finished, said Sarah Adams, a Deloitte managing director who leads the firm's Agile IA initiative. At the end of every sprint, the findings are discussed with the auditee.

Agile audits are fast-paced, repeatable, and emphasize full transparency and collaboration between stakeholders and self-organized audit teams. While Agile audit processes offer clear benefits in terms of speed and efficiency, implementing them can pose a significant challenge, especially for audit teams who may be resistant to change. At the IIA's International Conference in July in Anaheim, California, Adams moderated a panel discussion during which four chief audit executives (CAEs) from various industries reviewed their own successes and learning experiences in making their companies' audit functions Agile.

Examples of Agile Transformations

Fidelity Investments Inc.

155 auditors

Began transformation: May 2018

Fully Agile: February 2019

Schlumberger Limited

40-plus auditors

Began transformation: January 2019

Fully Agile: August 2019

Siemens AG

260 internal auditors

Began transformation: November 2018

Fully Agile: Expected Fiscal Year 2021

Walmart Inc.

325-plus audit associates

Began transformation: May 2017

Fully Agile: December 2019

ADOPTION OF AGILE

Reasons, challenges, and impact

Reasons for the change

Better collaboration, better transparency, and faster turnaround were reasons cited for adopting an Agile methodology. For Jamie DuBray, Western Hemisphere audit director for Schlumberger, Agile seemed like an ideal fit because many of the strategies already in use by company auditors resonated and aligned well with Agile strategies. They wanted better collaboration, better visibility to risks, and more transparency, which Agile offered.

The improved collaboration and transparency allows potential misunderstandings with auditees to be resolved quickly with minimal draft responses. Final reports are now turned around much faster. Pre-Agile, Schlumberger's target to deliver a final audit was 45 days. Using Agile, Schlumberger managed to cut the delivery time to five days.

Jeff Jarczyk, chief auditor of FMR LLC, the parent company of Fidelity Investments, said his teams' goals in adopting Agile were more timely delivery of higher-impact projects, the improved ability to dynamically manage audit priorities, more frequent and transparent interaction with stakeholders, and more empowered, engaged, and happy associates. "We continue to learn and grow," he added.

At Walmart, in addition to the other factors, former Vice President and Chief Audit Executive Brandi Joplin, now senior vice president and chief financial officer at Sam's Club, said the company is responding to the challenge of a retail landscape that is shifting rapidly from brick-and-mortar to on-line. "Our CEO is talking to us about, 'How do you think differently; How do you work differently; How do we work more agile.'" So there was also something brewing in the company," she said.

Challenges in adoption

Auditors, by definition, are skeptical because of the nature of their job, and this can present a challenge when introducing a mindset change. For example, in the traditional auditing methodology, reports would be delivered to the client at the end of the audit. This doesn't apply with Agile because findings are delivered on a regular basis, allowing the auditee to work on the findings and remove deficiencies as quickly as possible.

"I don't think we want to be labeled in a way that we are not being relevant. We'll die as a profession if we don't keep up."

— Jamie DuBray
Audit Director Western Hemisphere,
Schlumberger

In a rollout, said André Al-Dawaf, assurance partner at Siemens in Germany, be prepared to have some people be skeptical, and have others say they already are “agile.” It is necessary to explain the dimensions of Agile and the scrum methodology and that auditors will continue to provide fact-based reports and documentation. “Certain things will not change, but we will interact differently,” he said.

Joplin agreed and said she found a mix of “this-is-how-we’ve-always-done-it” and “the-methodology-says-to-do-it—a-certain-way” mindsets when she returned to internal auditing from another role at Walmart.

In addition, Jarczyk noted that part of the Agile methodology involves not working on items that do not add value. A challenge has been in getting auditors to be comfortable with stopping work on an item and moving on to the next item in the backlog. He said that if the team thinks a remaining area may need additional work, it can be put into the backlog of other audit priorities for reconsideration in the future.

Impact on organizational structure

Adopters say it is important to specify that the Agile methodology involves how audits are performed and may or may not necessitate a change in the organizational structure. Agile defines roles within an audit, which can be a sensitive topic for senior audit managers.

Al-Dawaf said it is necessary to take the fear of change out of the organization. It needs to be made clear is that Agile defines the roles and responsibilities within an audit, not within those of the organizational hierarchy. “People fear that they are losing something, and they are not,” he said. Siemens has established a Center of Expertise, which provides centralized coaching to help change behaviors that were built on the normal chain-of-command structure.

The organization must take care not to be too radical in its race to embrace change, however. To achieve proper buy-in from all those who Agile affects, change must be deliberate and carefully considered. Otherwise, the organization risks amplifying the fears already present. According to Jarczyk, Fidelity’s retail unit dropped corporate titles for its employees when it adopted Agile, which was initially concerning to many employees. So, when Jarczyk’s team went Agile, they decided to maintain the traditional corporate titles along with their Agile titles, which he said helped with their Agile transformation.

Once buy-in is achieved, the benefits are easy to see. For example, in a scrum, you can have employees at different levels, from associate up to vice president. Each can contribute differently to the audit based on the skills and knowledge they bring to the team, rather than what they see themselves permitted to do or not do based on their title and reporting relationships. As part of the adoption, Jarczyk said some reporting relationships were reconfigured so that employees would not report to someone also on their scrum team to provide safety so that candid exchanges of ideas, including disagreements, could occur without employees worrying about possible impact on their performance ratings.

Definition

Scrum

Scrum is a framework for project management that emphasizes teamwork, accountability, and iterative progress toward a well-defined goal. The three pillars of Scrum are transparency, inspection, and adaptation.

“Agile for us is foremost how we work within an audit; not about organizational hierarchies.”

— André Al-Dawaf
Assurance Partner, Concept and
Transformation, Siemens

MAKING THE CHANGE

Reactions to the transformation and lessons learned

Reactions to adoption

Agile is a new mindset, and introducing it is more than just introducing a new methodology or new guidelines, according to the CAEs.

DuBray said the more rooted employees were in the old way of doing things, the harder it was for them to change. However, the transition overall was met with enthusiasm because the teams saw Agile as a way to improve function and saw its linkage to Schlumberger's strategy. "The why was there, and that helped with the buy-in," she said. DuBray said Schlumberger's IT auditors were the most excited about moving to Agile, perhaps because they already were familiar with the use of scrums by Schlumberger's IT department. She said the most impactful change has been increased collaboration; the audit team appreciates greater transparency, and management appreciates the opportunity to respond quickly.

"My Latin countries are on fire for Agile, because I think culturally there's a lot of collaboration that happens in that culture, and they are leading the way."

— Brandi Joplin
Senior Vice President and Chief Audit Executive, Walmart

At Walmart, Joplin said initial reactions to Agile were mixed but it was well-received after the initial rollout. Some associates were very excited because the process was new and innovative and they felt empowered, while others had the "deer-in-the-headlights-look" because Agile felt like learning a different language. She said Walmart's smaller in-country teams embraced Agile quickly.

"Rollout is a mindset and cultural topic," said Al-Dawaf. "You just cannot roll it out like a new guideline." In Siemens' case, it started its Agile rollout in the United States and Latin America in November 2018 with five pilot audits. Seven pilots were then added in Phase II, and four more in Phase III. Siemens will look at lessons learned, then move to full transformation. At Schlumberger, DuBray said the small size of the team — about 40 auditors — meant the department was able to move quickly from piloting to full adoption.

Reaction of internal audit leadership

Working in the servant-leadership concept, which is a core element of the Agile methodology, took adjustment for middle managers and CAEs, as well.

Jarczyk said the members of his leadership team, all of whom have an internal audit background, have embraced Agile and been upfront in making decisions. People who were newer to Fidelity, who have less to

relearn, also have been enthusiastic. The challenge has been with middle managers who were not involved in the strategic decisions and had grown up and been successful in the traditional hierarchical reporting structure. The Agile concept of servant-leadership took some adjustment for many of them because it is different from the traditional reporting structure. Jarczyk said he personally also had to learn how to work within the servant-leadership framework.

Joplin said the servant-leader concept took some adjustment for her, as well. “You as a leader have a tendency to help your team and not have them fail. But the core of Agile is continuous learning and being comfortable with failure. So, it’s been hard, but very rewarding to watch the process.”

Reaction from stakeholders and audit committees

Stakeholders have reacted positively to the adoption of Agile. Joplin said they like getting information more quickly, and they like being involved in the process and understanding how the audit findings are developed. Walmart’s Audit Committee is very supportive and likes that their audit function is being forward thinking, innovative, and value driven. DuBray added auditees have seen the adoption of Agile as relevant and forward-thinking, and this reflects positively the relevance of internal auditors.

Lessons learned

The needs for adequate support and better communications were cited as lessons in the adoption of Agile. Jarczyk said Fidelity, with 155 internal auditors, underestimated the need for coaches. It started with two, then added three more about nine months into the rollout. Like other adoptees, Jarczyk said Fidelity found it can take time to take time to change a mindset. Jarczyk also said most coaches come from software or other fields, so it can take a little time for them to get up to speed with internal auditing.

At Walmart, Joplin said the “game changer” in making the transition was the creation of “Agile-ists” who specialize in Agile, and who could “course-correct” if associates slipped back into old ways of working. Piloting, and trial-and-error is part of the process. “We’ve all gone through this trial process. You kind of have to get your hands dirty; that’s what it takes to learn the process,” she said. For other lessons learned, DuBray said make sure user stories are set up at the very beginning of an engagement, because these will be the fundamental working blocks which the engagement is built on. In retrospect, Al-Dawaf said he would have increased communication with parts of Siemens that were not included in the Agile pilots.

Al-Dawaf also said that staying Agile will be an ongoing process at Siemens. “I don’t think we will ever get to a final stage, after the pilots or even after the [full] conversion because otherwise we are not really Agile.”

Definitions

Servant Leader/Scrum Master

The name “Scrum Master” represents a concept known as servant-leadership. A Servant Leader manages a team not by telling them what to do, but by removing impediments that get in their way and by coaching them in Agile best practices.

“How do you lead differently in this model [in a way] that empowers others and helps them to rise up?”

— Jeff Jarczyk
Executive Vice President and Chief Auditor, Fidelity Investments

ROLLING OUT AGILE

Questions and concerns

Too many meetings?

Under the Agile framework, it looks at first as if more meetings are being held, Al-Dawaf said. 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. Jarczyk said stakeholders were told that more commitment would be required during the audit, but the trade-off would be full transparency; auditees would know the status —findings, and the direction of the audit — at the end of each sprint. “The transparency more than compensates for the intensity of the engagement,” he said. DuBray said at Schlumberger, 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?

DuBray said Schlumberger found very early in the adoption process that the collaboration involved in 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.

Meeting regulatory requirements

When Schlumberger moved to Agile methodology, DuBray said the traditional risk control tests and the traditional audit programs were replaced with user stories. They use the same tests and programs in the user stories, but they are just managed in different ways. Joplin said at Walmart, the Agile process is a means to an end — all the elements of an audit are still there and requirements still have to be met. Even in areas with heavy compliance such as anti-corruption or health and safety, the audit teams are finding ways to use the Agile methodology.

Definition

User Story

A user story is a tool used in the Agile process that describes the type of user, what they want, and why. A user story can be considered a starting point to a conversation that establishes the real product requirement.

CONCLUSION

Final thoughts

The Agile methodology, which originated in software development as a way to speed the development process and accommodate course corrections on the fly, has been adopted in other areas, including internal auditing. In internal audit, adoptees use Agile to create better collaboration and transparency, and shorten turnaround time.

Adoptees underscore that an Agile transformation is a change in mindset, not simply the adoption of another process. Coaching and support are musts to explain how the Agile process works to help employees embrace it. Middle managers, who may not have been involved in the strategic thinking leading up to the decision, may be slower to adopt. In addition, tenured employees, especially senior managers and above, can be worried how the adoption of Agile will affect the organization's traditional, command-and-control hierarchy that they have successfully navigated in the past. One point to make clear about the Agile process, say adoptees, is that auditors using it will still produce fact-based audits.

The results of adopting Agile — the collaboration, the transparency, and the faster turnaround time — have been viewed favorably by stakeholders and audit committees. And for internal auditing, it is a way to retain the profession's relevance and highlight its value in a rapidly changing corporate environment.

About The IIA

The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 200,000 members from more than 170 countries and territories. The association's global headquarters is in Lake Mary, Fla., USA. For more information, visit www.globaliia.org.

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