

## Praise for *Beyond Agile Auditing*

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“I highly recommend this book to anyone looking to enhance their auditing practice. Lucas’s insights and expertise make this book a must-read for anyone seeking to improve their skills and knowledge in this critical area.”

—Misty Kuamoo, VP, Security Shared Services, Nationwide

“Clarissa isn’t blazing a path; she’s paving a road for the early majority to reap the benefits of Auditing with Agility. . . . *Beyond Agile Auditing* not only provides the ‘the why’ but also provides an outline that prescribes ‘the how’ to succeed . . . I will share this work with all my champions so they too can begin to reap the benefits of Auditing with Agility to their organizations.”

—Ray Ryjewski, Sr. Solution Engineer, HashiCorp

“In *Beyond Agile Auditing*, Clarissa Lucas’s suggestions will provide auditors alignment with the business operations and deliver continuous value and risk response to audit stakeholders in real time. A must-read introspection for audit leaders.”

—Yosef Levine, CPA, CITP, Partner, TechPar Group

“Clarissa Lucas’ book *Beyond Agile Auditing* challenges the status quo and the conventional wisdom of internal auditing. She rightfully demands a mindset shift, suggesting internal auditors should collaborate with clients more effectively and more efficiently when rendering truly value adding outcomes. Her wealth of ideas can help practitioners to audit ‘at the speed of risk’ (as suggested by Richard Chambers and Norman Marks).”

—Dr. Rainer Lenz, QIAL, CIA, CIIA, CEFA,  
Chief Audit Executive at SAF-HOLLAND Group

“*Beyond Agile Auditing* provides a fresh, innovative, yet perfectly logical approach to auditing (with agility). I appreciate Clarissa’s challenge to think differently, through her own stories of obstacles encountered and successes obtained. My curiosity is piqued, and I can’t wait to try out some of these concepts. Thank you for offering a more flexible, collaborative, and value-driven viewpoint.”

—Pam Pesta, Chief Audit Executive,  
Erie Insurance

“No single approach to audit is right for all organizations or completely perfect. In her book, Clarissa does a great job examining and offering practical tips for even mature audit functions.”

—Michael Pisano, Managing Director,  
Internal Audit Practice, Protiviti

“Great to have a book specifically on auditing with agility. The world will be grateful that this book exists.”

—Jon Smart, author of *Sooner Safer Happier*,  
business agility practitioner and coach

“This will be a great book for the audit community.”

—Topo Pal, coauthor of *Investments Unlimited*



# Beyond Agile Auditing





THREE CORE COMPONENTS TO  
REVOLUTIONIZE YOUR INTERNAL AUDIT PRACTICES

# Beyond Agile Auditing

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BEYOND AGILE AUDITING



To Christian:

Keep chasing your dreams.





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# Foreword

As an auditor, staying current on the latest techniques and methodologies is essential to ensure that your work is effective and efficient. As an audit client, Auditing with Agility can deepen your relationship with your auditors, produce higher-quality findings faster, and streamline your work management practices, resulting in less disruption to your team.

Clarissa Lucas has established herself as a thought leader and expert in Auditing with Agility. Lucas offers a fresh perspective on auditing in this book, bringing together real-world experience and research to provide a comprehensive guide for practitioners. The agile mindset is about adaptability and flexibility, and Lucas demonstrates how anyone looking for a new way of auditing can apply agility to their audit process.

One of the key benefits of the agile approach is the ability to respond quickly to change. In today's fast-paced risk environment, this is more important than ever. Auditing with Agility allows for continual learning and improvement, ensuring that audit results are delivered sooner, and risks are addressed faster.

Another advantage of Auditing with Agility is the focus on partnership, collaboration, and communication with the client. Traditional audit methodologies can often be siloed and disconnected from the rest of the organization. On the other hand, Auditing with Agility encourages collaboration and sharing of information, leading to a more holistic and comprehensive delivery of the common goal.

Lucas does an excellent job of highlighting the benefits of Auditing with Agility and explaining how to implement it in practice. She provides concrete examples and case studies to illustrate the concepts and best practices she discusses. This book is a valuable resource for anyone looking to stay up to date on the latest trends and techniques in auditing.

This book is for more than just auditors. The principles and practices of Auditing with Agility are relevant to anyone working in a rapidly changing environment. Whether in finance, technology, or another field, the three core components

explained by Lucas can be applied to any process where you want to deliver value and results more efficiently to your organization.

I highly recommend this book to anyone looking to enhance their auditing practice. Lucas's insights and expertise make this book a must-read for anyone seeking to improve their skills and knowledge in this critical area.

—Misty Kuamoo,  
VP, Security Shared Services, Nationwide

# Introduction

Auditing is not always everyone's favorite activity, especially when you're the one being audited. Imagine this scenario. You lead a team responsible for a key business process or technology product. Your organization depends on this process or product for its survival. Perhaps your team is responsible for running the process that services customer accounts or for maintaining the technology product with which your organization's customers interact. Your organization is counting on your team's success to achieve its objectives.

It's a typical Monday, until your first afternoon meeting gets underway. In this meeting, you learn the internal auditors will be starting an audit of your process/product in the next few weeks. You immediately break out in a cold sweat, panic and anxiety washing over you as your mind races. You wonder what questions the auditors will ask, what evidence they'll request, and what they'll report to their leaders.

You think, "The enforcers are here with their outdated checklists, looking for problems to shine a light on, wanting to make me look bad!"

The problem is, auditors don't understand your processes or what's really important to you and your team. How are you supposed to get your *actual* work done when the auditors are setting up a million meetings, endlessly asking irrelevant questions, and requesting documentation that doesn't even reflect the current process?

An audit adds work to your plate without bringing much value. Then, at the end of it all, they'll hand you a report that doesn't help you or your team deliver value any faster or better.

The auditors use the same approach they've been using to audit for years. Everyone else in the organization is changing to stay ahead of the change curve, but it seems like the auditors aren't even trying to keep up.

Now imagine yourself on the other side of the table. You're the internal auditor responsible for assuring the organization's key stakeholders that risks are

managed appropriately and the organization is set up to achieve its objectives. It's a typical Monday for you as well.

In your first meeting after lunch, you explain to your client\* that the Internal Audit department will begin an audit of the client's process/product soon. Before you even finish your sentence, the clients across the table cross their arms and exchange uneasy looks with one another, glancing nervously around the room. You can tell they're already getting defensive and shutting down.

"Here we go again," you think, trying not to roll your eyes. "We haven't even begun, and we're already off to a rough start."

You're only trying to help protect the organization that employs everyone in the room, but the people on the other side of the table already see you as an adversary. Don't they understand that your job is to help them? That the purpose of Internal Audit is to *help* deliver value and *improve* processes?

You try to change the attitude in the room by asking about the team's current process. After all, as an auditor, you're an expert in risks and controls, not an expert in every business process at your organization. You can't do your job effectively if the team doesn't help explain what they do and why they do it. However, instead of engaging in the conversation, the clients clam up and give you the most basic answers to your questions without elaborating. It feels like they're purposefully trying to hide information or obstruct your audit. It's clear they want you to be done . . . or at least gone.

And, when it comes to setting up time to meet with you, the team says they're too busy. You barely get a regular fifteen-minute meeting on the books before they're out the door.

Don't they care about risks and what could go wrong? The success or failure of the organization affects everyone, after all. They seem to be more focused on inventing the next new product or delivering the coolest new feature, when they should care about a strong control environment!

This scenario might feel overly simplistic, but time and time again this is the adversarial, even combative, nature of many internal audits. It often seems that both sides (auditors and those being audited) are bracing themselves for the worst. There has to be a way these two groups can work together, right? Or are we des-

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\* The terms "client" and "management" are used interchangeably throughout this book. Both terms refer to individuals or teams who work with auditors and are accountable for processes or products (e.g., technology, business products, services offered to end customers) that are reviewed by audit functions, such as internal audit, external audit, and internal risk assurance functions. The "client" in this book refers to both individual contributors and people leaders. Basically, "management" and "client" refer to anyone who is not an auditor or other assurance provider.



tinged to be lifelong adversaries? How did we end up in this horrifying nightmare in the first place?

## From Adversaries to Partners

For nonauditors reading this book, especially those in the technology sector, this scenario might look very similar to another example of organizational adversaries: software developers versus operations teams. For years, software developers and operations teams were at odds. They were not incentivized to work together. There was a proverbial wall built up between the two organizations, as has famously been illustrated.

The developers would write the code and then throw it over the wall to the operations team, who then had to deal with operating that code without knowing how and why the code was written in the first place. Developers were incentivized by the business to deploy “features and changes into production as quickly as possible,”<sup>1</sup> while operations teams were charged with “providing customers with IT service that is stable, reliable, and secure, making it difficult or even impossible for anyone to introduce production changes that could jeopardize production.”<sup>2</sup> These two silos were routinely in conflict, resulting in slow delivery of value, low quality of code, and a lot of unhappy people.

Throughout the past decade, a new way of working called DevOps<sup>3</sup> has brought these two roles together. They learned that by working as a single team with a common goal, they could deliver value sooner, safer, and happier.

I’m simplifying here. There are many excellent books, presentations, and articles written on the success of DevOps, and we’ll discuss DevOps a bit more in Chapter 2. What I want you to take away from this brief description is the idea that adversaries don’t have to remain adversaries. There is a better way of working.

Let’s think back to the scenario presented at the beginning of this introduction. Once again, we have two teams separated by a proverbial wall (or table). They are both working for the same organization, so shouldn’t they be on the same side? Shouldn’t they be working together instead of against each other? How did we get here?

In short, it’s because the world around us has changed and, notably, the way organizations deliver value to customers has changed, but the way we conduct audits hasn’t kept up with the change curve. Auditors perform their work using

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\* In the most basic definition, DevOps is an operating model where development teams and operations teams in a technology organization combine to become one team working toward a collective goal of delivering value to customers.

the same approach that has been around for decades. While this way of auditing has historically been successful, the current environment and landscape have changed drastically over the past few years. Furthermore, auditors apply that same approach in every situation, without accounting for unique attributes of a process, product, or situation that may drive the need for a different approach.

Auditors using the same way of working from decades ago without adapting to today's dynamic environment will find themselves pitted *against* their clients rather than working *with* them. The result is the adversarial scenario presented earlier.

If you're reading this book, you've likely experienced this. I know I have. While I've spent most of my career as an auditor, I have also been on "the other side of the table." I have been part of a team being audited. I can testify that being audited wasn't my favorite experience by any stretch of the imagination. From my time as an auditor, I can tell you that it isn't any fun for the auditors when clients see us as the bad guy or the antagonist.

Regardless of whether you're an auditor or someone who works with auditors, I'm here to tell you that you aren't doomed to be adversaries forever. There is a better way—a way for auditors and their clients to work together toward a shared goal. A way to audit with more agility, without slowing your team down, without the headaches and the hair pulling. A way for us to see one another as teammates instead of adversaries on the battlefield and to add more business value together. A way to get more value out of an audit. A way to help the organization deliver better value, sooner, safer, and happier.

## A New Way of Auditing

We can all agree that we want a less painful and more valuable audit experience. Despite the barriers we all know exist, the real problem is seeing the audit process as it always has been rather than as it should be. Yet we can agree that change is inevitable. We need to modify our mindset and approach to get more value from an audit and create a better audit experience.

Imagine what that better audit experience looks like:

- Auditors and their clients work together toward a shared outcome and common goal.
- Auditors help their clients see risks, both those present today and those coming up on the horizon or around the corner.
- The client proactively reaches out to auditors for help addressing risk before it's too late and manifests into actual losses.

- Auditors' questions and requests are addressed sooner.
- Auditors are more efficient with their client's time and help their clients find ways to increase efficiency.
- Instead of the auditors getting in their clients' way, and clients getting in the auditors' way, the two groups help each other achieve a common objective, all while preserving the auditors' independence.
- Auditors not only remain relevant to their organization, they become essential to the organization's success.
- Finally, imagine both auditors and audit clients having fun during the audits.

Luckily, you won't have to rely on imagining this scenario much longer. You *can* work together toward a *shared* goal, and you can do it today. You need to look beyond what your relationship is and think forward to what it could be in the future . . . and be willing to radically change your way of thinking and working through an audit.

Some organizations have taken steps toward improving the audit process through incorporating "Agile Auditing." This has been a huge step in the right direction, but it hasn't come without its faults and downfalls. In auditing, as in the software community, Agile has been conflated with a strict set of practices that every organization, despite their unique culture and needs, must adhere to.

This doesn't sound very agile to me. This strict adherence to the idea that you can simply follow steps 1, 2, and 3 and suddenly be a high-performing agile organization has led to an inability to truly become agile and failed attempts at greater value through agility. As a result, many organizations have experienced slower time to value, unhappy employees, and lower quality products . . . or at the very least, a shiny new label on the same old behaviors and outcomes.

Agile Auditing, I fear, is headed in the same direction. Too many organizations see it as a quick fix: an easy framework they can implement to suddenly disintegrate the adversarial audit experience and ring in a new era of Agile Auditing.

Internal Audit cannot stop here. Strict adherence to a rigid, one-size-fits-all Agile Auditing framework isn't getting us to the promised agility, speed, quality, and happiness we need. We need to continue to push for more improvements. We need to go *beyond* Agile Auditing and approach internal audits with an agile mindset, not an Agile checklist.

**Auditing with Agility**, as I like to call it, is far different from the strict framework-focused world of Agile Auditing. Instead of trying to fit everyone in an organization in a single process, it teaches auditors a way of working that focuses

on a **value-driven, integrated, adaptable** approach to the internal audit. Let's take a look at each of these three core components.

- **Value-driven:** In a value-driven audit, the scope of work is driven by what adds the most value to the organization. Each organization and team may define value differently, but generally, it could be areas of greatest risk or greatest opportunity for the organization. Value-driven auditors determine the audit's focus by leveraging the expertise and perspective of the team being audited. Internal Audit is not looking to hand down edicts. We are here to help the organization deliver value.
- **Integrated:** An integrated audit aligns the audit work with the client's daily work and integrates continuous improvement into the audit process. For you auditors out there, think of this as "Integrated Auditing" 2.0." The first version of integrated auditing was integrating the technology audit work with the operational or financial audit work rather than performing that work in silos or in separate audits. This book takes that concept a step further by integrating audit work into the client's daily work. The audit should be something the client participates in and happens *with* them rather than something that happens to them.
- **Adaptable:** In the context of this book, adaptable auditing focuses on improving the audit team's ability to respond to change and add flexibility into the audit process. It is a mindset and a way of working rather than a framework to implement. This element of adaptability is essential in today's world of rapid change, where organizations need to react with speed to survive. Internal Audit can't be the blocker to change; rather, they must learn to adapt with change.

Implementing these three core components results in a better audit experience for everyone involved (for the client, the auditors, and the organization). It moves teams from an audit framework focused on *outputs* to an *outcome*-driven approach.

An *output* is what is produced. Examples of audit outputs include audit observations and an audit report. While observations and audit reports are important, alone they don't help the organization achieve its objectives.

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\* Integrated Auditing 1.0 is a practice that integrates technology, financial, and operational auditing into a single audit. Historically, these types of audits were performed separately and either reported separately or pieced together at the end of the audit.

*Outcomes*, on the other hand, truly bring us closer to success. Outcomes are the “why” behind the actions, the expected improvements, or the measures of success. Examples of audit *outcomes* include better alignment of audit activities with emerging risks or greatest risks, stronger relationships and increased collaboration between auditors and audit clients, expedited delivery of more valuable results, and elevated awareness of and ability to address risk exposures.

Chapter 3 explores the possible outcomes of Auditing with Agility in detail. Then Chapters 5 through 7 discuss practices you can perform to achieve the possible outcomes.

Although this may all sound daunting, moving toward a practice of Auditing with Agility is worth the investment. This isn’t just a dream or fairytale. There are organizations today, such as Walmart, Barclays, and Capital One, that are working toward this goal right now . . . and succeeding.

In my own experience with Auditing with Agility, my clients and I experienced delivery of results sooner, fewer surprises (audit work became planned work for my clients), and more engagement from both auditors and clients (we had *fun* during the audit!). Another organization you’ll read about later on experienced shorter audit cycles and more timely delivery of results through Auditing with Agility.

Another topic prevalent in discussions about Internal Audit’s evolution in today’s digital world is the use of artificial intelligence (AI) and machine learning (ML). AI is the use of technology to perform tasks that have historically required human cognitive thought. ML is a type of AI where the technology adapts its knowledge or “learns” based on additional data. Leveraging these advances in internal audit strategy and execution can increase the audit organization’s effectiveness and efficiency. For example, teams leveraging AI and ML to evaluate risks can target their efforts in areas where the organization is currently at greater risk or is *anticipated* to experience greater risk.

While these tools can yield many incredible benefits, AI, ML, and specific tools are *not* the focus of this book. This book focuses on practices and process enhancements. Once those core elements are in place, then audit organizations can determine which tools can further assist in their evolution.

## Not Just a Book for Auditors

It’s tempting to think that this book is just for those in the audit profession, but this book is also for anyone who works with auditors or is subject to audits and yearns for a better experience. Change cannot come solely from one side of the table. If only developers had read books on DevOps, the practice would never have

taken off. Both developers and operations teams needed to embrace DevOps for it to be successful. This book is for those on both sides of the table. For the auditors reading this book, this isn't just for IT auditors. It's for IT auditors and non-IT auditors alike. Both will find incredible value waiting for them in this book.

This book is for auditors who want to revolutionize their way of working to become strategic differentiators and increase the value they bring to the organization.

It's for teams who want to improve their relationships with their auditors.

It's for auditors who are fed up with common labels and stereotypes placed on those in this profession.

It's for audit clients who are at their wits' end with the current audit experience, who need to get more value from the time they invest with their auditors.

It's for auditors who, instead of going stagnant, want to keep up with today's pace of change, who are unwilling to let the profession's value proposition become a thing of the past. For the business executives who want to gain the edge over their competitors and who don't want to make headlines for the wrong reasons.

It's for anyone who wants to help their organization continuously improve ways of working, leading to better outcomes, and those who want to understand how auditors can help along that journey.

The primary audience for this book is those who work at large, complex organizations, as my personal experience and the personal examples I share are from my time at larger organizations. But readers at smaller organizations will also benefit from the concepts in this book, as they will find case studies throughout from smaller organizations as well.

Also, while the term "auditor" and "audit" are used throughout this book, the audience is not limited to Internal Audit functions. Other risk-assurance functions, like external auditors and internal risk management/assurance functions, can also adopt the concepts within this book and reap the many benefits.

## How to Use This Book

Here's what awaits you inside this book. In Part I, I walk you through the past, present, and future of internal auditing. We explore the challenges organizations face when leveraging the traditional approach to audits. This first section of the book also explores how the profession has responded to the need to change the audit process by moving to Agile Auditing and the limitations and faults of this framework. It will also showcase my personal journey from traditional auditing to Agile Auditing and finally to Auditing with Agility.

Next, we tackle challenges commonly faced by auditors, as well as those faced by the auditors' clients (herein referred to as "clients" or "management"). Potential solutions to these challenges are also introduced in this section. We then introduce the benefits you can achieve through Auditing with Agility. From there, you will discover why organizations need to keep moving forward, *beyond* Agile Auditing.

Part II of the book gives you the tools to adopt the culture and mindset of Auditing with Agility into your practices and processes. It dives deeper into each of the three core components of Auditing with Agility: value-driven, integrated, adaptable.

Finally, in Part III, I leave you with tips on how to set yourself up for a successful evolution to better audit experiences—for both auditors and clients.

You may choose to start at the beginning of the book and read through it in order until reaching the end. If you seek a broad perspective from both the auditor's and the client's viewpoint, as well as a thorough understanding of each of the topics presented in this book, then reading cover-to-cover may be a good starting point.

If, however, you have a strong foundational understanding of traditional auditing practices, I invite you to skip around to the areas of most interest to you. Perhaps you are a client and have specific challenges with your auditors. Feel free to dive straight into Chapter 4, where we explore problems and solutions, for an introduction to the solution for the problem you're facing. From there, you may want to move to Part II to gain a deeper understanding of the specific practices you can implement to overcome those challenges. Or maybe you've tried implementing some of these practices and haven't been as successful as you'd hoped. If this is the case, you might want to skip ahead to Part III to troubleshoot your situation and find a better way to go about making the transition.

If you've successfully implemented Agile Auditing at your organization, select a new practice to experiment with. Take the next step beyond Agile Auditing to even more effectiveness and efficiency.

Better yet, perhaps you've successfully implemented Auditing with Agility in your organization. If you have, then you know that one of the key Agile principles is to identify ways to improve or to increase your effectiveness and then take action to do so. If this is your reality, I encourage you to jump to a section of the book with a title that seems a bit unfamiliar to you. There, you'll find new concepts and practices waiting for you to experiment with to further increase your effectiveness.

This book focuses primarily on improving the audit engagement itself. As an added benefit, it also explores opportunities to add value by applying better

ways of working to the audit risk assessment and development of the overall audit plan—how audits are prioritized and scheduled each year. The primary focus though is improving the audit engagement itself.

We're all at unique points in our Auditing with Agility journey. As such, this book is intended to be revisited regularly as you progress on your journey and look to learn more, or as you encounter new challenges.

There are a large number of concepts introduced and explored in this book. I caution against taking an all-or-nothing approach and incorporating all of these activities at once. Doing so will likely result in an overwhelmed team, confused clients, inefficient audit work, and the eventual abandonment of better ways of working and a retreat to less effective practices.

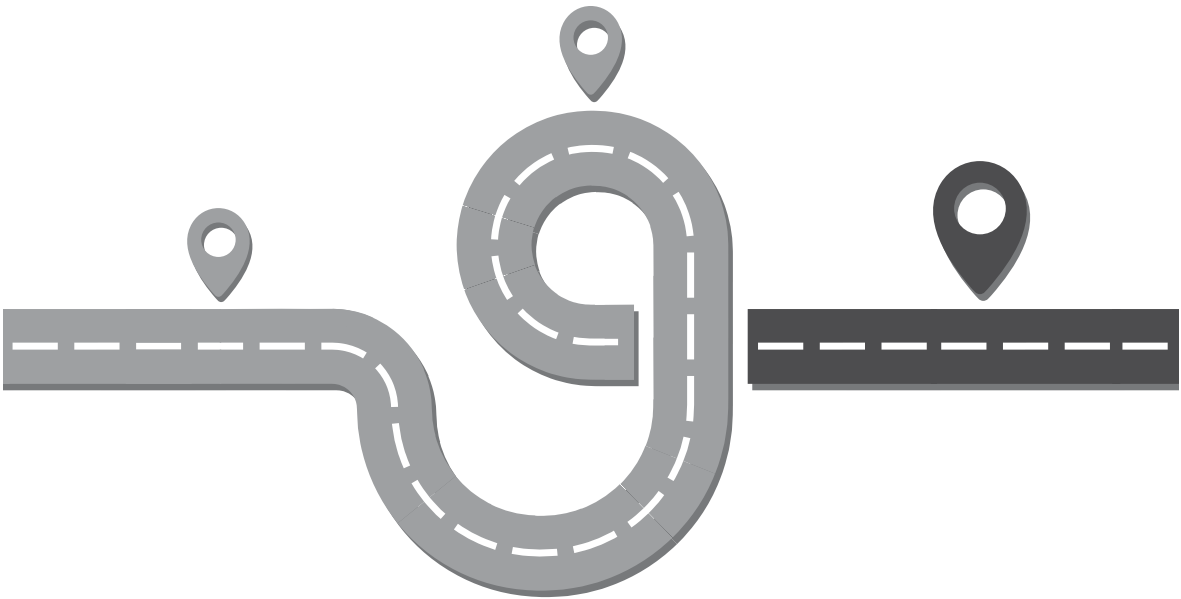
Instead, select one or two concepts to experiment with on a single audit. Staff the audit with people who are excited to try something new and are open to a test-and-learn environment. Create a safe environment for them to try out these concepts. When things don't go as planned (it's not a matter of *if*, it's a matter of *when*), resist the urge to point fingers, place blame, and revert to old ways of working. Instead, empower the team to learn from their experiences and try again.

Speaking of a journey, case studies of organizations that are on their own journey to implementing Auditing with Agility are sprinkled throughout this book. The experiences, failures, challenges, and successes in these examples show how any organization can take on this transformation. It isn't a framework, it's a mindset change, a cultural change, and these stories show you exactly how it can happen.





# The Past, Present, and Future of Internal Audit





# The Legacy of Internal Audit

As I hinted at in the introduction, the legacy of Internal Audit in many organizations isn't exactly the most beloved. I think for the majority of those on the other side of the table, the word auditor brings about visions of cold, aloof, suit-clad individuals carrying clipboards and red pens and leering disapprovingly down at you. The epitome of red tape and bureaucracy, auditors are often portrayed as emotionless automatons dedicated to making your life . . . well, unpleasant.

In reality, Internal Audit can be, and is intended to be, a partner to your team instead of an adversary. The next time you hear that the auditors are coming, I hope you'll envision something closer to the smiling, supportive face of a coach or teacher, someone who is coming to help you instead of hinder you. Even more than that, a welcome addition to your team.

To help change this vision of Internal Audit, let's take a minute to dive into the value proposition of audit. I think it's fair to say that at some point, nearly all nonauditors (and even some auditors) have asked this very question: What is the real purpose of Internal Audit, and what value do auditors bring?

## What Is Internal Audit?

Okay, instead of relying on preconceived notions about what internal auditing is, let's look at the reigning authority's definition of internal auditing. The IIA, or the Institute of Internal Auditors, and its affiliates set the standards for internal auditors globally.\* According to them,

internal auditing is an **independent, objective assurance and consulting** activity designed to **add value** and **improve** [emphasis added] an

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\* These standards have also been adopted by international affiliates of the IIA, such as the Chartered Institute of Internal Auditors in the UK and Ireland, as well as others across the globe. For more information on the IIA and its affiliates, visit <https://www.theiia.org/en/about-us/chapters-and-affiliates/>.

organization's operations. It helps an organization accomplish its objectives by using a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Performed by professionals with an in-depth understanding of the business culture, systems, and processes, the internal audit activity provides assurance that internal controls in place are adequate to mitigate the risks, governance processes are effective and efficient, and organizational goals and objectives are met.<sup>1</sup>

Let's break that definition down a bit more. Look at the first sentence. "Internal auditing is an **independent, objective assurance and consulting** activity designed to **add value** and **improve** an organization's operations." The intention of every internal audit team is to be independent and objective, free from the natural biases that come from being immersed on a team or in a system or under the control of those accountable for the team or process (e.g., typically audit clients). In other words, auditors come to bring a fresh perspective, and fresh perspectives are essential in helping any of us get out of the muck. Who hasn't been so deep in a project that you can no longer see the forest for the trees (excuse the tired metaphor, but it holds true)? Audit is here to help. I know, I know; many people have modified Ronald Reagan's quote about the government being here to help to read something like this: "The most terrifying words in the English language are: I'm from Internal Audit and I'm here to help."

In reality, auditors truly are here to help. We want the organization to succeed just as much as the nonauditors do.

The second part of the IIA's definition of Internal Audit that I want to highlight is "consulting." Audit is meant to consult with you and your team, not to manage, dictate, or in any way create a bureaucratic mess. We're here to consult, to assist, to help.

Finally, the last part of that definition is possibly the most important. The purpose of Internal Audit is to "add value" and "improve" the organization's operations. Despite what so many might think, Internal Audit is not here to make life difficult or to add more rules. We want what you want: to add value and improve the organization. The only way we can both achieve our purpose is to work together.

As the IIA states in their mission statement, Internal Audit exists to "enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight."<sup>2</sup> "Enhance," "protect," "advice," "insight." These don't sound like the words of an uncaring organization, do they? Maybe your feelings toward Internal Audit are starting to thaw just a bit. If so, let's keep going.

The second paragraph of the IIA's definition of Internal Audit speaks toward why, beyond objectivity and independence, it's important and helpful to have auditing as a separate role. Why? Because Internal Audit brings unique expertise and perspective.

Auditors are experts in risk and controls. The client and the team being audited are likely not. Thus, a key benefit of Internal Audit is being able to utilize and capitalize on the unique expertise of auditors in relation to risks and controls in order to improve your processes and practices.

For example, an investment leader earned her role because of her expertise in alternative investments, connections with key players in the market, and leadership skills. That's what the organization wants her to focus on. If that leader is going to implement a new system to facilitate smoother management of the organization's investments, she should recognize that system implementation is not an area in which she has expertise. As such, she would bring in someone to manage the new system implementation (someone with the necessary expertise either within her organization or external to the organization). Doing so frees her up to focus on what she is charged with: managing the organization's alternative investments portfolio.

This concept applies to risk and control insights and assurance as well. To enable the investment leader to focus on managing the alternative investments portfolio, Internal Audit brings expertise on risk and control insights and assurance to the table. Combining everyone's individual areas of expertise leads to the development of stronger, more valuable products. Why would anyone say no to this partnership?

## How Internal Audit Adds Value

Both internal auditors and their clients want their organization to succeed. Internal auditors add value by bringing a fresh, impartial perspective, free from biases that may cloud the judgment of those closer to the work of achieving business objectives. Internal auditors' impartiality, paired with having shared goals with the team and the organization, uniquely positions them to add value.

The IIA defines the value provided by Internal Audit as assurance, insight, and objectivity. The IIA expands on this:

Management and governing bodies can look to their internal auditors to provide assurance on whether policies are being followed, controls are effective, and the organization is operating as management intends.

Internal auditors have unique insight on which risks might lead to disaster; how to improve controls, processes, procedures, performance, and risk management; and ways to reduce costs, enhance revenues, and increase profits. And internal auditors view the organization with the strictest sense of objectivity that separates them from — but makes them integral to — the business.<sup>3</sup>

Organizations need both functional teams and Internal Audit to achieve their objectives. Teams need internal auditors focused on evaluating key risks and controls so team members can focus on delivering business results.

Internal auditors evaluate key risks and controls, either through assurance or consulting activities. Assurance activities are the most common type of audit activities. These are what you typically think of as an audit, where the auditors evaluate key risks\* and the design and operating effectiveness of key controls† in a given process. The intended outcome of an assurance engagement is to assure the organization that key controls are designed and operating effectively, or that the process performs as expected, as well as to communicate any audit observations.‡ In other words, auditors look at an organization's processes to see whether they're working the way the organization thinks they're working (or needs them to work in order to succeed).

During *consulting* activities, sometimes referred to as advisory services, internal auditors often advise their clients on how they might improve their processes, reduce risk, increase security, and better position themselves to achieve their objectives. Examples of consulting activities include pre-implementation reviews, training, providing advice on policies or processes, and other procedures to be performed that are agreed upon between the auditors and audit clients. Again, the value that Internal Audit provides here is their expertise in risks and controls, their knowledge of the broader organization (because of their experiences auditing processes and products across the organization), and their fresh perspective. After all, an experienced auditor has seen dozens of different ways of operating

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\* Risk is simply something that could cause harm to the organization or prevent it from succeeding. An example of a risk is the possibility that someone will walk into a bank and steal all the bank's cash on hand.

† "Key controls" simply means actions taken to prevent the risk from happening or detect it when it happens and fix it. Following along with the previous example, if the risk is that someone walks into a bank and steals all the bank's cash on hand, key controls would be storing the cash in a vault, securing the vault with a lock, and safeguarding the key or code that enables one to open the vault's lock.

‡ Audit observations are gaps between the current state (how something is actually being done) and the expected state of a process or control (how it's supposed to be done).

in a number of unique situations. They can bring this wealth of experience and expertise to help you find the best way to operate in your unique environment.

Their fresh perspective is also a great tool to leverage. Because they aren't involved in the nitty-gritty business operations every day, they can often ask questions that help the client think about things a little differently. These questions can spark the team to consider things they hadn't previously considered or identify ways to do things differently. We can all fall victim to the "that's how we've always done it" trap, continuing with certain practices simply because that's how we did it in the past.\* An auditor's fresh perspective can question those practices, helping their clients see that while those practices may have made sense a while ago, perhaps they no longer do. Maybe there's a different way of doing things that can be more effective or efficient.

Often, this *advice* is seen as a dictate or that there is only one way of operating effectively, but that simply isn't true. That's why this type of work is called *consulting*. Auditors *consult* with their clients to *recommend* improvements. They aren't *mandating* anything.

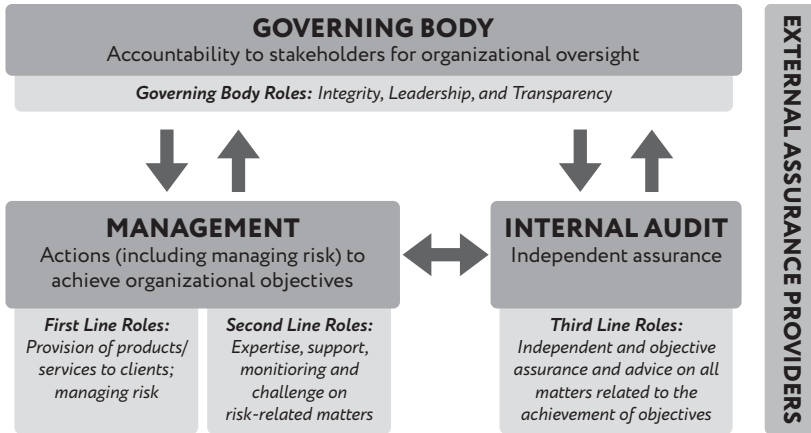
## An Organization's Three Lines

The IIA introduced the Three Lines Model as an update to its previous Three Lines of Defense model. In a 2020 position paper, the IIA introduced its Three Lines Model to help "organizations identify structures and processes that best assist the achievement of objectives and facilitate strong governance and risk management."<sup>4</sup> Essentially, it's guidance for organizations on how to structure various teams in the organization to strengthen the organization's ability to manage risks effectively.

The first line in this model is accountable for the organization's processes and products and managing the organization's risks. This would be the organization's management team. The second line in this model helps the first line manage risks, typically through setting organizational risk policies and evaluating the effectiveness with which risk is managed. Often, this is a risk management or internal controls function like quality assurance or quality control or a compliance organization. Internal Audit is the third line in this model, providing independent assurance to the organization's governing body.

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\* Auditors can fall victim to this trap too. That's one of the main points in this book: auditors have continued to perform audits the same way they always have, and while that used to work very well in the past, we need to think about audit work from a new perspective. This book provides that different perspective and offers advice on how to improve the audit process.



**Figure 1.1: The IIA's Three Lines Model**

Reproduced from Institute of Internal Auditors. *The IIA's Three Lines Model: An Update of the Three Lines of Defense*. The Institute of Internal Auditors: Lake Mary, FL: 2020. <https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf>.

As part of the same organization as the client, internal auditors differ from external auditors, who are part of a separate organization. It's also important to distinguish between internal auditors (often referred to as the third-line function) and other internal assurance providers (commonly referred to as second-line functions), such as risk management and compliance teams.

Like internal audit, second-line functions are part of the same organization as the first line and are often charged with providing assurance and insights to their clients over risks and controls. Some second lines are also accountable for setting policies, standards, and risk tolerances.

Internal Audit and second-line functions differ primarily in their reporting structures and scopes of coverage. Internal Audit has a more independent reporting structure than do second lines. This is typically accomplished through Internal Audit's reporting relationship with the organization's board of directors (or a committee of the board). This creates a layer of independence, which enables internal auditors to carry out their work without fear of repercussions from management (in the Three Lines Model, management refers to the first or second lines), which could impede the auditors' ability to provide objective assurance. Internal auditors do not define policies, standards, or risk tolerances for the organization.

Internal auditors have a broad scope that covers the entire organization, while second lines have a more narrowed focus. Both have their advantages. The narrow



scope of second-line functions enables those teams to stay closer to the first line and dive deeper into the areas within their scope. While reporting structures differ with second lines, these teams ultimately report through the client or management. This could lead to reduced objectivity. Internal Audit’s broad scope enables a more independent and objective lens. The combination of effective second- and third-line functions provides an organization with both depth and breadth of coverage, as well as appropriate levels of objectivity.

## How Internal Auditing Works Today

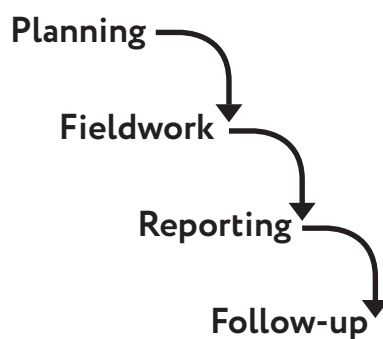
Internal Audit exists to “enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.”<sup>5</sup> In most organizations today, auditors carry out this mission by using a fairly standard and rigid process (a traditional waterfall audit approach) that adheres to standards set forth by the IIA. These standards include requirements about the attributes of internal auditors and Internal Audit organizations, as well as requirements outlining how internal auditing activities should be performed.

Before we move on to improving the audit experience, I think it’s important to clearly explain how and why auditors work as they do today. If you’re an experienced auditor, you may choose to skip over this section. For nonauditors, this section can be valuable to you to help you understand the process historically used to conduct audits.

### Traditional Audit Approach

Traditionally, audits are performed in stages, with the audit team completing one stage before moving to the next stage. This is known as a waterfall approach (which should look very familiar to anyone in software development or project management). In audit work, the waterfall flows like this: planning, fieldwork, reporting, and, finally, follow-up. Typical audits in large, complex organizations last around three months, inclusive of the planning, fieldwork, and reporting phases.

Using the waterfall approach, auditors begin with the **planning stage**, where they gain a high-level understanding of



**Figure 1.2:**  
Traditional Waterfall Audit Process

the process or technology under review. This occurs at the beginning of the audit, and auditors identify all of the key risks and controls relevant to the area under review. This is usually done with some guidance from the team being audited, but is mostly conducted by auditing in a silo. For each of the controls determined to be in the audit's scope, the audit team documents test procedures and gets audit leadership's approval to proceed. The idea here is to build a great plan and stick to it.

Once the audit is planned out and approved, the auditors move to the **field-work stage** of the audit. During this stage, the audit staff tests all of the in-scope controls and draws conclusions on the effectiveness of these controls. To keep things moving, auditors typically have a large portion of the control tests in process concurrently. As you might guess, a lot of multitasking happens at this stage. All control testing must be complete and approved by audit leadership before moving on to the reporting phase. The fieldwork stage of an internal audit can take anywhere from one week to several weeks, and in extreme cases can take up to several months.<sup>6</sup>

Once conclusions are reached on all in-scope controls, the audit team moves to the **reporting stage**. It typically takes between one and four weeks to complete this stage. Here, the audit team compiles the results, including audit observations, into an audit report. Again, compilation of the report is conducted by the auditors in a silo, with little to no interaction with the client. Once complete, the audit team distributes a draft of the report to the organization's key stakeholders. This is where things can get heated.

Because the audit was performed in silos, audit clients are sometimes surprised by the results delivered in the report. With that, negotiations begin, with auditors clinging to the gaps they identified and nonauditors rallying for the language or the ratings assigned to observations in the report to be modified. Auditors argue that the gaps are significant to the organization, and their clients argue that they're irrelevant or not as important as the auditors are making them out to be.

The rounds and rounds of revising the report and quarreling over seemingly minor items in the report further extend the length of time between identifying a gap and the audit clients actually addressing the gap. Suddenly, it becomes more about winning and proving your adversary wrong than helping the organization achieve its objectives. Finally, after weeks of negotiations that you thought would never end, the auditors deliver the final audit report.

From there is the **follow-up stage**. In this stage, auditors follow up on the observations delivered in that final audit report, determining whether their cli-

ents are taking action to address the identified gaps. Many auditors and clients think the core audit work is complete once the report is issued. If the team identified observations during the audit, there's still plenty of work left during the follow-up stage, both for auditors and clients. In fact, one of my colleagues put it well: "Once the audit report is issued, that's when the real work begins."

During this stage, it can be easy for auditors and clients to lose sight of the observations identified during the audit, as regular, day-to-day work resumes. For the client, that's their normal business operations. For the auditors, it's off to the next audit. Because of this, conflicts can arise during the follow-up stage as well.

## Problems with the Traditional Internal Audit Approach

This waterfall approach has been a successful approach for decades, but it presents some challenges in today's world. In the past, this framework worked well because risks were fairly static. There were rarely changes to the organization's goals or products between the time the audit started and was completed. The risks remained the same year after year, so it was easy for the audit team to conduct the same audit over and over again. This is still true in some areas, and the traditional waterfall approach can still be successful in these unique cases.

But in most areas today, risks are changing at a velocity previously unseen. This new environment creates unique challenges for auditors, including:

- Difficulty in adjusting the approved scope to accommodate changes once fieldwork has begun
- Limited pockets of feedback during the audit
- Communication breakdowns
- Lengthy periods of time between identifying gaps and communicating gaps to the client

These limitations can result in stress (for both the auditors and the client), impediments to achieving objectives (which is the exact opposite of what clients and auditors both want), and an adversarial (or challenging, at best) relationship between auditors and their clients.

In the past, most audit work was repetitive and known. Auditors would primarily focus on financial statement audits or compliance audits, where the year-over-year scope would remain relatively similar. The prior year's list of risks and controls typically served as the list of risks and controls to cover in the cur-

rent year's audit. An example of this type of audit is one focused on determining compliance with the Sarbanes-Oxley Act (i.e., SOX audits), where the controls and test procedures rarely changed from period to period.

These types of audits are still performed today; however, the risk landscape has drastically changed, transformed by a number of influences, including the COVID-19 pandemic and the digital revolution. Both the pandemic and the digital revolution have changed the way organizations conduct business and operate. Many risks that are present today weren't present or as prevalent a few decades ago, such as risks associated with the following:

- Large-scale remote or hybrid workforce models
- Global cybersecurity
- Connected devices and the Internet of Things
- Climate change
- Organizational reliance on artificial intelligence, machine learning, and automation
- Transition from on-premises technology infrastructure hosting models to cloud-based or hybrid hosting models

This is definitely not an exhaustive list, but you get the gist: we're all facing more risks, and they're being introduced at a much faster pace than we've historically experienced. Additionally, many audit clients are working with agility, and the old control mindset no longer works in these situations.

In response, the audit profession expanded its scope to include many more types of audits, including those assessing risks beyond compliance and financial reporting risks, such as operational risks, strategic risks, and environmental risks. Some of these audits cover areas where the work is more unique and less predictable than in SOX and compliance-focused audits. However, expanding the scope of audits is not enough; auditors need to modify their approach as well.

Auditors can no longer cling to an approach that does not enable them to accommodate change or understand how teams work today. PwC, a professional services firm, poses a thought-provoking question: "When nothing in the internal or external environment is status quo, isn't it time to think differently about internal audit?"<sup>7</sup> They advocate for thinking about auditing differently by highlighting an audit team that "identifies high risk transactions with channel partners, [in] real time, to fundamentally change the scope and approach of the audit."<sup>8</sup> PwC doubles down on this by closing with the following:

For the internal audit function, avoiding change is not an option. Transforming itself is not only what the business needs, it's crucial to the function's contribution to the enterprise, not to mention its continuing relevance to the business.<sup>9</sup>

PwC isn't alone in this perspective. A 2021 article by McKinsey furthers the argument by stating,

As the risk landscape becomes more complex, the onus is on IA functions to review their current operations—ensuring they are equipped for a working landscape that, in some areas, has seen years of change in just a few months.<sup>10</sup>

With an ever-changing environment, an audit approach that encourages flexibility and the ability to respond to change is superior to and provides more value than one that operates with rigidity.

To further illustrate this, consider the traditional waterfall audit approach. The timeline for completing these audits may span anywhere from a few months to a year, depending on the organization. Auditors following this approach invest time in the beginning of the audit to understand the control environment and identify key risks and control points for the entire process or technology under review.

There is a problem with applying this approach in today's ever-changing and unpredictable environment, as Jonathan Smart explains in *Sooner Safer Happier: Antipatterns and Patterns for Business Agility*:

Due to the long duration of traditional projects, the control environment is likely to have changed since initiation, with new controls to implement. For this to be discovered late in the life cycle leads to unplanned work, [and] delays. . .<sup>11</sup>

While Smart is not referring directly to audit projects, his statement accurately captures the essence of what auditors and clients can experience when using a waterfall approach.

An audit managed using the traditional approach sets the stage for the audit “at a time when the least information is known.”<sup>12</sup> Auditors gain a high-level understanding of the controls within the process during the planning stage; however, deeper knowledge is gained during fieldwork, when the auditors dive deeper into

the specifics of the process and supporting controls. When the auditors are best positioned to determine the detailed scope of an audit, they're already deep into the testing phase. Changes to the scope at this point typically lead to extending the audit beyond original deadlines and require approval for the changes (resulting in unplanned work for both the auditors and the client), if the auditors recognize the need to change.

According to an IIA Financial Services brief on Agile Auditing, Capital One (a publicly held, US-based bank with over 50,000 employees<sup>13</sup>) experienced challenges with the traditional audit approach, both from the auditor's perspective and across the rest of the organization.

The challenges faced by the *clients* included:<sup>14</sup>

- The need to periodically reeducate auditors
- Lack of consistency in the audit “rules of engagement”
- High volume of requests and questions toward the end of the audit
- Lack of visibility into the results of the audit until the audit team revealed the draft audit report

Capital One's *auditors* also experienced challenges with the traditional audit approach, including:<sup>15</sup>

- Limited time for research and education prior to engagement
- Information not available in a timely manner
- Elongated delivery cycle times
- Waterfall report reviews and revisions
- No break between audits—auditors ran from one to the next

This example shows that both auditors and audit clients are negatively impacted by clinging to the way audits have always been conducted and applying one rigid audit approach in every situation without accounting for the uniqueness of the processes or products under review. On a positive note, it shows a commonality between the two historically opposing sides, auditors and clients, but that's the only positive thing I'm seeing here.

There are far more negative impacts, like pulling audit clients away from their daily work to accommodate unplanned work in the form of numerous unexpected audit requests, delayed delivery of value (thus reducing the value of what's delivered), and burnout. The negative effects far outweigh the positive ones.

## More Challenges with Traditional Waterfall

The challenges with applying the traditional waterfall audit approach to every situation in today's environment are abundant.

Organizations such as the *Journal of Accountancy* and Wolters Kluwer, as well as thought leaders on internal auditing, such as Norman Marks, cite the following challenges:

- “. . . if they don't completely understand the risks of the business, internal auditors can perform only traditional checklist tasks.”<sup>16</sup>
- “Internal Audit has a long-standing reputation [of being] compliance police who come around every year with a standard checklist. Unfortunately, some auditors perpetuate this stereotype by auditing with checklists and canned audit programs without considering processes and risks.”<sup>17</sup>
- “Too many audit reports produced by audit managers are written to be overly complicated and filled with jargon and acronyms. Often the meaning of the issue is lost from trying to sound smart.”<sup>18</sup>
- “The controls and testing approach are excessive or are not targeted in the right areas. In other words, auditors are actually wasting time (and shareholder dollars).”<sup>19</sup>
- “Auditing risks that don't matter to the board and top executives.”<sup>20</sup>
- “The traditional way of communicating audit results is a formal written report issued weeks if not months after issues are identified. The report says what internal audit wants to say rather than what management and the board need to know.”<sup>21</sup>
- “An inability to change direction as risks change. . . . If you don't have the ability to modify the audit plan rapidly and frequently, what assurance is there that you are auditing what matters today and tomorrow?”<sup>22</sup>
- “Wasting precious time and resources.”<sup>23</sup>
- “Failing to attain and retain the confidence of management. . . . If management does not believe we are helping them succeed, why should they support us?”<sup>24</sup>

I can't bear to list any more. It's heartbreaking enough to see those challenges listed out in one place, let alone to think about the audit clients who have experienced these challenges first-hand.

Let's explore one of my personal experiences with the traditional audit approach. Keep in mind that this is from my experience at a large, complex organization. It highlights an atypically long and complex audit. Not all audits are this long. What I want you to walk away with is what we all (auditors and audit clients) experienced when using the traditional audit approach. It's also important to note that although this example highlights the challenges my team and I faced using the waterfall approach in a highly complex audit, if you blindly apply a waterfall approach to a less complex audit, you may experience a similar outcome.



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## **ADVENTURES IN AUDITING**

### **Traditional Audit of IAM Technology Team**

By the middle of 2019, I was about six months into my new role leading the technology audit team at a Fortune 100 company. I was new to the technology world. Each day, I spent my commutes listening to audio training courses and YouTube videos (audio only) on technology, trying to learn as much as I could.

Thankfully, I was very familiar with the audit process. As an auditor, it didn't matter what team I was on or which part of the organization I was auditing, the audit process always stayed the same. It would soon become clear to me that this was not a good thing.

It was around this time that the organization's identity and access management (IAM) process was due to be audited. If you're in technology, you know that IAM is critical for any organization. It ensures the right people have access to the information they need to do their jobs and help the organization achieve its objectives. It ensures the organization's customers can access their information to conduct business with the organization as well. It also prevents bad actors from accessing and exploiting an organization's data and resources, including customer data. Proper IAM practices support maintaining and preserving confidentiality, integrity, and availability of an organization's data and resources.

Because of its significance, the IAM audit usually gets a lot of visibility with key stakeholders. IAM is also a key component of many SOX compliance programs, so an organization's external auditors are typically quite interested in the IAM audit as well.

Despite the high-profile nature of the audit, my team and I were confident in our abilities. After all, an audit was an audit. The process was always the same.



First, we drafted our audit scope by consulting industry publications from the Institute of Internal Auditors and ISACA\* on best practices for auditing IAM. Next, we met with key members of the IAM team to gain a high-level understanding of key risks and controls relevant to IAM at our organization. After a few weeks, my team felt they had comprehensively documented the key risks and controls they planned to cover and the steps they would take to test those controls.

The team gained the required approvals and presented the scope to our clients, the IAM team, informing them of what we would be covering during the audit. (Notice how we told the IAM team what we would be auditing. This will be important later.)

In true waterfall audit fashion, we then began fieldwork, where we tested the in-scope controls. Over the course of the next few months (yes, I said months), my team conducted walkthroughs with leaders of the team to understand how the in-scope controls were designed and to follow up on the status of the client's efforts to fulfill the audit team's requests for evidence, which had been provided at the time my team presented the scope to our clients.

However, here the trouble began. In some cases, the client provided my team data or evidence that wasn't what we actually needed. We thought our requests were clear, but they obviously were not. This communication breakdown led to delays. In some cases, it took my team several attempts before we received the data or evidence we needed to begin testing the operating effectiveness of the in-scope controls.

Once we had the information we needed, we were able to begin testing and reviewing the evidence. We presented our observations to the IAM management team in meetings every two weeks. After a few rounds of back-and-forth between my team and the client over the course of another two weeks, we finally agreed on the wording and rating for that particular audit observation.

Then we continued testing the other in-scope controls, presenting results to the client along the way during those status meetings, over and over again until we had tested everything in scope. This took upward of three months.

Finally, my team was ready to compile the audit report and present it to the client in a closing/exit meeting. We were proud of the work we had completed over the last several months, and we were confident that we

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\* ISACA (formerly the Information Systems Audit and Control Association) is a professional organization that helps technology professionals realize technology's potential.

were delivering a report that would help the IAM team conduct their work with less risk. We were helping.

During the closing/exit meeting, as we walked through the draft audit report, the client immediately began questioning our audit observations, even those we had previously presented and negotiated with them.

Then, different teams within IAM negotiated with each other to determine the owners of the audit observation. Pinpointing an accountable party for each audit observation was quite difficult. Executives from the IAM team present didn't fully buy into the audit observations and disagreed with the ratings assigned to the audit observations. It was a tense meeting and a classic case of auditors versus client.

Eventually, we reached a point where we could issue the final audit report. Phew. We were done. It's safe to say that both sides were happy to move on from this particular audit.

As was standard practice, my team sent surveys to the IAM team to obtain feedback on their audit experience. We auditors see ourselves as helpers. We want to make the experience better. Unfortunately, the feedback indicated that the client didn't find much value in the audit or the results communicated in the report.

This was disheartening. It was like being told that all your hard work was worthless.

I am completely confident in the work my team did. They complied fully with the IIA's Standards and with our audit organization's policies and procedures. The audit scope was comprehensive, and the team's conclusions were accurate and well supported. My team successfully provided assurance on key controls within the IAM program and clearly communicated control gaps identified during the audit. It was everything a good audit should be.

Yet we faced a number of challenges along the way, and in the end the value we delivered wasn't clear. So where had we gone wrong?

Reflecting on the experience outlined above, it is a fairly one-sided view of the audit, not considering the client's perspective. That pretty much sums up the audit itself—a number of missed opportunities to collaborate more closely and work as one team, as opposed to working in silos. Well, we requested evidence of control performance and data for control testing before understanding how the control was designed. No wonder our clients provided the wrong evidence. We set them up for failure! We also developed the audit scope primarily in a silo, with only

minimal input from the client. No wonder we didn't have a ton of buy-in on the control gaps we identified! They didn't get a chance to buy into the scope to begin with! There was also a lot of switching from one task to another and then switching back to the original task, particularly with audit observations. We didn't collaborate as closely with our clients on information requests as we should have. No wonder there were delays in getting the right information! We missed countless opportunities to more clearly understand and articulate what we were looking for.

It was clear that the hard work my team had conducted didn't register as value to the IAM team. In fact, it seemed the whole experience had only caused more strife, arguments, bottlenecks, and adversaries. I started thinking about what we could do differently to avoid or address some of these challenges in future audits. There had to be another way.

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# Journey toward Agile Auditing

As we saw in Chapter 1, the traditional waterfall method of internal auditing worked for decades. But in today's rapidly changing environment, the approach no longer serves the organization well in many instances. It is long and inflexible and oftentimes drives adversarial relationships between two teams that *should* be working together.

The IIA's 2018 North American Pulse of Internal Audit survey results emphasized the importance of adding agility to auditing.<sup>1</sup> Internal Audit groups in every industry were looking to this idea of agility in auditing as a way to combat the novel challenges that had cropped up with the digital revolution, including the changing business landscape, increased velocity of risks, new and emerging risks, new technology, and increased uncertainty.

At the time of the survey, respondents indicated that although the importance of agility was clear, there were roadblocks to achieving the desired levels of agility in auditing, including resource challenges, organizational complexity, limited availability of the client for collaboration, and traditional expectations key stakeholders have of auditors.<sup>2</sup>

It was also unclear *how* to achieve agility and what success really looked like. This isn't uncommon with emerging concepts: the *why* is often clear, the *what* is somewhat clear, while the *how* is often unknown. This was no different. Auditors knew why they needed to change: the environment had changed, and traditional ways of working weren't keeping up. They understood that agility and the ability to adapt to changes and keep up in the new environment was the answer (the *what*). What they hadn't quite figured out was *how*. Enter the sprint-based delivery model known today as Agile Auditing.

## What Is Agile Auditing?

To anyone in the manufacturing or software development industries, Agile should be fairly well known. Agile is defined by the Agile Alliance as “the ability to create

and respond to change. It is a way of dealing with, and ultimately succeeding in, an uncertain and turbulent environment.”<sup>3</sup> Agile gained popularity as an approach to software development, anchored in values and principles to help teams navigate uncertainty and change. (I’ve provided more information on the Agile Values and Principles in the Appendix.) Because of the success the audit profession witnessed in other parts of their organizations where teams practiced Agile, auditors looked to apply Agile concepts to the audit process.

Agile Auditing became a project management framework that intended to provide a consistent or continual approach to auditing, performed iteratively in sprints instead of delivering only at the end of the audit. Organizations began experimenting with this approach in 2016, and it gained significant airtime in the industry beginning around 2017, with a number of papers published introducing the topic, including:

- *Agile Auditing: Sprinting to Change: Reimagining Internal Audit in a Digital World*, published by the IIA in 2018<sup>4</sup>
- *Becoming Agile: A Guide to Elevating Internal Audit’s Performance and Value*, released by Deloitte in 2017<sup>5</sup>
- *Agile Auditing: Mindset over Matter*, released by PwC in 2018<sup>6</sup>

Articles in the IIA’s *Internal Auditor Magazine* included articles on Agile Auditing from 2019 through today. These articles focused on delivering audits in sprints and leveraging Scrum concepts, such as sprint planning, daily stand-ups, and sprint reviews, during an audit. Industry webinars also focused primarily on performing audits in sprints as the go-to framework for Agile Auditing.

Today, most Agile Audits are performed by breaking the audit timeline into a number of sprints, typically lasting two weeks each. Each sprint includes elements of planning, fieldwork, and reporting, with results delivered at the end of each sprint. Agile Audits leverage daily stand-ups, where the team provides an update on the status of their work and communicates roadblocks or impediments to progress. Agile Audit teams perform a retrospective review at the end of each sprint to identify ways to improve in the next sprint.

### **CASE STUDY** Anywhere Real Estate Inc.<sup>7</sup>

Anywhere Real Estate Inc.’s Internal Audit team performs all of their audits using the Agile Auditing framework. The organization’s

Internal Audit team leverages the following roles on each audit: Scrum Master, Product Owner, and Scrum Team Member. The Scrum Master roles are either performed by the audit manager or a more experienced audit staff member and hold a Scrum Master certification. Their primary roles are to coach the audit team on Agile Auditing practices and ensure the audit is following the Agile Auditing framework.

By designating Scrum Masters for each audit and encouraging audit managers and experienced staff members to fulfill the role of Scrum Master, the team experienced “[g]reater staff engagement and buy-in” and “stretch opportunity for audit staff.”<sup>8</sup>

Case studies across the auditing profession began popping up, showcasing organizations of various sizes using Agile Auditing, including larger organizations like Fidelity Investments (155 auditors), Siemens AG (260 auditors), and Walmart (325 auditors),<sup>9</sup> as well as smaller organizations, including Anywhere Real Estate (15 auditors).<sup>10</sup> With all this evidence and talk in the industry, I knew I had to give Agile Auditing a try.



## ADVENTURES IN AUDITING

### Agile Auditing, Take One

Let's go back to my story at the Fortune 100 company. After my first less-than-optimal audit with the IAM team in 2019, I knew we had to look for new ways of working. Agile Auditing as a concept was sweeping the audit profession. While the benefits of this concept were well articulated, there was a lack of clarity on what exactly it was and how to implement it. So my team and I embarked on a series of experiments into Agile Auditing ways of working to discover if and how it could work for us.

In the second half of 2020 and into the first quarter of 2021, my team participated in an audit project testing specific controls in partnership with the organization's external auditors. This was a high-profile project with a lot of attention from our organization's key stakeholders and a tight time frame within which testing had to be completed. The tight timeline drove the need for my team to think about our work differently. Because the team was testing on behalf of another party, continuous feedback

and the ability to pivot quickly was imperative. It quickly became clear that this project was a strong candidate in which to implement Agile practices.

We set out on our first experiment into Agile Auditing by focusing on three key elements:

- Avoid multitasking
- Incorporate continuous delivery in short sprints
- Work with the client through iterative meetings and daily stand-ups

To avoid multitasking, our team was composed of dedicated individuals who focused primarily on this engagement. The team's priority was crystal clear, so we spent less time reevaluating priorities than is typical when juggling multiple projects. This differed from our normal operating model, where each audit staff member typically worked on anywhere from two to six audits at once.

We also used continuous delivery to work in short sprints. We divided testing into four blocks of time that we called "buckets." We specified a number of controls to test in each bucket, and each bucket lasted approximately one month (there was some variation from bucket to bucket). This time-boxed approach encouraged a sense of urgency with both the audit team and the client.

In an effort to work more closely with the client and to work iteratively, we updated internal stakeholders (the control owners/clients) weekly on the status of the work and any audit observations we wanted to share with them. The audit team then met with external stakeholders (the external auditors) twice each week, sent out detailed meeting notes to reiterate key decisions reached, and sought feedback and confirmation from those stakeholders after each meeting. This kept us all aligned on progress made and next steps. In addition, the audit team held daily stand-up meetings that supported flexibility and reinforced the urgency and priority of the audit. These stand-ups enabled the team to

- seek and address feedback continually,
- shift available resources to tasks that needed attention,
- share knowledge among the team, and
- change testing procedures on the fly to adapt to stakeholder needs.



At the end of the third bucket, we conducted a retrospective review to reflect on how to become more effective in the final bucket. The team identified a number of ways to improve the process, including

- conducting weekly stand-ups with key management points of contact to enable even more timely and streamlined discussions, and
- consolidating the team's questions for the external audit team and discussing them during the weekly meetings when all relevant decision-makers were present (to increase consistency in feedback and direction given).

Even though we had some great success with this audit, it still wasn't perfect. Because we didn't have consistent involvement from key parties in weekly meetings, we miscommunicated at times, resulting in duplicate efforts and unnecessary rework. We also hadn't expanded our feedback loops to include representation from all teams involved, such as the external auditors. This led to certain inefficiencies that didn't improve throughout the audit.

But as the project drew to a close at the end of the final bucket, I no longer asked myself whether Agile concepts *could* translate to the world of auditing. Now the question was, how far could we go to achieve even greater value?

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## Benefits of Agile Auditing

As my first experiment with Agile Auditing came to a close, I refocused on what the primary goal of Agile Auditing was. In my opinion, it mainly promised increased efficiency by reducing the amount of time spent during an audit, namely in the reporting stage of an audit (the time between the end of testing and when the final audit report is published). Because results during an Agile Audit are delivered iteratively throughout the audit rather than all at the end, the client is familiar with Internal Audit's observations before the final report is drafted. This often results in fewer negotiations on the contents of the report and a faster or more efficient reporting stage.

In turn, this gets audit results into the clients' hands sooner so they can start addressing the audit observations earlier. By the time the final report is published,

the client has likely already begun making progress in addressing the observations, so auditors can include that progress in the final audit report, which in turn tells a much better story to the organization's key stakeholders.

Thus, I find that another benefit of Agile Auditing is that it can create the opportunity for organizations to address risk exposures *sooner*. In my own personal experience, my clients made significantly more progress addressing gaps identified during the audit (i.e., my audit clients had accepted the risk or had a plan in place to address the risk, or better yet, they had already addressed the risk and closed the gap) as compared to an audit in the same space two years prior using the traditional waterfall approach.

### **CASE STUDY** Anywhere Real Estate Inc.

Becca Kinney (SVP Internal Audit at Anywhere Real Estate Inc.) and Dan Greenfield (Agile Internal Audit Manager at Anywhere Real Estate Inc.) experienced incredible efficiencies when moving from a waterfall audit approach to Agile Auditing. Using the traditional waterfall approach to auditing, the reporting phase of the audit would often take 100 days or more. After implementing Agile Auditing, the time spent in Anywhere Real Estate Inc.'s audit reporting phase was cut significantly to an average of twenty days. That's an 80% decrease in the amount of time spent negotiating on the audit report!<sup>11</sup>

In addition, the team's final audit reports often show progress the client has made on observations identified and communicated earlier in the audit (delivered in interim audit reports). The client has responded positively to this improvement, as their auditors recognize and publish their efforts and progress toward mitigating risks in the audit report.

As I dove into researching Agile Auditing further, I found that an additional benefit was that organizations leveraging Agile Auditing experienced less burden on clients due to increased knowledge sharing. In an ISACA publication titled *Destination: Agile Auditing*, Dawn Vogel of Nelnet, Inc., indicated that through Agile Auditing, her team "leveraged knowledge shared during standups [sic] to avoid asking clarifying questions of auditees, which allowed more time for delivering value to customers."<sup>12</sup>

Finally, Michael Podemski of professional services firm Aon’s audit organization cited the following in ISACA’s *Destination: Agile Auditing*: “Involving the customer allows our team to focus on developing an audit backlog containing relevant focus areas which are risky to the business and helps us avoid increasing audit risk leading to engagement failure.”<sup>13</sup>

I was starting to see that there was something more to this Agile Auditing idea. But as with any new methodology or idea, there were as many challenges as there were benefits.

## Challenges with Agile Auditing

In 2018, the IIA surveyed 636 chief audit executives (CAEs). Only 45% of respondents (including representatives from financial services industries and nonfinancial services industries) indicated that they were “very” or “extremely” Agile.<sup>14</sup> The IIA explains that this indicates a gap between what CAEs see as important and how much they’ve invested in addressing it.

In addition, AuditBoard indicated in 2020 that as a profession, auditors hadn’t made much progress in figuring out how to reap the benefits of agility:

A recent AuditBoard poll of over 1,000 internal auditors found that 82% say agile auditing has the potential to add more value to their work compared to the traditional project approach—although 45% reported a lack of knowledge or resources as the most significant obstacle to adopting agile.<sup>15</sup>

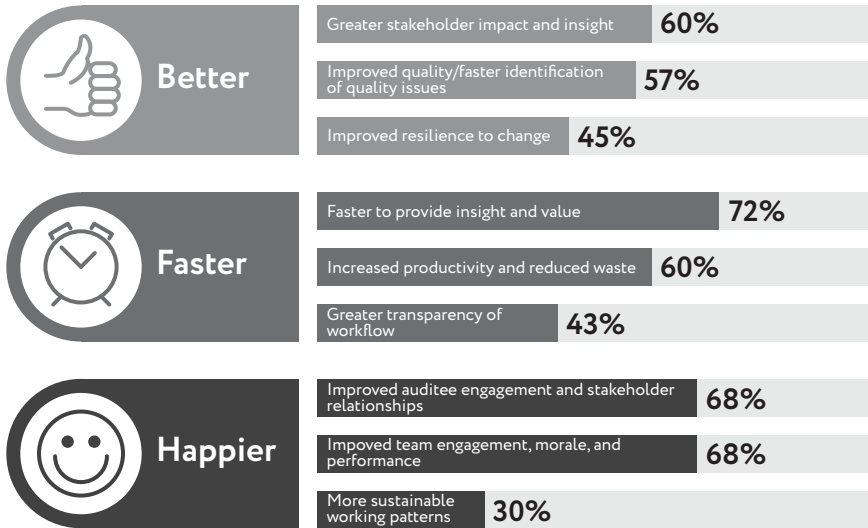
Furthermore, Deloitte conducted a survey on the use of Agile Auditing and published the results of this survey in October 2021. According to the survey, 45% of the 181 organizations who responded to the survey were leveraging or considering Agile Auditing.<sup>16</sup> Deloitte concluded, based on the survey results, that Agile Auditing is “helping functions to achieve better impact, faster insight, and happier and more engaged stakeholders.”<sup>17</sup> Figure 2.1 (on page 28) shows the percentage of survey respondents who had experienced various benefits associated with Agile Auditing.

Based on the surveys (2018 IIA Pulse of Internal Audit Survey, 2020 AuditBoard survey, and 2021 Deloitte survey), Agile Auditing had taken hold in less than half of survey respondents between 2018 and 2021. Those leveraging Agile Auditing reported experiencing clear benefits, such as greater impact, faster

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\* An audit backlog is a list of what needs to be done to complete the audit.

delivery of insights, and greater stakeholder engagement. Why, then, had more organizations not embraced Agile Auditing?



**Figure 2.1: The Percentage of Functions Reporting Benefits through Agile IA (by Benefit Category)**

Reproduced from Deloitte. *Agile Internal Audit Four Years On: Better, Faster, Happier? A Retrospective*. Deloitte Development LLC, 2021. <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Risk/gx-agile-internal-audit-four-years.pdf>.

The Deloitte paper postulates that sprint-based Agile Auditing may not be the best approach for *all* audits.<sup>18</sup> It further explains various challenges survey respondents expressed in implementing Agile Auditing, including:

- Forcing teams to implement Agile Auditing and resistance to change
- Lack of clarity around the goal of Agile Auditing
- Inconsistent application of Agile Auditing among teams

This survey clearly showed that while Agile Auditing had been successfully adopted by a number of organizations, many were lagging behind, likely due to taking an all-or-nothing approach to Agile Auditing paired with a lack of buy-in with the audit teams.

## Thinking Beyond Agile Auditing

While strict, sprint-based Agile Auditing works incredibly well for some audits and some organizations, its challenges show that Agile Auditing isn't a one-size-fits-all approach. Some teams may choose to implement this framework, while others may not. Still others may borrow some concepts from Agile Auditing and choose not to borrow other portions of it. Not one of these is the "best" way for everyone or for every audit. So if Agile Auditing wasn't the silver bullet, what is?

### DevOps and Audit

Thinking back to my first week leading technology audit teams, I recall when one of my new clients approached me and asked if I would be interested in partnering with him on a presentation to our organization's technology department about DevOps.

I quickly responded, "Yes, of course! . . . Umm, what is DevOps?"

After some chuckling, my client suggested I read *The Phoenix Project: A Novel About IT, DevOps, and Helping Your Business Win*. I devoured the book in a few days, enthralled by the way it showed two adversarial teams (software developers and operations) struggling to work together. These two departments relied on each other to deliver value for their organization, but they struggled to communicate, actively hindered each other's work, and ultimately failed to deliver value. In fact, they often worked as outright enemies. To solve the problem, they instituted a mindset change: DevOps.

DevOps is an operating model where IT development and IT operations work together as one team with a collective goal of delivering value to customers. Before DevOps, development teams historically developed features and passed them over to the operations teams to run. The inherent problem with this is the disconnect between the two teams and often competing incentives for each, resulting in strained relationships between the two groups.

DevOps was first officially introduced in 2010 (following the 2009 presentation from John Allspaw and Paul Hammond).<sup>19</sup> This way of working enabled organizations to reduce the risk of software deployments, innovate, and offer more value to customers. Based on Lean and other principles that originated in the physical manufacturing industry, DevOps also builds upon the principles of Agile software development. DevOps brings together two parts of the organization that at times seem to be adversaries: development and operations.

In order to come together and work as one team, the two departments that are responsible for software development (Dev and Ops) seek to implement the Three Ways. The Three Ways is “a set of business principles that encourage organizations to value a corporate culture in which feedback loops are short, everyone understands how different parts of the business interrelate, and all employees are encouraged to seek knowledge that will help the company meet business goals.”<sup>20</sup>

**The First Way: Flow/Systems Thinking:** According to *The Phoenix Project* coauthor Gene Kim, “The First Way emphasizes the performance of the entire system, as opposed to the performance of a specific silo of work or department.”<sup>21</sup> *The DevOps Handbook* further explains that flow/systems thinking “accelerate[s] the delivery of work . . . to customers.”<sup>22</sup>

**The Second Way: Feedback Loops:** Essentially, the Second Way is all about soliciting feedback from clients, making adjustments to address the feedback, and reducing the time it takes to obtain and address such feedback. In an IT Revolution blog post, Gene Kim defined the Second Way as:

. . . creating the right to left feedback loops. The goal of almost any process improvement initiative is to shorten and amplify feedback loops so necessary corrections can be continually made. The outcomes of the Second Way include understanding and responding to all customers, internal and external, shortening and amplifying all feedback loops, and embedding knowledge where we need it.<sup>23</sup>

**The Third Way: Continual Learning and Experimentation:** *The DevOps Handbook* defines practices that enable the Third Way of DevOps, including:<sup>24</sup>

- Establishing a culture of organizational learning and safety
- Transforming local discoveries into global improvements
- Reserving time to create improvements and learning

After reading the book and attending conferences, I thought it appeared natural to apply the Three Ways of DevOps to auditing. Thus began my second experiment in Agile Auditing, this time incorporating elements of the Three Ways as well.



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## ADVENTURES IN AUDITING

### Agile Auditing, Take Two: Incorporating the Three Ways

In my second experiment with Agile Auditing, we collaborated with a client who worked using Scrum and DevOps practices. So we kept going with a sprint-based audit delivery model, but this time with consistent sprint timeboxes. We also incorporated some DevOps concepts, like working together as one team (flow/systems thinking) and feedback loops.

This audit was staffed with only two of the same individuals (not including myself) who were on the first Agile Auditing experiment, so these concepts were completely new for most of the audit team. Through reading books geared toward technology organizations, as well as through coaching from the client, who was already well versed in using these practices, we set out to see if we could replicate some of the success from the first experiment and maybe do even better.

Another major change with our second experiment was to switch our mindset from auditors versus auditees. Instead of referring to ourselves as the “audit team” and the “client team,” we collectively (everyone involved, including representatives from the client as well as Internal Audit) referred to ourselves as “THE team.”

We were now one team with a collective goal: to determine whether key controls were designed and operating effectively within the area under review.

While this was a radical concept for the auditors involved, it wasn't too much of a stretch for the client. They had moved to a product-centric operating model a few years prior, so they had already integrated operations and risk management associates into the product team. This was simply the next step in their journey, even though it was more of a giant leap for the auditors.

We implemented the First Way of DevOps (Flow/Systems Thinking) by integrating the audit work into the client's daily work. Our rebranding to THE team reinforced the idea that we were committed to delivering value through providing assurance on a particular process's key controls, and everyone on THE team played an important role.

We also collaborated closely with the client on what areas we would focus on for the audit. This let the client plan for this work and adjust their commitments accordingly. Instead of the audit producing a lot of *unplanned* work for them, the First Way of DevOps facilitated *planned* work for the collective team.

We incorporated the Second Way (feedback loops) by intentionally soliciting feedback from THE team. We held retrospective reviews at the end of each sprint to identify what went well and what we wanted to improve in the next sprint. At the end of the entire audit, the auditors sent surveys to the client to collect additional feedback to be incorporated in our next audit. The high levels of collaboration on this audit also supported the exchange of real-time feedback. We immediately exchanged feedback within THE team, letting us pivot quickly to become more effective.

We learned the Third Way (continual learning and experimentation) the hard way. As we neared the end of the audit, we faced a significant challenge that caused us to revert to old ways of working.

When compiling the final audit report and determining the overall audit opinion, we reverted back to the auditor versus auditee operating model. We didn't experience that part of the audit together, as we had up until that point, because using the old ways of working put the client on the opposite side of the table from us. We were adversaries for a brief moment. To be completely vulnerable for a moment, this devastated me. We had worked so closely together during the audit and had so much fun along the way. To so quickly revert back to an adversarial relationship was heartbreaking.

Thankfully, we had built strong relationships throughout the audit, and we were all committed to the same goal of delivering value. We gave each other grace as we navigated this difficult situation, creating a culture that fostered taking risks and learning from failures. In this instance, our failure was leaving the client out of the process of compiling the final report and determining the overall audit opinion. Although the auditors had ultimate decision authority on that overall opinion, as with all other key decisions related to the audit work, we would have been even more effective if we had collaborated as one team during this final stage of the audit. We learned from this failure and came out on the other side of it stronger than before . . . TOGETHER.

In addition to the Three Ways of DevOps, we incorporated other better ways of working, such as increased visibility of work and daily stand-ups. The audit was an incredible success! When comparing key data points from the prior audit in this space, which followed the traditional waterfall audit process, the differences were astonishing. We provided more assurance (achieved 77% more coverage), and results were communicated and addressed sooner, all while spending 10% less calendar time on the audit. The surveys we sent to the client at the end of the audit also indicated



incredibly positive feedback and high levels of client satisfaction. Suffice to say that this was an incredible success!

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## Looking Forward

Reflecting back on my Agile Auditing experiments, while there were way more positive results from implementing these better ways of working, it would be misleading to say the successes didn't come with challenges along the way.

Even with the reduction in multitasking we achieved in the attempt to audit in a DevOps way, the auditors on the team still had way too many tasks in process at the same time, as they were working on a large number of audits concurrently. Because of this, the team had to reorient themselves to the audit or the task at hand multiple times each day, as each day was filled with meetings pertaining to different audits and different tasks within each audit.

The team was also looking for a framework to follow. Luckily, the Agile Auditing framework, which is closely aligned with the Scrum framework, provided a sprint-based structure to follow.

Also, the auditors on the team were wary of working in new ways, for fear of violating professional internal auditing standards set forth by the IIA. We overcame this fear by expanding our team's membership to include someone well versed in the IIA's Standards. This individual gave us feedback along the way and answered our questions related to professional auditing standards. They helped us comply with the standards while adopting newer ways of working. The team progressed from saying, "We can't do this without violating the standards," to instead asking, "What can we do to work in this new way while meeting the requirements of the standards?"

We also intentionally prioritized the client's needs and fostered a collaborative environment. In our second experiment, we did this through intentionally collaborating with members of THE team throughout the audit. For example, we identified the audit's scope TOGETHER. Instead of the auditors using our traditional approach of having a few conversations with the client to get a high-level understanding of the area under review, going away to develop the audit scope, and then returning to present the scope to the client, we worked together to define scope boundaries and articulate the key risks and controls relevant to the area under review.

Taking it a step further, THE team determined the most effective way to test each of those controls and the evidence needed to test them. Those most familiar with the area under review (the clients) understood how the controls were per-

formed and documented better than anyone else in the organization. So they were best positioned to help us determine how to test those controls, precisely what evidence was available, and where (or from whom) to obtain it.

We also incorporated the Agile concept of delivering results frequently. THE team delivered results at the conclusion of each sprint in an interim report, instead of waiting until the end of the audit. This enabled the client to begin addressing any audit observations earlier in the process rather than waiting until the end of a multiple-months-long audit. This resulted in the client addressing risk exposures sooner.

Working in this manner resulted in a better story to the organization's key stakeholders (recipients of the audit report). In the prior audit, when we delivered the final audit report, nearly all of the audit observations in the report were newly opened, and the client had made little to no progress addressing them. This is because the results weren't delivered to them throughout the audit; rather, they were all communicated at the end of the process. The story to key stakeholders was essentially, "Here are all of the control gaps that the client needs to address."

Conversely, the report delivered at the end of *this* audit told a completely different story. Most of the audit observations in the report were either remediated or were in the process of being remediated. The story to key stakeholders this time was, "Here are the control gaps we identified together. Look at how much progress the client has made already in addressing these! Great work, team!"

