

Four Ways to Make Internal Audit More Lean and Agile

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If you have heard the expressions “lean” and “agile,” you may think they refer to weight loss and flexibility or associate them with software development—and you may wonder how they apply to internal audit.

Agile Techniques

The Agile Manifesto, created over 15 years ago by 17 people from various software development firms, consists of four values and 12 principles. Conscious of the speed with which the external, competitive environment changes, the creators wanted to replace the time-consuming, waterfall, systems development life cycle (SDLC) with an approach that would provide customers with useful solutions more rapidly.

The Agile Manifesto’s four core values drive a mindset that focuses on creating results that address stakeholder and user needs. These values are:

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

Two notable principles are that:

1. The most efficient and effective method of conveying information to and within a development team is face-to-face conversation. If you want to be agile, consider how much time your team wastes waiting for someone to reply to an email when stopping by this person’s office or placing a phone call could get results in a few minutes.
2. Business people and developers must work together *daily* throughout a project—emphasis on the word “daily.” Although auditors meet with the members of the area under review to discuss status periodically and to collect information during interviews, the Agile creators were referring to a daily, collaborative interaction, something that typically does not happen during an audit.

If you've begun to consider how your audit department can be more agile, you've probably heard the term "scrum." In Agile, Scrum provides structure for communication, feedback, prioritization, inspection, productivity measurement and process improvement. Scrum is a team-based approach to delivering useable or "ship-ready" results in a time frame that is shorter than the traditional waterfall system development life cycle. Typically, the timeframe is 2 to 30 days.

Scrums consist of a process or product owner, the scrum master and the team. Applied to internal audit, the process or product owner would be the audit constituent (specifically, the process or risk owner), the scrum master would be the in-charge auditor or manager, and the team would be the auditors.

Scrum is also a rugby term and refers to the beginning of play (or the restart of play after an infraction) when both teams are scrambling to gain control of the ball. It's used as a metaphor to reflect the degree of cooperation needed among the process or product owner, the scrum master and the team to succeed.

Lean Techniques

If you remember Total Quality Management and embraced Six Sigma, Lean will be relative easy to adopt.

Lean is a philosophy focused on:

- Delivering value as defined through the eyes of the customer;
- Eliminating waste in a process or approach (i.e., any step that doesn't add value should be eliminated);
- Continually improving one's processes.

Philosophically and practically, being lean makes sense. Lean techniques incorporate process and root cause analysis and foster data-driven decisions. Being lean means targeting areas of waste, i.e., unnecessary, non-value-added activities, and eliminating them. One Lean technique, Value Stream Mapping, graphically depicts a workflow, highlighting the points at which value is created and waste or downtime occurs.

Lean prompts us to think about what we don't want. Below is a chart of "wastes" or unproductive activities that can slow down an audit.

TYPES OF WASTE	DESCRIPTION	EXAMPLES IN AUDIT
Defects	Efforts caused by rework and incorrect information.	Requesting the wrong information for data mining and analysis.
Overproduction	Producing more than is needed or before it is needed.	Creating extra meeting handouts.
Waiting	Wasted time waiting for the next step in a process.	Waiting for work papers (or any other document) to be approved before being able to take the next step.
Non-Utilized Talent	Underutilizing people's talents, skills and knowledge.	The inability to know who has certain experience and subject matter expertise when scheduling audits and setting the audit plan.

Inventory	Excess products and materials are not used or not used timely.	Purchasing more software licenses or supplies than needed.
Motion	Unnecessary movements by people.	Having to reschedule meetings to discuss topics (e.g., how the process works, what the key inherent risks are, how controls work) that should have been addressed in one meeting.
Extra-processing	More work or higher quality work than is required by the customer.	Audit reports that contain information or graphs that the customer did not request and does not use.

Being agile and lean sounds great. Who wants to spend time producing outputs that are not valued by their recipients? The question is: How can an internal audit department apply these techniques? Specifically, how can an internal audit department eliminate documentation and comply with the International Professional Practices Framework (IPPF)?

Here are four ways you and your audit department can be lean, agile and IPPF-compliant, even if you don't want to or culturally cannot adopt the entire Agile Manifesto:

1. Hold daily Scrum stand-up meetings with your direct reports (if you are a member of audit management) or hold them with the audit team members (if you are the in-charge) during audit execution. This is a fast-paced, stand-up daily meeting, lasting 15 minutes (regardless of the nature of the project and the size of the team) during which team members describe their accomplishments and obstacles. The purpose of these meetings is to keep the work flowing and identify any impediments so that the team achieves the sprint goal of a ship-ready solution or working software. These meetings are generally scheduled at the same time every day, typically at the start of the team's workday. If a team member identifies an obstacle, the scrum master (i.e., the audit manager or in-charge) meets with this individual after the stand-up meeting.

During these meetings, each team member must answer the following questions:

- What have you done since the last Scrum (i.e., yesterday)?
 - What are you planning to do between now and the next Scrum (i.e., tomorrow)?
 - What problems are preventing you from accomplishing your goals?
2. Create a Kanban to show the movement of each audit through the audit phases (after successful completion of tollgates). Kanban is a Japanese word that means visual signal or card. It is a Japanese manufacturing system in which the supply of components is regulated through the use of an instruction card sent along the production line. The word refers to any improvement, one-time or continuous, large or small, in the same sense as the English word "improvement."

3. Create burndown charts to depict actual time versus estimated time. These are monthly or per sprint progress reports (also called burnout charts or a burn up charts) that shows the amount of hours per day spent on the sprint against the estimated time required to complete the user stories comprising the sprint. It is a tool that is used to measure sprint progress on a daily basis and calculate the work remaining in a given sprint or release.

Work remaining is the Y axis and the time is the X axis. Although the amount of work completed per day will vary, the general trend should be downward towards completion. The slope of the chart is the burnout velocity. It consists of the total estimated time required to complete each of the user stories. The productivity data in the Burnout Chart comes from the Daily Scrum Meeting. The accuracy of the burnout data depends in part on the accuracy of the team's estimates.

The chart is only as useful as the accuracy of the information being tracked. It assumes estimates are made and time is tracked. When used correctly, it fosters more focus on estimation techniques, including efficiency and velocity factor use.

4. Convene reflection meetings after each audit (some of my clients call these tollgate or after-action review meetings). Some methodologies already require this—if so, think about how this process can be improved so that the meetings are more productive.

Create a sense of urgency concerning the value of time and the need to create value (i.e., something of use and importance to your customer) in less than 30 days.

Lean and Agile's purpose, to speed software development and eliminate waste, is as relevant to business and auditing now as it was when they were created. The creators wanted to keep the focus of work efforts on what matters: producing useful results in a short amount of time. They wanted to eliminate useless documentation and activities. While we may not be ready or willing to completely adopt Lean and Agile in our auditing, by making a few modifications to our methodology, we can become more efficient and productive.



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Ann published her first book, *Mastering the Five Tiers of Audit Competency: The Essence of Effective Auditing* in May 2016. In it, she shares best practices for every stage of the audit and explains how and why the most effective auditors master five essential competencies. New and seasoned auditors will benefit from her insight culled from over 30 years' experience in training thousands of her peers.

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