



## Lean Audit / Agile audit – What’s the same? What’s different? by James C Paterson

Internal auditors know that internal audit can benefit from moving away from the slow stereotype to something much more impactful, dynamic and value adding. The techniques of lean and agile can help us do this in a disciplined and professional way. Here are some key points of note:

### Lean

Lean techniques emerged from car manufacturing in Japan in the 1940s-1980s and then across the globe. The techniques moved into other industries (e.g. white goods) and also other business process (e.g. finance). The goal is to deliver *value to the customer with the minimum waste*. Many ideas developed by lean are well known, e.g., process mapping; listening to the “voice of the customer”, “right first time” (with root cause analysis to help this) and “just in time.”

You can apply these principles and associated tools and techniques to get more from less with internal audits. However, lean auditing (or agile auditing) must not compromise IIA standards.

In fact, contrary to many concerns, lean is well-aligned with the IIA standards in many ways and encourages us to look at audit fundamentals such as assurance co-ordination, clarity of criteria (the setting of risk appetite) and paying attention to root causes (now a requirement of the new Global Internal Audit Standards). Specific lean tools that auditors may want to learn are:

Lean Technique	Illustration of benefits
SIPOC	Looking at the Inputs and Outputs of a process and who they are coming from and going to.
Heijunka	Smoothing flow of work (including work scheduling and leveraging a library of key control objectives)

Poke yoke	Preventing errors from happening (for audit reports “never write the report unless you have agreed what it’s going to say”)
Just in time	Avoiding work that is left “hanging” – meaning we must sometimes publish “flash reports” quickly.
Kanban	Scheduling the flow of work
Kaizen	Improvement mindset (e.g. IA newsletters) Post assignment reviews that improve our methodology.
5 whys 2 legs / Fishbone / Fault tree(s)	Root cause analysis techniques – leading to shorter reports and even quicker assignments.

**Agile**


The origins of agile started in 1974 with “adaptive software development”, then “scrum for software development;” then in 2001 agile principles for software development were codified:

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

Subsequently, agile principles have been applied in a range of areas including internal auditing. Key agile ideas and techniques include: 1) the quick delivery of a ‘good enough’ (minimum viable) product; 2) taking an iterative approach; 3) using scrums and sprints to drive pace.

What auditors often like about agile auditing is:

- A) An emphasis on face-to-face communications (with “stand-ups”),
- B) being tough about what matters most and what should be prioritized next,
- C) An emphasis on escalating points of concern quickly to overcome barriers to progress.



D) Most notable is the practice of breaking down an assignment into bite sized chunks and sharing results in stages.

### **Benefits of lean and agile to internal audits**

Typical improvements from these two similar but complementary ways of working are:

- Greater relevance to the organization's priorities/key risks (with a deeper sense of what the real "exam question/objective" is);
- A need to be very clear what is in and out of scope *and what materiality levels are being audited* (so we are clear about 'reasonable assurance.'). The use of a 'boundary diagram' is a good practice.
- Assignments reliably delivered on time and less likely to be over budget (both in terms of budgeted time and elapsed time);
- Smarter use of analytics and streamlined work programmes and the use of 'working hypothesis' for analytics work (from root cause analysis) to help probe certain areas in depth;
- Less likelihood of hearing managers say: "we already knew that", and/or "we were working on it";
- More chance of findings that are addressing underlying root causes, resulting in fewer findings but with a greater impact and shorter audit reports;
- A more streamlined follow-up process that maximizes the chances of remediation by management without delays and ensures less chance of finding actions are not completed.

Overall, these techniques allow auditors to use their intelligence to make sensible judgements and never to just "do a tick box," work. Here it is important to use these techniques to improve our critical thinking and business impact.

We will look at these points and a range of other points in more detail at the forthcoming course on Lean and Agile for the IIA Belgium on 20-21 February 2024. Places are still available.

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