

# State Farm Internal Audit: Journey to Agile

October 28, 2019

Katie Monzon, State Farm – Internal Audit

Seth Hale, State Farm – Internal Audit

1

Agile Adoption

2

Internal Audit Agile Framework

3

Scaling Agile

4

Agile Maturity and Early Learnings

1

Agile Adoption

2

Internal Audit Agile Framework

3

Scaling Agile

4

Agile Maturity and Early Learnings

# Why Agile?

Continuously improve and adapt to deliver valued assurance to stakeholders in a rapidly changing risk and control environment

Increase capacity and throughput by executing enhanced and refined work processes

Deliver value quickly with flexibility, iterative enhancement, collaboration, and a strong focus on empowering people

# Traditional Auditing Challenges



## 1. Manual Approach

- Not using full use of technology to access, monitor and audit
- Lack of analytics supporting the process
- IT not embedded in the audit teams to identify and implement data-driven approaches



## 2. Redundant Testing/Auditing

- Multiple teams are working on the same thing
- No central visibility into what everyone is doing



## 3. Process Driven

- Too focused on the documented steps
- Process is used to track accountability as opposed to giving teams freedom to execute
- Completing hours of work that are not being accounted for as coverage



## 4. Reactionary

- React as issues arise in the enterprise
- Lack flexibility to meet business needs
- No means to visibly and effectively reprioritize work



## 5. Fragmented Alignment

- Need to improve alignment with partners in the business
- Testing team model extends the process and increases the number of hand-offs
- Focus on areas for a “burst of time”

# Anticipated Agile Benefits



## Efficiency

Audit more efficiently leading to **more audit coverage**, greater focus on higher risk and **reduced hours** per audit.



## Increased Visibility and Alignment

**Increased transparency** will allow the audit team to better serve the consumer.  
**Improved** efficiency and team cohesion by moving work to people, not people to work.



## Speed for Highest Priority Items

**Visualize** and **prioritize** the work.  
No waste in the audit process. Being flexible and auditing the **highest priority items** will result in more work being able to go through the pipeline.



Internal Audit



## Knowledge to Audit Selectively

**Eliminate** the **redundancies** that exist across teams. Allow the auditors to do the work opposed to getting tied up in the processes

# What is Agile?

Agile is a collection of practices, based on a set of principles, derived from a set of values that help drive changes in behavior and culture.

Work is completed with more flexibility, but still with consistency; everyone adheres to a basic set of principles and values.

Deliver value quickly with flexibility, continuous improvement, collaboration and a strong focus on people.

Shift traditional roles and responsibilities in a more iterative, incremental and evolutionary way.

Persistent teams of people deliver work in shorter, iterative cycles.

PART ONE

PART TWO

PART THREE

PART FOUR

# Agile Values

**PART ONE**

## PART TWO

## PART THREE

## PART FOUR

Customer Focus	Empowerment & Accountability	Deliver Results	Transparency	Continuous Improvement
The relentless pursuit of outcomes that produce value for the customer.	Demonstrate trust by empowering teams and leveraging their diverse talents. Promote accountability through ownership of work.	Produce measurable outcomes and results with pace, on both an individual and team level.	Create alignment and effective prioritization through transparency of purpose, work, and performance.	Embrace change through continuous improvement by listening, innovating learning, iteration, and adjusting.

# Agile Principles

**PART ONE**

## PART TWO

## PART THREE

## PART FOUR

**Customer & Stakeholder Focus**

Gathering input throughout the development of the work product or service on a predictable timeline or iteration schedule.

**Team Member Focus**

Enabling self-organization and autonomy, and supporting judgment-based decision-making. Leadership will set the vision, prioritize the work, and then empower the team to execute.

**Iterative and incremental**

Producing early, workable deliverables. Transparency, inspection and adaptation, creates a shorter feedback loop and reduces risk while executing the work.

**“Fast Fail” Philosophy**

Driving learning through doing. Allowing deliverable development to stop if the customer does not perceive value in an early iteration. Test and learn mentality.

**Adaptability**

Allowing squad members to adapt and change at any step. Learn, bend and break the rules. Having the flexibility to shift to the highest-priority work.

# Agile Principles

**PART ONE**

## PART TWO

## PART THREE

## PART FOUR

**Optimizing Flow**

The importance of Work in Progress. Stop starting and start finishing. Targeted focus on progressing the work based on prioritization, avoids the bottleneck effect.

**Rigor/Discipline/  
Practice**

Execution of common working practices, and exercising freedom within the frame. Having rigor and predictability, with a focus on honoring commitments.

**Coaching**

Coaching in agile consists of professional coaching, facilitation, mentoring and teaching. Coaching focuses on lean/agile, technical, business and transformation.

**Learned Helplessness**

Demonstrate self-awareness, avoid “legal cheating”. Being the leader that goes first, vulnerability fosters personal and team growth. Stopping things is just important as starting.

**Equal Voice**

Listening and observing skills, knowledge and expertise amongst the team. Embrace and consider all perspectives. Key contributor to high performing agile teams.

# Agile Practices

PART ONE

PART TWO

PART THREE

PART FOUR

Customer Focus

Backlog Prioritization

Iteration Planning

Showcases

Empowerment & Accountability

Self-organized Teams

Empowered Teams

Social Contract

Deliver Results

Iteration Planning & Prioritization

Definition of Done

Minimum Viable Product (MVP)

Transparency

Iteration Planning & Prioritization

Stand-ups

Wall of Work

Continuous Improvement

Backlog Prioritization

Iterative Work

Retrospective

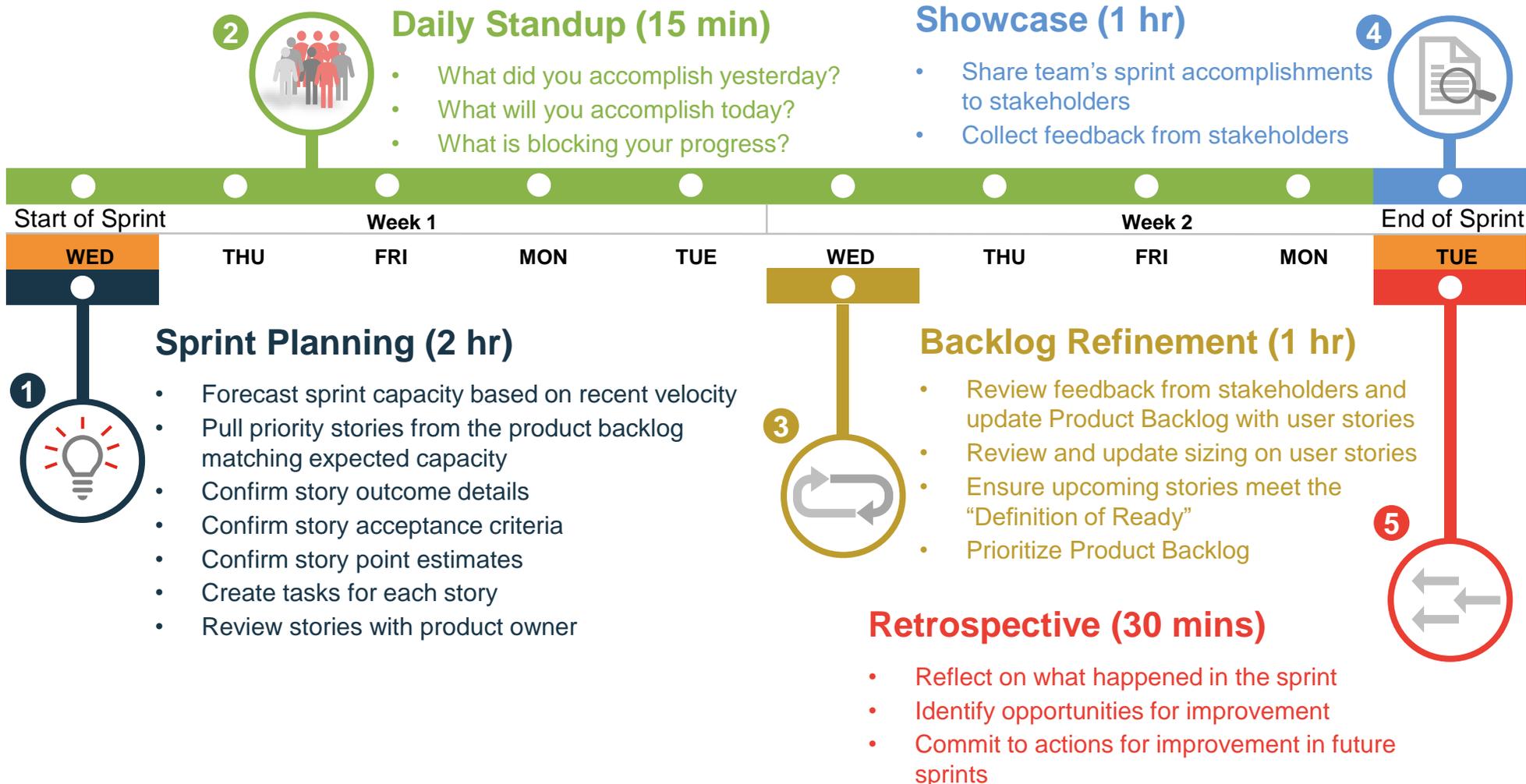
# Agile Ceremonies

PART ONE

PART TWO

PART THREE

PART FOUR



1

Agile Adoption

2

Internal Audit Agile Framework

3

Scaling Agile

4

Agile Maturity and Early Learnings

# Agile Changes

## Change in Mindset



.....

Focus on flexibility, adaptability, ownership, and initiative to support an agile working environment

## Persistent Teams



.....

Small, cross-functional, engaged, self-empowered teams with the ability to prioritize and execute their backlog of work

## New Ways of Working



.....

Iterations and their ceremonies provide a predictable cadence for teams to produce incremental value

# Design Principles

## Inclusive Location Approach

- At most, 2 to 3 locations should make up a squad. At least 2 people from each location represented will be included.

## Cross-functionality

- Squads should be comprised of individuals with different functional experience and skills in order to deliver a customer outcome from end-to-end.

## Dedicated & Persistent Squads

- Squads are long-lived and adapt to new types of work without existing squads being disbanded and new squads being created. Annual planning process will include looking at groupings of work/auditable units to ensure principles are still met.

## Squad Size

- 5 – 9 Squad Members

# Internal Audit Agile Framework

PART ONE

**PART TWO**

PART THREE

PART FOUR



# Agile Approach

PART ONE

PART TWO

PART THREE

PART FOUR

	Scrum	Kanban
<b>Emphasis</b>	Quality and customer satisfaction, realization of early tangible value, while balancing cost and speed	Greater coordination across many teams and outputs with greater leadership guidance and structure
<b>Cadence and Metrics</b>	Regular fixed length sprints, measured in Velocity (amount of work finished per sprint)	Continuous flow, measured in Cycle Time (amount of time spent on one work item)
<b>Typical Work Applications</b>	Project- or product-oriented, requires creative design or business requirements and gathering of changing customer needs, shorter term planning horizons	Enterprise-wide developments, deployments, or change efforts. Many small teams, synchronization of timing of interim and final deliverables is critical, high interdependencies
<b>Roles</b>	Product Owner, Scrum Master, team members	No pre-defined roles
<b>Work Type</b>	Typically Program/Project, Non-Transactional	
<b>Teams</b>	Self-Managing, Self-Organizing	

1

Agile Adoption

2

Internal Audit Agile Framework

3

Scaling Agile

4

Agile Maturity and Early Learnings

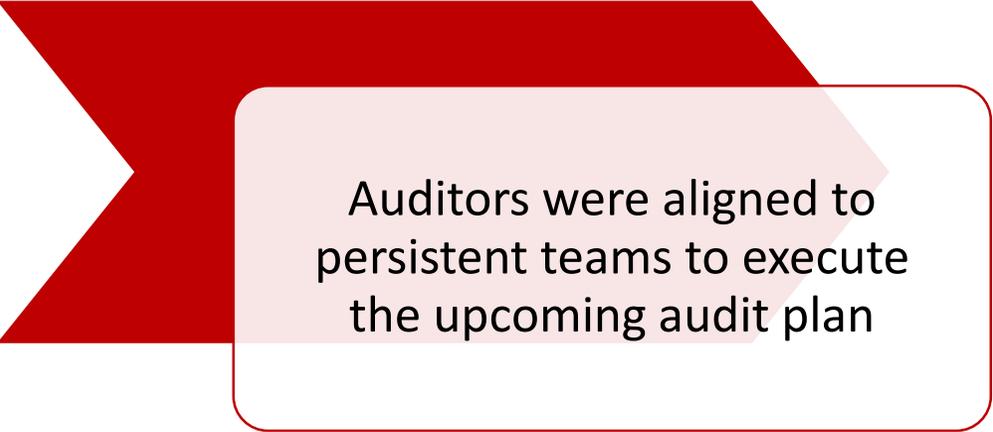
# Initial Rollout – Team Distribution

PART ONE

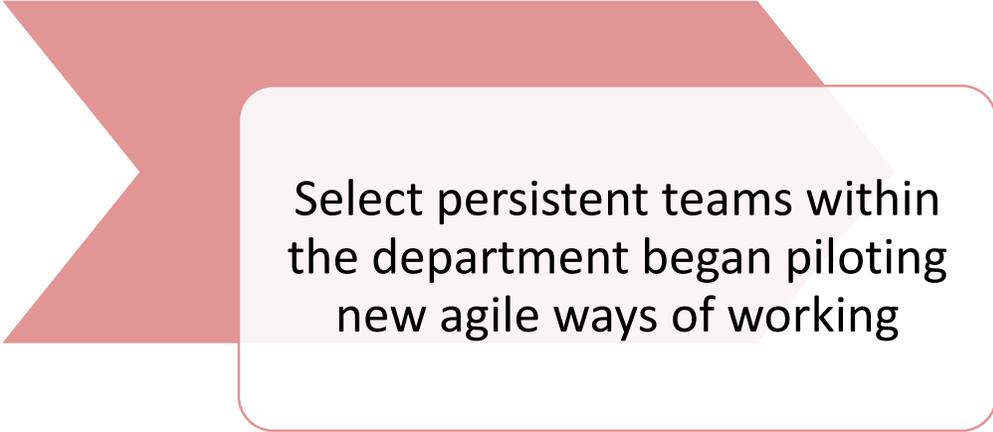
PART TWO

**PART THREE**

PART FOUR



Auditors were aligned to persistent teams to execute the upcoming audit plan



Select persistent teams within the department began piloting new agile ways of working

# Initial Rollout – Training Plan

PART ONE

PART TWO

PART THREE

PART FOUR

High-level Agile self-study training material was provided department wide

Pilot teams received two-day intensive Agile training

# Initial Rollout – Communication Strategy

PART ONE

PART TWO

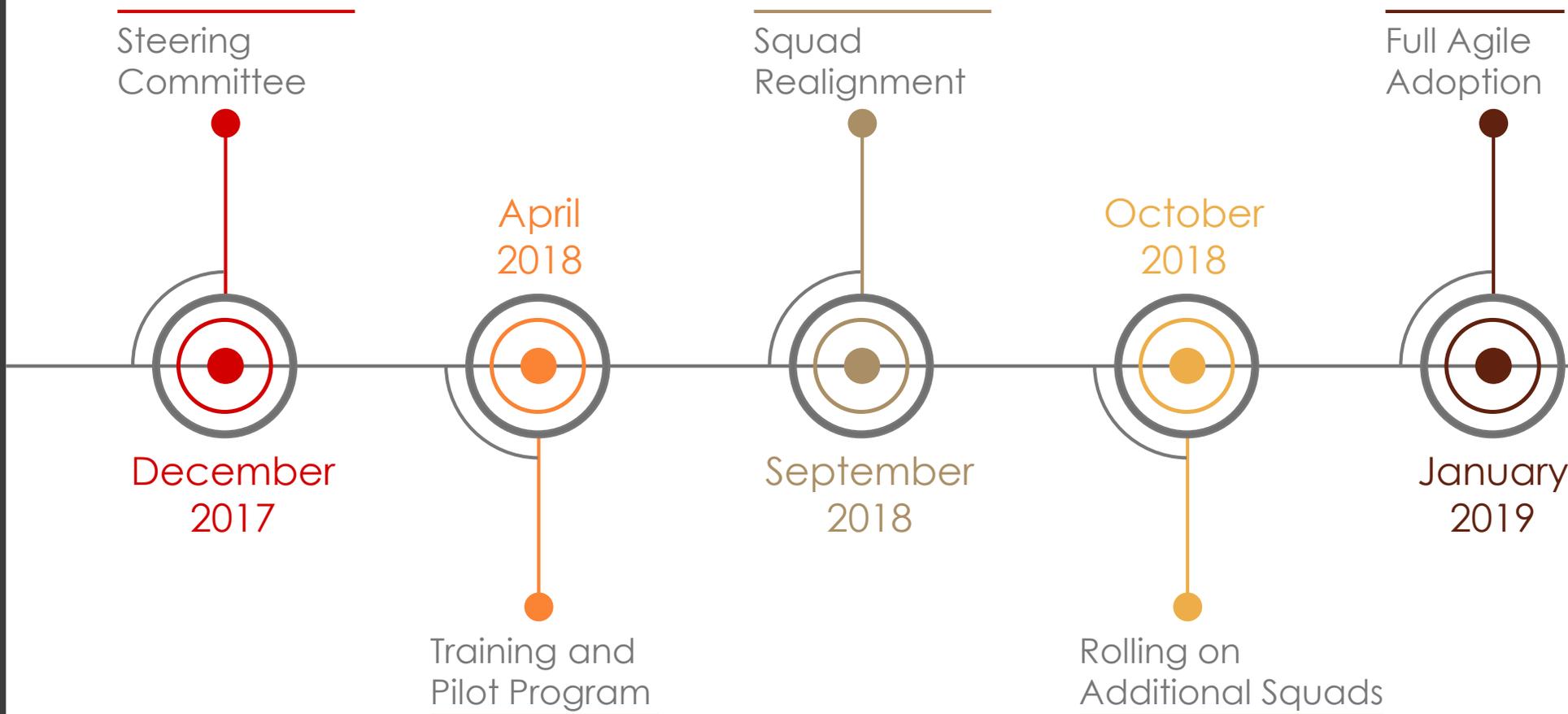
**PART THREE**

PART FOUR

Roundtable meetings with leadership, implementation announcements and status updates

Feedback loops to gather input from pilot squads and measure agile adoption

# Timeline



1

Agile Adoption

2

Internal Audit Agile Framework

3

Scaling Agile

4

Agile Maturity and Early Learnings

# Realized Agile Benefits



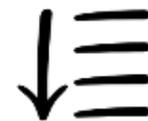
## Efficiency

Reengineered processes have enabled **streamlined, targeted, and consistent** testing and reporting based on stakeholder needs, rather than a prescriptive process.



## Speed for Highest Priority Items

**Understanding** stakeholder and business partner **priorities** has afforded audit the opportunity to provide assurance on key areas of interest to leadership and the audit committee.



## Increased Visibility and Alignment

**Collaboration** with business partners in aligning agile schedules has **improved relationships** and response times.



Agile Audit



## Knowledge to Audit Selectively

Squad members have **clear learning objectives** and function as **T-shaped** employees with broad knowledge and at least one area of specific expertise.

# Lessons Learned and Adjustments Made

- Adoption rates of Agile methodologies vary based on employee. Identifying and addressing change resistance early and often and executing change adoption activities were critical as scaling continued.
- Leaders/Product Owners had to learn to adjust management styles - servant leadership (consisting of coaching, modeling, influencing, and assisting) replaced directing and assigning work.
- Roles and responsibilities were siloed, which created knowledge/ability gaps. Initially, this made it difficult for everyone to pull tasks equally.
- It takes approximately four to six iterations (eight to 12 weeks) for a team to adapt and become proficient in new ways of working.
- Team sizes and locations needed to be optimized to avoid productivity and communication issues.