Sense and Respond: Moving Toward Real-Time Assurance
Key risks are already changing rapidly

Importance and change in risks over the last year

Percentage of audit departments

Source: Gartner 2018 Risk Sensing and Audit Agility Survey
Buffer depleted

Meanwhile, an increased quantity of risks to cover, without additional resources, absorbs any buffer the audit function once had to provide flexibility.

Key enterprise risks audit needs to provide assurance over

<table>
<thead>
<tr>
<th>Number of risks</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>n = 87 – 133</td>
<td>6</td>
<td>8</td>
<td>11</td>
<td>12</td>
</tr>
</tbody>
</table>

△ = 100%

Audit budget changes

Percentage change, adjusted for inflation

<table>
<thead>
<tr>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>3%</td>
<td>0%</td>
</tr>
</tbody>
</table>

n = 105

Source: Gartner 2016-2018 Audit Plan Hot Spots Survey; 2018 Risk Sensing and Audit Agility Survey
Source: Gartner 2015-2017 Budget and Head Count Survey

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Audit feels the pain

CAEs stating that their audit resources should have been better allocated to provide assurance over the organization’s critical risks:

- Audit resources could have been better allocated across risk areas.
- Audit did not spend the appropriate amount of time in each risk area to provide reasonable assurance.
- Audit did not devote enough resources to all critical risks.
- Audit activities in the most recently completed audit cycle did not cover the critical risks facing the organization.

Source: Gartner 2018 Risk Sensing and Audit Agility Survey

n = 88
A sizable change gap

CAE assessment of the most recent completed plan year

Average percentage of originally planned audit coverage

<table>
<thead>
<tr>
<th>Percentage of originally planned coverage</th>
<th>Changes that could not be made</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total change desired</td>
<td>• Insufficient resources</td>
</tr>
<tr>
<td></td>
<td>• Inadequate skills</td>
</tr>
<tr>
<td></td>
<td>• Lack of permission</td>
</tr>
</tbody>
</table>

Changes that should have been made

- 33%

Capacity for change

- 20%

Drivers of need for change

- Growth in number of critical key risks
- Growth in volume of risk information to process
- Pace of corporate change

n = 88

Source: Gartner 2018 Risk Sensing and Audit Agility Survey

*What percentage of your audit hours should you reallocate to better cover critical risks knowing what you know now about the risks your organization faced at the end of your last plan year?*
## The hoped-for solution

### Stated need

<table>
<thead>
<tr>
<th>Sense (processing new risk information)</th>
<th>Respond (acting on new risk information)</th>
</tr>
</thead>
<tbody>
<tr>
<td>“There’s a lot of information out there that we don’t have access to or have the resources to adequately analyze.” CAE, Telecommunications</td>
<td>“Our business changes so fast, we have to be more nimble ... We want to turn on a dime ... and be quick and responsive to the business’s ebbs and flows.” CAE, Retail</td>
</tr>
</tbody>
</table>

### Common solutions

<table>
<thead>
<tr>
<th>Talk to more people in the business</th>
<th>Make quarterly updates to the audit plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conduct more and better interviews with senior stakeholders in the business, and hold more informal meetings with them.</td>
<td>Hold quarterly meetings with audit leadership to discuss revisions to the annual plan, and make changes to the plan when very large corporate events occur.</td>
</tr>
</tbody>
</table>

### Uncommon solutions

<table>
<thead>
<tr>
<th>Apply data-driven continuous risk assessment (CRA)</th>
<th>Implement agile in the audit function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use dashboards with data and KRIs as indicators for increasing or decreasing risk across the organization.</td>
<td>Apply principles from agile methodology in audit to facilitate better execution of audit engagements.</td>
</tr>
</tbody>
</table>
# What really minimizes the gap?

**Research question:** What factors help reduce the change gap?

\[
\text{Minimize change gap } = f \left( \text{Sense: Processing new risk information}, \text{Respond: Acting on new risk information} \right)
\]

- **Sense:** Processing new risk information
  - Information sources (e.g., talk to more people in management, use data from continuous risk assessment)
  - Frequency (e.g., update risk assessment more than quarterly)
  - Method (e.g., source risk information from audit leadership, source risk information from auditors)

- **Respond:** Acting on new risk information
  - Frequency (e.g., make quarterly updates to audit plan)
  - Process (e.g., formal process for updating audit plan)
  - People (e.g., encourage engagement managers to evaluate scope changes, cross-train auditors for different audit activities)
  - Methodology (e.g., methodology with flexible engagement planning, methodology with many types of audit activities)
  - Stakeholders involved (e.g., involve business partners in analyzing risk during scoping)

## Steps taken to collect and analyze the data

<table>
<thead>
<tr>
<th>Structured research interviews</th>
<th>Gartner's Risk Sensing and Audit Agility Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>102 CAEs</td>
<td>88 participating CAEs</td>
</tr>
<tr>
<td>24 countries in North America, Europe, Africa and Asia</td>
<td>Representing 28 industries in 18 countries and organizations of all sizes</td>
</tr>
<tr>
<td></td>
<td>Additional survey of 303 staff auditors</td>
</tr>
<tr>
<td></td>
<td>Quantitative analysis of 116 methodology, resourcing, talent, structure and activity metrics</td>
</tr>
<tr>
<td></td>
<td>Statistical analysis (including correlation, regression and means test)</td>
</tr>
</tbody>
</table>
Minimizing the gap: Sense

Impact of drivers on the change gap

Percentage point reduction in gap

Sense: Processing new risk information

- Frequently solicited feedback on changes to the risk environment from all department auditors to determine coverage adjustments
- Extensive collection of risk information through data analytics, continuous monitoring, continuous risk assessment, risk workshops and control self-assessments
- Formal updates to the risk assessment more frequently than quarterly

n = 85

Source: Gartner 2018 Risk Sensing and Audit Agility Survey; model: Gartner analysis

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Minimizing the gap: Respond

Impact of drivers on the change gap

Percentage point reduction in gap

Respond: Acting on new risk information

- Audit team works together with the business to deeply analyze the risk area during audit engagement scoping
- Audit engagement managers are encouraged to evaluate possible audit scope changes during the audit
- An audit methodology that allows for flexible engagement planning throughout the audit cycle
- Formal process to update the risk assessment and audit plan through the year, separate from the annual process
- A large number of audit activity types available in the methodology to provide different levels of assurance
- Cross-training of auditors for the skills and knowledge (IT, financial, operational, data analytics) needed across different types of engagements

Source: Gartner 2018 Risk Sensing and Audit Agility Survey; model: Gartner analysis

n = 85
Minimizing the gap

Impact of drivers on the change gap

Percentage point reduction in gap

Sense: Processing new risk information

- Talk to more people in the business: 1%
- Use a broader and more up-to-date set of information sources: 8%

Respond: Acting on new risk information

- Make quarterly updates to the audit plan: 2%
- Increase flexibility in engagement execution: 6%
- Build flexibility into the audit plan: 10%

Source: Gartner 2018 Risk Sensing and Audit Agility Survey; model: Gartner analysis

n = 85

Real-time assurance
Real-time assurance

Components of real-time assurance

- **Real-time risk assessment**: Audit collects risk information from a broad set of sources on an ongoing basis and distills it in real time.

- **Real-time audit planning**: Audit allocates resources just in time, with a flexible set of coverage options.

- **Real-time engagement course corrections**: Auditors adapt scope, even during fieldwork, based on the latest risk information from a broad set of sources.

Source: Gartner analysis
A unique set of economic conditions prompts CEOs to take on unprecedented levels of change and risk. The greater volume of risk without greater audit resources absorbs whatever buffer audit functions once used to cope with change.

The volume of needed change to audit’s planned coverage now outstrips the function’s capacity to make changes, leaving a gap.

Traditional methods of addressing needed change, such as making quarterly changes to the annual audit plan, are no longer sufficient. Audit needs a new approach to allocating coverage: real-time assurance.

Audit must:
- Enable real-time changes to the audit plan
- Process a broader set of information inputs in real time
- Enable auditors to make real-time scope changes in audit engagements