Audit at the Speed of Business

Scaling Assurance in a High-Change Environment
Introduction

Audit leaders are feeling pressure to adapt their methods to the needs of more complex and faster-moving organizations. Learn how audit can scale its coverage of changing processes and high-change areas in the organization by improving its delivery of audit foresight.

Overview

Projects that were once small and scattered are now larger, more interconnected and complex. These projects initiate change in processes throughout the organization, and as a result, disrupt existing controls or create the need for new ones. In today’s less stable control environment, audit must improve its ability to support the business by anticipating risks related to new or changing processes before those risks can materialize. In other words, audit must improve its delivery of foresight.

Audit’s current approach to increasing the delivery of foresight involves deepening relationships with management, but this approach takes years and relies on scarce resources. To act fast now, audit must develop replicable foresight activities and educate the business on audit’s capabilities to attract the right information about changing processes.

Key findings

• When internal audit provides foresight as processes are changing, project teams in the business report audit meaningfully contributes to risk reduction (67%), significantly improves control design (62%), significantly helps anticipate risks (60%) and identifies issues before they have a material negative impact (60%).

• However, about three in four audit departments learn about changing business processes too late, and four in five agree they apply their coverage too late for changing business processes.

• Audit’s current approach to improve foresight — increasing capacity for consulting and advisory and gathering information through relationships with management — has no impact on its ability to provide foresight in the right changing processes.

• Developing replicable audit activities and educating the business on audit’s capabilities improves audit’s likelihood of providing foresight in the right changing processes by more than 20% for each approach.
Process changes lead to control disruptions

The quantity and complexity of projects necessary to execute initiatives is increasing. Over half of those responsible for project execution agree there are more firmwide projects than three years ago (55%), and even more agree projects are transforming the way the organization operates (69%).

When project teams execute more projects — and more complex projects — they experience significant process and risk changes. And those changes are not isolated. The interconnected nature of these projects creates ripple effects throughout the organization. Nearly half of project team members experienced significant changes to process and risk beyond their own business area. In fact, 73% of project team members reporting significant process changes in their business area also reported significant process changes in other business areas. Similarly, 76% of project team members reporting significant risk changes in their business area also reported significant risk changes throughout the organization.

As more processes simultaneously change, existing controls become ripe for revision or are rendered obsolete, meaning the control environment is less stable. Audit must offer risk and control support as the business makes control changes or builds new processes by advising on control gaps or needed revisions to existing controls to avoid increased risks.

To keep up with the pace of business, audit leaders need to get involved earlier and provide support as process changes are occurring rather than after they’ve been implemented.

Audit has already improved its ability to become nimbler and respond faster:

• Seventy-one percent of audit departments update their audit plan throughout the year as risks evolve or changes in the control environment occur.
• Twelve percent of audit departments now use agile in all their audit engagements.

Still, these improvements frequently lead audit to assess processes and controls after they are completed and stable, not when they are still in flux. In other words, audit is still providing hindsight, albeit faster hindsight.
Pace of process change necessitates audit foresight

In today’s less stable control environment, audit must improve its delivery of foresight — the anticipation of new risks and control failures related to new or changing processes (see Table 1).

Table 1: Comparison of Audit Hindsight and Audit Foresight

<table>
<thead>
<tr>
<th>Characteristics of audit hindsight</th>
<th>Characteristics of audit foresight</th>
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<tbody>
<tr>
<td>Backward-looking assessment</td>
<td>Forward-looking assessment</td>
</tr>
<tr>
<td>Evaluates stable processes after implementation</td>
<td>Elevates processes while they are in flux</td>
</tr>
<tr>
<td>Results in remediation measures and action plans for existing processes</td>
<td>Results in the identification of process and control design deficiencies before they can cause negative outcomes</td>
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Proactivity, in the form of foresight, provides clear gains. When internal audit provides foresight into inflight initiatives and changing processes, project teams report (see Figure 1):

- Meaningful contribution to risk reduction
- Significant improvement of control design
- Significant help in anticipating risks
- Identification of issues before material negative impact

Further, adequately designed controls result in fewer future audit findings, reduced assurance burden and better mitigation of risks, while identifying management’s potential blind spots helps avoid negative outcomes, such as costly rework and reputational damage. Audit also has a unique organizationwide vantage point, enabling it to be a “connector” and look across silos to point out downstream impacts of changes in one area on others that the business may miss.

Figure 1: Business-Reported Benefits of Audit Foresight

Percentage of project team members agreeing

- **67%** Meaningful contribution to risk reduction
- **62%** Significant improvement of control design
- **60%** Significant help in anticipating risks
- **60%** Identification of issues before material negative impact

n = 97
Source: 2020 Gartner Audit Business Partner Panel Survey
Most audit leaders realize foresight is something they could and should be providing the business. After all, when controls are designed adequately from the start, audit can help the organization ward off negative outcomes (such as regulatory fines, costly governance failures), meaning less rework is required. But they still aren’t doing it enough.

About three in four audit departments learn about changing business processes too late, meaning after the changes have already been implemented. They may know about strategic initiatives because they often have a seat at the table. However, they struggle to learn about the projects designed and implemented in support of those initiatives. Further, about four in five audit departments report they apply their coverage too late for changing business processes.

Learning about and covering changing business processes too late resigns audit to providing hindsight — often after the organization has already experienced negative consequences. Instead, audit leaders must enable their teams to provide better, faster, timelier and more frequent foresight.

**Relationship-based foresight strategies are insufficient**

To provide more foresight, many audit departments are focused on building relationships with management. Audit’s current relationship-based approach has two components:

- Increasing capacity for consulting and advisory
- Gathering information through building relationships

**Increased capacity for consulting and advisory**

Audit is increasing its capacity for consulting and advisory activities, such as control design assessments, readiness assessments and other forward-looking assurance activities. This increased time spent on consulting and advisory increases audit’s ability to respond to management requests. In turn, management is less likely to resist audit’s proactive approaches to support it while processes are still in flux.

Many audit leaders view this as a virtuous cycle. Management asks for audit consulting and advisory services, and audit provides them, strengthening the relationship. The improved relationship increases the volume of management requests, audit expands its capacity to do more consulting and advisory services, and management welcomes audit in more often.

Audit departments have doubled the time they spent on consulting and advisory from 5% in 2016 to 10% in 2019. However, 10% of time spend isn’t nearly enough to cover the volume of changing processes.

**Information-gathering approaches**

Management is the main source of information on where and when processes are changing. Audit is therefore working to improve its relationship with management to gain visibility into opportunities to provide foresight. Beyond general access to information and executives, building relationships with the business provides audit an inside view into the strategic objectives of the firm.

Most commonly, audit gathers this information through regular standing meetings with management (73%) and by sitting on steering and strategic planning committees (53%).
The problem with relationship-based strategies

The challenge with the relationship-building approach is that it relies on a scarce resource — tenured auditors. While audit directors and other senior auditors can successfully flex their approach for consulting and advisory services, less than one-third of chief audit executives agree their whole team can do so. As a result, most heads of audit have senior auditors perform these services.

“For these projects, 90% are done by my direct reports. The projects need more senior people because they are bespoke.”
CAE, Financial Services

Of course, these same senior auditors are necessary to perform other high-value tasks. The limited number of auditors with the necessary skills caps the consulting and advisory services that can be performed, as currently structured. Worse, less than half of audit directors have the level of relationship management skills CAEs expect.

In short, relationships take time to build and require skills audit is currently missing — but audit needs to provide foresight now.

And while relationships are not inherently bad, they do not help audit solve the specific challenge it’s facing in increasing the delivery of foresight. Even when audit teams are in the 90th percentile of either of their two relationship-based strategies, they do not improve their ability to provide foresight in the right changing processes.

Audit leaders must find another strategy to provide foresight on changing processes without relying on scarce resources.
Process-based strategies enable foresight on changing processes

Our research finds process-based strategies enable audit foresight on the right changing processes at the right times (see Figure 2). A process-based approach to foresight has two components: replicable foresight activities and information attraction approaches.

Figure 2: Impact of Relationship- and Process-Based Strategies on Audit’s Ability to Provide Foresight in the Right Changing Processes

Impact of moving from the 10th to 90th percentile

<table>
<thead>
<tr>
<th>Relationship-based strategies</th>
<th>Process-based strategies</th>
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<tbody>
<tr>
<td>Capacity for consulting and advisory</td>
<td>0%</td>
</tr>
<tr>
<td>Information gathering</td>
<td>0%</td>
</tr>
<tr>
<td>Replicable foresight activities</td>
<td>21%</td>
</tr>
<tr>
<td>Information attraction</td>
<td></td>
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n = 111 (R² = 43%)
Source: 2020 Gartner Audit at the Speed of Business Survey
Value not shown due to being statistically insignificant at the 95% confidence level.
Note: The control factor, level of access to expertise, is positively correlated with the outcome.

Foresight requires audit to capture changing processes in audit planning and to develop audit approaches that are replicable across changing processes and executable by more people in the department.

Replicable foresight activities include:

- Capturing changing processes in audit planning processes
- Developing audit products and services that can be scaled across changing processes
- Building a capability to develop products and services for evaluating changing processes
- Continually reevaluating whether audit products and services are suitable for changing processes
When audit moves from the 10th to the 90th percentile at replicable foresight activities, audit achieves 21% of the maximum improvement on providing foresight in the right changing processes in the organization.

In addition, foresight requires educating the business on audit’s capabilities and ensuring the business has a good understanding of what information on changing processes to bring to audit.

Information attraction approaches include:

- Educating the business on audit’s capabilities
- Ensuring the business has a good understanding of what information to bring to audit
- Leveraging continuous risk assessment

When audit moves from the 10th to the 90th percentile at information attraction approaches, it increases its ability to provide foresight in the right changing processes by 28%.

**Why process-based strategies work**

Process-based strategies increase audit’s ability to provide foresight in the right areas because they address the most commonly reported barriers preventing management from engaging audit while business processes are changing.

When surveyed on why it didn’t engage audit when changing business processes, management reported the following barriers:

- Belief that audit will slow it down
- Audit failing to deliver value in the past
- Not having time to reach out to audit
- Not understanding how audit can help
- It being too hard to reach out to audit

Management may avoid engaging audit while business processes are changing because it simply doesn’t view audit as a trusted business partner. However, our data shows these barriers exist even when management trusts audit, emphasizing that relationships alone are insufficient (see Figure 3). Building trust doesn’t help if audit doesn’t also improve its ability to execute in changing areas and address management’s logistical constraints.

Continued on next page
Process-based strategies, on the other hand, address these management-reported barriers. By developing replicable foresight activities, audit can deliver more consistent value through standardization and transparency and increase execution speed. Further, by educating management on the full range of audit capabilities, audit makes it easier for management to understand the breadth of ways audit can provide support and lowers the cognitive burden on management to translate what it should bring to audit’s attention.

Whether the perceptions underlying the barriers are merited, audit is in a unique position to address them to provide foresight in the right processes.

This leads to two imperatives for audit to increase its delivery of foresight when the business needs it most:

- Develop replicable foresight activities
- Attract the right information to enable foresight
How to develop replicable foresight activities

Audit foresight requires a different set of tools than what teams typically use. Audit teams that provide foresight in the right changing areas are more likely to (see Figure 4):

- Capture changing areas in the audit planning process
- Develop products and services that can be scaled across changing areas

![Figure 4: Audit Capabilities for Planning for and Executing in Changing Areas](image)

However, audit struggles to expand its ability to execute in areas with changing business processes. Each changing business process appears distinct and isolated, requiring a unique audit approach, slowing down execution and leading to costly tailored responses. To solve for this challenge, audit leaders must identify opportunities to reapply the methods used to evaluate one changing process to another.

How to attract information to enable foresight

Audit struggles to get the right information it needs to provide foresight as business processes change. Only 43% of CAEs agree the information audit gathers on changing business processes is timely enough to act on. Worse, only 28% of CAEs agree that information is comprehensive enough to act on.

Audit can’t deliver foresight without first identifying which business processes are changing, representing opportunities for foresight. This information challenge stems from management’s view on what information it should bring to audit. Management — the primary source of information — bases this view on its past interactions with audit, which mostly focus on audit’s work in stable areas. To improve its ability to deliver foresight in unstable areas, audit must actively attract the information it needs from management by better educating management on where and when it should engage audit as management changes business processes.
Conclusion

The execution of ambitious, firmwide initiatives results in broad control environment disruptions. This unstable control environment requires audit to lend support as process changes occur to avoid costly and preventable governance and control failures.

To enable audit foresight without relying on the limited supply of senior auditors, audit should identify opportunities to reapply methods used to evaluate one changing process to another and codify methods that all auditors can execute. To get the information it needs on when and where process changes occur, audit leaders should equip auditors to clearly articulate audit’s capabilities and educate management on them. When management understands how auditors can help during process changes, it is more likely to engage audit earlier, enabling more opportunities and the identification of process and control design deficiencies before they cause negative outcomes. Foresight also helps audit continue to expand its value-add and demonstrate that it is equipped to operate at the speed of business.

Recommendations

Enabling foresight to execute audit activities at the speed of the business requires audit leaders to:

- Deliver foresight more frequently by developing capabilities and tools that can be quickly and repeatedly executed as processes and controls change.
- Enable more auditors to provide foresight by codifying specific methods for executing in changing areas that enable all auditors to perform them.
- Improve audit’s ability to identify the right opportunities to deliver foresight by training auditors to clearly articulate audit’s capabilities in unstable areas and educate management on those capabilities directly.

About This Research

We conducted interviews with more than 100 heads of audit from all industries, geographies and sizes of team. We also surveyed 111 chief audit executives and conducted a panel survey of business partners to get their perspectives on how audit adds value to the business in the form of providing foresight into in-flight initiatives and in-flux processes.
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