

# Auditing Through Organizational Change

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## Preview Report

Organizations experience material change on a regular basis.

- Change can often be overused as a term. This research relates to significant organizational changes, such as those depicted in this word cloud, which is derived from earnings calls that mention different types of change between 1 May 2012 and 30 April 2015.

## A PICTURE OF MATERIAL CHANGES

Organizational Experiences of Change

*References to Change in Earnings Calls, 1 May 2012 to 30 April 2015*



Source: Factiva; CEB analysis.

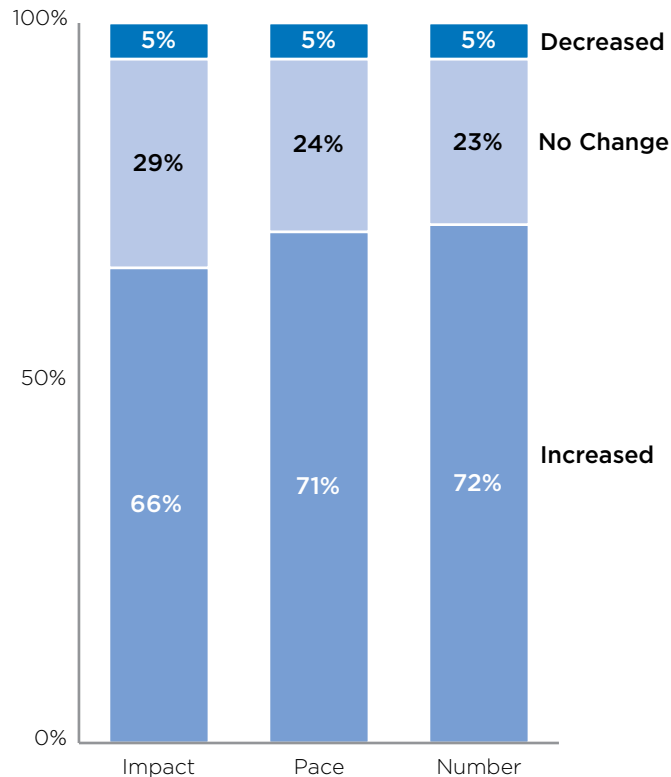
Employees feel the growing impact of change as business executives feel pressures to improve performance.

- Employees are experiencing change at increased pace and impact.
- The business pressures that are driving change—growth, cost, and speed—are themselves increasing.
- We can expect, therefore, the pace and impact of change to continue increasing.

## INCREASED CHANGE IS HERE TO STAY

Employees' Experience of Change Over the Last Three Years

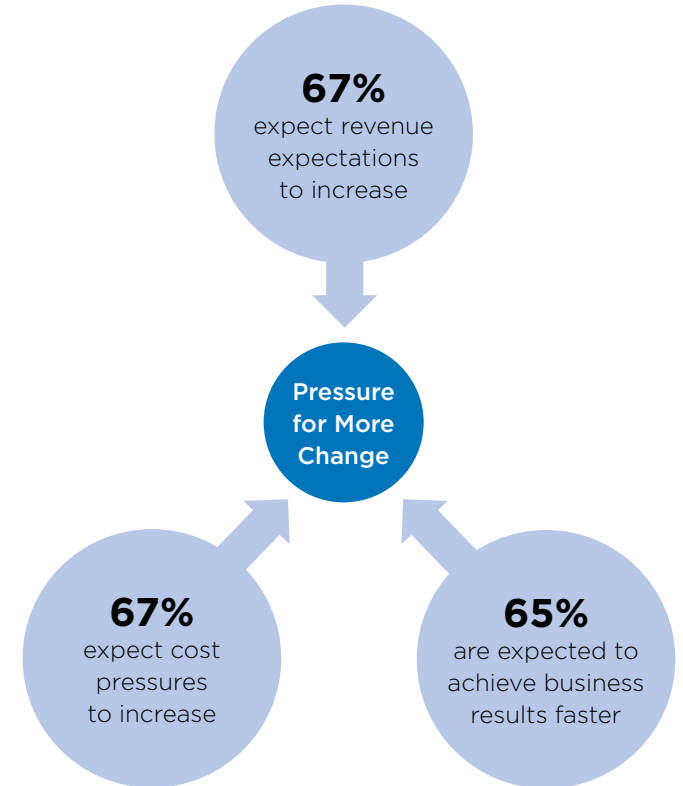
Percentage of Respondents



n = 6,206.  
Source: CEB 2015 Control Owner Survey.

Business Leader Expectations Over the Next 12 Months

Percentage of Respondents



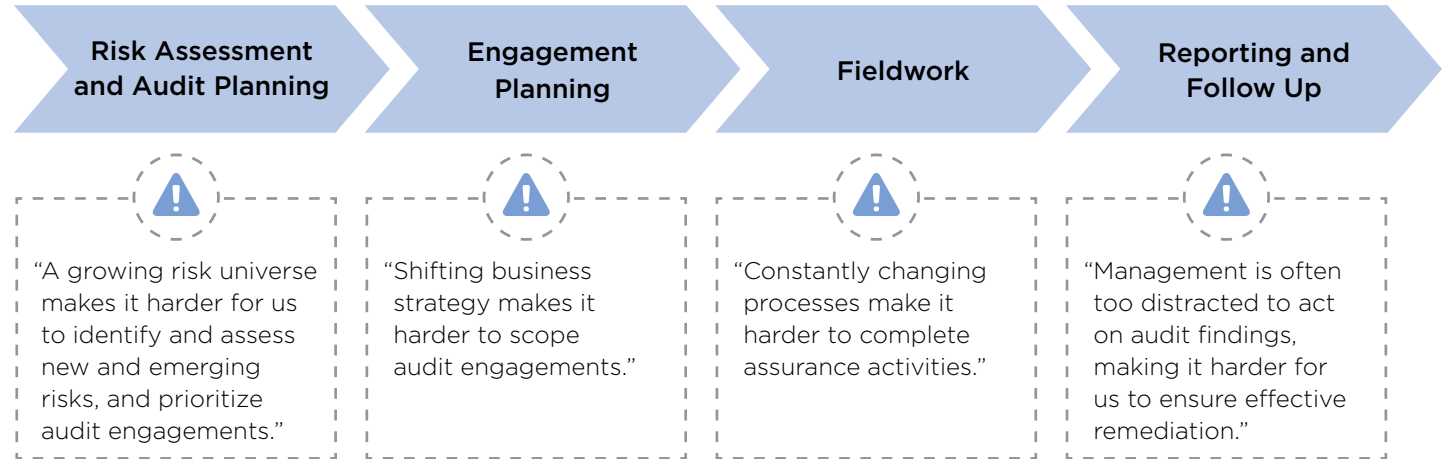
n = 1,938.  
Source: CEB 2014 Q4 Business Barometer; CEB 2014 Executive Guidance.

High rates of organizational change makes Audit's job more difficult at all stages of the Audit planning and engagement process.

- Audit executives' jobs are more difficult during risk assessment and audit planning activities.
- Individual auditors face challenges at all phases of the audit engagement.
- Top change-induced challenges cited by Chief Audit Executives (CAEs) in a recent survey:
  - Delivering assurance over changing processes
  - Allocating resources effectively
  - Identifying and assessing new risks
- Eighty-seven percent of CAEs agree that competing priorities prevent the business from effectively remediating Audit's findings.

# CHALLENGES THROUGHOUT THE AUDIT ORGANIZATION

Impact of Change on Audit Processes



Impact of Change on Audit Staff

 **Need for Different Behaviors and Mindsets**

"Providing assurance through change means conducting a lot of non-standard audits in new and unfamiliar areas. **This requires my staff to become more comfortable with ambiguity, as we are no longer just auditing against pre-defined standards.** However, traditional audit skills- and personalities- are not predisposed to the kind of flexibility that we need."

Chief Audit Executive  
Telecommunications

 **Disconnect Between Assurance Work and Risk Management Needs**

"The business needs us to provide assurance that supports the achievement of their strategic objectives. But it is very hard to keep abreast of their changing strategy. **We need to improve our awareness or we risk becoming irrelevant.**"

Chief Audit Executive  
Energy and Utilities

Source: CEB analysis.

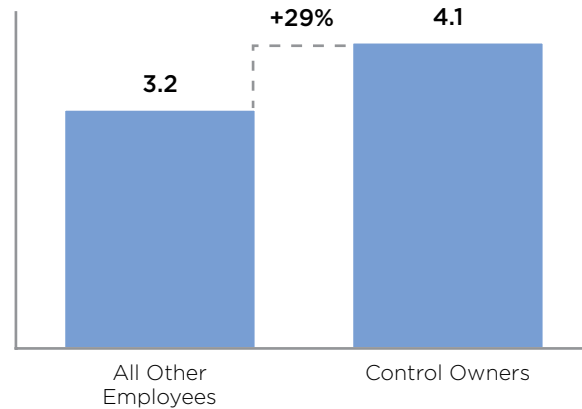
Control owners are exposed to more change than the average employee and cite a clear drop in control effectiveness when change hits their organization.

- Control owner characteristics:
  1. Representatives across the enterprise (e.g., HR, IT, Finance, Operation)
  2. Typically management
  3. Determine, maintain, or direct policies and procedures
- Control owners are more likely than other employees to experience change and to expect additional changes in the future.
- Control owners' responsibilities—determining, maintaining, or directing policies and procedures—expose them to the impacts of change, and the environmental complexity that amplifies change.
- Only 10% of control owners reported that they experienced no changes.

## CONTROL OWNERS: MOST EXPOSED TO CHANGE

Number of Change Events Experienced in the Past Twelve Months

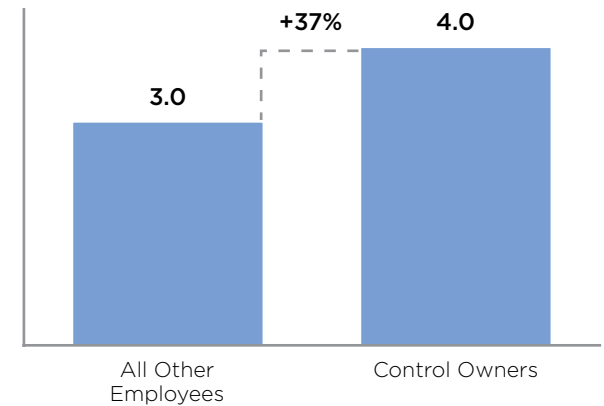
General Population Versus Control Owners



n = 6,206.  
Source: CEB 2015 Control Owner Survey.

Number of Expected Change Events in the Next Six Months

General Population Versus Control Owners



n = 6,206.  
Source: CEB 2015 Control Owner Survey.

### The most common changes cited by control owners:

- Senior leaders (34%)
- Competitive landscape (32%)
- Customer behaviors (31%)
- Organizational structure (30%)
- Technology environment (26%)
- Government regulation (26%)

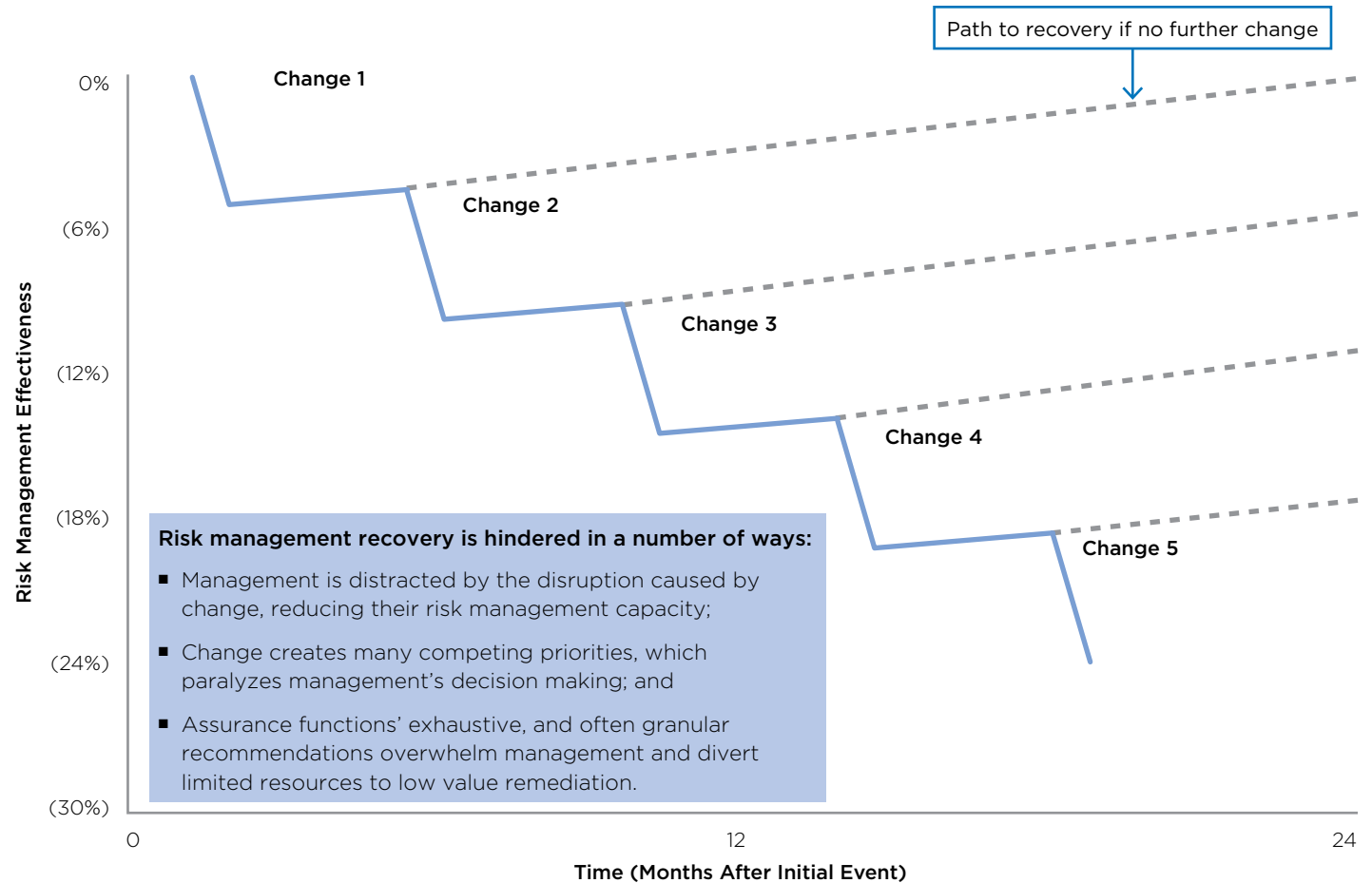
Source: CEB 2015 Control Owner Survey.

Continuous change events mean that control owners—and risk management effectiveness—never have a chance to recover.

- Change events include both larger organizational changes (e.g. leadership changes and reorganization), and more narrow changes impacting individuals (e.g. a new manager, and change in role).

## THE CUMULATIVE EFFECT OF CHANGE

Accumulated Impact of Change on Risk Management Effectiveness  
*Illustrative*

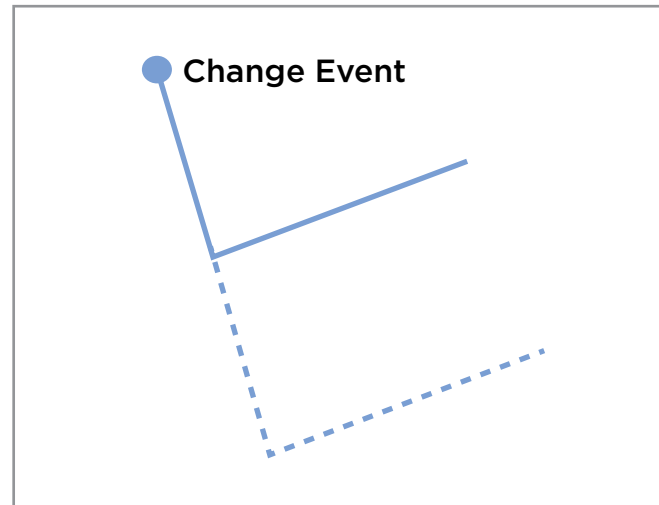


Source: CEB analysis.

Audit departments can minimize the negative impact of change on risk management effectiveness by enabling business agility.

- One imperative for enabling business agility is to minimize risk management declines.
- The other is to help the business bounce back faster from risk management declines.

## PROTECT RISK MANAGEMENT EFFECTIVENESS

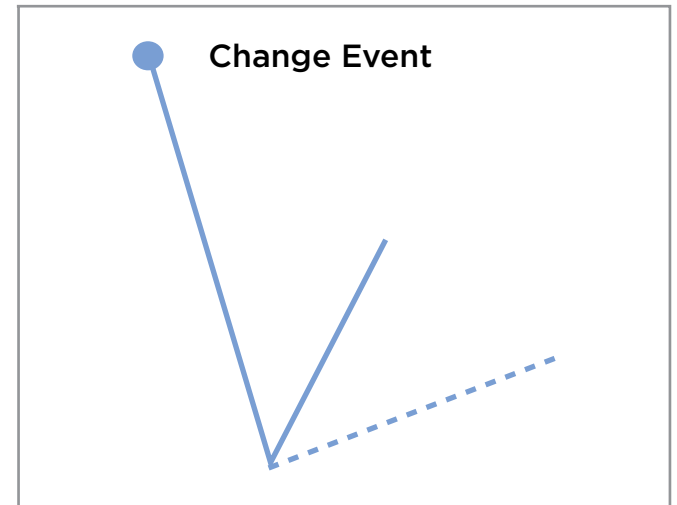


### Imperative 1: Minimize Risk Management Declines

**Problem:** Management does not recognize the full impact of change on controls until after the fact.

#### **Solution: Help Management Anticipate Risks**

Focus Audit resources on the most vulnerable areas of the control environment, to reduce the decline in effectiveness caused by change.



### Imperative 2: Bounce Back Faster from Risk Management Declines

**Problem:** Management's sense of being overwhelmed during change actually reduces their capacity to recover.

#### **Solution: Focus Remediation on the Most Critical Issues**

Reduce undue burden, distraction, or resource diversion that traditional, exhaustive assurance work creates.

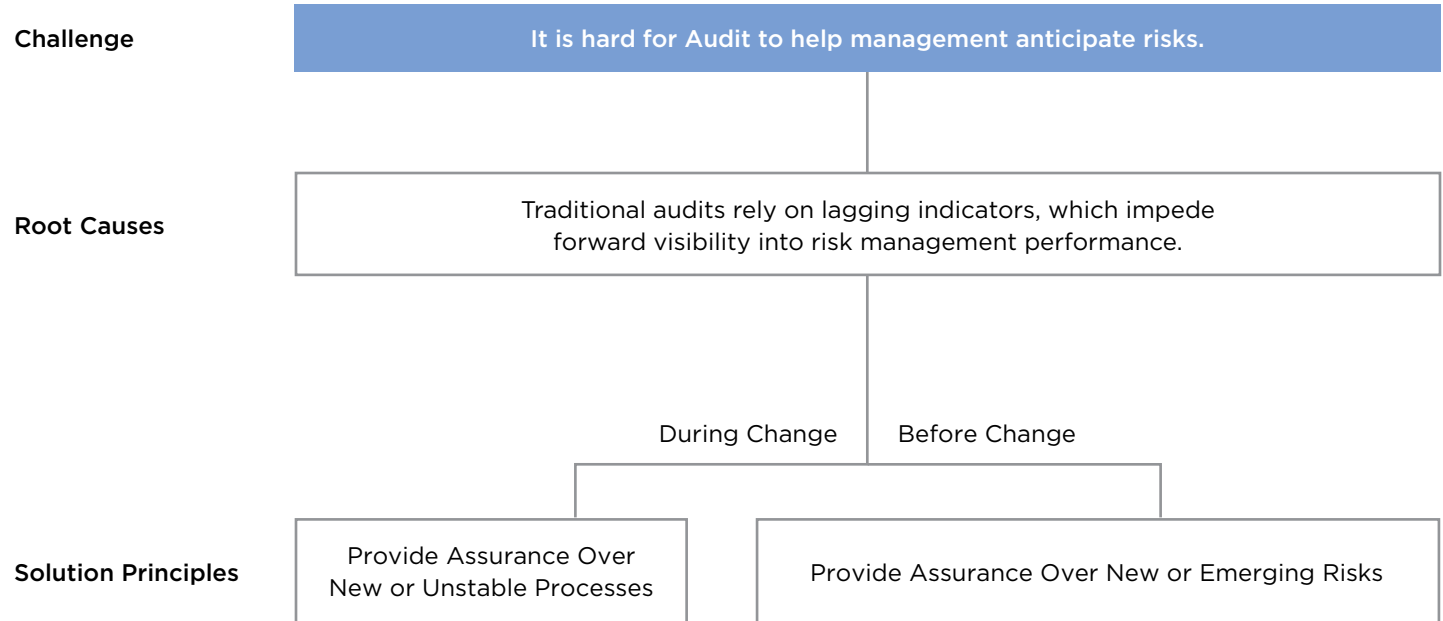
Source: CEB analysis.

Audit should play a proactive role in identifying and addressing risk management vulnerabilities caused by organizational change.

- Audit's current engagement methodology does a good job of addressing the consequences of risk management deficiencies after change occurs.
- But to reduce risk management declines, Audit must intervene earlier, before change disrupts effective risk management.

# TARGET RISK MANAGEMENT VULNERABILITIES

Root Cause Analysis





Audit should redesign its engagements to focus on only the most critical issues.

# REMOVE BARRIERS TO EFFECTIVE RISK MANAGEMENT

Audit's Challenge in Aligning with Business Needs

**Challenge**

It is hard for Audit to help focus remediation on the most critical issues.

**Root Causes**

Traditional audit engagements uncover an exhaustive set of issues.

Traditional remediation expectations overburden limited management resources.

**Solution Principles**

Re-scope engagements to focus only on the most critical vulnerabilities.

Encourage management to defer remediation of findings based on their level of criticality.

## KEY TAKEAWAYS

- Today organizations confront frequent, material changes at a time when interdependence and diffuse decision making amplify the impact of these changes. Control owners are disproportionately exposed to organizational change.
- This pace of change also challenges Audit, whose staff and traditional methods function best when processes are relatively stable and the organization's risk exposure evolves slowly.
- Control owners who are exposed to change suffer a temporary, but significant decrease in their performance and therefore observe a significant increase in control deficiencies (i.e., a "risk management shock"). Each subsequent change now comes before control owners can recover from the previous one, which will steadily erode management effectiveness over time.
- The impact of strategies to build Audit's own agility is severely limited by the diminished capacity of control owners to respond to Audit's work.
- Audit can provide better assurance and add more value by enabling greater business agility, specifically through:
  - Adapting audit methods to enable management to anticipate and reduce risk management shocks; and
  - Focusing remediation on solely the most critical issues.

Source: CEB analysis.

**Contact us to dive deeper into the full report, including case studies from leading companies. And learn how CEB can help your team respond to the challenge of "auditing through organizational change" by executing activities that address the root causes of risk management failures.**