



Creating the Internal audit strategic plan





- Your role in the planning phases of the Internal Audit process
- Determine the impact that an entity's industry, environment and processes have on the internal audit plan
- Identify how decisions made during the planning phases effect the other phases in your internal audit





What are the components of Strategic Planning?





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1.0 Strategic Analysis

2.0 Enterprise 3.0 Internal Audit Plan Development

Risk

Assessment

4.0 Execution & Reporting

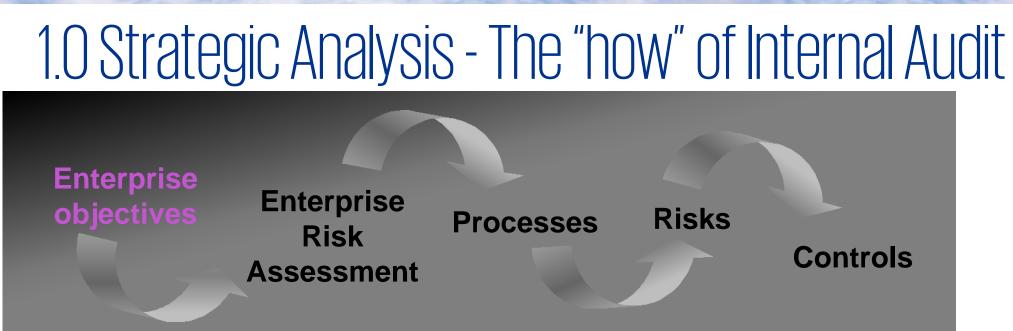
1.1 Understand the Business

1.2 Stakeholder Needs Analysis



1.3 Provide the Right IA Strategy





- Why is it important to understand the organisation's objectives and strategy?
- At which stage in the engagement life cycle does it usually happen?





Business Process Analysis



Strategic Management Processes



Core Business Processes and Sub-Processes



Resource Management



Structured set of activities designed to produce a specific output within an entity



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Capture Information Gathered Business Understanding Document (BUD) Business Model

ABCD

Insert Client Name BUSINESS UNEDRSTANDING DOCUMENT Prepared by: [insert name] Date: [insert date]

Client Background
[Insert summary of client back ground based on research performed]
Client Objectives and Strategies
[Insert key client objectives and strategies based on research performed]
Organization Structure
[Insert organizational chart if available and/or description of structure]
Client Financials
Client Financials

[Insert cross reference to financial report and/or include key financial details]

Business Model Example (Consumer Products)

Existing Competitor	s, Foreign Competitors, New Ent	ss Drivers and Sta rants, Private Label, Su umers, Customers, Sup	ıbstitutes, Shareholders	, Regulators, Alliance
Markets	Strategic Mgt Process	Alliances	Core Services/	Customers
			Products	and send here has
	Core Business			Wholesalers
Wholesalers		Suppliers	Grains	Grocery Retailers
Retailers	Processes	Customers	 Sugars Citrus fruits 	Food Service
netuners	 Manage Product Portfolio 	Customers	Vegetables	
Vertical	Sell Products	Foreign Entrants	Livestock	Mass Merchandise
Manufacturers	 Procure Materials Manufacture Products 		• Dairy herds	Club Stores
	Distribute Products	Private/Brand	• Poultry	Department Stores
Governments	Serve customers	Other Consumer	• Red meat	
Foreign Markets		Products	 Fruit beverage processing 	Specialty Retail
		Companies	Cereal products	Consumers
	Resource Mgt		• Beverages	Niche Market
	Processes	Wholesaler	• Tobacco products	Customers
	Information Mgt	Distributor	Personal care	Alliances
	Property Mgt	Distributor	 Apparel Housewares 	
	Financial/Treasury Mgt		Appliances	Government
	Regulatory Mgt Human Resources Mgt		 Sporting goods 	





Giraffe Industries - Client Background

Business Understanding Document – Giraffe Industries (GI) The following BUD has been prepared for the training client, GI.

Giraffe Industries (GI)

BUSINESS UNDERSTANDING DOCUMENT

Prepared by: George P. Smith

Date: 06/20/2012

Client Background

Giraffe Industries (GI) is a public company based out of Southern California (United States) with operations that spread across the globe including major facilities in Canada, Japan, Mexico and Germany. GI is a video game manufacturer and distributes many popular video game titles for both computers and video games consoles. The company was founded in 1990 and after a few years of unsuccessful titles it developed the breakthrough hits Sonic Roadrunner and Super Martian Brothers.

GI operates in a very competitive video game market. There are several large competitors and up and coming organizations that battle for market share, increasing the importance of developing innovative products that meet their target audience.

While most organizations in the video game industry specialize in either software development or software publishing, GI is one of the few organizations that performs both of these functions internally. Traditionally independent software developers will create concepts for video games and pitch their ideas to software publishers who will decide whether to fund projects to retain exclusive rights for their





Giraffe Industries - Objectives, Strategies & Organisational Structure

Client Objectives and Strategies

GI's organizational objective is to deliver innovative video game titles that become top selling titles in their respective genres. GI believes this objective can be achieved through extensive market research, effective advertising campaigns and video games that appeal to their chosen markets.

Organization Structure

The GI organization has its functions organized by geography:

United States – Executive Canada – Support Services (Finance, Information Technology, Human Resources) Japan – Software Development Germany – Software Publishing Mexico – Manufacturing





Giraffe Industries - Client Financials

Client Financials

Fiscal year-to-date net revenue was \$55 million – dropping 30 percent fiscal year-year to-date versus last year.

GI has produced 10 new video game titles over the last two years, but unfortunately all of these titles have fallen short of their sale projection.

GI has reduced operating costs and projects fiscal year 2015, costs down \$18 million versus fiscal year 2014.

GI's online games subscribers totaled 470.000 in the quarter

In the fourth quarter of the fiscal year net revenue is expected to have somewhat recuperated and close at \$135 million, down 13 percent compared to the previous year





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Giraffe Industries - Business Model

Business Model

External Business Drivers and Stakeholders: Intense compatition; Accolade, 989 Studios and Xseed Games among others. Console/computer manufacturers; Nintendo, Microsoft and Atari SA. Outsourced marketing functions to Aussie Adverts and is certified by the National Gaming Ratings Association (NGRA) Customers: Males between ages of 14 to 28.

Markets	Strategic Management Process		Alliances	Core Services / Products:	Customers
- Development of software	Core Business Process		- Aussie Adverts	Designing video game software	-Males between ages of 14 to 28
-Distribution of software	System Management, Design and Development	Risk Management	- Nintendo - Microsoft	- Action/Adventure	- Customer base is segmented
- Sold across the glob e	Contract Administration	Account Management	- Sony - Xbox	- Role Playing games	according to game release
 GI online store Retail outlets 	Customer Operations and Suppo	rt		- Sports games	
	Resource Management P	rocesses			
	Human Resources Management	Legal / Regulatory Compliance			
	Information Technology and Support Management	Facilities Management			





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Giraffe Industries - Business Process Diagram

Business Process 6.0 Develop and Manage 7.0 Manage Information 8.0 Manage Financial MAJOR PROCESS Human Capital Technology Resources Create and manage human resources Manage the business of information Perform planning and budgeting planning and strategies technology Develop andmanage IT customer Recruit, source and select employees Perform revenue accounting relationships SUB PROCESSES Develop and counsel employees Manage business resiliency and risk Perform management reporting Rewardand retain employees Manage enterprise information Manage fixed assets Re-deploy and retire employees Develop and maintain IT solutions Manage Payroll Manage employee information Deploy IT solutions Manage Accounts payable Deliver and support IT services Manage treasury operations Manage IT knowledge Manage taxes B. Create a Shared Services C. Expand into New A. Implement SAP Function Markets NITIATIVES Expand Retail Division into China Create a Shared Services Function for Implement SAP across Corporate and Expand Retail Division in Africa Payroll, Procurement, Accounts Retail divisions Payable and Accounts Receivable Establishnew Distribution Business in Australia





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5.0

Continuous

Improvement

4.0 Execution

& Reporting

2.0 Enterprise Risk Assessment (ERA)

3.0 Internal

Audit Plan

Development

1.0 Strategic Analysis

> 2.1 Understand the Client's Enterprise Risk Management (ERM) Process

2.0 Enterprise Risk

Assessment

2.2 Perform an Enterprise Risk Assessment 







Enterprise Risks - ERM and ERA



Vs.





Enterprise Risk Management (ERM) ENTITY Enterprise Risk Assessment (ERA) INTERNAL AUDITOR



Enterprise Risk Assessment Maturity

Understand the client's ERM approach & ERA maturity





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Process Subprocess		Risk	Gross Risk Assessment		sment	Control	Residual Risk Assessment			Control	
Process	Supprocess	NISK	Impact	Likelihood	Overall	Conaron	Impact	Likelihood	Overall	Strength	
Marketing	Research	Allocating resources to video game developments where demand does not exist	5	4	20	Software prototypes need to be approved by the VP of Publishing prior to production	3	3	9	11	
Accounts payable	Royalties	Royalty payments are not recorded in the correct period or accurately calculated	4	4	16	Royalty payments are approved quarterly by the Corporate Controller	2	3	6	10	
Financial Reporting	Forecasting	Sales forecasts are inaccurate	4	4	16	VP of Sales reviews and approves all forecasts before they are submitted to the annual budget.	3	2	6	10	
Security	Access to information	Unauthorized access to intellectual property	4	5	20	GI login is required to access internal systems	3	2	6	14	
Procurement	Contracting	Contractual terms and conditions are not being met	5	3	15	GI representatives are assigned responsibility for managing each alliance relationship	4	3	12	3	
Human resources	Retention	Knowledge capital is being lost with the departure of employees in game development	4	4	16	A job shadowing program exists within the game development group	2	2	4	12	
Production	Reporting	Management reporting is inaccurate and untimely	4	3	12	Production reporting information is generated in Floortron and reporting is reconciled to the system before distribution	2	2	4	8	
Marketing	Advertising	Public image is damaged from advertising campaigns	5	4	20	Campaign expenditures are reviewed by the CFO.	5	3	15	5	





Damaged public image?

Risk

Process	Sub- process	Risk	Gross Impact Assessment		
Marketing	Advertising	Public image is damaged from advertising campaigns	Impact 5	Likelihood 4	Overall 20

Control

	Residual Risk Assessment	Control strength
Campaign expenditures are reviewed by the CFO	Overall 15	5





	LIILU			VICUIA		
	Almost Certain	High	High	Critical	Critical	Critical
	Likely	Moderate	High	High	Critical	Critical
;	Possible	Low	Moderate	High	Critical	Critical
	Unlikely	Low	Low	Moderate	High	Critical
	Rare	Low	Low	Moderate	High	High
		Insignifica nt	Minor	Moderate	Major	Catastro phic

Enterprise Risk Matrix

Any risks falling into the top right hand corner of the matrix exceed the organisation's tolerability/ appetite and should be mitigated.

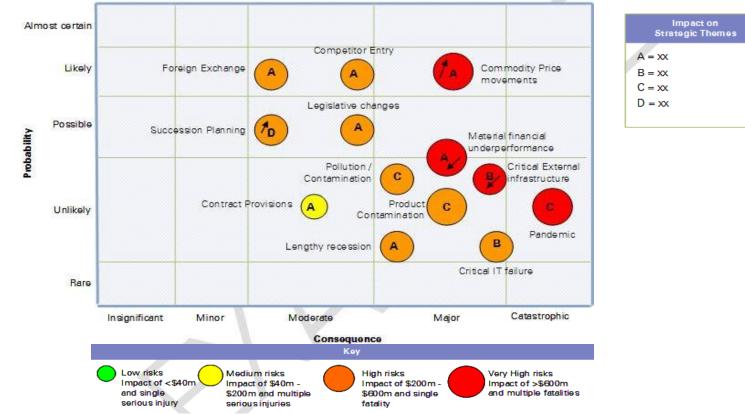


Magnitude of Impact



Enterprise Risk Heat Map

Completion of the *ERA* allows us to have a better understanding of the client's *Risk Profile*, as demonstrated below.

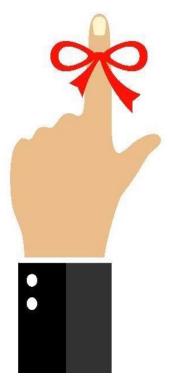






Key Points to Remember!

- Understanding your entity will allow you to tailor your audit approach appropriately.
- Engagement teams should focus on the entity's key business risks and consider the related processes that exist to manage those risks.
- Strategic Analysis and Enterprise Risk Assessment Activities may be performed concurrently.
- ERA is not a one-time activity. It is an ongoing activity typically driven by significant changes in the entity's risk profile.





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3.0 Develop the internal audit plan





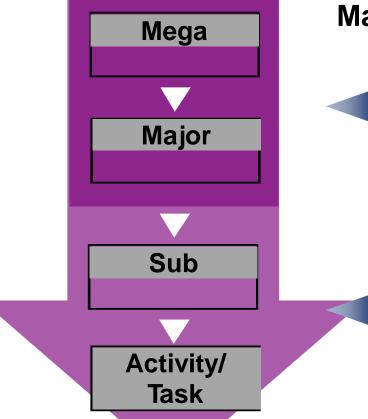
Identify areas of focus

Make a detailed assessment of KEY risk areas





Identify areas of focus



Make a detailed assessment of KEY risk areas

Annual Planning: Focuses on Mega and
Major process levels to identify key focus areas to be included in the Annual Internal Audit Plan.

Project Execution: Our internal audit fieldwork focuses on controls at the Subprocess and Activity/ Task levels that mitigate key risks identified during the risk assessment and annual planning processes.





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Identify areas of focus - Risk Register Decisions

			1								
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How were decisions made?

Risk

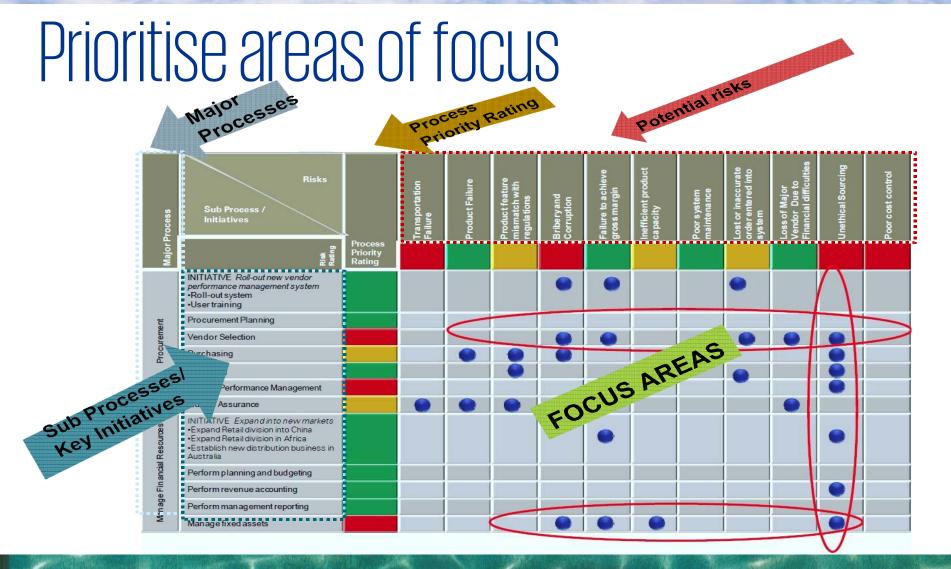
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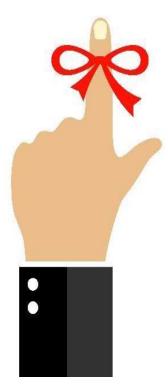






Key Points to Remember!

- Information or data obtained during one phase of the IA methodology may impact and/or support one or more other phases.
- Understanding the entity's background and objectives will allow you to focus on the areas of most importance when performing the fieldwork.
- Internal Audit Plans vary by entity, industry and type of engagement.











Questions





THANK YOU