



Creating the Internal audit strategic plan

Objectives

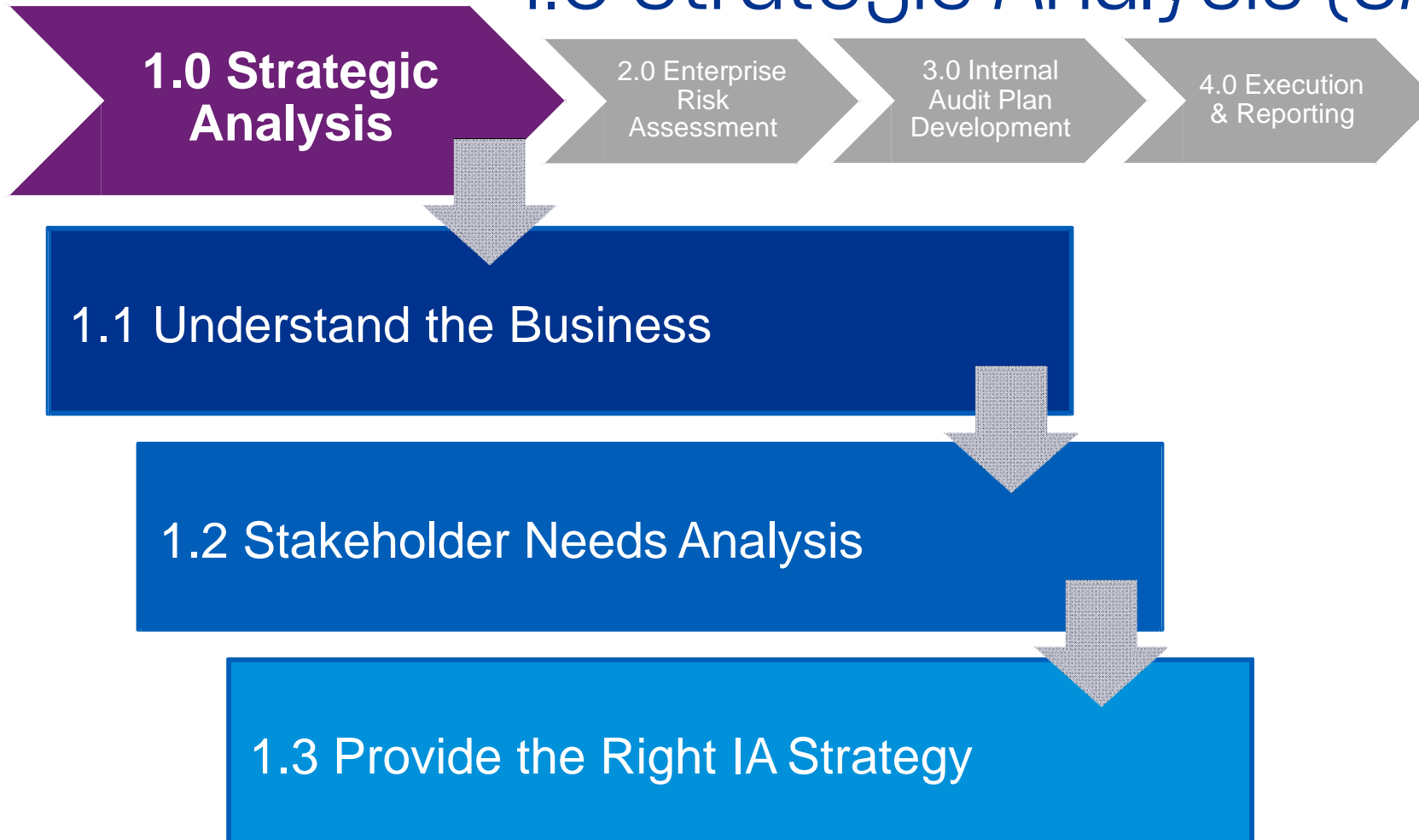
- Your role in the planning phases of the Internal Audit process
- Determine the impact that an entity's industry, environment and processes have on the internal audit plan
- Identify how decisions made during the planning phases effect the other phases in your internal audit



What are the components of Strategic Planning?



1.0 Strategic Analysis (SA)



1.0 Strategic Analysis - The “how” of Internal Audit



- 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**



Capture Information Gathered

Business Understanding Document (BUD)

ABCD

Insert Client Name

BUSINESS UNEDRSTANDING DOCUMENT

Prepared by: [insert name]

Date: [insert date]

Client Background
[Insert summary of client background 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
[Insert cross reference to financial report and/or include key financial details]

Business Model

Business Model Example (Consumer Products)



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



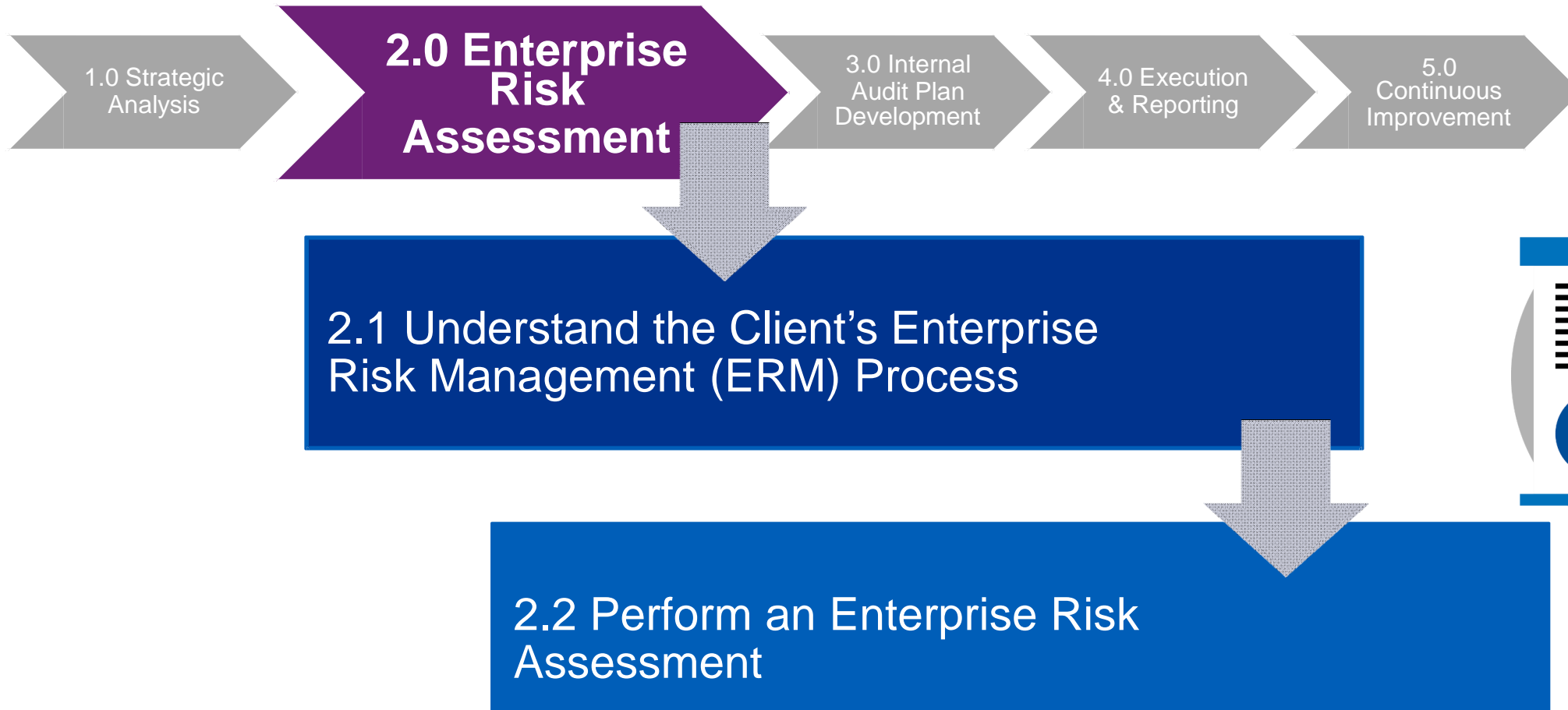
Giraffe Industries – Business Model



Giraffe Industries – Business Process Diagram



2.0 Enterprise Risk Assessment (ERA)





Enterprise Risks – ERM and ERA



Enterprise Risk
Management (ERM)

ENTITY

Vs.



Enterprise Risk
Assessment (ERA)

INTERNAL AUDITOR



Enterprise Risk Assessment Maturity

Understand the client's ERM approach & ERA maturity



Risk Register

Process	Subprocess	Risk	Gross Risk Assessment			Control	Residual Risk Assessment			Control Strength
			Impact	Likelihood	Overall		Impact	Likelihood	Overall	
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

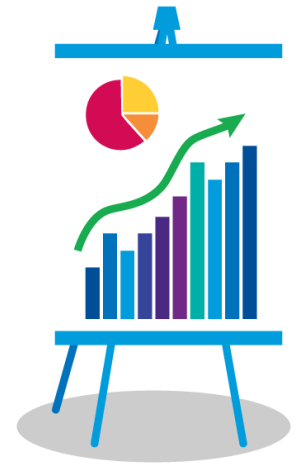
Control	Residual Risk Assessment	Control strength
Campaign expenditures are reviewed by the CFO	Overall 15	5



Enterprise Risk Matrix

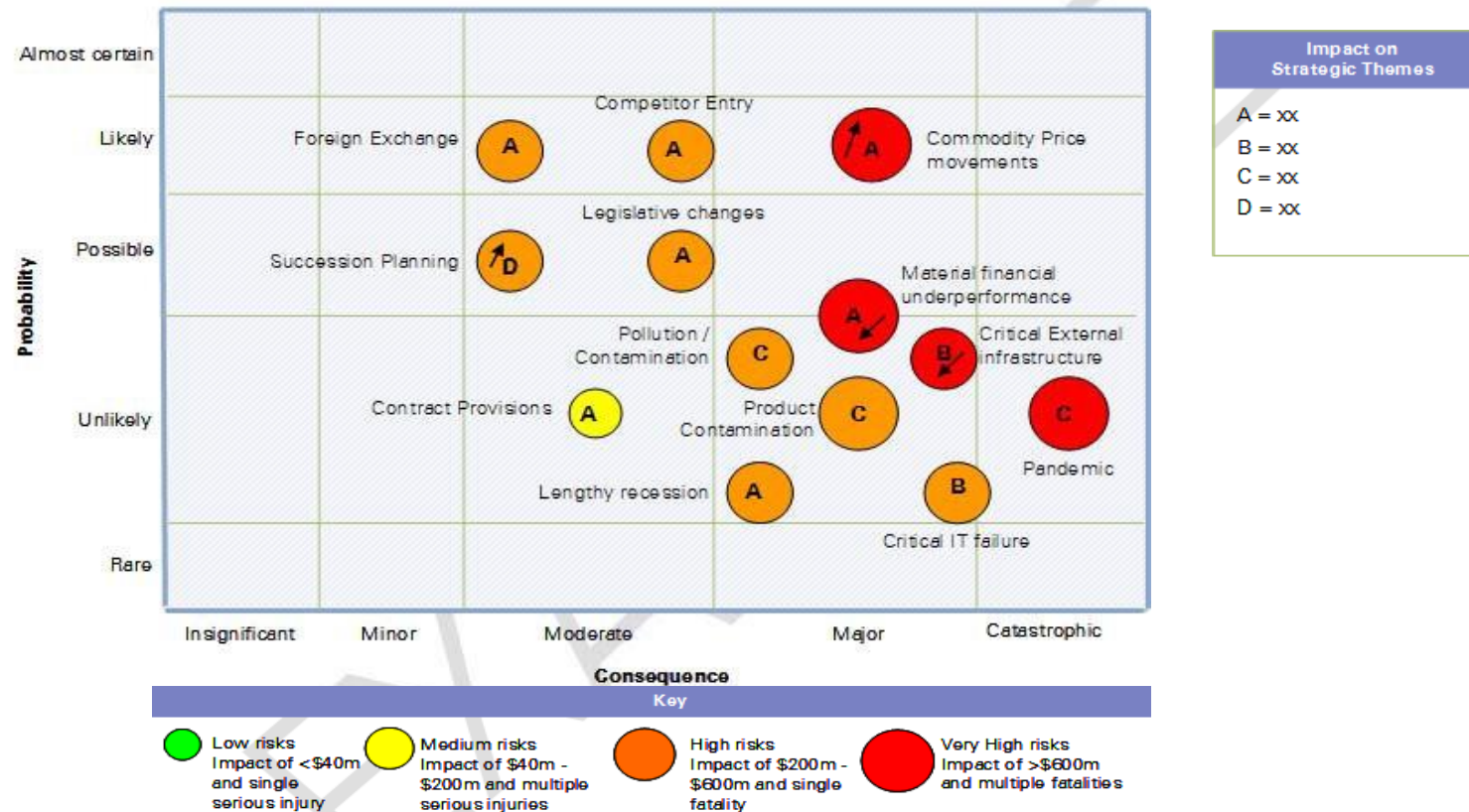
Likelihood of Occurrence	Almost Certain	High	High	Critical	Critical	Critical
	Likely	Moderate	High	High	Critical	Critical
	Possible	Low	Moderate	High	Critical	Critical
	Unlikely	Low	Low	Moderate	High	Critical
	Rare	Low	Low	Moderate	High	High
		Insignificant	Minor	Moderate	Major	Catastrophic
		Magnitude of Impact				

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



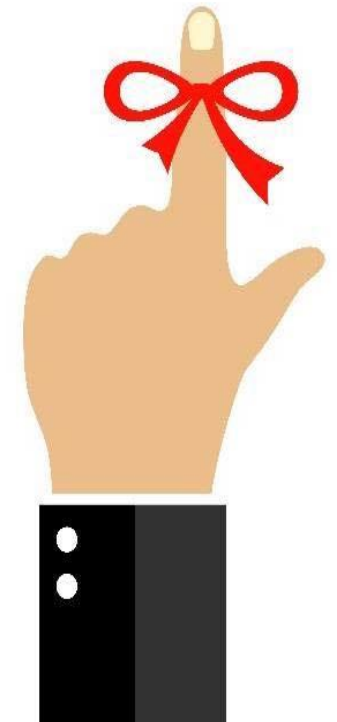
Enterprise Risk Heat Map

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

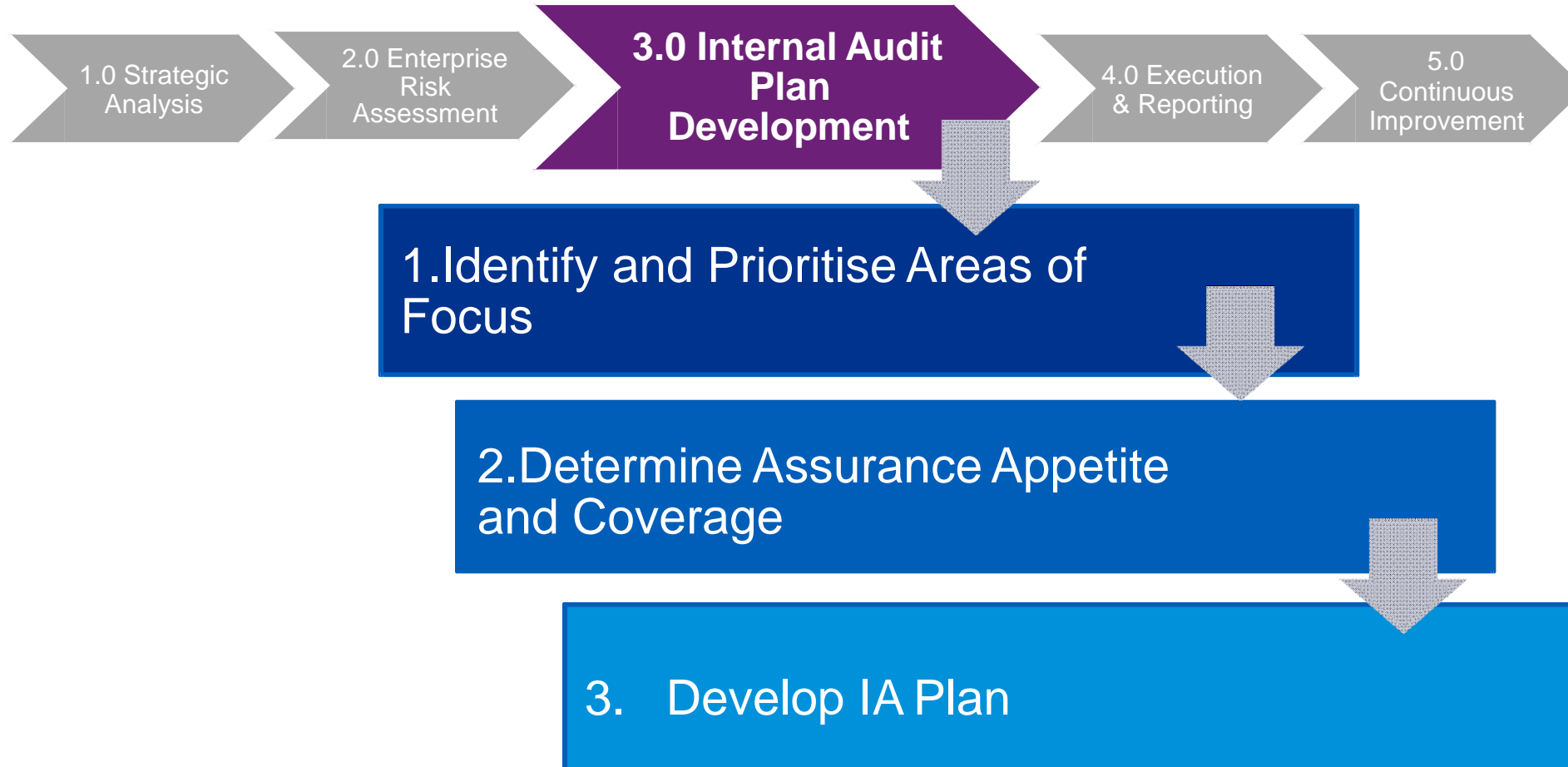


Key Points to Remember!

- 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.



3.0 Develop the internal audit plan

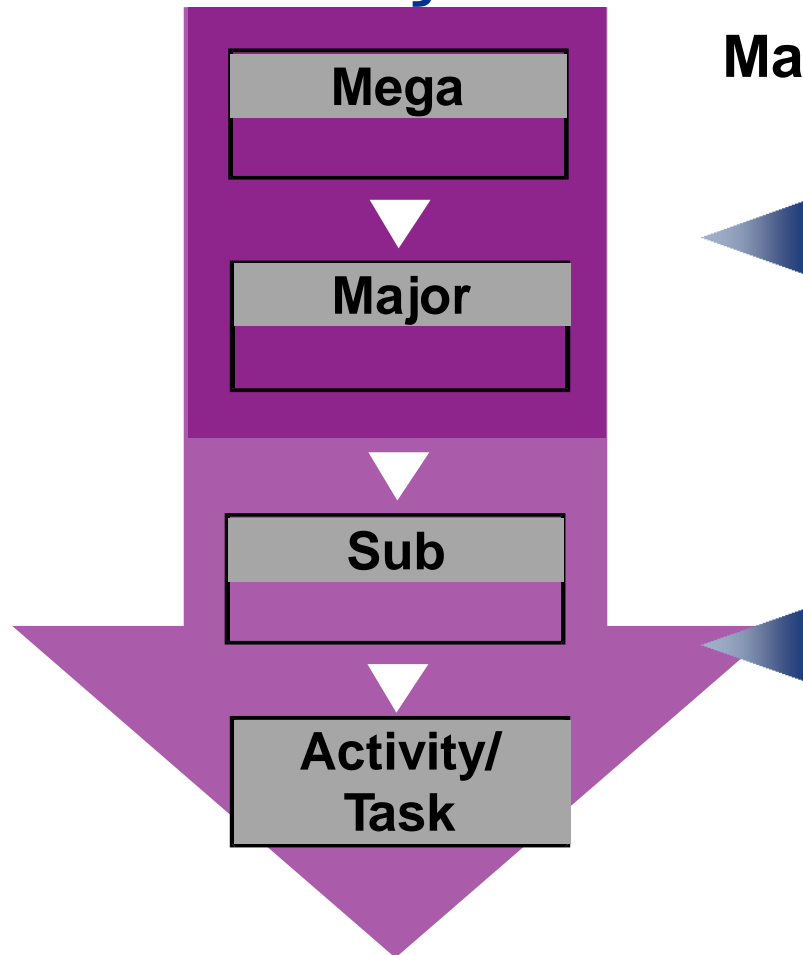


Identify areas of focus

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 **Sub-process** and **Activity/ Task** levels that mitigate key risks identified during the risk assessment and annual planning processes.



Identify areas of focus - Risk Register Decisions

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How were decisions made?

■ Risk

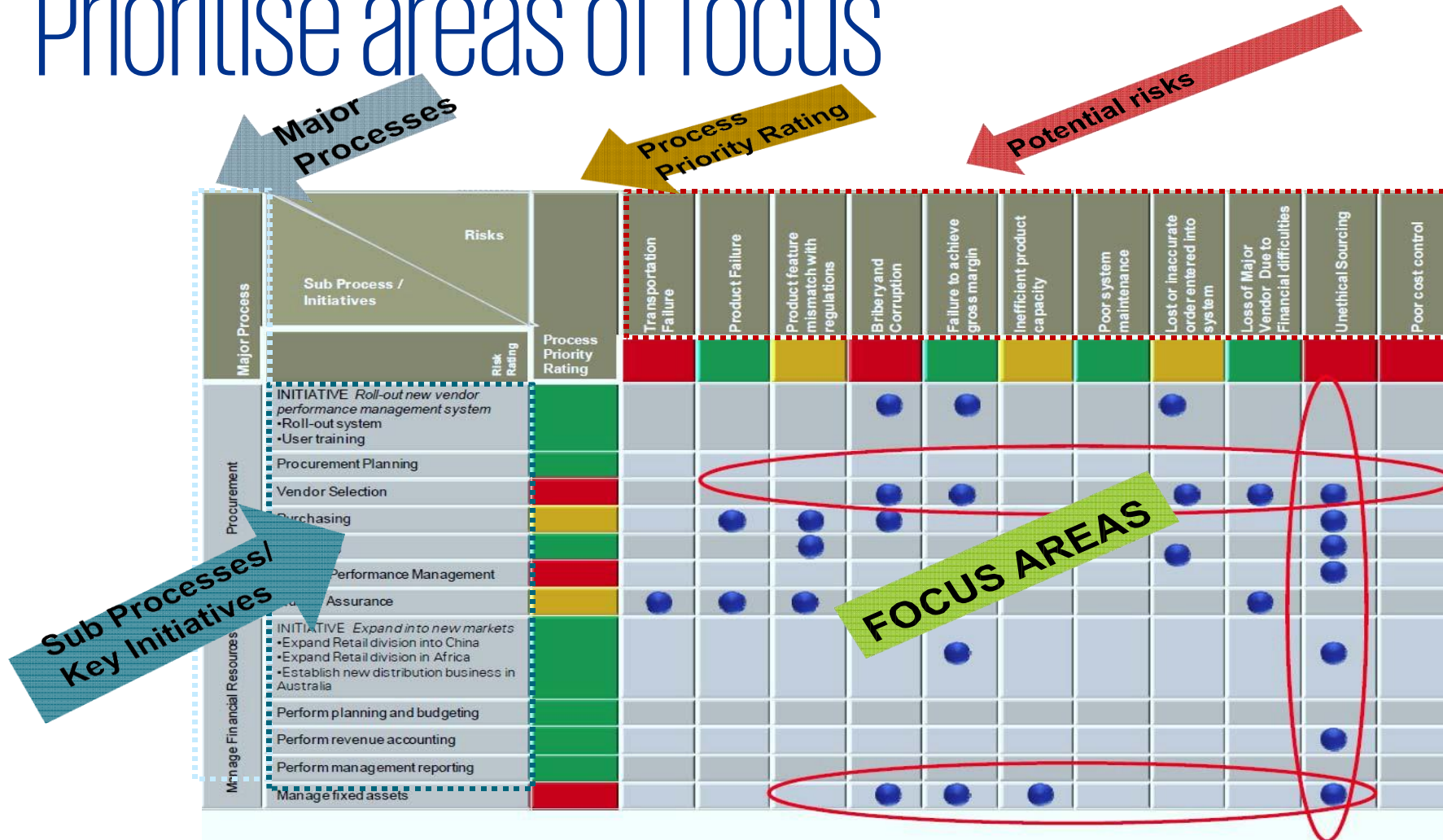
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■ Control

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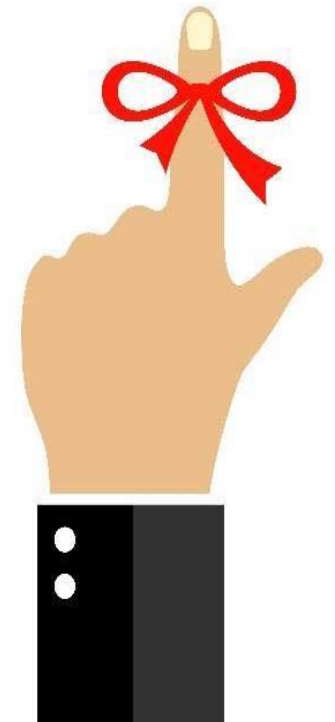


Prioritise areas of focus



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.



COMMITMENT

MEANS

STAYING LOYAL

**TO WHAT YOU SAID
YOU WERE GOING TO DO**

LONG AFTER

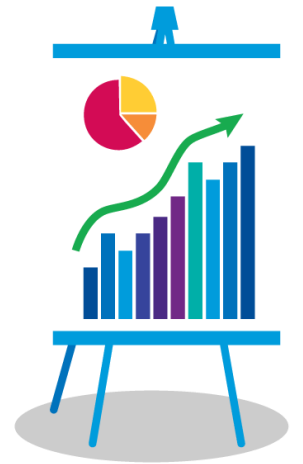
THE MOOD

YOU SAID IT IN

HAS LEFT YOU



Questions



THANK YOU