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?

- Strategic Analysis
- Enterprise Risk Assessment
- Internal Audit Plan Development
- Execution & Reporting
- Continuous Improvement
1.0 Strategic Analysis (SA)

1.0 Strategic Analysis

1.1 Understand the Business

1.2 Stakeholder Needs Analysis

1.3 Provide the Right IA Strategy

2.0 Enterprise Risk Assessment

3.0 Internal Audit Plan Development

4.0 Execution & Reporting

Continuous Improvement

1.1 Understand the Business
1.2 Stakeholder Needs Analysis
1.3 Provide the Right IA Strategy

Internal Audit Development

Execution & Reporting

Continuous Improvement
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**

**BUSINESS UNDERSTANDING 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)

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**Business Model**

**Business Model Example (Consumer Products)**

**External Business Drivers and Stakeholders**
- Existing Competitors
- Foreign Competitors
- New Entrants
- Private Label
- Substitutes
- Shareholders
- Regulators
- Alliance Groups
- Consumers
- Customers
- Suppliers

**Markets**
- Wholesalers
- Retailers
- Vertical Manufacturers
- Governments
- Foreign Markets

**Strategic Mgt Processes**
- Core Business Processes
  - Manage Product Portfolio
  - Sell Products
  - Produce Materials
  - Manufacture Products
  - Distribute Products
  - Serve customers

**Alliances**
- Suppliers
- Customers
- Foreign Entitites
- Private/Brand
- Other Consumer Products Companies

**Core Services/Products**
- Grains
- Sugars
- Citrus Fruits
- Vegetables
- Livestock
- Dairy Herbs
- Poultry
- Red Meat
- Fruit Beverages Processing
- Cereal Products
- Beverages
- Tobacco Products
- Petcare
- Apparel
- Housewares
- Appliances
- Sporting Goods

**Customers**
- Wholesalers
- Grocery Retailers
- Food Service
- Mass Merchandise
- Club Stores
- Department Stores
- Specialty Retail
- Consumers
- Niche Market
- Customers
- Alliances
- Government
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 1980 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
## 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
## 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

External Business Drivers and Stakeholders: Intense competition; Accolade, 889 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.
Giraffe Industries - Business Process Diagram

Business Process

<table>
<thead>
<tr>
<th>MAJOR PROCESS</th>
<th>SUB PROCESSES</th>
<th>INITIATIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.0 Develop and Manage Human Capital</td>
<td>Create and manage human resources, planning and strategies</td>
<td>Implement SAP across Corporate and Retail divisions</td>
</tr>
<tr>
<td></td>
<td>Recruit, source and select employees</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Develop and counsel employees</td>
<td>Create a Shared Services Function for Payroll, Procurement, Accounts Payable and Accounts Receivable</td>
</tr>
<tr>
<td></td>
<td>Reward and retain employees</td>
<td>Expand Retail Division into China</td>
</tr>
<tr>
<td></td>
<td>Retire and retire employees</td>
<td>Expand Retail Division in Africa</td>
</tr>
<tr>
<td></td>
<td>Manage employee information</td>
<td>Establish new Distribution Business in Australia</td>
</tr>
<tr>
<td>7.0 Manage Information Technology</td>
<td>Manage the business of Information Technology</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Develop and manage IT customer relationships</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manage business resiliency and risk</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manage enterprise information</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Develop and maintain IT solutions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Deploy IT solutions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Deliver and support IT services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manage IT knowledge</td>
<td></td>
</tr>
<tr>
<td>8.0 Manage Financial Resources</td>
<td>Perform planning and budgeting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Perform revenue accounting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Perform management reporting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manage Fixed assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manage Payroll</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manage Accounts Payable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manage Treasury operations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manage taxes</td>
<td></td>
</tr>
</tbody>
</table>
2.0 Enterprise Risk Assessment (ERA)

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

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

ERM Maturity

Advanced

Mature

Weak
## Risk Register

<table>
<thead>
<tr>
<th>Process</th>
<th>Subprocess</th>
<th>Risk</th>
<th>Gross Risk Assessment</th>
<th>Control</th>
<th>Residual Risk Assessment</th>
<th>Control Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>Research</td>
<td>Allocating resources to video game developments where demand does not exist</td>
<td>5 4 20</td>
<td>Software prototypes need to be approved by the VP of Publishing prior to production</td>
<td>3 3 0</td>
<td>11</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>Royalties</td>
<td>Royalty payments are not recorded in the correct period or accurately calculated</td>
<td>4 4 16</td>
<td>Royalty payments are approved quarterly by the Corporate Controller</td>
<td>2 3 0</td>
<td>10</td>
</tr>
<tr>
<td>Financial Reporting</td>
<td>Forecasts</td>
<td>Sales forecasts are inaccurate</td>
<td>4 4 10</td>
<td>VP of Sales reviews and approves all forecasts before they are submitted to the annual budget</td>
<td>3 2 0</td>
<td>10</td>
</tr>
<tr>
<td>Security</td>
<td>Access to information</td>
<td>Unauthorized access to intellectual property</td>
<td>4 6 20</td>
<td>GL login is required to access internal systems</td>
<td>3 2 8</td>
<td>14</td>
</tr>
<tr>
<td>Procurement</td>
<td>Contracting</td>
<td>Contractual terms and conditions are not being met</td>
<td>5 3 15</td>
<td>Oil representatives are assigned responsibility for managing each alliance relationship</td>
<td>4 3 12</td>
<td>3</td>
</tr>
<tr>
<td>Human resources</td>
<td>Retention</td>
<td>Knowledge capital is being lost with the departure of employees in game development</td>
<td>4 4 16</td>
<td>A job shadowing program exists within the game development group</td>
<td>2 2 4</td>
<td>12</td>
</tr>
<tr>
<td>Production</td>
<td>Reporting</td>
<td>Management reporting is inaccurate and untimely</td>
<td>4 3 12</td>
<td>Production reporting information is generated in Floortron and reporting is reconciled to the system before distribution</td>
<td>2 2 4</td>
<td>8</td>
</tr>
<tr>
<td>Marketing</td>
<td>Advertising</td>
<td>Public image is damaged from advertising campaigns</td>
<td>5 4 20</td>
<td>Campaign expenditures are reviewed by the CFO</td>
<td>5 3 15</td>
<td>5</td>
</tr>
</tbody>
</table>
### Damaged public image?

#### Risk

<table>
<thead>
<tr>
<th>Process</th>
<th>Sub-process</th>
<th>Risk</th>
<th>Gross Impact Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>Advertising</td>
<td>Public image is damaged from advertising campaigns</td>
<td>Impact 5, Likelihood 4, Overall 20</td>
</tr>
</tbody>
</table>

#### Control

<table>
<thead>
<tr>
<th>Control</th>
<th>Residual Risk Assessment</th>
<th>Control strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>Campaign expenditures are reviewed by the CFO</td>
<td>Overall 15</td>
<td>5</td>
</tr>
</tbody>
</table>
# Enterprise Risk Matrix

<table>
<thead>
<tr>
<th>Likelihood of Occurrence</th>
<th>Almost Certain</th>
<th>Likely</th>
<th>Possible</th>
<th>Unlikely</th>
<th>Rare</th>
<th>Insignificant</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High</td>
<td>Moderate</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Minor</td>
</tr>
<tr>
<td>Magnitude of Impact</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td></td>
<td>Critical</td>
<td>Critical</td>
<td>Critical</td>
<td>High</td>
<td>High</td>
<td>Major</td>
</tr>
<tr>
<td></td>
<td>Critical</td>
<td>Critical</td>
<td>Critical</td>
<td>High</td>
<td>High</td>
<td>Catastrophic</td>
</tr>
</tbody>
</table>

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.

Impact on Strategic Themes

A = XX
B = XX
C = XX
D = XX

Key
- Low risk: Impact of <$10m and single, serious injury
- Medium risk: Impact of $10m - $200m and multiple serious injuries
- High risk: Impact of $200m - $500m and single fatality
- Very high risk: Impact of >$500m and multiple fatalities
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

1.0 Strategic Analysis
2.0 Enterprise Risk Assessment
3.0 Internal Audit Plan Development
4.0 Execution & Reporting
5.0 Continuous Improvement

1. Identify and Prioritise Areas of Focus
2. Determine Assurance Appetite and Coverage
3. Develop IA 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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<td>Impact: 3, Likelihood: 5, Overall: 6</td>
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<td>Impact: 2, Likelihood: 3, Overall: 6</td>
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How were decisions made?

- **Risk**

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- **Control**

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</table>
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