Internal Audit Plan Preparation – Providing Value for the Organization

Richard Arthurs CMA, MBA, CIA
My Background

20+ Years of International Finance, Audit and Risk Management Experience
13 Years with General Mills Inc. in Canada, US and UK
Managed audits, investigations, and risk in over 40 countries.
Now CAE with AltaLink/Berkshire Hathaway Energy in Calgary

Chair of IIA Canada - National Thought Leadership Committee
Chair of Benchmarking Committee - Strategic Risk Council – Conference Board of Canada
ERM Facilitator - Institute of Corporate Directors
To improve is to change; to be perfect is to change often.

-Winston Churchill
1. Your Internal Audit Value Proposition
Value starts with the strategy and objectives of the business
Achieving Strategy =
Effective Controls + Risk Management
(Make the connection easy to see)
Supporting Corporate Strategy

20xx
Company Strategy

- Drive Profitable Growth in Developed Markets
- Aggressively Capture Growth
- Assure Organizational Readiness to Resource Future Growth

Internal Audit
Supporting Strategies

1. World-Class Risk Assessment and Insight
2. Integrated Assurance Partnerships
3. Optimized Resource and Technology Utilization
Addressing Accelerating Change

3yr. GIA LRP
Supporting Strategies

1. World-Class Risk Assessment and Insight

2. Integrated Assurance Partnerships

3. Optimized Resource and Technology Utilization

- Acquisitions
- Globalization
- Emerging Technology
- Emerging Markets
- Economic Uncertainty
- 3rd Party Reliance
If you do not make it simple for leaders to value Internal Audit they probably won’t.
Past Year Accomplishments
(Market Your Internal Audit Value)

• Recovered $M Due to 3rd Party Billing Errors
• Supported Key Strategic Decisions
• Reduced Work Time Required by # Hours/Month
• Significantly Enhanced Cyber Security Controls
• Identified & Investigated Fraud Cases
2. Optimize Your Continuous Risk Assessment Agility
Never before has the risk universe of a business seen so much constant change.

New emerging risk is becoming very common.
Key Strategy 1: World-Class Risk Assessment & Insight

1. World-Class Risk Assessment and Insight

2. Integrated Assurance Partnerships

3. Optimized Resource and Technology Utilization
Risk Universe (Excluding Fraud & IT)

* Ernst & Young
IT Risk Universe

- Non-compliance with regulators
- Non-compliance with software license contracts
- Un-supported applications
- Critical system failures
- Unable to handle load
- Configuration issues
- Damage to services
- Inflexible IT architecture
- Theft
- Obsolete technology
- Disclosure of sensitive data
- Corruption of data
- Unauthorized access
- Failure to mine information
- Operator errors during backup or maintenance
- Breakdown of operational processes
- Loss of key resources
- Inability to recruit IT staff
- Mismatch skills
- Lack of business knowledge
- Intrusion of malware
- Virus attacks
- Website attacks
- Poor patch management
- Utilities failures
- Natural disasters
- Labour strikes
- Environmental sanctions
- Poor service levels
- Data leakage
- Inadequate support
- Lack of assurance
- Budget overruns
- Significant delays
- Poor quality of deliverables
- Ineffective change control
- Intrusion of malware
- Virus attacks
- Website attacks
- Poor patch management
- Utilities failures
- Natural disasters
- Labour strikes
- Environmental sanctions
- Loss of key resources
- Inability to recruit IT staff
- Mismatch skills
- Lack of business knowledge

* Ernst & Young
Audit Plan Development

Value proposition:

- Demonstrate linkage between risk assessment and audit plans
- Clear linkage to business strategy, ERM and IA priorities
- Justifiable audit plan coverage to Audit Committee, External Auditors, etc.
- Provide proactive risk prevention & management advisory services

*Ernst & Young LLP*
Prioritized Risks from Risk Assessment
Management and Audit Committee Expectations
C-SOX/SOX Compliance
Rotation And Follow-Up
Special Projects or Unplanned Audits

Prioritize Projects
Allocate Against Available Resources
Finalize Audit Plan Projects
Reconcile with Audit Committee

* Ernst & Young

Not all risks are covered in the Plan
Top 10 Risks vs. ERM Top Risks

- Internal Audit
- Independent Risk Assessment
- Top 10 Risk Areas

1. 2. 3. 4. 5. 6. 7. 8. 9. 10.

- Gross Risk
- Residual Risk (after controls, but before risk treatment plans)
- Risk Target (where you are planning to manage the risk - after risk treatment plans)
3. Define Your Role as The Trusted Strategic Advisor
It takes time to build trusting relationships.

Becoming the Trusted Strategic Advisor requires consistent value delivery.
Align IA Strategy to Value Added Advisory

**World-Class**
IA Strategies:
1. World-Class Risk Assessment and Insight
2. Integrated and Specialized Assurance Partnerships
3. Optimized Resource & Technology Utilization

**High Performing**
- Utilize ERM Intelligence
- Emerging Risk Advisory Projects
- Comprehensive Audits and Data Analytics
- Optimized Resource & Technology Utilization

**Non-Negotiable**
- Financial and Compliance Assurance
- Corporate Governance
- Maintain Independence
- Pipeline of Leadership Talent for Finance
A Trusted Strategic Advisor is Aware of Risk Appetite, Capacity and Tolerance.
Advise on Intelligent Risk Taking

Exhibit 1: Optimal Risk-Taking

- Insufficient Risk-Taking
- Optimal Risk-Taking
- Excessive Risk-Taking

Expected Enterprise Value

Risk Level

“Sweet Spot”
Being the Trusted Strategic Advisor requires partnership with all assurance providers.
Key Strategy 2: Integrated Assurance Partnerships

1. World-Class Risk Assessment and Insight

2. Integrated Assurance Partnerships

3. Optimized Resource and Technology Utilization

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### Project Outputs

Example combined assurance mapping output

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Power and Utilities CAE Roundtable

PwC
4. Link Value and Risk, to Your Planned Audit Activity
Never Assume Anyone Understands the Value an Audit or Advisory Can Deliver
Define Audit vs. Advisory

**Non Traditional Assurance**

- **Undefined** Risk and Controls
- **High Level of Change / Future Focus**
- IA Focus: **Risk Advisory**
- Example: Cyber Security

**Emerging Risk**

- **Moderately Defined** Risk and Controls
- **Medium Level of Change / Present & Future Focus**
- IA Focus: **Assurance Audits & Risk Advisory**
- Example: Integration

**New Risk Focus or Process**

- **Highly Defined** Risk and Controls
- **Medium to Low Level of Change / Past & Present Focus**
- IA Focus: **Assurance Audits**
- Example: Financial Audits

**Standard Risk Coverage**

**Traditional Assurance**

**Internal Audit**
Independent Risk Assessment

**Top 10 Risk Areas**

1. 2. 3. 4. 5. 6. 7. 8. 9. 10.
Plan Every Audit to Ensure it Will Deliver Obvious Value
# Internal Audit Plan

## Traditional Assurance

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## Non Traditional Assurance
# 3 Year Audit Plan

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4. Resource Optimization
Recruit Leaders & Help Them Become Passionate About the IA Value Proposition
Key Strategy 3: Optimized Resource and Technology Utilization

1. World-Class Risk Assessment and Insight

2. Integrated Assurance Partnerships

3. Optimized Resource and Technology Utilization
The Best Internal Audit Shops
Only Recruit Future Leaders
Who Love to Learn
Emphasize Professional Credentials

Undergraduate Degree:
MBA:
If You Cannot Deliver Value Efficiently then Consider Data Analytics
Data Analytics
Executive Dashboards
5. Continuous Improvement
The Best Way to Manage Audit Client Expectations is by Gaining Alignment on a Maturity Assessment
Maturity Maps

- **Level 1**: Awareness of Process
- **Level 2**: Repeatable Process
- **Level 3**: Defined Process
- **Level 4**: Managed Process
- **Level 5**: Optimised Process

The Maturity Curve
New COSO Model

Control Environment
1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment
6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

Control Activities
10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

Information & Communication
13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring Activities
16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies
6. Reporting & Grading
Great CAE’s Must Perfect the Art of Managing Expectations
# Audit Tracking

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Audit Committee Update

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[Bar chart showing distribution of ratings]

• Well Controlled: 5.5
• Satisfactory: 3.5
• Needs Improvement: 4

[Pie chart showing percentage]

- 31%
- 42%
- 27%

20xx YTD

[Bar chart showing distribution of ratings]

• Well Controlled: 4
• Satisfactory: 1
• Needs Improvement: 2

[Pie chart showing percentage]

- 29%
- 14%
- 57%
A High Value Audit Shop is a Development Engine for Future Leaders
Value Proposition
Straight Ahead

Questions ??