- Conduct and maintain a skills inventory of all staff members to ensure adequate aggregate internal audit expertise to fulfill mission
- Assign staff on audit projects to provide all the requisite skills and abilities without under or over staffing the projects
- Implement adequate management controls and processes to ensure adequacy of training and operational performance for all staff members. Ensure staff exercises due professional care on all assignments

ADDITIONAL CONSIDERATIONS

- Internal Audit team composition enables better risk identification, risk quantification, testing, evaluation and communication

- Complete implementation of risk-advantaged internal auditing may cause the organization to:
  - ◊ Skip audit of every auditable entity in the universe
  - ◊ Perform reduced audit procedures where risk is determined to be less
  - ◊ Fail to report areas of lesser significance (the weak link in the chain theory)

- Risk-Advantaged Internal Auditing, however, does allow the Internal Audit Activity to be in a defensible position to demonstrate competence and due professional care

- Due to reduced testing of transactional areas, it is possible that some errors, irregularities or frauds might not be surfaced in the traditional sampling or testing process

2010 – Planning *"The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals."*

YCN GROUP™

YCN Group, LLC (www.ycngroup.com) is a group of seasoned internal audit professionals working to collaborate on enhancing Governance, IT, Internal Auditing, Risk Management and Internal Control Identification and Testing in client organizations. We are known for applying innovative yet practical thinking to meet or exceed client expectations.

Our portfolio of offerings include:

SOFTWARE: ycnSUITE—a browser-based audit productivity solution offering extensive capabilities at a lower total cost. The product includes:

- **ycnAUDIT**—audit management including:
  - ∗ Audit Universe Identification and Risk Assessment,
  - ∗ Audit Project Creation and Tracking,
  - ∗ Audit Issue Development, Reporting and Resolution Tracking,
  - ∗ Audit Time Tracking and Reporting
  - ∗ Workpaper Control, Maintenance and Version Control
  - ∗ Enhanced Client Communication
- **ycnCASE**-case management system for ethics, forensic, HR case management and reporting
- **ycnINTEGRITY**-a dual purposed system for both GRC and Engagement Risk activities

ycnINTELLIGENCE-artificial intelligence software for fraud and forensic detection and analysis

CONSULTING: A wide array of services to assist in internal audit, risk assessment, controls, project management, fraud and training.

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PRESENTATION NOTES

◆ **COSO 2013 Framework**

◆ **Risk Advantaged Internal Auditing**

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Risk-Advantaged Internal Auditing

DEFINITION

Recognizing and Capitalizing on Risk Analysis Techniques to guide the Definition of the Audit Universe and Impact every step of the audit process. The end result is to Audit the most Risk with the Minimal Amount of Audit Rigor and Resource, to Identify and Report on Organizational Risk Exposures Above Management's Risk Tolerance Level

AXIOM #1—Audit the Right Areas

- Identification of potential organizational areas (audit universe entities) where internal audit should focus attention
- Perform a risk assessment of the areas considering overall risk profile to the organization (including fraud potential and IT exposures)
- Obtain input from Senior Management and Board on the nature and prevalence of risk
- Update risk assessment at least annually
- Include areas representing all 3 COSO Components (Operations, Reporting, Compliance)
- Include Organizational Governance, Risk Management and Internal Control Concepts in Entity Definition

AXIOM #2-Audit the Right Details

- Only Audit what is necessary to address specific risk exposures in any given area within the boundaries of sound professional judgment
- Define a Risk Methodology to guide the audit team in selecting subjects for audit testing and define scope levels needed to reduce organizational risk
- Investigate and anticipate fraud risks inherent in the assigned organizational area. Perform specific audit procedures to address fraud risks

COSO 2013 Framework

COSO 2013 Definition of Internal Control

Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

PRINCIPLES—COSO Fundamental Concepts

Control Environment

1. Commitment to Integrity and Ethical Values
2. Board Independence and Oversight of organization Internal Controls
3. Board Oversight to Create Effective Organization Structure, Reporting Lines and Delegated levels of Responsibility and Authority
4. Process to Attract, Develop and Retain HR Capital
5. Accountability for Internal Control Established and Enforced

Risk Assessment

6. Define Risk Management Objectives
7. Focus on Risk Identification
8. Consider Fraud Issues during Risk Assessment
9. Assess Impact of Changes on Internal Controls

Control Activities

10. Establish Control Activities to Mitigate Business Risks to Acceptable Levels
11. Establish Appropriate General Controls within the Information Technology Environment
12. Define Expectations by Communicating Policies and Procedures

PRINCIPLES—continued

Information & Communication

13. Collection of Relevant and Useful Information to Understand Operation of Internal Controls
14. Internal Communication about Internal Control Operation
15. External Communication about Internal Control Matters with Appropriate Parties

Monitoring Activities

16. Perform Recurring Evaluations to Ensure that Internal Controls are Operating Effectively
17. Evaluate and Communicate all Internal Control Deficiencies to Ensure Timely and Appropriate Corrective Action

INTERNAL AUDIT IMPLICATIONS

Need for an Audit Leadership Role in the Organization to communicate and advocate promoting usage and implementation of COSO framework by:

- Expanding Internal Audit Coverage to cover all organizational objectives:
  ◊ Operations
  ◊ Reporting
  ◊ Compliance
- Use a "Risk-Centric" Focus to allocate Internal Audit Resources to cover of highest risk areas
- Assist organization personnel in understanding COSO principles
- Design an Internal Audit Plan to be Focused on Internal Controls with Input from their Senior Management team as well as the Board (Audit Committee)

Caution: Management Override and Collusion can Reduce or Eliminate Internal Control Effectiveness