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# Louisiana Housing Finance Agency



## Internal Audit

Collette Mathis, Audit Director

January 30, 2009

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## **M E M O R A N D U M**

**To:** Commissioner Allison Jones  
Commissioner John Kennedy  
Commissioner Joey Scontrino

**From:** Collette Mathis, Audit Director

**Date:** January 30, 2009

**Re:** Audit Committee

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There will be an Audit Committee meeting, Wednesday, February 11, 2009 at 10:30 a.m., at Louisiana Housing Finance Agency, Committee Room 2, located at 2415 Quail Drive, Baton Rouge, LA.

Collette Mathis will provide an update on audit activities and present the 2009 Audit Plan.

If you have any questions or concerns, please contact us.

Attachments

January 29, 2009

**Audit Committee**

Notice is hereby given of a meeting of the Audit Committee, to be held on Wednesday, February 11, 2009 at 10:30 A.M., Louisiana Housing Finance Agency, Committee Room 2, located at 2415 Quail Drive, Baton Rouge, Louisiana, by order of the Chairman.

1. Call to order, roll call, and introduction of guests.
2. Approval of the Minutes of the October 15, 2008 Full Board Meeting.
3. Approval of the 2009 Audit Plan
4. Other Business
5. Adjournment

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Milton J. Bailey, LHFA President

Pursuant to the provisions of LSA-R.S. 42:6.1, upon two-thirds vote of the members present, the Board of Commissioners of the Louisiana Housing Finance Agency may choose to enter executive session, and by this notice, the Agency reserves its right to go into executive session as provided by law.



**Louisiana Finance Agency  
Audit Committee Meeting Minutes  
Wednesday, October 15, 2008  
2415 Quail Drive  
Committee Room 1  
Baton Rouge, LA 70808  
11:30 AM**

**Commissioners Present**

Maureen Clary  
Joey Scontrino  
Robert Pernell

**Commissioners Absent**

Allison Jones  
John Kennedy  
Roy Lester

**Staff Present**

Collette Mathis  
Konchetta Bringier  
Dione Milton  
Melissa Mayers  
Kip Anderson  
Rene Landry  
Terri Ricks

**Others Present**

Candy Wright, Postlethwaite & Netterville  
Bill Stamm, Duplantier, Hrapmann, Hogan & Maher  
Heather McCardle, Duplantier, Hrapmann, Hogan & Maher  
Charles Tate, CDI

**1. Call to order, roll call and introduction of guests.**

Commissioner Clary called the meeting to order at 11:40 AM and asked for roll call. A quorum was established.

**2. Approval of the minutes.**

On a motion by Commissioner Scontrino and seconded by Commissioner Pernell, the minutes of the February 13, 2008 and August 13, 2008 Audit Committee Meeting were approved.

**3. Presentation and Discussion of External Audit Results for Fiscal Year Ended June 30, 2008.**

Commissioner Clary turned the meeting over to Rene Landy for the presentation and discussion of fiscal year ended June 30, 2008 external audit results. Mr. Landy explained, each year the auditors are invited to present the results of LHFA's Annual Audit. The General Fund was audited by Duplanter, Hrapmann, Hogan & Maher (DHHM) and the Combined Statements by Postlethwaite & Netterville (P&N). Both firms join together for a combined presentation. Mr. Landy turned the meeting over to the Auditors from P&N and DHHM.

Candy Wright with P&N discussed Investments and Mortgage Loans, Bonds Payable, Net Assets, Interest Expense Compared to Interest Income and Combined Revenues. Bill Stamm from DHHM discussed the Home Program Mortgage Loans, General Fund Revenues, and General Fund Expenses. Mr. Stamm also explained part of the audit includes a review of Internal Control and Compliance with Government Standards. There was no material weakness in Internal Control and there was no findings related to Compliance with Government Standards. In addition, there were no findings reported on Major Programs tested in accordance with Circular A-133. Both auditors concluded the presentation by asking if there were additional questions. Commissioner Clary commended the staff on an excellent report.

**4. Other Business.** There was no further business to come before the Committee.

**5. Adjournment.** The meeting was adjourned at 11:56 AM.

# Audit Plan 2009



Integrity ❖ Honesty ❖ Accountability ❖ Objectivity  
Value ❖ Knowledge ❖ Skills ❖ Experience ❖ Teamwork

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Louisiana Housing Finance Agency

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## LOUISIANA HOUSING FINANCE AGENCY

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2415 Quail Drive, Baton Rouge, Louisiana 70808 (225) 763-8700

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## LOUISIANA HOUSING FINANCE AGENCY

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2415 Quail Drive, Baton Rouge, Louisiana 70808 (225) 763-8700

### MEMORANDUM

To: Audit Committee Members, LHFA Board of Commissioners  
Milton Bailey, President

Subject: Audit Plan 2009

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I am pleased to present our 2009 Audit Plan. This plan uses a risk approach to help us decide what audits need to be done. It is used to identify an appropriate mix of various types of audits. In addition, it helps us to determine how we can best allocate our resources and capitalize on our individual strengths.

Effective audit planning is crucial to the success of the Internal Audit Division at LHFA. Our planning process involves understanding our responsibility, recapping where we have been, and identifying the auditable universe and the risks associated with various programs and activities. The audit plan incorporates input from Senior Management and is presented to the members of the Board, the Audit Committee and Senior Management.

In the past, our audit plan has centered around the review of our various LHFA programs and/or departments. Over the past three years, the majority of the programs have been reviewed either directly through an audit or indirectly through the assignment of special projects. This current audit plan shifts the focus of our upcoming audits from departmental type audits to business process type audits. It is our hope and intent that the results of these audits will lend value to *several* areas at one time.

While the scope and assignment of audits is left to the discretion of the Chief Audit Executive, the Agency Head, at any time, may direct the CAE to perform an audit of a program function or organizational unit. Therefore, our work plan sets aside a block of time for special requests and investigations. In addition, as we identify additional areas to be reviewed, we will adjust our plan accordingly.

We look forward to working with you and for you.

*Collette Mathis, CGAP*

Collette Mathis, CGAP  
LHFA Internal Audit Director



## LOUISIANA HOUSING FINANCE AGENCY

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2415 Quail Drive, Baton Rouge, Louisiana 70808 (225) 763-8700

### Introduction

The Internal Audit Division recognizes that an overall audit strategy and plan is an important tool. It not only serves as a guide in the achievement of the Audit Division's goal and objectives, but also aids the Agency in the achievement of their strategic goals and plans.

Effective audit planning is crucial to the success of the Internal Audit Division at LHFA. Our planning process involves understanding our responsibilities, recapping where we have been and identifying where we need to go. The audit plan incorporates the results of our enterprise risk assessment as well as input from Senior Management and the Board. In its final form, it is presented to the members of the Audit Committee, the Board of Commissioners and LHFA Senior Management.

The Audit Division agrees with professional standards developed by the Institute of Internal Auditors, which recognize that an annual audit plan and work schedule benefits the organization by:

1. Establishing what agencies, programs, or processes will be prioritized for audits on an annual basis.
2. Permitting an efficient allocation of resources.
3. Providing a flexible basis for managing audit personnel.
4. Eliminating the potential for overlapping audits with other audit organizations.
5. Providing an identifiable basis for the role of the Internal Audit Division and justification for obtaining budgetary funds and approval.

In addition to recognizing the importance of the IIA standards in the formation of our annual plan, we also recognize that to achieve the maximum benefit of the planning process, we must align our goals and objectives with the Agency's goals and objectives. LHFA's current goals and strategies are as follows:

1. To infuse a stronger sense of purpose within the Agency.
  - a. Establish Housing Priorities
  - b. Devise a 10-Year Housing Plan
  - c. Encourage Disadvantaged Groups to Participate

2. Become the Primary Housing Resource
  - a. Reach Out to the Community
  - b. Created Networks Between Stakeholders
3. Create a Stronger and More Efficient Agency
  - a. Improve the Agency from Within
  - b. Enhance Fiduciary Position and Increase Cash Reserves
4. Infuse a Sense of Justice and Equality in all that we do
  - a. Encourage Disadvantaged Groups to Participate in LHFA Activities

### **Goals and Accomplishments**

The Internal Audit Division serves LHFA management in the effective discharge of their duties by examining and evaluating operations and activities to provide independent risk assessments, analyses, appraisals, recommendations, information and assistance. We conduct our activities in accordance with the guidelines outlined in the Standards for the Professional Practice of Internal Auditing. We are obligated to maintain high standards of competence, objectivity, and integrity in the performance of our duties and responsibilities.

### **Accomplishments 2008**

- ✓ Initiated and completed a Single Family Homeownership Department Follow Up audit engagement.
- ✓ Issued the consolidated final report for the compliance monitoring procedures for the LHFA HOME Department.
- ✓ Issued the consolidated final report for the compliance monitoring procedures for the LHFA Tax Credit Department.
- ✓ Issued the consolidated final report for the compliance monitoring procedures for the LHFA Special Programs Department.
- ✓ Initiated and completed an audit of the Child Care Refurnishing Grant Initiative.

- ✓ Issued the final report for the Child Care Refurnishing Grant Initiative audit engagement.
- ✓ Continued to populate the fully integrated LHFA Single Audit Access Database.
- ✓ Attended the National Hurricane Conference as part of this department's duties related to Continuity of Operations Planning.
- ✓ Continued to meet with key staff related to disaster planning and recovery and updated recovery plans.
- ✓ Prepared and completed an enterprise risk assessment with the Agency's strategic plan and Agency processes as the two primary goals.
- ✓ Prepared and issued the 2009 Annual Audit Plan.
- ✓ Continued to improve efficiency through the use of automated tools.
- ✓ Participated in management committee meetings and offered recommendations as appropriate.
- ✓ Continued to urge staff development and training:
  - Attendance at monthly meetings of the Baton Rouge Chapter of the Institute of Internal Auditors.
  - Attendance at the annual Governmental Accounting Seminar hosted by Postlethwaite and Netterville, CPA.
- ✓ Completed executive work contract coaching with senior management.
- ✓ Served as moderator for the Internal Audit Roundtable at the 2008 NCSHA Annual Conference.



## Goals 2009

- ✓ Complete audits of several LHFA Business Processes according to the results of both the 2009 Risk Assessment Matrix and the LHFA Strategic Plan 2007-2016.
- ✓ Initiate and conduct operational and compliance audits of selected LHFA programs. This includes the review of operations of that unit to ensure that results are consistent with organizational objectives.
- ✓ Solicit proposals from IT consultants to perform a review of the LHFA IT Function. This review will look at basic security controls and overall functions and capabilities.
- ✓ Develop and update all existing audit programs.
- ✓ Develop an overall audit management database to house audit programs, audit results, and audit reference tools.
- ✓ Complete implementation of TeamMate audit software.
- ✓ Provide timely reports, information and advice in order to assist our customers with the achievement of their goals and the discharge of their duties.
- ✓ Develop effective relationships with the Board of Commissioners while enhancing Board communication.
- ✓ Continue to develop an informational Tool/Web Link on LHFA's Intranet.
- ✓ Continue to make updates/adjustments as necessary to the LHFA COOP document.
- ✓ Improve efficiency through the use of automated tools.
- ✓ Maintain a continuous program of professional development which includes but is not limited to:
  - Use of analytics in Test Work
  - Supervisory and Leadership Training
  - Understanding of Risk Management
  - Obtaining Staff Professional Certifications

- Staff Performance Appraisals
  - Attendance at HR Sponsored Training Programs
- ✓ Continue to coordinate with the third party, independent HOME audit reviewer in the development of the financial model to be used to collect funds from HOME Loans.
- ✓ Review and update audit charter as necessary.
- ✓ Keep Senior Management, the Audit Committee, and the Board of Commissioners informed of all pertinent audit matters.

## **Principles for Audit Plan Development**

In order to provide a basis for the development of the plan, following basic principles were recognized and observed:

- ⦿ The approach to developing this plan takes into consideration that audit resources of personnel and dollars are limited, thus prohibiting 100% audit coverage each year. This factor is inherent in the concept of utilizing risk assessment to help prioritize audits.
- ⦿ The audit plan takes into consideration work performed by other auditors (i.e. Louisiana Legislative Auditor, HUD, U.S. Department of Energy)
- ⦿ The audit plan has been developed with awareness that there are inherent risks and limitations associated with any method or system of prioritizing audits. The risk factors and scoring process are periodically evaluated and modified.
- ⦿ The risk assessment criteria used in the ranking of the audit universe places an emphasis on perceived or actual knowledge of the auditee's system of internal controls.

## **Risk Assessment Overview**

Audits are selected and scheduled using a risk based approach. We apply our accumulated knowledge of auditee operations and internal controls from past audits to schedule, on a three year rotation, our audit intentions. The development of an annual audit plan uses risk assessment as an integral component. Throughout the audit year, we obtain current information that may impact our preliminary plans. As a result, we annually make adjustments to our three year plan. These changes will be communicated to the Board and Senior Management as they are made.

## Audit Universe

Developing an audit universe is key in the development of an audit plan. This audit universe should represent the total population of potential audits with like characteristics. This primary audit universe for this audit plan includes, Agency programs/functional areas, Agency business processes, and special projects as requested. Examples of these segments are:

- ⊙ Organizational Units within LHFA such as a division or department include but are not limited to:
  - HOME
  - Low Income Housing Tax Credits
  - Single Family Homeownership
  - Contract Administration
  - Energy Assistance
  - Special Programs (Risk Sharing, Mark to Market, Housing Trust Fund, Child Care Initiative, Bond Financing)
  - Compliance
  - Accounting
  - Human Resources
  - Administration
  - Records Retention
  - Information Systems
- ⊙ Business processes include but are not limited to the following:
  - Fleet Operations
  - Overtime
  - Cash Disbursements
  - Cash Disbursements
  - Inventory
  - General Building Security
  - General IT Security
  - Budgeting
  - Travel Compensation
  - Legal Compliance
  - Contracts and Leases
  - Training and Staff Development
  - Planning and Performance Evaluations
  - Petty Cash
  - Financial Reporting

- Asset Management
- Policies and Procedure Documentation and Updating
- Procurement Process
- Miscellaneous Business Processes
  
- ⊙ Performance or Operational Audits
- ⊙ Components of the Strategic Plan
- ⊙ Fraud Audits
- ⊙ Laws and Regulations
- ⊙ Major Contracts and Programs

### **Audit Prioritization and Selection**

The objective of the process of risk assessment is to identify and prioritize audits posing the greatest potential risk and liability. In order to obtain a priority listing of potential audits, a risk assessment approach is used to rank each of the potential audits in the universe.

The risk factors used in the assessment of Agency risk were selected from reviewing several governmental audit plans. These risk factors were selected on the basis of relevance in regards to the nature of our audits. For each of the risk factors, members of the audit staff evaluated the associated risk and ranked them in one of seven possible risk factors (i.e. risk factor 1 = very little exposure).

In addition, the process attempts to account for the measure of importance between each of the risk factors. A weighting factor was derived by evaluating each specific risk factor. See the Risk Calculation Results in **Appendix A**.

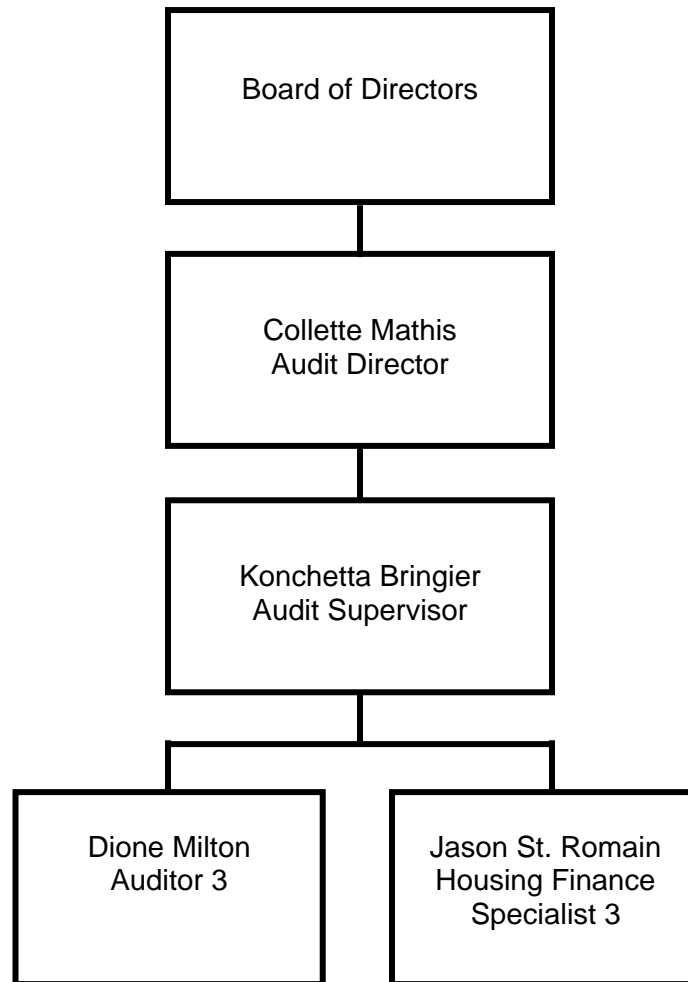
The potential audits were then ranked based upon the highest to lowest risk scores thereby producing an audit priority listing. This audit priority listing/schedule can be found at **Appendix A**.

### **Preparing the Annual Audit Plan**

Annual planning helps to determine what audit activities will be scheduled for the upcoming year. Taking into account input from the audit staff, the audit committee and senior management a schedule of audits/reviews is completed. The final step to complete the annual audit plan is to estimate the number of available hours in the year and apply this estimate to the audit projects. Actual scheduling may be affected by personnel turnover, unexpected special projects, and the actual status of each audit.



**INTERNAL AUDIT ORGANIZATIONAL CHART**



Job Title	AS Level	Yearly Minimum	Yearly Maximum
Audit Director	AS 622	\$50,898	\$107,078
Audit Supervisor	AS 618	\$38,813	\$81,682
Auditor 3	AS 616	\$33,904	\$71,344
Housing Finance Specialist 3	AS 615	\$31,678	\$66,685

# **State of Louisiana**

## **Department of Civil Service**

### **AUDIT DIRECTOR 1**

#### **FUNCTION OF WORK:**

To direct an audit division to ensure the proper accountability of public funds.

#### **LEVEL OF WORK:**

Administrator.

#### **SUPERVISION RECEIVED:**

Administrative from a higher-level executive.

#### **SUPERVISION EXERCISED:**

Broad over professional auditing staff.

#### **JOB DISTINCTIONS:**

Differs from Audit Manager by serving as an administrator over an audit division.

Differs from other Audit Directors by the scope and complexity of programs managed along with the size and composition of subordinate staff.

See allocation criteria memo for details.

#### **EXAMPLES OF WORK:**

EXAMPLES LISTED BELOW INCLUDE BRIEF SAMPLES OF COMMON DUTIES ASSOCIATED WITH THIS JOB TITLE. PLEASE NOTE THAT NOT ALL TASKS ARE INCLUDED.

Develops and enforces audit standards, policies, and procedures for agency.

Serves as chief auditor of agency.

Interprets laws, rules, and regulations which will impact audit programs at agency and ensure agency compliance with all mandated changes.

Meets with audit division staff members and representatives of agency program involved and the audited entity to informally discuss problems with audits and to attempt to resolve discrepancies which otherwise would lead to punitive action being taken up to and including disbarment from the program or to prosecution.

Advises higher-level agency administrators or the Board of Trustees of management problems uncovered by operational audits within the program and makes recommendations for solutions.

**MINIMUM QUALIFICATIONS:**

A baccalaureate degree with twenty-four semester hours in accounting plus five years of professional level experience in auditing, two years of which must have been at the supervisory level or above.

**SUBSTITUTIONS:**

A certified public accountant (CPA) certificate or Certified Internal Auditor (CIA) designation will substitute for the baccalaureate degree with twenty-four semester hours in accounting plus one year of the required general experience.

A baccalaureate degree plus a Certified Information Systems Auditor (CISA) or Certified Government Audit Professional (CGAP) designation will substitute for the 24 hours in accounting.

A master's degree with a major in accounting, business administration, finance, management, economics, quantitative methods, public administration or information systems and decision science will substitute for one year of the required general experience.

**NOTE:**

Any college hours or degree must be from a school accredited by one of the following regional accrediting bodies: the Middle States Association of Colleges and Schools; the New England Association of Schools and Colleges; the North Central Association of Colleges and Schools; the Northwest Commission on Colleges and Universities; The Southern Association of Colleges and Schools; the Western Association of Schools and Colleges.



## **AUDITOR SUPERVISOR**

### **FUNCTION OF WORK:**

To supervise a unit of at least two auditor positions in all aspects of an audit program.

### **LEVEL OF WORK:**

Supervisor.

### **SUPERVISION RECEIVED:**

Generally from an Audit Manager or higher-level auditing position. See allocation criteria memo.

### **SUPERVISION EXERCISED:**

Generally over at least two Auditor positions. See allocation criteria memo.

### **JOB DISTINCTIONS:**

Differs from Auditor 3 and 4 by presence of supervisory duties.

Differs from Audit Manager by absence of management duties over the audit division.

### **EXAMPLES OF WORK:**

EXAMPLES LISTED BELOW INCLUDE BRIEF SAMPLES OF COMMON DUTIES ASSOCIATED WITH THIS JOB TITLE. PLEASE NOTE THAT NOT ALL TASKS ARE INCLUDED.

Supervises all aspects of an agency audit program, including assigning work to subordinate auditors; reviewing, approving, and directing revision of individual audit plans and reports; and providing guidance and counsel regarding audit plan development and audits conducted.

May conduct more sensitive audits or handle matters of great confidentiality related to the audit program.

Prepares or assists in the preparation of the agency annual audit program.

Performs operational audits of units and functions to determine operational effectiveness and efficiency.

Determines a valid representative sample of financial transactions to audit and factors sample to project error rate or measurement of quality of entity procedures and prepares report of findings.

### **MINIMUM QUALIFICATIONS:**

A baccalaureate degree with twenty-four semester hours in accounting plus three years of professional level experience in auditing.

### **SUBSTITUTIONS:**

A certified public accountant (CPA) certificate or Certified Internal Auditor (CIA) designation will substitute for the baccalaureate degree with twenty-four semester hours in accounting plus one year of the required experience.

A baccalaureate degree plus a Certified Information Systems Auditor (CISA) or Certified Government Audit Professional (CGAP) designation will substitute for the 24 hours in accounting.

A master's degree with a major in accounting, business administration, finance, management, economics, quantitative methods, public administration or information systems and decision science will substitute for one year of the required experience.

**NOTE:**

Any college hours or degree must be from a school accredited by one of the following regional accrediting bodies: the Middle States Association of Colleges and Schools; the New England Association of Schools and Colleges; the North Central Association of Colleges and Schools; the Northwest Commission on Colleges and Universities; The Southern Association of Colleges and Schools; the Western Association of Schools and Colleges.

### **AUDITOR 3**

#### **FUNCTION OF WORK:**

To conduct audits to improve practices, promote effectiveness and efficiency, and ensure compliance with laws, rules, and regulations.

#### **LEVEL OF WORK:**

Advanced.

#### **SUPERVISION RECEIVED:**

Generally from a higher level supervisory Audit position. See allocation criteria memo.

#### **SUPERVISION EXERCISED:**

None.

#### **JOB DISTINCTIONS:**

Differs from Auditor 2 by responsibility for preparing the individual audit plan and program for each audit performed, and responsibility for primarily preparing audit reports.

Differs from Auditor 4 by the absence of serving as a technical specialist over assigned programs.

Differs from Auditor Supervisor by absence of supervisory duties over an audit unit which consists of at least two subordinate Auditor positions.

See allocation criteria memo for details.

#### **EXAMPLES OF WORK:**

EXAMPLES LISTED BELOW INCLUDE BRIEF SAMPLES OF COMMON DUTIES ASSOCIATED WITH THIS JOB TITLE. PLEASE NOTE THAT NOT ALL TASKS ARE INCLUDED.

Conducts audits for agency, including making arrangements for audits, maintaining files of all work papers, maintaining all appropriate documentation, assisting in preparing audit reports.

Examines financial statements, journals, ledgers, monthly and quarterly financial reports, receipts, invoices, statements, charge memoranda, fee slips, and other individual financial transactions in reviewing information reported by audited entity.

Inspects cash control records, payroll records, bank accounts, assets, liabilities, bidding procedures, inventories, disbursements, canceled checks, and the like to ascertain validity of information reported by audited entity and to determine dependability of its record keeping and reporting practices.

Performs operational audits of units and functions to determine operational effectiveness and efficiency.

Determines a valid representative sample of financial transactions to audit and factors sample to project error rate or measurement of quality of entity procedures and prepares report of findings.

**MINIMUM QUALIFICATIONS:**

A baccalaureate degree with twenty-four semester hours in accounting plus two years of professional level experience in accounting or auditing.

**SUBSTITUTIONS:**

A certified public accountant (CPA) certificate or Certified Internal Auditor (CIA) designation will substitute for the baccalaureate degree with twenty-four semester hours in accounting plus one year of the required experience.

A baccalaureate degree plus a Certified Information Systems Auditor (CISA) or Certified Government Audit Professional (CGAP) designation will substitute for the 24 hours in accounting.

A master's degree with a major in accounting, business administration, finance, management, economics, quantitative methods, public administration or information systems and decision science will substitute for one year of the required experience.

**NOTE:**

Any college hours or degree must be from a school accredited by one of the following regional accrediting bodies: the Middle States Association of Colleges and Schools; the New England Association of Schools and Colleges; the North Central Association of Colleges and Schools; the Northwest Commission on Colleges and Universities; The Southern Association of Colleges and Schools; the Western Association of Schools and Colleges.

## AUDITOR 2

### FUNCTION OF WORK:

To conduct audits to improve practices, promote effectiveness and efficiency, and ensure compliance with laws, rules, and regulations.

### LEVEL OF WORK:

Experienced.

### SUPERVISION RECEIVED:

Generally from a higher level supervisory Audit position. See allocation criteria memo.

### SUPERVISION EXERCISED:

None.

### JOB DISTINCTIONS:

Differs from Auditor 1 by responsibility for working independently in completing audit assignments and having greater experience with audit program.

Differs from Auditor 3 by absence of lead-worker duties, responsibility to prepare majority of audit reports, and absence of responsibility to prepare individual audit plan and program for each audit performed.

See allocation criteria memo for details.

### EXAMPLES OF WORK:

EXAMPLES LISTED BELOW INCLUDE BRIEF SAMPLES OF COMMON DUTIES ASSOCIATED WITH THIS JOB TITLE. PLEASE NOTE THAT NOT ALL TASKS ARE INCLUDED.

Conducts audits for agency, including making arrangements for audits, maintaining files of all work papers, maintaining all appropriate documentation, and assisting in preparing report of audit findings.

Examines financial statements, journals, ledgers, monthly and quarterly financial reports, receipts, invoices, statements, charge memoranda, fee slips, and other individual financial transactions in reviewing information reported by audited entity.

Inspects cash control records, payroll records, bank accounts, assets, liabilities, bidding procedures, inventories, disbursements, canceled checks, and the like to ascertain validity of information reported by audited entity and to determine dependability of its record keeping and reporting practices.

Performs operational audits of units and functions to determine operational effectiveness and efficiency.

Determines a valid representative sample of financial transactions to audit and factors sample to project error rate or measurement of quality of entity procedures and prepares report of findings.

**MINIMUM QUALIFICATIONS:**

A baccalaureate degree with twenty-four semester hours in accounting plus one year of professional level experience in accounting or auditing.

**SUBSTITUTIONS:**

A certified public accountant (CPA) certificate or Certified Internal Auditor (CIA) designation will substitute for the baccalaureate degree with twenty-four semester hours in accounting plus the one year of required experience.

A baccalaureate degree plus a Certified Information Systems Auditor (CISA) or Certified Government Audit Professional (CGAP) designation will substitute for the 24 hours in accounting.

A master's degree with a major in accounting, business administration, finance, management, economics, quantitative methods, public administration or information systems and decision science will substitute for the one year of required experience.

**NOTE:**

Any college hours or degree must be from a school accredited by one of the following regional accrediting bodies: the Middle States Association of Colleges and Schools; the New England Association of Schools and Colleges; the North Central Association of Colleges and Schools; the Northwest Commission on Colleges and Universities; The Southern Association of Colleges and Schools; the Western Association of Schools and Colleges.

## **AUDITOR 1**

### **FUNCTION OF WORK:**

To conduct audits to improve practices, promote effectiveness and efficiency, and ensure compliance with laws, rules and regulations.

### **LEVEL OF WORK:**

Entry.

### **SUPERVISION RECEIVED:**

Generally from a higher level supervisory Audit position. See allocation criteria memo.

### **SUPERVISION EXERCISED:**

None.

### **JOB DISTINCTIONS:**

Differs from higher-level Auditor jobs by receiving close supervision during audit assignments and by having less decision making authority with an audit program. See allocation criteria memo for details.

### **EXAMPLES OF WORK:**

EXAMPLES LISTED BELOW INCLUDE BRIEF SAMPLES OF COMMON DUTIES ASSOCIATED WITH THIS JOB TITLE. PLEASE NOTE THAT NOT ALL TASKS ARE INCLUDED.

Conducts audits for agency, including making arrangements for audits, maintaining files of all work papers, maintaining all appropriate documentation, and assisting in preparing audit reports.

Examines financial statements, journals, ledgers, monthly and quarterly financial reports, receipts, invoices, statements, charge memoranda, fee slips, and other individual financial transactions in reviewing information reported by audited entity.

Inspects cash control records, payroll records, bank accounts, assets, liabilities, bidding procedures, inventories, disbursements, canceled checks, and the like to ascertain validity of information reported by audited entity and to determine dependability of its record keeping and reporting practices.

Performs operational audits of units and functions to determine operational effectiveness and efficiency.

Determines a valid representative sample of financial transactions to audit and factors sample to project error rate or measurement of quality of entity procedures and prepares report of findings.

### **MINIMUM QUALIFICATIONS:**

A baccalaureate degree with twenty-four semester hours in accounting.

### **SUBSTITUTIONS:**

A certified public accountant (CPA) certificate or Certified Internal Auditor (CIA) designation will

substitute for the baccalaureate degree with twenty-four semester hours in accounting.

A baccalaureate degree plus a Certified Information Systems Auditor (CISA) or Certified Government Audit Professional (CGAP) designation will substitute for the 24 hours in accounting.

**NOTE:**

Any college hours or degree must be from a school accredited by one of the following regional accrediting bodies: the Middle States Association of Colleges and Schools; the New England Association of Schools and Colleges; the North Central Association of Colleges and Schools; the Northwest Commission on Colleges and Universities; The Southern Association of Colleges and Schools; the Western Association of Schools and Colleges.



## **HOUSING FINANCE SPECIALIST 3**

### FUNCTION OF WORK:

To coordinate housing finance programs.

### LEVEL OF WORK:

Advanced.

### SUPERVISION RECEIVED:

Broad from a Housing Finance Supervisor or higher level agency official.

### LOCATION OF WORK:

Louisiana Housing Finance Agency.

### JOB DISTINCTIONS:

Differs from Housing Finance Specialist 2 by added independence and complexity of work.

Differs from Housing Finance Supervisor by the absence of supervisory responsibility.

### EXAMPLES OF WORK:

EXAMPLES LISTED BELOW INCLUDE BRIEF SAMPLES OF COMMON DUTIES ASSOCIATED WITH THIS JOB TITLE. PLEASE NOTE THAT NOT ALL TASKS ARE INCLUDED.

Serves as an advanced staff specialist in multiple programmatic areas.

Monitors and evaluates administration of program operations to ensure accountability for state and federal regulations: i.e., fiscal controls to ensure accountability for the reservation of funds.

Prepares evaluation reports and other correspondence on programs to the Housing Finance Program/Compliance Manager.

Provides training and technical assistance to staff and external customers in specialized program areas.

Reviews proposed legislation and regulations to assess and evaluate their impact and prepares responses to proposed legislation that affects the housing industry on the state and local governmental levels.

Implements changes in specialty areas when necessitated by changes in federal and state regulations.

Reviews, evaluates and rates applications for compliance with legislation, rules and regulations.

Researches, compiles and analyzes data relative to specialty areas in order to obtain maximum benefit in utilization of federal, state, and local resources.

Plans, organizes and conducts workshops on a statewide level to provide technical assistance to lenders, underwriters, processors and building developers relative to the implementation of funded projects.

Prepares and implements program policies in specialty program areas.

Assists in coordination of activities necessitated by federal requirements, which are specific to the Consolidated Plan, the Consolidated Annual Performance and Evaluation Report, and the Annual Action Plan.

Reviews and approves all requests for reservation of program funds by lenders.

Implements monitoring systems whereby units are targeted for compliance review in accordance with specific program requirements.

Prepares and submits semi-annual and annual reports to HUD and FDIC.

Issues detailed compliance review violation notices to the Internal Revenue Service.

Reviews and underwrites initial compliance packages in Single-Family Programs for their conformity with bond requirements, state/federal regulations and Agency policies; and issues certifications for loan closings.

Reviews and certifies supplemental compliance packages for all post closing documentation relative to their conformity with bond requirements, state/federal regulations, Agency policies and issues certifications for loans to be funded.

Audits data, compiles reports and prepares invoices to enter into HUD Information Systems.

Conducts management and occupancy reviews, follow-ups on physical inspections relative to health and safety, and ensures that tenant issues have been resolved.

Ensures that all files and records are properly documented to reflect any actions taken, and notifies HUD, as required, about any corrective action implemented.

Performs Housing Quality Standards (HQS) inspections for various housing programs.

Executes Office of Multi-Family Housing Assistance Restructuring (OMHAR) approved housing restructuring commitments, prepares, executes and records the closing and internal control documents needed to consummate the restructuring plan, coordinates the preparation of closing documents, etc.

**MINIMUM QUALIFICATIONS:**

A baccalaureate degree plus three years of professional experience in housing block grants work; in underwriting, originating, servicing, closing, packaging or reviewing of loans; in multi-family residential lending; in multi-family property appraisal; in inspection to verify compliance with and enforcement of regulatory laws; in urban planning; in public housing management; in asset management in a Section 8 program; in the monitoring of governmental housing programs for compliance with statutes and other program requirements; (regulatory agency or an agency/company internal program); as a trust officer; or business operations.

**SUBSTITUTIONS:**

Eight years of full-time experience in any field may be substituted for the required baccalaureate degree only.

Candidates without a baccalaureate degree may combine work experience and college credit to substitute for the baccalaureate degree only, as follows:

A maximum of 90 semester hours may be combined with work experience to substitute for the baccalaureate degree.

15 to 29 semester hours credit will substitute for one year of experience towards the baccalaureate degree.

30 to 40 semester hours credit will substitute for two years of experience towards the baccalaureate degree.

45 to 59 semester hours credit will substitute for three years of experience towards the baccalaureate degree.

60 to 74 semester hours credit will substitute for four years of experience towards the baccalaureate degree.

75 to 89 semester hours credit will substitute for five years of experience towards the baccalaureate degree.

90 or more semester hours credit will substitute for six years of experience towards the baccalaureate degree.

College credit earned without obtaining a baccalaureate degree may be substituted for a maximum of six years full-time work experience.

Candidates with 90 or more semester hours of credit, but without a degree, must also have at least two years of full-time work experience to substitute for the baccalaureate degree only.

A master's degree in business administration, public administration, economics, finance, accounting, marketing, quantitative business analysis or a Juris Doctorate will substitute for one year of the required experience.

**NOTE:**

Any college hours or degree must be from a school accredited by one of the following regional accrediting bodies: the Middle States Association of Colleges and Secondary Schools; the New England Association of Schools and Colleges, Incorporated; the North Central Association of Colleges and Secondary Schools;

the Northwest Association of Secondary and Higher Schools; the Southern Association of Colleges and Secondary Schools; the Western Association of Schools and Colleges.

# **INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)**

## **Attribute Standards**

### **1000 – Purpose, Authority, and Responsibility**

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

#### **Interpretation:**

*The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.*

**1000.A1** – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

**1000.C1** – The nature of consulting services must be defined in the internal audit charter.

### **1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter**

The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the board.

### **1100 – Independence and Objectivity**

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

#### **Interpretation:**

*Independence is the freedom from conditions that threaten the ability of the internal audit activity or the chief audit executive to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.*

*Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are*

*made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.*

#### **1110 – Organizational Independence**

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

**1110.A1** – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

#### **1111 – Direct Interaction with the Board**

The chief audit executive must communicate and interact directly with the board.

#### **1120 – Individual Objectivity**

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

#### **Interpretation:**

*Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.*

#### **1130 – Impairment to Independence or Objectivity**

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

#### **Interpretation:**

*Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding*

*The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.*

**1130.A1** – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

**1130.A2** – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

**1130.C1** – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

**1130.C2** – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement

## **1200 – Proficiency and Due Professional Care**

Engagements must be performed with proficiency and due professional care.

### **1210 – Proficiency**

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities

#### **Interpretation:**

*Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.*

**1210.A1** – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

**1210.A2** – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

**1210.A3** – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

**1210.C1** – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement

### **1220 – Due Professional Care**

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

**1220.A1** – Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.

**1220.A2** – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

**1220.A3** – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

**1220.C1** – Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement's objectives; and
- Cost of the consulting engagement in relation to potential benefits.

### **1230 – Continuing Professional Development**

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

### **1300 – Quality Assurance and Improvement Program**

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

#### **Interpretation:**

*A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.*

### **1310 – Requirements of the Quality Assurance and Improvement Program**

The quality assurance and improvement program must include both internal and external assessments.

### **1311 – Internal Assessments**

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

#### **Interpretation:**

*Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.*

*Periodic reviews are assessments conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.*

*Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework*

### **1312 – External Assessments**

External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The chief audit executive must discuss with the board:

- The need for more frequent external assessments; and
- The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.

#### **Interpretation:**

*A qualified reviewer or review team consists of individuals who are competent in the professional practice of internal auditing and the external assessment process. The evaluation of the competency of the reviewer and review team is a judgment that considers the professional internal audit experience and professional credentials of the individuals selected to perform the review. The evaluation of qualifications also considers the size and complexity of the organizations that the reviewers have been associated with in relation to the organization for which the internal audit activity is being assessed, as well as the need for particular sector, industry, or technical knowledge.*

*An independent reviewer or review team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.*

### **1320 – Reporting on the Quality Assurance and Improvement Program**

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.



**Interpretation:**

*The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the reviewer's or review team's assessment with respect to the degree of conformance*

**1321 – Use of “Conforms with the *International Standards for the Professional Practice of Internal Auditing*”**

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support this statement.

**1322 – Disclosure of Nonconformance**

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

## **Performance Standards**

### **2000 – Managing the Internal Audit Activity**

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

#### **Interpretation:**

*The internal audit activity is effectively managed when:*

- *The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;*
- *The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and*
- *The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.*

### **2010 – Planning**

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.

#### **Interpretation:**

*The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consultation with senior management and the board.*

**2010.A1** – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

**2010.C1** – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

### **2020 – Communication and Approval**

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

### **2030 – Resource Management**

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

**Interpretation:**

*Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.*

**2040 – Policies and Procedures**

The chief audit executive must establish policies and procedures to guide the internal audit activity.

**Interpretation:**

*The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.*

**2050 – Coordination**

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

**2060 – Reporting to Senior Management and the Board**

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

**Interpretation:**

*The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.*

**2100 – Nature of Work**

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

**2110 – Governance**

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

**2110.A1** – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

**2110.A2** – The internal audit activity must assess whether the information technology governance of the organization sustains and supports the organization's strategies and objectives.

**2110.C1** – Consulting engagement objectives must be consistent with the overall values and goals of the organization.

## **2120 – Risk Management**

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

### **Interpretation:**

*Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:*

- *Organizational objectives support and align with the organization's mission;*
- *Significant risks are identified and assessed;*
- *Appropriate risk responses are selected that align risks with the organization's risk appetite; and*
- *Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.*

*Risk management processes are monitored through ongoing management activities, separate evaluations, or both.*

**2120.A1** – The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations.
- Safeguarding of assets; and
- Compliance with laws, regulations, and contracts.

**2120.A2** – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

**2120.C1** – During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

**2120.C2** – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes.

**2120.C3** – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

## **2130 – Control**

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

**2130.A1** – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and
- Compliance with laws, regulations, and contracts.

**2130.A2** – Internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organization.

**2130.A3** – Internal auditors should review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended.

**2130.C1** – During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

**2130.C2** – Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization's control processes.

## **2200 – Engagement Planning**

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.

### **2201 – Planning Considerations**

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity's risk management and control processes compared to a relevant control framework or model; and
- The opportunities for making significant improvements to the activity's risk management and control processes.

**2201.A1** – When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

**2201.C1** – Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

## **2210 – Engagement Objectives**

Objectives must be established for each engagement.

**2210.A1** – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

**2210.A2** – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

**2210.A3** – Adequate criteria are needed to evaluate controls. Internal auditors must ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management to develop appropriate evaluation criteria.

**2210.C1** – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

## **2220 – Engagement Scope**

The established scope must be sufficient to satisfy the objectives of the engagement.

**2220.A1** – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

**2220.A2** – If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

**2220.C1** – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

## **2230 – Engagement Resource Allocation**

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

## **2240 – Engagement Work Program**

Internal auditors must develop and document work programs that achieve the engagement objectives.

**2240.A1** – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

**2240.C1** – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

## **2300 – Performing the Engagement**

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

### **2310 – Identifying Information**

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

#### **Interpretation:**

*Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.*

### **2320 – Analysis and Evaluation**

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

### **2330 – Documenting Information**

Internal auditors must document relevant information to support the conclusions and engagement results.

**2330.A1** – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

**2330.A2** – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

**2330.C1** – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

## **2340 – Engagement Supervision**

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

### **Interpretation:**

*The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.*

## **2400 – Communicating Results**

Internal auditors must communicate the engagement results.

### **2410 – Criteria for Communicating**

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

**2410.A1** – Final communication of engagement results must, where appropriate, contain internal auditors' overall opinion and/or conclusions.

**2410.A2** – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

**2410.A3** – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

**2410.C1** – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

## **2420 – Quality of Communications**

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

### **Interpretation:**

*Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.*



#### **2421 – Errors and Omissions**

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

#### **2430 – Use of “Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*”**

Internal auditors may report that their engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*”, only if the results of the quality assurance and improvement program support the statement.

#### **2431 – Engagement Disclosure of Nonconformance**

When nonconformance with the Definition of Internal Auditing, the Code of Ethics or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle or rule of conduct of the Code of Ethics or *Standard(s)* with which full conformance was not achieved;
- Reason(s) for nonconformance; and
- Impact of nonconformance on the engagement and the communicated engagement results.

#### **2440 – Disseminating Results**

The chief audit executive must communicate results to the appropriate parties.

##### **Interpretation:**

*The chief audit executive or designee reviews and approves the final engagement communication before issuance and decides to whom and how it will be disseminated.*

**2440.A1** – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

**2440.A2** – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization;
- Consult with senior management and/or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

**2440.C1** – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

**2440.C2** – During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

#### **2500 – Monitoring Progress**

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

**2500.A1** – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

**2500.C1** – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

**2600 – Resolution of Senior Management’s Acceptance of Risks**

When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive must report the matter to the board for resolution.

## **Glossary**

### **Add Value**

Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

### **Adequate Control**

Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

### **Assurance Services**

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

### **Board**

A board is an organization's governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a nonprofit organization, or any other designated body of the organization, including the audit committee to whom the chief audit executive may functionally report.

### **Charter**

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

### **Chief Audit Executive**

Chief audit executive is a senior position within the organization responsible for internal audit activities. Normally, this would be the internal audit director. In the case where internal audit activities are obtained from external service providers, the chief audit executive is the person responsible for overseeing the service contract and the overall quality assurance of these activities, reporting to senior management and the board regarding internal audit activities, and follow-up of engagement results. The term also includes titles such as general auditor, head of internal audit, chief internal auditor, and inspector general.

### **Code of Ethics**

The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

### **Compliance**

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

### **Conflict of Interest**

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Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

### **Consulting Services**

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

### **Control**

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

### **Control Environment**

The attitude and actions of the board and management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

### **Control Processes**

The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.

### **Engagement**

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

### **Engagement Objectives**

Broad statements developed by internal auditors that define intended engagement accomplishments.

### **Engagement Work Program**

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

**External Service Provider**

A person or firm outside of the organization that has special knowledge, skill, and experience in a particular discipline.

**Fraud**

Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

**Governance**

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

**Impairment**

Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

**Independence**

The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

**Information Technology Controls**

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure, and people.

**Information Technology Governance**

Consists of the leadership, organizational structures, and processes that ensure that the enterprise's information technology sustains and supports the organization's strategies and objectives.

**Internal Audit Activity**

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

**International Professional Practices Framework**

The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories – (1) mandatory and (2) strongly recommended.

**Must**

The *Standards* use the word “must” to specify an unconditional requirement.

**Objectivity**

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An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to others.

**Residual Risk**

The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

**Risk**

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

**Risk Appetite**

The level of risk that an organization is willing to accept.

**Risk Management**

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

**Should**

The *Standards* use the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

**Significance**

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

**Standard**

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.

**Technology-based Audit Techniques**

Any automated audit tool, such as generalized audit software, test data generators, computerized audit programs, specialized audit utilities, and computer-assisted audit techniques (CAATs).

\*\*\*

# CODE OF ETHICS

## **Principles**

Internal auditors are expected to apply and uphold the following principles:

### **1. Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

### **2. Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments

### **3. Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

### **4. Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

## **Rules of Conduct**

### **1. Integrity**

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

### **2. Objectivity**

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

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### **3. Confidentiality**

Internal auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

### **4. Competency**

Internal auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

\*\*\*



## Appendix A



## LOUISIANA HOUSING FINANCE AGENCY

2415 Quail Drive, Baton Rouge, Louisiana 70808 (225) 763-8700

### 2009 Risk Assessment Result and Ranking

<b>Business Process</b>	<b>Auditor 1</b>	<b>Auditor 2</b>	<b>Auditor 3</b>	<b>Auditor 4</b>	<b>Average</b> (#'s Rounded)	<b>Estimated Date of Audit Activity</b>
Cash Disbursements	955	860	565	510	723	2009
Contracts and Leases	885	565	400	375	556	2009
Financial Reporting	915	860	570	495	710	2009
Fixed Assets	400	700	555	290	486	2009
Planning & Performance	655	505	355	360	469	2009
Inventory	600	240	555	470	466	2010
Procurement Procedures	670	425	295	255	411	2010
Tax Credit Award Process	875	860	485	545	691	2010
Fleet Operations	535	275	275	395	370	2010
Petty Cash	480	740	230	220	418	2010
Safety Training	460	415	215	335	356	2011
Travel Compensation	740	525	515	385	541	2011
Staff Development/Training	465	255	300	300	330	2011
Overtime	280	305	375	240	300	2011
Budgeting	865	460	355	565	561	2011
Cash Receipts	955	860	565	575	739	Previously Reviewed Plus Follow Up
Compliance Inspection Process	800	735	440	630	651	Previously Reviewed
IT Security	755	860	650	600	716	To Be Included in IT Audit
IT Backup Procedures	775	585	620	555	634	To Be Included in IT Audit
Building Security	620	645	565	605	609	To Be Included in IT Audit

## Appendix B

# **The IIA Responds to the Global Financial Crisis**

## **The IIA Responds to the Global Financial Crisis**

**November 10, 2008**

As the internal audit profession's guiding body, The Institute of Internal Auditors (IIA) is responding to the global financial crisis with important information for executive management, board of directors, and audit committees.

The growing need for management and oversight accountability is in the spotlight today. But those at the top cannot effectively demonstrate accountability without the input, support, and buy-in of many throughout the organization. Maintaining an ethical corporate environment and ensuring strong internal controls are a shared responsibility of all. To meet this challenge, there must be an enterprise-wide diligence toward the highest level of ethical and proficient operations, fostered by the tone at the top. Clearly, many organizations are exemplary in modeling integrity, innovation, ethics, and accountability. Ideally, we all would aspire to emulate that model. However, in the prospect of unprecedented growth and profit, others have turned a blind eye to evidence of eroding corporate values. The Institute of Internal Auditors (IIA) is committed to fostering best business practices in all sectors, and encourages organizations to pause and consider the basics of corporate accountability and governance. One invaluable internal resource that can and should play a meaningful role is the internal audit activity.

IIA President David Richards, CIA, challenges those at the top to empower their internal auditors and heed their warnings and recommendations. View the three-minute video message at <http://www.theiia.org/guidance/global-financial-crisis/multimedia/>. The IIA also has created a special Web portal - "A World in Crisis" - for a broad range of articles, resources, and perspectives on how internal auditing can be a part of the solution to the crisis. Visit the portal at <http://www.theiia.org/guidance/global-financial-crisis/>

To comment on this video or share your perspectives on the global financial crisis, e-mail [PR@theiia.org](mailto:PR@theiia.org).

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# The Institute of Internal Auditors

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## Paying Attention

A young soul traveled the world in search of the wise one. As the story goes, the wise one possessed the three secrets to success, and the young soul vowed he would not stop searching until he could obtain knowledge of these secrets. Finally, after many months, he happened upon a small village. The townspeople were very familiar with the wise one and pointed to the mountaintop. The young soul climbed the mountain and when he wearily reached the crest, to his delight, there sat the wise one, deep in meditation. He quietly approached the wise one and timidly spoke, "I have searched the world over for you. Will you tell me the secrets to success?"



After a while, the wise one opened his eyes and held up one finger. "Pay attention," he said in a deep, soft voice, before closing his eyes again. The young one thought about what he had heard. He waited and watched for a long time until, finally, the wise man slowly held up two fingers and said, "Pay attention." After what seemed like hours, the wise one spoke again, as he held up three fingers. "Pay attention," he whispered as he gazed on the young soul with soft eyes, and an almost indistinguishable smile turned the corners of his mouth slightly upward, before he once again drifted into deep meditation.

Pay attention. Pay attention. Pay attention. Could anything really be that easy? Could we gather all the information we need to plan for the future, make good choices — and yes, even achieve success —

just by paying attention? If this is possible, shouldn't management and the board have in place a professional and strategic activity whose role is simply to pay attention?

There is such an activity. It's called internal auditing and it is practiced by professional internal auditors. It is their responsibility to anticipate and signal to management and the board dangers, crises, and risks that could potentially adversely affect their organization. They also point out to management and to the board the upside of risk — risks that are worth taking, and from a big-picture perspective, are good moves for the organization. They make recommendations to management and the board, whether their advice is to make changes, make improvements, or hold the course.

In short, the internal auditors' primary role is to pay attention . . . to pay attention to the corporate culture, the ethical environment, the tone at the top, and when their organization is "exploiting the system."

### Case in Point

For some time, analysts have warned that a major worldwide financial crisis soon could stem from the United States, as a result of using real estate value to secure loans for investors who actually cannot afford to buy stocks. In order to make those individuals "solvent," stock portfolio management companies get the middle class into maximum debt-level with huge mortgages which they cannot pay back, unless they sell their stock portfolio which is supposed to constantly grow. To hedge against the defect of the borrowers, the portfolio management companies consolidate those mortgages in one unique obligation — asset-backed securities (ABS) sub-prime, or more precisely, mortgage-backed

## What are mortgage-backed securities?

As stated on the U.S. Securities and Exchange Web site, mortgage-backed securities (MBS) are debt obligations that represent claims to the cash flows from pools of mortgage loans, most commonly on residential property. Mortgage loans are purchased from banks, mortgage companies, and other originators and then assembled into pools by a governmental, quasi-governmental, or private entity. The entity then issues securities that represent claims on the principal and interest payments made by borrowers on the loans in the pool, a process known as securitization.

securities (MBS) sub-prime — which they put back on the financial market. Should the real estate market take a downward turn, the entire system collapses.

*Pay attention . . .* in February 2007, the real estate market in the United States started to show signs of slowdown. Real estate prices started to decrease, borrowers began having more difficulty making their monthly mortgage payments and real estate developer revenues decreased, as much as 60 percent, for some. As a result, the value of the MBS decreased, too, with some losing all value — becoming completely worthless.

This slowdown and decrease in the real estate market is having a major impact on the financial market in general, and some financial institutions are going after the banks that invented those risky new assets. Paul Jorion, Ph.D., a pricing specialist based in California, noticed earlier this year that four institutions specializing in sub-prime already had gone bankrupt. At the time, Jorion was VP audit, financial models at Countrywide Financial. For more about his discovery, visit [www.pauljorion.com](http://www.pauljorion.com).

Who really bought the MBS obligations? Banks? Hedge funds? China? And who resold them? How severe will the losses be, and who will be the final victims of the schemes?

Have those banks and their internal auditors ignored the credit risks? Are the internal auditors involved in reviewing and assessing such risks? If not, why? And where does the responsibility lie for alerting

constituencies for consequences beyond the boundaries of these corporations?

The stock market has been shaken brutally. Although the Federal Reserve and the Central European Bank have injected a few billion dollars of liquidity on the market to settle things down, we still may be on the edge of a major crisis. Could we also be on the brink of another major corporate scandal with a wave of bankruptcies in the financial and real estate industries?

This time, the scenario is not about senior management cooking the books to hide or embellish poor performance. Rather, it is about senior management and boards of directors following risky strategic directions. And yet, these two scenarios share a common feature: greed; and that is not addressed by legislation or regulations. Surely, compliance with the U.S. Sarbanes-Oxley Act of 2002, including SOX 404, cannot save financial institutions that invested massively in MBS.

The Institute of Internal Auditors (IIA) has long warned organizations about the importance of managing risk from a big-picture perspective. At times like this — when the focus tends to be solely on risks and controls over financial reporting — we believe a reminder is appropriate. *Pay attention . . .*

## TONE AT THE TOP LOOKS AT RISK

### July 2007: The Yin and Yang of Risk



wheelbarrows!

To be truly proactive, an organization should define the inherent upside risks, map control processes, and describe residual risks, implementing the same disciplines it uses for downside risks. It must take its blinders off. This is demonstrated by the old story of a factory worker who was suspected of stealing. At the end of each day, the guards kept a keen eye on him, carefully inspecting the wheelbarrow he rolled in front of him. They found nothing, and day after day sent him on his way. Was he stealing? Yes. He was stealing

### March 2006: Is Your Sense of Security FALSE?

In 1971, after eating a can of vichyssoise soup, a man died of botulism in Bedford, New York. As a result, more than a million cans of potentially under-processed soup were recalled by the manufacturer, the Bon Vivant Company. Not surprisingly, the incident brought the





**TONE**<sub>at</sub>**theTOP**



**Mission**

To provide executive management, boards of directors, and audit committees with concise, leading-edge information on such issues as ethics, internal control, governance, and the changing role of internal auditing; and guidance relative to their roles in, and responsibilities for, the internal audit activity.

Your comments about *Tone at the Top* are welcomed.

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**The Institute of Internal Auditors** ([www.theiia.org](http://www.theiia.org)) is dedicated to the global promotion and development of internal auditing.

Established in 1941, The IIA is an international professional association with global headquarters in Altamonte Springs, Fla. The IIA has more than 150,000 members in internal auditing, risk management, governance, internal control, IT auditing, education, and security.

The IIA is the global voice, recognized authority, chief advocate, principal educator, and acknowledged leader in certification, research, and technological guidance for the internal audit profession worldwide. The IIA presents conferences and seminars, certifies qualified audit professionals, provides benchmarking, and through The IIA Research Foundation, conducts research projects and produces educational products.

company to its knees. The lesson here is the bankruptcy and subsequent demise of the company resulted from lax operational — not financial — controls.

## November 2005: Putting COSO's Theory into Practice

For an organization to truly have a strong system of internal control, there also must be in place effective controls in the operations, compliance, and financial areas. Policies and procedures should be understood and followed. Emanating from an ethical tone at the top, there should be an organization-wide commitment to strong internal controls and effective risk management; and to meeting expectations, not only of the investment community, but of all stakeholders.

## June 2005: A Call for Character and Control

The tone at the top of an organization might appear to be a “soft” issue. However, few C-level and board

responsibilities are as critical to ethical and responsible operations as is the tone at the top. *As the front office goes, so goes the rest*, and behavior and principles modeled by the boss will be mimicked and expected throughout the ranks. Far more powerful than what is stated or preached are the actions demonstrated and reinforced by those at the top. For example, a boss who is careless about cost-containment and turns a blind eye to extravagant spending will set the tone for a spendthrift culture throughout the organization. On the same token, when management and the board demonstrate a strong commitment to efficiency, effectiveness, and economy; and zero-tolerance for fraud and collusion; and consistently pursue organization-wide buy-in for ethical behavior, they are building a team that is well positioned to stand strong against those who would endanger the corporate good.

## November 2003: Controls Are Everybody's Business

Because there are many misconceptions about internal control, knowledge sharing is vitally important to an effective control system. Part of the educational process is to dispel the myths about internal control and present the straight story. Here are just a few myths and the corresponding facts:

MYTH	FACT
Internal control starts with a strong set of policies and procedures.	Internal control starts with a strong control environment.
Internal control — that's why we have internal auditors.	Management is the owner of internal control.
Internal control is a finance thing. We do what the controller's office tells us to do.	Internal control is integral to every aspect of the business.
Internal controls are essentially negative, like a list of “thou shalt nots.”	Internal control makes the right things happen the first time, and every time.
Internal controls are a necessary evil. They take time away from our core activities—making products, making sales, and serving customers.	Internal controls should be built into, not onto, business processes.
With downsizing and empowerment, we have to give up a certain amount of control.	With downsizing and empowerment, we need different forms of control.
If controls are strong enough, we can be sure there will be no fraud, and financial statements will be accurate.	Internal controls provide reasonable, but not absolute, assurance that the organization's objectives will be achieved.

For more, refer to the *Tone at the Top* archive at [www.theiia.org](http://www.theiia.org) and review these editions of the newsletter:

June 2003: “Managing Risk from the Mailroom to the Boardroom”

September 2001: “Risk or Opportunity — The Choice is Yours”

April 2000: “Corporate Accountability and Risk”

March 1998: “Does Your Control System Pass the COSO Test?”

October 1997: “Ten Issues Critical to Internal Controls and the Audit Process”

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# TONE at the TOP

Issue 38

March 2008

EXCLUSIVELY FOR SENIOR MANAGEMENT, BOARDS OF DIRECTORS, AND AUDIT COMMITTEES

## You Want to Get Rid of . . . WHAT?!

**H**ave you ever noticed that, in times of falling revenues and the need for contingency planning, often someone will speak up with the suggestion to cut the marketing, advertising, and promotion budgets? This begs the question, “If we don’t let customers know about our services and products, how can we expect to increase our sales?”

Likewise, when times and money are tight, some organizations might be tempted to take cost-reduction measures in non-revenue producing, intangible areas such as risk management, internal control, and internal auditing. A few words to the wise: Yield NOT to this temptation!

Smart boards and audit committees should keep a keen eye on the “what-ifs” of an economic downturn and may task executive management with developing ideas on weathering the storm. Those at the top must decide how to make the best use of what they have, eliminate as much redundancy and waste as possible, and generate revenues to counter the effects of a slipping economy. It is critical, however, to ensure the steps taken are not counterproductive in the long run.

### Making Right Choices

Former United Nations Secretary-General Kofi Annan reminds us that to live is to choose. “But to choose well,” says Annan, “you must know who you are and what you stand for, where you want to go and why you want to get there.” This advice is an excellent mantra for both individuals and organizational leaders, especially when under duress brought about by an economic downturn.

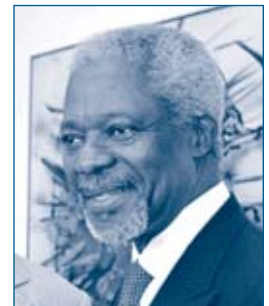
Stopping and thinking about long-term repercussions, rather than reacting out of fear and panic is wise counsel, but how do we ensure we’ve thought of

everything? Although space here does not allow us to focus on the many ways an organization can save money, we can examine possible repercussions of cutting costs without regard for the ethical culture or the organization’s system of internal control. We also can provide an argument against cutting the internal audit activity, and why such cuts would be a bad — and even dangerous — strategy for reducing expenses.

Organizational ethics are sometimes viewed as the soft side of business — something to consider when everything is going well. No organization, however, can afford to view ethics this way. Times of upheaval, layoffs, and reduced spending can increase stress, lower morale, and sometimes even increase the risk of unethical behavior.

Cutting corners to save dollars sometimes might even send a message that it’s okay to cut corners on ethics and the decision-making process, turn a blind eye to ongoing oversight, and lower the enterprise-wide expectation of taking the high road. All of these, plus ineffective risk management, are real and present dangers during the tough times, and the possibility of sending mixed messages and garnering misunderstanding should not be taken lightly.

***“We have to choose between a global market driven only by calculations of short-term profit, and one which has a human face.”***



Kofi Atta Annan  
United Nations Secretary-General, 1997-2006  
Nobel Peace Prize, 2001  
Ghanaian diplomat

## Case in Point

When a company does not demand up-front cash payment for products or services, it carries credit risk — the degree to which it is likely that a borrower or debtor may not repay the debt. Ignoring credit risk has become a trend for many businesses. For example, how many furniture ads do we regularly see on TV, promoting no money down and no payment for two to three years? If people can't afford furniture today, what are the chances they'll be able to afford it later? Is free or even cheap credit a good thing?



Changes in the mortgage industry in recent years resulted in cheaper credit that created a booming market in lending and fed higher housing prices. When competition accelerated among mortgage lenders, delinquencies escalated, resulting in loan portfolio deterioration. This

was followed by a cooling housing market. NOTE: Refer to “Paying Attention,” the November 2007 issue of *Tone at the Top*.

This scenario emphasizes the need for enterprise risk management in banking. It also suggests that investors should take a hands-on approach to understanding credit risk. In short, everybody is, or should be, in the risk management business these days.

## A Risk-based Perspective

The International Federation of Accountants (IFAC) has published a paper, “Internal Control from a Risk-Based Perspective,” after interviewing accountants from a broad range of organizations around the world. Those interviewed all struggled with similar issues and their solutions point to the fact that internal control can drive performance and create value for an organization. The paper, produced by IFAC’s Professional Accountants in Business (PAIB) Committee, reveals several key findings:

### INTERNAL CONTROLS

Every organization is different, but some essentials transcend the differences in type and style of businesses. In essence, a strong risk management and internal control system is a key and integral part of running and managing a disciplined and controlled business. Enterprise risk management forces the management team members to clearly articulate objectives, enables them to make informed decisions about the challenges and risks, and helps them to target resources to achieve the best possible results.

### EFFICIENCY

A significant issue in enterprise risk management and internal control is retaining the efficiency of the process while maintaining effectiveness. Another challenge is getting people to appreciate the internal control system for its own sake, and ensuring employees see it as useful in its own context.

### IMPROVEMENT

A change in culture is one of the benefits of implementing risk management and internal control. Specifically, employees throughout an organization begin to expect “continuous improvement” as part of the culture. Risk management and internal control are not restrictive concepts. Rather, they enable an organization to make the most of every opportunity.

### LESSONS LEARNED

Weaknesses occur when people are not paying attention. Being aware of and responsive to the warning signs helps an organization effectively manage risk.

- It is the human touch that ultimately determines the success of the control environment. Recruiting the right people reduces costs dramatically.
- A strong system of internal control helps ensure success. An enterprise cannot survive and flourish if it's not built with an internal control design and discipline in mind.
- Well-designed controls can create a positive work environment and contribute to the bottom line.
- Management must communicate to employees that risk management and internal control are part of the organization's key values.
- Management should talk to staff members openly and honestly, and ensure that they are onboard.



- Creating commercial opportunities is no good if the business is not controlled properly.
- It is better to enhance internal controls slowly rather than too quickly, which may cause mistakes that can necessitate starting the process over.

## The International Federation of Accountants



IFAC is dedicated to strengthening the worldwide accountancy profession and contributing to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards, and speaking out on public interest issues where the profession's expertise is most relevant.

“Internal Control from a Risk-Based Perspective” is part of a larger IFAC project on internal control. In 2006, the PAIB Committee produced an overview paper, “Internal Controls — A Review of Current Developments,” which reviewed current developments and some of the latest thinking in the area of internal control. These two publications form the groundwork for the development of principles-based guidance on internal control, which the committee plans to issue later this year.

To obtain the full interview paper, visit the PAIB section of the IFAC bookstore on [www.ifac.org](http://www.ifac.org).

By definition, internal auditing clearly is a core activity:

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*

A cornerstone of strong governance, internal auditing bridges the gap between management and the board, assesses the ethical climate and the effectiveness and efficiency of operations, and serves as an organization's safety net for compliance with rules, regulations, and overall best business practices. The internal auditors provide to the audit committee objective assessment on the state of the organization's risk, control, governance, and monitoring activities.

Although management is responsible for risk management and for testing controls, the internal audit activity assesses the effectiveness of the controls that are in place. As a result, the external auditors can rely on the work of the internal auditors. This coordination of activities provides assurance to management and the board that things are as they should be. It also has the potential of saving money for the organization.

## Internal Control

According to COSO's globally recognized *Internal Control — Integrated Framework*, the components of internal control are the control environment, risk assessment, control activities, information and communication, and monitoring. COSO acknowledges that competent internal auditing is one of the best internal controls an organization can implement.



NOTE: The Committee of Sponsoring Organizations of the Treadway Commission comprises the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), the Institute of Management Accountants (IMA), Financial Executives International (FEI), and The Institute of Internal Auditors (IIA). COSO is a voluntary private-sector organization dedicated to guiding executive management and governance entities toward the establishment of more effective, efficient, and ethical business operations on a global basis.

## Internal Auditing: A Core Activity

Why shouldn't internal auditing be one of the functions reviewed for elimination or even reduction? There are many more reasons than space here allows. Suffice it to say that, without competent and effective internal auditing, an organization's governance, risk management, and internal control would be in jeopardy.

## What is ERM?

Enterprise risk management (ERM) is a structured and coordinated entitywide governance approach to identify, assess, manage, and control potential events or situations. Implemented by management, ERM is evaluated by internal auditors for effectiveness and efficiency.

COSO's *Enterprise Risk Management — Integrated Framework* defines essential ERM components, discusses key principles and concepts, suggests a common ERM language, and provides clear direction and guidance for enterprise risk management.

For more information on these two COSO frameworks, visit [www.coso.org](http://www.coso.org). For more about internal auditing's roles in internal control and risk, visit [www.theiia.org](http://www.theiia.org).



## TONE<sup>at</sup>theTOP



### Mission

To provide executive management, boards of directors, and audit committees with concise, leading-edge information on such issues as ethics, internal control, governance, and the changing role of internal auditing; and guidance relative to their roles in, and responsibilities for, the internal audit activity.

Your comments about *Tone at the Top* are welcomed.

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 **The Institute of Internal Auditors** ([www.theiia.org](http://www.theiia.org)) is dedicated to the global promotion and development of internal auditing.

Established in 1941, The IIA is an international professional association with global headquarters in Altamonte Springs, Fla. The IIA has more than 150,000 members in internal auditing, risk management, governance, internal control, IT auditing, education, and security.

The IIA is the global voice, recognized authority, chief advocate, principal educator, and acknowledged leader in certification, research, and technological guidance for the internal audit profession worldwide. The IIA enhances the professionalism of internal auditors and is internationally recognized as a trustworthy guidance-setting body. It fosters professional development, certifies qualified audit professionals, provides benchmarking, and through The IIA Research Foundation, conducts research projects and produces educational products.