
Louisiana Housing Finance Agency



Internal Audit

Collette Mathis, Audit Director

June 6, 2011

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July 6, 2011

INTERNAL AUDIT COMMITTEE MEETING

Notice is hereby given of a regular meeting of the Internal Audit Committee to be held on **Wednesday, July 13, 2011 at 11:30 A.M.**, Louisiana Housing Finance Agency, **Committee Room 1**, located at 2415 Quail Drive, Baton Rouge, LA by order of the Chairman.

AGENDA

1. Call to order, roll call, and introduction of guests.
2. Approval of the Minutes of the October 13, 2010 Internal Audit Committee Meeting.
3. Resolution to adopt the completed **Louisiana Audit Compliance Questionnaire for Audit Engagements of Governmental Entities**.
4. **Audit of Fiscal Year Ended June 30, 2011 Financial Statements** Entrance Conference: CPA firm of Duplantier, Hrapmann, Hogan & Maher, L.L.P.
5. Presentation of the **2011 – 2012 Audit Plan**.
6. Other Business.
7. Adjournment.

Alesia Y. Wilkins-Braxton
LHFA Acting-President

**If you require special services or accommodations, please contact Barry E. Brooks at
(225) 763-8773, or via email bbrooks@lhfa.state.la.us**

Pursuant to the provisions of LSA-R.S. 42:17, 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 Housing Finance Agency
Internal Audit Committee Meeting
Wednesday, October 13, 2010
Committee Room 2
Baton Rouge, LA 70808
11:30 A.M.

Committee Members Present

Chairman Joseph Scontrino, III
Commissioner Mayson H. Foster
Commissioner Adena Boris
Commissioner Donald B. Vallee

Committee Members Absent

Commissioner John N. Kennedy
Commissioner Neal Miller
Commissioner Jerome Boykin, Sr.

Staff Present

Collette Mathis
Dione Milton
Jason St. Romain
Anne Fulton
Konchetta Bringier
Rene' Landry
Alesia Wilkins-Braxton

Guests Present

Heather Jovanovich, DHHM
Terri Kitto, DHHM
Bill Stamm, DHHM

Audit Committee Meeting Minutes

October 13, 2010

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1. **Call to order and discussion.** Chairman Scontrino called the meeting to order at 11:33 a.m.
2. **Quorum established.** Chairman Scontrino requested roll call; a quorum was established.
3. **Approval of the minutes.** A motion was made by Chairman Scontrino with a second by Commissioner Donald Vallee to approve the minutes of the October 14, 2009 committee meeting. The minutes were approved.
4. **Presentation and Discussion of the External Audit results for the fiscal year ended June 30, 2010.** There was a presentation and lengthy discussion of the external audit results by Bill Stamm of Duplantier, Hrapmann, Hogan & Maher (DHHM).
5. **Motion to accept the results of the General Fund and Bond Program audit results.** A motion was made by Commissioner Vallee with a second by Commissioner Adena Boris to accept the results of the General Fund and Bond Program Audit results for fiscal year ended June 30, 2010. The motion passed unanimously.
6. **Other Business.** There was no other business.
7. **Adjournment.** Upon hearing that there was no other business, Chairman Scontrino declared the meeting adjourned at 12:08 p.m.

LOUISIANA HOUSING FINANCE AGENCY

The following resolution was offered by _____ and seconded by Commissioner _____:

RESOLUTION

To adopt the completed Louisiana Compliance Questionnaire for Audit Engagements of Governmental Entities, attached as Exhibit A; and providing for other matters in connection therewith.

WHEREAS, La. R.S. §40:600.19.B. states, “The Legislative Auditor shall prepare an annual audit of the accounts and operations of the agency”; and

WHEREAS, in accordance with La R.S. §24:513, the State Legislative Auditor has issued the Louisiana Compliance Questionnaire for Audit Engagements of Governmental Entities, attached as Exhibit A and hereinafter referred to as “the Questionnaire;” and

WHEREAS, the staff of the Agency has completed the Questionnaire to the best of their belief and knowledge; and

WHEREAS, the State Legislative Auditor requires that the Questionnaire be presented to and adopted by the governing body of the Agency by means of a formal resolution in an open meeting;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS:

SECTION 1. The completed Louisiana Compliance Questionnaire for Audit Engagements of Governmental Entities, attached as Exhibit “A”, is hereby adopted.

SECTION 2. The Agency Staff is hereby authorized and directed to submit the Questionnaire appropriately as required by the State Legislative Auditor.

SECTION 3. The Agency staff and counsel are authorized and directed to prepare any ancillary documents as may be necessary to implement the Board’s actions.

SECTION 4. The Chairman, Vice Chairman, President, Vice President and/or Secretary of the Agency be and they are hereby authorized, empowered and directed to

execute any forms and/or documents required to be executed on behalf of and in the name of the Agency, the terms of which are to be consistent with the provisions of this resolution as approved by the Agency's General Counsel.

This resolution having been submitted to a vote, the vote thereon was as follows:

YEAS:

NAYS:

ABSENT:

And the resolution was declared adopted on this, the 13th day of July, 2011.

Chairman

Secretary

STATE OF LOUISIANA
PARISH OF EAST BATON ROUGE

I, the undersigned Secretary of the Board of Commissioners of the Louisiana Housing Finance Agency (the "Agency"), do hereby certify that the foregoing two (2) pages constitute a true and correct copy of a resolution adopted by said Board of Commissioners on July 13, 2011, "A resolution to adopt the completed Louisiana Compliance Questionnaire for Audit Engagements of Governmental Entities, attached as Exhibit A; and providing for other matters in connection therewith."

IN FAITH WHEREOF, witness my official signature and the impress of the official seal of the Agency on this, the 13th day of July, 2011.

Secretary

(SEAL)

**LOUISIANA COMPLIANCE QUESTIONNAIRE
(For Audit Engagements)**

Dear Chief Executive Officer:

Attached is the Louisiana Compliance Questionnaire that is to be completed by you or your staff. This questionnaire is a required part of a financial audit of Louisiana governmental units and quasi-public entities. The legal matters contained in the questionnaire parallel those matters contained in the *Laws Affecting Louisiana Government*, published by the Society of Louisiana Certified Public Accountants. Upon completion, the questionnaire must be presented to and adopted by the governing body, if any, of your organization by means of a formal resolution in an open meeting. Independently elected officials should sign the document, in lieu of such a resolution.

The completed questionnaire and a copy of the adoption instrument, if appropriate, must be given to the auditor at the beginning of the audit. The auditor will, during the course of his regular audit, test the accuracy of the responses in the questionnaire. It is not necessary to return the questionnaire to my office.

Certain portions of the questionnaire may not be applicable to your organization, especially those related to federal financial assistance, the requirements of the *Single Audit Act*, and OMB Circular A-133. In such cases, it is appropriate to mark the representation "not applicable." However, you must respond to each applicable representation. A 'yes' answer indicates that you have complied with the applicable law or regulation. A 'no' answer to any representation indicates a possible violation of law or regulation and, as such, should be fully explained. These matters will be reviewed by the auditor during the course of his examination. Please feel free to attach a further explanation of any representation.

Your cooperation in this matter will be greatly appreciated.

Sincerely,

Steve J. Theriot, CPA
Legislative Auditor

Enclosure

**LOUISIANA COMPLIANCE QUESTIONNAIRE
(For Audit Engagements of Government Entities)**

July 13, 2011 (Date Transmitted)

Duplantier, Hrapmann, Hogan & Maher, LLP
1340 Poydras Street, Suite 2000
New Orleans, LA 70122-1223

In connection with your audit of our financial statements as of June 30, 2011 and for July 1, 2010 to June 30, 2011 (period of audit) for the purpose of expressing an opinion as to the fair presentation of our financial statements in accordance with accounting principles generally accepted in the United States of America, to assess our system of internal control as a part of your audit, and to review our compliance with applicable laws and regulations, we confirm, to the best of our knowledge and belief, the following representations. These representations are based on the information available to us as of July 13, 2011 (date completed/date of the representations).

PART I. AGENCY PROFILE

1. Name and address of the organization.

Louisiana Housing Finance Agency
2415 Quail Drive
Baton Rouge, LA 70808

2. List the population of the municipality or parish based upon the last official United States Census or most recent official census (municipalities and police juries only). Include the source of the information.

N/A

3. List names, addresses, and telephone numbers of entity officials. [Include elected/appointed members of the governing board, chief executive and fiscal officer, and legal counsel.

See Attachment A

4. Period of time covered by this questionnaire:

July 1, 2010 to June 30, 2011

5. The entity has been organized under the following provisions of the Louisiana Revised Statute (s) (LSA-RS) and, if applicable, local resolutions/ordinances.

Louisiana Housing Finance Act, Chapter 3-A of Title 40

6. Briefly describe the public services provided:

Assist in the financing of housing needs of Louisiana for persons of low to moderate income.

7. Expiration date of current elected/appointed officials' terms.

Commissioners – At the pleasure of the Governor

President & Vice President – April 2012

Chairman and Vice Chair – April 2012

Secretary – April 2012

LEGAL COMPLIANCE

PART II. PUBLIC BID LAW

8. The provisions of the public bid law, LSA-RS Title 38:2212, and, where applicable, the regulations of the Division of Administration, State Purchasing Office have been complied with.

- A) All public works purchases exceeding \$100,000 have been publicly bid.
- B) All material and supply purchases exceeding \$20,000 have been publicly bid.

Yes [x] No []

PART III. CODE OF ETHICS LAW FOR PUBLIC OFFICIALS AND PUBLIC EMPLOYEES

9. It is true that no employees or officials have accepted anything of value, whether in the form of a service, loan, or promise, from anyone that would constitute a violation of LSA-RS 42:1101-1124.

Yes [x] No []

10. It is true that no member of the immediate family of any member of the governing authority, or the chief executive of the governmental entity, has been employed by the governmental entity after April 1, 1980, under circumstances that would constitute a violation of LSA-RS 42:1119.

Yes [x] No []

PART IV. LAWS AFFECTING BUDGETING

11. We have complied with the budgeting requirements of the Local Government Budget Act (LSA-RS 39:1301-15) or the budget requirements of LSA-RS 39:33.

A. Local Budget Act

- 1. We have adopted a budget for the General Fund and all special revenue funds (LSA-RS 39:1305).
- 2. The chief executive officer, or equivalent, has prepared a proposed budget that included a budget message, a proposed budget for the General Fund and each special revenue fund, and a budget adoption instrument that specified the chief executive's authority to make budgetary amendments without approval of the governing authority. Furthermore, the proposed expenditures did not exceed estimated funds to be available during the period (LSA-RS 39:1305).
- 3. The proposed budget was submitted to the governing authority and made available for public inspection at least 15 days prior to the beginning of the budget year (LSA-RS 39:1306).
- 4. To the extent that proposed expenditures were greater than \$500,000, we have made the budget available for public inspection and have advertised its availability in our official journal. The advertisement included the date, time, and place of the public hearing on the budget. Notice has also been published certifying that all actions required by the Local Government Budget Act

have been completed (LSA-RS 39:1307).

5. The proposed budget was made available for public inspection at the location required by LSA-RS 39:1308.
6. All action necessary to adopt and finalize the budget was completed prior to the date required by state law. The adopted budget contained the same information as that required for the proposed budget [LSA-RS 39:1306].
7. After adoption, a certified copy of the budget has been retained by the chief executive officer or equivalent officer (LSA-RS 39:1309).
8. To the extent that proposed expenditures were greater than \$500,000, the chief executive officer or equivalent notified in writing the governing authority during the year when actual receipts plus projected revenue collections for the year failed to meet budgeted revenues by five percent or more, or when actual expenditures plus projected expenditures to year end exceeded budgeted expenditures by five percent or more (LSA-RS 39:1311). (Note, state law exempts from the amendment requirements special revenue funds with anticipated expenditures of \$250,000 or less and exempts special revenue funds whose expenditures drive revenue recognition-primarily federal funds-from the requirement to amend revenues.)
9. The governing authority has amended its budget when notified, as provided by LSA-RS 39:1311.

N/A Yes [] No []

B. State Budget Requirements

1. The state agency has complied with the budgetary requirements of LSA-RS 39:33.

N/A Yes [] No []

C. Licensing Boards

1. The licensing board has complied with the budgetary requirements of R. S. 39:1331-1342.

N/A Yes [] No []

PART V. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING LAWS

12. We have maintained our accounting records in such a manner as to provide evidence of legal compliance and the preparation of annual financial statements to comply with LSA-RS 24:514, 24:515, and/or 33:463.

Yes [x] No []

13. All non-exempt governmental records are available as a public record and have been retained for at least three years, as required by LSA-RS 44:1, 44:7, 44:31, and 44:36.

Yes [x] No []

14. We have filed our annual financial statements in accordance with LSA-RS 24:514, and 33:463 where applicable.

Yes [x] No []

15. We have had our financial statements audited in a timely manner in accordance with LSA-RS 24:513.

Yes [x] No []

PART VI. ASSET MANAGEMENT LAWS

16. We have maintained records of our fixed assets and movable property records, as required by LSA-RS 24:515 and/or 39:321-332, as applicable.

Yes [x] No []

PART VII. FISCAL AGENCY AND CASH MANAGEMENT LAWS

17. We have complied with the fiscal agency and cash management requirements of LSA-RS 39:1211-45 and 49:301-327, as applicable.

Yes [x] No []

PART VIII. DEBT RESTRICTION LAWS

18. It is true we have not incurred any long-term indebtedness without the approval of the State Bond Commission, as provided by Article VII, Section 8 of the 1974 Louisiana Constitution, Article VI, Section 33 of the 1974 Louisiana Constitution, and LSA-RS 39:1410.60-1410.65.

Yes [x] No []

19. We have complied with the debt limitation requirements of state law (LSA-RS 39:562).

Yes [x] No []

20. We have complied with the reporting requirements relating to the Fiscal Review Committee of the State Bond Commission (LSA-RS 39:1351).

Yes [x] No []

PART IX. REVENUE AND EXPENDITURE RESTRICTION LAWS

21. We have restricted the collections and expenditures of revenues to those amounts authorized by Louisiana statutes, tax propositions, and budget ordinances.

Yes [x] No []

22. It is true we have not advanced wages or salaries to employees or paid bonuses in violation of Article VII, Section 14 of the 1974 Louisiana Constitution, LSA-RS 14:138, and AG opinion 79-729.

Yes [x] No []

23. It is true that no property or things of value have been loaned, pledged, or granted to anyone in violation of Article VII, Section 14 of the 1974 Louisiana Constitution.

Yes [x] No []

PART X. QUESTIONS FOR SPECIFIC GOVERNMENTAL UNITS

Police Juries

24. We have adopted a system of road administration that provides as follows:

- A. Approval of the governing authority of all expenditures, LSA-RS 48:755(A).
- B. Development of a capital improvement program on a selective basis, LSA-RS 48:755.
- C. Centralized purchasing of equipment and supplies, LSA-RS 48:755.
- D. Centralized accounting, LSA-RS 48:755.
- E. A construction program based on engineering plans and inspections, LSA-RS 48:755.
- F. Selective maintenance program, LSA-RS 48:755.
- G. Annual certification of compliance to the legislative auditor, LSA-RS 48:758.

N/A

Yes [] No []

School Boards

25. We have complied with the general statutory, constitutional, and regulatory provisions of the Louisiana Department of Education, LSA-RS 17:51-401.

N/A Yes [] No []

26. We have complied with the regulatory circulars issued by the Louisiana Department of Education that govern the Minimum Foundation Program.

N/A Yes [] No []

27. We have, to the best of our knowledge, accurately compiled the performance measurement data contained in the following schedules and recognize that your agreed upon procedures will be applied to such schedules and performance measurement data:

Parish school boards are required to report as part of their annual financial statements measures of performance. These performance indicators are found in the supplemental schedules:

- Schedule 1, General Fund Instructional and Support Expenditures and Certain Local Revenues Sources
- Schedule 2, Education Levels of Public School Staff
- Schedule 3, Number and Type of Public Schools
- Schedule 4, Experience of Public Teachers and Full-time Classroom Teachers
- Schedule 5, Public School Staff Data
- Schedule 6, Class Size Characteristics
- Schedule 7, Louisiana Educational Assessment Program
- Schedule 8, The Graduate Exit Exam
- Schedule 9, The IOWA Tests

N/A Yes [] No []

Tax Collectors

28. We have complied with the general statutory requirements of LSA-RS 47, Chapter 4.

N/A Yes [] No []

Sheriffs

29. We have complied with the state supplemental pay regulations of LSA-RS 33:2218.8.

N/A Yes [] No []

30. We have complied with LSA-RS 33:1432 relating to the feeding and keeping of prisoners.

N/A Yes [] No []

District Attorneys

31. We have complied with the regulations of the Louisiana Department of Social Services that relate to the Title IV-D Program.

N/A Yes [] No []

Assessors

32. We have complied with the regulatory requirements found in Title 47 of the Louisiana Revised Statutes.

N/A Yes [] No []

33. We have complied with the regulations of the Louisiana Tax Commission relating to the reassessment of property.

N/A Yes [] No []

Clerks of Court

34. We have complied with LSA-RS 13:751-960.

N/A Yes [] No []

Libraries

35. We have complied with the regulations of the Louisiana State Library. N/A Yes [] No []

Municipalities

36. Minutes are taken at all meetings of the governing authority. LSA-RS 42:7.1 (Act 665 of 1976). N/A Yes [] No []

37. Minutes, ordinances, resolutions, budgets, and other official proceedings of the municipalities are published in the official journal. LSA-RS 43:143-144 and A.G. 86-528. N/A Yes [] No []

38. All official action taken by the municipality is conducted at public meetings. LSA-RS 42:4.1-13. N/A Yes [] No []

Airports

39. We have submitted our applications for funding airport construction or development to the Department of Transportation and Development as required by LSA-RS 2:802. N/A Yes [] No []

40. We have adopted a system of administration that provides for approval by the department for any expenditures of funds appropriated from the Transportation Trust Fund, and no funds have been expended without department approval (LSA-RS 2:810). N/A Yes [] No []

41. All project funds have been expended on the project and for no other purpose (LSA-RS 2:810). N/A Yes [] No []

42. We have certified to the legislative auditor, on an annual basis, that we have expended project funds in accordance with the standards established by law (LSA-RS 2:811). N/A Yes [] No []

Ports

43. We have submitted our applications for funding port construction or development to the Department of Transportation and Development as required by LSA-RS 34:3432. N/A Yes [] No []

44. We have adopted a system of administration that provides for approval by the department for any expenditures of funds made out of state and local matching funds, and no funds have been expended without department approval (LSA-RS 34:3460). N/A Yes [] No []

45. All project funds have been expended on the project and for no other purpose (LSA-RS 34:3460). N/A Yes [] No []

46. We have established a system of administration that provides for the development of a capital improvement program on a selective basis, centralized purchasing of equipment and supplies, centralized accounting, and the selective maintenance and construction of port facilities based upon engineering plans and inspections (LSA-RS 34:3460). N/A Yes [] No []

47. We have certified to the legislative auditor, on an annual basis, that we have expended

project funds in accordance with the standards established by law (LSA-RS 34:3461).

N/A

Yes [] No []

Sewerage Districts

48. We have complied with the statutory requirements of LSA-RS 33:3881-4160.

N/A

Yes [] No []

Waterworks Districts

49. We have complied with the statutory requirements of LSA-RS 33:3811-3837.

N/A

Yes [] No []

Utility Districts

50. We have complied with the statutory requirements of LSA-RS 33:4161-4548.

N/A

Yes [] No []

Drainage and Irrigation Districts

51. We have complied with the statutory requirements of LSA-RS 38:1601-1707 (Drainage Districts); LSA-RS 38:1751-1921 (Gravity Drainage Districts); LSA-RS 38:1991-2048 (Levee and Drainage Districts); or LSA-RS 38:2101-2123 (Irrigation Districts), as appropriate.

N/A

Yes [] No []

Fire Protection Districts

52. We have complied with the statutory requirements of LSA-RS 40:1491-1509.

N/A

Yes [] No []

Other Special Districts

53. We have complied with those specific statutory requirements of state law applicable to our district.

N/A

Yes [] No []

The previous responses have been made to the best of our belief and knowledge.

YB&Brooks

Secretary

July 6, 2011

Date

Mesay

Treasurer

7/6/11

Date

President

7/6/11

Date



Louisiana Housing Finance Agency
BOARD OF COMMISSIONERS
2011

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6/29/2011 4:05 PM (BEB)

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BOBBY JINDAL
GOVERNOR



ALESIA Y. WILKINS-BRAXTON
VICE-PRESIDENT

Louisiana Housing Finance Agency

LHFA STAFF 2011

President and Secretary

Vacant

Vice President (Acting President and Appointing Authority per board resolution)

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6/22/2011 4:34 PM (BEB)

Annual Audit Plan

2011-2012

Release Date: June 2011

Internal Audit Department
Collette Mathis, Director



The mission of the Louisiana Housing Finance Agency is to ensure that every Louisiana resident is granted an opportunity to obtain safe, affordable, and energy efficient housing.

Louisiana Housing Finance
Agency

2415 Quail Drive
Baton Rouge, LA 70808

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LOUISIANA HOUSING FINANCE AGENCY

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

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LOUISIANA HOUSING FINANCE AGENCY

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

MEMORANDUM

To: Audit Committee Members, LHFA Board of Commissioners
Alesia Y. Wilkins-Braxton, Vice-President

Subject: Audit Plan 2011-2012

I am pleased to present our 2011-2012 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.

The risk assessment and development of the Internal Audit plan were based on standards developed by the Institute of Internal Auditors. The risk profile was created using identified risks and the results were achieved using assigned weighted factors. Identified risks were strategic, operational, financial, regulatory, and compliance in nature. This analysis created a three year audit plan based on the inherent risks identified during the risk assessment process.

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.

While the scope and assignment of audits is left to the discretion of the Chief Audit Executive (CAE), 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.

Collette Mathis, CGAP, MBA
LHFA Internal Audit Director



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 Internal 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. Create 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

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 2010-2011

- ✓ Served as the Director of the LHFA Internal Audit Department as well as lead the in-house emergency preparedness efforts and the records management and document retrieval function.
- ✓ Completed an audit of cash disbursements made to the Queensborough Neighborhood Association.
- ✓ Initiated and completed an audit of the LHFA Fleet Management Department.
- ✓ Initiated a follow up review for the LHFA Fixed Assets and Inventory System.
- ✓ Assisted the Contract Administration Department in the rebidding process of the Performance Based, Section 8 Housing Assistance Payments Contract issued by HUD by creating the PHA Disaster Plan.
- ✓ Initiated an Information Technology General Security Audit that was performed during the calendar year 2010 by the firm, Postlewaite and Netterville.
- ✓ Assisted the LIHTC department with the research of several issues relating to the issuance of their current QAP. In addition, one auditor was loaned to the LIHTC for 4 months to assist with the 8609 back-log.



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- ✓ Continued to populate and fully integrate the LHFA Single Audit Access Database. We received 503 audits during the 2010 calendar year representing various Agency programs.
- ✓ Continued to transmit Circular A-133 HOME financial audits to third party CPA for independent review and cash flow analysis.
- ✓ Attended local Red Cross Emergency Sheltering Training while coordinating similar training of volunteer emergency preparedness staff members.
- ✓ Continued to meet with key staff related to disaster planning and recovery and updated recovery Continuity of Operations Plan documents.
- ✓ Prepared and issued the 2010 Annual Audit Plan.
- ✓ Continued to improve efficiency through the use of automated tools.
- ✓ Participated in management committee meetings and offered recommendations as appropriate and needed.
- ✓ 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.



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Goals 2011-2012

- ✓ Initiate and complete an audit of the Neighborhood Stabilization Program.
- ✓ Initiate and complete an audit of the Tax Credit Assistance Program.
- ✓ Initiate and complete an audit of the Energy Assistance Department with emphasis to be placed on activities outsourced to LACAP (Louisiana Association of Community Action Providers).
- ✓ Initiate and conduct any additional operational and compliance audits of selected LHFA programs as time permits. This includes the review of operations of selected units to ensure that results are consistent with organizational objectives.
- ✓ Develop and update all existing audit programs.
- ✓ Provide timely reports, information and advice in order to assist our customers with the achievement of their goals and the discharge of their duties.
- ✓ Continue to 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.
- ✓ Continue to train staff on COOP events and activities.
- ✓ Continue to provide support to the primary agencies identified in the state of Louisiana's emergency plans.
- ✓ 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



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- 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.



Internal Audit Charter

Definition

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.

Purpose

The purpose of the Internal Auditing Department is to provide objective audit and review services within the organization for use by management and the Board of Commissioners. The objective is to assist management in the effective discharge of their responsibilities.

The Internal Audit Department has been established to provide an independent appraisal function to the Louisiana Housing Finance Agency and its Board of Commissioners by examining and evaluating the organization's activities and internal control structure. The primary objectives of the Internal Audit Department are:

- To assist LHFA management and employees in the effective discharge of their responsibilities by providing analyses, appraisals, recommendations, counsel and information concerning the adequacy and effectiveness of the organization's internal control structure
- To promote effective internal control at a reasonable cost.

Authority

In conjunction with the policies of the Board of Commissioners and executive management, the Internal Auditing Department has authority to audit all functions of the Louisiana Housing Finance Agency. Authorization is granted for full and complete access to any of LHFA records (either manual or electronic), physical properties and personnel relevant to a review. The Internal Auditor will handle any information obtained during a review in the same prudent manner as the custodian of the information.



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The Internal Audit Leader and staff of the Internal Audit Department are not authorized to:

- Perform any operational duties for the organization or its affiliates.
- Initiate or approve accounting transactions external to the internal audit activity.
- Direct the activities of any organization employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

Responsibility

The Internal Auditing Department has no direct authority over or responsibility for any of the activities or operations they review. Therefore, the internal audit review does not relieve other persons in the organization of the responsibilities assigned to them. Responsibility for complying with policies and procedures as well as correcting deficiencies rests with the respective administrators and management.

The Internal Audit Department responsibilities include:

- The development of a flexible audit plan using an appropriate risk based methodology, including any risks or control concerns identified by management. This plan shall be submitted to the audit committee for review and approval as well as periodic updates.
- Implementation of the annual audit plan, as approved, which will include any special tasks or projects requested by management and the audit committee
- Issuance of periodic reports to the audit committee and management summarizing the results of audit activities.
- Maintenance of a professional audit staff with sufficient knowledge, skills and experience to meet the requirements of the charter.
- Assisting in the investigation of significant suspected fraudulent activities within the organization and notify management and the audit committee of the results.
- Accepting assignments or special requests from Management, the collective members of the Audit Committee or the Board of Commissioners.

Independence

Although the Internal Auditing Department is an integral component of the organization, it functions independently of all other divisions and departments. Independence and accessibility to information sources are essential elements, which permit audit work to be performed freely and objectively. Internal Audit personnel report to the Internal Audit Leader, who will then report to the Board of Commissioners functionally and to the Agency President administratively.



Organization

The Internal Audit Leader shall report functionally to the Audit Committee of the Board of Commissioners and administratively to the Agency President.

Audit Scope

The scope of Internal Audit encompasses the examination of operating information to assess the adequacy and effectiveness of the Agency's governance, risk management process, system of internal control structure, and the quality of performance in carrying out assigned responsibilities to achieve the Agency's stated goals and objectives.

Audit Planning

Annually, the Internal Audit Leader shall submit to senior management and the Audit Committee a summary of the audit work schedule, staffing plan, and budget for the following year. The audit work schedule is to be developed based on a prioritization of auditable activities using a risk-based methodology. Any significant deviation from the formally approved work schedule shall be communicated to the Audit Committee and senior management through periodic activity reports.

Reporting

A written report will be prepared and issued by the Internal Auditor Leader or designee following the conclusion of each audit and will be distributed as appropriate. A copy of each audit report and a summarization will be forwarded to the Chairman of the Audit Committee and the Agency President.

The Internal Audit Leader may include in the audit report the auditee's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response should include a timetable for anticipated completion and an explanation for any recommendations not addressed.

Internal Audit shall be responsible for appropriate follow-up on audit findings and recommendations.



Periodic Assessment

The Internal Audit Leader should periodically assess whether the purpose, authority and responsibility, as defined in this charter, continue to be adequate to enable the internal auditing activity to accomplish its objectives. The results should be communicated to the Audit Committee and senior management.

Principles for Audit Plan Development

In order to provide a basis for the development of the plan, the 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. The 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
 - ◆ 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

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 was 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. The potential audits were then ranked based upon the highest to lowest risk scores thereby producing an audit priority listing.

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.



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ONGOING AND PLANNED INTERNAL AUDITS

2011-2012		Status
NSP 1		Date Started: 5/2/2011
TCAP		Anticipated Start: July 2011
Energy Assistance-Outsourced Activities (LACAP)		Anticipated Start: November 2011
Travel and Overtime Compensation		Anticipated Start: February 2012
Continual Tracking and Review of all Circular A-133 Audits		Ongoing

ONGOING AND COMPLETED EXTERNAL AUDITS

2011-2012		Status
National Foreclosure Mitigation Counseling (NFMC)	NeighborWorks America	Completed January 2011
Performance Based Contract Administration	HUD (Housing and Urban Development)	Completed April 2011
Safety Training and Documentation	Performed by Office of Risk Management	Completed: April 2011
Nonprofit Rebuilding Pilot Program FY 2010	OCD-DRU	Completed: April 2011
LHFA General Fund and Bond Program Audit	DHHM	Anticipated Completion: August 2011

NON-AUDIT ACTIVITIES

2011-2012		
Supervision of LHFA Emergency Support Division		
Supervision of LHFA Records Management Division		



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COMPLETED INTERNAL AUDITS

<u>2010</u>		
Queensborough Neighborhood Association		
Fleet Management		
LHFA Information Technology-General Security		
LHFA Information Technology-Backup Procedures		
LHFA Information Technology-Building Security		
Compliance Monitoring Department-Follow-Up Review		

COMPLETED EXTERNAL AUDITS

<u>2010</u>		
HOME/CDBG	HUD (Housing and Urban Development)	February 26, 2010
WAP/ARRA	US Department of Energy	November 15, 2010
LHFA General Fund and Bond Audit	Duplantier, Hrapmann, Hogan & Maher	8/27/2010
Willowbrook Management Financial Audit	Duplantier, Hrapmann, Hogan & Maher	8/27/2010
Performance Based Contract Administration	HUD (Housing and Urban Development)	Completed April 2010

NON-AUDIT ACTIVITIES

<u>2010</u>		
Completed an Agency-Wide Inventory		
Assisted NRRP Department-Loaned Personnel		
Assisted LIHTC Department- Loaned Personnel		
Supervised Emergency Support Personnel		
Coordinated with Social Serve in the creation of state-wide housing inventory database and tracker		



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COMPLETED INTERNAL AUDITS

<u>2009</u>		
Cash Disbursements	Completed-2009	Completed-2009
Fixed Assets & Inventory	Completed-2009	Completed-2009
Cash Receipts	Audit Plus Follow Up	Completed -2009
Willowbrook Management Inc.	As Requested by LHFA Mgmt	Completed -2009
Child Care Refurnishing Grant-Follow Up Review	Audit Plus Follow Up	Completed -2009

COMPLETED EXTERNAL AUDITS

<u>2009</u>		
Planning & Performance	Performed by Civil Service	Completed -2009
LHFA General Fund and Bond Audit	Duplantier, Hrapmann, Hogan & Maher	August 27, 2009
Willowbrook Management Financial Audit	Duplantier, Hrapmann, Hogan & Maher	August 27, 2009
Alternative Housing Pilot Program-Katrina Cottages	Louisiana Legislative Auditor's Office	March 4, 2009

NON-AUDIT ACTIVITIES

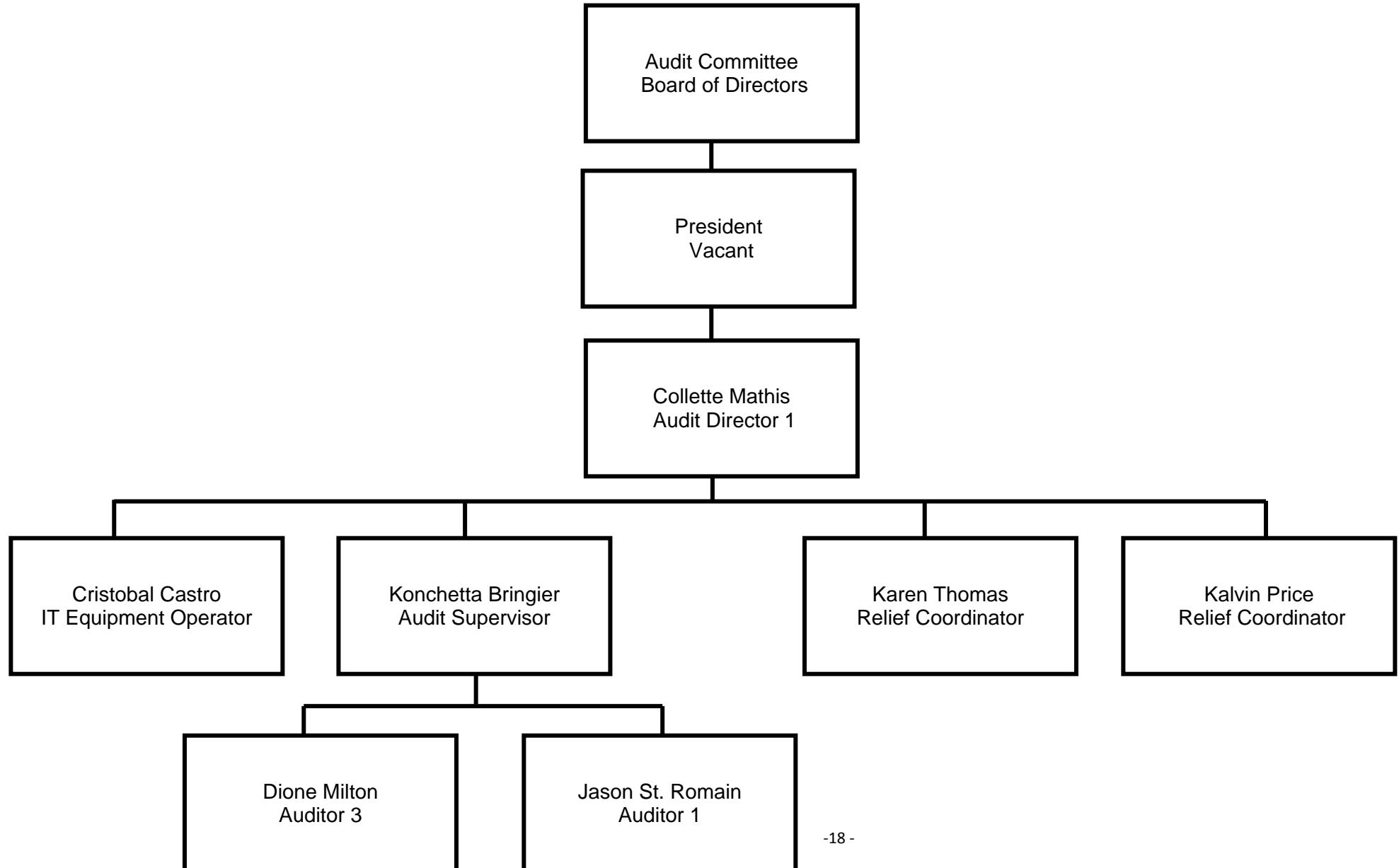
<u>2009</u>		
Supervised Emergency Support Personnel		Continual
Population and Integration of LHFA Single Audit Database		Continual



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INTERNAL AUDIT ORGANIZATIONAL CHART





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.



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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.



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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.



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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.



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

Introduction to the International Standards

Internal auditing is conducted in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* is essential in meeting the responsibilities of internal auditors and the internal audit activity.

If internal auditors or the internal audit activity is prohibited by law or regulation from conformance with certain parts of the *Standards*, conformance with all other parts of the *Standards* and appropriate disclosures are needed.

If the *Standards* are used in conjunction with standards issued by other authoritative bodies, internal audit communications may also cite the use of other standards, as appropriate. In such a case, if inconsistencies exist between the *Standards* and other standards, internal auditors and the internal audit activity must conform with the *Standards*, and may conform with the other standards if they are more restrictive.

The purpose of the *Standards* is to:

1. Delineate basic principles that represent the practice of internal auditing.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

The *Standards* are principles-focused, mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the Statements.

The *Standards* employ terms that have been given specific meanings that are included in the Glossary. Specifically, the *Standards* use the word "must" to specify an unconditional requirement and the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.



It is necessary to consider the *Statements* and their *Interpretations* as well as the specific meanings from the *Glossary* to understand and apply the *Standards* correctly.

The structure of the *Standards* is divided between Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. The Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. The Attribute and Performance Standards are also provided to apply to all internal audit services.

Implementation Standards are also provided to expand upon the Attribute and Performance standards, by providing the requirements applicable to assurance (A) or consulting (C) activities.

Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system, or other subject matter. The nature and scope of the assurance engagement are determined by the internal auditor. There are generally three parties involved in assurance services: (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter — the process owner, (2) the person or group making the assessment — the internal auditor, and (3) the person or group using the assessment — the user.

Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice — the internal auditor, and (2) the person or group seeking and receiving the advice — the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

The review and development of the *Standards* is an ongoing process. The Internal Audit Standards Board engages in extensive consultation and discussion prior to issuing the *Standards*. This includes worldwide solicitation for public comment through the exposure draft process. All exposure drafts are posted on The IIA's Web site as well as being distributed to all IIA institutes.



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, including the nature of the chief audit executive's functional reporting relationship with the board; 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 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.

Interpretation:

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- *Approving the internal audit charter;*
- *Approving the risk based internal audit plan;*
- *Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;*
- *Approving decisions regarding the appointment and removal of the chief audit executive; and*
- *Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.*

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 demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be



demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of a review team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether a reviewer or review team demonstrates sufficient competence to be qualified.

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.

Interpretation:

The internal audit activity conforms with the Standards when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics, and Standards. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

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.*

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

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.A2 – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

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.

2070 – External Service Provider and Organizational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

Interpretation

This responsibility is demonstrated through the quality assurance and improvement program which assesses conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.



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 supports the organization's strategies and objectives.

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.*

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization's risk management processes and their effectiveness.

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 and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, 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 and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

2130.C1 – 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.

2210.C2 – Consulting engagement objectives must be consistent with the organization's values, strategies, and objectives.

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.

2220.C2 – During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

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 results of engagements.

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 the internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.



Interpretation:

Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

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.

2450 – Overall Opinions

When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

The communication will identify:

- *The scope, including the time period to which the opinion pertains;*
- *Scope limitations;*
- *Consideration of all related projects including the reliance on other assurance providers;*
- *The risk or control framework or other criteria used as a basis for the overall opinion; and*
- *The overall opinion, judgment, or conclusion reached.*



The reasons for an unfavorable overall opinion must be stated.

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

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

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 describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title of the chief audit executive may vary across organizations.

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

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 importance 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 the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

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 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

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.

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).
