Louisiana Housing Finance Agency

Internal Audit

Collette Mathis, Audit Director

April 14, 2010

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M E M O R A N D U M

To: Chairman Joseph M. Scontrino, III
Commissioner Allison A. Jones
Commissioner John N. Kennedy
Commissioner Jerome S. Boykin, Sr.
Commissioner Neal Miller

From: Collette Mathis, Audit Director

Date: April 14, 2010

Re: Audit Committee

There will be an Audit Committee meeting, Wednesday, April 14, 2010 at 11:30 a.m., at Louisiana Housing Finance Agency, Committee Room II, located at 2415 Quail Drive, Baton Rouge, LA. Collette Mathis will provide an update on audit activities and present the 2010 Audit plan.

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

April 14, 2010

INTERNAL AUDIT COMMITTEE MEETING

Notice is hereby given of a regular meeting of the Audit Committee to be held on **Wednesday, April 14, 2010 at 11:30A.M.,** Louisiana Housing Finance Agency, **Committee Room 2**, located at 2415 Quail Drive, Baton Rouge, LA by order of the Chairman.

Final Agenda

1. Call to order, roll call and introduction of guests
2. Approval of the Minutes of the October 14, 2009 Audit Committee Meeting
3. Approval of the 2010 Audit Plan
4. Other Business
5. Adjournment

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Milton J. Bailey, LHFA President

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

Louisiana Finance Agency
Audit Committee Meeting Minutes
Wednesday, October 14, 2009
2415 Quail Drive
Committee Room 2
Baton Rouge, LA 70808
11:00 AM

Commissioners Present

Joey Scontrino
Alberta Young
Neal Miller
Mayson Foster

Commissioners Absent

Allison Jones
John Kennedy
Jerome Boykin, Sr.

Staff Present

Konchetta Bringier
Dione Milton
Collette Mathis
Jason St. Romain
Rene’ Landry
Kip Anderson
Nicole Mack
Jatis Harrington

Others Present

Bill Stamm, DHHM
Nancy Borland, DHHM
Terri Kitto, DHHM
Heather McCardle, DHHM

1. Call to order, roll call and introduction of guests.
Commissioner Scontrino called the meeting to order at 11:07 AM and asked for roll call. A quorum was established.

2. Approval of the minutes of the July 8, 2009 Audit Committee Meeting.

On a motion by Commissioner Foster and seconded by Commissioner Young, the minutes of the July 8, 2009 Audit Committee Meeting were approved.

3. Presentation and Discussion of External Audit Results for Fiscal Year Ended June 30, 2009.
Bill Stamm with Duplantier, Hrapmann, Hogan & Maher (DHHM) presented the external audit results for Louisiana Housing Finance Agency's June 30, 2009 audit. Mr. Stamm gave an overview of the audit, discussed the audit opinions and the Audit Results handout.

Mr. Stamm explained there were three reports issued on the General Fund side of the audit; Financials Statements, Internal Controls and Compliance. An unqualified opinion was issued on all of the reports; there were no findings, instances of non-compliance or material weaknesses noted.

Mr. Stamm discussed the results of the MRB Program audit. This was the first year DHHM performed an audit of the MRB Program. He informed the Committee that a qualified opinion was issued on the financials. A qualified opinion has been issued for the past several years because the Agency has not adopted GASB 31, which requires mortgage receivables to be recorded at fair value. The Agency records them at amortized cost.

Mr. Stamm discussed the graphs that were included in the Presentation of Audit Results. These graphs covered significant parts of the audit. They were related to Investments and Mortgage Loans, Bonds Payable, Net Assets, Home Program Mortgage Loans, General Fund Operating Revenues, General Fund Operating Expenses, Interest Expense Compared to Interest Income and Combined Revenues.

Mr. Stamm thanked Rene' Landry and his staff for their cooperation during the audit. There were no questions relating to the information presented.

4. Approval of and recommendation to Full Board to accept the General Fund and Bond Program audit results of the Louisiana Housing Finance Agency made by Duplantier, Hrapmann, Hogan and Maher.

On a motion by Commissioner Foster and a second by Commissioner Young, the Committee accepted the results of the audit results of the Louisiana Housing Finance Agency made by Duplantier, Hrapmann, Hogan and Maher.

5. Other Business.
Rene' Landry informed the committee that an electronic copy of the report is available on the Louisiana Legislative Auditor's website. He also discussed the Operating Actuals and Budget for Fiscal Year 2009. This report is an unaudited schedule that is prepared internally which shows the budget variances for the Agency's operating accounts. He also referred the committee to the notes on the report which explained the variances and he noted that the Agency was in budget for the entire 2009 year.

Mr. Landry explained that the report is generated on a monthly basis and is distributed to management. Mr. Scontrino asked if he can receive a copy as well. Mr. Landry agreed to send him a copy

6. Adjournment.
The meeting was adjourned at 11:28 AM.

Audit Plan 2010

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

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

Phone: 225-763-8700
Fax: 225-763-3985
Web: www.lhfa.gov

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
Milton Bailey, President

Subject: Audit Plan 2010

I am pleased to present our 2010 Audit Plan. This plan uses a risk approach to help us decide what audits need to be done. It is used to identify an appropriate mix of various types of audits. In addition, it helps us to determine how we can best allocate our resources and capitalize on our individual strengths.

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

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

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

We look forwarding to working with you and for you.

Collette Mathis, CGAP

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

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

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

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

2. Become the Primary Housing Resource
    a. Reach Out to the Community
    b. Created Networks Between Stakeholders

3. Create a Stronger and More Efficient Agency
    a. Improve the Agency from Within
    b. Enhance Fiduciary Position and Increase Cash Reserves

4. Infuse a Sense of Justice and Equality in all that we do
    a. Encourage Disadvantaged Groups to Participate in LHFA Activities

Goals and Accomplishments

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

Accomplishments 2009

- ✓ Served as the Director of the LHFA Internal Audit Department as well as lead the in-house emergency preparedness efforts.

- ✓ Initiated and completed an audit of the Cash Disbursement process.

- ✓ Issued both the draft and final cash disbursement audit report.

- ✓ Initiated and completed an audit of the LHFA Fixed Assets Inventory system/process.

- ✓ Prepared the Fixed Assets draft report which included several management comments and recommendations for improvement.

- ✓ Issued an RFP to have an Information Technology General Security Audit performed during the calendar year 2010. Work is scheduled to begin during the beginning of March 2010 by the firm Postlewaite and Netterville.

- ✓ Completed a comprehensive review of the LHFA owned Willowbrook Property as requested by senior management and made several recommendations to improve the system of internal control currently in place at this property located in New Orleans, La. (A draft of this report was issued to management however, several issues are still pending at this time)

- ✓ Assisted the LIHTC department with the research of several issues relating to the issuance of their current QAP.

- ✓ Continued to populate the fully integrated LHFA Single Audit Access Database. We received 470 audits during the 2009 calendar years representing the various Agency programs.

- ✓ Continued to transit 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 COOP documents

- ✓ Prepared and issued the 2009 Annual Audit Plan.

- ✓ Continued to improve efficiency through the use of automated tools.

- ✓ Participated in management committee meetings and offered recommendations as appropriate and needed.

- ✓ Continued to urge staff development and training:

    - o Attendance at monthly meetings of the Baton Rouge Chapter of the Institute of Internal Auditors.
    - o Attendance at the annual Governmental Accounting Seminar hosted by Postlethwaite and Netterville, CPA.

- ✓ Completed executive work contract coaching with senior management.

Goals 2010

- ✓ Complete audits of several LHFA Business Processes according to the results of both the 2009-2011 Risk Assessment Matrix and the LHFA Strategic Plan 2007-2016.

- ✓ Initiate and conduct operational and compliance audits of selected LHFA programs. This includes the review of operations of that unit to ensure that results are consistent with organizational objectives.

- ✓ Oversee the IT general security audit performed by Postlewaite and Netterville. This review will look at basic security controls and overall functions and capabilities of the LHFA IT department.

- ✓ Develop and update all existing audit programs.

- ✓ Assist the Contract Administration Department in the rebidding process of the Performance Based Contract Administration Contract issued by HUD.

- ✓ Develop an overall audit management database to house audit programs, audit results, and audit reference tools.

- ✓ 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
    - Supervisory and Leadership Training
    - Understanding of Risk Management
    - Obtaining Staff Professional Certifications
    - Staff Performance Appraisals
    - Attendance at HR Sponsored Training Programs

- ✓ Continue to coordinate with the third party, independent HOME audit reviewer in the development of the financial model to be used to collect funds from HOME Loans.

- ✓ Review and update audit charter as necessary.

- ✓ Keep Senior Management, the Audit Committee, and the Board of Commissioners informed of all pertinent audit matters.

Principles for Audit Plan Development

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

- The approach to developing this plan takes into consideration that audit resources of personnel and dollars are limited, thus prohibiting 100% audit coverage each year. This factor is inherent in the concept of utilizing risk assessment to help prioritize audits.

- The audit plan takes into consideration work performed by other auditors (i.e. Louisiana Legislative Auditor, HUD, U.S. Department of Energy)

- The audit plan has been developed with awareness that there are inherent risks and limitations associated with any method or system of prioritizing audits. The risk factors and scoring process are periodically evaluated and modified.

- The risk assessment criteria used in the ranking of the audit universe places an emphasis on perceived or actual knowledge of the auditee's system of internal controls.

Risk Assessment Overview

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

Audit Universe

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

- Organizational Units within LHFA such as a division or department include but are not limited to:
  - HOME
  - Low Income Housing Tax Credits
  - Single Family Homeownership
  - Contract Administration
  - Energy Assistance
  - Special Programs (Risk Sharing, Mark to Market, Housing Trust Fund, Child Care Initiative, Bond Financing)
  - Compliance
  - Accounting
  - Human Resources
  - Administration
  - Records Retention
  - Information Systems

- Business processes include but are not limited to the following:

  - Fleet Operations
  - Overtime
  - Cash Disbursements
  - Cash Disbursements
  - Inventory
  - General Building Security
  - General IT Security
  - Budgeting
  - Travel Compensation
  - Legal Compliance
  - Contracts and Leases
  - Training and Staff Development
  - Planning and Performance Evaluations
  - Petty Cash
  - Financial Reporting

- Asset Management
- Policies and Procedure Documentation and Updating
- Procurement Process
- Miscellaneous Business Processes

- Performance or Operational Audits
- Components of the Strategic Plan
- Fraud Audits
- Laws and Regulations
- Major Contracts and Programs

Audit Prioritization and Selection

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

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

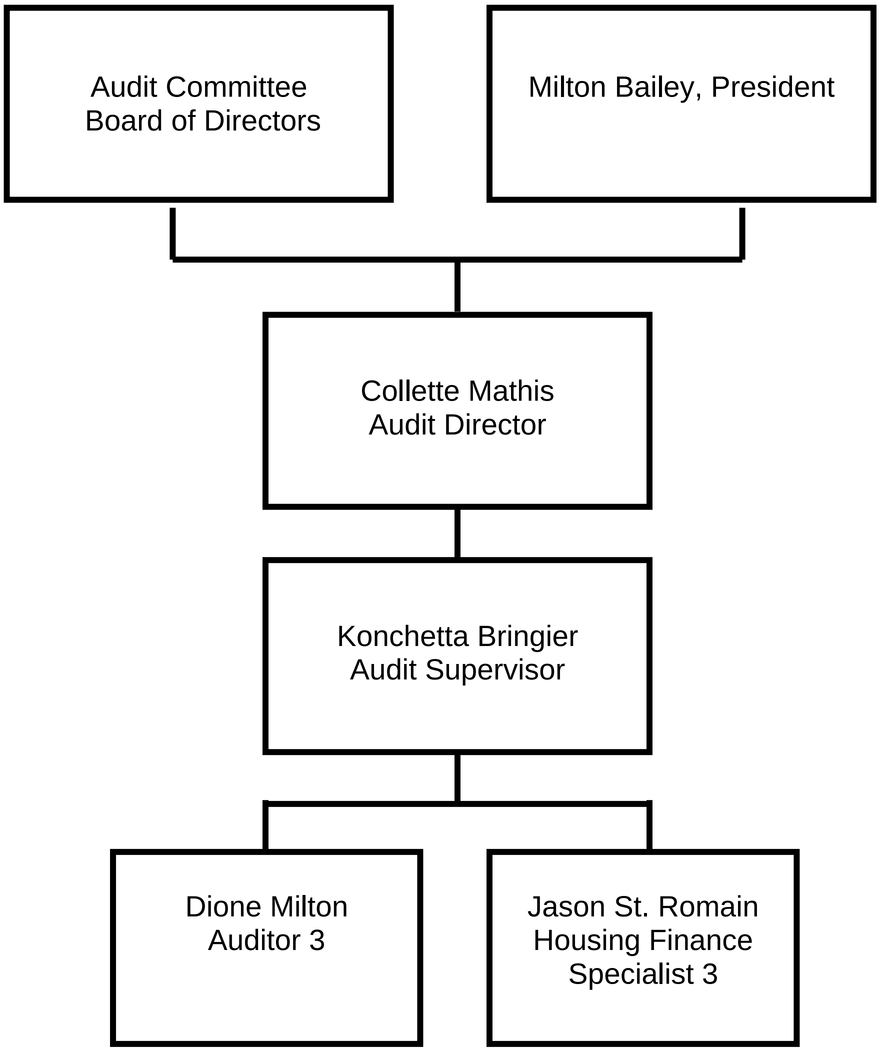
In addition, the process attempts to account for the measure of importance between each of the risk factors. A weighting factor was derived by evaluating each specific risk factor. See the Risk Calculation Results in **Appendix A.**

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

Preparing the Annual Audit Plan

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

INTERNAL AUDIT ORGANIZATIONAL CHART



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

State of Louisiana
Department of Civil Service

AUDIT DIRECTOR 1

FUNCTION OF WORK:
To direct an audit division to ensure the proper accountability of public funds.

LEVEL OF WORK:
Administrator.

SUPERVISION RECEIVED:
Administrative from a higher-level executive.

SUPERVISION EXERCISED:
Broad over professional auditing staff.

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

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

See allocation criteria memo for details.

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

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

Serves as chief auditor of agency.

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

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

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

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

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

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

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

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

AUDITOR SUPERVISOR

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

LEVEL OF WORK:
Supervisor.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AUDITOR 3

<u>FUNCTION OF WORK:</u>
To conduct audits to improve practices, promote effectiveness and efficiency, and ensure compliance with laws, rules, and regulations.

<u>LEVEL OF WORK:</u>
Advanced.

<u>SUPERVISION RECEIVED:</u>
Generally from a higher level supervisory Audit position. See allocation criteria memo.

<u>SUPERVISION EXERCISED:</u>
None.

<u>JOB DISTINCTIONS:</u>
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.

<u>EXAMPLES OF WORK:</u>
EXAMPLES LISTED BELOW INCLUDE BRIEF SAMPLES OF COMMON DUTIES ASSOCIATED WITH THIS JOB TITLE. PLEASE NOTE THAT NOT ALL TASKS ARE INCLUDED.

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

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

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

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

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

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

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

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

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

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

AUDITOR 2

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

LEVEL OF WORK:
Experienced.

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

SUPERVISION EXERCISED:
None.

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

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

See allocation criteria memo for details.

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

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

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

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

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

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

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

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

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

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

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

AUDITOR 1

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

LEVEL OF WORK:
Entry.

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

SUPERVISION EXERCISED:
None.

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

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

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

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

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

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

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

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

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

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

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

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

HOUSING FINANCE SPECIALIST 3

FUNCTION OF WORK:
To coordinate housing finance programs.

LEVEL OF WORK:
Advanced.

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

LOCATION OF WORK:
Louisiana Housing Finance Agency.

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

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

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

Serves as an advanced staff specialist in multiple programmatic areas.

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

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

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

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

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

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

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

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

Prepares and implements program policies in specialty program areas.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Candidates without a baccalaureate degree may combine work experience and college credit to substitute for the baccalaureate degree only, as follows:
A maximum of 90 semester hours may be combined with work experience to substitute for the baccalaureate degree.
15 to 29 semester hours credit will substitute for one year of experience towards the baccalaureate degree.
30 to 40 semester hours credit will substitute for two years of experience towards the baccalaureate degree.
45 to 59 semester hours credit will substitute for three years of experience towards the baccalaureate degree.
60 to 74 semester hours credit will substitute for four years of experience towards the baccalaureate degree.
75 to 89 semester hours credit will substitute for five years of experience towards the baccalaureate degree.
90 or more semester hours credit will substitute for six years of experience towards the baccalaureate degree.

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

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

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

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

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

Attribute Standards

1000 – Purpose, Authority, and Responsibility
The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

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

> **1000.A1 –** The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.
>
> **1000.C1 –** The nature of consulting services must be defined in the internal audit charter.

1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* in the Internal Audit Charter
The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the board.

1100 – Independence and Objectivity
The internal audit activity must be independent, and internal auditors must be objective in performing their work.

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

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are *made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.*

1110 – Organizational Independence
The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

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

1111 – Direct Interaction with the Board
The chief audit executive must communicate and interact directly with the board.

1120 – Individual Objectivity
Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

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

1130 – Impairment to Independence or Objectivity
If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

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

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

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

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

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

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

1200 – Proficiency and Due Professional Care
Engagements must be performed with proficiency and due professional care.

1210 – Proficiency
Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

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

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

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

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

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

1220 – Due Professional Care
Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

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

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

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

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

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

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

1230 – Continuing Professional Development

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

1300 – Quality Assurance and Improvement Program

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

Interpretation:

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

1310 – Requirements of the Quality Assurance and Improvement Program

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

1311 – Internal Assessments
Internal assessments must include:

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

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

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

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

1312 – External Assessments
External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The chief audit executive must discuss with the board:

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

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

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

1320 – Reporting on the Quality Assurance and Improvement Program
The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

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

1321 – Use of "Conforms with the *International Standards for the Professional Practice of Internal Auditing*"
The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support this statement.

1322 – Disclosure of Nonconformance
When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

Performance Standards

2000 – Managing the Internal Audit Activity
The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

Interpretation:
The internal audit activity is effectively managed when:

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

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

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

> **2010.A1 –** The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.
>
> **2010.C1 –** The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

2020 – Communication and Approval
The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 – Resource Management
The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

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

2040 – Policies and Procedures
The chief audit executive must establish policies and procedures to guide the internal audit activity.

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

2050 – Coordination
The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

2060 – Reporting to Senior Management and the Board
The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

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

2100 – Nature of Work
The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

2110 – Governance
The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

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

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

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

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

2120 – Risk Management
The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

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

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

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

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

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

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

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

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

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

2130 – Control

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

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

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

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

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

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

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

2200 – Engagement Planning
Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.

2201 – Planning Considerations
In planning the engagement, internal auditors must consider:

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

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

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

2210 – Engagement Objectives
Objectives must be established for each engagement.

> **2210.A1 –** Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.
>
> **2210.A2 –** Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.
>
> **2210.A3 –** Adequate criteria are needed to evaluate controls. Internal auditors must ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management to develop appropriate evaluation criteria.
>
> **2210.C1 –** Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

2220 – Engagement Scope
The established scope must be sufficient to satisfy the objectives of the engagement.

> **2220.A1 –** The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.
>
> **2220.A2 –** If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.
>
> **2220.C1 –** In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2230 – Engagement Resource Allocation
Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

2240 – Engagement Work Program
Internal auditors must develop and document work programs that achieve the engagement objectives.

> **2240.A1 –** Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.
>
> **2240.C1 –** Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 – Performing the Engagement
Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

2310 – Identifying Information
Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

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

2320 – Analysis and Evaluation
Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 – Documenting Information
Internal auditors must document relevant information to support the conclusions and engagement results.

> **2330.A1 –** The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.
>
> **2330.A2 –** The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.
>
> **2330.C1 –** The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2340 – Engagement Supervision
Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

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

2400 – Communicating Results
Internal auditors must communicate the engagement results.

2410 – Criteria for Communicating
Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

> **2410.A1 –** Final communication of engagement results must, where appropriate, contain internal auditors' overall opinion and/or conclusions.
>
> **2410.A2 –** Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.
>
> **2410.A3 –** When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.
>
> **2410.C1 –** Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 – Quality of Communications
Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

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

2421 – Errors and Omissions
If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

2430 – Use of "Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*"
Internal auditors may report that their engagements are "conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*", only if the results of the quality assurance and improvement program support the statement.

2431 – Engagement Disclosure of Nonconformance
When nonconformance with the Definition of Internal Auditing, the Code of Ethics or the *Standards* impacts a specific engagement, communication of the results must disclose the:

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

2440 – Disseminating Results
The chief audit executive must communicate results to the appropriate parties.

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

> **2440.A1 –** The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.
>
> **2440.A2 –** If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:
>
> - Assess the potential risk to the organization;
> - Consult with senior management and/or legal counsel as appropriate; and
> - Control dissemination by restricting the use of the results.
>
> **2440.C1 –** The chief audit executive is responsible for communicating the final results of consulting engagements to clients.
>
> **2440.C2 –** During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

2500 – Monitoring Progress
The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

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

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

2600 – Resolution of Senior Management's Acceptance of Risks

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

Glossary

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

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

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

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

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

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

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

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

Conflict of Interest

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Must
The *Standards* use the word "must" to specify an unconditional requirement.

Objectivity

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

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

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

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

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

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

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

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

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

***

CODE OF ETHICS

Principles

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

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

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

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

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

Rules of Conduct

1. **Integrity**
   Internal auditors:

   1.1. Shall perform their work with honesty, diligence, and responsibility.

   1.2. Shall observe the law and make disclosures expected by the law and the profession.

   1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.

   1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. **Objectivity**
   Internal auditors:

   2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.

   2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.

   2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality
Internal auditors:

3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency
Internal auditors:

4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

***

Appendix A

LOUISIANA HOUSING FINANCE AGENCY

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

2010 Risk Assessment Result and Ranking-Update and Reassessment

Business Process	*Auditor 1*	*Auditor 2*	*Auditor 3*	*Auditor 4*	*Average* *(#'s Rounded)*	*Comments/Status*	*Estimated Date of Audit Activity*
Cash Disbursements	955	860	565	510	723	2009	Completed-2009
Fixed Assets & Inventory	400	700	555	290	486	2009	Completed-2009
Cash Receipts	955	860	565	575	739	Audit Plus Follow Up	Completed -2009
Special Project-Willowbrook	-	-	-	-	-	Draft Presented	Completed -2009
Planning & Performance	655	505	355	360	469	Completed by Civil Service-2009	Completed -2009
Fleet Operations	535	275	275	395	370	2010	In Progress-2010
Compliance Inspection Process	800	735	440	630	651	Follow Up Questionnaire Issued	In Progress-2010
IT General Security	755	860	650	600	716	2010	In Progress-2010
IT Backup Procedures	775	585	620	555	634	2010	In Progress-2010
IT Building Security	620	645	565	605	609	2010	In Progress-2010
Executive Management Operations	-	-	-	-	-	2010	Scheduled
Tax Credit Award Process	875	860	485	545	691	2010	Scheduled
Financial Reporting	915	860	570	495	710	2010	Scheduled
Contracts and Leases	885	565	400	375	556	2010	Scheduled
Procurement Procedures	670	425	295	255	411	2011	
Safety Training	460	415	215	335	356	2011	
Travel Compensation	740	525	515	385	541	2011	
Staff Development/Training	465	255	300	300	330	2011	
Overtime, Budgeting, Petty Cash	280	305	375	240	300	2011	

Completed	
In Progress	
Future Events	

Appendix B

ALL ABOUT AUDITS

Your Guide to Audits Conducted by the Louisiana Housing Finance Agency's Internal Audit Department

Introduction

The Louisiana Housing Finance Agency's Audit Department serves as an independent appraisal function within the Agency. The Internal Audit Department exists to support administration and the Board of Directors in the effective discharge of their responsibilities, to examine and evaluate its financial and management activities and to furnish analyses and recommendations concerning areas reviewed. The Department will report on the adequacy of internal control, the accuracy and propriety of transactions, the extent to which assets are accounted for and safeguarded and the level of compliance with institutional policies and governmental laws and regulations.

Along with adding value and improving Agency's operations, the Internal Audit Department also seeks to promote efficiency and effectiveness with the Agency through the audit process. The audit process is intended to be instructive and productive, rather that punitive. Each audit seeks to identify problems and weaknesses and offer recommendations for improvement. The audit process enhances the Agency's core mission of providing safe and affordable housing.

The Audit Process

- **Notification:** An upcoming audit is announced to the auditee in advance.

- **Survey and Planning:** Planning the audit should include, but is not limited to the following: A tentative determination of the objectives and scope of the audit, a study of background information, selection of the audit team, preliminary communication with the auditee, preparation of the preliminary audit program and obtaining approval to conduct the audit.

- **Entrance Conference:** A meeting is held with the auditee's management and the auditors who will be conducting the audit. The purpose is to discuss the audit scope, objectives, the time frame for completing the audit, and access requirements for records and personnel. The entrance conference also provides a forum to enhance communication among all parties.

- **Field work:** Auditors examine the section's operations and systems of internal control, files, financial records and test compliance with established policies, procedures, laws and regulations. Interviews may be held with management and staff.

- **Exit Conference:** A meeting is held among all parties at the conclusion of fieldwork to discuss the results of the audit, including recommendations to improve operations and performance.

- **Draft Audit Report:** The draft report is issued by the Internal Audit Department to management of the department being audited. It includes a letter to senior management, executive summary and a detailed description of the objectives, scope, methodology, findings and recommendations for corrective action. The auditee is given the opportunity to provide written responses to the Draft Audit Report. These responses are due to the Internal Audit Department usually within 1 to 2 weeks of the issuance of the draft report.

- **Final Report:** At the end of the response period, and after reviewing and assessing written responses from the auditee, the Internal Audit Department issues the final report. The final report will be presented to the Agency's President, Audit Committee and Management of the department being audited.

- **Follow-Up:** Approximately 6-12 months of the issuance of the final report, the Internal Audit department will perform a required follow-up to assure that the appropriate corrective action has been taken in response to the audit findings. A written follow-up report is required to document the actions taken by the auditee to correct the original audit report findings. The follow-up report lists the actions taken by the auditee to resolve the original report findings. It will include a brief description of the original audit findings, the corrective action response, the follow-up observations and conclusions, and management's follow-up response.

Type of Audits Conducted

- **Compliance Audits:** Examine areas such as operations, systems of internal controls, and compliance with established policies and procedures and laws and regulations.

- **Performance Audits:** Provide analysis so that management can use the information to improve program performance and operations and reduce costs.

- ❖ **Special Projects:** Assignments or special requests from Management, the Audit Committee or the Board of Commissioners.

Communication

Communication begins with audit notification and does not end until the audit is resolved. Audit communication may be informal including telephone calls and e-mail communication. If required, meetings may be held to deal with significant issues. During the audit, communication between staff and the auditors can enhance understanding the facts and circumstances surrounding identified issues. Communication also clears up misunderstandings and sets the stage for corrective actions prior to the issuance of the Final Audit Report.

Sound Practices Result In Clean Audits

The keys to achieving a clean audit include: Strong internal controls, documented systems, effective grant management, accurate record-keeping, and adherence to all policies and procedures, Federal laws and regulations, and grant provisions. Preparations for an audit include providing access to key personnel, and making records and documents readily accessible. Our goal is to conduct audits with minimal disruption to daily operations.

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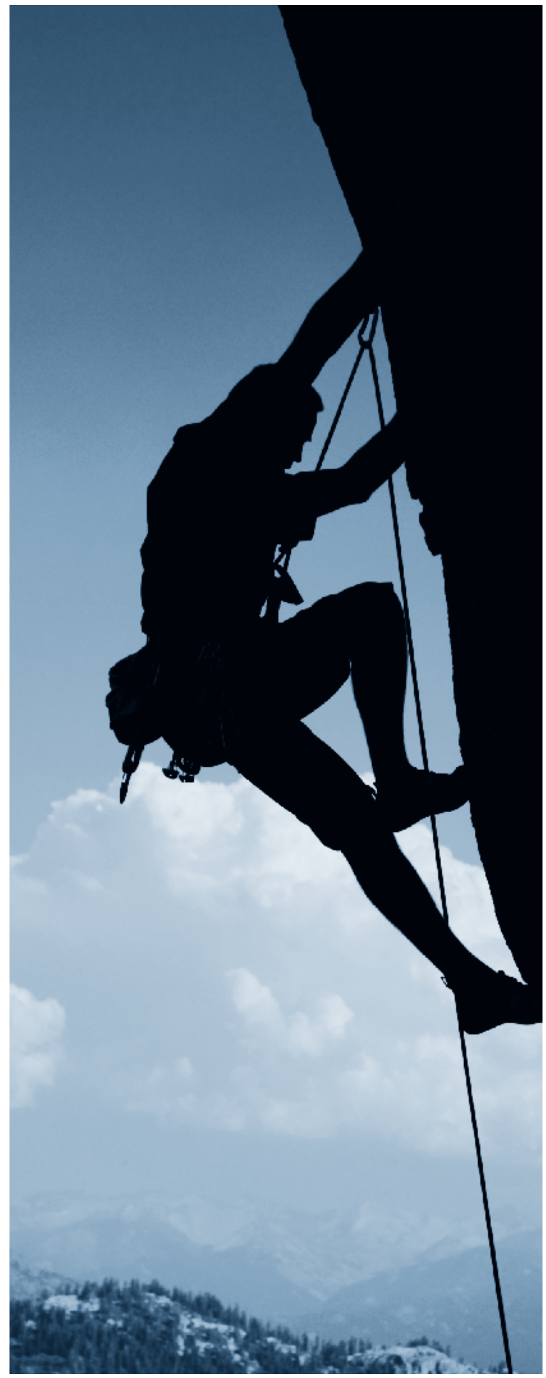
Issue 46 February 2010

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

A Culture of Risk



Although risk is inherent in growth, the proliferation of corporate failures has demonstrated the downside of engaging in too much risky business behavior. The problem is that too many organizations set their risk tolerance level too high in order to accommodate their drive for "more," and in some cases, to satisfy their appetite for profit.

When this happens, the corporate culture becomes skewed with an unbalanced emphasis on taking chances and engaging in questionable practices for the sake of growth, or – for the appearance thereof. In essence, it becomes a culture of risk. . . But at what cost?

Even the most casual observer of the business environment over recent years has witnessed the painful price of such a culture. Rather than being a rare occurrence in only a few isolated cases, this has been the case with numerous organizations around the world that have embraced and advanced a culture of risk. And unfortunately, the repercussions have proved to be devastating.

A NEW WORLD OF BUSINESS

"Things just aren't the way they used to be." Could there be a greater understatement than this? Is any part of today's business like it was 15 or even 10 years ago? Hardly! It is, indeed, a new world of business, and change continues to occur at a high rate of speed, even before the ink is dry on the latest contract or ground is broken on the next venture.

Several factors feed into this new dynamic business environment. Technological advances that make old systems virtually obsolete within a blink of an eye, business transactions with the complexity that rivals the most delicate of surgeries, business deals with unseen partners and customers many thousands of miles away, and unprecedented changes in corporations at a rapid pace are contributing to a scenario that certainly is not for those who are highly risk averse. Given all of these factors — not to mention the global financial crisis and aftermath — what can those responsible for organizational governance do to deal with their increasingly challenging roles, short of giving up and pulling the covers over their heads?

HELP IS ON THE WAY

Thanks to public and regulatory demands for better governance and corporate accountability, the pendulum appears to have begun swinging away from unchecked growth and risk-taking. But how can boards (and their organizations) move forward? Where do they find stability?

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines ERM as "a process, effected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives." Based on this definition, COSO recently released "Effective Enterprise Risk Management Oversight: The Role of the Board of Directors." This new paper was developed to help organizations succeed in finding solid ground and shifting their culture to one of greater accountability supported by more effective entity-wide corporate governance.

STEPPING UP TO ACCOUNTABILITY

According to COSO, there are critical steps the full board of directors and its committees (audit committee, nominating/ governance committee, compensation committee, etc.) should take to shift an organization's tone at the top and business culture to an enterprise-wide mindset of accountability and effective risk management. When those responsible for corporate governance fully answer and proactively respond to the following questions, they will have taken the essential first steps toward earning the trust of their stakeholders:

1. ***What is your understanding of the entity's risk philosophy? Do you concur with the risk appetite as demonstrated by the corporate decisions and actions being made?***

   Risk appetite is the amount of risk (or potential for detrimental occurrences) that an organization is willing to accept in pursuit of its objectives. To effectively fulfill their role, board members must have a comfort level with the balance stuck between achieving organizational goals and protecting stakeholder interests. Boards must fully understand and reach agreement with management in regard to the entity's overall tolerance of and appetite for risk.

ABOUT COSO / www.coso.org

Originally formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, COSO is a voluntary private-sector organization dedicated to improving the quality of financial reporting through better integration of business ethics, strategy, risk management, internal control, and corporate governance. COSO provides frameworks and other guidance that are based on identified best practices that help organizations to meet their objectives. COSO comprises the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), the Institute of Management Accountants (IMA), and The Institute of Internal Auditors (IIA).

2. ***To what extent is effective enterprise risk management in place throughout the organization?***

   Today's boards must step forward and challenge management to ensure and demonstrate that the risk management processes in place throughout the enterprise are effective. They must hold management responsible for identifying and then assessing and managing exposure to the most significant risks that could get in the way of the agreed-upon objectives or make the organization vulnerable to fraud.

3. ***How does the organization's portfolio of risk relate to its risk appetite?***

   To be effective in carrying out its oversight role, the board must understand and proactively review not only operational risks, but also those risks related to the organization's strategies. To ensure the interests of stakeholders are guarded and risk exposures are consistent with the overall appetite for risk, the board should take an integrated approach to assessing and discussing the risks of both strategic and operational initiatives.

4. ***What are the most significant risks to the organization? Is management responding appropriately to those risks?***

   As discussed earlier, change is constant in today's business environment. Inherent in that change are new and evolving risks, of which the board must be aware. In order to stay alert to potential devastating occurrences, the board requires regular updating of critical and accurate information from management and the internal auditors. This practice will help ensure effective board oversight of key risk exposures for the preservation and enhancement of stakeholder value.

HEALTHY DEPENDENCY ON INTERNAL AUDITING

It might be obvious that the board of directors should rely on management for pertinent information about the organization that it serves. However, through its audit committee, the full board has access to the internal auditors' assessment of risks throughout the enterprise, and to their opinions on how well the internal controls that are in place are working.

THE INTERNAL AUDITORS AND RISK

According to The Institute of Internal Auditors (IIA), the chief audit executive (CAE) is responsible for developing a risk-based plan that takes into account the organization's risk management framework and uses risk tolerance levels set by management.

To ensure coverage of risks, the internal audit plan usually addresses:

- Unacceptable risks with insufficient controls that senior management wants audited immediately.
- Control systems on which the organization is most reliant.
- Areas where the differential is great between inherent risk and residual risk.
- Areas in which inherent risk is very high.

Because objectivity and independence help define their role in the organization, the internal auditors are in a position to provide to the audit committee and the board valuable insights on both strategic and operational risks. Based on their extensive training and experience in risk assessment, proficient and professional internal auditors can bring immeasurable value and support to the board by ensuring it has a realistic picture of the state of the organization's risks. And this can achieve a great deal of progress toward helping shift the entity's environment away from a culture of risk.

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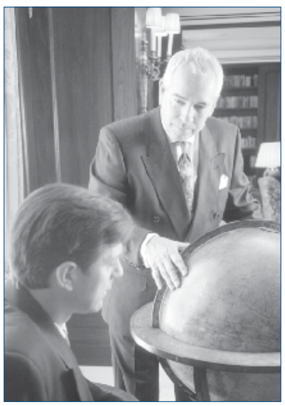

Mission

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

Email your comments about *Tone at the Top* to:

PR@theiia.org
+1-407-937-1247

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Corporate Communications
247 Maitland Ave.
Altamonte Springs, FL 32701-4201 USA
Fax: +1-407-937-1101

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Established in 1941, The IIA is an international professional association with global headquarters in Altamonte Springs, Fla. The IIA has more than 170,000 members in internal auditing, risk management, governance, internal control, IT auditing, education, and security.

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

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The Roles and Requirements of an Effective Public Sector Audit Committee

The roles will vary from entity to entity depending on the complexity and size as well as the requirements of the governing body. However, the one common responsibility for all audit committees, among all potential roles, is risk management oversight.

Risk Management Oversight

Every organization faces a variety of potential risks, such as:

- Loss of key staff
- Loss of funding or reduction of revenue sources
- Disruption in investment markets that undermines an organization's financial assets
- Erroneous financial reporting
- Regulatory noncompliance
- Conflicts of interests
- Fraudulent activities resulting from weaknesses in internal controls

The governing body's responsibility acted upon through the audit committee is to ensure that management has implemented an effective process to identify, monitor, and manage the potential risks the organization faces as it relates to financial reporting, internal control, regulatory noncompliance, conflict of interest and special investigations.

The audit committee is responsible for ensuring that management has implemented effective systems of internal controls to protect the organization and the necessary management information systems.

Independence

As essential feature of an effective audit committee is independence from management and the outside auditor. Independence drives the building of trust and confidence. Public sector use of independent audit committees is not so straightforward. Often the structure of public sector entities and governments does not separate the governing authority and oversight responsibility from the day-to-day management of the entity. In a "strong mayor" form of government, the mayor is a chief executive officer and is also a member of the governing body. In such cases, the mayor is not independent of management. Likewise, a public college president may be both the chief executive officer and a board member and therefore not independent of management. On the other hand, a "city manager" form of government usually separates management from the governing authority.

General rules cannot be developed to determine whether individuals with governing authority are independent of management. The structure of public sector entities in Canada is too diverse. A position that is independent in one jurisdiction may not be independent in another. Public sector audit committees should therefore be independent both in fact and in appearance and have processes in place to ensure such independence.

It is difficult to imagine how a public sector audit committee could operate effectively without the direct and active participation of the governing body. Therefore, we recommend that the audit committee be made up of outside members appointed by the chief executive and confirmed by the governing body and/or independent governing body members themselves.

Communication

Outside audit committees are also useful to the entity's financial management because audit committees can improve technical communication with governing body.

Elected officials represent the constituency or electorate. The skills needed to succeed in electoral and governing processes do not necessarily include financial, accounting, and auditing skills. Governing officials bring diverse abilities to the oversight process.

Public sector financial reporting, accounting, auditing and internal control processes require specialized knowledge for effective administration. Public sector financial officers are expert professionals in their disciplines. Communication between governing bodies and public sector financial managers can therefore be difficult at times.

Audit committees can provide the broadest perspective and greatest range of assistance in they possess technical skills in accounting and auditing. Accordingly, the audit committee's outside members should:

- Possess the technical skills necessary to oversee the complex financial reporting and audit processes
- Be able to communicate with public finance officers and auditors on complex issues
- Possess communication skills to advise the governing body and assist the governing body in its oversight responsibilities of the financial reporting and audit process

Accountability

The combination of independent oversight of the financial reporting and audit process and the technical expertise of the independent audit committee members will significantly enhance accountability. Independent audit committees will help establish the proper "tone at the top", contribute to the integrity of the financial reporting process, and positively influence the control environment and culture within which it occurs.

Active oversight by the audit committee can help to reinforce management's commitment to creative a culture with "zero tolerance" for fraud. An entity's audit committee should also ensure that management has implemented appropriate fraud deterrence and prevention measures. The audit committee's evaluation and oversight not only help ensure that management fulfils its responsibility, but also can serve as a deterrent.

AICPA® **AUDIT COMMITTEE BRIEF**
From the **Audit Committee Effectiveness Center**

January 2010

Adding Value, Not Bureaucracy: Linking Governance, Enterprise Risk Management and Internal Controls

The AICPA and NC State's ERM Initiative are jointly hosting a 1½ -day workshop, *Board and Senior Management Roles in Risk Oversight: Taking a Strategic View of the Enterprise*, in Scottsdale, AZ, March 25-26, 2010. www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/PRDOVR~PC-AUDITCONF/PC-AUDITCONF.jspp

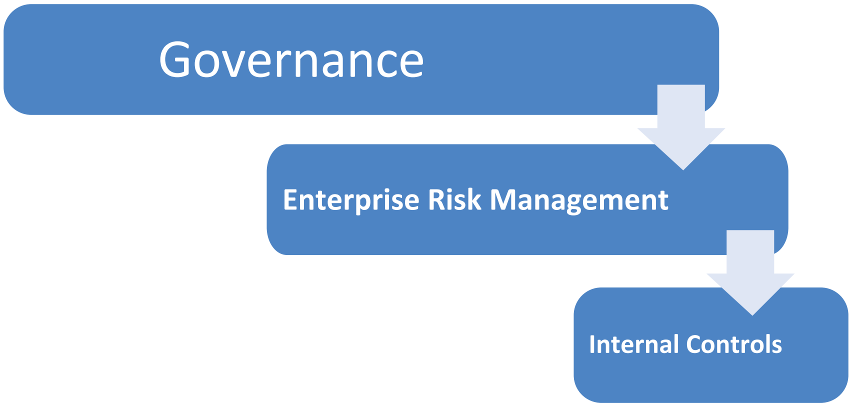
Organizations are beginning to recover from the financial crisis of 2008, and many are instituting or improving practices that may help prevent another crisis (or lessen the impact, should another crisis occur). Risk management is the area most frequently targeted for improvement; many organizations are being asked by their boards, regulators or other stakeholders to reevaluate the way they are managing risk. Credit rating agencies such as Standard and Poor's have for more than a year assessed enterprise risk management (ERM) during analysis of corporate credit ratings. In addition, the SEC in December 2009 approved rules that will expand corporate proxy disclosure regarding risk management, compensation and corporate governance matters. This heightened focus on risk management practices and ERM's potential implementations has some corporate executives wondering if they will in the future face an even heavier compliance burden – or if building on existing processes will more effectively manage risk while creating value for the organization.

A primary driver of ERM-related concerns is confusion about what ERM means and how it applies to corporate governance and internal controls. If you start with an understanding of corporate governance as a broad system of structuring, operating and controlling an organization so it can achieve long-term goals to the satisfaction of shareholders and key stakeholders, then it is easy to see how a process of managing enterprise-wide risks is central to effective corporate governance. A key component of corporate governance is the board's responsibility to hold itself and management accountable to shareholders. (Usually, we think of the board and management as being held accountable for performance, but the recent financial crisis has shown we also must hold management accountable for the risks it takes in its quest to hit performance targets.) An effective ERM process helps management and the board to objectively consider their organization's overall appetite for risk, and ensures the organization's strategic objectives are consistent with that appetite. For example, a firm with a low appetite for risk should be setting more modest strategic objectives than a firm with a higher appetite for risk-taking.

Due to the planning, organizing and controlling that are central to risk management, ERM is focused more at the strategic level. However, ERM recognizes that businesses face risks all the time; therefore, establishing risk appetite and risk tolerance facilitates the decision-making process and clarifies responsibilities and accountabilities consistent with effective corporate governance. Internal controls, on the other hand, are more focused on the day-to-day-process level – they are a subset of ERM, which is a subset of corporate governance (as illustrated in the chart below):

"Good corporate governance is a system in which those who manage a company — that is, officers and directors — are effectively held accountable for their decisions and performance. But accountability is impossible without transparency. By adopting these rules, we will improve the disclosure around risk, compensation, and corporate governance, thereby increasing accountability and directly benefiting investors."

– Mary L. Schapiro, SEC Chairman



Most organizations already have an effective system of internal controls that focuses on operations, reporting and compliance. ERM moves beyond internal controls in its connection to strategy-setting. The following chart compares the COSO definition of internal controls with the COSO definition of ERM, and highlights where ERM builds on and moves beyond internal controls:

Internal Controls	ERM
Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: • Operations – effectiveness and efficiency of operations. • Reporting – reliability of financial reporting. • Compliance – compliance with applicable laws and regulations	Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, **applied in strategy-setting and across the enterprise,** designed to **identify potential events that may affect the entity, and manage risk to be within its risk appetite**, to provide reasonable assurance regarding the achievement of entity objectives in four categories: • Strategic – high-level goals, aligned with and supporting its mission • Operations – effective, efficient use of resources • Reporting – reliability of reporting • Compliance – compliance with applicable laws and regulations

While internal control and ERM both have the purpose of providing greater assurance regarding the achievement of objectives, ERM is broadly applied: it takes an entity-level portfolio view of risks that will be considered in strategy-setting, as well as the organization's risk appetite.

It is also helpful to compare the components of internal control to the components of ERM, again as defined by COSO:

Internal Control	ERM
Control Environment	Internal Environment
	Objective-setting
Risk Assessment (and identification)	Risk Identification
	Risk Assessment
	Risk Response
Control Activities	Control Activities
Information and Communication	Information and Communication
Monitoring	Monitoring

Two additional key components of ERM are: the role ERM plays in setting objectives by accounting for the organization's existing risks and appetite for risk, and the choice of response to risks – again based on the organization's risk appetite. Internal controls are one means of responding to risks, but there are numerous others as well, such as insurance programs, disaster recovery plans, financial hedges, diversification efforts, etc.

How can a firm implement ERM so it will add value to shareholders' satisfaction? An important first step is developing a list of the top risks facing an organization – and then, prioritizing those risks based upon the expected severity of impact and likelihood of occurrence. Organizations should leverage risk-assessment work that has already been done by their independent and internal auditors. That top-level risk list can be used in strategy-setting, to help the organization consider how new strategic initiatives could add or reduce existing risks. It should also be used in communications with the board, to assist the board with its oversight role. Having a shared understanding of the most significant risks should also help the organization focus on the best way to monitor those risks going forward – and to formulate a response plan *before* a risk event occurs. As the organization realizes value from these simple first steps, it can begin to extend ERM further into the organization and, ultimately, develop greater sophistication in its risk management processes by embedding ERM in the decision-making process and culture of the company.

Author Bio

Bonnie Hancock is the executive director of the NC State University Enterprise Risk Management (ERM) Initiative and a lecturer in accounting at NC State's College of Management. She also is a director of AgFirst Farm Credit Bank and a consultant to boards and senior management teams on matters involving ERM and strategic planning. Her background includes executive positions at Progress Energy and Exploris Museum: she served as president of Exploris; at Progress Energy, she was president of Progress Fuels (a Progress Energy subsidiary with more than $1 billion in assets), senior vice president of finance and information technology, vice president of strategy, and vice president of accounting and controller. She offers insight on boards and executive management and practical perspectives on managing risk across increasingly complex global enterprises.

For more information:

From the SEC

SEC Approves Enhanced Disclosure About Risk, Compensation and Corporate Governance (Dec. 16, 2009)
sec.gov/news/press/2009/2009-268.htm

Audit Committee Toolkits:

Public Companies
cpa2biz.com/AST/Main/CPA2BIZ_Primary/FinancialManagement/Management/AuditCommittee/PRDOVR~PC-991001/PC-991001.jsp

Private Companies
cpa2biz.com/AST/Main/CPA2BIZ_Primary/FinancialManagement/Management/AuditCommittee/PRDOVR~PC-991007/PC-991007.jsp

Not-for-Profit Organizations
cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/AuditPreprationandPlanning/PRDOVR~PC-991004/PC-991004.jsp

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