Louisiana State Employees' Retirement System
Audit Services Division

External Quality Assessment Review

May 20, 2016

Review Team:

Benjamin Foster, CPA, CIA
Audit Director
Louisiana Department of Children and Family Services

Jeff LaCour, MBA, CPA, CISA, CIA, ACDA
Audit Director
Teachers' Retirement System of Louisiana

EXECUTIVE SUMMARY

It is our opinion that LASERS' Audit Services Division (ASD) generally conforms to *Internal Auditing Standards*. This opinion is the highest of three possible ratings and means that practices are in place to ensure the independence, objectivity and proficiency of the ASD. For a detailed list of conformance to individual *Standards*, please see Appendix B.

We found ASD to be independent and objective in performing its work. ASD staff are highly qualified and well managed. Projects are thoroughly planned and competently performed. Results of projects are consistently monitored and followed up on. Additionally, interviews with executive and operational management as well as a member of the Board indicate that ASD and its work are highly regarded within LASERS. Some of the outstanding comments made throughout our interviews with LASERS Board and Staff included:

- *The ASD is outstanding. I would rate them 10 out of 10* (highest possible rating).
- *The ASD is great! I can't think of anything they can do to improve. The Audit group does a great job of improving itself.*
- *The ASD does a great job of finding opportunities to improve our processes.*
- *We trust and rely on the Audit Director's good judgment in determining how we can make things better. I keep his number on speed dial!*

ASD met the vast majority of the best practices identified by the review team. We identified 70 best internal audit practices based on the Institute of Internal Auditor's *Quality Assessment Manual*, *Practice Advisories* and other sources. ASD met 67 (96%) of these best practices as indicated in Exhibit 1.

It should be noted that these are general internal audit best practices and should not be viewed as required or mandatory. Additionally some of the items are dependent on factors outside of the ASD's control.

Please see Appendix C for detailed results of the best practices review.

We have no recommendations regarding compliance with the *Standards* or best practices.

Exhibit 1
Summary of Best Practices Evaluation

Best Practice Category	Best Practices Met
Audit Reports	3 of 4
Board Interaction	2 of 2
Communication and Approval	1 of 1
Department Operations	8 of 9
Emerging Trends	4 of 4
Linking the Audit Plan to Risk	1 of 1
Objectivity	6 of 6
Organizational Independence	6 of 6
Partnership with Management	7 of 8
Performance Improvement	2 of 2
Quality Assessment	3 of 3
Resource Management	1 of 1
Risk Management	3 of 3
Staff Professional Development	12 of 12
Technology	8 of 8
Total:	**67 of 70**

Appendix A
Objectives, Scope & Methodology

OBJECTIVES

The review team conducted an external quality assessment (QA) of the ASD of the Louisiana State Employees' Retirement System (LASERS). The objectives of the QA were:

1. To assess the ASD's compliance with the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards).*

2. To identify opportunities for improvement based on a comparison to best internal audit practices.

SCOPE AND METHODOLOGY

As part of the preparation for the QA, ASD prepared an advanced preparation document with detailed information as of February 2016 including:

- Organizational Charts
- Prior QA Reports
- Audit Charter
- Board Minutes
- Audit Job Descriptions
- Staff Bio Data
- Written Audit Procedures
- Other documentation

The review team evaluated this information and requested additional documentation as necessary. We performed an on site audit documentation review on April 12, 2016. Additionally, the review team interviewed the following LASERS personnel:

- Audit Committee Chair (Current and Former)
- Executive Director
- Chief Investment Officer
- General Counsel
- Chief Financial Officer
- Information Technology Director
- Member Services Director
- External Audit Representative
- Director of Internal Audit
- Audit Staff

Appendix B
Standards Conformance Evaluation Summary
(GC = Generally Complies, PC = Partially Complies, DNC = Does Not Comply)

		("X" Evaluator's Decision)		
		GC	**PC**	**DNC**
OVERALL EVALUATION		X		
ATTRIBUTE STANDARDS		X		
1000	**Purpose, Authority, and Responsibility**	X		
1010	Recognition of the Definition of Internal Auditing	X		
1100	**Independence and Objectivity**	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
1200	**Proficiency and Due Professional Care**	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	**Quality Assurance and Improvement Program**	X		
1310	Requirements of the Quality Assurance and Improvement	X		
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement Program	X		
1321	Use of "Conforms with the *International Standards for the Professional Practice of Internal Auditing*"	X		
1322	Disclosure of Nonconformance	X		
PERFORMANCE STANDARDS		X		
2000	**Managing the Internal Audit Activity**	X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination	X		

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(GC = Generally Complies, PC = Partially Complies, DNC = Does Not Comply)

		(“X” Evaluator’s Decision)		
		GC	**PC**	**DNC**
2060	Reporting to Senior Management and the Board	X		
2100	**Nature of Work**	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	**Engagement Planning**	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	**Performing the Engagement**	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	**Communicating Results**	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of “Conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*”	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500	**Monitoring Progress**	X		
2600	**Management’s Acceptance of Risks**	X		
IIA Code of Ethics		X		

Appendix C
Detailed Results of Best Practices Review

Exhibit 2 Best Practices from IIA Practice Advisories and Quality Assessment Manual Completed by Review Team		
Best Practice	**Best Practice Category**	**Best Practice Employed**
1. Use "condensed" or abbreviated report format.	Audit Reports	✓
2. Electronic distribution and archiving of audit reports.	Audit Reports	✓
3. Include audits of emerging areas.	Audit Reports	✓
4. Use appropriate graphics in reports.	Audit Reports	**X**
5. CAE should meet privately with the board at least annually.	Board Interaction	✓
6. CAE should regularly attend and participate in board meetings relating to audit, financial reporting, org. governance and control matters.	Board Interaction	✓
7. The chief audit executive should submit annually to senior management and the board for review and approval a summary of the internal audit plan, work schedule, staffing plan, and financial budget. This summary will inform senior management and the board of the scope of internal audit work and of any limitations placed on that scope. The CAE will also submit all significant interim changes for approval and information.	Communication and Approval	✓
8. Maintain an ethics issues hotline.	Department Operations	✓
9. Assess organizational culture in audit work.	Department Operations	✓
10. Align company goals, department audit plans and performance evaluations.	Department Operations	✓
11. Maintain a library of audit programs.	Department Operations	✓
12. Provide auditors with current PC tools.	Department Operations	✓
13. Use a formal audit manual – either written or electronic.	Department Operations	✓
14. Use an internal auditing brochure for educating clients.	Department Operations	✓
15. Use departmental performance standards.	Department Operations	✓
16. Work other than a traditional work week.	Department Operations	**X**
17. Have implemented COSO, CoCo, or Cadbury in audit planning and focus.	Emerging Trends	✓
18. Provide training for the audit committee.	Emerging Trends	✓
19. Involved in corporate activities to introduce enterprise-wide software.	Emerging Trends	✓
20. Use library of audit reports, working papers, and reference material.	Emerging Trends	✓
21. In developing the internal audit activity's audit plan, many chief audit executives (CAEs) find it useful to first develop or update the audit universe. The audit universe is a list of all the possible audits that could be performed.	Linking the Audit Plan to Risk	✓

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Best Practice	**Best Practice Category**	**Best Practice Employed**
22. Auditors should have an honest belief in their work product and no significant quality compromises should be made.	Objectivity	✓
23. Auditors should not design, install, operate or draft procedures for control systems as this impairs objectivity.	Objectivity	✓
24. Internal audit work should be reviewed before related engagement communications are released to ensure objectivity.	Objectivity	✓
25. Internal auditors are not to accept fees, gifts, or entertainment from an employee, client, customer, supplier, or business associate that may create the appearance that the auditor's objectivity has been impaired.	Objectivity	✓
26. Persons transferred to, or temporarily engaged by, the internal audit activity should not be assigned to audit those activities they previously performed or for which they had management responsibility until at least one year has elapsed.	Objectivity	✓
27. The chief audit executive (CAE) should organize staff assignments to prevent potential and actual conflict of interest.	Objectivity	✓
28. The board should approve all decisions regarding the performance evaluation, appointment, or removal of the CAE.	Organizational Independence	✓
29. The board should approve the annual compensation and salary adjustment of the CAE.	Organizational Independence	✓
30. The board should approve the internal audit activity's overall charter.	Organizational Independence	✓
31. The board should approve the internal audit risk assessment and related audit plan.	Organizational Independence	✓
32. The board should make appropriate inquiries of management and the CAE to determine whether there is audit scope or budgetary limitations that impede the ability of the internal audit activity to execute its responsibilities.	Organizational Independence	✓
33. The board should receive communications from the CAE (chief audit executive) on the results of the internal audit activities or other matters that the CAE determines are necessary, including private meetings with the CAE without management present, as well as annual confirmation of the internal audit activity's organizational independence.	Organizational Independence	✓
34. Distribute internal control questionnaires to auditable entities.	Partnership with Management	✓
35. Educate operations management on internal control responsibilities.	Partnership with Management	✓
36. Include staff of customers as part of audit team.	Partnership with Management	✓
37. Management participates in establishing audit scope/program.	Partnership with Management	✓
38. Participate on company task forces and critical committees.	Partnership with Management	✓

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Best Practice	**Best Practice Category**	**Best Practice Employed**
39. Review with management audit processes.	Partnership with Management	✓
40. Use audit "account executives" for specific areas of the organization.	Partnership with Management	✓
41. Initiate companywide internal control education program and management control initiatives.	Partnership with Management	**X**
42. Use a formal incentive and recognition program.	Performance Improvement	✓
43. Establish employee performance targets (management by objectives, or MBO).	Performance Improvement	✓
44. At least annually, the CAE should report to senior management and the board on the quality program efforts and results.	Quality Assessment	✓
45. Emphasize total quality management in auditing activities.	Quality Assessment	✓
46. Periodically conduct QAs based upon The IIA's *International Standards for the Professional Practice of Internal Auditing* (*Standards*) and Code of Ethics.	Quality Assessment	✓
47. Because of the critical nature of resources, the CAE maintains ongoing communications and dialog with senior management and the board on the adequacy of resources for the internal audit activity. The CAE periodically presents a summary of status and adequacy of resources to senior management and the board. To that end, the CAE develops appropriate metrics, goals, and objectives to monitor the overall adequacy of resources. This can include comparisons of resources to the internal audit plan, the impact of temporary shortages or vacancies, educational and training activities, and changes to specific skill needs based on changes in the organization's business, operations, programs, systems, and controls.	Resource Management	✓
48. Focus audit resources and audit program on "hot spots" – greatest risks/opportunities.	Risk Management	✓
49. Use a formal risk assessment program, developed with management involvement.	Risk Management	✓
50. Use standardized documentation of systems and internal controls.	Risk Management	✓
51. Maintain a program for providing leadership opportunities.	Staff Professional Development	✓
52. Actively recruit more experienced internal auditors.	Staff Professional Development	✓
53. Audit staff should have suitable criteria of education and experience.	Staff Professional Development	✓
54. Continuing professional development is essential to help ensure internal audit staff remains proficient.	Staff Professional Development	✓

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Best Practice	**Best Practice Category**	**Best Practice Employed**
55. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certification, such as the Certified Internal Auditor designation, other designations offered by The IIA, and additional designations related to internal auditing.	Staff Professional Development	✓
56. Maintain a program for providing continuing education.	Staff Professional Development	✓
57. Regularly inform staff of new developments in internal auditing.	Staff Professional Development	✓
58. Reward achievement of professional certification – money and/or recognition.	Staff Professional Development	✓
59. Support professional certification programs.	Staff Professional Development	✓
60. Use borrowed operation personnel for needed expertise.	Staff Professional Development	✓
61. Use internal auditing activity for management development.	Staff Professional Development	✓
62. Include "soft skills" in annual training efforts, covering such areas as communication, conflict management, collaboration, active listening, etc.	Staff Professional Development	✓
63. Conduct audits using COBIT.	Technology	✓
64. Audit systems under development.	Technology	✓
65. Auditors trained in analytical review techniques (ARTs), such as ACL and other data analytic applications and methods.	Technology	✓
66. Cybersecurity is covered in the Audit Plan and Completed Projects.	Technology	✓
67. Have and periodically test an audit disaster recovery plan.	Technology	✓
68. Have automated department administration (i.e., follow-up, training, and personnel records).	Technology	✓
69. Use "integrated auditing."	Technology	✓
70. Use automated workpaper system.	Technology	✓
Sources: IIA Practice Advisories, IIA Quality Assessment Manual 6th Edition, LASERS Audit Services Division, 2016 IIA Pulse of the Profession Survey, KPMG "Developments in Audit Innovation," Deloitte "Cyber security and the Role of Internal Audit," Reviewer Observations and Professional Judgment		