

Date: September 19, 2023

To: H. Neil Matkin, Ed.D., District President
Members of the Finance and Audit Committee

From: Ali Subhani, Director Internal Audit *Ali Subhani*

Subject: Internal Departmental Self-Assessment (Quality Assurance Review)

The Office of Internal Audit has completed an internal Quality Assurance Review (QAR) for fiscal year 2023. The objective of the Self Assessment was to evaluate the department's adherence to the Institute of Internal Auditors Code of Ethics and International Standards for the Professional Practice of Internal Auditing (the "Standards").

Overall, the department generally conforms to the requirements. However, two areas with opportunities for improvement related to the requirements were noted. A detailed list of conformance to individual standards is outlined below.



Internal Audit

SCOPE AND METHODOLOGY

The scope of the internal QAR includes activities and audits performed and issued from January 2020 through August 17, 2023. As part of the preparation for the external QAR, the Office of Internal Audit prepared a self-study document with detailed information including the audit charter, audit manual, and other organizational materials along with this Self-Assessment report. The independent reviewers, whenever they are invited and selected will review this information along with the Office of Internal Audit's risk assessment and audit planning processes, audit tools and methodologies and engagement processes, and a sample of the department's work papers and reports. The independent reviewer may survey or interview the audit staff and a sample of District employees involved in the audit process. Interviews may also be conducted with members of the Finance and Audit Committee, the District President, and other Executive Leadership Team members.

OPINION AS TO CONFORMITY

The rating system used for expressing an opinion for this review provides for three levels of conformance: generally conforms, partially conforms, and does not conform.

- Generally conforms means that the Office of Internal Audit has policies, procedures, and a charter that were judged to be in accordance with applicable standards; however, opportunities for improvement may exist.
- Partially conforms means deficiencies, while they might impair, did not prohibit the Office of Internal Audit from carrying out its responsibilities.
- Does not conform means deficiencies in practice were found that were considered so significant that they impaired or prohibited the Office of Internal Audit in carrying out its responsibilities.

The following table details our opinion of how the Office of Internal Audit conforms to each section of the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing and Code of Ethics.

Standard Type and Description	Opinion
<i>IIA International Attribute Standards:</i>	
1000 - Purpose, Authority, and Responsibility	Generally Conforms
1100 - Independence and Objectivity	Partially Conforms
1200 - Proficiency and Due Professional Care	Generally Conforms
1300 - Quality Assurance and Improvement Program	Does Not Conform
<i>IIA International Performance Standards:</i>	
2000 - Managing the Internal Audit Activity	Generally Conforms
2100 - Nature of Work	
2200 - Engagement Planning	
2300 - Performing the Engagement	
2400 - Communicating Results	
2500 - Monitoring Progress	
2600 - Communicating the Acceptance of Risks	

DETAILED CONCLUSIONS

1. 1000 Purpose, Authority, and Responsibility

The Internal Audit Charter that the Board of Trustees approved outlines the purpose, authority, and responsibility of the Office of Internal Audit. The nature of assurance and consulting services are also defined within the charter.

2. 1100 Independence and Objectivity

Based on the Self-Assessment, the Director of Internal Audit reports to the Finance and Audit Committee that approved the Internal Audit Charter. The director communicates the results of all internal audit reports to the Finance and Audit Committee. The director has been able to report findings and conclusions objectively. The District President completes the annual evaluation for the Director of Internal Audit; therefore, the director has not affirmed independence on an annual certification as required by the Standards. To facilitate compliance with the Standards, the evaluation should include the documented input from the Board. The Office of Internal Audit has a process for addressing potential conflicts of interest.

3. 1200 Proficiency and Due Professional Care

Based on the Self-Assessment, we conclude that audit work is performed with proficiency and due care; professional judgment is used in planning, performing, and reporting. The Director for Internal Audit is licensed as a Certified Internal Auditor, a Certified Information Security Auditor, a Certified Data Privacy Solutions Engineer, and a GIAC Systems and Network Auditor. The director has more than 18 years of experience in Audit. The director has sufficient knowledge to identify indicators of fraud and information technology risks. The budget provides funding for the director to earn continuing education credits and maintain professional certifications.

4. 1300 Quality Assurance and Improvement Program

The department instituted a quality assurance program when the current Director of Internal Audit joined the department in January 2020. Previously, the department has not made consistent efforts to achieve compliance with the Standards. Therefore, documentation to substantiate prior external peer reviews and internal review processes was not readily available. Currently, the Texas State Agency Internal Audit Forum (SAIAF) checklist is completed for each audit to ensure compliance with the Standards.

5. 2000 Managing the Internal Audit Activity

The self-assessment indicated that the Office of Internal Audit is managed following the relevant standards. The Department's Policies and Procedures Manual and the TeamMate Audit template are readily accessible. The Director of Internal Audit:

- Prepares a risk-based Annual Audit Plan that the Finance and Audit Committee approves
- Monitors and communicates the progress of projects
- Coordinates with other audit entities to prevent duplication and prepares an Annual Audit Report

Audit reports provide value-added recommendations to address the identified risks and issues. The implementation status of past audit observations is communicated to the Finance and Audit Committee annually.

6. 2100 Nature of Work

Based on the Self-Assessment, our conclusion is that the Office of Internal Audit contributes to improving risk management, control, and governance processes through audits, special projects, and service. Institutional stakeholders also have the opportunity to provide their feedback as the Audit Plan is developed. Fraud risks are also considered in audits.

7. 2200 Engagement Planning

The Office of Internal Audit conforms with the Engagement Planning Standards as an Audit Program that specifies the audit scope and objectives is developed for each audit. The Audit Program also identifies the activities to be performed in order to accomplish the audit objectives.

8. 2300 Performing the Engagement

The Office of Internal Audit complies with the Standards in performing audits as thorough working papers are prepared using TeamMate to document the audit program steps performed to achieve the objectives. The evidence that supports the results and conclusions is sufficient, competent, and relevant. The director conducts the audits and reviews the working papers before reports are issued.

9. 2400 Communicating Results

The Office of Internal Audit complies with the Standards regarding communicating the results of engagements. Written reports are prepared for all audits. Audit reports include the objective, scope, and procedures. The results are communicated to the appropriate internal and external stakeholders, including administration, management, and the Finance and Audit Committee. Reports are submitted to other oversight agencies when applicable.

12. 2500 Monitoring Progress

It was noted that the Office of Internal Audit has a system for monitoring the disposition of results communicated to management. The department tracks the status of observations identified in prior audits within TeamMate and determines the implementation status annually.

13. 2600 Communicating the Acceptance of Risks

The Director of Internal Audit is unaware of any instance where executive management may have accepted a level of residual risk unacceptable to the organization. However, if this scenario did occur, the director would report the concern to the Finance and Audit Committee Chair.