



## **External Quality Assurance Review of the TRS Internal Audit Department**

July 18, 2025

Presented By:  
**Cheryl Cervantes Dietz, Tony Chavez & Cathleen Davis**





# Review Team



## Team Leader

- Cheryl Cervantes Dietz, CPA, CIA
  - Chief Auditor, California State Teachers' Retirement System (CalSTRS)

## Team Members

- Tony Chavez, CIA, CGAP, CRMA
  - Internal Audit Director, Employees Retirement System of Texas (ERS)
- Cathleen Davis, CIA, CISA, CFE
  - Chief Auditor, Arizona Public Safety Personnel Retirement System (PSPRS)



## Professional Standards

- ☐ The Institute of Internal Auditors (IIA) International Professional Practices Framework (Red Book)
  - Global Internal Audit Standards
  - Topical Requirements
  - Global Guidance
- ☐ United States Government Accountability Office (GAO) Government Auditing Standards (Yellow Book)
- ☐ Texas Internal Auditing Act (Texas Government Code, Chapter 2102)



# External Quality Assessment Key Requirements



The external quality assessment is a comprehensive review of the adequacy of the internal audit function.

## Global Internal Audit Standard Quality Requirements

Standard 8.4: The Chief Audit Executive must:

- Develop a plan for an external quality assessment to be performed every five years by a qualified, independent assessor or assessment team.
- Ensure at least one person holds an active Certified Internal Auditor designation.

## Government Auditing Standards Quality Requirements

Chapter 5: External peer reviews must be conducted every three years by reviewers independent of the audit organization being reviewed. Selection of peer review team is at the discretion of audit organization.

## Texas Internal Auditing Act Quality Requirements

Chapter 2102: Mandates a quality assurance review at least every three years conducted by qualified, independent professionals from outside the organization.



# Global Internal Audit Standards: Ratings and Definitions



## Full Achievement

- The internal audit function is fully achieving all 15 principles and the Purpose of Internal Auditing

## General Achievement

- The internal audit function is not fully achieving at least one of the principles or aspect of Domain I but is achieving the Purpose of Internal Auditing

## Partial Achievement

- The internal audit function is not fully achieving at least one principle or aspect of Domain I, and the impact is significant enough to rate the function's overall achievement as partially achieving

## Nonachievement

- The internal audit function is not fully achieving at least one principle, and the impact is significant enough to rate the function's overall conclusion as nonachievement



# Government Auditing Standards: Ratings and Definitions



## Pass

- A system of quality management has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards in all material respects

## Pass with Deficiencies

- A system of quality management has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards in all material respects with the exception of a certain deficiency or deficiencies described in the report

## Fail

- A system of quality management is not suitably designed to provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards in all material respects, or that the audit organization has not complied with its system of quality management to provide the audit organization with reasonable assurance of performing and reporting in conformity with professional standards in all material respects





# Scope of External Quality Assessment



## Global Internal Audit Standards

### ***Five Domains, 15 Principles, and 52 Standards***

Domain I: Purpose of Internal Auditing

Domain II: Ethics and Professionalism

Domain III: Governing the Internal Audit Function

Domain IV: Managing the Internal Audit Function

Domain V: Performing Internal Audit Services

## Government Auditing Standards Quality Requirements

Chapter 3: Ethics, Independence and Professional Judgment

Chapter 4: Competence and Continuing Professional Education

Chapter 5: Quality Management, Engagement Quality Review and Peer Review

Chapters 8 & 9: Fieldwork and Reporting Standards for Performance Audits

## Texas Internal Auditing Act Quality Requirements

Purpose, Required Activities, Required Reporting



# Methodology and Period Under Review



## Feedback

- Chief Audit Executive
- Internal Audit Staff
- Board Chair
- ACE Committee Chair
- Executive Director
- Deputy Director
- Senior Management

## Documents

- TRS Bylaws
- Board Meeting Materials
- Internal Audit Charter
- Internal Audit Strategic Plan
- Performance Metrics
- Risk Assessment & Audit Plan
- Internal Audit Manual
- Other Relevant Documents

## Workpapers

- Internal Audit Staff Objectivity and Independence Statements
- Planning
- Fieldwork
- Communication
- Internal Audit Reports
- Quality Review Checklists

Review Period: June 1, 2022 through June 15, 2025







## Results



# Results



## Global Internal Audit Standards

- Full Achievement of Compliance is the highest level of conformance with the principles, standards and *Purpose of Internal Auditing*.
- Achievement of Performance Objectives (12.1/12.2)

## Government Auditing Standards Quality Requirements

Pass indicating the system of quality control is suitably designed and complied with, providing reasonable assurance of conformity

## Texas Internal Auditing Act Quality Requirements

In compliance





# Internal Audit Successful Practices



- Adoption of Principles of Engagement
- Independence Attestations
- Chief Audit Executive (CAE) deeply committed to continuous improvement and professional development
- Comprehensive Internal Audit Charter
- Strong stakeholder trust and confidence
- Leadership team with knowledge of Standards, professionalism, business acumen and experience
- Culture of innovation and value creation
- Robust Quality Assurance Review checklist
- Highly credentialed team
- Active leadership engagement in professional communities
- Advanced continuous auditing and risk monitoring tools





# Enhancement Opportunities, Recommendations & Response

## **Requirement: *Generally Accepted Government Auditing Standards - Section 3.26***

The CAE annually affirms independence of the internal audit function. This attestation could be enhanced to document the safeguards applied for non-audit services as described in GAGAS 3.26 conceptual framework approach to independence.

### **Recommendation:**

Include the safeguards in place for non-audit services as part of the annual affirmation and disclosure to the board.

### **Management's Response:**

Internal Audit management agrees with the recommendation to include safeguards for non-audit services in the annual affirmations to the board. This enhancement will be reflected in our next report to the board at the ACE Committee's December 2025 meeting.



# Enhancement Opportunities, Recommendations & Response

## **Requirement: *Global Internal Audit Standards - Principles within Domain II***

The Internal Audit Charter and *Internal Audit Manual* address requirements for internal audit staff to comply with Domain II which replaced *IIA Code of Ethics*. Additionally, individual audit staff attest to objectivity and independence for assurance and advisory engagements. However, internal audit staff do not attest to all the principles within Domain II such as integrity, competency and confidentiality on an annual basis. Annual attestation would serve as a reminder to staff of the Domain II requirements.

## **Recommendation:**

Expand the existing annual staff objectivity and independence attestations to address all the Principles and Standards within Domain II.

## **Management's Response:**

Internal Audit Management agrees with the recommendation to expand staff objectivity and independence attestations to fully address the Principles and Standards within Domain II. An action plan is in place to update relevant documents and templates by July 31, 2025, with changes effective Sept 1, 2025.



# Enhancement Opportunities, Recommendations & Response

## Requirement: *Global Internal Audit Standards - Domain IV / Principle 11 Communicate Effectively*

- Standard 11.1 *Building Relationships and Communicating with Stakeholders*

The CAE and Internal Audit staff demonstrate strong relationships and communication with its stakeholders. However, formalization of the CAE's expectation or plan does not exist within the *Internal Audit Manual*.

- Standard 11. 4 *Errors and Omissions*

Current Internal Audit processes include strong quality reviews to ensure results are accurate. However, a formal process to correct significant errors or omissions in final engagement communications, with input from the board on criteria for significance, does not exist.

- Standard 11.5 *Communicating the Acceptance of Risk*

Although an unacceptable level of risk was not identified by the CAE during the period reviewed, a formal process on how to approach, escalate and communicate unacceptable levels of risk, if necessary, does not exist.



# Enhancement Opportunities, Recommendations & Response

## Recommendation:

Update the *Internal Audit Manual* to include/address:

- The CAE's approach to build relationships and trust with key stakeholders
- A formal process to correct significant errors or omissions in final engagement communications, if necessary; with input from the board on criteria for significance
- A formal process on how to approach, escalate and communicate unacceptable levels of risk, if necessary

## Management's Response:

Internal Audit management concurs with recommendations 11.1, 11.4, and 11.5 and has initiated updates to the Internal Audit Manual, scheduled for completion by July 31, 2025.





## Appendix

Report on the External Quality Assurance Review of the  
Teacher Retirement System of Texas  
Internal Audit Department

June 2025



**Performed by**

**Cheryl Cervantes Dietz, CPA, CIA**

Chief Auditor

California State Teachers' Retirement System (CalSTRS)

**Tony Chavez, CIA, CGAP, CRMA**

Director of Internal Audit

Employees Retirement System of Texas (ERS)

**Cathleen Davis, CIA, CISA, CFE**

Chief Auditor

Arizona Public Safety Personnel Retirement System (PSPRS)

## Overall Opinion

It is our opinion that the Teacher Retirement System of Texas (TRS) Internal Audit department receives a rating of **"Pass - Full Achievement"**. The TRS Internal Audit department reported achievement of its 2024 performance objectives and complies with the Institute of Internal Auditors (IIA) *Global Internal Audit Standards* (Standards) within the *International Professional Practices Framework*, the United States Government Accountability Office *Generally Accepted Government Auditing Standards* (GAGAS), and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

## External Quality Assurance Review Ratings

- Pass – Full Achievement
- Pass – General Achievement
- Pass – Partial Achievement
- Fail – Nonachievement

We found that the TRS Internal Audit department (Internal Audit) is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The Internal Audit staff are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

Internal Audit is appropriately governed by TRS Board of Trustees (Board) and effectively managed by the Chief Audit Executive (CAE). In addition, Internal Audit has trusted relationships with the Board and is well respected and supported by management. Surveys and interviews conducted during the external quality assurance (EQA) review indicate that management considers Internal Audit as providing value and helping the organization accomplish its objectives. Surveys and interview results also indicate that the Internal Audit staff are professional, knowledgeable, collaborative, responsive, and maintain high levels of integrity. Internal Audit fully leverages technology and data analytics to improve efficiencies and effectiveness within the internal audit process. Management believes Internal Audit adequately assesses and communicates the results of its assessments on the effectiveness of risk management processes and control and engages with management to achieve timely resolutions.

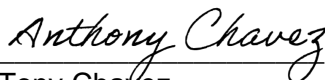
Internal Audit has reviewed the results of the EQA team's work and has accepted them to be an accurate representation of the internal audit function operations.

## Acknowledgements

We appreciate the courtesy and cooperation extended to us by the CAE, Internal Audit staff, Board Chair, Audit, Compliance and Ethics (ACE) Committee Chair, Executive Director, Deputy Director and Chief Officers who participated in the interview process. We would also like to thank all TRS management who completed surveys for the EQA review. The feedback from the interviews and surveys provided valuable information regarding the operations of Internal Audit and its relationship with the Board and management.



Cheryl Cervantes Dietz  
Chief Auditor  
CalSTRS



Tony Chavez  
Internal Audit Director  
ERS of Texas



Cathleen Davis  
Chief Auditor  
Arizona PSPRS

## Background

The IIA Standards, U.S. Government Accountability Office (GAO) GAGAS, and the Texas Internal Auditing Act require that internal audit functions obtain EQA reviews to assess compliance with Standards and the Act and to appraise the quality of their operations. GAGAS require these external reviews at least every three years. A periodic EQA review of the internal audit function is an essential part of a comprehensive quality assurance program. The previous EQA review for Internal Audit was performed in June 2022. This EQA was performed in accordance with the Texas State Agency Internal Audit Forum (SAIAF) Peer Review guidelines. No member of the review team had a conflict of interest with TRS or its Internal Audit.

Although an internal audit department might receive a “pass - full achievement” rating, it is expected that the EQA assessment team will offer recommendations based on best practices or supplementary (non-mandatory) guidance. Such recommendations, in the form of enhancement opportunities do not necessarily indicate a deficiency in the operation of Internal Audit but are suggestions to enhance a properly functioning activity.

## Objectives, Scope, and Methodology

The primary objective of the EQA review was to evaluate Internal Audit’s compliance with auditing standards and the Texas Internal Auditing Act. Additional objectives included identifying successful practices as well as areas where improvements may be needed. The review covered sampled audit and management assistance projects performed by Internal Audit from June 1, 2022, through June 15, 2025.

The work performed during the review included:

- Review, verification, and evaluation of the self-assessments prepared by Internal Audit according to SAIAF guidelines.
- Review and evaluation of 17 emailed surveys completed by management.
- Interviews with the CAE, Internal Audit staff, the Executive Director, Deputy Director, Board Chair and ACE Committee Chair.
- Review of key documents such as TRS Bylaws, Board meeting materials, Internal Audit Charter, Internal Audit Strategic Plan, Internal Audit performance metrics, annual risk assessment and audit plan, Internal Audit policies and procedures (Internal Audit Manual), professional development records, and other relevant documents.
- Review and evaluation of audit working papers.

## Appendix A - Detailed Results

## Successful Practices

Internal Audit demonstrates a strong commitment to continuous improvement, professionalism, and innovation. During the EQA review, the assessment team identified several exemplary practices that reflect the Internal Audit's high standards and forward-thinking approach. These include:

- **Adoption of clear Principles of Engagement** that guide staff interactions within the department, with TRS personnel, and other stakeholders.
- **Annual independence attestations** and engagement-level confirmations to ensure continued objectivity and integrity.
- **A CAE deeply committed to continuous improvement and professional development.**
- **A comprehensive Internal Audit Charter** that clearly defines the Internal Audit's purpose, authority, and responsibility.
- **Strong stakeholder trust and confidence** in the work performed by Internal Audit staff.
- **A leadership team (CAE and Directors)** recognized for their deep knowledge of the Standards, professionalism, business acumen, and extensive experience.
- **A culture of innovation and value creation**, demonstrated through the use of robotic process automation and advanced analytics.
- **A robust Quality Assurance Review checklist** applied at each engagement phase—planning, fieldwork, and reporting—by staff not assigned to the audit, ensuring objectivity and quality.
- **A highly credentialed team** with deep industry expertise, particularly in investment management and information technology.
- **Active leadership engagement in professional communities**, with the CAE and Directors recognized for their thought leadership.
- **Advanced continuous auditing and risk monitoring tools**, developed by a dedicated business intelligence team, reinforcing the department's commitment to innovation.

EQA Review Results by Global Internal Audit Standards Domain



The IIA’s Global Internal Audit Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. At the heart of the Standards are 15 guiding principles that enable effective internal auditing. Each principle is supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance. Together these elements help internal auditors achieve the principles and fulfill the *Purpose of Internal Auditing*.

The EQA assessment team has summarized its results by the Standard’s five domains. A rating of conforms, partially conforms or does not conform has been provided. Enhancement opportunities with Internal Audit responses are included as well.

<b>Domain I: Purpose of Internal Auditing</b>	<p><i>The purpose statement is intended to assist internal auditors and internal audit stakeholders in understanding and articulating the value of internal auditing.</i></p> <p>The <i>Purpose of Internal Auditing</i> is included in the Internal Audit Charter which was updated in September 2024. Based on interviews, Internal Audit stakeholders understand the value of internal auditing.</p> <p><b>Internal Audit conforms to Domain I.</b></p>
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<b>Domain II: Ethics and Professionalism</b>	<p><i>The principles and standards in this domain outline the behavioral expectations for professional internal auditors; including CAEs, other individuals, and any entities that provide internal audit services. Conformance with these principles and standards instills trust in the profession of internal auditing, creates an ethical culture within the internal audit function, and provides the basis for reliance on internal auditors' work and judgment.</i></p> <p><b>Internal Audit conforms to Domain II.</b></p>
<b>Principle 1: Demonstrate Integrity</b>	<ul style="list-style-type: none"> <li>• The Internal Audit Charter includes the principle of integrity to promote ethical conduct</li> <li>• Internal Audit staff obtain annual ethics training</li> <li>• The TRS <i>Ethics Policy</i> and <i>Fraud Hotline</i> provide additional support for an organization-wide commitment to integrity and accountability</li> </ul>
<b>Principle 2: Maintain Objectivity</b>	<ul style="list-style-type: none"> <li>• Objectivity of staff is addressed in the Internal Audit Charter, the <i>Internal Audit Manual</i>, and individual staff attestations</li> <li>• Objectivity is safeguarded and disclosures are required if objectivity is impaired in fact or in appearance</li> <li>• Internal Audit staff demonstrate their commitment to maintaining an impartial and unbiased attitude when performing internal audit services and making decisions</li> </ul>
<b>Principle 3: Demonstrate Competency</b>	<ul style="list-style-type: none"> <li>• Internal Audit staff individually, and collectively, possess the knowledge, skills and abilities to fulfill their roles and responsibilities successfully</li> <li>• As of December 2024, Internal Audit had a team of highly credentialed professionals with 20 professional certifications/licenses and 10 advanced degrees</li> <li>• Internal Audit staff are required to enhance their knowledge, skills, and abilities by obtaining at least 40 hours of continuing professional education each year</li> <li>• Internal Audit has contracted resources and budgeted monies available if expertise or resources are not available to satisfy audit plan objectives</li> </ul>
<b>Principle 4: Exercise Due Professional Care</b>	<ul style="list-style-type: none"> <li>• Internal Audit staff apply due professional care in planning and performing internal audit services</li> <li>• Internal Audit staff adhere to the Standards which is evidenced through documentation of work within its audit software</li> </ul>
<b>Principle 5: Maintain Confidentiality</b>	<ul style="list-style-type: none"> <li>• Internal Audit staff use and protect information appropriately as specified in organizational policies and the <i>Internal Audit Manual</i></li> <li>• Internal Audit staff are required to complete the TRS information security training annually</li> <li>• Relevant Internal Audit staff are required to complete the TRS Enhanced HIPAA training</li> </ul>



<p><b>Enhancement Opportunities</b></p> <p><b>GAGAS 3.26</b></p> <p><b>Standards Domain II</b></p>	<p><b><i>Enhance the Annual Affirmations and Disclosures for non-audit services.</i></b></p> <p>The CAE annually affirms independence of the internal audit function. This attestation could be enhanced to document the safeguards applied for non-audit services as described in GAGAS 3.26 conceptual framework approach to independence.</p> <p><b><i>Enhance individual audit staff objectivity and independence attestation.</i></b></p> <p>The Internal Audit Charter and <i>Internal Audit Manual</i> address requirements for internal audit staff to comply with Domain II which replaced <i>IIA Code of Ethics</i>. Additionally, individual audit staff attest to objectivity and independence for assurance and advisory engagements. However, internal audit staff do not attest to all the principles within Domain II such as integrity, competency, and confidentiality on an annual basis. Annual attestation would serve as a reminder to staff of the Domain II requirements.</p> <p>We recommend the CAE</p> <ul style="list-style-type: none"> <li>• Include the safeguards in place for non-audit services as part of the annual affirmation and disclosure to the Board.</li> <li>• Expand the existing annual staff objectivity and independence attestations to address all the Principles and Standards within Domain II.</li> </ul>
<p><b>Internal Audit Response</b></p> <p><b>GAGAS 3.26:</b></p>	<p>Internal Audit management agrees with the recommendation to include safeguards for non-audit services in the annual affirmations to the Board. This enhancement will be reflected in our next report to the Board at the ACE Committee's December 2025 meeting.</p>
<p><b>Internal Audit Response</b></p> <p><b>Domain II:</b></p>	<p>We also agree with the recommendation to expand staff objectivity and independence attestations to fully address the Principles and Standards within Domain II. An action plan is in place to update relevant documents and templates by July 31, 2025, with changes effective September 1, 2025.</p>

<b>Domain III: Governing the Audit Function</b>	<p><i>Appropriate governance arrangements are essential to enable the internal audit function to be effective. This domain outlines the requirements for chief audit executives to work closely with the board to establish the internal audit function, position it independently, and oversee its performance. This domain also outlines senior management's responsibilities that support the board's responsibilities and promote strong governance of the internal audit function.</i></p> <p><b>Internal Audit conforms to Domain III.</b></p>
<b>Principle 6: Authorized by the Board</b>	<ul style="list-style-type: none"> <li>• The Board establishes, approves, and supports the mandate of the internal audit function as evidenced by the TRS Bylaws and Internal Audit Charter</li> <li>• The Internal Audit Charter includes the <i>Purpose of Internal Auditing</i>, and describes the Internal Audit Mandate, organizational positing, reporting relationships and commitment to conform with the Standards</li> </ul>
<b>Principle 7: Positioned Independently</b>	<ul style="list-style-type: none"> <li>• The Board establishes and protects the internal audit function's independence consistent with the Standards. Internal Audit is independent both in terms of the TRS organizational structure and Internal Audit's practices</li> <li>• The CAE reports functionally to the Board, which provides sufficient authority to promote independence, achieve its mandate and allow for adequate consideration of its audit results</li> <li>• The TRS Bylaws provides for the ACE Committee to make recommendations to the Board, in consultation with the Executive Director, regarding the appointment, replacement, dismissal, evaluation, and compensation of the CAE</li> <li>• The Internal Audit Charter helps ensure continued independence by specifying that Internal Audit staff must remain free of operational and management responsibilities that could impair their ability to make independent reviews of all areas of TRS operations; Internal Audit staff are required to sign independence statements for each audit engagement</li> </ul>
<b>Principle 8: Overseen by the Board</b>	<ul style="list-style-type: none"> <li>• The Board oversees the internal audit function to ensure the function's effectiveness</li> <li>• The CAE meets periodically with the Board Chair and ACE Committee Chair</li> <li>• The CAE effectively communicates, in writing and verbally, Internal Audit activities, whether the resource budget is sufficient to achieve the Internal Audit Plan and the results of its internal quality assessments.</li> </ul>

<b>Domain IV: Managing the Internal Audit Function</b>	<p><i>The chief audit executive is responsible for managing the internal audit function in accordance with the internal audit charter and the Standards. This responsibility includes strategic planning, obtaining and deploying resources, building relationships, communicating with stakeholders, and enhancing the performance of the function.</i></p> <p><b>Internal Audit conforms to Domain IV.</b></p>
Principle 9: Plan Strategically	<ul style="list-style-type: none"> <li>The CAE plans strategically for Internal Audit to fulfill its mandate and achieve long-term success as evidenced by: <ul style="list-style-type: none"> <li>- Participation in executive council meetings and other strategic, governance, and risk management meetings</li> <li>- Assessment of risks to form the basis for its annual audit plan in support of the organization's objectives and approved by the Board</li> <li>- Reporting Internal Audit performance relative to the annual plan.</li> </ul> </li> </ul>
Principle 10: Manage Resources	<ul style="list-style-type: none"> <li>The CAE manages Internal Audit resources to ensure implementation of its strategy and achievement of its plan and mandate as evidenced by: <ul style="list-style-type: none"> <li>- Communication on the sufficiency of resources when presenting the annual audit plan to the ACE Committee</li> <li>- Recruitment and retention of highly skilled and knowledgeable staff</li> <li>- Effective use of technology for increased efficiency and effectiveness of the internal audit function</li> </ul> </li> </ul>
Principle 11: Communicate Effectively	<ul style="list-style-type: none"> <li>The CAE guides the internal audit function to communicate effectively with its stakeholders through: <ul style="list-style-type: none"> <li>- Relationship building with clients fostering trust and confidence</li> <li>- Established <i>Internal Audit Manual</i>, participation in professional organizations, and education in promotion of accurate, objective, clear, concise, constructive, complete and timely audit communications</li> <li>- Presentation of audit results to the ACE Committee and senior management</li> </ul> </li> </ul>
Principle 12: Enhance Quality	<ul style="list-style-type: none"> <li>The CAE ensures the internal audit function's conformance with the Standards and continuous performance improvement by: <ul style="list-style-type: none"> <li>- Implementation of a Quality Assurance and Improvement Program that includes components to support Internal Audit staff perform quality work through quality assessments; results of internal quality assessments and external quality assessments are communicated to the ACE Committee annually</li> <li>- Development of performance measures that include objectives and indicators that communicates expectations, evaluate performance and continuously improve operations</li> <li>- On-going supervision of assurance and advisory engagements evidenced through audit working papers</li> </ul> </li> </ul>

<b>Domain IV: Enhancement Opportunities</b>	<p><b><i>Enhance documentation to address Principles within Domain IV.</i></b></p> <p>While Internal Audit meets these standards, we recommend the CAE enhance the <i>Internal Audit Manual</i> to address the requirements noted below:</p> <p>Standard 11.1 <i>Building Relationships and Communicating with Stakeholders</i></p> <ul style="list-style-type: none"> <li>We interviewed Internal Audit staff and its clients (stakeholders) to understand the approach to build relationships and trust with key stakeholders. Although the CAE meets this Standard, we suggest the CAE formalize its plan and/or approach and include in the <i>Internal Audit Manual</i>.</li> </ul> <p>Standard 11.4 <i>Errors and Omissions</i></p> <ul style="list-style-type: none"> <li>If final engagement communication contains a significant error or omission, the CAE must promptly communicate corrected information to the parties in receipt of original communication. Significance is to be determined based on criteria agreed upon with the Board. Although current Internal Audit processes include strong quality reviews to ensure results are accurate, we identified an opportunity to enhance the <i>Internal Audit Manual</i> to address this situation if it were to occur. We also suggest the CAE include the criteria, agreed upon with the Board, that would initiate a corrected report.</li> </ul> <p>Standard 11.5 <i>Communicating the Acceptance of Risks</i></p> <ul style="list-style-type: none"> <li>The CAE is required to communicate unacceptable level of risks with senior management and/or the Board. Specifically, if management accepts a level of risk that exceeds the organization's risk tolerance or appetite, the matter must be discussed with senior management. If the CAE determines the matter has not been resolved by senior management, the matter must be escalated to the Board. Although an unacceptable level of risk was not identified by the CAE during the period reviewed, the <i>Internal Audit Manual</i> should address how to approach and escalate if such an instance occurs.</li> </ul>
<b>Internal Audit Response:</b>	<p>Internal Audit management concurs with recommendations 11.1, 11.4, and 11.5 and has initiated updates to the Internal Audit Manual, scheduled for completion by July 31, 2025.</p>

<b>Domain V: Performing Internal Audit Services</b>	<p><i>Performing internal audit services requires internal auditors to effectively plan engagements, conduct the engagement work to develop findings and conclusions, collaborate with management to identify recommendations and/or actions plans that address the findings, and communicate with management and the employees responsible for the activity under review throughout the engagement and after it closes.</i></p> <p><b>Internal Audit conforms to Domain V.</b></p>
<b>Principle 13: Plan Engagements Effectively</b>	<ul style="list-style-type: none"> <li>• Internal Audit staff plan each engagement using a systematic, disciplined approach; specifically:             <ul style="list-style-type: none"> <li>- Audits are included on the Board-approved annual audit plan, and an audit program is prepared for each audit</li> <li>- Engagement planning includes consideration of business activity objectives under review and the related risks and controls</li> <li>- Resource requirements for each engagement are considered and documented</li> <li>- Engagement-level risk assessments are completed to develop audit engagement objectives, scope and methodology, which are communicated to clients</li> </ul> </li> </ul>
<b>Principle 14: Conduct Engagement Work</b>	<ul style="list-style-type: none"> <li>• Internal Audit staff consistently implemented engagement work programs to achieve the engagement objectives that were supported by sufficient, reliable, and relevant workpapers that included:             <ul style="list-style-type: none"> <li>- Analysis and evaluation of information</li> <li>- Development and evaluation of findings</li> <li>- Recommendations and action plans</li> <li>- Engagement conclusion</li> </ul> </li> <li>• Internal Audit Directors monitor the progress of the individual audits in their areas.</li> <li>• The CAE attends planning meetings, approves all control documents, and reviews workpapers to ensure sufficiency of evidence and compliance with Standards.</li> </ul>
<b>Principle 15: Communicate Engagement Results and Monitor Action Plans</b>	<ul style="list-style-type: none"> <li>• Audit results are communicated in a timely manner through audit reports that include the audit's objectives, results, conclusions, recommendations, and management's responses and action plan(s).</li> <li>• Potential findings are communicated throughout the audits, providing management with the opportunity to provide additional information and/or to start taking corrective action.</li> <li>• Audit results are presented to management before they are finalized in a report, which helps ensure there is agreement about the areas for improvement and the recommended solutions.</li> </ul>

	<ul style="list-style-type: none"><li>• Internal Audit reports are accurate, objective, clear, concise, and complete. Reports are communicated to appropriate parties and posted on TRS' intranet.</li><li>• Internal Audit has a system for monitoring the resolution of audit issues and management resolution progress is reported to the ACE Committee quarterly.</li><li>• During the EQA review, no instances were identified of management accepting an inappropriate level of risk that would require the CAE to notify the Board.</li></ul>
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**Overall Internal Audit Management Response**

Internal Audit management extends its sincere appreciation to the peer review team for conducting this external Quality Assurance Review. Peer collaboration of this nature is invaluable in enhancing audit effectiveness. We are grateful for the thoroughness of the review and the insightful recommendations, which will help strengthen our practices. We agree with all of the team's recommendations and plan to implement them by December 2025.



Internal Audit Division of the  
Teacher Retirement System of Texas  
receives a rating of

**“Pass – Full Achievement”**

In compliance with the Institute of Internal Auditors’ International Professional Practices Framework, Government Auditing Standards, and the Texas Internal Auditing Act.

This opinion is based on a quality assessment review conducted by members of the Association of Public Pension Fund Auditors during the period of June 2025.

The review was based on the methodology developed by the Institute of Internal Auditors and Texas State Agency Internal Audit Forum.

A handwritten signature in cursive script that reads "C Dietz".

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*Cheryl Cervantes Dietz, CPA, CIA*  
*Chief Audit Executive*  
*California State Teachers Retirement System*