MEMORANDUM

TEXAS GENERAL LAND OFFICE ● GEORGE P. BUSH ● COMMISSIONER

Date: November 2, 2015

To: George P. Bush, Commissioner
Anne Idsal, Chief Clerk

From: Tracey Hall, Chief Auditor

Subject: 2015 Annual Report on the Internal Audit Quality Assurance and Improvement Program

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The following report is presented in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)* and with Government Auditing Standards (GAGAS), both of which require internal audit divisions to develop and maintain a Quality Assurance and Improvement Program (QAIP) that includes both internal and external assessments of the internal audit division.

The objective of the internal and external assessments is to evaluate the internal audit activity's conformance with the definition of internal auditing, the *Standards,* and the IIA Code of Ethics. The revised *Standards* require the results of these periodic assessments to be communicated to those charged with governance at least annually.

The GLO Internal Audit Division maintains an ongoing Quality Assurance and Improvement Program and performs ongoing monitoring of the quality of internal audit activities as well as periodic reviews performed through self-assessment and external quality assessment reviews. This report and the detailed results that follow are intended to satisfy both sets of *Standards* by demonstrating that an internal assessment was performed, listing all the relevant IIA and GAO requirements, and indicating the evidence of compliance with each requirement. The next external assessment is scheduled for the Spring of 2018.

If you have questions or comments about this report, please contact me at (512) 463-6078.

DETAILED RESULTS:

Standard No. and Title	Requirement	Evidence of Compliance
IIA AS 1300[1], 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.	▪ An Internal Audit (IA) Policies and Procedures Manual has been developed and placed on the IA shared drive. It is updated as needed, at a minimum of at least every three years. The most recent revision was conducted in 2015. ▪ A General Audit Program that consists of detailed procedures for ensuring compliance with the *Standards,* IA policies and procedures, and applicable legal and regulatory requirements is utilized during every audit engagement. ▪ A Quality Control (QC) Reviewer, an auditor external to the project, is assigned to every audit and performs review of all audit work papers to ensure their integrity to the *Standards* and audit objectives. ▪ The Chief Auditor (Director of IA) reviews and approves audit objectives, plans, testing programs, and reports for all audit engagements.

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[1] The International Professional Practices Framework (IPPF, commonly referred to as the Red Book) is the conceptual framework that organizes authoritative guidance promulgated by The Institute of Internal Auditors (IIA). Conformance with The IIA's *International Standards for the Professional Practice of Internal Auditing* (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity. The structure of the *Standards* is divided between Attribute and Performance Standards. Attribute Standards (AS) address the attributes of organizations and individuals performing internal auditing. The Performance Standards (PS) describes the nature of internal auditing and provides quality criteria against which the performance of the services can be measured. The Attribute and Performance Standards are provided to apply to all internal audit services.

Standard No. and Title	Requirement	Evidence of Compliance
IIA AS 1310, Requirements of the Quality Assurance and Improvement Program	The quality assurance and improvement program must include both internal and external assessments.	- A QC reviewer is assigned to every engagement to perform an internal review of all working papers to ensure adherence to the Standards and applicable legal and regulatory requirements. - The Chief Auditor reviews and approves key audit documents and samples of the QC work performed. - An external Quality Assurance Review (QAR)[2] is obtained every 3 years and performed by peers of the IA function. The next peer review is scheduled for the Spring of 2018.
IIA AS 1311, Internal Assessments	Internal assessments must include: ➢ Ongoing monitoring of the performance of the IA activity; and	- The QC Reviewer for each audit reviews and signs off on every audit working paper. - The Chief Auditor meets with each auditor weekly to discuss the status of his/her audit and potential issues. - Time and resources for each audit is tracked in regards to planning the audit, performing fieldwork, reporting, and quality control and supervisory review. - Auditors communicate a project status report to management of the audited program and the Chief Auditor approximately every three weeks identifying the work performed and potential audit issues on an ongoing basis. - The Chief Auditor monitors the status of the Annual Internal Audit Plan and notifies the Deputy Land Commissioner/Chief Clerk of any deviations or recommended changes. - Internal Audit has developed performance measures that are prepared quarterly and discussed at during team meetings. - At the conclusion of every project, IA staff completes a post audit analysis to communicate the quality of ongoing performance and any follow-up action needed to ensure appropriate improvements are implemented within the audit process.

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[2] The IIA's *International Professional Practices Framework* (IPPF), U.S Government Accountability Office (GAO) *Generally Accepted Government Auditing Standards* (GAGAS, commonly referred to as the Yellow Book), and the Texas Internal Audit Act require that IA functions obtain external quality assurance reviews to assess compliance with standards and the Act and to appraise the quality of their operations. Government auditing standards require these reviews at least every three years. A periodic external quality assurance review, or peer review, of the IA function is an essential part of a comprehensive quality assurance program. If the QAR is successfully fulfilled (passed) the Chief Auditor may state that the internal audit activity conforms to the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support this statement (IIA AS 1321).

Standard No. and Title	Requirement	Evidence of Compliance
IIA AS 1311, Internal Assessments *(continued)*	Internal assessments must include: ➢ Periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.	▪ The QC Reviewer for each project reviews all working papers to ensure completeness and compliance with *Standards*. ▪ The Chief Auditor reviews key documents, including the audit plan, objectives, and program, summary memo, and draft report. ▪ The Chief Auditor reviews a sample of work for each audit to ensure the quality of the QC review function.
IIA AS 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.	▪ The Texas Internal Auditing Act (Act) requires internal auditors to comply with the Act as well as IIA and GAO Standards. Internal Audit follows the more restrictive requirement for external peer reviews, which is every three years. ▪ The engagement letter for the peer reviews, which is signed by the Deputy Land Commissioner/Chief Clerk, addresses the qualifications and independence of the review team members, including any potential conflicts of interest. The next peer review is scheduled for the Spring of 2018.
IIA AS 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.	▪ After the conduction of the External Quality Assurance Review, the final report is provided to the Deputy Land Commissioner/ Chief Clerk, who the Deputy of IA reports to. The 2014 report was communicated to the Chief Clerk in July of 2014. ▪ The Chief Auditor prepares an annual report on the results of the Quality Assurance and Improvement Program (QAIP) and provides it to the Deputy Land Commissioner/Chief Clerk, who is the administrative head of the agency.

Standard No. & Title	Requirement	Evidence of Compliance
GAGAS 3.82[3], Quality Control and Assurance	Each audit organization performing audits or attestation engagements in accordance with GAGAS must: a. Establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, and b. Have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years.	▪ The Chief Auditor has established a system of quality control designed to provide reasonable assurance of compliance with standards and legal and regulatory requirements. *(See Standard No. IIA AS 1300 on prior page for details)* ▪ An external peer Quality Assurance Review (QAR) is obtained by the IA function every three years. The next QAR is scheduled for the Spring of 2018.
GAGAS 3.83, System of Quality Control	An audit organization's system of quality control encompasses the audit organization's leadership, emphasis on performing high quality work, and the organization's policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements. The nature, extent, and formality of an audit organization's quality control system will vary based on the audit organization's size, number of offices and geographic dispersion, knowledge and experience of its personnel, nature and complexity of its audit work, and cost-benefit considerations.	▪ The Chief Auditor has established a system of quality control designed to provide reasonable assurance of compliance with standards and legal and regulatory requirements. *(See Standard No. IIA AS 1300 on prior page for details)* ▪ An external peer Quality Assurance Review (QAR) is obtained by the IA function every three years. The next QAR is scheduled for the Spring of 2018.

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[3] The Generally Accepted Government Auditing Standards (GAGAS) are professional standards and guidance developed by the U.S. Government Accountability Office. They provide the framework for conducting high quality audits with competence, integrity, objectivity, and independence. These standards are for use by auditors of government entities and entities that receive government awards and audit organizations performing GAGAS audits. GAGAS contains requirements and guidance dealing with ethics, independence, auditors' professional judgment and competence, quality control, performance of the audit and reporting (GAGAS 1.04, Purpose and Applicability).

Standard No. & Title	Requirement	Evidence of Compliance
GAGAS 3.84, System of Quality Control	Each audit organization should document its quality control policies and procedures for its personnel. The audit organization should document compliance with its quality control polices and procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the audit organizations compliance with it quality control policies and procedures. The form and content of such documentation are a matter of professional judgment and will vary based on the audit organization's circumstances.	- The IA Policies and Procedures Manual includes sections on: ✓ Laws and regulations that IA is required to follow ✓ Standards of Conduct ✓ Independence and Objectivity ✓ Conflict of Interest ✓ Confidentiality - Each year IA completes an assessment of its quality assurance and improvement program. The resulting report is provided to Executive Management. - Each IA employee must sign an Independence Form annually, which addresses actual and potential conflicts of interest. - The General Audit Program used for every audit requires each auditor to assess and report on any actual or potential independence issues.

Standard No. and Title	Requirement	Evidence of Compliance
GAGAS 3.85, System of Quality Control	An audit organization should establish policies and procedures in its system of quality control that collectively addresses: a. Leadership responsibilities for quality within the audit organization, b. Independence, legal, and ethical requirements, c. Initiation, acceptance, and continuance of audits, d. Human resources, e. Audit performance, documentation, and reporting; and f. Monitoring of quality	▪ The IA Policies and Procedures Manual includes a section on training which specifies that internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development and staying abreast of improvements and developments on internal auditing standards, procedures, and techniques. ▪ Training requirements are addressed on each auditor's annual performance evaluation. ▪ The General Audit Program used for every audit requires each auditor to assess and report any actual or potential independence issues. ▪ The IA Policies and Procedures Manual section on the IA Quality Assurance and Improvement Program details many of the components that help ensure auditors perform quality work and specifies that the QC Reviewer and the Chief Auditor monitor the quality of their work.
GAGAS 3.86, Leadership Responsibilities for Quality within the Audit Organization	Audit organizations should establish policies and procedures on leadership responsibilities for quality within the audit organization that include the designation of responsibility for quality of audits performed in accordance with GAGAS and communication of policies and procedures relating to quality. Appropriate policies and communications encourage a culture that recognizes that quality is essential in performing GAGAS audits and that leadership of the audit organization is ultimately responsible for the system of quality control.	▪ The IA Policies and Procedures Manual provides' detailed information about how to perform and document audit planning, fieldwork, and reporting. ▪ The IA shared drive and TeamMate Team Store contain many forms and templates for internal audit staff to use to help ensure engagements are performed in accordance with *Standards* and legal and regulatory requirements.

Standard No. and Title	Requirement	Evidence of Compliance
GAGAS 3.87, Leadership Responsibilities for Quality within the Audit Organization	The audit organization should establish policies and procedures designed to provide it with the reasonable assurance that those assigned operational responsibility for the audit organizations system of quality control have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.	▪ The IA Policies and Procedures Manual specifies that it is the goal of the Chief Auditor that all members strive to attain an appropriate certification, such as Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), or Certified Fraud Examiner (CFE). ▪ All IA personnel have relevant degrees and professional certifications.
GAGAS 3.88, Independence, Legal and Ethical Requirements	Audit organizations should establish policies and procedures on independence, legal, and ethical requirements that are designed to provide reasonable assurance that the audit organization and its personnel maintain independence and comply with applicable legal and ethical requirements. Such policies and procedures assist the audit organization to; a. Communicate its independence requirements to its staff, and b. Identify and evaluate circumstances and relationships that create threats to independence, and take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, withdraw from the audit where withdrawal is not prohibited by law or regulation.	▪ The IA Policies and Procedures Manual section on the IA Quality Assurance and Improvement Program details many of the components that help ensure auditors perform quality work and specifies that the QC Reviewer and the Chief Auditor monitor the quality of their work. ▪ All IA staff are required to complete annual independence statements that include any possible impairment to their independence in regards to any auditable program of the agency. ▪ The Chief Auditor considers any potential conflicts of interest in determining audit assignments.

Standard No. and Title	Requirement	Evidence of Compliance
GAGAS 3.89, Initiation, Acceptance and Continuance of Audits	The audit organization should establish policies and procedures for the initiation, acceptance and continuance of audits that are designed to provide reasonable assurance that the audit organization will undertake audits only if it can comply with professional standards, legal requirements, and ethical principles and is acting within the legal mandate or authority of the audit organization.	▪ The IA function takes great strides to ensure current policies and actions iterate that the initiation, acceptance and continuance of audits are designed to provide reasonable assurance that the IA function will continually conduct audits in which it can ensure that professional standards, legal requirements, and ethical principles are complied with and that it is acting within the legal mandate or authority of the audit organization.
GAGAS 3.90, Human Resources	Audit Organizations should establish policies and procedures for human resources that are designed to provide the audit organization with reasonable assurance that it has personnel with the capabilities and competence to perform its audits in accordance with professional standards and legal and regulatory requirements.	▪ The IA Policies and Procedures Manual specifies that it is the goal of the Chief Auditor that all members strive to attain an appropriate certification, such as Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), or Certified Fraud Examiner (CFE). ▪ All IA personnel have relevant degrees and professional certifications.
GAGAS 3.91, Audit Performance, Documentation, and Reporting	Audit organizations should establish policies and procedures for audit performance, documentation, and reporting that are designed to provide the audit organization with reasonable assurance that audits are performed and reports are issued in accordance with professional standards and legal and regulatory requirements.	▪ IA Procedures manual includes requirements for work papers, documentation and reporting. ▪ Audits are reviewed at each stage of the audit and the report is approved by the Chief Auditor prior to release.

Standard No. and Title	Requirement	Evidence of Compliance
GAGAS 3.92, Audit Performance, Documentation, and Reporting	When performing GAGAS audits, audit organizations should have policies and procedures for the safe custody and retention of audit documentation for a time sufficient to satisfy legal, regulatory, and administrative requirements for records retention. Whether audit documentation is in paper, electronic, or other media, the integrity, accessibility, and retrievability of the underlying information could be compromised if the documentation is altered, added to, or deleted without the auditors' knowledge, or if the documentation is lost or damaged. For audit documentation that is retained electronically, the audit organization should establish effective information systems controls concerning accessing and updating the audit documentation.	▪ All work papers are produced electronically in TeamMate. The software provides an audit trail for every document and access to each audit is restricted. ▪ All other audit documents are maintained either on the restricted network or in locked file cabinets. ▪ IA conducts an annual assessment of its files to ensure compliance with agency records retention requirements.

Standard No. and Title	Requirement	Evidence of Compliance
GAGAS 3.93, Monitoring of Quality	Audit organizations should establish policies and procedures for monitoring of quality in the audit organization. Monitoring of quality is an ongoing, periodic assessment of work completed on audits designed to provide management of the audit organization with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice. The purpose of monitoring compliance with quality control policies and procedures is to provide and evaluation whether the: a. Professional standards and legal and regulatory requirements have been followed. b. Quality control system has been appropriately designed, and c. Quality control policies and procedures are operating effectively and complied with in practice.	▪ The IA function has policies and procedures that ensure the continued monitoring of quality within the worked performed by the IA function. ▪ This analysis (Annual Report on QAIP) constitutes as the annual quality assessment. ▪ An external peer review is conducted every 3 years. The next review is scheduled for the Spring of 2018.

Standard No. and Title	Requirement	Evidence of Compliance
GAGAS 3.94, Monitoring of Quality	Monitoring procedures will vary based on the audit organizations facts and circumstances. The audit organization should perform monitoring procedures that enable it to assess compliance with applicable professional standards and quality control policies and procedures fro GAGAS audits, Individuals performing monitoring should collectively have sufficient expertise and authority for this role.	▪ The IA function has policies and procedures that ensure the continued monitoring of quality within the worked performed by the IA function. ▪ This analysis (Annual Report on QAIP) constitutes as the annual quality assessment. ▪ An external peer review is conducted every 3 years. The next review is scheduled for the Spring of 2018. ▪ The IA Policies and Procedures Manual specifies that it is the goal of the Chief Auditor that all members strive to attain an appropriate certification, such as Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), or Certified Fraud Examiner (CFE). ▪ All IA personnel have relevant degrees and professional certifications.
GAGAS 3.95, Monitoring of Quality	The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systematic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action.	▪ The IA function has policies and procedures that ensure the continued monitoring of quality within the worked performed by the IA function. ▪ This analysis (Annual Report on QAIP) constitutes as the annual quality assessment.