

# Texas Department of Agriculture

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External Quality Assessment Report

**9/1/2016**

*Prepared by*



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# EXECUTIVE SUMMARY

## Introduction

Internal auditing is one of the cornerstones of corporate governance. Because of its unique position within organizations, internal auditing provides audit committee members, agency leadership and senior management with valuable assistance by giving objective assurance on governance, risk management, and control processes. To do this effectively, an internal audit function must be adequately resourced, professionally staffed, and follow the International Professional Practices Framework (IPPF). The IPPF, the conceptual framework developed by the Institute of Internal Auditors (IIA), is a comprehensive set of mandatory guidance which is principles-based and is considered the essential requirement for establishing and performing internal auditing. The four mandatory elements of the IPPF are the Core Principles for the Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. In addition to the IPPF, the Texas Department of Agriculture (TDA) is required to comply with Generally Accepted Government Auditing Standards (GAGAS) as well as the Texas Internal Auditing Act (TIAA).

Our services were performed and this report was developed in accordance with our contract dated July 12, 2016 and are subject to the terms and conditions included therein. Our services were performed in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants (AICPA).

The most recent quality assurance review for the Texas Department of Agriculture Internal Audit Department was issued in 2013.

This report is intended solely for the information and use of the internal audit department, Commissioner, and management of Texas Department of Agriculture and is not intended to be, and should not be used, by anyone other than these specified parties.



## HK Solution

The IPPF, U.S. Government Accountability Office (GAO) Generally Accepted Government Auditing Standards (GAGAS), and the Texas Internal Audit Act (TIAA) require that internal audit functions obtain external quality assurance reviews to assess compliance with standards and the TIAA 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 internal audit function is an essential part of a comprehensive quality assurance program.

## Objectives & Scope

The primary objective of the quality assurance review was to evaluate the Texas Department of Agriculture Internal Audit Department's compliance with auditing standards and the Texas Internal Auditing Act. Additional objectives included identifying best practices as well as areas where improvement may be needed. The review covered all completed audit and management assistance projects performed by the Texas Department of Agriculture Internal Audit Department from September 2012 through October 2015.

The work performed included:

- Review, verification, and evaluation of the advance preparation documentation prepared by the internal audit department.
- Review and evaluation of confidential surveys completed by management and internal audit department staff.
- Interviews with the Internal Audit Director, the TDA Commissioner, the TDA Deputy Commissioner, and 5 senior managers
- Review and evaluation of audit working papers.
- Review of internal audit's policies and procedures, annual risk assessment, annual audit plan, and other relevant documents.



## Notable Performance Aspects

The IAD is seen as one of the key cornerstones of Texas Department of Agriculture's corporate governance, as evidenced by interviews, surveys, document reviews, and observations. We found numerous positive aspects about the IAD and the work it performs. Some of the more notable positive aspects and practices include the following:

- The CAE attends weekly Executive Management meetings;
- The CAE has a one-on-one meeting with the Deputy Commissioner monthly;
- The IAD staff is very experienced;
- The IAD staff has numerous professional certifications;
- The IAD staff use the TeamMate electronic workpaper system to document their audit work;
- The CAE uses TeamMate to track audits in progress and ensure follow-up occurs in a timely manner;
- Auditors assigned to engagements sign an *Independence and Objectivity* statement.

Texas Department of Agriculture's IAD has demonstrated a commitment to quality, successful leadership practices, and maintaining an internal auditor's mindset for professionalism. Our assessment noted Texas Department of Agriculture's IAD has developed and implemented a methodology, a set of policies & procedures, and built a team of experienced auditors based upon achieving the department's mandate. Evaluation of the internal audit processes and related audit work papers evidenced that Texas Department of Agriculture's IAD takes this role seriously and provides value to the organization as expected.



## Conformity Evaluation

Listed below is our overall evaluation of the IAD's conformity with these Standards and requirements:

**IIA Standards** – Based on our work, the IAD generally conforms; however, we did identify process enhancement opportunities included in appendix A to the report.

Based on the information received and evaluated during this external quality assurance review, we have assigned the Texas Department of Agriculture (TDA) Internal Audit Division generally conforms with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*, Code of Ethics and Definition of Internal Auditing. The “generally conforms” rating, which is the highest of the three possible IIA ratings, means that an internal audit activity has a charter, policies, and processes that are judged to be in accordance with the Standards in all material respects, but some opportunities for improvement may exist.

**GAGAS** – No conformance observations were identified.

Based on the information received and evaluated during this external quality assurance review, we have assigned the TDA Internal Audit Division a rating of “pass” for GAGAS. The “pass” rating, which is the highest of the three possible GAGAS ratings, means that policies, procedures and practices are in place to implement the Standards and requirements necessary for ensuring independence, objectivity, and proficiency of the internal audit function.

**TIAA requirements** – Other than the observations related to IIA Standards, no other observations were identified during our work.

Based on the information received and evaluated during this external quality assurance review, the TDA Internal Audit Division complies with the Texas Internal Auditing Act (Texas Government Code, Chapter 2102).

Definitions of the available ratings for IIA Standards and GAGAS are included in Appendix C to this report.

We appreciate the courtesy and cooperation extended to us by the internal audit director, internal audit staff, the Commissioner, Assistant Commissioner, and the senior managers who participated in the interview process. We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the internal audit department and its relationship with management.

Respectfully,

**HONKAMP KRUEGER & CO., P.C.**



## Appendix A - Opportunities to Improve Conformity with IIA Standards

Observation	Recommendation	Response
<p><b>Internal Audit Department Manual</b></p> <p>In general, the internal audit department policies and procedures manual ("manual") is appropriately structured and contains the basic components of a professionally designed manual. The standard of due professional care has not been addressed in the manual clearly and its inclusion would strengthen the document.</p> <p><i>(Standard 1220)</i></p>	<p>The manual should be updated to include a specific section of the department's relevant policies and procedures to define the expectation and adherence to the standard of due professional care in its work.</p>	<p>We agree with this process improvement. The new Internal Audit Division was recently fully staffed and has policy and procedural revisions planned for the next year deliverables. We will include this update in the manual revision by the end of calendar year 2017.</p>
<p><b>Information Technology Audit Universe</b></p> <p>The internal audit department maintains an audit universe that is annually risk-assessed and forms the basis for the development of the annual audit plan. The universe only reflected the mission critical systems and did not reflect the full scope of IT operations and risk. Lack of IT auditable units in the universe and coverage thereof does not afford the internal audit department or their stakeholders clarity regarding resource utilization based on the universe of all risks.</p> <p><i>(Standard 2010)</i></p>	<p>The CAE should develop a comprehensive IT audit universe along with a high level risk assessment. This will provide the basis for determining a longer range plan for assuring that IT audit risks receive appropriate audit coverage.</p>	<p>We agree with this finding. The new Internal Audit Team will clearly document the IT Audit universe and define the long range plan and update frequency for both IT and strategic audits to ensure appropriate audit coverage by January 2017.</p>



## Appendix A - Opportunities to Improve Conformity with IIA *Standards*

Observation	Recommendation	Response
<p><b>Risk Assessment Process</b></p> <p>During the on-site visit, we concluded a risk assessment is conducted annually by the CAE in the development of the annual audit plan. The risk assessment appears to incorporate information gathered throughout the year by internal audit and management within the business units. This process documentation was complex and required a more instructive narrative as part of the formal documentation. The process does not provide the internal audit department with the most transparent tools for comparisons and contrast of the various risks. Also, modifying the process could provide greater assurance of objective selection of the appropriate organizational risks for audit and ensure the risk assessment process is conducted consistently from year to year.</p> <p><i>(Standard 2010)</i></p>	<p>To ensure relevant risks are identified, the approach to risk identification should be systematic and clearly documented. Documentation can range from the use of a spreadsheet in small organizations to vendor supplied software in more sophisticated organizations. The crucial element is that the risk management framework is documented in its entirety.</p> <p>The CAE should enhance the risk assessment process with formal documentation that supports that the agency's strategic and technology plans were taken into consideration prior to the development of the internal audit plan, including prioritization of operational and IT audits, and the CAE's judgment of risks is based on management input.</p>	<p>We agree with this finding. The new Internal Audit Team will clearly document all risks identified as they align to strategic risks and the simplified measure for the risk ranking process. In addition, we will clarify the prioritization and the CAEs judgement of risks based on management input by January 2017.</p>





## Appendix A - Opportunities to Improve Conformity with IIA Standards

Observation	Recommendation	Response
<p><b>Audit Frequency Guideline</b></p> <p>The CAE is responsible for developing a risk-based plan, taking 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. Guidelines for the frequency of audit work based on the risk assessment have not been established.</p> <p><i>(Standard 2010)</i></p>	<p>Some organizations may identify several high (or higher) inherent risk areas. While these risks may warrant the internal audit activity's attention, a selection of lower risk level business unit or branch type audits need to periodically be included in the internal audit activity's plan to give them coverage and confirm that their risks have not changed. Also, the internal audit activity establishes a method for prioritizing outstanding risks not yet subject to an internal audit.</p> <p>As part of the annual risk assessment and audit plan development processes, the CAE should establish a framework or set of audit frequency guidelines.</p>	<p>The new audit team will evaluate the current resources and the ability to determine a formal audit frequency framework effectively by January 2017.</p> <p>The current risk assessment process does consider the date of the last internal audit and external audits.</p>



## Appendix A - Opportunities to Improve Conformity with IIA *Standards*

Observation	Recommendation	Response
<p><b>Periodic Internal Assessments</b></p> <p>The internal audit department has a formal internal quality assurance &amp; improvement program (QA&amp;IP) that includes well established mechanisms for ongoing monitoring; however, the department has not recently performed periodic self-assessments of working papers and activities for conformance with the Definition of Internal Auditing, the Code of Ethics and the <i>Standards</i>. A well-designed periodic self-assessment program will help provide assurance that IAD is following its own policies and procedures, meeting the expectations of senior management and the Commissioner, and generally conforming to the IIA Definition of Internal Auditing, the <i>Standards</i>, and Code of Ethics on a consistent basis.</p> <p><i>(Standard 1311)</i></p>	<p>The internal audit department should conduct periodic self-assessments of working papers and activities for conformance with the Definition of Internal Auditing, the Code of Ethics and the <i>Standards</i>. This should include a review of all or parts of the mandatory elements of the International Professional Practices Framework, Generally Accepted Government Auditing Standards and the Texas Internal Auditing Act on an annual basis.</p>	<p>We understand the basis of this comment and going forward we will conduct a self-assessment periodically along with the quality assurance program which is ongoing for each audit cycle. We will define the self-assessment framework including frequency by the end of calendar year 2017.</p> <p>As a note, the Internal Audit team has been through a complete turnover of the entire staff and gone without an audit function for a period of approximately 6 months. For this period we did not conduct a formal self-assessment but looked to external sources to provide an objective external assessment.</p>



## Appendix B – IIA *Standards* Conformance Evaluation Summary

Attribute Standards		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	X		
1100	Independence and Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1300	Quality Assurance and Improvement Program	X		
	<b>Attribute Standards – Overall</b>	<b>X</b>		

Performance Standards		GC	PC	DNC
2000	Managing the Internal Audit Activity	X		
2100	Nature of Work	X		
2200	Engagement Planning	X		
2300	Performing the Engagement	X		
2400	Communicating Results	X		
2500	Monitoring Progress	X		
2600	Management's Acceptance of Risks	X		
	<b>Performance Standards – Overall</b>	<b>X</b>		



## Appendix C – Conformance Rating Definitions

### IIA Standards

Generally Conforms	A conclusion that an internal audit activity has a charter, policies, and processes that are judged to be in accordance with the Standards in all material respects, but some opportunities for improvement may exist.
Partially Conforms	A conclusion that practices were noted that are judged to deviate from the Standards, but they did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
Does Not Conform	A conclusion that deficiencies in practices were judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

### GAGAS

Pass	A conclusion that the audit organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
Pass with Deficiencies	A conclusion that the audit organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report.
Fail	A conclusion, based on the significant deficiencies that are described in the report, that the audit organization's system of quality control is not suitably designed to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects, or the audit organization has not complied with its system of quality control to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.