



## Risk and Audit Committee

# Agenda Item 3c

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**September 17, 2025**

**Item Name:** OFAS External Quality Assessment (EQA) Review Contract Qualification Criteria

**Program:** Audit Services

**Item Type:** Action Consent

### **Recommendation**

Approve the qualification criteria for vendors to conduct OFAS' EQA.

### **Executive Summary**

The purpose of this agenda item is to propose the qualification criteria that will be used to evaluate, score, and rank EQA vendors as required by the Institute of Internal Auditors (IIA) Global Internal Audit Standards (Standards). The EQA will begin in fiscal year 2026-27.

### **Strategic Plan**

This item is not a specific product of the Strategic Plan but is required by the Standards. However, it does coincide with OFAS' strategic objective to enhance standards, performance and improvement.

### **Background**

Government Code section 13886.5 requires all state agencies that have their own internal auditors or that conduct internal audits to conduct internal audit activity under the standards of the IIA or the Government Auditing Standards issued by the Comptroller General of the United States, as appropriate.

Section 8.4 of the IIA Standards requires an EQA of the internal audit function to be performed at least once every five years by a qualified, independent assessor or assessment team, or through a self-assessment with independent evaluation. The use of an independent assessor provides an opportunity for additional alignment with best practices.

The chief auditor must develop an EQA plan and solicit the board for input and approval. When evaluating the proposed plan, the essential conditions defined for the board are:

- Discuss with the chief audit executive the plans to have an EQA of the internal audit function conducted by an independent, qualified assessor or assessment team.
- Collaborate with senior management and the chief audit executive to determine the scope and frequency of the EQA.

- Consider the responsibilities and regulatory requirements of the internal audit function and chief audit executive, as described in the internal audit charter, when defining the scope of the EQA.
- Review and approve the chief audit executive's plan for the performance of an EQA. Such approval should cover, at minimum:
  - The scope and frequency of assessments.
  - The competencies and independence of the external assessor or assessment team.
  - The rationale for choosing to conduct a self-assessment with independent validation instead of an external quality assessment, if applicable.
- Require receipt of the complete results of the EQA or self-assessment with independent validation directly from the assessor.
- Review and approve the chief audit executive's action plans to address identified deficiencies and opportunities for improvement, if applicable.
- Approve a timeline for completion of the action plans and monitor the chief audit executive's progress.

## **Analysis**

### *External Quality Assessment Plan Overview*

#### *Scope*

The EQA will assess OFAS' conformance with the Standards.

#### *Frequency*

Standards require that an EQA be conducted every five years. The last EQA was performed for the period July 1, 2016, through June 30, 2021. The next one will cover the period July 1, 2021, through June 30, 2026.

#### *Projected Timeline*

1. **September 2025 RAC Meeting:** OFAS provides proposed criteria to the board for approval. These criteria will be used to evaluate a group of EQA providers. OFAS will then conduct a fact-finding exercise to gather qualification information, rate, and rank each assessor based upon the board approved criteria.
2. **November 2025 RAC Meeting:** OFAS submits a proposal to contract with the most qualified and cost-effective EQA provider to the board for approval.
3. **July 2026:** Independent assessor begins to conduct EQAs.
4. **December 2026:** OFAS reports results of EQAs to CalPERS senior leadership and Board.
5. **February 2027 RAC Meeting:** Chief Auditor presents an action plan to address any identified gaps in conformance with the Standards, if applicable.

## **Proposed Criteria**

OFAS is currently at the beginning of the EQA planning, and requires the board's approval for the proposed qualification criteria listed below:

- At least one member of the EQA team is required to hold an active Certified Internal Auditor (CIA) designation.
- Confirmation that the EQA team does not have a conflict of interest of any kind with the CalPERS organization.
- Experience with and knowledge of the IIA's Global Internal Audit Standards and International Professional Practices Framework (IPPF).
- Experience as a chief audit executive or comparable level of internal audit management.
- Previous experience performing EQAs.
- Experience performing EQAs for governmental entities and/or public pension funds.
- Completion of EQA trainings that are recognized by IIA.
- Any other active professional audit-related certifications.

## **Budget and Fiscal Impacts**

OFAS anticipates that costs associated with the EQAs will be approximately \$60,000 - \$100,000. The expense will be requested and accounted for in the FY 2026-2027 annual budget.

## **Benefits and Risks**

An EQA provides an independent and unbiased evaluation of the audit team's performance and adherence to the Standards. It enhances stakeholders' confidence in the audit function, showcasing its commitment to transparency and continuous improvement, and reinforces the team's commitment as a strategic partner in governance and risk management. Further, an EQA is required to maintain compliance with the Standards.

The risk to the organization should be minimal. There should not be a significant disruption in operations from staff needing to support the assessment process by conducting interviews, providing procedural documentation, etc. Any identified gaps in conformance with the Standards would be an opportunity for OFAS to improve and strengthen its processes and trust within the organization.

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