External Quality Assessment Final Report

Table of Contents


Executive Summary

Overall Conclusion

California State Teachers Retirement System

California State Teachers Retirement System (CalSTRS) Audit Services **Fully Achieves** the *Global Internal Audit Standards*

This level of achievement demonstrates a clear intent and commitment to achieving the Purpose of Internal Auditing and 15 Principles and conforming to the 52 Standards of the Global Internal Audit Standards.

Domain I Purpose of Internal Auditing	
Purpose	**Rating**
Purpose of Internal Auditing	FA

Domain II Ethics and Professionalism	
Principle	**Rating**
Demonstrate Integrity	FA
Maintain Objectivity	FA
Demonstrate Competency	FA
Exercise Due Professional Care	FA
Maintain Confidentiality	FA

Domain III Governing the Internal Audit Function	
Principle	**Rating**
Authorized by the Board	FA
Positioned Independently	FA
Overseen by the Board	FA

Domain IV Managing the Internal Audit Function	
Principle	**Rating**
Plan Strategically	FA
Manage Resources	FA
Communicate Effectively	FA
Enhance Quality	FA

Domain V Performing Internal Audit Services	
Principle	**Rating**
Plan Engagements Effectively	FA
Conduct Engagement Work	FA
Communicate Engagement Results and Monitor Action Plans	FA

Rating Legend (see Appendix A for Definitions)	
FA	Fully Achieves
GA	Generally Achieves
PA	Partially Achieves
NA	Nonachievement

IIA Quality Services

Don Espersen

Don Espersen, CIA, CRMA, QIAL
Lead Quality Advisor
IIA Quality Services

Warren Hersh, CIA, CPA, CISA, CFE
Director, IIA Quality Services
IIA Quality Services

Chris Cirrito CIA, CFE, CGAP]
Quality Advisor (contractor)

Summary Observations Specific to Internal Audit

CalSTRS Audit Services (IAF) has the infrastructure in place via defined policies and procedures, as well as strong productive relationships across the organization to support consistency, quality and sustainability of internal audit processes to achieve the purpose of internal auditing and add value to CalSTRS. The CAE and IAF are respected by CalSTRS ARM committee and leadership and based on survey and interview results perform their 3rd Line role in an independent, capable, ethical, professional and collaborative manner.

The Assessment Team identified the below Successful Practices and Enhancement Opportunities. CalSTRS Audit Services provided management responses/action plans for each enhancement opportunity. Details on each can be found starting on page thirteen of this report. Upon issuance of this report, Internal Audit may use the "Conformance" phrases permitted by the Standards in its audit reports, Charter and other practice materials.

Successful Practices: Include –

- ARM Committee Engagement
- Audit Services Manual
- Audit Engagement Process Execution
- IA Competency Framework & Use
- Multi-Faceted Resourcing Strategy
- 2025 Readiness Assessments

Conformance Gaps: None

Enhancement Opportunities:

- Periodic Reporting: Potential Enhancement
- Topical Requirements: Continuous Improvement
- Quality Assessment: Continuous Improvement

Stakeholder Survey and Interview Summary

Stakeholders Survey (53% Response Rate)

Stakeholders include Board Members and Management

Internal Audit Staff Survey (72% Response Rate)

IA Staff includes all staff except CAE

Interview and Survey Comments

All Stakeholder (SH) & IA Staff surveys and interviews were conducted confidentially. The EQA team analyzed the results to identify the following themes.

Strengths

- Independence of Audit Services
- IA Plan risk assessment & priorities
- Staff CPD opportunities & Audit Services culture
- IA staff ethics & professionalism
- Collaborative relationships with SH
- SH recognize the value of IA services (several examples of services were mentioned in the interviews)

Opportunities

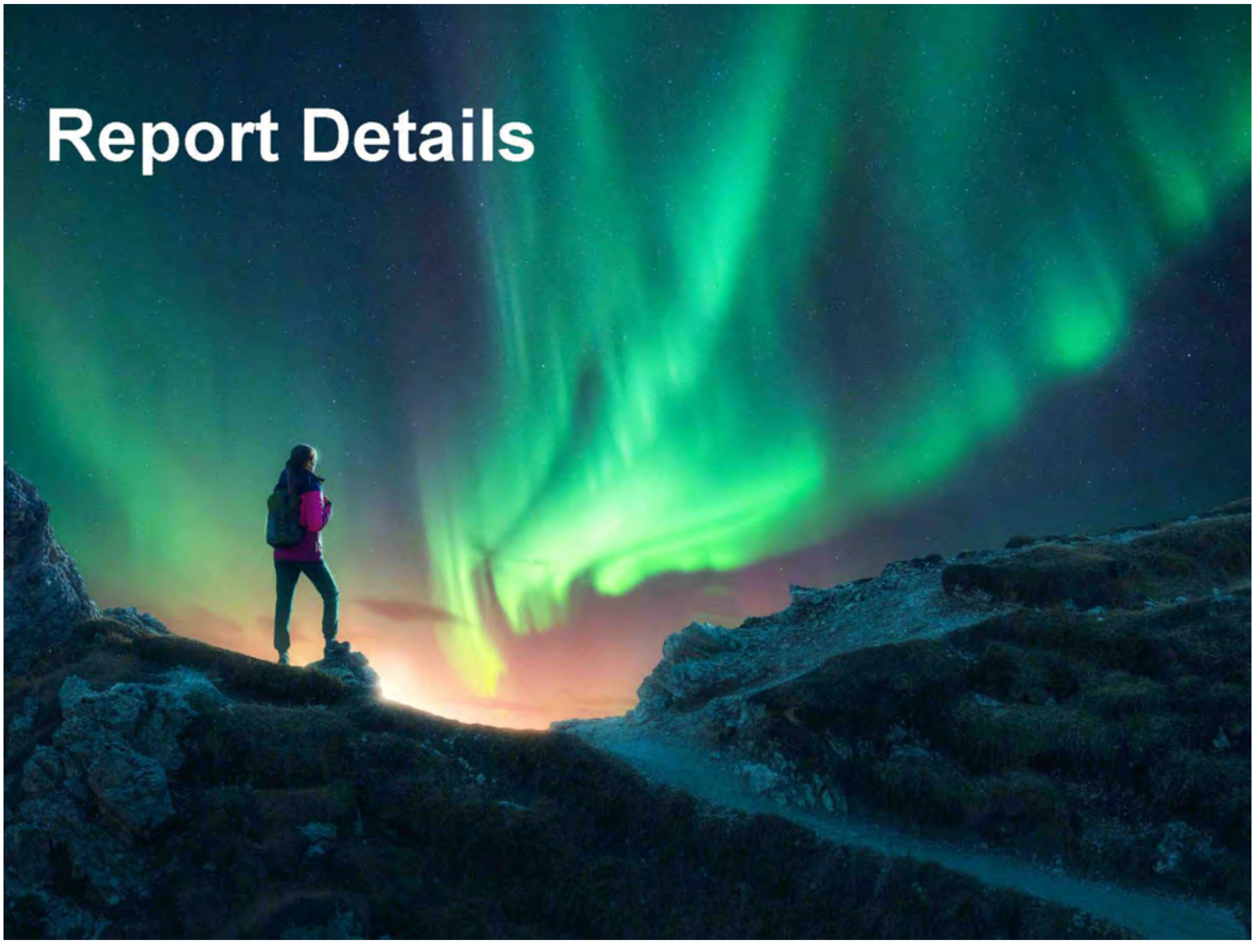
- Improve IA understanding of business processes & changes. This is an opportunity on most EQA. Related initiatives are in the IA strategic plan.
- Use of IA technology (data-analytics, AI)
- IA project management. IA was aware of this opportunity and has initiated action.

"Stakeholder" and "Staff" represents the weighted average of all stakeholder respondents (excluding CAE)
Domain I = Purpose of Internal Audit Domain II = Ethics & Professionalism Domain III = Governing IA Domain IV = Managing IA Domain V = Performing IA Services
"IIA Benchmark" represents the weighted average of all respondents from all organizations that completed this survey since May 2013 (excluding CAE). Domain I is new, thus no benchmark
4.00 = Strongly Agree | 3.00 = Agree | 2.00 = Disagree | 1.00 = Strongly Disagree | 0.00 = Do Not Know/No Response

Principles Effectiveness Framework Rating Summary

Although many maturity models exist, IIA Quality Services' EQAs employ its Principles Effectiveness Framework, a maturity assessment based on performance and maturity characteristics associated with differing levels of effectiveness for each Principle of the Standards. Achieving the differing levels of effectiveness is driven by support from the board (or audit committee), senior management, and CAE, as well as the organization's level of maturity. Like other maturity models, the framework can be utilized to develop strategic initiatives focused on driving continuous improvement and stakeholder value.

See Definitions in Appendix B	Optimized	Sustainable	Effective	Partially Effective	Not Effective
Domain-II Ethics and Professionalism					
1 - Demonstrate Integrity	X				
2 - Maintain Objectivity	X				
3 - Demonstrate Competency	X				
4 - Exercise Due Professional Care	X				
5 - Maintain Confidentiality	X				
Domain-III Governing the Internal Audit Function					
6 - Authorized by the Board	X				
7 - Positioned Independently		X			
8 - Overseen by the Board		X			
Domain-IV Managing the Internal Audit Function					
9 - Plan Strategically		X			
10 - Manage Resources	X				
11 - Communicate Effectively		X			
12 - Enhance Quality		X			
Domain-V Performing Internal Audit Services					
13 - Plan Engagements Effectively		X			
14 - Conduct Engagement Work		X			
15 - Communicate Engagement Results and Monitor Action Plans		X			


Report Details

Objective, Scope, Methodology and Qualifications

OBJECTIVE

The objective of this assessment was to evaluate the Internal Audit Function's (IAF) achievement of the Purpose of Internal Auditing and the 15 Principles and conformance to the 52 Standards of the Global Internal Audit Standards per Standard 8.4 – External Quality Assessments.

SCOPE

As required by Standard 8.4, the scope of this assessment included a comprehensive review of the adequacy of the IAF's:

- Conformance with the Global Internal Audit Standards
- Mandate, charter, strategy, methodologies, processes, risk assessment, and internal audit plan
- Compliance with applicable laws and/or regulations
- Performance criteria and measures as well as assessment results
- Competencies and due professional care, including the sufficient use of tools and techniques, and focus on continual development
- Qualifications and competencies, including those of the chief audit executive role, as defined by the organization's job description(s)
- Integration into the organization's governance processes, including the relationships among those involved in positioning the internal audit function to operate independently
- Contribution to the organization's governance, risk management, and control processes
- Contribution to the improvement of the organization's operations and ability to attain its objectives
- Ability to meet expectations articulated by the board, senior management, and stakeholders

METHODOLOGY

To accomplish the above scope and objectives, the Assessment Team:

- Reviewed information prepared specifically for this external quality assessment by the IAF
- Conducted interviews with key stakeholders of the IAF including ARM committee member, senior executives, the external auditors, the Chief Audit Executive (CAE), and IAF leadership &staff members.
- Reviewed a sample of engagement (assurance and/or advisory) projects' work papers, reports and other supporting documentation
- Reviewed the Internal Audit Function's Manual (policies and procedures) and other supporting records
- Reviewed survey data received from Internal Audit stakeholders and IAF staff resulting from IIA Quality Services' survey process
- Prepared diagnostic tools consistent with the EQA methodology stated in the IIA's *Quality Assessment Manual 2024 Edition*
- Assessed maturity of the IAF based on its performance of each Principle

Team Qualifications

- Independent from the organization, CAE and IAF staff (no conflicts of interest)
- At least one member of the assessment team holds a Certified Internal Auditor® designation
- Experience with and knowledge of the Standards and leading internal audit practices
- The Lead Assessor has previous experience performing external quality assessments
- Completion of external quality assessment training recognized by The Institute of Internal Auditors
- Experience as a chief audit executive or comparable senior level of internal audit management
- Experience in the organization's industry or sector (direct or via other external quality assessments)

Overall Opinion as to Conformance with the *Standards*

The Audit Services function at CalSTRS Fully Achieves the *Global Internal Audit Standards (Standards)*. This level of achievement demonstrates a clear intent and commitment to achieving the Purpose of Internal Auditing and 15 Principles and conforming to the 52 Standards of the Global Internal Audit Standards

A summary of achievement of the 15 Principles and conformance to the 52 individual Standards is provided on the Conformance Level by Domain pages of this report starting on the next page. A summary of observations pertaining to Successful Practices and Enhancement Opportunities are noted on page four and details start on page twelve. Upon issuance of this report, Internal Audit may use the "Conformance" phrases permitted by the Standards in its audit reports, Charter and other practice materials.

The IIA *Quality Assessment Manual (2024 Edition)* suggests a scale of four ratings, "Full Achievement/Conformance, General Achievement/Conformance", "Partial Achievement/Conformance", and "Nonachievement/Nonconformance". Achievement is used for the overall rating and to rate the Purpose of Internal Auditing contained in Domain I and each of the 15 Principles. Conformance is used to rate each of the 52 Standards. Detailed rating definitions and criteria for each of these ratings are noted in Appendix A.

Under the *Standards* (Standard 8.4), an External Quality Assessment (EQA) of an IAF must be conducted at least once every five years by a qualified, independent assessor or independent assessment team from outside the organization. IIA Quality Services was selected to conduct this assessment. This engagement's Assessment Team is independent of CalSTRS and is qualified as defined in Standard 8.4. This External Quality Assessment was conducted virtually the week of June 15, 2026. Conclusions are as of June 19, 2026.

Future changes in external factors and actions taken by CalSTRS personnel, including actions taken to address our recommendations, may have an impact upon the operation of the IAF in a manner that the assessment team did not and cannot anticipate. Considerable professional judgment is involved in evaluating achievement/conformance to the *Standards* and developing recommendations. Accordingly, it should be recognized that others could evaluate the results differently and draw different conclusions.

All information included in this report is proprietary and confidential and is intended for internal use only. This report may not be distributed to any other third-party (other than your regulator, ARM Committee, or external auditor) without the prior written consent of IIA Quality Services.

Conformance Level – Domains II and III

Domain-II Ethics and Professionalism	Rating
1 - DEMONSTRATE INTEGRITY	FA
1.1 - Honesty and Professional Courage	FC
1.2 - Organization's Ethical Expectations	FC
1.3 - Legal and Ethical Behavior	FC
2 - MAINTAIN OBJECTIVITY	FA
2.1 - Individual Objectivity	FC
2.2 - Safeguarding Objectivity	FC
2.3 - Disclosing Impairments to Objectivity	FC
3 - DEMONSTRATE COMPETENCY	FA
3.1 – Competency	FC
3.2 - Continuing Professional Development	FC
4 - EXERCISE DUE PROFESSIONAL CARE	FA
4.1 - Conformance with Global Internal Audit Standards	FC
4.2 - Due Professional Care	FC
4.3 - Professional Skepticism	FC
5 - MAINTAIN CONFIDENTIALITY	FA
5.1 - Use of Information	FC
5.2 - Protection of Information	FC

Domain-III Governing the Internal Audit Function	Rating
6 - AUTHORIZED BY THE BOARD	FA
6.1 - Internal Audit Mandate	FC
6.2 - Internal Audit Charter	FC
6.3 - Board and Senior Management Support	FC
7 - POSITIONED INDEPENDENTLY	FA
7.1 - Organizational Independence	FC
7.2 - Chief Audit Executive Qualifications	FC
8 - OVERSEEN BY THE BOARD	FA
8.1 - Board Interaction	FC
8.2 – Resources	FC
8.3 – Quality	FC
8.4 - External Quality Assessment	FC

Rating Legend (see Appendix A for Definitions)	
FA/FC	Fully Achieves/Conforms
GA/GC	Generally Achieves/Conforms
PA/PC	Partially Achieves/Conforms
NA/NC	Nonachievement/Nonconformance

Note: Principles are rated with Achieves, Standards are rated using Conforms

Conformance Level – Domain IV and V

Domain-IV Managing Internal Audit Function	Rating
9 - PLAN STRATEGICALLY	FA
9.1 - Understanding Governance, Risk Management, and Control Processes	FC
9.2 - Internal Audit Strategy	FC
9.3 - Methodologies	FC
9.4 - Internal Audit Plan	FC
9.5 - Coordination and Reliance	FC
10 - MANAGE RESOURCES	FA
10.1 - Financial Resource Management	FC
10.2 - Human Resources Management	FC
10.3 - Technological Resources	FC
11 - COMMUNICATE EFFECTIVELY	FA
11.1 - Building Relationships and Communicating with Stakeholders	FC
11.2 - Effective Communication	FC
11.3 - Communicating Results	FC
11.4 - Errors and Omissions	FC
11.5 - Communicating the Acceptance of Risks	FC
12 - ENHANCE QUALITY	FA
12.1 - Internal Quality Assessment	FC
12.2 - Performance Measurement	FC
12.3 - Oversee and Improve Engagement Performance	FC

Domain-V Performing Internal Audit Services	Rating
13 - PLAN ENGAGEMENTS EFFECTIVELY	FA
13.1 - Engagement Communication	FC
13.2 - Engagement Risk Assessment	FC
13.3 - Engagement Objectives and Scope	FC
13.4 - Evaluation Criteria	FC
13.5 - Engagement Resources	FC
13.6 - Work Program	FC
14 - CONDUCT ENGAGEMENT WORK	FA
14.1 - Gathering Information for Analyses and Evaluation	FC
14.2 - Analyses and Potential Engagement Findings	FC
14.3 - Evaluation of Findings	FC
14.4 - Recommendations and Action Plans	FC
14.5 - Engagement Conclusions	FC
14.6 - Engagement Documentation	FC
15 - COMMUNICATE ENGAGEMENT RESULTS and MONITOR ACTION PLANS	FA
15.1 - Final Engagement Communication	FC
15.2 - Confirming the Implementation of Recommendations or Action Plans	FC

Successful Practices (SP)

#	STANDARD	OBSERVATION
SP1	Std 6.3 Board and Senior Management Support Std 7.1 Organizational Independence	ARM Committee Engagement: The ARM Committee maintains a highly engaged relationship with the CAE through regular communications and active involvement in key internal audit governance activities, helping reinforce organizational independence and support for the IA function.
SP2	Std 9.3 Methodologies	Audit Services Manual: The methodologies are fully aligned with the Standards. Quarterly all-staff meetings are used to promote ongoing awareness (e.g., Ethics & Professionalism). Methodologies are reviewed and updated annually.
SP3	Domain IV Performing IA Services (Planning, Conducting Work, Communicating Results & Monitor Action Plans)	Audit Engagement Process: Audit Services has established a well-defined engagement process. The process has several SP (e.g., use of TeamMate+, standard templates, a commitment to continuous improvement). Engagements reviewed demonstrated a consistent application of standardized methodologies
SP4	Principle 3 Demonstrate Competency	IA Competency Framework & Use: The framework covers core IA competencies & include expected proficiency levels. A comprehensive assessment was used to support IA strategies (e.g., technology) and create staff training plans.
SP5	Std 8.2 Resources Principle 10 Manage Resources (Financial, Human & Technological Resources)	Multi-Faceted Resourcing Strategy: Audit Services strategy that combines staff development, continuing professional education, specialized internal capabilities, and co-sourced subject matter expertise to ensure the IA function maintains the competencies necessary to execute its mandate effectively.
SP6	Std 12.1 Internal Quality Assessment	2025 Readiness Assessments: These assessments and actions taken contributed to Audit Services Fully Achieves overall rating.

Enhancement Opportunities (EO)

#	STANDARD	OBSERVATION	MANAGEMENT RESPONSE
EO1	Std 11.3 Communicating Results: The chief audit executive (CAE) must communicate the results of internal audit (IA) services to the board and senior management periodically … The results of IA services can include: • Engagement conclusions. • Themes such as effective practices or root causes. • Conclusions at the level of the business unit or organization	Periodic Reporting (FC): Potential Enhancements: The rationale for the FC rating was based on several factors. Examples include: • The ARM Committee meeting crosswalk that cover required topics • The comprehensive reports that cover AS results and support ARM Committee agenda items • The EQA team's review of committee minutes and interview results indicate a high level of interaction between the CAE & ARM Committee. Many IA groups are using successful practices to improve the value of their services. Examples include: • Tracking the findings and conclusions of multiple engagements to identify themes (the root causes underlying the conditions or share practices that increases effectiveness or efficiency). • Adding executive summaries to periodic reports that recap any themes and "key take-aways" about the information in the report. We encourage the CAE to consider: 1. Adding executive summaries periodic reports to the ARM Committee & CalSTRS leaders.	Audit Services currently categorizes audit findings from the fiscal year and reports out any trends to the ARM Committee along with other relevant information. We updated our audit report template to include an audit assessment rating for each assurance engagement. This rating, combined with the existing finding categorization, will allow Audit Services to formulate deeper organization-wide insights that will be summarized into our existing periodic reporting to Senior Leadership and the ARM Committee. Target completion date: September 2026

Enhancement Opportunities (EO)

#	STANDARD	OBSERVATION	MANAGEMENT RESPONSE
EO2	Topical Requirements (TR) are mandatory for assurance engagements and recommended for advisory engagements in specific risk areas. They must be used with the Standards, which provide the authoritative basis for the required practices. Std 9.3 Methodologies: The CAE must establish methodologies to guide the IA function in a systematic and disciplined manner to implement the IA strategy, develop the IA plan, and conform with the Standards.	Topical Requirements (FC): Continuous Improvement The first TR covering Cybersecurity became effective in Feb. 2026. Third-Party and Organization Behavior TR will become effective later this year and additional TR are upcoming. Many IA groups are "piloting" their TR approach and will refine it as successful practices emerge. The rationale for the FC rating was based on the: • TR compliance approach is covered in AS Manual • TR was used on Cybersecurity & Third-Party engagements in 2026-2027 audit plan. We encourage the CAE to: 2. Improve the alignment compliance approach all the Standards with TR implications.	Audit Services' existing process requires audit staff to evaluate each topical requirement against the existing audit plan and determine those engagements the requirement applies to for incorporation into the audit procedures or documented rationale for exclusion. Audit Services agrees to enhance its process to incorporate consideration of the topical requirements throughout the audit lifecycle. Audit Services will refine its methodology to consider the topical requirements when performing the annual risk assessment, engagement planning, fieldwork, reporting and internal quality assessments. Target completion date: The audit manual will be updated by July 2026 to ensure the updated methodology is applied to Fiscal Year 2026-27 engagements.

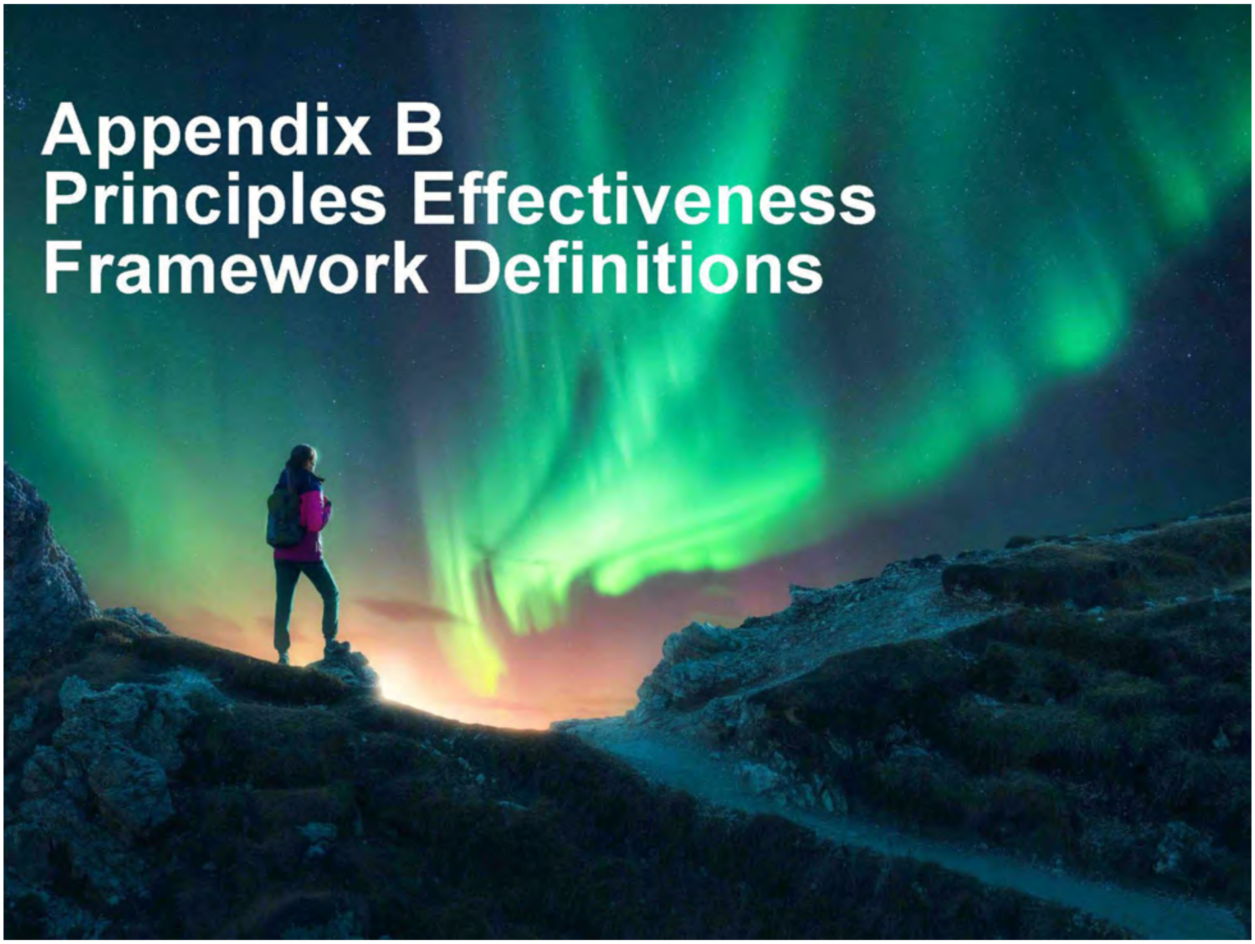
Enhancement Opportunities (EO)

#	STANDARD	OBSERVATION	MANAGEMENT RESPONSE
EO3	Std 12.1 Internal Quality Assessment: The CAE must develop and conduct internal assessments of the IA function's conformance with the Global Internal Audit Standards and progress toward performance objectives. The CAE must establish a methodology for internal assessments … that includes: • Ongoing monitoring … • Periodic self-assessments … • Communication with the board and senior management about the results of internal assessments.	Quality Assessment (FC): Continuous Improvement The rationale for the FC rating was based on several factors. Examples include: • A comprehensive Quality Assurance & Improvement Program (QAIP) methodology. • Ongoing Monitoring includes several successful practices (e.g., supervisory coaching notes, periodic team meetings, partnering with ESM on stakeholder satisfaction surveys). • The most recent Periodic Self-assessment included readiness assessment. Actions taken contributed to Fully Achieves overall rating. The CAE will be updating QAIP as part of the annual AS Manual review. The Periodic Self-assessment planned coverage of the Domains. We encourage the CAE to carry out plans to: 3. Use the IIA Quality Assessment Manual templates to document Periodic Self-assessments that are used to communicate the results to the ARM Committee. The templates concisely recap the evidence that supports the conclusions and any action items. The templates could also improve future EQA efficiency.	Audit Services will update its QAIP methodology to require use of the IIA Quality Assessment Manual templates to document the periodic internal assessments used to communicate results to the ARM Committee. Target completion date: The audit manual will be updated by July 2026, and next internal assessment reporting will occur in September 2027.


Appendix A
Achievement/Conformance Rating
Criteria

Achievement/Conformance Rating Criteria

Quality Rating	For Conclusions on Achieving Overall Conformance	For Conclusions on Achieving Each Principle	For Conclusions on Conforming with Each Standards
Full Achievement (or Conformance)	The internal audit function is fully achieving all 15 Principles and the Purpose of Internal Auditing.	The internal audit function is fully achieving all the standards related to the Principle and the Principle's intent.	The internal audit function is fully conforming with all requirements of the Standard and the Standard's intent.
General Achievement (or General Conformance)	The internal audit function is not fully achieving at least one Principle or aspect of Domain I but is achieving the Purpose of Internal Auditing.	The internal audit function is not fully achieving at least one Standard but is achieving the Principle's intent.	The internal audit function is not fully conforming with at least one requirement but is achieving the Standard's intent.
Partial Achievement (or Partial Conformance)	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. *The CAE may not include in final reports that engagements were performed in conformance with the Standards if the Overall Achievement Conclusion is Partial Achievement.*	The internal audit function is not fully conforming with at least one Standard, and the impact is significant enough to rate the function as partially achieving the Principle's intent.	The internal audit function is not fully conforming with at least one requirement, and the impact is significant enough to rate conformance with the Standard as partially conforming with the Standard's intent.
Nonachievement (or Nonconformance)	The internal audit function is not fully achieving at least one Principle and the impact is significant enough to rate the function's overall achievement as not achieving.	The internal audit function is not fully conforming with at least one Standard, and the impact is significant enough to rate the function as not achieving the Principle's intent.	The internal audit function is not fully conforming with at least one requirement, and the impact is significant enough to rate conformance with the Standard as not achieving the Standard's intent.


Appendix B
Principles Effectiveness
Framework Definitions

Principles Effectiveness Framework Rating Criteria

Although many maturity models exist, IIA Quality Services' EQAs employ its Principles Effectiveness Framework, a maturity assessment based on performance and maturity characteristics associated with differing levels of effectiveness for each Principle of the Standards. Achieving the differing levels of effectiveness is driven by support from the board (or audit committee), senior management, and CAE, as well as the organization's level of maturity. Like other maturity models, the framework can be utilized to develop strategic initiatives focused on driving continuous improvement and stakeholder value.

IIA Quality Services' Principles Effectiveness Framework has five maturity levels; Optimized, Sustainable, Effective, Partially Effective, and Not Effective. Each increasing level of maturity includes the characteristics of maturity described below and is linked to the IAF's Achievement rating for each Principle. In this framework, the Sustainable level builds off the Effective level and the Optimized level builds off the Sustainable level.

Effectiveness Rating	Definition
Optimized	The IAF is viewed as Proactive; individuals embrace new ideas and ways of working to drive change. The IAF is an early adopter of emerging technology to enhance effectiveness and efficiency of audit management and engagement processes. They are valued by stakeholders as strategic advisors and a partner in achieving organizational objectives/success, focused on driving innovation, and adding strategic value via a balance between assurance and advisory engagements, as well as providing real-time advice by having a "seat at the table." A Full Achievement rating is required for each Principle.
Sustainable	The IAF utilizes technology and a data-driven (key performance indicators) approach to manage the IAF and leverages data analytics and other technology significantly to enhance engagement efficiency and effectiveness. The annual plan includes both assurance and advisory engagements. Continuous improvement initiatives are in place to deliver greater value. A Full or General Achievement rating is required for each Principle.
Effective	The IAF is viewed as a Practicalist; individuals advocate or adhere to what is practical. Standardized processes are in place. Audit activities are well-managed, with a focus on risk-based assurance and planning. Quality assurance processes are established to monitor and improve effectiveness. At least a General Achievement rating is required for each Principle.
Partially Effective	The IAF is viewed as a Purist; individuals focus on adherence to traditional audit practices. Basic processes for conducting engagements and activities are in place, generally documented, and repeatable. The IAF adheres to the Standards, but there are inconsistencies in execution. A General or Partial Achievement rating is required for each Principle.
Not Effective	IAF processes are not formally defined, documented, and/or consistently performed. Activities are reactive, with little focus on risk management or contributing to organizational stakeholder value. Engagements are primarily compliance oriented. Each Principle receives a Does Not Achieve rating.

