



Audit Committee

Audit Department Charter Review

Item 7a

March 25, 2025

Item #7a
Audit
Department
Charter
Review

Subject

Review of Audit Department Charter

Purpose

Review the Audit Department Charter with the Board in accordance with professional internal auditing standards and Administrative Code 6451.

Next Steps

Update the Charter to ensure alignment with the latest professional internal auditing standards and Board expectations of the Audit Department. Return to the Board for review and approval of changes.

The Institute of Internal Auditors

What is the IIA?

- The internal audit profession's most widely recognized leader in standards, certification, education, research, and technical guidance throughout the world.
- Established in 1941, the IIA today serves more than 260,000 members from more than 170 countries and territories.

Professional Standards

The IIA sets the standards for the way internal auditing is practiced around the world through the International Professional Practices Framework (IPPF).



Administrative Code

§ 6451 Audit Department Charter

- 6451(a) - Mission & Scope of Work
- 6451(b) - Accountability
- 6451(c) - Professional Standards
- 6451(d) - Responsibilities
- 6451(e) - Authority

Audit Department Charter

§ 6451 (a) - Mission & Scope of Work

Mission

- Provide independent, professional, objective assurance and consulting services designed to add value and improve Metropolitan's operations.
- Help the District accomplish its objectives by using a proactive, systematic approach to evaluate and improve the effectiveness of governance, risk management, and internal control.

Audit Department Charter

§ 6451 (a) - Mission & Scope (con't)

Scope

To determine whether the District's network of governance, risk management, and internal control, as designed and represented by management, is adequate and functioning in a manner to ensure:

1. Risks are appropriately identified, managed, and monitored;
2. Significant financial, managerial, and operating information is accurate, reliable, and timely;
3. Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;

Audit Department Charter

§ 6451 (a) - Mission & Scope (con't)

4. Resources are acquired economically, used efficiently, and adequately protected;
5. Programs, plans, and objectives are achieved;
6. Quality and continuous improvement are fostered in the District's control process;
7. Significant legislative or regulatory issues impacting the District are recognized and addressed appropriately; and
8. Information technology is governed, and systems and applications are securely deployed and monitored.

Audit Department Charter

§ 6451 (a) - Mission & Scope (con't)

Opportunities for improving management internal control, efficiency and the District's image may be identified during audits.

These will be communicated to the appropriate level of District management.

Audit Department Charter

§ 6451 (b) - Accountability

The General Auditor shall be accountable to the Board of Directors and the Executive Committee to:

1. Advise on the adequacy and effectiveness of the District's processes for controlling its activities and managing its risks;
2. Report significant issues related to the processes for controlling the activities of the District, including potential improvements in those processes, and provide information concerning such issues through to resolution; and
3. Coordinate with other District control and monitoring functions (e.g., risk management, legal, finance, ethics, security, and environmental).

Audit Department Charter

§ 6451 (c) - Professional Standards

The Audit Department shall govern itself by adherence to the Institute of Internal Auditors' mandatory guidance, including:

- The Definition of Internal Auditing
- The Code of Ethics
- The International Standards for the Professional Practice of Internal Auditing (Standards)

This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Audit Department's performance.

These documents constitute the operating procedures for the department and constitute an addendum to the charter.

Audit Department Charter

§ 6451 (c) - Professional Standards (con't)

The following are to be adhered to by Department staff:

- The IIA's Practice Advisories, Practice Guides, and Position Papers, as applicable
- Metropolitan's policies and procedures
- The California Government Code
- Audit Department Policy and Procedures Manual

Note: This subsection will be substantially revised to align with the new Global Internal Audit Standards effective January 2025.

Audit Department Charter

§ 6451 (d) - Responsibilities

1. Develop and present a flexible audit plan to the Executive Committee for review and approval. This plan should be developed utilizing a risk-based methodology and should include risks or internal control concerns identified by District management or the Board of Directors;
2. Report periodically to the Executive Committee and District management the status of the current year's audit plan and the sufficiency of department resources;
3. Submit audit reports to the Executive Committee and District management communicating the General Auditor's opinion regarding the internal control structure, identifying significant control issues, and providing related recommendations;

Audit Department Charter

§ 6451 (d) - Responsibilities (con't)

4. Evaluate the adequacy and timeliness of District management's responses to, and the corrective action taken on, recommendations noted in such reports. Conduct follow-up reviews as necessary and periodically report to the Executive Committee the status of District management's progress;
5. Ensure the selection, development, and supervision of competent and professional audit staff;
6. Perform a quality assurance program by which the General Auditor evaluates internal auditing activities against professional standards. Obtain an external quality assurance review as required by the Standards;
7. Perform advisory services to assist District management in meeting its objectives. Examples may include facilitation, process design, training, and assessment services;

Audit Department Charter

§ 6451 (d) - Responsibilities (con't)

8. Evaluate additions or changes in internal control processes coincident with their development and implementation;
9. Keep the Executive Committee informed of significant emerging trends and best practices in internal auditing and governance;
10. Assist in the investigation of significant suspected fraudulent activities within the District. Assure reporting to the Executive Committee on the results, as appropriate; and
11. Coordinate with external auditors to minimize duplication of effort and ensure that issues raised as a result of their review are appropriately addressed;

Audit Department Charter

§ 6451 (e) - Authority

The General Auditor and Audit Department staff members are authorized to:

1. Have unrestricted access to all functions, records, property, and personnel, subject to the requirements of safekeeping, confidentiality, and applicable processes;
2. Have full and free access to the Executive Committee, subject to applicable law;
3. Allocate resources, set frequencies, select the subject, determine scopes of work, and apply techniques required to accomplish audit objectives; and
4. Obtain the necessary assistance of personnel within units of the District where they perform audits, as well as other specialized services from within or outside the District.

Audit Department Charter

§ 6451 (e) - Authority (con't)

The General Auditor and Audit Department staff are not authorized to:

1. Perform any operational duties for the District;
2. Initiate or approve accounting transactions external to the Audit Department; or
3. Direct the activities of any District employee not employed by the Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

Audit Department Charter

Planned Updates

1. Add purpose of internal auditing
2. Revised mission and add vision statement
3. Align charter subsections with the new internal audit mandate (authority, role, responsibilities)
4. Revise scope and internal audit services provided
5. Revise international professional practice framework references
6. Add organizational position and reporting relationships including organizational independence
7. Add administrative reporting responsibilities
8. Add process for handling disagreements with management.
9. Update mandatory communications to the Board



Audit Department Charter Review

Thank You

