



Subcommittee on Audits

Board Risk & Internal Control Discussion

Item 3a.2

May 23, 2023

Definition of Risk



What is a Risk?

- The possibility of an event occurring that will impact objectives (IA)
- Positive (opportunity) or negative
- Risk is generally measured in terms of:
 - Impact or consequence
 - Likelihood or probability
 - Velocity

Definition of Internal Control



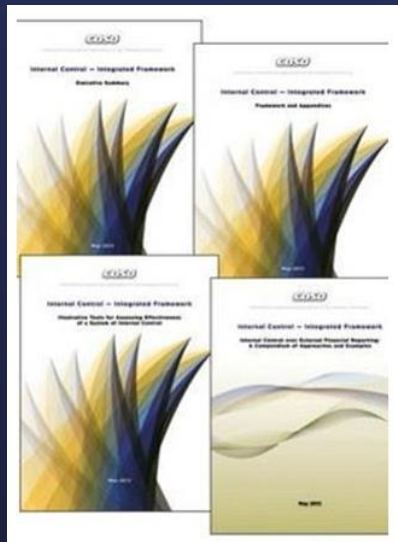
What is Internal Control?

A process, effected by the entity's Board of Directors, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives relating to:

- Operations
- Reporting
- Compliance

SOURCE: COSO, May 2013

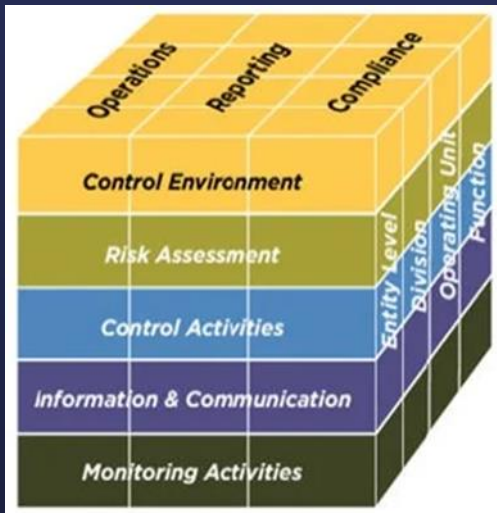
COSO Internal Control



What is COSO Internal Control-Integrated Framework

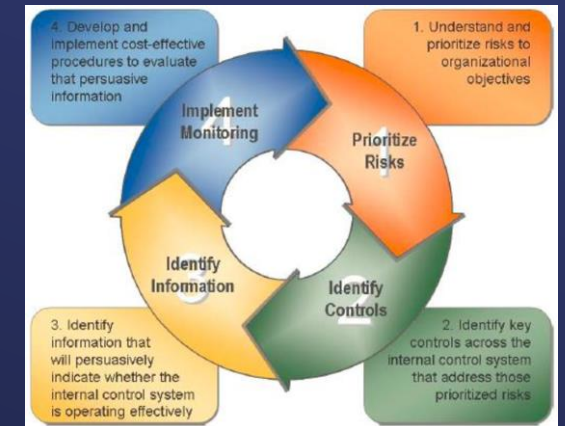
- Released by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992 and updated in 2013
- Recognized as a leading framework for designing, implementing, and conducting internal control and assessing the effectiveness of internal control
- Future initiative for Metropolitan to adopt COSO

COSO Components



Components of COSO Internal Control-Integrated Framework

- Control Environment
- Risk Assessment
- Control Activities
- Information & Communication
- Monitoring



6451(d) Audit Department Charter Responsibilities

Administrative Code

(1) Develop and present a flexible annual audit plan to the Finance, Audit, Insurance and Real Property 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 Management or the Board of Directors



Risk Considerations

Internal Risks

- Integrity, ethical values, culture
- Role, authority, responsibility
- Management's philosophy and operating style
- Legal/compliance
- Organizational structure
- Documentation of governance-related decision-making
- Personnel and resource capabilities (e.g., capital, time, processes, systems, and technologies)
- Management of third-party business relationships
- Needs and expectations of key internal stakeholders
- Internal policies

Risk Considerations

External Risks

- Political
- Environmental
- Social
- Technological
- Economic
- Legal

Risk Considerations

Internal Audit Focus

Operational and compliance risks receive the most audit effort:

- Operational (20%)
- Compliance/regulatory (20%)
- Cybersecurity (9%)
- Financial (8%)
- Fraud (8%)
- Other IT (7%)

SOURCE: IIA Pulse of Internal Audit 2023

Risk Considerations

Audit Project Considerations

Internal audits commonly consider in each project:

- Fraud (92%)
- IT (68%)
- Governance / culture (67%)
- Cybersecurity (54%)
- Cost/expense reduction (55%)
- Sustainability (24%)

SOURCE: IIA Pulse of Internal Audit 2023

Risk Considerations

Highest Risk Areas

In the public sector, technology drives the highest two risks:

- Cybersecurity (73%)
- Other (60%)
- Compliance / regulatory (48%)
- Third-party relationships (43%)
- Operational (30%)
- Governance/ Culture (28%)

SOURCE: IIA Pulse of Internal Audit 2023

Risk Considerations

Prior Audit Risk Assessment

Risks identified previously at Metropolitan:

- Water resources
- Cybersecurity
- Power operations
- Contracting
- Asset management
- Grants
- Enterprise risk assessment
- Strategic planning
- Budget
- Board governance
- Board member orientation
- Accountability and performance management

Risk Considerations

Non-Financial Risks

- Social responsibility
- Reputational
- Data governance
- Intellectual property
- Compensation
- Employee conduct
- Labor management
- Ethical and corporate culture
- Public health
- Diversity, equity, and inclusion
- Human resources
- Environmental (greenhouse gas emissions, waste management, material sourcing, climate change)

Risk Considerations

Board Committee & Functional Areas

Engineering, Operations, and Technology

- Water Systems Operations
- Engineering
- Information Technology

One Water & Stewardship

- Colorado River
- Bay-Delta
- Water Resource Management

Legislation, Regulatory Affairs, and Communications

- External Affairs

Legal and Claims

- General Counsel

Risk Considerations

Board Committee & Functional Areas (con't)

Finance, Audit, Insurance, and Real Property

- Finance
- Audit
- Real Property

Ethics, Organizational, and Personnel

- Ethics
- Human Resources
- EEO

Equity, Inclusion, and Affordability

- DEI

Risk & Internal Control Discussion

Board Input

- Risks
- Internal control
- Associated projects

Thank You

Presenters

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- Chris Gutierrez, Audit Program Manager
- Arturo Castro, Principal Auditor
- Andrew Lin, Principal Auditor
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