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Metropolitan Water District of Southern California

Audit Plan

May 28, 2024

FY 2023-24 Audit Plan:

We are pleased to present our audit plan to the Metropolitan Water District of Southern California for the fiscal year ended June 30, 2024. This document provides an overview of the external audits and new accounting standards that may impact Metropolitan.

We appreciate the opportunity to meet with you to discuss the audit plan, especially as a two-way dialogue can provide valuable information for the audit process. We look forward to working with you!

Fiscal Year 2023-24 Audit Plan

Scope of Services and Deliverables

Scope of Services and Deliverables

Communications at Planning

- Our Responsibilities
- Planned Scope and Timing of the Audit

Communications at Conclusion of the Audit

- Any violation of laws or regulations that come to our attention
- Our views relating to qualitative aspects of Metropolitan's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures
- Significant difficulties and/or disagreements with management, if any, encountered during the audit
- Significant unusual transactions
- The potential effects of uncorrected misstatements on future-period financial statements
- Other significant matters relevant to your responsibilities

Scope of Services and Deliverables, Continued

Financial Statement Audits:

- (1) Metropolitan Water District of Southern California - Annual Comprehensive Financial Report
- (2) Colorado River Authority – Statements of Cash Disbursements
- (3) Delta Conveyance Design and Construction – Statements of Cash Receipts and Disbursements
- (4) Six Agency Committee – Statements of Cash Receipts and Disbursements

Single Audit under OMB Uniform Guidance

- (5) Audit of Federal grant expenditures exceeding \$1 million (if applicable)

Other:

- (6) Management Letter/Report to the Board

Additional Services:

- GASB 99 Assistance
- GASB 100 Assistance

Fiscal Year 2023-24 Audit Plan

Independent Auditor's and MWD Management's Responsibilities

Independent Auditor's Responsibilities

- ✓ Exercising professional judgment and maintaining professional skepticism throughout the audit
- ✓ Assessing the risk of material misstatement of the financial statements, whether due to fraud or error, and designing audit procedures to respond to those risks
- ✓ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures (but not for expressing an opinion on the effectiveness)
- ✓ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management
- ✓ Concluding whether there are conditions or events that raise substantial doubt about Metropolitan's ability to continue as a going concern
- ✓ Reading other information and considering whether it is materially consistent with the financial statements
- ✓ Communicating with those charged with governance the planned scope and timing of the audit, significant audit findings, and certain internal-control related matters identified during the audit

Management's Responsibilities

- ✓ Preparation and fair presentation of the financial statements in accordance with U.S. GAAP
- ✓ Designing, implementing, and maintaining effective internal control over financial reporting
- ✓ Informing us of its knowledge of any allegations for fraud or suspected fraud
- ✓ Evaluating whether there are conditions or events that raise substantial doubt about Metropolitan's ability to continue as a going concern
- ✓ Providing us with written representations



Fiscal Year 2023-24 Audit Plan

Audit Timeline

Audit Timeline

Activity	Apr	May-Jun	Jul	Aug-Sep	Oct	Nov	Dec
Periodic meetings and discussions with management and Sub-committee on Audits (as appropriate)	X	X	X	X	X	X	X
Gather information to develop audit strategy, and determine nature and scope of Testing	X	X					
Perform tests of controls over significant transaction cycles		X					
Conduct IT-specific audit procedures		X					
Substantive audit procedures		X		X	X		
Review draft financial reports and issue audit opinions					X		
Review draft annual comprehensive financial report						X	
Presentation to the Sub-committee on Audits						X	X



Fiscal Year 2023-24 Audit Plan

Audit Approach

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Audit Approach

Planning

- Document understanding of internal and external factors affecting Metropolitan
- Understanding and evaluating Metropolitan's internal control environment, accounting systems and control procedures
- Perform risk assessment to determine the nature, timing and extent of audit procedures
- Complete audit plan, including audit procedures to address identified risks

Execution

- Performance of audit procedures and evaluation of results
- Review of financial statements and subsequent events
- Obtain management representations
- Development of organizational insights

Reporting

- Issue opinion on the System's financial statements under U.S. generally accepted auditing standards and *Government Auditing Standards*
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters
- Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance (**if applicable**)
- Required communications at the conclusion of the audit
- Management comments and recommendations

Significant Audit Areas

Management Override of Controls

Planned Response

- Inquiries of individuals
- Test a sample of journal entries using a targeted risk-based approach and data mining software
- Test of manual adjustments and topside entries

Revenue Recognition

Planned Response

- Application control testing will be performed over MWD's billing system
- Test a sample of significant revenue/cash receipts for supporting documents, controls, and proper posting to general ledger

State Water Project/ Participation Rights

Planned Response

- Test financial transactions related to participation rights, such as contributions, expenses and asset capitalization
- Identify risks and mitigation strategies associated with Metropolitan's participation in the State Water Project
- Verify water allocation and usage

Significant Audit Areas, Continued

Capital Projects

Planned Response

- Identify significant capital projects and test significant transactions related to financial reporting and project management
- Substantiate capital asset costs by examining supporting documentation such as invoices, contracts and job status reports
- Select a sample of construction in progress (CIP) projects and determine if they properly classified as CIP, or if they should be reclassified as additions to capital assets

Long-Term Liabilities

Planned Response

- Identify any new long-term liabilities for FY 2023/24 and understand the nature and terms of the debt items
- Confirm significant long-term liability balances
- Review sample debt agreements and test compliance with loan covenants
- Evaluate disclosures, including terms, interest rates, maturities and arbitrage calculations

Pension/OPEB

Planned Response

- Assess the design and effectiveness of internal controls over pension and OPEB financial reporting
- Examine actuarial reports and related assumptions
- Test the calculation of pension and OPEB expense for accuracy and verify that expense components are appropriately allocated
- Conduct census data sampling and analytical procedures
- Review the adequacy and accuracy of pension and OPEB-related disclosures

Internal Audit Assistance

Integrated into Audit Team

Planning to Reporting

- Information technology general control testing
- Operational control assessment and testing
- Substantive procedures
- Report support

Year-round Involvement

Flexibility

- Scalable involvement from year to year
- Level and timing can be adjusted based on Metropolitan's available resources
- Agreement with management during planning

Training

Stay up-to-date

- Technical trainings
- Use of MGO audit tools

Upcoming GASB Pronouncements

The following pronouncement is effective and applicable to Metropolitan for FY 2023/24

GASB 99

Omnibus 2022, Paragraphs 4 through 10, related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53

Effective for year end June 30, 2024

GASB 100

Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62

Effective for year end June 30, 2024

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