

DRAFT – PENDING BOARD APPROVAL



Office of General Auditor —

General Auditor's Internal Audit Plan for **FY 2024/25**

June 11, 2024

Executive Summary

BACKGROUND

The mission of the Office of the General Auditor, Metropolitan’s internal audit function, is to provide independent, professional, and objective assurance and consulting services designed to add value and improve Metropolitan’s operations. We help Metropolitan accomplish its objectives by using a proactive and systematic approach to evaluate and recommend improvements to the effectiveness of risk management, internal control, and governance processes.

Professional internal audit standards require we establish a risk-based plan to determine the priorities of our office that are consistent with Metropolitan’s goals and objectives. Our methodology is to perform focused audits and provide advisory services that evaluate important areas of Metropolitan and deliver timely results.

We completed an audit risk assessment by gaining an understanding of Metropolitan’s business operations through documentation reviews, interviews with management, and discussions with the Board. The results facilitated our efforts to identify and measure risks and prioritize potential audits and advisory projects for the audit plan. Our approach is to provide coverage of the most important aspects of the areas identified. We may make exceptions to this approach when there are carryforward audits from the prior year, where there has been recent audit coverage, or if our professional judgment dictates otherwise.

RESULTS

Our fiscal year 2024/25 Internal Audit Plan is comprised of 20 planned audits, including seven new audits, 12 carried forward audits from prior fiscal years, and one recurring Board request. Additionally, we plan to cover nine advisory projects plus follow-up reviews.

Our audit risk assessment identified opportunities for our office to provide audit or advisory services in the following areas (listed in alphabetical order):

- Business Continuity
- Conveyance & Distribution
- Cybersecurity
- Human Resources
- Information Technology
- Infrastructure Reliability
- Integrated Operations Planning & Support Services
- Power Operations & Planning
- Treatment & Water Quality

Due to limited staffing resources, our audit plan includes projects addressing the highest identified audit risk areas. As resources and/or time become available in fiscal year 2024/25, we will incorporate additional risk areas into the audit plan. While we will re-evaluate the audit risk assessment periodically during the fiscal year, any risk areas not incorporated into the audit plan by fiscal year-end will be re-evaluated for inclusion in our fiscal year 2025/26 Internal Audit Plan.

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THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: June 11, 2024

To: Adán Ortega, Jr., Board Chair
Members of the Board of Directors

From: Scott Suzuki, CPA, CIA, CISA, CFE, General Auditor

Subject: General Auditor's Internal Audit Plan for Fiscal Year 2024/25

The Office of the General Auditor is pleased to present our audit plan for fiscal year 2024/25 in accordance with the Metropolitan Administrative Code Section 6451 and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

The audit plan results from careful analysis of Metropolitan documents and data, numerous risk discussions with Metropolitan managers, and Board input on specific risk and internal control concerns.

Our office is charged with determining whether Metropolitan's network of risk management, internal control, and governance processes are appropriate and functioning as intended by management. To execute this charge, we plan to perform a series of audits and advisory projects, 29 in total, during the fiscal year (seven new audits, 12 carryforward audits, one recurring Board request, and nine advisories).

Our mission is to add value by recommending improvements to Metropolitan's operations while maintaining transparency and trust in the work we perform. We will do this by working collaboratively with all levels of the Metropolitan team, identifying risks and opportunities that evolve under our changing environment, and ultimately contributing to ensuring Metropolitan's resources have the maximum impact on the communities and member agencies we serve.

We appreciate the opportunity to serve Metropolitan by offering independent, professional, and objective audit and advisory services and appreciate the cooperation provided by the Metropolitan staff and Board during our audit risk assessment project.

If you have any questions regarding our audit plan, please do not hesitate to contact me directly at 213.217.6528 or Deputy General Auditor Kathryn Andrus at 213.217.7213.

Attachments

Other report recipients:

General Manager

General Counsel

Ethics Officer

Chief of Staff

Assistant General Managers

Board Executive Officer

External Auditor

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INTRODUCTION

DEPARTMENT OVERVIEW

The General Auditor provides independent, professional, and objective advice to the Board and Metropolitan management in accordance with the professional standards issued by The Institute of Internal Auditors. To maintain independence, the General Auditor reports directly to the Board through the Audit Subcommittee of the Executive Committee.

Our goal is to assist Metropolitan’s Board and management in improving business and financial practices. To carry out this effort, the General Auditor oversees a team of audit professionals who determine whether Metropolitan activities, programs, or agreements comply with policies, procedures, and applicable regulations. The team proactively addresses issues, focusing on risk management, internal control, and governance processes.

Towards this goal, our office is charged with determining if Metropolitan’s network of risk management, internal control, and governance processes (as designed and represented by management), are adequate and functioning in a manner to ensure:

- ◆ Risks are appropriately identified, managed, and monitored.
- ◆ Significant financial, managerial, and operating information is accurate, reliable, and timely.
- ◆ Employees’ actions comply with policies, standards, procedures, and applicable laws and regulations.
- ◆ Resources are acquired economically, used efficiently, and adequately protected.
- ◆ Programs, plans, and objectives are achieved.
- ◆ Quality and continuous improvement are fostered in Metropolitan’s control process.
- ◆ Significant legislative or regulatory issues are recognized and addressed appropriately.

Our office carries out its responsibilities in accordance with the Audit Department Charter specified in the Metropolitan Administrative Code Section 6451.



AUDIT RISK ASSESSMENT

AUDIT RISK ASSESSMENT PROCESS

The Office of the General Auditor’s objective is to add value to and improve Metropolitan’s effectiveness and efficiency.

Our strategy to accomplish this is thorough planning, nimble responsiveness, aligning our priorities with Metropolitan’s objectives, and auditing risks with the greatest potential to affect Metropolitan’s ability to achieve its objectives.

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals. – International Professional Practices Framework Standard 2010

There are eight primary steps in performing and maintaining the audit risk assessment and audit plan:

1. Understand the organization
2. Identify, assess, and prioritize risks
3. Coordinate with other assurance providers
4. Estimate resources
5. Propose the audit plan and solicit feedback
6. Finalize and communicate the audit plan
7. Assess risks continuously
8. Update the audit plan and communicate changes

Metropolitan’s internal audit team developed the audit plan using this process to ensure a thorough and comprehensive risk evaluation, facilitate effective communication with the Board, management, and other stakeholders, and allocate sufficient resources to perform the planned projects.

As part of identifying, assessing, and prioritizing risks, we looked at the following risk factors:

Impact Factors

1. Loss/Material Exposure: Dollar values at risk, annual expenses, number of transactions, impact on other areas of Metropolitan, and degree of reliance on IT.
2. Strategic Risk: Public perception/reputation, economic conditions, volatility, significance to the General Manager’s business plan/strategy, degree of regulation, and recent changes.



Likelihood Factors

3. Control Environment: Degree of process isolation, degree of formalization, the newness of processes/applications, third-party reliance, management turnover, management monitoring, and policy & procedures.
4. Complexity: Degree of automation, degree of required specialization, level of technical detail, complexity of structure, and frequency of change.
5. Assurance Coverage: Type of engagement, other reviews, second-line coverage, and current audit/follow-up.
6. Board & Management Concern: Quantity and specificity of concerns shared during interviews and meetings.

Speed Factor

7. Velocity: How fast a risk can occur and impact Metropolitan.

We obtained input and suggestions from management in key business areas to better identify and quantify the risks Metropolitan faces. We also looked at goals and objectives in various Metropolitan documents, including the financial statements, the Integrated Resources Plan, the Climate Action Plan, monthly General Manager reports, Board and Committee meeting agendas, and the biennial budget.

Our audit universe was defined as 35 auditable units and generally revolved around functional areas of Metropolitan. All departments, groups, sections, and units of Metropolitan are included in the audit universe except for our office. We scored each factor and sorted each auditable unit according to a total risk score to identify those with the most significant risks.

An auditable unit with a higher audit risk score indicates the services or functions it is responsible for are a higher risk activity due to factors including, but not limited to, having a large amount of expenditures and/or revenues, having a high level of liquid assets such as cash, undergoing significant change (e.g., organizational structure, major system), processing complex transactions, criticality to Metropolitan’s mission, or having a high degree of public interest. A higher audit risk score indicates that if something were to go wrong, it could have a greater impact on Metropolitan.



AUDIT RISK ASSESSMENT SUMMARY

Our audit risk assessment results show that eight auditable units are considered higher risk, 22 are moderate risk, and five are lower risk. Below are Metropolitan’s auditable units in their respective risk categories in alphabetical order.

HIGHER AUDIT RISK

- Business Continuity
- Conveyance & Distribution
- Cybersecurity
- Human Resources
- Information Technology
- Integrated Operations Planning & Support Services
- Power Operations & Planning
- Treatment & Water Quality

A higher audit risk score DOES NOT mean that a business area/process is being managed ineffectively or that internal control is inadequate.

MODERATE AUDIT RISK

- Administrative Services
- Bay Delta Initiatives
- Board of Directors
- Centralized Grants & Research
- Controller (accounting)
- Diversity Equity & Inclusion
- Employee Relations
- Engineering Planning
- Environmental Planning
- Equal Employment Opportunity
- External Affairs
- General Manager Office
- Infrastructure Reliability
- Land Management
- Operational Safety & Regulation
- Program Management
- Revenue & Budget
- Security
- Sustainability Resilience & Innovation
- Treasury & Debt Management
- Water Resource Implementation
- Water Resource Planning

LOWER AUDIT RISK

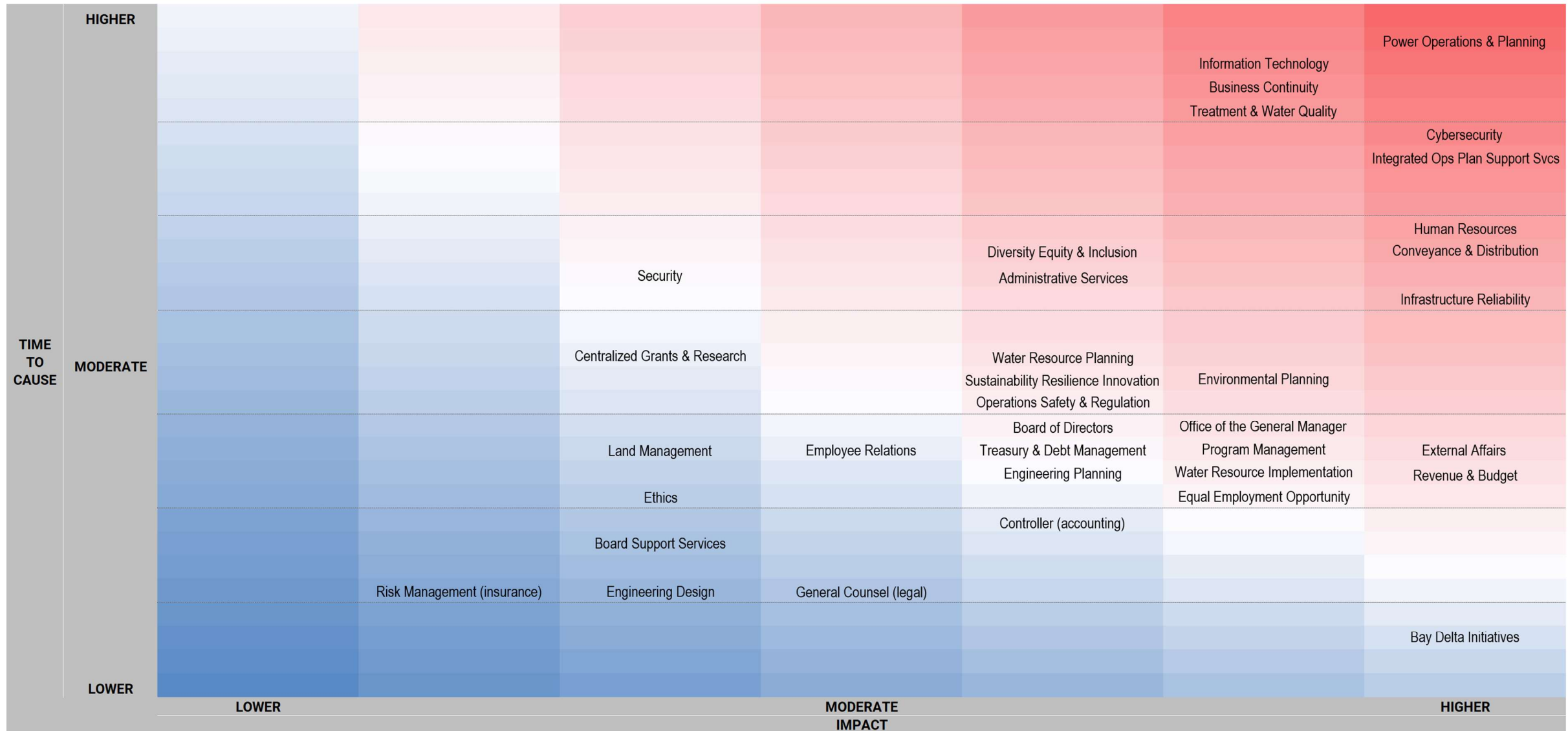
- Board Support Services
- Engineering Design
- Ethics
- General Counsel (legal)
- Risk Management (insurance)



Eastern Municipal Water District Recycled Water Process and Usage

HEAT MAP

The diagram below shows the relationship between time to cause (likelihood + velocity) vs. impact for each Metropolitan auditable area.



INTERNAL AUDIT PLAN

SERVICE PORTFOLIO

Our core portfolio includes the following services:

1 Operational & Compliance Audits

These audits provide assurance focusing on internal control design, implementation, and/or maintenance of core business operations. The criteria used for our internal control audits is the Committee on Sponsoring Organizations of the Treadway Commission (COSO) internal control framework. Projects can also include assessment of policy compliance, contractual compliance, and/or regulatory compliance.

2 Information Technology Audits

Information technology is pervasive in Metropolitan’s system of internal control. These audits focus on general information technology controls (e.g., operations, change management, disaster recovery) or specialized cybersecurity controls (e.g., asset management, data protection, malware defense).

3 Advisory Services

These advisory projects include providing consulting services to Metropolitan functions primarily in support of major business changes (e.g., new application implementation, re-organization, new service line, process re-alignment); however, they can also include ad-hoc on-demand advice.

4 Follow-Up Reviews

Follow-up reviews of observations from prior audits to monitor the implementation progress of recommended corrective actions. The amount of follow-up necessary will depend on the severity of the issue and the type of corrective action.

5 Administration & Other Activities

Includes the annual audit risk assessment and audit plan; TeamMate+ training and functional utilization; quality assessment & improvement program; and contractually required assistance to the external auditor.



PLANNED ENGAGEMENTS

Planned engagements are based upon approximately 12,900 productive hours provided by nine audit professionals. Higher audit risk areas are given priority for project assignment over moderate and lower audit risk areas. Once all higher audit risk areas are assigned an audit, additional moderate audit risk areas are selected at the discretion of the General Auditor. Projects may also be assigned based on Board direction or as mandated by law/regulation. Lastly, recurring audits are generally not assigned unless determined as higher risk or mandated by law/regulation.

The following table provides planned audit and advisory engagements and includes preliminary objectives and budgeting:

TITLE	PRELIMINARY OBJECTIVES	PRELIMINARY BUDGET
Operational & Compliance Audits		
1. CRA Reliability	Review CRA Main Pump Reliability Program.	600
2. Total Asset Management	Assess CIP requirements for proper preventative maintenance thresholds.	600
3. Chemical Safety	Review chemical transfer procedures.	600
4. Recruiting Process	Compare recruiting procedures and technology against industry and sector best practices.	600
5. Business Continuity Program	Review Metropolitan business continuity program procedures.	600
6. Small/Disadvantaged Business Enterprise Program	Review small/disadvantage business enterprise program	600
7. Colorado River Water User Association Review <i>Board Request</i>	Perform agreed-upon procedures on Colorado River Water User Association financial statements.	120
8. Sole Source Contracts <i>Carryforward from FY 2023/24</i>	Determine if sole-source contracts are issued in accordance with Metropolitan policy.	400
9. Power Market Operations <i>Carryforward from FY 2023/24</i>	Review Metropolitan power market operations.	200
10. State Audit Monitoring <i>Carryforward from FY 2023/24</i>	Review implementation status of State Auditor recommendations.	200



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TITLE	PRELIMINARY OBJECTIVES	PRELIMINARY BUDGET
Operational & Compliance Audits (con't)		
11. Bay Delta Disaster Preparedness <i>Carryforward from FY 2023/24</i>	Review Bay Delta disaster preparedness procedures.	120
12. CRA Maintenance <i>Carryforward from FY 2023/24</i>	Review conveyance maintenance program/processes.	160
13. California Landscape Contractors Association Contract Compliance <i>Carryforward from FY 2023/24</i>	Review contract compliance.	120
14. Pure Water State Funding Audit <i>Carryforward from FY 2023/24</i>	Determine adherence to state and Board directives for the Pure Water state funding.	120
15. Reserves/Rate Stabilization Fund <i>Board request</i> <i>Carryforward from FY 2022/23</i>	Determine if reserves are maintained in accordance with Metropolitan Administrative Code.	120
16. Real Property Business Management System <i>Carryforward from FY 2022/23</i>	Review administration of the Real Property Business Management System Project.	80
17. CRA Discharge Line Isolation Couplings Rehabilitation Project <i>Carryforward from FY 2022/23</i>	Review administration of the CRA Discharge Line Isolation Couplings Project.	80
Final Report Closeout	NA	320
Information Technology Audits		
18. IT Governance	Evaluate the value delivered by Metropolitan’s IT investments and initiatives.	600
19. Cybersecurity: Software Asset Inventory & Control <i>Carryforward from FY 2023/24</i>	Determine if Metropolitan actively manages all software on the network.	200
20. Oracle Enterprise Business Suite Security <i>Carryforward from FY 2022/23</i>	Assess Oracle security controls.	160
Final Report Closeout	NA	40



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TITLE	PRELIMINARY OBJECTIVES	PRELIMINARY BUDGET
Advisory Services		
21. Grants	Provide advice to the new grants management function.	200
22. Buy v. Lease	Advise on advantages and disadvantages of leasing Metropolitan vehicles versus purchasing.	200
23. Progressive Design-Build	Advise on progressive design-build construction project procedures.	200
24. Corporate Climate Assessments	Advise on Metropolitan climate/culture assessments.	200
25. Risk Oversight Committee (Power Operations)	Advise on committee matters.	NA
26. METCON <i>Carryforward from FY 2023/24</i>	Advise on new application implementation.	80
27. WINS <i>Carryforward from FY 2023/24</i>	Advise on new application implementation.	80
28. PeopleSoft Time & Labor <i>Carryforward from FY 2023/24</i>	Advise on new application implementation.	80
29. Enterprise Content Management <i>Carryforward from FY 2023/24</i>	Advise on new application implementation.	80
Follow-Up Reviews		
Follow up on Operational & Compliance Audits	Follow up on audit recommendation implementation by management.	1,084
Administration & Other Activities		
External Audit Support	Assist Macias Gini & O’Connell (MGO) in the annual financial audit and single audit.	800
Annual Audit Risk Assessment & Internal Audit Plan	Perform annual audit risk assessment tasks and prepare Internal Audit Plan.	360
TeamMate+ Training & Functional Utilization	Provide and receive training on internal audit project management system.	160



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TITLE	PRELIMINARY OBJECTIVES	PRELIMINARY BUDGET
Administration & Other Activities (con't)		
Quality Assessment & Improvement Program (QAIP)	Complete mandates to ensure adherence to professional internal audit standards and improve internal audit operations.	120
On-Demand Advisory Services	Provide rapid advice upon request.	80

The General Auditor, from time to time, may determine it appropriate to substitute, postpone, or cancel a planned engagement due to timing, priority, resources, and/or other risk considerations. Such modifications will be noted in activity reports submitted to the Board and acceptance of the reporting authorizes any changes noted and amends the audit plan.

PROJECT TEAM

- ◆ Kathryn Andrus, CPA, Deputy General Auditor
- ◆ Chris Gutierrez, CPA, CIA, Audit Program Manager
- ◆ Arturo Castro, Principal Auditor
- ◆ Sherman Hung, CISA, Principal Auditor
- ◆ Andrew Lin, CPA, CIA, CIGA, Principal Auditor
- ◆ Leo Roldan, CPA, CIA, CGMA, Principal Auditor
- ◆ Lina Tan, Principal Auditor
- ◆ Bonita Leung, CPA, CIA, CRMA, CGMA, Senior Deputy Auditor
- ◆ Neena Mehta, Senior Deputy Auditor
- ◆ Faviola Sanchez, Deputy Auditor III
- ◆ Mari Elias, Executive Assistant II



APPENDIX A: ADDITIONAL INFORMATION

ASSURANCE COVERAGE

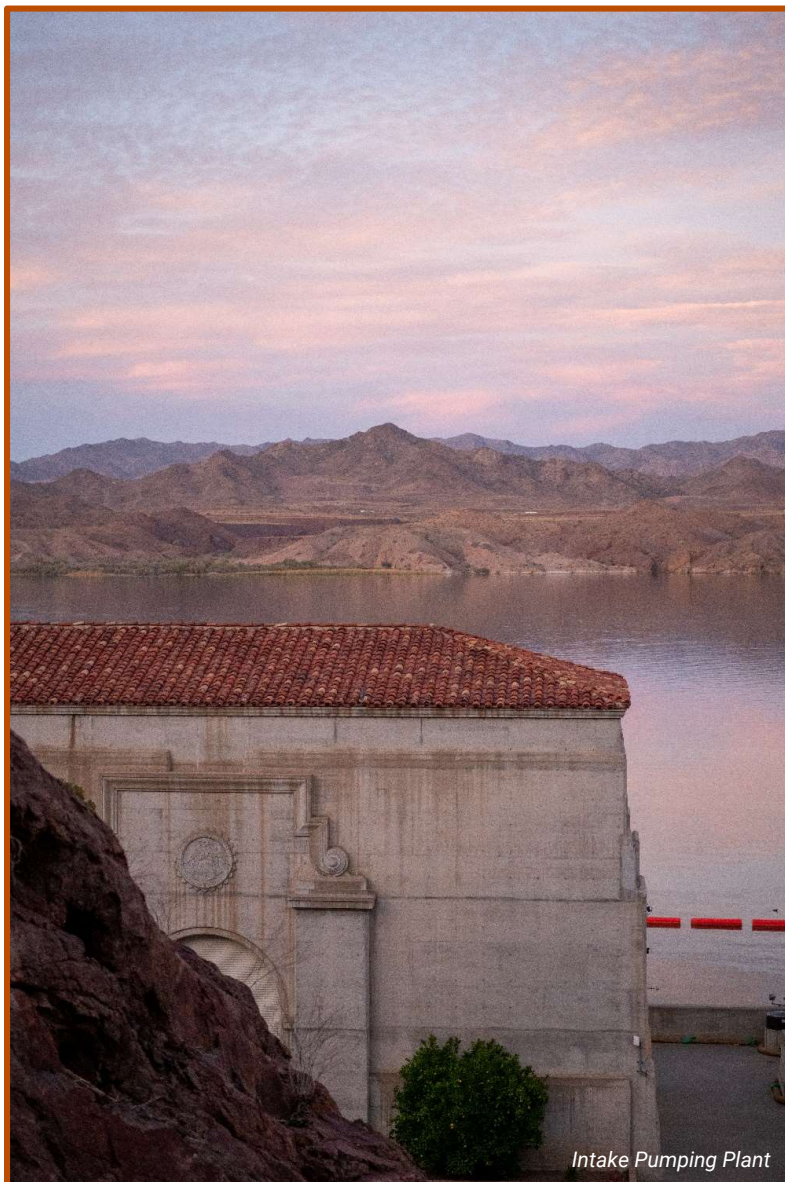
Risk areas we identified as part of the audit risk assessment process are listed alphabetically and mapped to their associated auditable areas, and the resultant planned engagement number is included in parentheses:

RISK AREA	AUDITABLE AREA	ENGAGEMENT
Asset management	Infrastructure Reliability	Total Asset Management (2)
Business continuity	Business Continuity	Business Continuity Program (5)
Chemical safety	Treatment & Water Quality	Chemical Safety (3)
Competitive contracting	Administrative Services	Sole Source Contracts (8)
Construction	Engineering Design	Progressive Design-Build (advisory)(23)
Culture	Diversity Equity & Inclusion Equal Employment Opportunity Ethics Human Resources	Corporate Climate Assessments (advisory)(24)
Cybersecurity	Cybersecurity	Cybersecurity: Software Asset Inventory & Control (19)
Data governance	Administrative Services	Enterprise Content Management (advisory)(29)
Delta failure/earthquake	Bay Delta Initiatives	Bay Delta Disaster Preparedness (11)
Fleet vehicles	Integrated Operations Planning & Support Services	Buy v. Lease (advisory)(22)
Grant compliance	Centralized Grants & Research	Grants (advisory)(21) Pure Water State Funding Audit (14)
IT Governance	Information Technology	IT Governance (18)
New Applications	Controller Conveyance & Distribution	Peoplesoft Time & Labor (advisory)(28) WINS (advisory)(27) METCON (advisory)(26)



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RISK AREA	AUDITABLE AREA	ENGAGEMENT
Power costs/operations	Power Operations & Planning	Power Market Operations (9) Risk Oversight Committee (advisory)(25)
Recruiting	Human Resources	Recruiting Process (4)
SBA/DBE contracting	Diversity Equity Inclusion	SBA/DBE Program (6)
State Audit	Human Resources	State Audit Monitoring (10)
Third-party compliance	Water Resource Implementation	CLCA Contract Compliance (13)
Water system maintenance	Conveyance & Distribution	CRA Reliability (1) CRA Maintenance (12)



DEFERRED PROJECTS

Risks/internal control concerns identified from Board input and management interviews (in high or medium-high areas of the audit risk assessment) are mapped to auditable areas below and will be added to the audit plan as resources and/or time become available:

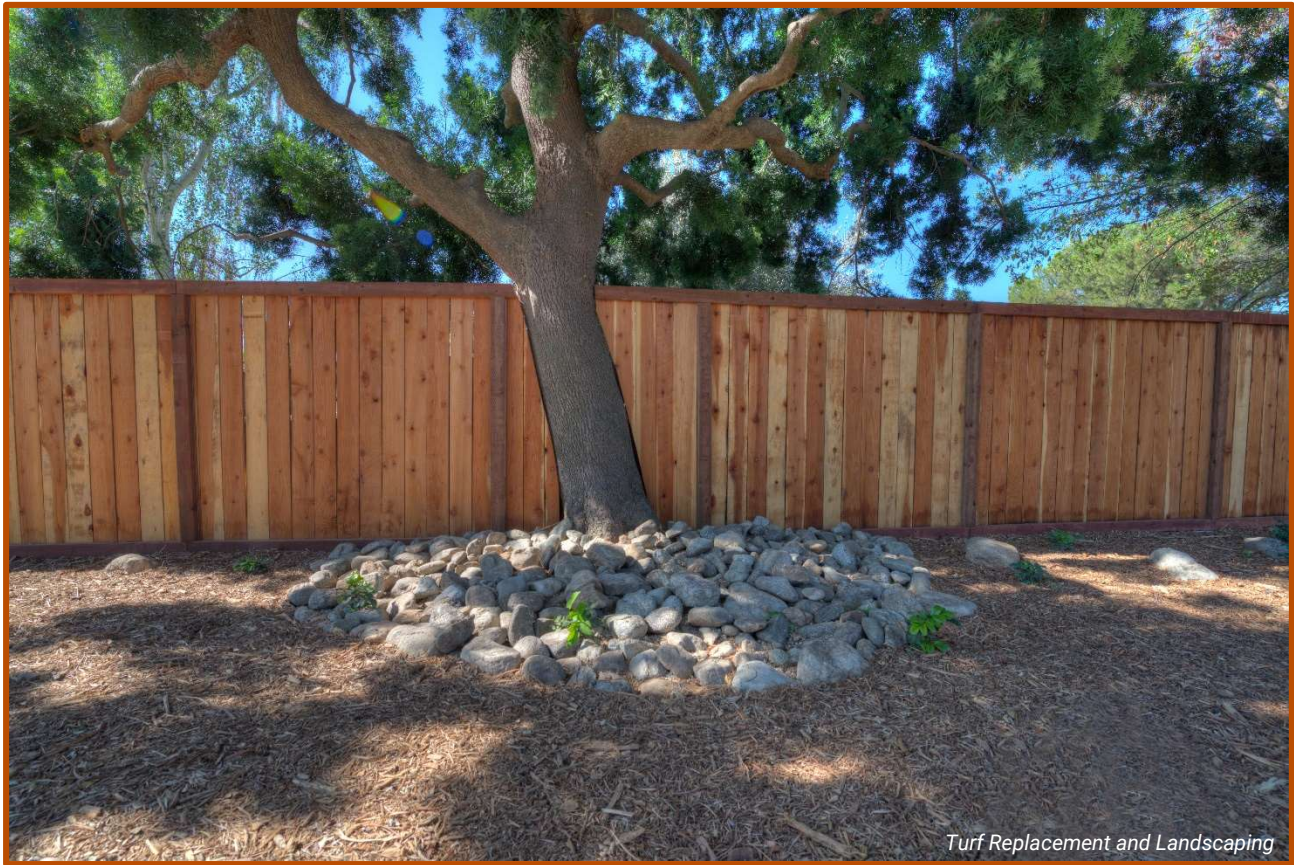
RISK AREA	AUDITABLE AREA
California Air Resources Board (CARB) regulations/ fleet exemptions	Integrated Operations Planning & Support Services Sustainability Resilience & Innovation
Community Outreach	External Affairs
Conservation funding	Water Resource Implementation
Contract administration (post-award)	Program Management
Contract selection/award	Administrative Services Engineering External Affairs
Cybersecurity program	Information Technology
Desert housing	Integrated Operations Planning & Support Services
District temporary/annuitant usage	Human Resources
Electrical equipment supply chain	Integrated Operations Planning & Support Services
Enterprise risk management	Office of the General Manager
Investigative process	Multiple
Reserves/cost of service	Revenue & Budget
Revenue-generating lease/license contracts	Sustainability Resilience & Innovation



RESOURCE PLAN

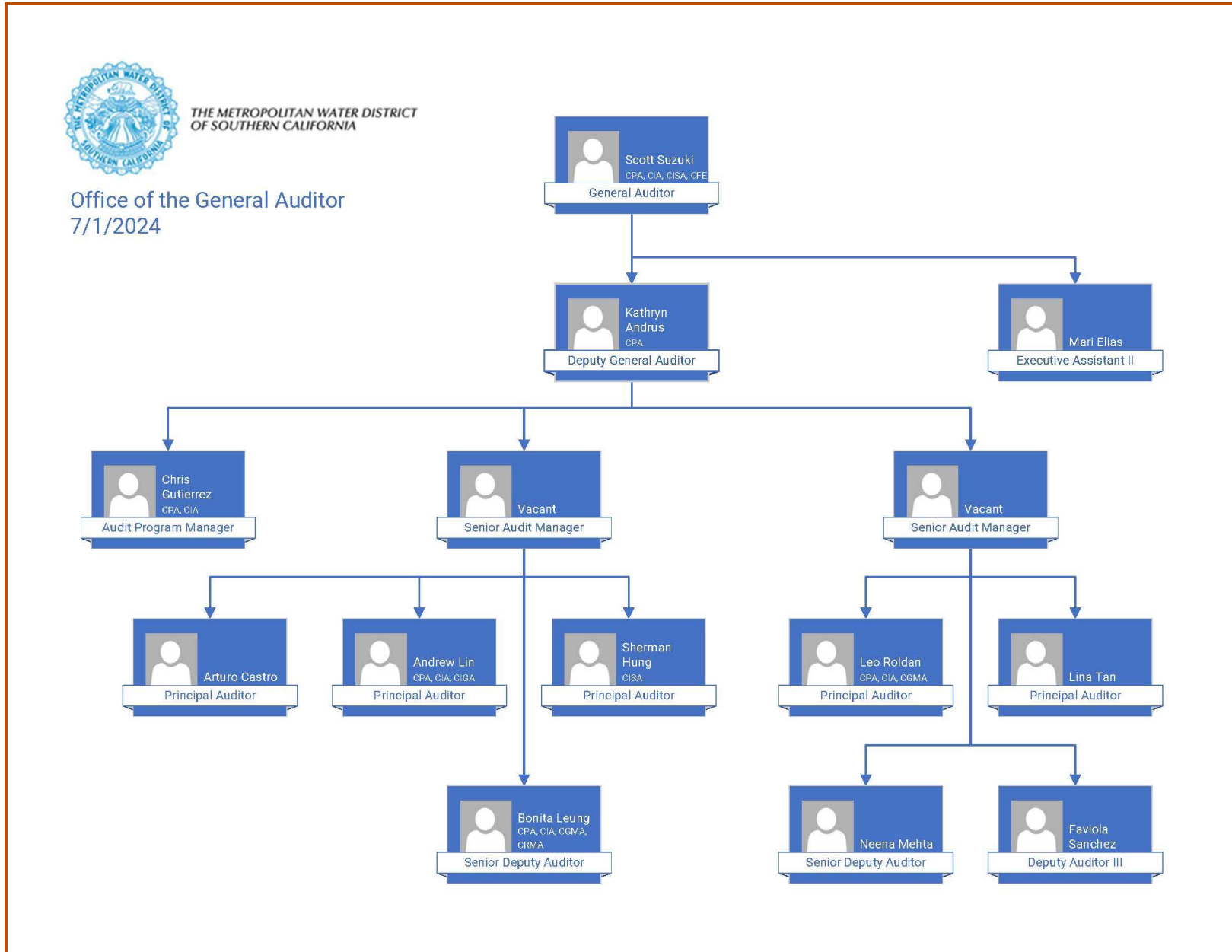
The department is comprised of 11 professional audit team members and one administrative professional. Team member audit experience includes financial, performance, fraud, compliance, and information technology. Six members are licensed Certified Public Accountants (CPA), five are Certified Internal Auditors (CIA), and two are Certified Information System Auditors (CISA). Other professional certifications held include Certified Fraud Examiner (CFE), Chartered Global Management Accountant (CGMA), Certification in Risk Management Assurance (CRMA), and Certified Inspector General Auditor (CIGA).

Our total productive hours available for portfolio services is 12,884 hours after allowances for benefits and non-productive time (e.g., training, staff meetings, HR activities). Additional time is then deducted for administration and other activities, a contingency reserve, Board requests, and special projects, resulting in 8,564 hours available for audit and advisory projects. Audit hours for the general auditor and deputy general auditor are not included in the productive hour total.



Turf Replacement and Landscaping

ORGANIZATION CHART



STANDARDS

The following are references to conformance with relevant International Professional Practices Framework standards. Note: The IIA issued the Global Internal Audit Standards in January 2024 as an update to its standards, which will take effect in January 2025.

2010 – Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals.

- ◆ The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the Board must be considered in this process.
- ◆ The chief audit executive must identify and consider the expectations of senior management, the Board, and other stakeholders for internal audit opinions and other conclusions.
- ◆ The chief audit executive should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value, and improve the organization’s operations. Accepted engagements must be included in the plan.

2020 – Communication & Approval

The chief audit executive must communicate the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the Board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of the organization’s governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

2110 – Governance

The internal audit activity must assess and make appropriate recommendations to improve the organization’s governance processes for: (1) making strategic and operational decisions, (2) overseeing risk management and control, (3) promoting appropriate ethics and values within the organization, (4) ensuring effective organizational performance management and accountability, (5) communicating risk and control information to appropriate areas of the organization, (6) coordinating the activities of, and communicating information among the Board, external and internal auditors, other assurance providers, and management.

- ◆ The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.
- ◆ The internal audit activity must assess whether the information technology governance of the organization supports the organization’s strategies and objectives.



2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

- ◆ The internal audit activity must evaluate risk exposures relating to the organization’s governance, operations, and information systems regarding the: (1) Achievement of the organization’s strategic objectives; (2) Reliability and integrity of financial and operational information; (3) Effectiveness and efficiency of operations and programs; (4) Safeguarding of assets; and (5) Compliance with laws, regulations, policies, procedures, and contracts.
- ◆ The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.
- ◆ During consulting engagements, internal auditors must address risk consistent with the engagement’s objectives and be alert to the existence of other significant risks.
- ◆ Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization’s risk management processes.
- ◆ When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 – Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

- ◆ The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization’s governance, operations, and information systems regarding the: (1) Achievement of the organization’s strategic objectives; (2) Reliability and integrity of financial and operational information; (3) Effectiveness and efficiency of operations and programs; (4) Safeguarding of assets; (5) Compliance with laws, regulations, policies, procedures, and contracts.
- ◆ Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization’s control processes.

