



- **Board of Directors**
Audit Committee

6/9/2026 Board Meeting

7-8

Subject

Approve the General Auditor's Internal Audit Plan for Fiscal Year 2026/27; the General Manager has determined the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

The General Auditor's Internal Audit Plan (**Attachment 1**) describes how the audit plan was developed, the internal audit services available to Metropolitan, and the planned engagements for fiscal year (FY) 2026/27.

The Internal Audit Plan for FY 2026/27 is comprised of:

- 13 Audits (4 new; 9 carryforward)
- 11 Advisory Projects (1 new; 10 carryforward)
- 20 Follow-up Reviews (estimated)

This action requests that the Board approve the General Auditor's Internal Audit Plan for FY 2026/27, which is presented for consideration in accordance with the Metropolitan Administrative Code and professional internal auditing standards.

Proposed Action(s)/Recommendation(s) and Options

Staff Recommendation: Option #1

Option #1

Approve the General Auditor's Internal Audit Plan for FY 2026/27.

Fiscal Impact: None

Business Analysis: This option will authorize the General Auditor to proceed with planned audits and advisory projects that add value and improve Metropolitan's operations.

Option #2

Do not approve the General Auditor's Internal Audit Plan for FY 2026/27.

Fiscal Impact: None

Business Analysis: This option may impact the General Auditor's ability to perform audit work and other duties prescribed by the Metropolitan Administrative Code.

Alternatives Considered

Not applicable

Applicable Policy

Metropolitan Water District Administrative Code Section 6451: Audit Department Charter

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

Related Board Action(s)/Future Action(s)

June 10, 2025, Item 7-1, Approve the General Auditor's Internal Audit Plan for FY 2025/26

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves organizational, maintenance, or administrative activities; personnel-related actions; and/or general policy and procedure making that will not result in direct or indirect physical changes in the environment. [Public Resources Code Section 21065; State CEQA Guidelines Section 15378(b)(2) and (5)]

CEQA determination for Option #2:

None required

Details and Background

Background

The purpose of the Office of the General Auditor, Metropolitan's internal audit function, is to strengthen Metropolitan's ability to create, protect, and sustain value by providing the Board of Directors and management with independent, risk-based, and objective assurance, advice, insight, and foresight. Through assurance and advisory engagements, our office enhances Metropolitan's achievement of its objectives; governance, risk management, and control processes; decision-making and oversight; reputation and credibility with its stakeholders; and its ability to serve the public interest.

Professional internal audit standards require us to establish a risk-based audit plan that aligns our priorities with Metropolitan's goals and objectives. Our methodology focuses on conducting targeted audits and advisory services that address key risk areas and deliver value-added, actionable results.

To develop the annual audit plan, we performed a comprehensive risk assessment that involved reviewing key documentation, interviewing management, and engaging in discussions with the Board. This process allowed us to identify and evaluate risks, prioritize potential audits and advisory engagements, and identify areas where our involvement would add the greatest value. In certain cases, such as when prior-year audits carry forward, recent work has addressed certain risks, or professional judgment warrants an exception, we may adjust this approach as appropriate.

This year's audit risk assessment identified opportunities for internal audit to provide new audit or advisory services in the following areas (listed in alphabetical order): Cybersecurity, Information Technology, Treatment & Water Quality, and Water Resource Management.


Internal Audit Plan Overview

The Internal Audit Plan includes the following information:

- (1) An introduction to the Office of the General Auditor.
- (2) A description of the audit risk assessment project planning and execution methodology.
- (3) A classification of auditable units by risk category.
- (4) A visual representation of the risk ranking of Metropolitan's auditable units.
- (5) An overview of internal audit services provided to Metropolitan.


- (6) Projects planned to be performed during FY 2026/27.
- (7) The lineup of team members who contributed to the audit plan project.
- (8) A crosswalk of risk areas to associated projects.
- (9) Specific risks/internal control concerns pending audit resource/time availability.
- (10) An overview of internal audit resources that will support the execution of the audit plan.
- (11) Department internal reporting structure.
- (12) References to relevant professional internal audit standards.

From time to time, the General Auditor may substitute, defer, or cancel a planned engagement due to timing, priority, resources, and/or other risk considerations. Such modifications will be noted in quarterly status reports submitted to the Audit Committee, and the Audit Committee’s lack of objection will authorize any changes noted and amend the audit plan.



Scott Suzuki
General Auditor

5/19/2026
Date



Shivaji Deshmukh
General Manager

5/19/2026
Date

Attachment 1 – General Auditor’s Internal Audit Plan for FY 2026/27

Ref# a12704235



Office of the General Auditor __

General Auditor's Internal Audit Plan for **FY 2026/27**

Month XX, 2026

DRAFT – PENDING BOARD APPROVAL

Executive Summary

BACKGROUND

The purpose of the Office of the General Auditor, Metropolitan’s internal audit function, is to strengthen Metropolitan’s ability to create, protect, and sustain value by providing the Board of Directors and management with independent, risk-based, and objective assurance, advice, insight, and foresight. Through assurance and advisory engagements, our office enhances Metropolitan’s achievement of its objectives; governance, risk management, and control processes; decision-making and oversight; reputation and credibility with its stakeholders; and its ability to serve the public interest.

Professional internal audit standards require us to establish a risk-based audit plan that aligns our priorities with Metropolitan’s goals and objectives. Our methodology focuses on conducting targeted audits and advisory services that address key risk areas and deliver value-added, actionable results.

To develop the annual audit plan, we performed a comprehensive risk assessment that involved reviewing key documentation, interviewing management, and engaging in discussions with the Board. This process allowed us to identify and evaluate risks, prioritize potential audits and advisory engagements, and identify areas where our involvement would add the greatest value. In certain cases, such as when prior-year audits carry forward, recent work has addressed certain risks, or professional judgment warrants an exception, we may adjust this approach as appropriate.

RESULTS

Our fiscal year 2026/27 Internal Audit Plan is comprised of:

- ◆ 13 Audits (4 new; 9 carryforward)
- ◆ 11 Advisory Projects (1 new; 10 carryforward)
- ◆ 20 Follow-up Reviews (estimated)

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

- ◆ Cybersecurity
- ◆ Information Technology
- ◆ Treatment & Water Quality
- ◆ Water Resource Management

Due to limited staffing resources, our audit plan focuses on the areas with the highest identified audit risks. As additional resources or time become available in fiscal year 2026/27, we will incorporate other risk areas into the plan. We will re-evaluate the audit risk assessment throughout the fiscal year, and any higher-risk areas not included by fiscal year-end will be reconsidered for potential inclusion in our fiscal year 2027/28 Internal Audit Plan.

DRAFT – PENDING BOARD APPROVAL

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Date: June XX, 2026
To: Board of Directors
From: Scott Suzuki, CPA, CIA, CISA, CFE, General Auditor
Subject: General Auditor's Internal Audit Plan for Fiscal Year 2026/27

The Office of the General Auditor is pleased to present our proposed audit plan for fiscal year 2026/27, prepared in accordance with Metropolitan Administrative Code Section 6451 and the Global Internal Audit Standards issued by The Institute of Internal Auditors.

This plan is the result of a thorough and deliberate assessment of Metropolitan's operations. It incorporates reviews of key documents and data, extensive discussions with management, and the Board's perspectives on areas of risk and internal control concerns.

Our office is responsible for evaluating whether Metropolitan's governance, risk management, and internal control processes are appropriately designed and operating effectively. To carry out this mandate, we propose conducting 24 audits and advisory projects during the fiscal year, including 4 new audits, 9 audits carried forward from the prior year, and 11 advisory engagements.

Our purpose is to strengthen Metropolitan's ability to create, protect, and sustain value by providing the Board and management with independent, risk-based, and objective assurance, advice, insight, and foresight. We aim to add value to Metropolitan's operations by identifying opportunities for improvement while fostering transparency, professionalism, and trust. We will continue to collaborate with management and staff across the District, monitor emerging risks and opportunities, and help ensure that Metropolitan's resources are used effectively for the benefit of its member agencies and the communities we serve.

We appreciate the opportunity to serve Metropolitan through independent, professional, and objective audit and advisory services. We also extend our thanks to Metropolitan management, staff, and the Board for their cooperation and engagement during the audit risk assessment process.

If you have any questions regarding our audit plan, please do not hesitate to contact me directly at 213.217.6528 or Assistant 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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A visual representation of the risk ranking of Metropolitan's auditable units

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An overview of our resources that will support the execution of the audit plan

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Our internal reporting structure

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DRAFT – PENDING BOARD APPROVAL**INTRODUCTION****DEPARTMENT OVERVIEW**

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

Our goal is to support Metropolitan's Board and management in strengthening business, financial, and operational practices. The General Auditor leads a team of internal audit professionals who evaluate whether Metropolitan's internal controls are effective, business processes are efficient, and activities, programs, and agreements comply with policies, procedures, laws, and regulations.

In support of this goal, our office is charged with determining whether Metropolitan's system of governance, risk management, and internal control processes, as designed and represented by management, is adequate and functioning effectively to ensure:

- ◆ Risks are appropriately identified, managed, and monitored.
- ◆ Key financial, managerial, and operating information is accurate, reliable, and timely.
- ◆ Employees comply with applicable policies, procedures, standards, and laws and regulations.
- ◆ Resources are acquired economically, used efficiently, and safeguarded appropriately.
- ◆ Programs, plans, and objectives are being achieved.
- ◆ Quality and continuous improvement are promoted in Metropolitan's control environment.
- ◆ Significant legislative or regulatory matters are identified and addressed appropriately.
- ◆ Information technology is governed effectively, and systems and applications are securely deployed and monitored.

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



Canada Geese: Bay Delta Day Trip



DRAFT – PENDING BOARD APPROVAL**AUDIT RISK ASSESSMENT****AUDIT RISK ASSESSMENT PROCESS**

The Office of the General Auditor's objective is to add value to Metropolitan and improve the effectiveness and efficiency of its operations. We accomplish this through thoughtful planning, agile responsiveness, alignment of our priorities with organizational objectives, and a focus on auditing the risks with the greatest potential impact on Metropolitan's ability to achieve its objectives.

The chief audit executive must create an internal audit plan that supports the achievement of the organization's objectives. – Global Internal Audit Standard 9.4

To meet this requirement, we perform our audit risk assessment and develop the audit plan through the following eight primary steps:

1. Understand the organization's governance, risk management, and control processes
2. Identify, assess, and prioritize risks
3. Coordinate with other assurance providers
4. Estimate resources and identify engagements
5. Propose the audit plan and solicit feedback
6. Finalize and communicate the audit plan
7. Assess risks continuously
8. Update the audit plan as appropriate and communicate changes

Metropolitan's internal audit team used this process to ensure a thorough 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 considered the following risk factors:

Impact Factors

- **Loss Exposure.** Dollar values at risk, annual expenses, impact on other areas of Metropolitan, and reliance on information technology.
- **Strategic Risk.** Public perception/reputation, economic conditions, volatility, significance to the General Manager's business plan/strategy, regulatory environment, and recent changes.

Likelihood Factors

- **Operating Environment.** Degree of process formalization, policy & procedures, newness of processes/applications, third-party reliance, management turnover, and monitoring practices.
- **Complexity.** Automation levels, required specialization, technical complexity, structural complexity, and change frequency.
- **Assurance Coverage.** Internal audit activity, other reviews, and second-line coverage.
- **Board & Management Concern.** Quantity and specificity of concerns raised during interviews and meetings.



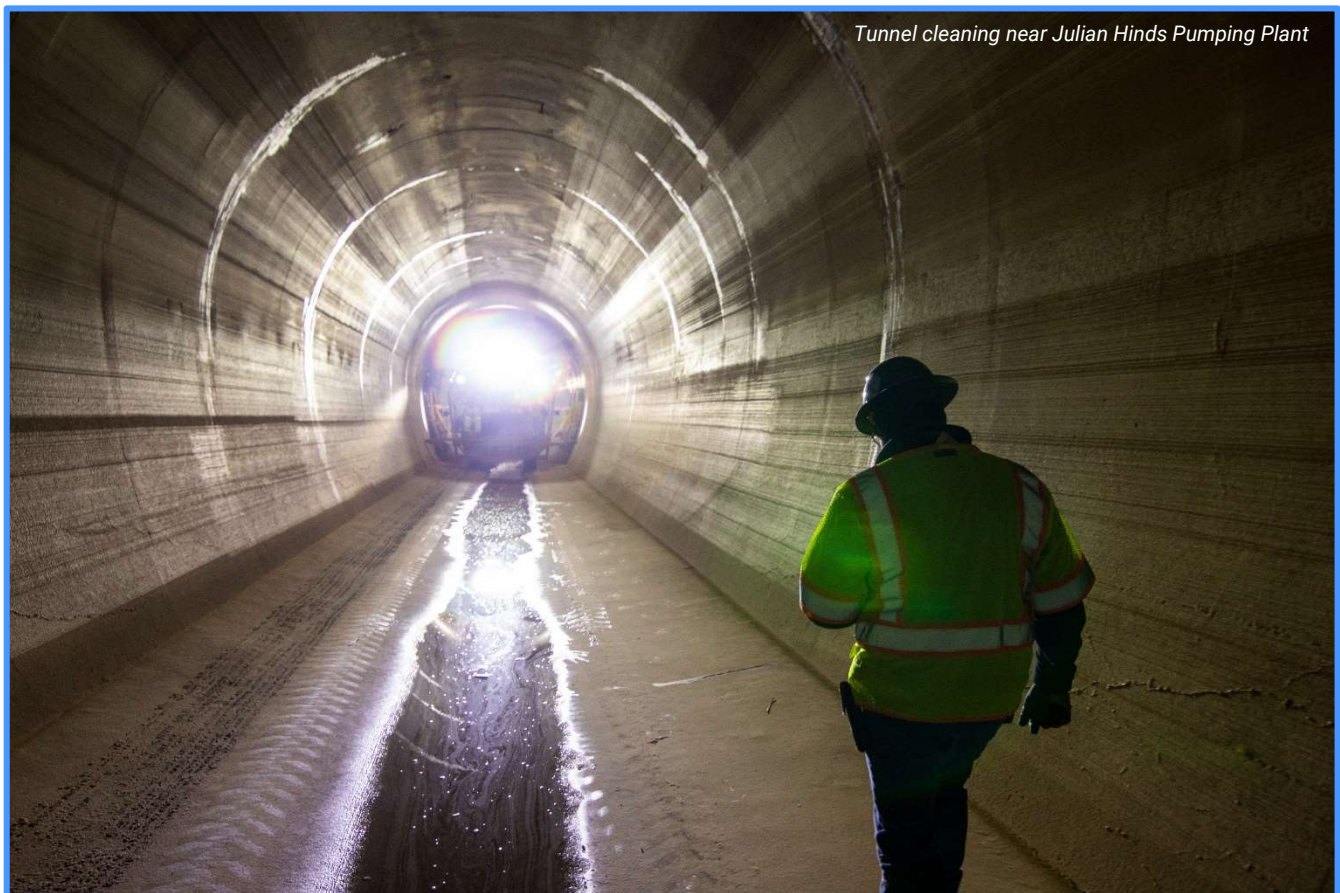
DRAFT – PENDING BOARD APPROVALSpeed Factor

- **Velocity.** How quickly a risk can occur and impact Metropolitan.

To identify and evaluate risks Metropolitan faces, we obtained input from management in key business areas and reviewed relevant documentation, including, but not limited to, financial statements, monthly General Manager reports, Board and Committee materials, and the biennial budget.

Our audit universe includes 25 auditable units, generally aligned with District functional areas. All District departments, groups, sections, and units are included in the audit universe except the Office of the General Auditor. Each unit is scored based on the factors above and ranked by its total risk score to identify those with the most significant risk exposure.

A higher audit risk score indicates that an auditable unit's services or functions carry greater inherent risk, such as substantial expenditures or revenues, high levels of liquid assets, significant organizational or system changes, complex transactions, mission-critical functions, or heightened public interest. A higher score also indicates that if an issue were to occur, it could have a greater and more rapid impact on Metropolitan.



DRAFT – PENDING BOARD APPROVAL**AUDIT RISK ASSESSMENT SUMMARY**

Our audit risk assessment results show that five auditable units are considered higher risk, 15 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

- | | | |
|-----------------------------|--|-------------------------------|
| • Conveyance & Distribution | • Information Technology | • Power Operations & Planning |
| • Cybersecurity | • Integrated Operations, Planning & Support Services | |

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

MODERATE AUDIT RISK

- | | | |
|---------------------------------|---------------------------------|---|
| • Administrative Services | • External Affairs | • Operational Safety & Regulation |
| • Bay Delta Initiatives | • Finance | • Security & Protection |
| • Board of Directors | • Human Resources | • Sustainability, Resilience & Innovation |
| • Diversity, Equity & Inclusion | • Land Management | • Treatment & Water Quality |
| • Engineering | • Office of the General Manager | • Water Resource Management |

LOWER AUDIT RISK

- | | | |
|--------------------------|--------------------------------|-------------------|
| • Board Support Services | • Equal Employment Opportunity | • General Counsel |
| • Environmental Planning | • Ethics | |



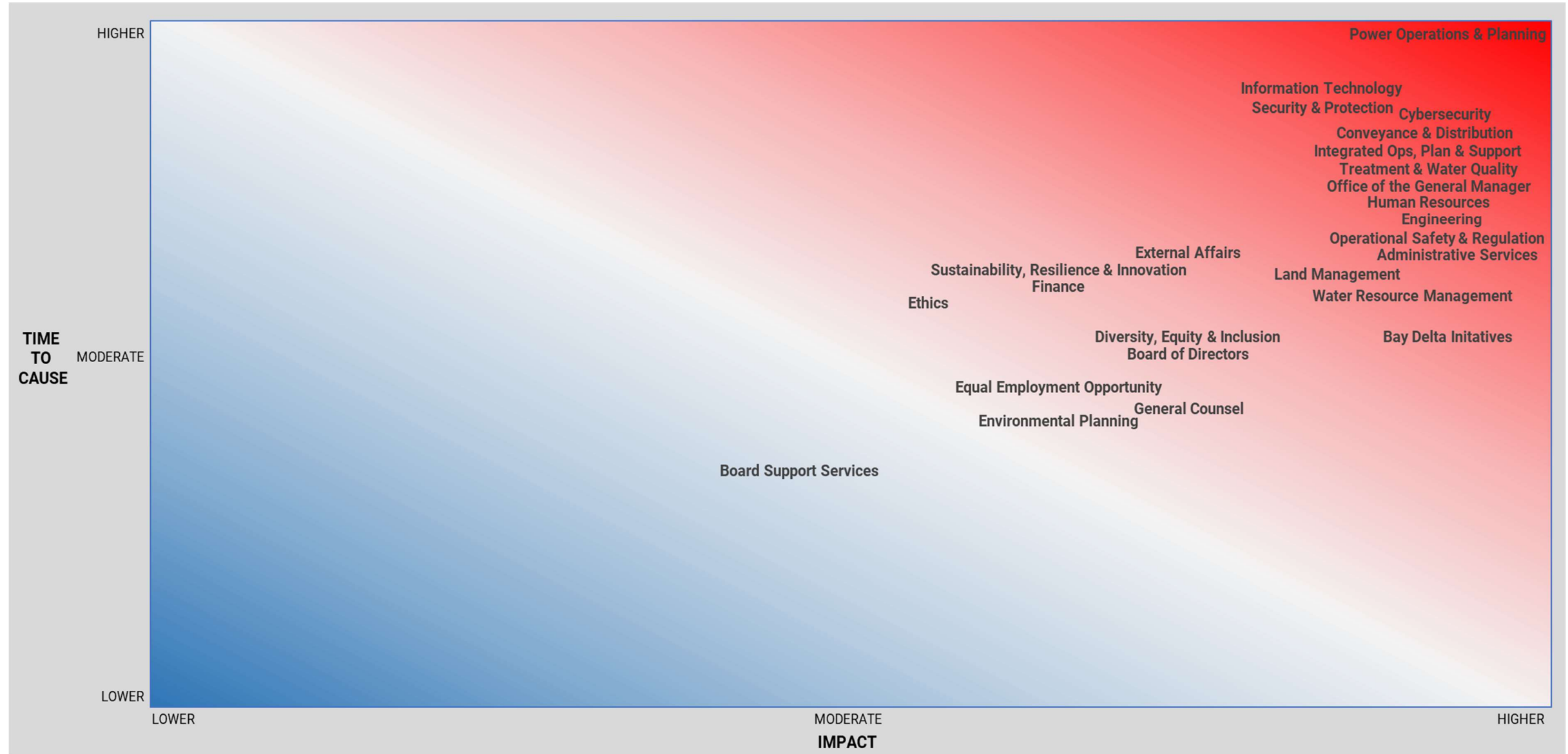
Fallbrook Avocado Orchard



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HEAT MAP

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



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Our core portfolio includes the following services:

1 Operational & Compliance Audits

These audits provide assurance by focusing on the internal control effectiveness and process efficiency of the area under evaluation. The criteria generally used for our internal control audits are from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission internal control framework. Projects may also include assessments of compliance with policies, contracts, or regulatory requirements.

2 Information Technology Audits

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). Criteria generally used for our IT audits are from the Center for Internet Security, the National Institute of Standards and Technology, or the Information Systems Audit and Control Association.

3 Advisory Services

These advisory projects provide advice to Metropolitan functions without providing assurance. Examples include advising on the design and implementation of new policies, processes, and systems; providing training and ad hoc/on-demand advice; and performing Rapid Reviews on contemporary topics.

4 Follow-up Reviews

These reviews assess the progress made toward implementing recommendations from prior audits. The level of follow-up necessary depends on the severity of the issue and the nature of the corrective action. Follow-up reviews are not performed for advisory services.

5 Administration & Other Activities

These activities do not relate to specific auditable areas but are essential to the effective operation of the internal audit function. They include contractually required assistance to the external auditor, preparation of the annual audit risk assessment and audit plan, support to the Board and Audit Committee, training and functional administration of our project management system, and execution of the quality assessment and improvement program.



DRAFT – PENDING BOARD APPROVAL**PLANNED ENGAGEMENTS**

Planned engagements are based upon approximately 13,800 productive hours provided by 11 audit professionals. Additional time is then deducted for a contingency reserve, Board directives/requests, and other activities, resulting in approximately 8,700 hours available for audit and advisory projects and follow-up reviews. Higher audit risk areas are given priority for project assignment over moderate and lower audit risk areas. Once all higher audit risk areas have been assigned an audit, the General Auditor selects additional moderate audit risk areas at their discretion. Projects are also assigned based on Board direction or as mandated by law/regulation. Lastly, recurring/cyclical audits are generally not assigned unless they are deemed higher risk or mandated by law/regulation.

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

TITLE	PRELIMINARY OBJECTIVES	PRELIMINARY BUDGET
Operational & Compliance Audits		
1. Local Resources Program	Assess program performance.	600
2. Chemical Safety	Evaluate chemical handling procedures.	600
3. Third-Party Memorandums of Understanding (MOU) <i>Board request</i>	Evaluate administration of third-party MOUs.	600
4. Conservation Programs <i>Board request</i>	Assess program performance.	600
5. P-Card Program <i>Carryforward from FY 2025/26</i>	Evaluate P-Card policy and program activity.	600
6. Security Contract <i>Carryforward from FY 2025/26</i>	Evaluate contract compliance.	600
7. Real Estate <i>Board request</i>	Assess program performance.	200
8. Recruiting <i>Carryforward from FY 2024/25</i>	Assess program performance.	200
9. State Audit Follow-up <i>Carryforward from FY 2023/24</i>	Evaluate implementation status of State Auditor recommendations.	200
10. Power Operations & Planning <i>Carryforward from FY 2023/24</i>	Assess program performance.	200



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Information Technology Audits		
11. Access Control Management	Evaluate system access management for incoming and outgoing employees.	600
12. Data Protection	Evaluate data protection controls.	600
13. IT Governance <i>Carryforward from FY 2024/25</i>	Evaluate District IT for alignment with business goals and objectives.	200
Advisory Services		
14. Artificial Intelligence	Review AI implementation risks and controls.	200
15. Knowledge Transfer <i>Board request</i>	Review District knowledge transfer procedures.	200
16. Safety Equipment Purchase Process	Review safety equipment purchase process.	200
17. Colorado River Water Users Association Review <i>Board directed</i>	Perform agreed-upon procedures for Colorado River Water Users Association.	120
18. Enterprise Risk Management	Advise on District enterprise risk management program.	80
19. Enterprise Content Management	Advise on new application implementation.	80
20. Grants	Advise on grants management processes.	80
21. METCON	Advise on new application implementation.	80
22. WINS	Advise on new application implementation.	80
23. Oracle Services Procurement	Advise on new Oracle module implementation.	0 ¹
24. Risk Oversight Committee (Power Operations & Planning)	Advise on risks and controls.	0 ¹
Follow-up Reviews		
Follow-up Reviews	Follow up on management's implementation of audit recommendations.	1,767



DRAFT – PENDING BOARD APPROVAL

Administration & Other Activities		
External Audit Support	Assist external auditor in annual financial audit and Single Audit.	800
Department Initiatives	Perform tasks to improve department operations.	800
Annual Audit Risk Assessment & Internal Audit Plan	Perform annual audit risk assessment tasks and prepare Internal Audit Plan.	640
Board & Committee Support	Provide Board and/or Audit Committee support.	400
TeamMate+ Training & Functional Utilization	Provide and receive training on internal audit project management system.	280
Quality Assessment & Improvement Program (QAIP)	Complete mandates to ensure adherence to professional internal audit standards and improve internal audit operations.	80
On-Demand Advisory Services	Provide advice upon request.	80
Directed Ad Hoc	Tasks assigned by department management.	80

¹ This project is assigned to executive management, who do not charge hours.

From time to time, the General Auditor may substitute, defer, or cancel a planned engagement due to timing, priority, resources, and/or other risk considerations. Such modifications will be noted in quarterly status reports submitted to the Audit Committee, and the Audit Committee's lack of objection will authorize any changes noted and amend the audit plan.

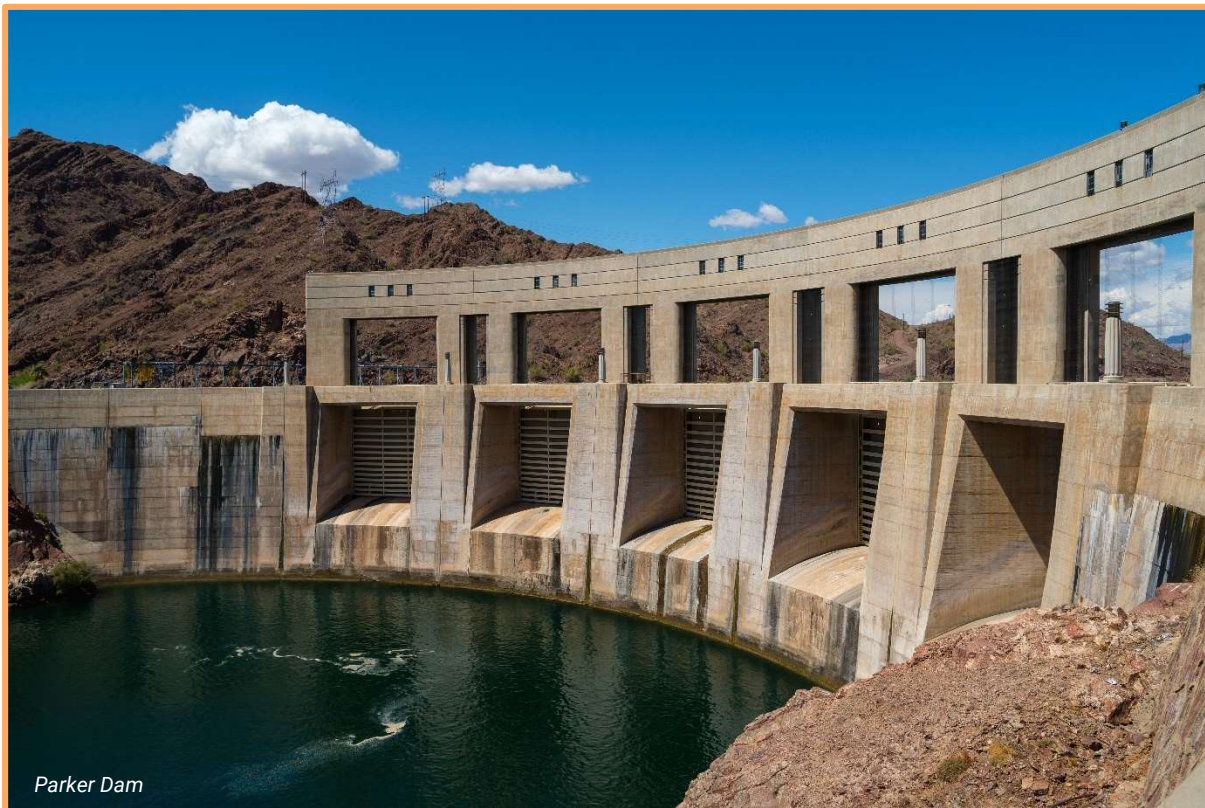


Courtyard at Union Station Headquarters



DRAFT – PENDING BOARD APPROVAL**PROJECT TEAM**

- ◆ Kathryn Andrus, CPA, CIA, Assistant General Auditor
- ◆ Araceli Muñoz, CIA, Senior Audit Manager
- ◆ Chris Gutierrez, CPA, CIA, Program Manager – Audit
- ◆ Sherman Hung, CISA, Principal Auditor
- ◆ Andrew Lin, CPA, CIA, CIGA, 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



DRAFT – PENDING BOARD APPROVAL**APPENDIX A: ADDITIONAL INFORMATION****ASSURANCE & ADVISORY COVERAGE**

Risk areas we identified as part of the audit risk assessment process are listed alphabetically and mapped to their associated auditable areas, with the resultant planned engagement number in parentheses²:

RISK AREA	AUDITABLE AREA	ENGAGEMENT
Access management	Cybersecurity	Access Control Management (11)
Application development	Information Technology	Enterprise Content Management (19) METCON (21) Oracle Services Procurement (23) WINS (22)
Artificial intelligence	Information Technology	Artificial Intelligence (14)
Enterprise risk management	Office of the General Manager	Enterprise Risk Management (18)
Governance	Information Technology	IT Governance (13)
Grant compliance	Finance	Grants (20)
Information management	Cybersecurity	Data Protection (12)
MOU administration	Office of the General Manager	Third-Party MOUs (3)
Operational safety & compliance	Treatment & Water Quality	Chemical Safety (2)
Physical security	Security & Protection	Security Contract (6)
Power operations	Power Operations & Planning	Power Operations & Planning (10) Risk Oversight Committee (Power Operations & Planning) (24)
Procurement	Administrative Services	P-Card Program (5) Safety Equipment Purchase Process (16)
Program performance	Water Resource Management	Conservation Programs (4) Local Resources Program (1)
Real estate management	Land Management	Real Estate (7)
State audit compliance	Office of the General Manager	State Audit Follow-up (9)
Talent management	Human Resources	Knowledge Transfer (15) Recruiting (8)

² The Colorado River Water Users Association (17) is a Board-directed project without a direct District-associated risk area.



DRAFT – PENDING BOARD APPROVAL**DEFERRED PROJECTS**

Risk and internal control concerns identified through Board input and management interviews that align with high or medium-high audit-risk areas from our risk assessment, and are not included in the audit plan, are placed on the deferred list. Additionally, the General Auditor may use his professional judgment to add an item to the deferred list. As resources or time become available, a deferred item may be added to the audit plan. These deferred items are listed alphabetically and mapped to their auditable areas:

RISK AREA	AUDITABLE AREA
Contract administrator program	Administrative Services
Contract solicitation	Administrative Services
CRA reliability	Conveyance & Distribution
Delegation of authority	Office of the General Manager
Desert housing	Integrated Operations, Planning & Support Services
District temporary/annuitant usage	Human Resources
District vehicle assignment/use	Integrated Operations, Planning & Support Services
Dual employment	Human Resources
Governance, risk, and compliance platform	Information Technology
Interactive process	Human Resources
Interim promotions	Human Resources
Investigative process	Multiple
IT project management	Information Technology
Offboarding process	Human Resources
Program change management	Office of the General Manager

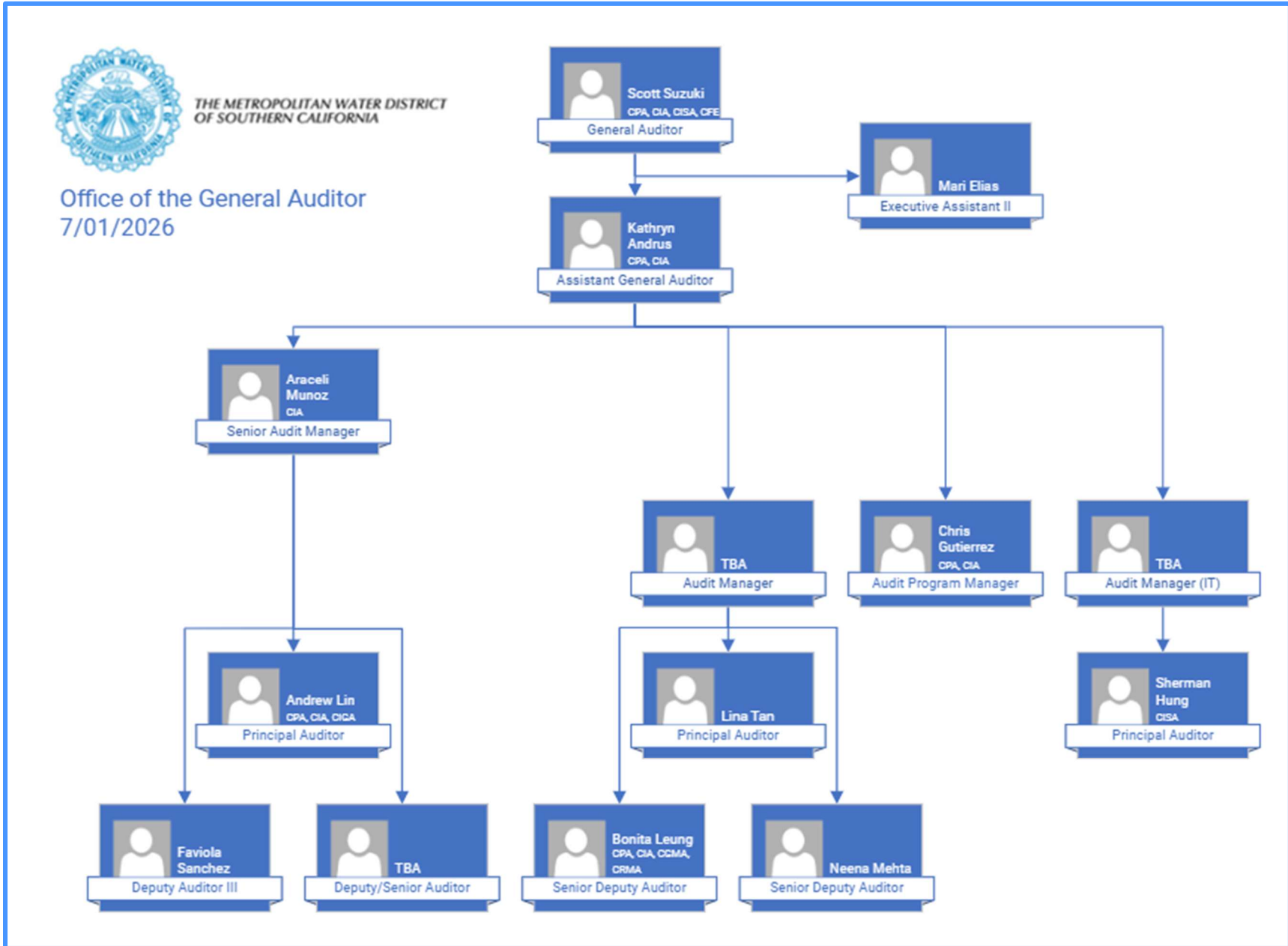
RESOURCE PLAN

The department is comprised of 11 professional audit team members, two executive managers, and one administrative professional. The 11 audit professionals contribute approximately 8,700 hours that support the development of planned engagements, including Board requests. Team member audit experience includes financial, performance, fraud, compliance, and information technology. Five members are licensed Certified Public Accountants (CPAs), six are Certified Internal Auditors (CIAs), and two are Certified Information System Auditors (CISAs). 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).



DRAFT – PENDING BOARD APPROVAL

ORGANIZATION CHART



DRAFT – PENDING BOARD APPROVAL**STANDARDS**

The following are references to the Internal Auditors Global Internal Audit Standards pertaining to audit risk assessment and the Internal Audit Plan.

Domain I: Purpose of Internal Auditing

Internal auditing strengthens the organization’s ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

Internal auditing enhances the organization’s:

- ◆ Successful achievement of its objectives.
- ◆ Governance, risk management, and control processes.
- ◆ Decision-making and oversight.
- ◆ Reputation and credibility with its stakeholders.
- ◆ Ability to serve the public interest.

Internal auditing is most effective when:

- ◆ It is performed by competent professionals in conformance with the Global Internal Audit Standards, which are set in the public interest.
- ◆ The internal audit function is independently positioned with direct accountability to the board.
- ◆ Internal auditors are free from undue influence and committed to making objective assessments.

Standard 8.2 Resources

The chief audit executive must evaluate whether internal audit resources are sufficient to fulfill the internal audit mandate and achieve the internal audit plan. If not, the chief audit executive must develop a strategy to obtain sufficient resources and inform the board about the impact of insufficient resources and how any resource shortfalls will be addressed.

Standard 9.1 Understanding Governance, Risk Management, and Control Processes

To develop an effective internal audit strategy and plan, the chief audit executive must understand the organization’s governance, risk management, and control processes.

To understand governance processes, the chief audit executive must consider how the organization:

- ◆ Establishes strategic objectives and makes strategic and operational decisions.
- ◆ Oversees risk management and control.
- ◆ Promotes an ethical culture.
- ◆ Delivers effective performance management and accountability.
- ◆ Structures its management and operating functions.
- ◆ Communicates risk and control information throughout the organization.
- ◆ Coordinates activities and communications among the board, internal and external providers of assurance services, and management.



DRAFT – PENDING BOARD APPROVAL**Standard 9.1 Understanding Governance, Risk Management, and Control Processes (con't)**

To understand risk management and control processes, the chief audit executive must consider how the organization identifies and assesses significant risks and selects appropriate control processes. This includes understanding how the organization identifies and manages the following key risk areas:

- ◆ Reliability and integrity of financial and operational information.
- ◆ Effectiveness and efficiency of operations and programs.
- ◆ Safeguarding of assets.
- ◆ Compliance with laws and/or regulations.

Standard 9.2 Internal Audit Strategy

The chief audit executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders.

An internal audit strategy is a plan of action designed to achieve a long-term or overall objective. The internal audit strategy must include a vision, strategic objectives, and supporting initiatives for the internal audit function. An internal audit strategy helps guide the internal audit function toward the fulfillment of the internal audit mandate.

The chief audit executive must review the internal audit strategy with the board and senior management periodically.

Standard 9.4 Internal Audit Plan

The chief audit executive must create an internal audit plan that supports the achievement of the organization's objectives.

The chief audit executive must base the internal audit plan on a documented assessment of the organization's strategies, objectives, and risks. This assessment must be informed by input from the board and senior management as well as the chief audit executive's understanding of the organization's governance, risk management, and control processes. The assessment must be performed at least annually.

The internal audit plan must:

- ◆ Consider the internal audit mandate and the full range of agreed-to internal audit services.
- ◆ Specify internal audit services that support the evaluation and improvement of the organization's governance, risk management, and control processes.
- ◆ Consider coverage of information technology governance, fraud risk, the effectiveness of the organization's compliance and ethics programs, and other high-risk areas.
- ◆ Identify the human, financial, and technological resources necessary to complete the plan.
- ◆ Be dynamic and updated timely in response to changes in the organization's business, risks, operations, programs, systems, controls, and organizational culture.



DRAFT – PENDING BOARD APPROVAL**Standard 9.4 Internal Audit Plan (con't)**

The chief audit executive must review and revise the internal audit plan as necessary and communicate timely to the board and senior management:

- ◆ The impact of any resource limitations on internal audit coverage.
- ◆ The rationale for not including an assurance engagement in a high-risk area or activity in the plan.
- ◆ Conflicting demands for services between major stakeholders, such as high-priority requests based on emerging risks and requests to replace planned assurance engagements with advisory engagements.
- ◆ Limitations on scope or restrictions on access to information.

The chief audit executive must discuss the internal audit plan, including significant interim changes, with the board and senior management. The plan and significant changes to the plan must be approved by the board.

Standard 10.1 Financial Resource Management

The chief audit executive must manage the internal audit function's financial resources.

The chief audit executive must develop a budget that enables the successful implementation of the internal audit strategy and achievement of the plan. The budget includes the resources necessary for the function's operation, including training and acquisition of technology and tools. The chief audit executive must manage the day-to-day activities of the internal audit function effectively and efficiently, in alignment with the budget.

The chief audit executive must seek budget approval from the board. The chief audit executive must communicate promptly the impact of insufficient financial resources to the board and senior management.

Standard 14.4 Recommendations and Action Plans

Internal auditors must determine whether to develop recommendations, request action plans from management, or collaborate with management to agree on actions to:

- ◆ Resolve the differences between the established criteria and the existing condition.
- ◆ Mitigate identified risks to an acceptable level.
- ◆ Address the root cause of the finding.
- ◆ Enhance or improve the activity under review.

When developing recommendations, internal auditors must discuss the recommendations with the management of the activity under review.

If internal auditors and management disagree about the engagement recommendations and/or action plans, internal auditors must follow an established methodology to allow both parties to express their positions and rationale and to determine a resolution.

