



Audit Committee

Annual Internal Audit Plan and Risk & Control Discussion

Item 7f

March 9, 2026

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Item 7f Internal Audit Plan and Risk & Control Discussion

Subject

Annual Internal Audit Plan and Risk & Control Discussion

Purpose

1. Explain how the Office of the General Auditor creates the annual risk-based internal audit plan
2. Provide an overview of internal control
3. Share current risk information
4. Obtain the Board's input regarding the District's internal control environment and current risk profile

Next Steps

Audit Committee and Board approval of the Internal Audit Plan for Fiscal Year 2026/27 in June 2026



Creating the Risk-Based Internal Audit Plan

Creating the Risk-Based Internal Audit Plan

Audit Department Responsibilities

[Admin. Code § 6451 (d)(1)]

Develop and present a flexible annual audit plan to the Audit Committee for review and approval. This plan should:

- Be developed utilizing a risk-based methodology
- Include risks or internal control concerns identified by:
 - Management
 - Board of Directors

Creating the Risk-Based Internal Audit Plan

Introduction

Global Internal Audit Standard 9.4

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

Requirements

- Consider the internal audit mandate
- Specify internal audit services that support Metropolitan
- Consider coverage of high-risk areas
- Identify resource requirements
- Be dynamic and timely

Process Overview



Creating the Risk-Based Internal Audit Plan

1. Understand



2. Risks

3. Resources & Engagements

4. Audit Plan

5. Board Approval

6. Execute Plan

Understand the Organization

- Understand governance, risk management, & control processes
 - Review key documents
 - Meet with the Board
 - Hold management meetings
 - Obtain internal audit staff input
- Identify emerging risks
- Update audit universe

Creating the Risk-Based Internal Audit Plan



Identify, Assess, and Prioritize Risks

- Understand business objectives, strategies, & risks
- Identify & document risks
- Assess risk assessment method
- Measure risks
- Score & prioritize auditable units

Creating the Risk-Based Internal Audit Plan



Measure Risks

- Auditable unit
- Risk Ratings
 - Impact
 - Loss exposure – financial, reputational
 - Strategic risk – political, legal
 - Likelihood
 - Control environment
 - Complexity
 - Assurance coverage
 - Board/management concern
 - Velocity

Creating the Risk-Based Internal Audit Plan



Score & Prioritize Auditable Units

- Risk factor weights
- Preliminary risk score
- Review 1
- Executive management review
- Review 2
- Final risk score
- Auditable unit ranking

Creating the Risk-Based Internal Audit Plan



Additional Planning Considerations

- Board & management requests
- Assurance needs
- Mandated engagements (law or regulation)
- Activities critical to mission, strategy, or high-risk areas
- Advisory or ad hoc requests
- Resource availability (time and staffing)

Creating the Risk-Based Internal Audit Plan

1. Understand

2. Risks

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Estimate Resources

- Assess staff's knowledge, skills, & abilities
- Coordinate coverage with other assurance providers
- Calculate available plan hours

Identify Engagements

- Update service portfolio
- Identify planned engagements
- Determine any audit coverage limitations
- Ascertain additional skills required

Creating the Risk-Based Internal Audit Plan



Prepare the Audit Plan

- Executive summary
- Department overview
- Risk assessment process
- Risk assessment summary
- Service portfolio
- Planned engagements
- Risk coverage map
- Resource plan
- Organizational chart
- Standards

Creating the Risk-Based Internal Audit Plan

1. Understand

2. Risks

3. Resources & Engagements

4. Audit Plan

5. Board Approval

6. Execute Plan



Present Audit Plan for Board Approval

- Share with department heads
- Present to the Audit Committee for approval
- Obtain Board approval
- Distribute

Creating the Risk-Based Internal Audit Plan

1. Understand

2. Risks

3. Resources & Engagements

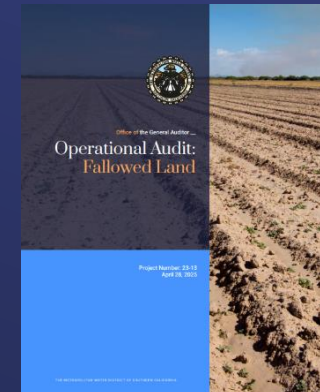
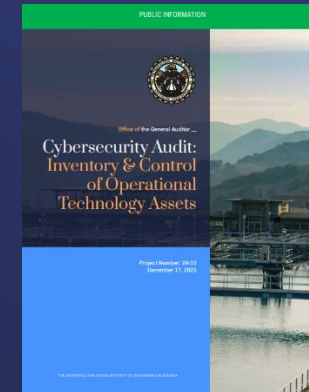
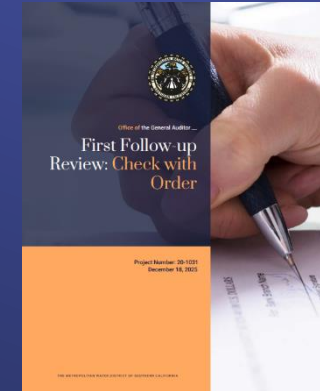
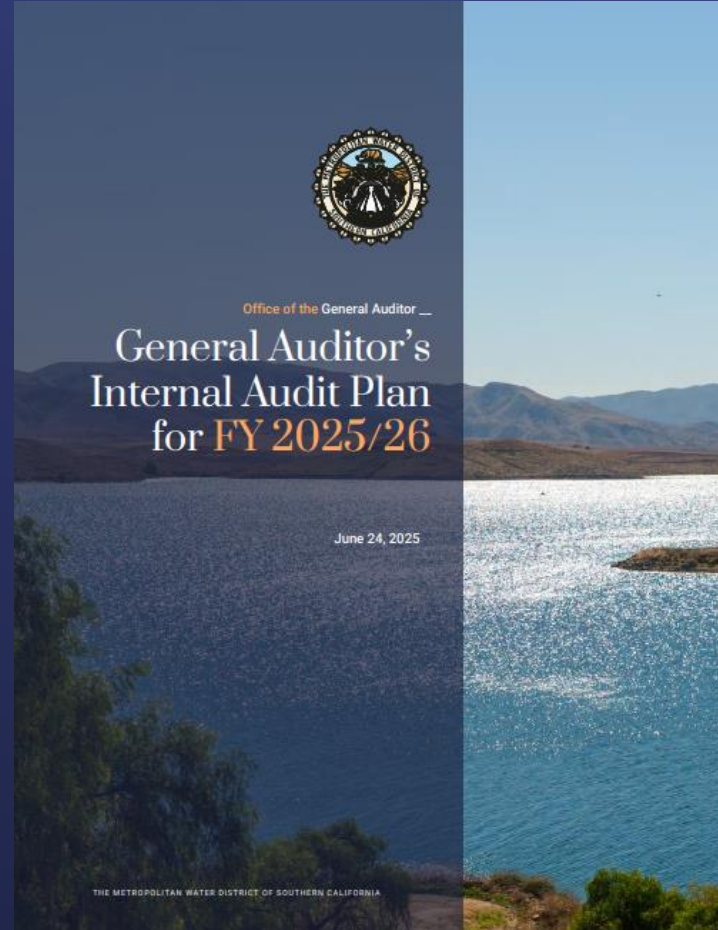
4. Audit Plan

5. Board Approval

6. Execute Plan



Executing the Audit Plan



Creating the
Risk-Based
Internal Audit
Plan

Questions?



Internal Control

Internal Control

Executive Committee: Duties & Functions

[Admin. Code § 2416 (b)(4)]

Consider the effectiveness of the District's internal control system, including information technology security and control

Internal Control

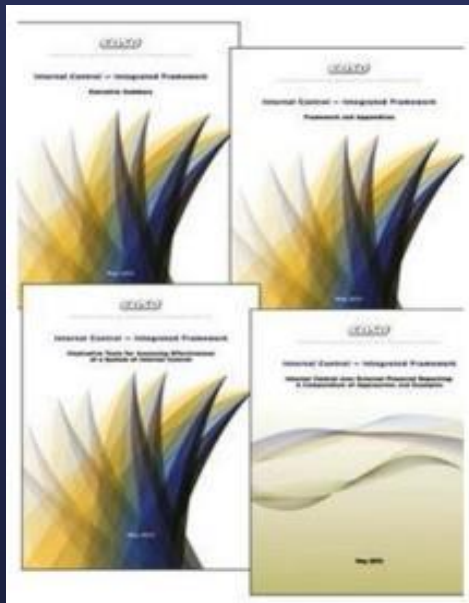


What is Internal Control?

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, and compliance.

Source: COSO, May 2013

Internal Control



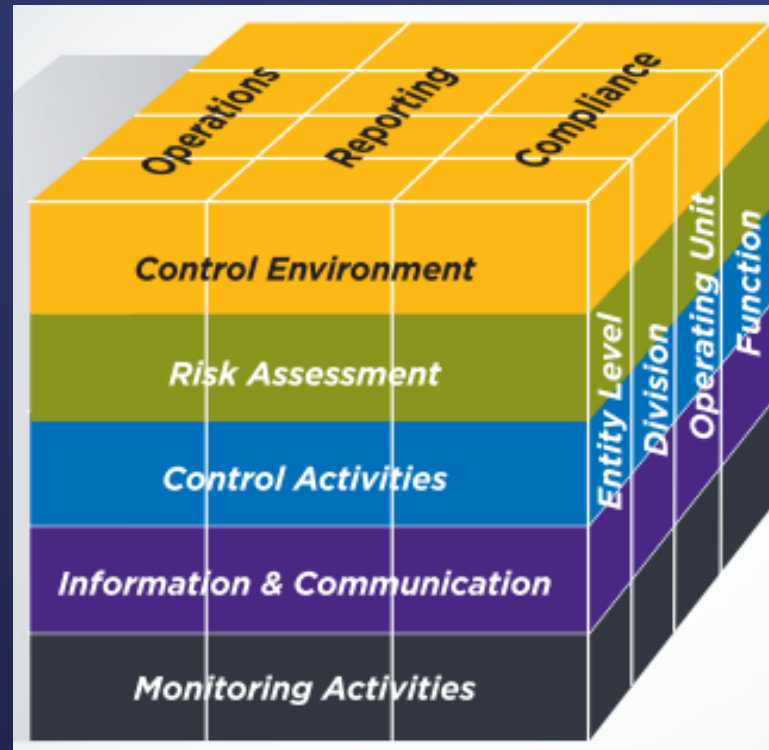
COSO Internal Control-Integrated Framework

- Leading internal control framework:
 - Designing
 - Implementing
 - Evaluating
- Released in 1992; updated in 2013
- Future initiative: Adoption by Metropolitan

COSO Internal Control-Integrated Framework

Internal Control

Objectives



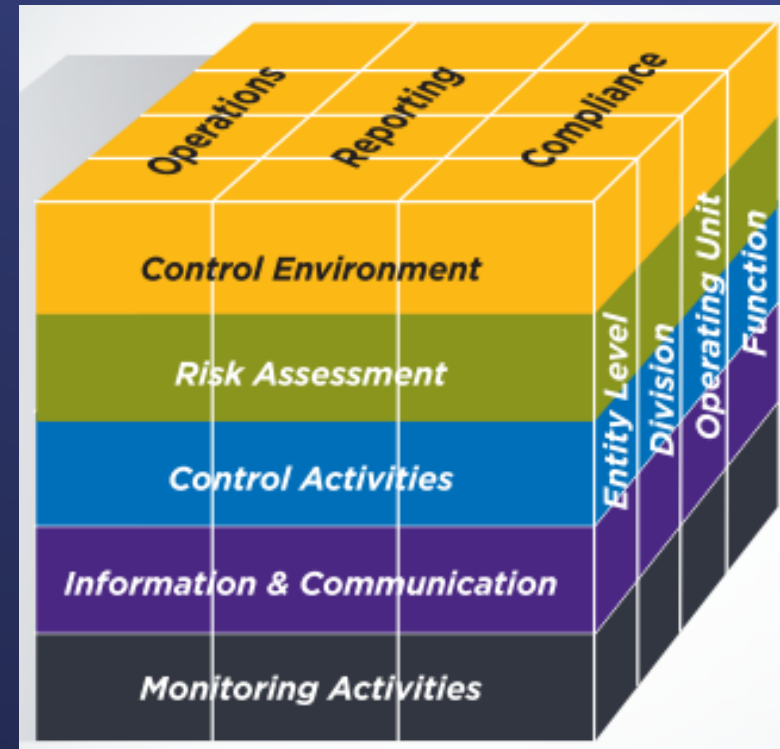
Operations:

- Strategic Plans
- Effective and Efficient
- Safeguarding Assets

COSO Internal Control-Integrated Framework

Internal
Control

Components



Internal Control

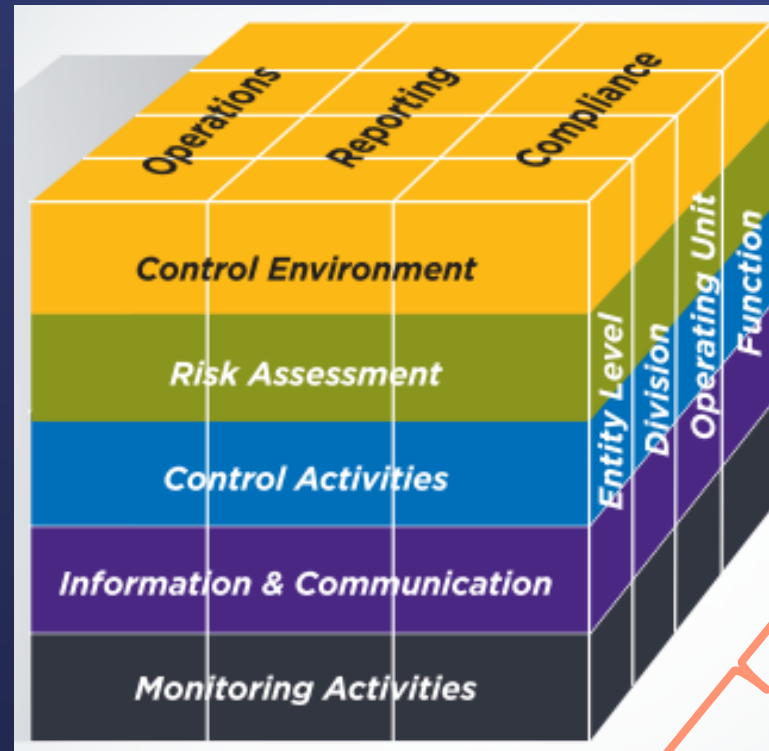


Control Environment

- The foundation for the District's internal control system
- Consists of five principles:
 1. Board and management demonstrate commitment to integrity and ethical values
 2. Board oversees the District's internal control system
 3. Management establishes structure, responsibility, and authority
 4. Management demonstrates commitment to employee competence
 5. Management enforces accountability

COSO Internal Control-Integrated Framework

Internal
Control



Organizational
Structure

Internal
Control

Questions?



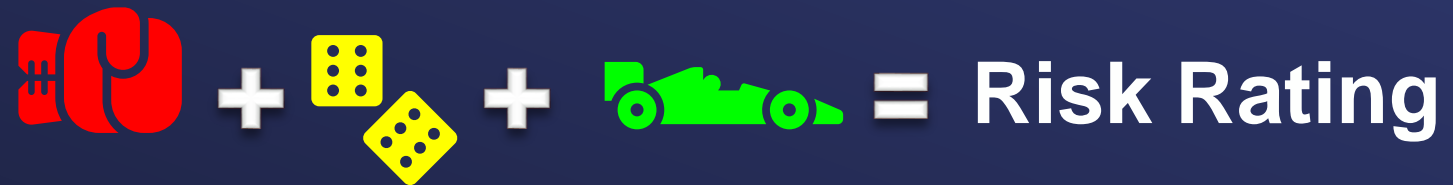
Risk Considerations




Definition of Risk



What is Risk?

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



 +  +  = Risk Rating

Source: IIA

Risk Areas

Business resilience	Governance/corporate reporting
Climate change/environment	Health/safety
Communications/reputation	Human capital
Cybersecurity	Market changes/competition
Digital disruption (e.g., AI)	Mergers/acquisition
Financial/liquidity	Organizational culture
Fraud	Regulatory change
Geopolitical/macroeconomic uncertainty	Supply chain (e.g., third party)

Source: IAF Risk in Focus 2026

Top 5 Risks

IIA - Risk in Focus 2026	Protiviti - Top Risks 2026
Cybersecurity	Cyber Threats
Digital Disruption (including AI)	Third-Party
Regulatory Change	Economic Conditions
Business Resilience	New Risks from Implementing AI
Geopolitical uncertainty	Regulatory Changes

Sources: IAF Risk in Focus 2026 and Protiviti Top Risks 2026

Risk Considerations



Geopolitical Uncertainty

- 5th highest risk
- Highest gain in risk rating
- Rapid changes in U.S. policies
- Challenges include:
 - Coping with new volatility
 - Policy change uncertainty

Source: IAF Risk in Focus 2026

Risk Considerations



Digital Disruption

- 2nd highest risk
- Top 5 risks by 53% of audit leaders
- Challenges include:
 - Increase in cyber attacks
 - Workforce adoption
 - Governance restrictions

Source: IAF Risk in Focus 2026

Risk
Considerations

Questions?



Appendix

Board Committees & Functional Areas

Board Committees & Functional Areas

Appendix



Board Committees & Functional Areas

Appendix

Engineering, Operations, & Technology

Power Operations &
Planning

Water Treatment

Infrastructure Reliability

Water Quality

Information Technology
(General)

Cybersecurity

Water Conveyance &
Distribution

Program Management

Water Operations &
Planning

Planning

Operations Support

Engineering Design

Board Committees & Functional Areas

One Water & Adaptation

Centralized Grants & Research

Bay Delta Initiatives

Water Resource Implementation

Water Resource Planning & Development

Sustainability, Resilience, & Innovation

Land Management

Environmental Planning

Appendix

Board Committees & Functional Areas

Finance, Affordability, Asset Management, & Efficiency

Business Continuity

Treasury & Debt Management

Administrative Services

Controller

Revenue & Budget

Risk Management

Appendix

Board Committees & Functional Areas

Organization, Personnel, & Effectiveness

Human Resources

Employee Relations

Security

Operational Safety &
Regulation

Training

Appendix

Board Committees & Functional Areas

Appendix

Community & Workplace Culture

Diversity, Equity, & Inclusion
(DEI)

Equal Employment Opportunity
(EEO)

Ethics Office

