



Subcommittee on Audits

Audit Department Charter Review

Item 3b

January 23, 2024

Item 3b Internal Audit Charter Review

Subject

Walkthrough of the General Auditor Department Charter

Purpose

To perform the annual review of the Audit Department Charter and communicate pending updates.

Next Steps

Make updates to the Charter to ensure full alignment with the Institute of Internal Audit Standards and current department operations and return to the Board for review and approval in Q4.

The Institute of Internal Auditors

What is the IIA?

- The internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications.
- Established in 1941, the IIA today serves more than 200,000 members from more than 170 countries and territories.

Professional Standards



The IIA sets the standards for the way internal auditing is practiced around the world through the International Professional Practices Framework (IPPF).

Administrative Code

6451 Audit Department Charter

- 6451(a) - Mission & Scope of Work
- 6451(b) - Accountability
- 6451(c) - Professional Standards
- 6451(d) - Responsibilities
- 6451(e) - Authority

Audit Department Charter

6451 (a) - Mission & Scope of Work

Mission

- Provide independent, professional, objective assurance and consulting services designed to add value and improve Metropolitan's operations.
- Helps the organization accomplish its objectives by using a proactive, systematic approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Audit Department Charter

6451 (a) - Mission & Scope (cont.)

Scope

The scope of work of the Audit Department is to determine whether the organization's network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

1. Risks are appropriately identified, managed and monitored;
2. Significant financial, managerial and operating information is accurate, reliable, and timely;
3. Employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations;

Audit Department Charter

6451 (a) - Mission & Scope (cont.)

4. Resources are acquired economically, used efficiently, and adequately protected;
5. Programs, plans, and objectives are achieved;
6. Quality and continuous improvement are fostered in the organization's control process;
7. Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

Audit Department Charter

6451 (b) - Accountability

The General Auditor shall be accountable to the Board of Directors and the Finance, Audit, Insurance, and Real Property Committee to:

1. Advise on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks;
2. Report significant issues related to the processes for controlling the activities of the organization, including potential improvements in those processes, and provide information concerning such issues through to resolution;
3. Coordinate with other Metropolitan control and monitoring functions (risk management, legal, finance, ethics, security, and environmental)

Audit Department Charter



6451 (c) - Professional Standards

The Audit Department shall govern itself by adherence to the Institute of Internal Auditors' mandatory guidance, including:

- The Definition of Internal Auditing
- The Code of Ethics
- The International Standards for the Professional Practice of Internal Auditing (Standards)

This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Audit Department's performance.

These documents constitute the operating procedures for the department and constitute an addendum to the charter.

Audit Department Charter

6451 (c) - Professional Standards (cont.)

The following is to be adhered to by Department staff:

- The IIA's Practice Advisories, Practice Guides, and Position Papers, as applicable
- Metropolitan's policies and procedures
- The California Government Code
- Government Audit Standards (GAGAS)
- Audit Department Policy and Procedures Manual

Audit Department Charter

6451 (d) - Responsibilities

1. Develop and present a flexible 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;
2. Report periodically to the Finance, Audit, Insurance and Real Property Committee and Management the status of the current year's audit plan and the sufficiency of department resources;
3. Issue an opinion on internal controls over financial reporting on an annual basis;
4. Submit audit reports to the Finance, Audit, Insurance, and Real Property Committee and Management communicating the auditor's opinion regarding the internal control structure, identifying significant control issues and providing related recommendations;

Audit Department Charter

6451 (d) - Responsibilities (cont.)

5. Evaluate the adequacy and timeliness of Management's responses to, and the corrective action taken on, all significant control issues noted in such reports. Conduct follow-up reviews as necessary and periodically report to the Finance, Audit, Insurance and Real Property Committee the status of Management's progress;
6. Ensure the selection, development, and supervision of competent and professional audit staff;
7. Perform a quality assurance program by which the General Auditor evaluates internal auditing activities against professional standards. Obtain external quality assurance review as required by GAGAS and the Standards;
8. Perform consulting services to assist management in meeting its objectives. Examples may include facilitation, process design, training and advisory services;

Audit Department Charter

6451 (d) - Responsibilities (cont.)

9. Evaluate additions or changes in internal control processes coincident with their development and implementation;
10. Keep the Finance, Audit, Insurance and Real Property Committee informed of significant emerging trends and best practices in internal auditing and governance;
11. Assist in the investigation of significant suspected fraudulent activities within the organization. Assure reporting to the Finance, Audit, Insurance and Real Property Committee on the results, as appropriate;
12. Coordinate with external auditors to minimize duplication of effort and ensure that issues raised, as a result of their review, are appropriately addressed;

Audit Department Charter

6451 (e) - Authority

The General Auditor and Audit Department staff members are authorized to:

1. Have unrestricted access to all functions, records, property, and personnel, subject to the requirements of safekeeping, confidentiality and applicable processes;
2. Have full and free access to the Finance, Audit, Insurance and Real Property Committee, subject to applicable law;
3. Allocate resources, set frequencies, and select subject, determine scopes of work, and apply techniques required to accomplish audit objectives;
4. Obtain the necessary assistance of personnel in units of the organization where they perform audit, as well as other specialized services within or outside the organization;

Audit Department Charter

6451 (e) - Authority

The General Auditor and Audit Department staff are not authorized to:

1. Perform any operational duties for the organization;
2. Initiate or approve accounting transactions external to the internal auditing department;
3. Direct the activities of any organization employee not employed by the internal auditing department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

Audit Department Charter

Planned Updates

1. Clarification of:
 - Internal audit's responsibility regarding assisting in the investigation of significant suspected fraudulent activities – Section 645l(d) – Item #11
 - QAIP policy and procedure key activities – Section 645l(d) – Item #7
2. Update of follow-up process to reflect new process in place – Section 645l(d) – item #5
3. Add to the Charter:
 - Adherence to the Core Principles (if still required per the new standards)
 - Information technology under Scope of Work – Section 645l(a)

Audit Department Charter

Planned Updates (cont.)

4. Strikeout of:
 - Issuing an opinion on internal controls over financial reporting on an annual basis – Section 645l(d) – item #3
 - References to Yellow Book Standards (i.e. GAGAS)
5. Miscellaneous minor corrections (e.g. usage).

Updated IIA Standards were released on Tuesday, January 9, 2024, effective January 2025 with early adoption allowed. We will evaluate the new Standards and incorporate necessary changes to the Charter, as appropriate.

