



- **Board of Directors**  
***Audit Committee***

6/9/2026 Board Meeting

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7-7

## Subject

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Approve amendments to the Metropolitan Water District Administrative Code Section 6451 regarding the Audit Department Charter; the General Manager has determined that the proposed actions are exempt or otherwise not subject to CEQA

## Executive Summary

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The Office of the General Auditor conforms to the Global Internal Audit Standards (Audit Standards) set by The Institute of Internal Auditors (IIA). These Audit Standards were updated effective January 9, 2025. To conform with the new Audit Standards and IIA recommendations, the proposed amendments will update the Audit Department's charter (Section 6451). The proposed changes significantly revise the existing charter/Administrative Code; however, no additional resources will be required, no additional authority is requested, and the changes mainly codify the Office of the General Auditor's existing practices. Specific changes include:

1. Renaming subsection (a) and replacing the Mission with the Purpose of Internal Auditing.
2. A minor update to subsection (b) Accountability.
3. Updating subsection (c) Professional Standards to conform to new Audit Standards references, including internal auditor responsibilities.
4. Updating and moving Authority to subsection (d), specifying express authority granted by the Board, and clarifying prohibited Audit Department activities.
5. Adding a new subsection (e) Role containing the former Scope of Work (now internal audit services), clarifying the existing list, and adding items.
6. Updating subsection (f) Responsibilities by clarifying the existing list and adding items.
7. Adding subsection (g) Independence, affirming the General Auditor's direct reporting relationship to the Board, and defining functional and administrative reporting by the General Auditor.
8. Adding subsection (h) Communications, defining specific instances requiring General Auditor communication to the Board and management.
9. Other minor, non-substantive changes.

The subject of this board action was presented as information item 7c to the Audit Committee at its March 9, 2026, meeting. Input was subsequently received from one board member and included in the proposed change. Other minor, non-substantive changes were made.

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

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### Staff Recommendation: Option #1

#### Option #1

Approve amendments to the Metropolitan Water District Administrative Code Section 6451 regarding the Audit Department Charter.

**Fiscal Impact:** None

**Business Analysis:** This option will improve the Audit Department Charter by aligning this portion of the Administrative Code with current internal auditing standards and recommendations from The Institute of Internal Auditors.

#### Option #2

Do not approve amendments to the Metropolitan Water District Administrative Code.

**Fiscal Impact:** None

**Business Analysis:** The Audit Department Charter will not be amended to conform to current internal auditing standards and recommendations from The Institute of Internal Auditors.

### Alternatives Considered

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Not applicable

### Applicable Policy

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Metropolitan Water District Administrative Code Section 6451: Audit Department Charter

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

### Related Board Action/Future Actions

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Board-approved amendments to the Audit Department Charter in item 7-1 on December 10, 2024. Administrative Code 6451(e) requires an annual review of the Audit Department Charter, with amendments proposed to the Board accordingly.

### California Environmental Quality Act (CEQA)

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#### CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves organizational, maintenance, administrative activities, and/or general policy and procedure making that will not result in a direct or indirect physical change to 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

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#### Amendments to Administrative Code Section 6451 (Audit Department Charter)

Professional internal auditing standards require the chief audit executive (Metropolitan's General Auditor) to develop and maintain an internal audit charter that specifies, at a minimum, the following:

- (1) The Purpose of Internal Auditing,
- (2) A commitment to adhering to the Global Internal Audit Standards,
- (3) Internal audit mandate, including scope and types of services to be provided, and the Board's responsibilities and expectations regarding management's support of the internal audit function, and
- (4) Organizational position and reporting relationships.

The General Auditor must discuss the proposed charter with the Board and senior management to confirm that it accurately reflects their understanding and expectations of the internal audit function.

The District's Audit Department charter is contained within Metropolitan Water District Administrative Code Section 6451. This section also requires an annual review of the charter, which was completed at the December 8, 2025, Audit Committee meeting, where future action to update the charter was discussed. Additionally, the proposed changes were presented to the Audit Committee as information item 7c at its March 9, 2026, meeting. Subsequent to the March meeting, one board member proposed an additional change. The recommendation was reviewed by the Audit Department and incorporated into the proposed changes.

The Institute of Internal Auditors released a standards and guidance tool, the Guide to Customizing the Model Internal Audit Charter for Public Sector Use, for public sector agencies to consider when updating their internal audit charters to conform with the Audit Standards and best practices of internal audit functions. Audit Department staff reviewed the charter against the tool and propose amending Section 6451 as follows:

1. Subsection (a) Purpose

- Rename and update internal audit's Purpose as prescribed in the Audit Standards. This will replace the former mission, which the Audit Department will revise and release separately.
- Move items previously described in the Scope of Work to the new Role subsection.

2. Subsection (b) Accountability

- Add a reference to reporting significant issues related to risk management.

3. Subsection (c) Professional Standards

- Update to conform to new Audit Standards references (delete former Standards references).
- Add requirements of Audit Department staff regarding unbiased mental attitude, impairment disclosure, professional objectivity, balanced assessment, and precautions to avoid conflicts of interest.

4. Subsection (d) Authority

- Update to specify that the Audit Department's authority is created by its direct reporting relationship to the Board and the express authority granted to the Audit Department by the Board.
- Add clarification regarding Audit Department access, communications, the express prohibition on conducting services in areas over which internal audit has operational responsibility, imposing a time restriction on auditing areas previously worked in, and describing situations when the charter may require review and revision.
- Move Authority from former subsection (e) to set the order of the remaining mandate Audit Standards elements (e) Role and (f) Responsibilities.
- Renumber subsections to avoid previous repetition of numbering.

5. Subsection (e) Role

- Move content formerly in the Scope of Work to this new section in alignment with the Audit Standards and rename to scope of internal audit services.
- Clarify the role of the Audit Department.
- Update the existing list of services with additional items covering operations/programs and process compliance.
- Add a new section for the provision of advisory services.

#### 6. Subsection (f) Responsibilities

- Update to include clarifications to the existing list of responsibilities the General Auditor is responsible for ensuring the Audit Department carries out.
- Add that the audit plan may be changed in response to changes in Metropolitan's business, risks, operations, programs, systems, and controls.
- Add that recommendations not implemented by management and disagreements on audit recommendations are referred to the Audit Committee.
- Add assurance that the Audit Department collectively possesses or obtains the necessary knowledge, skills, and other competencies and qualifications.
- Expand on the requirements of the quality assurance and improvement program, including defining internal and external quality assessments, requirements, and reporting of results.
- Refine reporting on information items related to trends and emerging issues.
- Expand on coordination with other assurance and advisory providers.
- Add references to Standards conformance, ethical behavior, and reporting of behavior inconsistent with the District's ethical expectations to the Ethics Office.
- Add reporting of objectivity or independence issues.
- Add engagement conformance/compliance with Standards, laws, and regulations.
- Add resolution of conflicts between the Administrative Code, policy and procedures, and Standards.
- Add reference to confidentiality and safeguarding records and information.
- Add consideration of emerging trends and successful internal auditing practices.

#### 7. Subsection (g) Independence

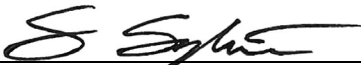
- Add a new subsection that affirms the position of the Audit Department in the District.
- Define functional reporting for the General Auditor to the Board and administrative reporting to the General Manager.
- Explain that directly reporting to the Board provides the General Auditor organizational authority and status to bring matters directly to senior management and escalate matters to the Board.
- Require annual reporting of organizational independence to the Board and disclosure to the Board of any interference encountered related to the scope, performance, or communication of internal audit work or results.

#### 8. Subsection (h) Communications

- Add a new subsection covering specific reporting required by the General Auditor to the Board and management.
- Define specific communications to include: (1) the Audit Department mandate, (2) internal audit plan performance, (3) Audit Department budget, (4) significant change to the internal audit plan or budget, (5) impairments to independence, (6) quality assurance and improvement program results, (7) significant risks or control issues, (8) results of assurance or advisory services, (9) resource requirements, and (10) unacceptable acceptance of risk by management.

Recommendations to update Administrative Code Section 2421 regarding the Audit Committee will be presented at a future Audit Committee meeting.

All amendments are effective upon board approval unless specified otherwise.

  
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Scott Suzuki  
General Auditor

5/19/2026

Date

  
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Shivaji Deshmukh  
General Manager

5/19/2026

Date

**Attachment 1 – Metropolitan Water District Administrative Code Section 6451: Audit Department Charter (with changes marked)**

**Attachment 2 – Metropolitan Water District Administrative Code Section 6451: Audit Department Charter (clean copy)**

Ref# a12706399

**Division VI**  
**PERSONNEL MATTERS**  
**Chapter 4**  
**OFFICERS**  
**Article 4**  
**GENERAL AUDITOR**

**§ 6451. Audit Department Charter.**

(a) ~~Purpose – The purpose of the Audit Department 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. The Audit Department enhances Metropolitan’s: successful achievement of its objectives; governance, risk management, and control processes; decision-making and oversight; reputation and credibility with its stakeholders; and ability to serve the public interest. Mission and Scope of Work – The mission of the Audit Department is to provide independent, professional, objective assurance and consulting services designed to add value and improve Metropolitan’s operations. It helps the District accomplish its objectives by using a proactive, systematic approach to evaluate and improve the effectiveness of governance, risk management, and internal control. The scope of work of the Audit Department is to determine whether the District’s network of governance, risk management, and internal control, as designed and represented by District 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;~~

~~(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 District’s control process;~~

~~(7) Significant legislative or regulatory issues impacting the District are recognized and addressed appropriately; and~~

~~(8) Information technology is governed and systems and applications are securely deployed and monitored.~~

~~Metropolitan's Audit Department is most effective when: internal auditing is performed by competent professionals in conformance with The Institute of Internal Auditor's Global Internal Audit Standards (Standards), which are set in the public interest; the Audit Department is independently positioned with direct accountability to the Board of Directors; and internal auditors are free from undue influence and committed to making objective assessments. Opportunities for improving management internal control, efficiency and the District's image may be identified during audits. They will be communicated to the appropriate level of District management.~~

(b) Accountability ~~—~~—The General Auditor shall be accountable to the Board of Directors and the Audit Committee to:

(1) Advise on the adequacy and effectiveness of the District's processes for controlling its activities and managing its risks;

(2) Report significant issues related to the processes for controlling the activities of the District and managing its risks, including potential improvements to those processes, and provide information concerning such issues through to resolution; and

(3) Coordinate with other District control and monitoring functions (e.g., risk management, legal, finance, ethics, security, environmental).

(c) Professional Standards – The Audit Department shall govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. mandatory guidance, including the Definition of Internal Auditing, the Code of Ethics, and 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. ~~The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers shall also be adhered to as applicable.~~ In addition, Audit Department staff shall adhere to Metropolitan's policies and procedures, the California Government Code; and the Audit Department's Policies and Procedures Manual.

Internal auditors will:

(1) Maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

(2) Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually.

(3) Exhibit professional objectivity in gathering, evaluating, and communicating information.

(4) Make balanced assessments of all available and relevant facts and circumstances.

(5) Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

(d) Authority – —The Audit Department’s authority is created by its direct reporting relationship to the Board of Directors. Such authority allows for unrestricted access to the Board of Directors.

(1) The Board of Directors authorizes the General Auditor and Audit Department staff members to:

(i) Have full and unrestricted access to all functions, data, records, information, physical property, and personnel, pertinent to carrying out internal audit responsibilities, subject to the requirements of safekeeping, confidentiality, and applicable processes;

(ii) Have full and free access to the Audit Committee, subject to applicable law;

(iii) Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue communications to accomplish the function’s objectives; and

(iv) Obtain the necessary assistance of District personnel, as well as other specialized services from within or outside the District to complete internal audit services.

(2) Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment. Accordingly, the General Auditor and Audit Department staff are not authorized to:

(i) Perform any operational duties for the District or member agencies;

(ii) Initiate or approve transactions external to the Audit Department;

(iii) Direct the activities of any District employee not employed by the Audit Department, except to the extent such employees have been appropriately assigned to internal auditing teams or to otherwise assist the internal auditors; or

(iv) Assess specific operations for which they had responsibility within the previous year.

Circumstances may justify a follow-up discussion between the General Auditor, Board of Directors, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to: a significant change in the Standards; a significant reorganization within the District; significant changes in the Direct Report Team, Board of Directors, and/or senior management; significant changes to the District's strategies, objectives, risk profile, or the environment in which the District operates; or new laws or regulations that may affect the nature and/or scope of internal audit services.

This Charter shall be reviewed at least annually by the Audit Committee and Board of Directors.

(e) Role – The primary role of the Audit Department is to conduct internal audit activities and deliver internal audit services. The scope of internal audit services covers the entire breadth of the District, including all of Metropolitan's activities, assets, and personnel. The scope of internal audit activities also encompasses, but is not limited to, objective examinations of evidence to provide independent assurance and advisory services to the Board of Directors and management to determine whether the District's network of governance, risk management, and internal control, as designed and represented by District management, is adequate and functioning in a manner to ensure:

(1) Risks related to the achievement of Metropolitan's strategic objectives are appropriately identified, managed and monitored;

(2) The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable;

(3) Actions by Metropolitan's officers, directors, management, employees, contractors, or relevant parties are in compliance with Metropolitan's policies, procedures and applicable laws, regulations, and governance standards;

(4) Resources and assets are acquired economically, used efficiently and sustainably, and adequately protected;

(5) The results of operations and programs are consistent with established goals and objectives;

(6) Quality and continuous improvement are fostered in the District's control process;

(7) Significant legislative or regulatory issues impacting the District are recognized and addressed appropriately;

(8) Information technology is governed and systems and applications are securely deployed and monitored;

(9) Operations and programs are being carried out effectively, efficiently, ethically, and equitably; and

(10) Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Metropolitan.

The nature and scope of advisory services may be agreed with by management requesting the service, provided the Audit Department does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and internal control may be identified during advisory engagements, and will be communicated to the appropriate level of District management.

(df) Responsibilities --—The Audit Department shall carry out the following responsibilities:

(1) Develop and present a flexible annual audit plan to the Audit Committee and Board of Directors for review and approval. This plan should be developed utilizing a risk-based methodology and should include input and discussion on risks or internal control concerns identified by mManagement or the Board of Directors. Review and adjust the internal audit plan, as necessary, in response to changes in Metropolitan's business, risks, operations, programs, systems, and controls;

(2) Report periodically to the Audit Committee and District management the status of the current year's audit plan and the sufficiency of department resources limitations on the audit plan. Communicate with the Audit Committee and senior management if there are significant interim changes to the internal audit plan;

(3) Submit audit reports to the Audit Committee and District management communicating the General Auditor's opinion regarding the internal control structure, identifying significant control issues, and providing related recommendations;

(4) Evaluate the adequacy and timeliness responsiveness of District management's responses to, and the corrective action taken on, all recommendations noted in such audit reports. Conduct follow-up reviews as necessary and periodically report to the Audit Committee and senior management the status of District management's progress. Referrals to the Audit Committee shall be made for recommendations not agreed to by management or determined to be not fully implemented upon secondary follow-up review;

(5) Ensure the selection, development and supervision of competent and professional audit staff. Ensure the Audit Department collectively possesses or obtains the

knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Standards and fulfill the internal audit mandate;

(6) Develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the Audit Department. Perform a quality assurance program by which the General Auditor evaluates internal auditing activities against professional standards. Obtain an external quality assurance review as required by the Standards;

(i) The program will include external and internal assessments of the Audit Department's conformance with the Standards, as well as performance measurement to assess the Audit Department's progress toward the achievement of its objectives and promotion of continuous improvement. The program will also assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the Audit Department's deficiencies and opportunities for improvement.

(ii) Annually, the General Auditor will communicate with the Audit Committee and senior management about the Audit Department's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside Metropolitan; qualifications must include at least one assessor holding an active Certified Internal Auditor credential.

(7) Perform advisory services to assist District management in meeting its objectives. Examples may include facilitation, process design, training, and assessment services;

(8) Evaluate additions or changes in internal control processes coincident with their development and implementation;

(9) Keep the Audit Committee and senior management informed as appropriate through information items of significant emerging trends and best practices in internal auditing and governance emerging issues that could impact the District;

(10) Assist in the investigation of significant suspected fraudulent activities within the District. Assure reporting to the Audit Committee on the results, as appropriate; ~~and~~

(11) Coordinate activities and consider relying on the work of other internal and external providers of assurance and advisory services with external auditors to minimize duplication of effort. and to eEnsure that significant issues raised as a result of their review; are appropriately addressed. If the General Auditor cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and, if necessary, escalated to the Audit Committee;

(12) Ensure that internal auditors:

(i) Conform with the Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.

(ii) Understand, respect, meet, and contribute to the legitimate and ethical expectations of the District and be able to recognize conduct that is contrary to those expectations.

(iii) Encourage and promote an ethics-based culture in the District.

(iv) Report to the Ethics Office organizational behavior that is inconsistent with the District's ethical expectations, as described in applicable laws, regulations and policies and procedures.

(13) Ensure that the Audit Department remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the General Auditor determines that objectivity or independence may be impaired in fact or appearance, the details of the impairment, including the actions or safeguards employed to address the impairment, will be disclosed to the Audit Committee and/or management as appropriate.

(14) Ensure internal audit engagements are performed, documented, and communicated in accordance with the Standards and laws and/or regulations.

(15) Ensure adherence to Metropolitan's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Standards. Any such conflicts will be resolved or documented and communicated to the Audit Committee and senior management.

(16) Be accountable for confidentiality and safeguarding records and information; and

(17) Consider emerging trends and successful practices in internal auditing.

~~(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 process;~~

~~(2) Have full and free access to the Audit Committee, subject to applicable law;~~

~~(3) Allocate resources, set frequencies, select the subject, determine scopes of work, and apply the techniques required to accomplish audit objectives; and~~

~~(4) Obtain the necessary assistance of personnel within units of the District where they perform audits, as well as other specialized services from within or outside the District.~~

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

~~(1) Perform any operational duties for the District;~~

~~(2) Initiate or approve accounting transactions external to the Audit Department;  
or~~

~~(3) Direct the activities of any District employee not employed by the Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.~~

~~This Charter shall be reviewed at least annually by the Audit Committee and Board of Directors.~~

~~(g) Independence – The General Auditor will be positioned at a level in the District that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the Audit Department. The General Auditor will report functionally to the Board of Directors through the Audit Committee and administratively (e.g., board support, finance, human resources) to the General Manager. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the Board of Directors, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.~~

~~(1) The General Auditor will confirm to the Audit Committee, at least annually, the organizational independence of the Audit Department. If the governance structure does not support organizational independence, the General Auditor will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence.~~

~~(2) The General Auditor will disclose to the Audit Committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the Audit Department's effectiveness and ability to fulfill its mandate.~~

~~(h) Communications – The General Auditor will report periodically to the Audit Committee and senior management regarding:~~

~~(1) The Audit Department's mandate.~~

~~(2) The internal audit plan and performance relative to its plan.~~

~~(3) Internal audit budget.~~

~~(4) Significant revisions to the internal audit plan and budget.~~

(5) Potential impairments to independence, including relevant disclosures as applicable.

(6) Results from the quality assurance and improvement program, which include the Audit Department's conformance with the Standards and action plans to address the Audit Department's deficiencies and opportunities for improvement.

(7) Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Board of Directors that could interfere with the achievement of Metropolitan's strategic objectives.

(8) Results of assurance and advisory services.

(9) Resource requirements.

(10) Management's responses to risk that the Audit Department determines may be unacceptable or acceptance of a risk that is beyond Metropolitan's risk appetite.

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**PERSONNEL MATTERS**  
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**GENERAL AUDITOR**

**§ 6451. Audit Department Charter.**

(a) Purpose – The purpose of the Audit Department 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. The Audit Department enhances Metropolitan’s: successful achievement of its objectives; governance, risk management, and control processes; decision-making and oversight; reputation and credibility with its stakeholders; and ability to serve the public interest.

Metropolitan’s Audit Department is most effective when: internal auditing is performed by competent professionals in conformance with The Institute of Internal Auditor’s Global Internal Audit Standards (Standards), which are set in the public interest; the Audit Department is independently positioned with direct accountability to the Board of Directors; and internal auditors are free from undue influence and committed to making objective assessments.

(b) Accountability – The General Auditor shall be accountable to the Board of Directors and the Audit Committee to:

(1) Advise on the adequacy and effectiveness of the District’s processes for controlling its activities and managing its risks;

(2) Report significant issues related to the processes for controlling the activities of the District and managing its risks, including potential improvements to those processes, and provide information concerning such issues through to resolution; and

(3) Coordinate with other District control and monitoring functions (e.g., risk management, legal, finance, ethics, security, environmental).

(c) Professional Standards – The Audit Department shall govern itself by adherence to the mandatory elements of The Institute of Internal Auditors’ International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. These documents constitute the operating procedures for the department and constitute an addendum to the charter. In addition, Audit Department staff shall adhere to Metropolitan’s policies and procedures, the California Government Code; and the Audit Department’s Policies and Procedures Manual.

Internal auditors will:

(1) Maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

(2) Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually.

(3) Exhibit professional objectivity in gathering, evaluating, and communicating information.

(4) Make balanced assessments of all available and relevant facts and circumstances.

(5) Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

(d) Authority – The Audit Department’s authority is created by its direct reporting relationship to the Board of Directors. Such authority allows for unrestricted access to the Board of Directors.

(1) The Board of Directors authorizes the General Auditor and Audit Department staff members to:

(i) Have full and unrestricted access to all functions, data, records, information, physical property, and personnel, pertinent to carrying out internal audit responsibilities, subject to the requirements of safekeeping, confidentiality, and applicable processes;

(ii) Have full and free access to the Audit Committee, subject to applicable law;

(iii) Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue communications to accomplish the function’s objectives; and

(iv) Obtain the necessary assistance of District personnel, as well as other specialized services from within or outside the District to complete internal audit services.

(2) Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment. Accordingly, the General Auditor and Audit Department staff are not authorized to:

- (i) Perform any operational duties for the District or member agencies;
- (ii) Initiate or approve transactions external to the Audit Department;
- (iii) Direct the activities of any District employee not employed by the Audit Department, except to the extent such employees have been appropriately assigned to internal auditing teams or to otherwise assist the internal auditors; or
- (iv) Assess specific operations for which they had responsibility within the previous year.

Circumstances may justify a follow-up discussion between the General Auditor, Board of Directors, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to: a significant change in the Standards; a significant reorganization within the District; significant changes in the Direct Report Team, Board of Directors, and/or senior management; significant changes to the District's strategies, objectives, risk profile, or the environment in which the District operates; or new laws or regulations that may affect the nature and/or scope of internal audit services.

This Charter shall be reviewed at least annually by the Audit Committee and Board of Directors.

(e) Role – The primary role of the Audit Department is to conduct internal audit activities and deliver internal audit services. The scope of internal audit services covers the entire breadth of the District, including all of Metropolitan's activities, assets, and personnel. The scope of internal audit activities also encompasses, but is not limited to, objective examinations of evidence to provide independent assurance and advisory services to the Board of Directors and management to determine whether the District's network of governance, risk management, and internal control, as designed and represented by District management, is adequate and functioning in a manner to ensure:

- (1) Risks related to the achievement of Metropolitan's strategic objectives are appropriately identified, managed and monitored;
- (2) The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable;
- (3) Actions by Metropolitan's officers, directors, management, employees, contractors, or relevant parties are in compliance with Metropolitan's policies, procedures and applicable laws, regulations, and governance standards;
- (4) Resources and assets are acquired economically, used efficiently and sustainably, and adequately protected;
- (5) The results of operations and programs are consistent with established goals and objectives;

(6) Quality and continuous improvement are fostered in the District's control process;

(7) Significant legislative or regulatory issues impacting the District are recognized and addressed appropriately;

(8) Information technology is governed and systems and applications are securely deployed and monitored;

(9) Operations and programs are being carried out effectively, efficiently, ethically, and equitably; and

(10) Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Metropolitan.

The nature and scope of advisory services may be agreed with by management requesting the service, provided the Audit Department does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and internal control may be identified during advisory engagements, and will be communicated to the appropriate level of District management.

(f) Responsibilities – The Audit Department shall carry out the following responsibilities:

(1) Develop and present a flexible annual audit plan to the Audit Committee and Board of Directors for review and approval. This plan should be developed utilizing a risk-based methodology and should include input and discussion on risks or internal control concerns identified by management or the Board of Directors. Review and adjust the internal audit plan, as necessary, in response to changes in Metropolitan's business, risks, operations, programs, systems, and controls;

(2) Report periodically to the Audit Committee and District management the status of the current year's audit plan and the resource limitations on the audit plan. Communicate with the Audit Committee and senior management if there are significant interim changes to the internal audit plan;

(3) Submit audit reports to the Audit Committee and District management communicating the General Auditor's opinion regarding the internal control structure, identifying significant control issues, and providing related recommendations;

(4) Evaluate the responsiveness of District management's responses to, and the corrective action taken on, all recommendations noted in audit reports. Conduct follow-up reviews as necessary and periodically report to the Audit Committee and senior management the status of District management's progress. Referrals to the Audit Committee shall be made for recommendations not agreed to by management or determined to be not fully implemented upon secondary follow-up review;

(5) Ensure the selection, development and supervision of competent and professional audit staff. Ensure the Audit Department collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Standards and fulfill the internal audit mandate;

(6) Develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the Audit Department.

(i) The program will include external and internal assessments of the Audit Department's conformance with the Standards, as well as performance measurement to assess the Audit Department's progress toward the achievement of its objectives and promotion of continuous improvement. The program will also assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the Audit Department's deficiencies and opportunities for improvement.

(ii) Annually, the General Auditor will communicate with the Audit Committee and senior management about the Audit Department's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside Metropolitan; qualifications must include at least one assessor holding an active Certified Internal Auditor credential.

(7) Perform advisory services to assist District management in meeting its objectives. Examples may include facilitation, process design, training, and assessment services;

(8) Evaluate additions or changes in internal control processes coincident with their development and implementation;

(9) Keep the Audit Committee and senior management informed as appropriate through information items of trends and emerging issues that could impact the District;

(10) Assist in the investigation of significant suspected fraudulent activities within the District. Assure reporting to the Audit Committee on the results, as appropriate;

(11) Coordinate activities and consider relying on the work of other internal and external providers of assurance and advisory services to minimize duplication of effort. Ensure that significant issues raised as a result of their review are appropriately addressed. If the General Auditor cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and, if necessary, escalated to the Audit Committee;

(12) Ensure that internal auditors:

(i) Conform with the Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.

(ii) Understand, respect, meet, and contribute to the legitimate and ethical expectations of the District and be able to recognize conduct that is contrary to those expectations.

(iii) Encourage and promote an ethics-based culture in the District.

(iv) Report to the Ethics Office organizational behavior that is inconsistent with the District's ethical expectations, as described in applicable laws, regulations and policies and procedures.

(13) Ensure that the Audit Department remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the General Auditor determines that objectivity or independence may be impaired in fact or appearance, the details of the impairment, including the actions or safeguards employed to address the impairment, will be disclosed to the Audit Committee and/or management as appropriate.

(14) Ensure internal audit engagements are performed, documented, and communicated in accordance with the Standards and laws and/or regulations.

(15) Ensure adherence to Metropolitan's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Standards. Any such conflicts will be resolved or documented and communicated to the Audit Committee and senior management.

(16) Be accountable for confidentiality and safeguarding records and information; and

(17) Consider emerging trends and successful practices in internal auditing.

(g) Independence – The General Auditor will be positioned at a level in the District that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the Audit Department. The General Auditor will report functionally to the Board of Directors through the Audit Committee and administratively (e.g., board support, finance, human resources) to the General Manager. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the Board of Directors, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

(1) The General Auditor will confirm to the Audit Committee, at least annually, the organizational independence of the Audit Department. If the governance structure does not support organizational independence, the General Auditor will document the characteristics of

the governance structure limiting independence and any safeguards employed to achieve the principle of independence.

(2) The General Auditor will disclose to the Audit Committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the Audit Department's effectiveness and ability to fulfill its mandate.

(h) Communications – The General Auditor will report periodically to the Audit Committee and senior management regarding:

(1) The Audit Department's mandate.

(2) The internal audit plan and performance relative to its plan.

(3) Internal audit budget.

(4) Significant revisions to the internal audit plan and budget.

(5) Potential impairments to independence, including relevant disclosures as applicable.

(6) Results from the quality assurance and improvement program, which include the Audit Department's conformance with the Standards and action plans to address the Audit Department's deficiencies and opportunities for improvement.

(7) Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Board of Directors that could interfere with the achievement of Metropolitan's strategic objectives.

(8) Results of assurance and advisory services.

(9) Resource requirements.

(10) Management's responses to risk that the Audit Department determines may be unacceptable or acceptance of a risk that is beyond Metropolitan's risk appetite.