



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Report

Office of General Auditor

Internal Audit Report for December 2021

Summary

One report was issued during the month:

Annual Audit Plan and the Audit Process Discussions

Discussion Section

This report highlights the significant activities of the Internal Audit Department during December 2021. In addition to presenting background information and the opinion expressed in the audit report, a discussion of findings noted during the examination is also provided.

Annual Audit Plan and the Audit Process Discussions

As a part of the FY 2020/21 Department Head Performance Evaluation process, Board members provided feedback regarding areas for improvement. Under the sections Strategic and Operational Leadership, comments were made on the Audit Planning and Fieldwork processes. Accordingly, at the next Audit and Ethics Committee meeting, Internal Audit will present a brief discussion of how we develop our annual audit plan and then a more detailed review of our audit fieldwork and reporting process. Below is a brief summary of this subject matter.

Annual Audit Plan

A risk-based audit plan results from comprehensive analysis and flexible responsiveness to a changing environment. It requires a thorough grasp of Metropolitan's processes, risks, controls, and understanding how the District coordinates risk management and governance. We review critical documents in developing our annual plans, such as the organization chart and executive management's long-range plans. Moreover, we attend Board and Committee meetings, hold discussions with management and board members, and coordinate with other oversight activities, such as those provided by Metropolitan's external auditors. We use the information we gather to identify, assess and prioritize risks, and focus our efforts on the most leveraging activities. The General Auditor presents the Audit Plan to the Audit and Ethics Committee each year.

The Audit Process

Metropolitan's Audit Model prescribes a logical sequence for conducting internal audits, from inception to completion. Each audit begins with planning. The audit team gathers background information and interviews management and staff to determine the audit scope. The audit scope defines the activities we will audit, and the period we will cover. Next, we identify inherent risks, which exist in the absence of internal controls. This process yields the objectives we

expect internal control activities to achieve. Upon completion of the planning phase, we conduct an entrance meeting with our audit client to review the audit scope and objectives.

After the planning process, the team begins audit fieldwork. For each control objective, we document the related control activities using flowcharts or narrative descriptions. After confirming our understanding with our audit clients, we assess control effectiveness and efficiency and conduct testing to ensure controls are operating as intended. Throughout fieldwork, the team discusses findings and observations with the client as they develop. We use this process to confirm our work results and keep the audit client apprised of our progress. It also allows the client time to formulate their response.

After completing fieldwork, the team prepares a written audit report, including our opinion of the internal control structure and significant findings and recommendations. We review the report draft with the audit client at an exit meeting before its issue. We ask management to provide written responses to all audit findings, usually within 30 days. When the audit opinion is less than satisfactory, we require a written response from management with their corrective plans for Board review. Finally, we schedule a follow-up audit to assess the status of client's corrective actions, generally within 12 to 18 months.