



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Report Office of General Audit

Internal Audit Report for February 2021

Summary

One report was issued this month:

- Audit Quality Assessment – Self Assessment Review

Discussion Section

This report highlights the significant activities of the Internal Audit Department during February 2021.

Audit Quality Assessment – Self Assessment Review

Background

Internal Audit (the Department) implemented a Quality Assurance and Improvement Program (QA&IP) in 2007. The purpose of the QA&IP is to help ensure the Department continues its contribution to the Metropolitan Water District (the District) risk management, control, and governance efforts. The principles behind the QA&IP are set forth in The Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing (the *Standards*). Compliance with the *Standards*, which include the Definition of Internal Auditing and the IIA Code of Ethics, helps ensure the Department provides independent, objective professional services to support the District in achieving its objectives.

The QA&IP is a comprehensive assessment of the Department's governance, audit staff, management, and audit process. Individual elements of the QA&IP include policies and procedures, training and improvement activities, annual internal self-assessments, and external assessments performed by an independent third party every five years.

In May 2017, the IIA performed an external Quality Assurance Review and judged the Department to be in "General Compliance" with the *Standards*, the highest possible rating. The next external assessment will be due in 2022.

This report is based upon an internal assessment. The report assesses the Department's compliance as of June 2020 using the methodology outlined in the *IIA's 2017 Quality Assessment Manual for the Internal Audit Activity*. The broad objectives of this review were to:

- Assess conformity to the *Standards* and Code of Ethics
- Assess effectiveness in carrying out the Department's mission, as set forth in the Audit Department Charter

- Identify opportunities to strengthen the Department's value to the District

The self-assessment involves a thorough evaluation of each of the *Standards*, which includes the related 41 sub-components. In performing this work, we assessed governance processes. We reviewed both the Audit and Ethics Committee and Internal Audit Department Charters as well as Department policies and procedures against the *Standards*. The review encompassed all audit function components, including a review of risk assessment, audit planning, field performance, and staff supervision. In conducting the examination, we reviewed a sample of audit workpapers and final reports to evaluate adherence to the aforementioned policies and procedures. Moreover, we surveyed audit staff to identify strengths and to look for opportunities for improvement. Finally, we reviewed Board and management communications for completeness and examined management responses for propriety.

Conclusion

The Department "Generally Conforms" to the *Standards* and the Code of Ethics.

The IIA's 2017 *Quality Assessment Manual for the Internal Audit Activity* suggests three possible ratings: "Generally Conforms," "Partially Conforms," and "Does Not Conform." "Generally Conforms," the highest rating means that an internal audit activity has a charter, policies, and processes that conform to the *Standards* and the Code of Ethics.

The Audit Department is well structured and enlightened with regard to the *Standards* and Code of Ethics. Management endeavors to implement appropriate practices.

Past quality assessment reviews have included recommendations to update the Audit and Ethics Committee charter and the Internal Audit Charter to align them with the current IIA International Professional Practices Framework. The last update to these documents was made in 2017. Accordingly, we will present recommended changes to the Audit and Ethics Committee by the end of the fiscal year. Additionally, the Department Policies and Procedures will also be updated as part of this effort.