



**Water & Sewerage
Department**

INTERNAL AUDIT CHARTER

DETROIT WATER AND SEWERAGE DEPARTMENT
Office of Internal Audit

Effective Date: 5/20/2026

(Version 1.0)

I. INTRODUCTION

Internal Auditing is an independent, objective assurance and advisory service designed to add value and improve an organization's operations. Internal auditing helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and internal control processes.

Adoption of this Internal Audit Charter by the Board of Water Commissioners ("BOWC") formally authorizes the Detroit Water and Sewerage Department ("DWSD") to design and implement an Internal Audit function into the organization, which shall receive independent support and functional oversight by the Audit Committee.

II. SCOPE

Internal Audit operates pursuant to this Internal Audit Charter, as authorized through the mandate established by the BOWC, as advised by the Audit Committee. This Internal Audit Charter applies to all DWSD internal auditors and authorizes Internal Audit to have the necessary support to fulfil its mandate, the purpose of internal auditing, the Internal Audit Strategy, and Internal Audit's plans.

As specified herein, parts of this Internal Audit Charter apply to DWSD management in support of Internal Audit's ability to achieve its mandate and plan.

III. PURPOSE OF INTERNAL AUDITING

The Purpose of Internal Auditing is to strengthen the ability to create, protect, and sustain value by providing the Audit Committee and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The Internal Audit function enhances DWSD's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Internal Audit is most effective when:

- Internal auditing is performed by competent professionals in conformance with The Institute of Internal Auditors' Global Internal Audit Standards, which are set in the public interest.

- The Internal Audit function is independently positioned with direct accountability to the Audit Committee.
- Internal auditors are free from undue influence and committed to making objective assessments.

IV. PROFESSIONAL STANDARDS

Internal Audit will operate in adherence to the mandatory elements of The Institute of Internal Auditors' ("The IIA") International Professional Practices Framework ("IPPF"), which are: (1) the Global Internal Audit Standards and (2) Topical Requirements, with consideration to the non-mandatory supplemental Global Guidance, which supports the implementation of the mandatory elements by providing explanatory information, advice, and best practices for performing internal auditing services.

The Global Internal Audit Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the Internal Audit function. Topical Requirements are designed to enhance the consistency and quality of internal auditing services related to specific audit subjects and to support internal auditors performing engagements in those areas.

Additionally, where deemed appropriate, Internal Audit will consider and, where supported by The IIA's IPPF, follow other relevant accounting and auditing professional frameworks, standards, and guidance.

1. CONFORMANCE WITH THE STANDARDS & TOPICAL REQUIREMENTS

Internal Audit is committed to operate in conformance with the mandatory elements of the Global Internal Audit Standards and Topical Requirements, which shall be supported by methodologies describing Internal Audit's approach for adopting the mandatory elements of The IIAs' IPPF in consideration of DWSD's unique conditions, such as size, sector, industry, jurisdiction, and resources¹.

Annually, Internal Audit will report to the Audit Committee and executive management regarding the Internal Audit function's conformance with the Global Internal Audit Standards, which will be assessed through the Internal Audit Quality Assurance and Improvement Program ("QAIP").

V. INTERNAL AUDIT MANDATE

The Internal Audit Mandate ("mandate") establishes the authority, roles, and responsibilities of the DWSD Internal Audit function, as advised by the Audit Committee with final approval by the BOWC. At least annually, the mandate is reviewed by the Audit Committee and approved by the BOWC.

¹ Because the DWSD Internal Audit function is new to the organization, full conformance with the mandatory elements of the IPPF cannot be achieved until the function reaches full operational maturity, which shall occur over-time, through a phased approach.

1. AUTHORITY

Internal Audit's authority derives from its direct functional reporting relationship to the Audit Committee, allowing for unrestricted access to the BOWC, through the Audit Committee. As a result, internal auditors, in discharging their responsibilities, are authorized to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent and relevant to carrying out internal audit responsibilities. Internal auditors shall be held accountable for confidentiality and safeguarding records and information, in adherence with applicable policies, laws and regulations.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary DWSD personnel and other specialized services from within or outside of DWSD to complete internal auditing services.

2. INDEPENDENCE, ORGANIZATIONAL POSITION, AND REPORTING RELATIONSHIPS

Internal Audit will operate under the leadership of the Chief Audit Executive, or equivalent role,² as defined by the Global Internal Audit Standards. The Chief Audit Executive will be positioned at a level in the organization that enables internal auditing services and responsibilities to be performed without interference from management, thereby establishing and conserving the independence of the DWSD Internal Audit function.

The Chief Audit Executive will confirm to the Audit Committee, at least annually, the organizational independence of the Internal Audit function, including any safeguards employed to achieve the principle of independence.

If any interference is encountered related to the scope, performance, or communication of internal audit work and results, the Chief Audit Executive will disclose such interference to the appropriate parties, including the implications on the Internal Audit function's effectiveness and ability to fulfill its mandate.

3. CHANGES TO THE INTERNAL AUDIT MANDATE AND CHARTER

Circumstances may justify a follow-up discussion between the Chief Audit Executive, Audit Committee, and executive 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 mandatory elements of the Global Internal Audit Standards and Topical Requirements.

² Due to the infancy of the DWSD Internal Audit function, the internal audit roles, competencies, and requirements are still being developed, thus, the role of Chief Audit Executive has not yet been appointed. DWSD executive management has charged the Internal Audit Manager, with support from the Audit Committee, with assuming the duties and responsibilities of a Chief Audit Executive.

- A significant reorganization of DWSD including, but not limited to, significant changes in governance structure, operational structure, personnel, reporting relationships, and/or business functions within DWSD.
- Changes in the Chief Audit Executive, Audit Committee members, BOWC membership, and/or executive management.
- Significant changes to DWSD's strategies, objectives, risk profile, or the environment in which the organization operates.
- New or significant changes in laws or regulations that may affect the nature and/or scope of internal auditing services.

VI. OVERSIGHT OF THE INTERNAL AUDIT FUNCTION

In April 2026, the BOWC approved the adoption of the Audit Committee Charter, which formally established the authority, role, and responsibilities for the Audit Committee, an advisory subcommittee of the BOWC, to:

- Support and provide sufficient, independent oversight of the Internal Audit function.
- Advise the BOWC on the Internal Audit Mandate, which establishes the appropriate authority, roles, and responsibilities of the Internal Audit function.
- Advise the BOWC on the Internal Audit Charter, which documents the Internal Audit Mandate and the appropriate types and scope of internal auditing services to be provided to DWSD.

The Audit Committee acts in an advisory capacity to the BOWC regarding Internal Audit matters and is not authorized with any final decision-making authority. Thus, the BOWC is responsible for reviewing and making a final decision for relevant Internal Audit matters, with consideration to the Audit Committee's recommendations.

The responsibilities for the Audit Committee to provide sufficient, independent oversight of the DWSD Internal Audit function are defined within the *Audit Committee Charter*.

VII. PRIMARY ROLES AND RESPONSIBILITIES

1. ETHICS AND PROFESSIONALISM

The Chief Audit Executive will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Domain II: Ethics and Professionalism, which include integrity, objectivity, competency, due professional care, and confidentiality.

- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior that is inconsistent with DWSD's ethical expectations, as described in applicable policies and procedures.

2. OBJECTIVITY

The Chief Audit Executive will ensure that Internal Audit remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including, but not limited to, matters of audit engagement selection, scope, procedures, frequency, timing, final report content, and communications. If the Chief Audit Executive determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors shall perform their duties with unbiased objectivity, 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.

Internal auditors shall not have any 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, including, but not limited to:

- Assessing specific operations for which they had responsibility within the previous 12 months.
- Performing operational duties for DWSD or its affiliates.
- Initiating or approving transactions which are external to the Internal Audit function.
- Directing the activities of any DWSD employee that is not employed by the Internal Audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors shall:

- At least annually, attest to their independence and objectivity, including the disclosure of impairments of independence or objectivity, in fact or appearance, to the appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

3. MANAGING THE INTERNAL AUDIT FUNCTION

The Chief Audit Executive has the responsibility to:

- At least annually, develop a risk-based Internal Audit Plan that considers the input of the Audit Committee and executive management, with a budget for time to be allocated to special projects, as requested by the appropriate parties. Discuss the Plan with the Audit Committee and executive management and submit the Plan to the Audit Committee for review and to the BOWC for final approval.
- Communicate the impact of resource limitations on the Internal Audit Plan to the Audit Committee and executive management³.
- Review and adjust the Internal Audit Plan, as necessary, in response to changes, including, but not limited to, DWSD's business, risks, operations, programs, systems, and controls.
- Communicate with the Audit Committee and executive management if there are significant interim changes to the Internal Audit Plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards and laws and/or regulations.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the Audit Committee and executive management quarterly and for each engagement, as appropriate.
- Ensure the Internal Audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact DWSD and communicate to the Audit Committee and executive management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the Internal Audit function in conformance with the Global Internal Audit Standards.
- Ensure adherence to DWSD's relevant policies and procedures unless such policies and procedures conflict with the Internal Audit Charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the Audit Committee and executive management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the Chief Audit Executive cannot achieve an appropriate

³ Resource limitations shall be discussed with the appropriate members of executive management, which shall include: the Director, Deputy Director, Chief General Counsel, and Chief Financial Officer.

level of coordination, the issue must be communicated to executive management and, if necessary, escalated to the Audit Committee.

4. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

The Chief Audit Executive will develop, implement, and maintain a Quality Assurance and Improvement Program (“QAIP”) that covers all aspects of the Internal Audit function. The QAIP will include annual internal self-assessments, performed by the Chief Audit Executive, and independent external assessments of Internal Audit’s:

- Conformance with the Global Internal Audit Standards.
- Performance measurement to assess the Internal Audit function’s progress toward the achievement of its objectives and promotion of continuous improvement.
- Compliance with laws and/or regulations relevant to internal auditing.

Based on the results of these internal and external assessments, develop improvement plans to address identified deficiencies and opportunities for enhancement to promote continuous improvement efforts by the Internal Audit.

At least annually, the Chief Audit Executive will discuss Internal Audit’s QAIP with the Audit Committee and executive management, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team independent of DWSD. Qualifications for external assessment teams must include at least one assessor holding an active Certified Internal Auditor® credential and be composed of assessors who possess the necessary competencies in public sector internal auditing.

5. COMMUNICATION WITH THE AUDIT COMMITTEE AND EXECUTIVE MANAGEMENT

The Chief Audit Executive will report at least quarterly to the Audit Committee and executive management on internal audit matters, including, for example, and without limitation on:

- The Internal Audit Mandate.
- The Internal Audit Plan and Internal Audit’s performance relative to its plan.
- The Internal Audit budget
- Significant revisions requested to the Internal Audit Plan and budget.
- Disclosures of potential impairments to independence, in fact or appearance, as applicable.
- Results from Internal Audit’s QAIP internal and external assessments and recommended action plans.

- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Audit Committee that could interfere with the achievement of DWSD’s strategic objectives.
- Results of internal auditing services and engagements.
- Resource requirements.
- Management’s responses to risk that the Internal Audit function determines may be unacceptable.

At least annually, the Chief Audit Executive will review and discuss with the Audit Committee and executive management the “*Essential Conditions*” for enabling effective internal auditing, which describe the necessary critical actions to be fulfilled by the Audit Committee and executive management in supporting Internal Audit’s conformance with the Global Internal Audit Standards. The Chief Audit Executive is responsible for performing supportive actions that enable the Audit Committee and management to fulfill their respective Essential Conditions.

VIII. SCOPE AND TYPES OF INTERNAL AUDIT SERVICES

The scope of internal audit services shall cover the entire breadth of the organization, including all of DWSD’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 Audit Committee and executive management on the adequacy and effectiveness of DWSD’s governance, risk management, and internal control processes. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

1. ASSURANCE SERVICES

Assurance services involve the internal auditor’s objective assessment of evidence to provide an independent opinion or conclusion regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of assurance services are determined by Internal Audit and result in a formal opinion, communicated through the issuance of a final report.

2. ADVISORY SERVICES

Advisory services, also referred to as “consulting services”, are advisory in nature and are generally performed at the specific request of management. The nature and scope of advisory services may be agreed upon with the party requesting the service, provided the Internal Audit function does not assume management responsibility.

3. ENGAGEMENT OBJECTIVES

Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of DWSD's strategic objectives are appropriately identified and managed.
- The actions of DWSD's management, employees, contractors, vendors, or other relevant parties comply with DWSD's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Operations and programs are being carried out effectively, efficiently, ethically, and equitably.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact DWSD.
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

APPROVAL OF THE INTERNAL AUDIT CHARTER

This Internal Audit Charter was reviewed by the Audit Committee and recommended to the BOWC for approval at its meeting on May 6th, 2026. This Internal Audit Charter was approved by the BOWC at its meeting on May 20th, 2026, and is considered effective **5/20/2026**.