Water & Sewerage Department

INTRODUCTION
TO INTERNAL AUDITING

PRESENTED to the AUDIT COMMITTEE of the BOWC

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DEFINING INTERNAL AUDITING

Internal Auditing is an ***independent, objective assurance*** and ***advisory service*** designed to ***add value*** and ***improve*** an organization's operations.

Internal Audit ***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**.

INDEPENDENT & OBJECTIVE

Internal Audit operates ***independently*** from management. To ensure internal auditors are ***free from conditions*** that may impair their ability to carry out activities ***objectively***, Internal Audit ***reports directly*** to the Audit Committee

Objectivity allows internal auditors to make professional judgements, achieve their responsibilities, and fulfill the ***Purpose of Internal Auditing*** with an ***unbiased mental attitude***.

DEFINING ORGANIZATIONAL PRACTICES

GOVERNANCE

- Combination of processes and structures overseen by the board to ***inform, direct, manage, and monitor*** the activities of the organization toward the achievement of its objectives.

RISK MANAGEMENT

- Process to ***identify, assess, manage, and control*** potential events or situations to provide ***reasonable assurance*** regarding the achievement of the organization's objectives.

INTERNAL CONTROL

- Policies, procedures, and activities designed and operated to ***manage risks*** to be within an ***acceptable*** level of risk for the organization.

INTERNAL VS. EXTERNAL AUDIT

INTERNAL AUDIT:

- Audits ***improve*** operations & controls.
- Positioned ***internally*** within the organization.
- Scope covers operational ***efficiency***, ***risk*** management, and ***compliance***.
- Final reports are targeted to ***management*** and the ***board***.
- Recommended actions are a ***routine value-add*** of internal audit services.
- Audits are conducted ***continuously***.
- Audits are ***proactive*** (future-oriented).

EXTERNAL AUDIT:

- Audits provide an ***opinion*** on the ***fairness*** of financial statements.
- Performed by ***external*** third-parties.
- Scope is narrow, focusing on ***financial records***.
- Final reports are targeted to ***stakeholders***, such as investors, lenders, and regulators.
- Recommended actions result from ***material findings*** identified.
- Audits are conducted ***annually***.
- Audits are ***retrospective*** (past-oriented).

PURPOSE OF INTERNAL AUDITING

Internal auditing ***strengthens the organization's*** ability to create, protect, and sustain ***value*** by providing the Board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

INTERNAL AUDITING:

Enhances the Organization'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***.

Is Most Effective When:

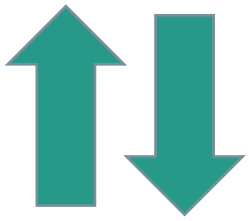
- ✓ Performed by ***competent*** professionals in ***conformance*** with the **Global Internal Audit Standards™**.
- ✓ ***Independently positioned*** with direct accountability to the board through the Audit Committee.
- ✓ Free from undue influence and committed to making ***objective assessments***.

SUPPORTING INTERNAL AUDITING

AUDIT COMMITTEE

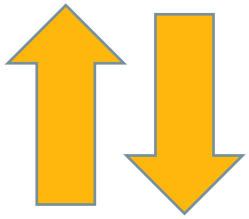
- Serves as the ***governing body*** of DWSD's Internal Audit Function.
- Establishes a ***direct reporting relationship*** with DWSD's Internal Audit Function.

Accountability, reporting



Delegation, direction, resources, oversight

Accountability, reporting



Delegation, direction, resources, oversight

EXECUTIVE TEAM

- ***Supports*** Internal Audit's evaluation of DWSD's governance, risk management, and internal controls practices.
- ***Implements*** Internal Audit's recommendations for improvements of these practices.

Alignment, communication, coordination, collaboration

INTERNAL AUDIT

- Reports to the Audit Committee, remaining independently positioned from DWSD's management.
- Provides independent and objective ***assurance*** and ***strategic advice*** *for* the ***improvement*** of DWSD's governance, risk management, and internal controls practices.

PROFESSIONAL STANDARDS
INTERNAL AUDITING FRAMEWORK

Internal Audit functions ***must*** adhere to the ***mandatory elements*** of The Institute of Internal Auditors' **International Professional Practices Framework.**

MANDATORY

GLOBAL INTERNAL AUDIT STANDARDS

and

***Topical Requirements:**

Cybersecurity
Third-Party
Organizational Behavior
Organizational Resilience

SUPPLEMENTAL

- *Global Practice Guides*
- *Position Papers*
- *Global Technology Audit Guides (GTAGs)*

****Topical Requirements** are applied only to individual audits that are determined to be applicable and mandatory to the topic. Additional requirements are currently under development.*

PROFESSIONAL STANDARDS
GLOBAL INTERNAL AUDIT STANDARDS

The **Global Internal Audit Standards** set forth the ***principles***, ***requirements***, ***considerations***, and examples for the professional practice of internal auditing globally, organized into ***five domains***:

DOMAIN I	DOMAIN II	DOMAIN III
PURPOSE OF INTERNAL AUDITING	ETHICS AND PROFESSIONALISM	GOVERNING THE INTERNAL AUDIT FUNCTION

DOMAIN IV	DOMAIN IV
MANAGING THE INTERNAL AUDIT FUNCTION	PERFORMING INTERNAL AUDIT SERVICES

DELIVERING VALUE
INTERNAL AUDIT SERVICES & ACTIVITIES

- ***Monitoring, analyzing, and assessing*** the organization's governance, risk management, and internal controls.

- Reviewing the organization's ***compliance*** with policies, laws, and regulations.

- Conducting ***advisory*** and ***assurance services*** to be proactive in providing recommendations for improvement.

DELIVERING VALUE
SELECTING INTERNAL AUDIT SERVICES

Internal Audit covers the ***breadth of the organization*** for the scope of services it provides, using a ***risk-based approach*** to developing an **Internal Audit Plan** on a 3-year rolling basis, which is ***continuously monitored*** for changes and updated, *as necessary*.

UNDERSTAND PRACTICES	RISK & AUDIT UNIVERSE	COORDINATE RESOURCES	INTERNAL AUDIT PLAN
• Governance • Risk Management • Internal Controls	• Identify Risks • Organization-Wide Risk Assessment • Prioritize by highest risks	• Coordinate with other providers • Estimate financial, staffing, & IT resources	• 3-year Plan • Summarize Risk Results • Overview of Engagements & Type of Service

CONTINUOUS MONITORING FOR CHANGES

DELIVERING VALUE
TYPES OF INTERNAL AUDIT SERVICES

Water & Sewerage Department

ASSURANCE:

- Assessments to ***objectively examine*** an organization's practices & processes.
- Establishes ***trust*** and ***confidence*** in an organization's governance, risk management, and control processes
- Provide ***formal assurance*** – which is an opinion determining how well the established ***standards or criteria*** is met.
- Engagement scope is ***determined*** by Internal Audit.
- ***Formal report*** issued with opinion, findings, and recommended actions.

ADVISORY:

- ***Specialized consultations*** independent of management responsibilities.
- Provide ***guidance*** and ***recommendations*** to enhance operations.
- ***Prepares*** an organization for compliance, new programs, and assurance services.
- Engagement scope may be ***agreed upon*** between Internal Audit & management.
- ***No formal*** opinion or report issued.

IMPLEMENTING INTERNAL AUDIT
NEXT STEPS FOR THE FUNCTION

CITY OF DETROIT
Water & Sewerage Department

Establish Internal Audit Governance

- Audit Committee Charter
- Agree on Essential Conditions for oversight & support
- Internal Audit Mandate & Charter
- Internal Audit Roles & Responsibilities

Expectations for Ethics & Professionalism

- Attest to Ethics & Professionalism
- Competency Framework
- Continuing Education Program
- Conformance with Global Internal Audit Standards

Designing the Internal Audit Program

- Internal Audit Strategy
- Methodologies & Procedures
- Understanding DWSD Processes
- Perform Organization Risk Assessment
- Internal Audit Plan