

Policy Title:	Internal Audit Governance Policy		
	OFFICE OF THE CHIEF FINANCIAL OFFICER	Category	Internal Audit
		Administrative Policy #	
		Revision #	
		Review Frequency	
Administrative Division	Internal Audit	Reviewed By	CFO, Internal Audit Manager
BOWC Approval		Last Reviewed/Update Date	
Implementation Date			

1. AUTHORITY

- 1.1. The Internal Audit Charter establishes the purpose, responsibility and authority of the Internal Audit function.

2. OBJECTIVES

- 2.1. To establish guidelines and internal controls related to the internal audit governance and the annual risk assessment and internal audit planning process.

3. PURPOSE

- 3.1. DWSD recognizes the importance of managing and mitigating risks effectively and efficiently. The purpose of this policy is to define the role that internal audit plays in conducting an annual risk assessment and developing an Annual Internal Audit Plan.

4. DEFINITIONS

“Annual Internal Audit Plan” means a comprehensive plan, consisting of all internal audit activities to be conducted throughout the year.

“Audit Activities” means specific activities involved in individual audit engagements derived from the broader Annual Internal Audit Plan.

“BOWC” means Board of Water Commissioners.

“Corrective Action” means an action taken to eliminate the cause of an internal audit finding and prevent its recurrence.

“DWSD” stands for Detroit Water and Sewerage Department.

“Internal Auditor” means an individual who carries out an audit; one who is qualified and authorized to perform all or part of an audit.

“Risk” is a function of the likelihood of an event and its consequences (impact).

“Risk Matrix” is a tool used to illustrate and prioritize risks.

5. SCOPE

- 5.1. This policy applies to the Internal Audit function. Certain internal audit activities require assistance from other DWSD staff as outlined throughout the policy document.

6. RESPONSIBILITIES

6.1. Internal Audit Manager

- 6.1.1. The Internal Audit Manager is responsible for conducting the annual risk assessment, developing and executing the risk-based BOWC-approved Annual Internal Audit Plan, and supervising the day-to-day auditing activity of the Internal Audit function.

6.2. Chief Financial Officer

- 6.2.1. Internal Audit reports administratively to the Chief Financial Officer. As such, the Chief Financial Officer shall assist Internal Audit in this capacity, as well as perform quality assurance activities over the risk assessment and Annual Internal Audit Plan prior to presentation to the BOWC for approval.

6.3. Board of Water Commissioners

- 6.3.1. The BOWC is responsible for reviewing and approving the risk assessment report and Annual Internal Audit Plan.

7. POLICY

7.1. Internal Audit Charter

- 7.1.1. The Internal Audit Function shall adhere to provisions established in the Internal Audit Charter, including provisions related to professional standards, independence and objectivity, and reporting.

7.2. Communication with the BOWC

- 7.2.1. The Internal Audit Manager communicates with the BOWC through board meetings and with individual BOWC members as necessary.
- 7.2.2. A summary of individual communications will be included within the Internal Audit updates to the BOWC as needed.
- 7.2.3. The Internal Audit will conduct audits and other projects listed in the BOWC-approved Annual Internal Audit Plan, and Internal Audit will distribute audit reports and present findings to the BOWC. The BOWC may modify the Annual Internal Audit Plan as necessary.
- 7.2.4. Individual BOWC Members may request a special Internal Audit assignment. The BOWC must approve the special assignment prior to being conducted.
- 7.2.5. Internal Audit may also request a special assignment from the BOWC. BOWC members which have an actual or perceived conflict of interest in regards to a special assignment request may be asked to recuse themselves from the decision making process.

7.3. Quality Assurance

- 7.3.1. A standard engagement process has been established to ensure consistency, quality, and timely delivery of services. The engagement process consists of using an electronic template, which contains standard procedure steps, forms, and checklists. Review procedures have been embedded throughout the engagement process to continuously review work performed to ensure quality.

7.4. Continuous Improvement Program

7.4.1. Internal Audit shall adopted a philosophy of continuous improvement to actively identify and resolve problems within the audit process. The continuous improvement program follows the established Plan-Do-Check-Act (PDCA) cycle.

Plan

- Establish standards for engagements
- Develop templates, tools, and techniques

Do

- Plan, perform, and report engagements using standards, templates, tools, and techniques
- Collect data on engagement process performance

Check

- Verify standards are met or exceeded
- Confirm use of templates, tools, and techniques
- Document supervisory review
- Record, report, and analyze metrics

Act

- Provide coaching and take corrective action
- Reinforce standards through communication and training
- Revise standards, templates, tools, and techniques

7.5. Access Control

7.5.1. Audit reports and working papers are stored in the Internal Audit Manager's office. Access to this information is restricted to Internal Audit Staff and data owners. The following controls are in place to ensure authorized access to internal audit documentation:

- Upon hire, Internal Auditors are required to sign the Internal Audit Confidentiality Agreement.
- Internal Audit Manager shall lock office doors daily.
- Internal Auditors shall lock their computers when leaving their work areas.
- Upon exit from employment with DWSD, Internal Auditors are required to return keys and equipment. Access to electronic systems is removed.

7.6. Public Information Requests

7.6.1. Requests for information related to internal audit activities shall be directed to the DWSD Legal Department and be subject to the Freedom of Information Act (FOIA) procedures.

7.7. Internal Audit Document Retention

7.7.1. Internal Audit will adhere to the document retention policy established by DWSD.

7.8. Annual Risk Assessment

7.8.1. Internal Audit shall conduct a risk assessment on an annual basis in accordance with standards promulgated by the Institute of Internal Auditors (IIA).

7.8.2. The risk assessment process will commence at the beginning of each Fiscal Year and conclude within the first quarter.

7.8.3. In order to prioritize risks consistently, Internal Audit shall develop a methodology for scoring risks as well as specific definitions of the risk levels.

7.8.4. Consideration of Risks: Internal Audit shall consider risks across all functions of the organization, including, but not limited to, the following risk factors:

- Financial
- Operational
- Compliance and Regulatory
- Strategic
- Information Technology & Cybersecurity
- Organizational

7.9. Annual Internal Audit Plan

7.9.1. Internal Audit will draft a risk-based Annual Internal Audit Plan based on the results of the annual risk assessment.

7.9.2. The Annual Internal Audit Plan will be presented to the BOWC for approval in the first quarter of the Fiscal Year.

7.9.3. The Annual Internal Audit Plan will consider the resources available to conduct internal audit activities. Any resource constraints or lack of subject matter expertise to conduct certain audit activities should be identified in the internal audit plan.

7.10. Reasonable and Necessary Accommodations

7.10.1. Management may take reasonable and necessary actions to accomplish the intent of this policy.

8. PROCEDURE

8.1. Annual Risk Assessment

8.1.1. Internal Audit may use the following tools to identify and assess risks:

- Conduct interviews with, or a survey of, the BOWC, management, process owners, the external auditors, and any other relevant individuals.
- Review regulatory requirements and any relevant regulatory compliance reports.

- Review budget reports, financial statements, and audit reports.
 - Review BOWC meeting minutes and any relevant information presented to the BOWC.
 - Conduct a survey to assess risks throughout the organization.
- 8.1.2. Through the tools identified above and other means, Internal Audit develops an audit universe and Risk Matrix.
- 8.1.3. Internal Audit scores each risk based on the likelihood (or probability) of the adverse event taking place and the potential impact (financial impact or other).
- 8.1.4. Internal Audit presents the Risk Matrix and audit universe to DWSD management, including the Director, Deputy Director, Chief Financial Officer (CFO), Chief Administrative Officer (CAO), Chief Information Officer (CIO), and Chief Operating Officer (COO), for review and discussion of risks.
- 8.1.5. After considering input of management and making any revisions or updates to the audit universe and Risk Matrix, Internal Audit finalizes the Risk Matrix and audit universe.

8.2. Annual Internal Audit Plan

- 8.2.1. Based on the results of the risk assessment process, Internal Audit drafts an Annual Internal Audit Plan. The plan will consist of all activities that Internal Audit plans to cover in that year as well as any resource constraints or lack of subject matter expertise to conduct certain audit activities.
- 8.2.2. Internal Audit presents the Draft Internal Audit Plan to DWSD management, including the Director, Deputy Director, CFO, CAO, CIO, and COO, for review and discussion of risks.
- 8.2.3. After considering input of management and making any revisions or updates to the Plan, Internal Audit prepares a final Draft Internal Audit Plan.
- 8.2.4. The Internal Audit Manager shall present the Draft Internal Audit Plan to the BOWC for review and approval. After approval, the Annual Internal Audit Plan is considered final.