


Policy Title:	Internal Audit Activities & Reporting		
	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. A Board of Water Commissioners-approved Internal Audit Charter regulates the scope and purpose of the Internal Audit function.

2. OBJECTIVES

- 2.1. This document establishes policies and procedures applicable to the execution of Internal Audit activities and reporting.

3. PURPOSE

- 3.1. The purpose of these policies and procedures is to outline the process of conducting each of the Internal Audit activities and effectively reporting the results in order to communicate findings and recommendations.

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.

“Audit Evidence” means all information used by an auditor in arriving at conclusions of the audit. Audit evidence, which is cumulative in nature, includes audit evidence obtained from audit procedures performed during the course of the audit, information contained in accounting records underlying the financial statements, and possibly evidence obtained from other sources (e.g., previous audits, procedures).

“Audit Program” is a document created to summarize the steps to be taken to complete an Internal Audit activity.

“Audit Schedule” means the annual plan of audits to be accomplished, areas to be audited, and participating auditors; also “audit cycle.”

“Audit Scope” refers to activities covered by an Internal Audit; includes such factors as the nature and extent of the audit subject (processes, controls, statements, etc.) and the time frame being audited.

“Auditee” means the division, area, or function being audited.

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

“BOWC” means Board of Water Commissioners.

“Corrective Action” means action taken to eliminate the cause of a defect, deficiency, nonconformity, or other undesirable situation and prevent its recurrence.

“DWSD” stands for Detroit Water and Sewerage Department.

“Key Employees” mean employees that are vital to certain processes that will be reviewed in the Internal Audit. This includes process owners, subject matter experts, relevant supervisors, etc.

5. SCOPE

5.1. This policy serves as a guideline for the Internal Audit Function to conduct all Internal Audit activities and prepare reports that take place during the Internal Audit process.

5.2. The frequency and extent (scope) of each audit activity is determined by the annual risk assessment process, the Annual Internal Audit Plan, the complexity of the process/control, and other factors.

6. RESPONSIBILITIES

6.1. DWSD Employees

6.1.1. All employees are responsible for participating and cooperating in audit activities derived from the BOWC-approved Annual Internal Audit Plan and for taking appropriate actions, where required, to correct deficiencies found during an audit.

6.2. Internal Audit Staff

6.2.1. Internal Audit is responsible for conducting Internal Audit activities consistent with standards promulgated by the Institute of Internal Auditors and the DWSD Internal Audit policies.

6.3. Management

6.3.1. Management, including the Director, Deputy Director, Chief Financial Officer (CFO), Chief Administrative Officer (CAO), Chief Information Officer (CIO), and Chief Operating Officer (COO), is responsible for ensuring that corrective actions are taken in a timely manner.

7. POLICY

7.1. Internal Audit Activities

- 7.1.1. The Internal Audit function generally performs three types of activities, including audit engagements, consulting engagements, and investigations.
- 7.1.2. Internal Audit may also serve, at the discretion of the Director, on the Ethics Committee.

7.2. Development of an Audit Program

- 7.2.1. Internal Audit will develop an audit program for each audit activity that denotes the audit steps that will be taken to achieve the audit objectives.

7.3. Audit Kick-off Meeting

- 7.3.1. Internal Audit will conduct a kick-off meeting at the onset of each audit activity where Internal Audit communicates the scope of work and audit objectives to relevant management and process owners. Depending on the nature of the audit activity, there may be instances where a kick-off meeting may not be conducted.

7.4. Performing the Audit Activity

- 7.4.1. Internal Audit will identify, analyze, evaluate, and record sufficient information to achieve the audit activity's objectives. Auditors will rely on professional expertise as well as the Institute of Internal Auditors standards to evaluate Audit Evidence.
- 7.4.2. Internal Audit will maintain workpapers that demonstrate execution of the audit workplan, notate that proper review and quality assurance activities have been conducted, and support any findings or exceptions.

7.5. Communicating the Audit Exceptions

- 7.5.1. Prior to writing an audit report, Internal Audit will communicate questions and potential audit exceptions to relevant managers and process owners.
- 7.5.2. The managers and process owners shall provide explanations to potential exceptions and answers to questions posed by Internal Audit.

7.6. Internal Audit Reports

- 7.6.1. At the conclusion of each audit, Internal Audit will prepare a draft report that summarizes audit scope, objectives, and the conclusions drawn from the Internal Audit activities (e.g., findings).
- 7.6.2. Internal Audit will present the draft audit report to relevant management and process owners for review.
- 7.6.3. Internal Audit may include management responses in audit reports.

7.6.4. After incorporating any edits or revisions resulting from final discussions with process owners, Internal Audit will present the report to the BOWC.

7.6.5. Reports are considered final after presentation to the BOWC.

7.7. Periodic Follow-up on Internal Audit Findings

7.7.1. Internal Audit may perform periodic follow up to ensure corrective actions have been taken to resolve the root cause of audit findings. The results of any follow up will be communicated to the BOWC on a periodic basis.

7.8. Reasonable and Necessary Accommodations

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

8. PROCEDURE

8.1. Procedures related to each Internal Audit activity will be developed based on the objectives and scope of the audit. Internal Audit will endeavor to adhere to those Internal Audit workplans.

8.2. Audit Activity

NOTE: Internal Audit will perform the following pertinent audit activities for each audit activity. These may be adapting to fit the needs of the audit activity.

8.2.1. Audits are an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the DWSD. Examples may include financial, operational, information technology, and compliance audits. The audit process is designed to provide a value added – customer service approach consisting of phases and steps described below:

Audit Program Planning (Phase 1)

1. Understanding the Assignment – The assignment parameters are developed which include the value proposition, background, objectives, scope, resource allocation, and preliminary schedule. Collectively, these things will be clearly outlined in an audit program. An audit program shall be created for every audit activity.
2. Code of Ethics Statement - Each Internal Auditor completes and signs the Code of Ethics Statement. Internal Auditors certify that they are not aware of any circumstances that would interfere with upholding the Code of Ethics. The Internal Auditors are also responsible for making a timely written notification to the Internal Audit Manager in the event that any circumstance may arise during the course of the audit activity that might interfere with upholding the Code of Ethics.

3. Audit Program – The Audit Program is a tool used to plan, perform, and communicate the results of the audit. The Audit Program is essentially a checklist of the major steps that must be completed throughout the audit process. The Audit Program is approved by the Internal Audit Manager prior to its implementation on the audit activity, and any subsequent adjustments are to be approved promptly.
4. Criteria – The criteria are the standards that the area under evaluation will be evaluated against. Criteria may consist of laws, policies, regulations, standard operating procedures, and frameworks etc.
5. Audit Activity Notification – DWSD division heads, process owners and other Key Employees of various functional areas will be formally notified of the commencement of the audit.
6. Entrance Meeting – A meeting will be held with DWSD division heads, process owners and other Key Employees of various functional areas to discuss the value proposition, objectives, scope, assigned auditors, schedule, and responsibilities.
7. Understanding the Process – The Internal Audit Team gains a thorough understanding of the process(s) being evaluated in relation to the organizational and audit objectives. This understanding may be obtained through various methods such as reviewing governance documents, conducting interviews, conducting questionnaires, developing or reviewing flowcharts, reviewing sample transactions, and observing the process under review.
8. Risk Assessment – Risks are identified that potentially interfere with the accomplishment of established objectives. The risks are assigned an impact and probability rating and are sorted in priority order. The high risk areas are selected for further evaluation by applying audit testing procedures.
9. Analytical Procedures (as applicable) – Analysis of data may be performed to identify potential risks to explore further. Examples of analytical procedures include: Comparing current period information with expectations based on similar information from prior periods, studying relationships between financial and appropriate nonfinancial information, and reviewing trends.
10. Finalize Time Budget & Schedule – Throughout the planning of the project an increased understanding is gained of the environment being audited and how much resources it will take to complete the audit. With this insight adjustments are made to the preliminary time budget and schedule.

The steps listed above are interrelated and are not necessarily performed in sequential order. The assigned Internal Auditor will use professional judgment to accomplish these steps in the most effective and efficient manner.

Audit Testing & Field Work (Phase 2)

11. Audit testing procedures (based on the risk assessment) are designed and performed to accomplish the audit objectives. Internal Auditors identify, analyze, evaluate, and document sufficient information to achieve the audit activity's objectives. Throughout the fieldwork phase, the Internal Auditor will continuously communicate with management to share potential conditions, discuss root causes, and collaboratively develop recommendations. The fieldwork is reviewed to ensure quality and alignment with audit objectives.

Reporting (Phase 3)

12. Initial Draft Report – The draft audit report is prepared based on the results of the fieldwork. The major components of the draft audit report include value proposition, background, scope and objectives, commendations (if applicable), limitations (if applicable), conditions, recommendations, and conclusion. The draft report must be accurate, objective, clear, concise, constructive, complete and timely. The draft report is reviewed by the CFO prior to being disseminated to the BOWC. The draft report is shared with the DWSD division head(s), process owner(s) and/or other Key Employees of various functional areas who were involved at least 24 hours prior to the exit meeting. They are not to distribute the report.
13. Exit Meeting – A meeting is held with the DWSD division head(s), process owner(s) and other Key Employees of various functional areas who were involved to present the draft audit report. The sponsor and/or management will have an opportunity to express their viewpoints and comment on the draft audit report. Internal Audit will consider management's feedback and will make appropriate modifications to the draft audit report as necessary. If disputes arise regarding the factual accuracy of the reported conditions, every effort shall be made to resolve all questions before the final audit report is issued.
14. Final Draft Report – The final draft audit report will be disseminated to the DWSD division head(s), process owner(s) and other Key Employees of various functional areas who were involved and the BOWC simultaneously. The BOWC will receive the draft audit reports directly from Internal Audit. The audited parties will be asked to submit a Corrective Action Plan typically within 10 business days (if necessary) with management responses. Conclusions and recommendations represent the professional judgement of the Internal Auditors and cannot be overridden or unduly influenced by management. The written response to the audit report is the recourse and appropriate vehicle for management to communicate their views. The management responses will be incorporated as part of the audit report.
15. Corrective Action Plan (CAP) – As a courtesy to management, the recommendations from the final draft audit report are inserted into the CAP template with the issuance of the final draft audit report.

Finalizing (Phase 4)

16. Final Report - Once the management response and signed CAP is received (as applicable), a summary of the CAP activities will be incorporated into the final audit report along with the management responses. The final audit report will be distributed to all stakeholders that received the draft audit report.

Survey (Phase 5)

17. Various stakeholders such as management, sponsor, and BWOC will receive audit satisfaction surveys. The surveys will assist in evaluating Internal Audit's performance and customer service regarding the audit activity performed.

Quality Assurance and Improvement (Phase 6)

18. Quality Assurance Review – The audit file is reviewed to ensure that all required forms and documents have been properly prepared, reviewed, sourced and made read-only.
19. Debriefing – Each auditor completes a debriefing form and holds a meeting with the Internal Audit Manager to discuss problems encountered and suggestions for improvement. Improvement suggestions are documented.