


<b>Policy Title:</b>		<b>Internal Audit Charter</b>	
	<b>INTERNAL AUDIT</b>	<b>Category</b>	Internal Audit
		<b>Administrative Policy #</b>	IA.001
		<b>Revision #</b>	N/A
		<b>Review Frequency</b>	As Needed – no less frequently than triennially
<b>Administrative Division</b>	Finance	<b>Reviewed By</b>	CFO, Internal Audit Manager
<b>BOWC Approval</b>	11/27/18	<b>Last Reviewed/Update Date</b>	5/22/19
<b>Implementation Date</b>	7/1/19		

## 1. INTRODUCTION:

- 1.1. Internal Audit (IA) is an independent and objective assurance and consulting function established within Detroit Water and Sewage Department (DWSD) with a philosophy of adding value to improve the operations. Internal Audit assists DWSD in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, internal control.
- 1.2. The existence of Internal Audit does not relieve management of its responsibility to establish appropriate systems of risk management, governance, and control. IA has no direct responsibility for, or any direct authority over, the activities that it reviews. Further, IA shall not develop or install procedures, prepare records, or engage in activities that are subject to its review; and IA shall not direct the activities of any employee not assigned to its section.

## 2. ROLE:

- 2.1. Internal Audit is established by the Board of Water Commissioners (BOWC). The Internal Audit Manager's responsibilities are defined by the (BOWC) as part of their oversight role.

## 3. PROFESSIONAL STANDARDS:

- 3.1. Internal Audit will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit's performance.

- 3.2. The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, Internal Audit will adhere to DWSD relevant policies and procedures and Internal Audit's standard operating procedures manual.
- 3.3. Internal Audit will follow other relevant standards where deemed appropriate (AICPA, Yellow-book/GAGAS, Green Book, etc.).

#### **4. AUTHORITY:**

- 4.1. Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of DWSD records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit will also have free and unrestricted access to the BOWC.

#### **5. ORGANIZATION:**

- 5.1. Internal Audit will report functionally to the BOWC and administratively (i.e. day to day operations) to the Chief Financial Officer.
- 5.2. The BOWC will:
  - 5.2.1. Approve the internal audit charter.
  - 5.2.2. Approve the risk based internal audit plan.
  - 5.2.3. Approve the internal audit budget and resource plan.
  - 5.2.4. Receive communications from the Internal Audit Manager on performance relative to the internal audit plan and other matters.
  - 5.2.5. Approve decisions regarding the appointment and removal of the Internal Audit Manager.
  - 5.2.6. Approve the remuneration of the Internal Audit Manager.
  - 5.2.7. Make appropriate inquiries of management and Internal Audit to determine whether there is inappropriate scope or resource limitations.
- 5.3. Internal Audit will communicate and interact directly with the BOWC, including in executive sessions and between BOWC meetings as appropriate.

#### **6. INDEPENDENCE AND OBJECTIVITY:**

- 6.1. Internal Audit will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.
- 6.2. Internal Auditor will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other function that may impair Internal Audit's judgment.

- 6.3. Internal Auditor will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the function or process being examined. Internal Auditor will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 6.4. Internal Audit will confirm to the BOWC, at least annually, the organizational independence of the internal audit function.

## **7. SCOPE OF WORK:**

- 7.1. Internal Audit shall carry out the following responsibilities:
  - 7.1.1. Annually, develop and present an internal audit plan, in consultation with the Director, CFO, CAO, and COO, for BOWC approval. This plan should be developed using a risk-based methodology and should acknowledge risks and/or internal control concerns identified by Management and the BOWC.
  - 7.1.2. Work with management to develop actions to address identified issues of control, governance, or risk management.
  - 7.1.3. Report annually to the BOWC, appropriate management, Internal Audit's opinion on the overall assessment of the adequacy and effectiveness of DWSD's processes to control its activities and manage risks.
  - 7.1.4. Implement practices that meet the International Standards for the Professional Practice of Internal Auditing, codified in the International Professional Practices Framework (IPPF) and set forth by The Institute of Internal Auditors (IIA).
  - 7.1.5. Keep the Director, CFO, CAO, COO, BOWC, and Management informed of emerging trends and best practices in controls, governance, and internal auditing.

## **8. INTERNAL AUDIT PLAN:**

- 8.1. At least annually, Internal Audit will submit to the BOWC an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year.
- 8.2. Internal Audit will communicate the impact of resource limitations and significant interim changes to the BOWC.
- 8.3. The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of the BOWC. Internal Audit will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to the BOWC through periodic reports.

## **9. REPORTING AND MONITORING:**

- 9.1. A written report will be prepared and issued by Internal Audit following the conclusion of each internal audit activity and will be distributed as appropriate. Internal audit results will be communicated to the BOWC.
- 9.2. The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
- 9.3. Internal Audit will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.
- 9.4. Internal Audit will periodically report to the BOWC on the internal audit function's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the BOWC.

## **10. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:**

- 10.1. Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include an evaluation of the internal audit function's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether Internal Audit applies the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit function and identifies opportunities for improvement.
- 10.2. Internal Audit will communicate to the BOWC on the internal audit function's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.