



Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

The Audit Function

This report evaluating the IEUA Audit Function is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by describing the functions, roles and responsibilities of the Internal Audit Unit and providing an overview of the components which make up The Audit Function for the purpose of ensuring the Agency maintains the highest standards of fiscal integrity and accountability, provide a system of sound checks and balances, and ensure a truly independent view of Agency operations.

Prepared by:
Internal Audit Unit
June 2024



6075 Kimball Avenue • Chino, CA 91708
P.O. Box 9020 • Chino Hills, CA 91709
TEL (909) 993-1600 • FAX (909) 993-1985
www.ieua.org

DATE: June 3, 2024
TO: Honorable Board of Directors
Shivaji Deshmukh
General Manager
FROM: Teresa V. Velarde
Manager of Internal Audit

SUBJECT: The Audit Function

The Inland Empire Utilities Agency (IEUA or Agency) Internal Audit Unit (Internal Audit or IA) and the Audit Committee were established by Board action on April 21, 2004. The Audit Function was established as a response to increased responsibilities for financial reporting and audit compliance requirements of various regulatory agencies, specifically related to the financial growth of the Agency associated with the issuance of bonds and receipt of increasing grant funding, along with the administration of rebate programs and the active roles and projects with various joint powers and member agencies. As documented in the March 17, 2004, Board Letter, the Audit Function was the staff recommendation to provide greater Board oversight of External Auditor activities, to perform internal audits and submit audit reports with recommendations for improvements, to adopt the Government Finance Officers Association (GFOA) and the Institute of Internal Auditors (IIA) guidance and comply with California legislation modifying audit reporting requirements. Additionally, to ensure the Agency maintains the highest standards of fiscal integrity and accountability, provide a system of sound checks and balances, and ensure a truly independent view of Agency operations.

For purposes of this report, “The Audit Function” refers to: Internal Audit, the External Financial Auditors, the Audit Committee Financial Expert Advisor, and the Audit Committee. The purpose of the Audit Function is to assist the Agency in achieving its organizational goals and objectives through ensuring the requirements of the Audit Committee Charter are achieved.

Internal Audit is charged with the responsibility to ensure the oversight obligations of the Audit Function are met. IA seeks to add value and improve the organization’s operations through independent, objective audits, reviews and evaluations and recommendations provided. IA must adhere to professional standards, a code of conduct, professionalism

Water Smart - Thinking in Terms of Tomorrow

Marco Tule
President

Jasmin A. Hall
Vice President

Steven J. Elie
Secretary/Treasurer

Michael Camacho
Director

Paul Hofer
Director

Shivaji Deshmukh
General Manager

and principles and follow a systematic, disciplined approach in performing internal audits, evaluating operations and providing recommendations.

The current structure of the Agency's Internal Audit Unit follows best practices and guidelines provided the Government Finance Officers Association (GFOA), the Institute of Internal Auditors (IIA) and the American Institute of Certified Public Accountants (AICPA). Consistent with those best practices, IA reports functionally to the Board through the Audit Committee to establish independence and objectivity. Also, consistent with best practices, IA reports administratively to the General Manager for planning and coordinating audit projects, establishing budget and staffing needs and other administrative items. The purpose, authority and responsibilities of IA are documented in the Board-approved Charter.

The IEUA Audit Committee is composed of two members of the Board and an outside member that serves as the Financial Expert Advisor to the Audit Committee, as prescribed by best practices. GFOA, AICPA and the IIA recommend the Audit Committee meet at minimum quarterly and discuss audit matters with Management, the Internal Auditor, the Financial Advisor and the External Auditors and report to the Board any significant issues that warrant attention. The roles of the Audit Committee are documented in the Board approved Audit Committee Charter.

The attached report provides additional information about the purpose of the various components of The Audit Function including:

- Background information about the establishment of IEUA's Internal Audit function
- Internal Audit
- Audit Committee
- Audit Committee Financial Expert Advisor
- External Financial Auditor
- Types of audits performed by Internal Audit
- The Annual Audit Plan
- Best Practices for The Audit Function as recommended by:
 - Government Finance Officers Association (GFOA)
 - Institute of Internal Auditors (IIA)
 - American Institute of Certified Public Accountants (AICPA)
- Additional Resources related to The Audit Function

IEUA has adopted best practices in structuring and establishing an effective Audit Function. IEUA was a leader in the local government sector to achieve structuring the Audit Function as recommended by best practice guidance. The report that follows provides details about the Audit Function at IEUA with greater discussion focused on the Internal Audit Unit.

IA appreciates the opportunity to provide this comprehensive report on the Audit Function of IEUA and request direction, feedback and/or changes for the fulfillment of audit responsibilities and future Audit Committee Meetings. The Manager of Internal Audit is available to provide additional information or answer any questions.

This report evaluating the IEUA Audit Function is consistent with the Agency's Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by describing the functions, roles and responsibilities of the Internal Audit Unit and providing an overview of the components which make up the Audit Function for the purpose of ensuring the Agency maintains the highest standards of fiscal integrity and accountability, provide a system of sound checks and balances, and ensure a truly independent view of Agency operations.

Attachment – Additional Reference Material related to the Audit Function

TV:sn

The Audit Function

The purpose of the Audit Function is to assist the Agency in achieving its organizational goals and objectives. Additionally, to assist the Board of Directors achieve its oversight responsibilities over for financial reporting, internal controls, and compliance with legal and regulatory requirements and to assist management by providing objective evaluations and recommendations. “The Audit Function” refers to:

Internal Audit Unit
External Financial Auditors
Audit Committee Financial Expert
Audit Committee

Background – Establishing the Audit Function

On April 21, 2004, The Board of Directors established the IEUA’s Internal Audit Department and Audit Committee (Board letter attached in the additional references attached). The Board of Directors had requested staff conduct research and recommendations on the best structure for IA and the Audit Committee. Based on the research completed and recommendations by Agency staff, the Board approved the “best practices” model suggested by the Government Finance Officers Association (GFOA), the Institute of Internal Auditors (IIA), and the Agency’s General Counsel. This has remained the model since its establishment:

- An Audit Committee composed of three committee members, two members of the Board of Directors and an Audit Committee Member, with no voting rights, to serve as the Financial Expert with experience in conducting financial audits, as suggested by best practices. (taken from the original Board letter).
- The position of Manager of Internal Audit reporting functionally to the Board through the Audit Committee and reporting administratively to the General Manager. (taken from the original Board letter).

According to the Board report presented in 2004, this structure was established: *“to address this increase in responsibility”* (from increased auditing requirements and reporting of expenditures for special districts by the California Legislature), *“to ensure administrative and financial accountability to standards required by federal and state regulatory agencies and bondholders, to better define staff’s administrative responsibilities,*

and to provide the Board with a consistent means of monitoring the Agency's financial responsibilities".

GFOA recommends that every government consider the feasibility of establishing a formal internal audit function (GFOA recommended practice, 1997). Further, GFOA recommends the Internal Audit Function be established formally by Charter. IEUA has adopted best practices and has established the IA by Board-approved Charter.

Internal Audit Unit Charter & Audit Committee Charter

As part of the establishment of IA and the Audit Committee in April of 2004, the Board adopted the first IA Charter and the Audit Committee Charter. The IA Charter documents the purpose, authority and responsibilities of Internal Audit. The Audit Committee Charter documents the Audit Committee's purpose, composition, authority and responsibilities. Both charters follow best practices and guidance set forth by the IIA. The purpose of the charters is to assist the Board of Directors and the Audit Committee in fulfilling their oversight responsibilities. Those responsibilities are fulfilled through the various planned audit projects, discussions with Management, the External Financial Auditor and the Audit Committee Financial Expert Advisor, as well as discussions with the Audit Committee.

The Charters are provided for Audit Committee and Board review and/or discussion each year. IA evaluates changes in best practices and suggestions by the External Financial Advisor and the External Auditor in making changes/edits to the Charters. The Charters are posted on the IA webpage on the Agency's intranet website.

Mission Statement of The Internal Audit Unit

The Internal Audit Unit seeks to improve the operations of the Agency by providing independent and objective assessments and recommendations to ensure Agency resources are efficiently and effectively managed in order to achieve Agency goals and objectives. IA will help the Agency achieve its goals and objectives, improve operations, and instill confidence among its employees and the citizens it serves by providing independent, objective assurance and consulting services and provide management and the Board of Directors with recommendations to:

- Promote and strengthen a sound control environment.*
- Provide independent, objective assurance and consulting services.*
- Improve Agency risk management, control and governance.*
- Promote the Agency's vision and mission with a high degree of professionalism.*
- Assist the Board of Directors and senior management achieve organizational goals and objectives.*

The Internal Audit Unit

The purpose of the IA is to assist the Board of Directors and the Audit Committee in fulfilling their oversight responsibilities for financial reporting, internal controls, compliance with legal and regulatory requirements applicable to Agency operations, and to provide objective assurance about the Agency's operations. IA seeks to add value and improve the organization's operations through independent, objective audits, reviews and evaluations and recommendations provided. IA is charged with ensuring that the responsibilities of all the components that make up The Audit Function are fulfilled. This report provides an overview of the components and the responsibilities of each component. All responsibilities are documented in the Board approved Charters.

Staffing

IA is currently staffed with one full-time Manager of Internal Audit, one full-time Senior Internal Auditor, one Internal Auditor and one Intern (pending recruitment) as of June 2024. As required by the Board-approved Charter, the Manager of Internal Audit, reports

functionally to the Board through the Audit Committee, and administratively to the General Manager. See Organizational Structure below for additional information.

The purpose of the IA can be summarized as follows:

- Assists the Agency achieve its goals and objectives by performing objective evaluations of Agency business processes and providing recommendations to make improvements.
- Evaluates risks related to the areas under review
- Assesses the reliability of internal controls
- Provides recommendations for improving operations
- Promotes a strong ethical culture
- Reviews processes and procedures
- Provides on-going monitoring and compliance
- Communicates potential red flags
- Communicates audit results and observations to management, the Audit Committee and the Board
- Serves as the “eyes and ears” of the Board of Directors

Professional Standards

Internal Auditors must adhere to and abide by the International Professional Practices Framework (IPPF), issued by the Institute of Internal Auditors (IIA). The new IPPF includes Global Internal Audit Standards (Standards), Topical Requirements, and Global Guidance, which were released in January 2024 and become effective one year after adoption (January 9, 2025). These are best practice guidance and professional standards and principles to ensure auditors follow a systematic, disciplined approach in performing internal audits. The standards and additional information can be found on the IIA website at: <https://www.theiia.org/en/standards/>



In the new Global Internal Audit Standards, the domain titled Ethics and Professionalism, is to instill trust and promote an ethical culture in the profession of internal auditing. The Ethics and Professionalism domain includes the following principles, standards of ethics

and professionalism that apply to individuals and entities that perform internal audit services:

Domain II: Ethics and Professionalism	
<i>Source: Global Internal Audit Standards</i>	
Demonstrate Integrity	Internal auditors demonstrate integrity in their work and behavior.
Maintain Objectivity	Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.
Demonstrate Competency	Internal auditors apply the knowledge, skills, and abilities to fulfill their roles and responsibilities successfully.
Exercise Due Professional Care	Internal auditors apply due professional care in planning and performing internal audit services.
Maintain Confidentiality	Internal auditors use and protect information appropriately.

Continuing Professional Education

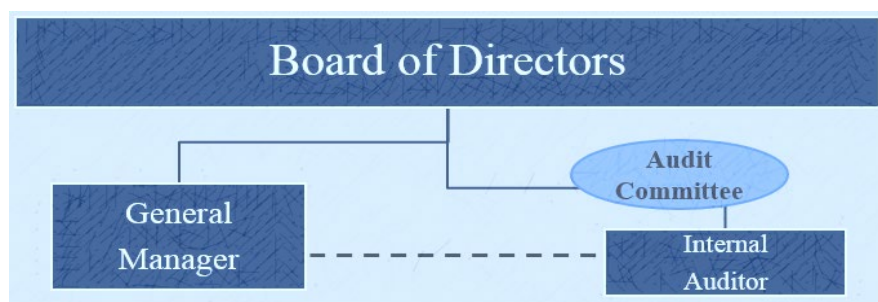
The IIA *Standards* and the IA Charter also require that internal auditors engage in continuous professional education and development to enhance their knowledge, skills, and other competencies, stay abreast of developing audit trends and risks. Additionally, to ensure they possess the knowledge, skills and other competencies required of internal auditors to effectively carry out their responsibilities. This includes 2 hours of Ethics training annually. Specifically, two Agency auditors hold the certification of Certified Government Audit Professional (CGAP) and one Agency auditor holds the certification Certified Internal Auditor (CIA) which is issued by the IIA. Annually, both certifications require continuing professional education, 20 hours for CGAP and 40 hours for CIA, or 40 hours and 80 hours respectively, every two years. The educational requirements are met.

Organizational Structure

The current structure of the Agency’s Internal Audit follows best practices and guidance provided by the Institute of Internal Auditors (IIA), the Government Finance Officers Association (GFOA), and the American Institute of Certified Public Accountants (AICPA). Consistent with those best practices, IA reports functionally to the Board through the Audit Committee to establish the independence of IA and to foster an environment where IA can work free from potential pressures of management and have the ability to perform audit work and responsibilities objectively and independently. Additionally, consistent with best practices, IA reports administratively to the General Manager for planning and

coordinating audit projects, establishing the budget and staffing resources and other administrative items.

Best Practices Recommendations for Internal Audit Structure



Government Finance Officers Association (GFOA)

- *“Every government should consider the feasibility of establishing a formal internal audit function because such a function can play an important role in helping management to maintain a comprehensive framework of internal controls. As a rule, a formal internal audit function is particularly valuable for those activities involving a high degree of risk (e.g., complex accounting systems, contracts with outside parties, a rapidly changing environment). If it is not feasible to establish a separate internal audit function, a government is encouraged to consider either 1) assigning internal audit responsibilities to its regular employees or 2) obtaining the services of an accounting firm (other than the independent auditor) for this purpose;*
- *The internal audit function should be established formally by charter, enabling resolution, or other appropriate legal means;*
- *It is recommended that internal auditors of state and local governments conduct their work in accordance with the professional standards relevant to internal auditing contained in the U.S. General Accounting Office’s publication Government Auditing Standards, including those applicable to the independence of internal auditors;*
- *At a minimum, the head of the internal audit function should possess a college degree and appropriate relevant experience. It also is highly desirable that the head of the internal audit function hold some appropriate form of professional certification (e.g., certified internal auditor, certified public accountant, certified information systems auditor) ; and*
- *All reports of internal auditors, as well as the annual internal audit work plan, should be made available to the government’s audit committee or its equivalent.”*

American Institute of Certified Public Accountants (AICPA)

“First and foremost, the internal audit department will understand that its responsibilities are primarily to the audit committee. A strong internal audit function may also include audit committee oversight of the internal audit group’s budget approval process and its policies regarding hiring, evaluation, training, and termination of internal audit staff. Terminating or transferring high level internal audit personnel will be ultimately determined by the audit committee.

Executive sessions with the head of the internal audit function at every audit committee meeting provide the audit committee a unique opportunity to engage in candid discussions with him or her about the possible risk of management override of internal control and any indications of improper conduct by senior management.

The audit committee, by understanding and assisting in developing the internal auditors’ annual audit plan, will influence the internal auditors’ agenda by directing the plan’s emphasis to areas of particular interest to the audit committee. These areas might include fraud risks—particularly matters that surfaced during the brainstorming session—and controls over judgments and estimates and key information processes. A properly directed internal audit staff can serve as the “eyes and ears” of the audit committee.”

The Institute of Internal Auditors (IIA)

Reporting to executive management and having direct access to the audit committee well positions the internal audit activity within an organization. Internal audit independence is furthered by periodic private meetings between the audit committee and the CAE, during which time sensitive issues are discussed without management’s presence.”

Definition of Internal Auditing (per Global Internal Audit Standards):

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

Annual Audit Plan

The Annual Audit Plan is a responsibility under the requirements of the Board approved IA Charter. The Audit Plan allows the Manager of Internal Audit to carry out the responsibilities of IA by prioritizing projects and allocating necessary resources where audit efforts are deemed appropriate and necessary. The Audit Plan is a flexible plan of internal audit activities developed using an appropriate risk-based methodology to prioritize audit projects. The proposed audit projects are selected based on risks considered, requests by management and inquiries of the Agency's management, External Auditors, the Audit Committee Advisor, general counsel and others. The plan is meant to address risk areas and to evaluate and contribute to improving effectiveness of Agency operations. The Annual Audit Plan is submitted for Audit Committee review and to the Board for approval every year in June. When changes and amendments to the Audit Plan are necessary, these are submitted through the Audit Committee for approval.

Types of Audits

IA performs operational audits, which is designed to evaluate an activity's effectiveness and efficiency of operations. IA's operational audits also incorporate elements of program, financial and compliance audits to evaluate financial transactions and overall compliance with policies and procedures and the effectiveness of the activity. Prior to finalizing an audit, discussions take place between IA and the auditee about the audit results and resulting audit findings and recommendations. The auditee is always provided with opportunities to provide resolutions, responses or additional information prior to IA finalizing the audit report and proposed recommendations. Results of audits are documented in a formal audit report and discussed during Audit Committee meetings. Auditees can provide a written response and include corrective action plans. Any resulting open/outstanding audit recommendations are followed-up as scheduled through the Annual Audit Plan until full implementation is achieved or alternate controls are incorporated.

IA has completed audits in multiple areas of the Agency's operations, including:

- P-cards – Food, Travel, Training, IT equipment, and Fuel
- Procure-to-Pay – Chemicals, Materials & Supplies, E&CM, Planning, Pay Estimates,
- Warehouse Operations
- Human Resources – Benefit processes, Hiring and Promotions processes

- Finance & Accounting – Accounts Payable, Accounts Receivable, Petty Cash
- Finance & Accounting – Payroll, Wire Transfers Interfund Transactions
- Construction Management
- Contracts and Procurement
- Laboratory
- Environmental Compliance
- Pre-Treatment and Source Control
- Planning and Environmental Resources
- Integrated Systems Services – IT equipment
- Vehicle Inventory & Security
- Energy/Utility Bills
- Regional Contract Audits of the 7 contracting agencies
- P-Cards and Credit Cards
- Garden In Every School Program
- Grants – processes, Agency Covid-19 expenses
- Policy review and recommendations
- Miscellaneous projects and requests

All audit reports are discussed during the regular Audit Committee Meetings and can be accessed on IA's webpage located on the Agency's intranet (AIM), through the Board Reports on the main IEUA webpage or available upon request from the Manager of IA.

The Audit Committee

The IEUA Audit Committee structure follows recommended best practices and professional standards. The April 21, 2004 Board report included the following structural recommendation about the creation of an Audit Committee as a separate committee of the Board of Directors:

“An Audit Committee of the Board of Directors be established to oversee the audit and grants’ responsibilities of the current Chief Financial Officer position. The Committee would be responsible to meet at least quarterly with the Agency’s Internal Auditor and Agency staff, for overseeing the acquisition of the Agency’s outside Auditor, developing the scope of work for the annual audit, approving the annual audit work plan, directing special internal audits, reviewing and approving the internal auditing work plans, evaluating the performance of the internal audit activities, and providing policy direction to the Agency’s Audit and Grants Department. The Audit Committee would meet at least quarterly with the Internal Auditor to review work plans, audit activities and the draft/final audit reports. The Audit Committee

would submit all audit management reports to the Board for review and policy direction, as appropriate.”

This recommendation was developed based upon research performed by IEUA staff. IEUA staff discussed the structure of the Audit Committee and Internal Audit Department with the “Agency’s bond counsel, investment banker, the External Auditor, The Agency’s General Counsel, and the Metropolitan Water District’s Chief Financial Officer who suggested the proposed reorganization was in the best interests of the Agency.”

The Audit Committee meets quarterly and is comprised of three members: two Board Members and one External Financial Expert. The Manager of IA is responsible for preparing all agenda items for the Audit Committee meetings.

Best Practices Recommendations for the Audit Committee Structure

Government Finance Officers Association

- *“The governing body of every state and local government should establish an audit committee or its equivalent.*
- *The audit committee should be . . . made directly responsible for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services.*
- *All members of the audit committee should be members of the governing body.*
- *It is the responsibility of the audit committee to provide independent review and oversight of a government’s financial reporting processes, internal controls and independent auditors.*
- *The audit committee should have access to the reports of internal auditors, as well as access to annual internal audit work plans.”*

American Institute of Certified Public Accountants

“Government entities are faced with ongoing challenges related to the governance of their organization, risks associated with achieving their organization’s objectives, and compliance with revised and emerging laws and regulations. Responsibilities are ultimately identified by the governing body and assigned to various governing committees, including the audit committee.

The audit committee assists the governing body in its oversight of

- *integrity of the organization’s financial statements;*
- *internal control including internal control over financial reporting;*
- *independent auditor’s qualifications, independence, and performance;*

- *internal audit function's qualifications, independence, and performance;*
- *the organization's risk management and overall governance process; and*
- *the organization's ethics and compliance program, which includes legal and regulatory requirements."*

The Institute of Internal Auditors

"The cornerstones of effective governance are the board of directors, executive management, the internal auditors, and the external auditors. No single committee of the board is more focused on or better in tune with governance than the audit committee. What is the audit committee's role in governance? In a nutshell, the audit committee should provide oversight of financial reporting, risk management, internal control, compliance, ethics, management, internal auditors, and the external auditors. Some detailed audit committee responsibilities include:

- *Ensuring that financial statements are understandable, transparent, and reliable.*
- *Ensuring the risk management process is comprehensive and ongoing, rather than partial and periodic.*
- *Helping achieve an organization-wide commitment to strong and effective internal controls, emanating from the tone at the top.*
- *Reviewing corporate policies relating to compliance with laws and regulations, ethics, conflicts of interest, and the investigation of misconduct and fraud.*
- *Reviewing current and pending corporate-governance-related litigation or regulatory proceedings to which the organization is a party.*
- *Continually communicating with senior management regarding status, progress, and new developments, as well as problematic areas.*
- *Ensuring the internal auditors' access to the audit committee, encouraging communication beyond scheduled committee meetings.*
- *Reviewing internal audit plans, reports, and significant findings.*
- *Establishing a direct reporting relationship with the external auditors."*

The Role of the Audit Committee Financial Expert

The April 2004 recommendation that established the Audit Committee and the Internal Audit Department did not discuss the role of an external financial expert in providing counsel and advice to the Audit Committee. The Audit Committee Advisor/Financial Expert serves as a resource to the Audit Committee, Internal Audit and Management.

The Financial Advisor serves as a checks and balance for the Internal Audit for the Audit Committee and serves as an interpreter for the Audit Committee.

Best Practices Recommendations for the Audit Committee Financial Expert

Government Finance Officers Association

“The audit committee also should have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose. Such a financial expert should through both education and experience, and in a manner specifically relevant to the government sector, possess 1) an understanding of generally accepted accounting principles and financial statements; 2) experience in preparing or auditing financial statements of comparable entities; 3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of audit committee functions”

American Institute of Certified Public Accountants

“If no individual member of the audit committee possesses the attributes required for financial expertise, and the committee members collectively do not possess such attributes, two options might be considered:

- *Engage a financial professional to provide financial expertise as a consultant to the audit committee. Such an individual must otherwise be independent with respect to the entity (that is, must have no other financial arrangements with the government entity).*
- *Pursue a training program for audit committee members to develop the financial expertise. Such training can include participation in professional development classes or programs offered by the AICPA, associations, or the specific sector in which the government entity participates, or in-house training programs led by members of the government entity’s financial management team.”*

The Institute of Internal Auditors

*“The audit committee charter should define membership requirements, **include a provision for a financial expert**, allow for yearly reviews and changes . . . “*

The IEUA Audit Committee has as the Financial Expert, Mr. Travis C. Hickey, CPA to be the Audit Committee Advisor. Mr. Hickey is a Certified Public Accountant and has several years of experience auditing and providing recommendations to agencies like IEUA. Over the past years, Mr. Hickey has been a valuable resource to the Audit Committee and the Internal Audit Unit by providing consulting and advisory services.

The Role of the External Financial Auditor

State law and the Agency's Fiscal Ordinance requires that an independent certified public accountant audit the Financial Statements of the Agency. The purpose of a financial audit is to demonstrate that the Agency's financial statements were prepared in conformity with generally accepted accounting principles in the United States of America (GAAP), as set forth by the Governmental Accounting Standards Board (GASB). Responsibility for both the accuracy of the presented data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Agency. The role of the External Auditors is also to evaluate the adequacy and accuracy of the accounts, test internal controls and complete the audit in accordance with generally accepted auditing standards. The auditors are only providing an opinion as to the representations provided by the Agency. The purpose of the annual financial audit is to receive an independent audit opinion as to the fairness of the financial statements. The opinion is relied upon by readers of the financial statements such as lenders, rating agencies and other stakeholders. The scope of the audit and the materiality threshold set for the audit testing and procedures are determined based on the auditor's risk assessment, professional guidelines and their professional judgment. The audit is not meant to detect fraud. The External Financial Auditors must be licensed as Certified Public Accountants in the State of California and follow a rigorous set of guidelines established by the American Institute of Certified Public Accountants for the performance of financial audits. The Agency currently has a contract with Baker Tilly US, LLP, for financial auditing and single audit services.

Best Practices Recommendations for the Internal Audit Unit Charter

Government Finance Officers Association

"The internal audit function should be established formally by charter, enabling resolution, or other appropriate legal means."

American Institute of Certified Public Accountants

The AICPA also recommends that one aspect of the audit committee's oversight responsibilities for Internal Audit includes: *"Approve the internal audit department charter."*

Best Practices Recommendations for the Audit Committee Charter

Government Finance Officers Association

“The audit committee should be formally established by charter, enabling resolution or other appropriate legal means and . . . the written documentation establishing the audit committee should proscribe the scope of the committee’s responsibilities, as well as its structure, processes, and membership requirements. The audit committee should itself periodically review such documentation, no less than once every five years, to assess its continued adequacy.”

American Institute of Certified Public Accountants

“Specific responsibilities assigned to an audit committee are set forth in an audit committee charter . . . that is approved by the governing body. An audit committee charter should address the audit committee process, procedures, and responsibilities. Audit committee responsibilities can vary by government entity due to factors such as size of the entity, the type of entity, and the complexity of the government entity’s service or business model.”

American Institute of Certified Public Accountants

“The audit committee’s charter is its blueprint for operations. Highly customized to best meet the needs of an organization’s industry, mission, and culture, the charter should clearly delineate audit committee processes, procedures, and responsibilities that have been sanctioned by the entire board.” (The document further provides specific recommendations for what to include in an Audit Committee Charter and provides a sample document for reference.)

Conclusion

Based on the analysis and information gathered and provided through this report and the accompanying additional resources related to the Audit Function, we are pleased to report that IEUA has structured and aligned the Internal Audit Unit and the Audit Committee in accordance with best practices and professional guidance to ensure an independent function. The components of The Audit Function work together and independently to achieve the requirements of the Board approved Charters and fulfill the Board’s oversight responsibilities. It should be noted that external auditors and other agencies often compliment that IEUA has taken the lead to ensure these functions are established according to best practices and professional guidance and support independent evaluations for the benefit of the organization.

IA staff has compiled the accompanying “Additional resources related to the Audit Function” for reference on the various topics discussed throughout this report.

IA appreciates the opportunity to provide this comprehensive information report on The Audit Function of IEUA and looks forward to direction and requests for audit projects.

The Audit Function Report is consistent with the Agency’s Business Goals of Fiscal Responsibility, Workplace Environment and Business Practices by describing the functions, roles and responsibilities of the Internal Audit Department, the Audit Committee, External Financial Auditors and the Audit Committee Advisor and a plan to ensure the Agency maintains the highest standards of fiscal integrity and accountability, provide a system of sound checks and balances, and ensure a truly independent view of Agency operations.