

# **LOUISVILLE & JEFFERSON COUNTY METROPOLITAN SEWER DISTRICT INTERNAL AUDIT CHARTER**

## **INTRODUCTION**

As defined by the Institute of Internal Auditors, internal auditing is an independent objective assurance and consulting activity designed to add value and improve the organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The objectives of internal auditing are to assist members of the organization in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed and by promoting effective control at reasonable cost.

## **INDEPENDENCE AND OBJECTIVITY**

The Internal Auditor reports functionally to the Audit Committee of the MSD Board and administratively (i.e. day-to-day operations) to the Executive Director and has full and independent access to the Executive Director, the Audit Committee, and any member of the MSD Board.

The Internal Auditor's performance evaluations will be performed by the Executive Director with direct input from the Audit Committee.

The Internal Auditor will remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering engagement conclusions.

The Internal Auditor will have no direct operational responsibility or authority over any of the activities audited. Accordingly, the Internal Auditor will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that would normally be audited.

The Internal Auditor must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. The Internal Auditor must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

## **SCOPE OF WORK**

The scope of work of the internal audit department is to determine whether the organization's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.

- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization's control processes.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed properly.

Opportunities for improving internal control, productivity, efficiency and effectiveness may be identified during audits. These opportunities will be communicated to the appropriate level of management, the Audit Committee, and MSD Board.

### **ACCOUNTABILITY**

The Internal Auditor, in the discharge of his/her duties, shall be accountable to management and the Audit Committee to:

- Provide an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the scope of work.
- Report significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

### **RESPONSIBILITY**

- Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Audit Committee for review and approval.
- Develop an annual budget for the internal audit department, and request the funds estimated as necessary to fulfill the annual audit plan to the Audit Committee. The annual internal audit budget shall then be included in the MSD budget by the Budget and Finance Director, and ratified by the MSD Board.
- Implement the annual audit plan, as approved, and as appropriate, any special tasks or projects requested by the Executive Director, Audit Committee, or MSD management. Any audit requests not included in the annual audit plan, shall be approved by the Audit Committee. If the nature of the request is confidential (e.g. potential fraud, code of ethics violation), the Internal Auditor shall notify the Chair of the Audit Committee, in writing, to request approval of the audit engagement.
- Notify the members of the Audit Committee, in writing, of the commencement of approved audit engagements, special tasks, or projects.
- Notify the members of the Audit Committee, in writing, once a draft internal audit report has been communicated to MSD management for review and comment to ensure the factual content of the draft report.

- Provide internal audit engagement documentation for review to any member of the MSD Board upon request. Documentation shall be provided as-is at any point in the audit process, whether a working draft document associated with an internal audit engagement in progress or a final document associated with an internal audit report that has been ratified by the MSD Board.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the Audit Committee, at least quarterly, to provide status updates or summarize results of audit activities.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant Internal Audit measurement goals and results to the Audit Committee. The list shall include audit plan accomplishments and necessary revisions.
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the Audit Committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.
- Maintain confidentiality in all matters as appropriate.

### **AUDIT REPORTS**

Audit reports will contain relevant background information, observations, conclusions, and recommendations (if necessary).

A draft audit report will be forwarded to management of the audited area for review and comment regarding factual content before it is presented to the Audit Committee for review. Management must respond in writing and specify agreement with audit conclusions and recommendations, or reasons for disagreement, along with an action plan for implementing solutions to issues identified and a timetable to complete such activities. The response must be forwarded to the Internal Auditor within fifteen (15) days of the exit conference, or no longer than thirty (30) days of receipt of the draft report.

The response will be included in the report. If no response is received within the stated timeframe, the Internal Auditor may note that fact in the transmittal letter and submit the draft report to the Audit Committee for approval. The Audit Committee, after review and approval of the draft audit report, shall ensure the report is presented to the MSD Board for ratification.

Final audit reports shall be distributed to the Executive Director, the Audit Committee, the MSD Board, and management of the audited area. The report shall also be available for public examination. The Internal Auditor shall retain a copy as a permanent record.

### **AUDIT FOLLOW-UP**

The Internal Auditor shall follow-up on major audit recommendations, as practical, to determine if corrective actions have been implemented and are effective. The Internal Auditor may request periodic status reports from management of audited areas regarding actions taken to address audit recommendations.

### **AUDIT RECORDS**

The Internal Auditor shall retain a complete file of each audit report and each report of other examinations, investigations, surveys, and reviews performed. The file should include audit work papers and other supportive material directly pertaining to the audit report. The file should be retained in accordance with MSD record retention requirements.

### **CONSULTANTS AND EXPERTS**

The Internal Auditor may obtain the services of external consultants, auditors, or other professional experts necessary to perform its duties through the procurement process. The Internal Auditor may assist in the selection of the MSD external auditors. The Internal Auditor may assist in coordinating and/or monitoring audit work performed by other organizations under contract by MSD.

### **QUALITY ASSURANCE REVIEW**

The audit activities of the internal audit department shall be subject to quality assurance reviews in accordance with compliance with the *International Standards for the Professional Practice of Internal Auditing*. A professional, non-partisan objective group shall perform the review. The quality control review shall determine compliance with standards and be performed within the timetable prescribed by applicable standards. A copy of the written report of this review shall be furnished to the Executive Director and Audit Committee.

### **ACCESS TO EMPLOYEES, RECORDS, AND PROPERTY**

Management and employees of MSD shall cooperate with and furnish the Internal Auditor unrestricted access to employees and information regarding powers, duties, activities, organization, assets, financial transactions, contracts, and methods of business.

The Internal Auditor shall have access to, and authority to examine any and all records (including automated data) including but not limited to books, accounts, internal memoranda, writings and tapes, reports, vouchers, correspondence files and other records, bank accounts, money and other property of any MSD division, department, program, or activity. This includes access for the Internal Auditor to inspect all assets, property, equipment, and facilities.

All contracts with outside contractors and subcontractors shall provide for the Internal Auditor to have access to all financial and performance related records, property, and equipment related to MSD contracts.

The Internal Auditor shall not publicly disclose any information received during an audit that is considered proprietary (confidential) in nature by any local, state or federal law or regulation.

The Internal Auditor shall report to the Executive Director and Chair of the Audit Committee, in writing, of any failure by any member of management or employee to cooperate with the Internal Auditor's requests.

**STANDARDS OF AUDIT PRACTICE**

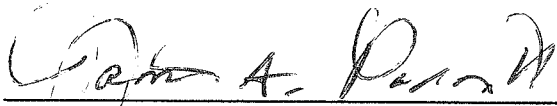
Internal Audit will meet or exceed The Institute of Internal Auditors' mandatory guidance, including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*. This mandatory guidance constitutes statements of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance and constitute an addendum to this charter.

**PERIODIC ASSESSMENT**

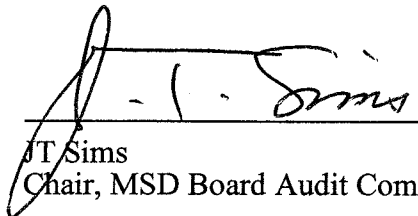
The Internal Auditor should at least annually assess whether the purpose, authority, and responsibility, as defined in this charter, continue to be adequate to enable the internal audit department to accomplish its objectives. The result of this annual assessment should be communicated to the Executive Director and the Audit Committee.



Marvin A. Malone  
Internal Auditor, MSD



James A. Parrott  
Executive Director, MSD



JT Sims  
Chair, MSD Board Audit Committee

1/10/17  
Date

