

INTERNAL AUDIT CHARTER

The Austin Transit Partnership (“ATP”) serves as the independent local government corporation tasked with implementing Project Connect. ATP is governed by a Board of five voting members and one ex officio member as outlined in the ATP Articles of Incorporation. The ATP Board (“Board”) established the Internal Audit Department (“Internal Audit”) as a key component of ATP’s governance structure. This Internal Audit Charter serves as a framework guiding Internal Audit in the performance of its duties. It is a living document and subject to change with the Board’s approval, however minor non-substantive changes are permitted without Board approval (e.g. grammar, spelling, re-ordering, etc.).

The components of this Internal Audit Charter are the following:

- Mission
- Independence and Authority
- Standards of Audit Practice
- Scope of Work
- Access to Records
- Responsibilities
- Reporting to the Board
- Audit Planning
- Consideration of Management Responses to Audit Recommendations
- Reliance on Work of Others
- Consideration of Fraud, Waste, and Abuse
- Quality Assurance and Peer Review

This Internal Audit Charter was approved by ATP Board Resolution on June 15, 2022.

MISSION

The mission of Internal Audit is to help improve ATP’s governance, control, and risk management through independent, objective assurance and advisory services.

INDEPENDENCE AND AUTHORITY

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It also strengthens government accountability to the public for stewardship of resources and achievement of community goals. Internal auditing helps an organization accomplish objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. An effective, independent Internal Audit function can increase a government’s credibility with the public, oversight agencies, granting authorities, and bond markets.

Internal Audit is organizationally independent of ATP administration and reports directly to the Board. All Internal Audit personnel will report to the Internal Audit Director. Any external audit staff that the Internal Audit Director hires to support the Internal Audit function will report to the Internal Audit Director. To maintain its independence, Internal Audit will have no direct operational responsibility or authority over any of the activities under its scope of work. Accordingly, Internal Audit will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair its judgment, including:

- Assessing specific operations for which they had responsibility within the previous year
- Performing any operational duties for the Board or ATP Management
- Initiating or approving transactions external to the internal audit function
- Directing the activities of any employee not employed by Internal Audit

The Director of Internal Audit will ensure that the service remains free from conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner. Internal Audit staff will maintain an unbiased mental attitude that allows them to perform engagements objectively. If the Director of Internal Audit determines that independence or objectivity may be impaired, the details of impairment will be disclosed to the Board.

In addition to conducting assurance (audit) engagements, Internal Audit may perform advisory services as part of its ongoing role in evaluating and improving the organization’s risk management, control, and governance processes. Participation in advisory services will be of a consultative nature and must be performed without Internal Audit taking on any decision-making authority to protect the independence of Internal Audit. In the performance of advisory services, safeguards will be established to prevent impairments to independence and objectivity.

Periodically, Internal Audit may participate in management committees or project teams. Participation in these engagements will be of an advisory nature to preserve auditor independence. Audit is not a management decision-making function. Decisions to develop, adopt, and implement policies,

procedures, internal controls, or other risk mitigation tools relating to an Internal Audit advisory service must be made by management. Such decisions do not impair auditor independence or objectivity.

STANDARDS OF AUDIT PRACTICE

Internal Audit will govern itself by adhering to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing in the execution of its duties. When the Internal Audit function becomes fully established, the Internal Audit Director will seek a peer review to evaluate compliance with the standards.

SCOPE OF WORK

The scope of audit coverage is organization-wide. No aspect of ATP is exempt from an audit or review by Internal Audit. Internal Audit's scope of work is any activity relating to ATP's risk management, control, and governance processes and may include evaluation to help ensure:

- Money spent on Project Connect is aligned with ATP's mission
- Risks are appropriately identified and managed
- Assets are safeguarded
- Controls are effective and efficient
- Financial, managerial, and operating information is accurate, reliable, and timely
- Employee actions comply with policies, standards, procedures, and applicable laws and regulations
- ATP complies with significant regulatory requirements
- Quality and continuous improvement are fostered in conjunction with control processes

ACCESS TO RECORDS

Internal Audit is authorized to have unrestricted access to all Project Connect and ATP records, property, equipment, facilities, personnel, contractors, vendors, funding partners, and operations. Any access limitations or restrictions that prevent Internal Audit from performing its duties will be reported immediately to the Board, in addition to regulatory authorities and Project Connect funding partners as applicable. All ATP contracts will contain a "right to audit" clause to help ensure Internal Audit's access to Project Connect records created and maintained by third-party contractors and funding partners. Internal Audit activities and communications are classified as audit working papers, and contain information which may be confidential, privileged, or otherwise excepted from disclosure under §552.116 of the Texas Government Code. Final audit reports will be posted so they are accessible to the public.

RESPONSIBILITIES

The Director of Internal Audit is responsible for:

- Developing an annual audit plan using appropriate risk-based methodologies, and submitting that plan to the Board for review and approval
- Conducting internal audit and advisory engagements in accordance with the annual audit plan
- Reviewing and adjusting the annual audit plan, as necessary, in response to changes in ATP's risk environment, operations, programs, systems, and controls
- Communicating audit findings, recommendations, and management action plans to the Board, and other relevant parties
- Following up with management to assess whether corrective action plans were performed within the mutually agreed-upon timeframe to address the risks noted by Internal Audit
- Preparing and presenting quarterly reports to the Board summarizing the status of Internal Audit's work in a public meeting
- Posting audit reports on ATP's website accessible to the public
- Assisting in the investigation of suspected misconduct or fraudulent activities within the organization and notifying the Board and management of the investigation results
- Supporting ATP management in their interaction with external auditors
- Reviewing results of external audits, including required Single Audit engagements, and ensuring those results are communicated to the Board and considered in annual audit planning
- Maintaining professional Internal Audit staff with sufficient knowledge, skills, experience, and professional certification to meet the requirements of this Charter
- Ensuring conformance with the Code of Ethics and International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors
- Ensuring Internal Audit's adherence to ATP's relevant policies and procedures unless such policies and procedures conflict with this internal audit charter—any such conflicts will be resolved with the Board

Internal Audit staff will adhere to the Core Principles for the Profession of Internal Auditing which include:

- Demonstrating integrity
- Demonstrating competence and due professional care
- Being objective and free from undue influence
- Aligning with the strategies, objectives, and risks of the organization
- Ensuring the audit function is appropriately positioned and adequately resourced
- Demonstrating quality and continuous improvement
- Communicating effectively
- Providing risk-based assurance
- Being insightful, proactive, and future-focused
- Promoting organizational improvement

REPORTING TO THE BOARD

The Director of Internal Audit will update the Board and the Finance and Risk Advisory (FAR) Committee at least quarterly. Periodic updates may concern:

- Internal Audit's purpose, authority, and responsibility
- Internal Audit's plan and performance relative to its plan
- Internal Audit's conformance with the International Professional Practices audit standards, Core Principles, and Code of Ethics
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of the Board
- Results of audit engagements or other activities
- Resource requirements

AUDIT PLANNING

Each year, Internal Audit will assess the governance, risk environment, and operations of ATP and will prioritize key risks. This information will be used to identify priorities to be addressed through the annual audit plan. Based on this risk assessment, the Internal Audit Director will present a proposed annual audit plan to the Board for approval. The Internal Audit Director will determine when certain critical risks require more internal audit review. Any significant deviation from the formally approved audit plan will be communicated to the Board.

Internal Audit will report to the Board on its organizational independence at least annually. The Internal Audit Director will disclose any interference in determining the scope of audits, performing work, or communicating results.

The annual audit plan may include compliance, performance, or financial audits and advisory projects. To develop the annual audit plan, an overall risk-based approach will be used to ensure that the Internal Audit function provides the greatest possible benefit to ATP, given resources and combined assurance from other oversight functions. On an ongoing basis, matters considered in developing the annual audit plan may include:

- Strategic and operational plans of ATP and Project Connect
- Known and potential risks to ATP and Project Connect
- Opportunities to enhance achievement of organizational goals and outcomes
- Existence of known errors, irregularities, or control weaknesses
- Results of previous audits
- Changes in operations, systems, or controls
- Changes in regulatory or other requirements
- Financial risks including those noted by external auditors
- Risks noted by the Board, advisory committees, ATP management, and the public
- Requests from the Board, management, or regulatory auditors and authorities

Projects included in the annual audit plan may include assurance and advisory services conducted by Internal Audit, co-sourced with other oversight entities, or outsourced to external auditors at the discretion of the Internal Audit Director.

Projects may include evaluations of whether:

- Desired results or benefits of programs, activities, and policies are being achieved
- ATP management has established adequate internal controls to safeguard assets
- ATP resources and Project Connect funds are utilized economically, efficiently, and effectively
- Reports are being timely and accurately prepared and disseminated for review by the Board and oversight entities as applicable
- ATP management fosters an ethical culture focused on equity, inclusion, and public service
- Information technology and cybersecurity risks are appropriately identified and mitigated
- Indications of fraud, abuse, or illegal acts are present

Occasionally, Internal Audit may, at its discretion, conduct informal reviews in response to a Board request. A Board Member's request for an informal review must have the support of a co-sponsoring Board Member. Such an engagement will be limited in scope and serve as a cursory review of the area in question. The Internal Audit Director will communicate these requests to the entire ATP Board and may report the results of this work in a memo or alternative presentation as determined by the Internal Audit Director. If the Internal Audit Director determines an audit would be a more effective way to address the subject of an informal review, Internal Audit may opt to delay reporting on an informal review until the required audit is completed.

CONSIDERATION OF MANAGEMENT RESPONSES TO AUDIT RECOMMENDATIONS

At the conclusion of an audit, a draft report will be shared with ATP management so that management can provide written response to each recommendation contained in the draft report. This response should: state whether management agrees or disagrees with each recommendation, state the reason for disagreement with a recommendation if applicable, and describe the actions that management will take to address all agreed-upon recommendations, along with a timeline for implementing corrective actions in response to recommendations. Management's response will be included in the final audit report delivered to the Board.

RELIANCE ON WORK OF OTHERS

Internal Audit may consider relying on the work of other internal and external assurance and consulting service providers as needed. When relying on the work of others, Internal Audit will review the other auditors' report(s), audit plan, or audit documentation, and will evaluate their qualifications, adherence to standards, sampling techniques, independence to conduct audit work, quality control procedures, and supervisory oversight. Additionally, Internal Audit will inquire about their methods to determine the scope, quality, and timing of audit work.

CONSIDERATION OF FRAUD, WASTE, AND ABUSE

If Internal Audit determines an ATP employee or official may have violated the law, Internal Audit will consult with and obtain advice from the ATP's attorney, promptly report the suspected violation to the appropriate authority, and notify the appropriate prosecuting authority if the suspected violation may be criminal in nature.

The ATP Internal Audit Director shall manage a whistleblower hotline, and reporting system, through which an ATP employee, Board Member, contactor, vendor, or a member of the public may submit an allegation of wrongdoing. The person making an allegation is not required to provide the person's name. An allegation may include an allegation of: fraud or abuse for personal gain, waste, a violation of ATP personnel policies, or a violation of law.

QUALITY ASSURANCE AND PEER REVIEW

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors comply with the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. The Internal Audit Director will update the Board on the internal audit activity's quality assurance and improvement program, including results of internal assessments and peer review external assessments conducted at least every five years by a qualified, independent peer review team external to ATP.