

Internal Audit Charter	
Approved by FAA Committee:	Last Approved: 2/12/2025 CMTA Resolution #: AI-2024-1371

### **Mission**

To enhance and protect organizational value by providing risk-based and objective assurance, advice and insight.

### **Purpose**

The purpose of the internal audit function is to strengthen Capital Metropolitan Transportation Authority's ("CapMetro") ability to create, protect, and sustain value by providing the Finance, Audit and Administration Committee (the "FAA Committee") and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances CapMetro's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

CapMetro's internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with The IIA's Global Internal Audit Standards™, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the FAA Committee.
- Internal auditors are free from undue influence and committed to making objective assessments.

### ***Commitment to Adhering to the IIA's Global Internal Audit Standards and the Generally Accepted Government Auditing Standards***

CapMetro's internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal

Audit Standards and Topical Requirements. Also, the internal audit function must adhere to Generally Accepted Government Auditing Standards (the “GAGAS”), as issued by the U.S. Government Accountability Office (the “GAO”). The chief audit executive will report annually to the FAA Committee and senior management regarding the internal audit function’s conformance with the Standards, which will be assessed through a quality assurance and improvement program.

### ***Mandate***

CapMetro’s internal audit function mandate is found in the Texas Transportation Code Sec. 451.458. INTERNAL AUDITOR. (a) This section applies only to an authority confirmed before July 1, 1985, in which the principal municipality has a population of less than 1.3 million.

(b) The board shall appoint a qualified individual to perform internal auditing services for a term of five years. The board may remove the auditor only on the affirmative vote of at least three-fourths of the members of the board.

(c) The auditor shall report directly to the board.

### ***Authority***

The internal audit function’s authority is created by its direct reporting relationship to the FAA Committee of CapMetro’s Board of Directors. Such authority allows for unrestricted access to the FAA Committee.

The FAA Committee authorizes the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information as this access is subject to compliance with confidentiality and data privacy policies.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function’s objectives.
- Obtain assistance from the necessary personnel of CapMetro and other specialized services from within or outside CapMetro to complete internal audit services.

### ***Independence, Organizational Position, and Reporting Relationships***

The chief audit executive will be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function. (See “Mandate” section.) The Chief Audit Executive (CAE) shall report functionally to the Board of Directors (BOD) through the Finance, Audit and Administration (FAA) Committee, and administratively to the President & Chief Executive Officer (the “CEO”) to ensure independence and operational support. This positioning provides the organizational authority and status to bring matters directly to senior

management and escalate matters to the FAA Committee, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

The chief audit executive will confirm to the FAA Committee, at least annually, the organizational independence of the internal audit function. If the governance structure does not support organizational independence, the chief audit executive will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The chief audit executive will disclose to the FAA Committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

#### Independence and Objectivity (GAGAS)

The internal audit function shall adhere to the independence requirements as outlined in the 2024 revision of the Generally Accepted Government Auditing Standards (GAGAS), Chapter 3, ensuring that auditors maintain both independence of mind and appearance. This includes applying the GAGAS conceptual framework to identify, evaluate, and address threats to independence, such as self-interest, self-review, bias, familiarity, undue influence, management participation, and structural threats. Auditors must document all independence evaluations, including the nature of the engagement, identified threats, safeguards applied, and conclusions regarding independence. Regular reassessment of independence is required throughout the audit process, especially when changes occur that could affect independence. Additionally, audit documentation must be sufficiently detailed to enable an experienced auditor, with no prior connection to the audit, to understand the nature, timing, extent, and results of the procedures performed, as well as the evidence supporting the audit findings and conclusions. This aligns with GAGAS 2024, Chapter 6, ensuring transparency and facilitating quality reviews.

#### ***Changes to the Mandate and Charter***

Circumstances may justify a follow-up discussion between the chief audit executive, FAA Committee, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant reorganization within the organization.
- Significant changes in the chief audit executive, FAA Committee, and/or senior management.
- Significant changes to the organization's strategies, objectives, risk profile, or the environment in which the organization operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

## **FAA Committee Oversight**

To establish, maintain, and ensure that CapMetro's internal audit function has sufficient authority to fulfill its duties, the FAA Committee will:

- Discuss with the chief audit executive and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Ensure the chief audit executive has unrestricted access to and communicates and interacts directly with the FAA Committee, including in private meetings without senior management present.
- Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter.
- Participate in discussions with the chief audit executive and senior management about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Approve the internal audit function's charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Review the internal audit charter annually with the chief audit executive to consider changes affecting the organization, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organization; and approve the internal audit charter annually.
- Approve the risk-based internal audit plan.
- Provide input to the internal audit function's human resources administration and budgets.
- Review the internal audit function's expenses.
- Provide input to senior management on the appointment and removal of the chief audit executive, ensuring adequate competencies and qualifications and conformance with the Global Internal Audit Standards.
- Review and provide input to senior management on the chief audit executive's performance.
- Receive communications from the chief audit executive about the internal audit function including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established and review the results annually.
- Make appropriate inquiries of senior management and the chief audit executive to determine whether scope or resource limitations are inappropriate.

## **Chief Audit Executive Roles and Responsibilities**

### ***Ethics and Professionalism***

The chief audit executive will ensure that internal auditors:

- Conform with the principles in the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.
- To align with the Generally Accepted Government Auditing Standards (GAGAS) 2024, Chapter 6, the internal audit function shall establish and maintain comprehensive documentation for each audit engagement. This documentation must provide a clear understanding of the work performed, evidence obtained, and conclusions reached. It should be sufficiently detailed to enable an experienced auditor, with no prior connection to the audit, to comprehend the nature, timing, extent, and results of the procedures performed, as well as the evidence supporting the audit findings and conclusions. This practice ensures transparency, facilitates quality reviews, and upholds the integrity of the audit process.
- Conform with the GAGAS's five ethical principles:
  1. Public Interest
  2. Integrity
  3. Objectivity
  4. Proper Use of Government Information, Resources, and Positions
  5. Professional Behavior
- Establish procedures for reporting and addressing ethical violations to foster an ethics-based culture within the organization.

### **Objectivity**

The chief audit executive will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an

unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the chief audit executive determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for CapMetro or its affiliates.
- Initiating or approving transactions external to the internal audit function.
- Directing the activities of any CapMetro employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the chief audit executive, FAA Committee, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

### ***Managing the Internal Audit Function***

The chief audit executive has the responsibility to:

- At least annually, develop a risk-based internal audit plan that considers the input of the FAA Committee and senior management. Discuss the plan with the FAA Committee and senior management and submit the plan to the FAA Committee for review and approval.
- Communicate the impact of resource limitations on the internal audit plan to the FAA Committee and senior management.

- Review and adjust the internal audit plan, as necessary, in response to changes in CapMetro's business, risks, operations, programs, systems, and controls.
- Communicate with the FAA Committee and senior management if there are significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards and laws and/or regulations.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the FAA Committee and senior management semiannually and for each engagement as appropriate.
- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact CapMetro and communicate to the FAA Committee and senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the internal audit function.
- Ensure adherence to CapMetro's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the FAA Committee and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the chief audit executive cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the FAA Committee.
- Ensure that each auditor completes at least 80 hours of Continuing Professional Education (CPE) every two years, with a minimum of 24 hours directly related to government auditing or the specific environment of the audited entity, as stipulated in Chapter 4 of the 2024 Generally Accepted Government Auditing Standards (GAGAS). This requirement should be consistently applied to all internal audit staff, with regular monitoring and documentation of compliance to uphold the quality and effectiveness of the audit function.

***Communication with the FAA Committee and Senior Management***

The chief audit executive will report annually to the FAA Committee and senior management regarding:

- The internal audit function's mandate.
- The internal audit plan and performance relative to its plan.
- Internal audit budget.
- Significant revisions to the internal audit plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the FAA Committee that could interfere with the achievement of CapMetro's strategic objectives.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond CapMetro's risk appetite

#### ***Quality Assurance and Improvement Program***

The chief audit executive will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

The internal audit function shall establish and maintain a comprehensive system of quality control designed on risk-based process to provide reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, as stated in GAGAS Chapter 5. This system should encompass leadership responsibilities, ethical requirements, human resources, engagement performance, and monitoring, as specified in Chapter 5 of the 2024 GAGAS Revision. Annually, the chief audit executive will communicate with the FAA Committee and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments.



Under the Generally Accepted Government Auditing Standards (GAGAS), audit organizations are required to undergo an external peer review at least once every three years by reviewers independent of the audit organization and in accordance with GAGAS requirements. Also the qualified, independent assessor or assessment team qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.

### **Scope and Types of Internal Audit Services**

The scope of internal audit services covers the entire breadth of the organization, including all of CapMetro's activities, assets, and personnel. The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the FAA Committee and management on the adequacy and effectiveness of governance, risk management, and control processes for CapMetro.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility as management responsibilities include "decision-making, policy creation, and operational oversight. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of CapMetro's strategic objectives are appropriately identified and managed.
- The actions of CapMetro's officers, directors, management, employees, and contractors or other relevant parties comply with CapMetro's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Operations and programs are being carried out effectively, efficiently, ethically, and equitably.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact CapMetro.
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

**Approved by the FAA Committee at its meeting on February 12, 2025.**

**Effective Date**

This charter and the policies therein became effective immediately upon adoption by the Board of Directors of CapMetro.

**Acknowledgments/Signatures**

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Chief Audit Executive

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Date

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FAA Committee Chair

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Date

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CapMetro President & CEO

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Date