



## **INTERNAL AUDIT DEPARTMENT CHARTER**

### **I. INTRODUCTION**

The Port of Seattle maintains an active audit function that has a dual reporting responsibility. This Charter defines the Internal Audit Department authority and accountability; mission and scope; responsibility; independence; and commitment to outstanding audit service.

### **II. AUTHORITY AND ACCOUNTABILITY**

The Internal Audit Department derives its authority from the Port of Seattle Commission. The Department was first established in 2002 in the Accounting and Financial Reporting (AFR), and on December 11, 2007, the Port Commission passed a motion to change the reporting structure of the Department. In discharging their duty, the Internal Audit Director and his or her staff are accountable to the Audit Committee and to the Chief Executive Officer (CEO). The Director reports functionally to the Audit Committee and administratively to the CEO. Two Port Commissioners serve as members of the Audit Committee and the Committee is an arm of the Port Commission.

Internal Audit conducts audits of Port departments, programs, functions, systems, contracts and activities based on the approved audit plan or specific requests that have been approved by the Audit Committee.

The Director and his or her staff are authorized to:

- Have unrestricted access to all Port functions, records, property staff and other relevant materials necessary to accomplish their work.
- Access information from contracted third parties and handle the information in accordance with contractual terms.
- Handle documents provided to Internal Audit in the same prudently manner as by those employees normally accountable for them.
- Have full access to the Audit Committee and to the Port Commission as needed.
- Allocate resources, set frequencies, select subjects, determine scope of work and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the Port where they perform audits, as well as other specialized services from within or outside the Port.

- Report significant issues related to the processes for controlling the activities of the Port and its tenants, customers and vendors, 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 (e.g., risk management (ERM), compliance, security, legal, ethics, environmental, external audit)

### **III. MISSION AND SCOPE OF WORK**

The Internal Audit Department's (IAD) mission is to provide independent, objective assurance and nonaudit or consulting services designed to add value and to improve Port's operations. The IAD helps the Port accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

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

- Risks are appropriately identified and managed.
- 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 Port's control process.
- Significant legislative or regulatory issues impacting the organization are recognized timely and addressed properly.
- Opportunities for improving management control, streamlining processes, and improving public perception may be identified during audits. These will be communicated to the appropriate level of management.

### **IV. RESPONSIBILITY**

#### **A. The Director and His or Her Staff Have Responsibility To:**

- 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.

- Implement the annual audit plan, as approved by the Audit Committee, including any special tasks or projects requested by management and the Audit Committee
- Maintain a professional audit staff with sufficient knowledge, skills, experience and professional certifications to meet the requirements of this Charter
- Establish a quality control and assurance program by which the Director monitors the operation of internal auditing activities.
- Provide non-audit and consulting services beyond internal auditing's assurance services, to assist management in meeting its objectives (e.g., facilitation, process design, training and advisory services), provided the services do not impair auditor's independence.
- Evaluate and assess significant functions and new or changing services, processes, operations and control processes coincident with their development, implementation and/or expansion.
- Issue quarterly reports (or more frequently as requested) to the Audit Committee and management summarizing results of audit activities.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results of the IAD to the Audit Committee (e.g., the status of the work plan accomplished, budget hours used).
- Assist in the investigation of suspected fraudulent activities within the organization and notify management 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.
- Follow up on audits to ensure agreed-upon corrective actions have been taken and provide periodic follow up reports.
- Exercise due professional care in the conduct of the audits.
- Obtain an external peer review at least once every three years.
- In February of every year, the Director will provide to the Audit Committee the mandatory annual communication required by the IIA standards specifically on the organizational independence, department charter review, and results of the department quality assurance program.

**B. Port Management is Responsible To:**

- Maintain an effective system of internal controls, document policy and procedures, and ensure information is accurate and reliable.
- Comply with laws and regulations including Port policies and procedures.

- Cooperate fully with auditors during discharge of their duties including making available material or information requested by internal audit staff or any other external auditors managed by the Internal Audit Department.
- Provide timely response to audit findings and recommendations.
- Assure timely implementation of agreed-upon corrective action(s) to audit recommendations.

## **V. INDEPENDENCE**

Internal Audit is independent of the activities it reviews. Specifically, internal audit staff may not review areas where they were responsible for the design or operation of the area. The audit staff is responsible for maintaining their independence and integrity in all services they provide.

All Internal Audit activities shall remain free from interference relative to matters of audit selection, scope, procedures, frequency, timing, or report content to maintain independence and objectivity. The Director shall report any impairment to independence, or unjustified restriction or limitation to audit selection, scope, procedures, frequency, timing or report content promptly to the Audit Committee and to the CEO.

To provide for the independence of the Internal Audit Department, its staff reports to the Internal Audit Director. The Director reports administratively to the Chief Executive Officer and functionally to the Audit Committee. This structure permits the rendering of impartial and unbiased judgment essential to the proper conduct of audits.

The Audit Committee will regularly review Internal Audit Department's staffing needs including its annual budget and recommend to the full Commission for approval.

The Audit Committee will review the appointment, replacement or dismissal of the Internal Audit Director and recommend to the full Commission to take action.

To further ensure independence, the Director and staff of the Internal Audit Department are not authorized to:

- Perform any operational duties for the Port.
- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any Port employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to the audit team to assist the internal auditors.

## **VI. COMMITMENT TO QUALITY -- STANDARDS OF AUDIT PRACTICE**

Internal Audit staff commits to providing outstanding audit service through timely, unbiased, value-added assurance, and consulting services.

We will work as a team with Port management to assist with process improvements aimed at achievement of strategic goals and objectives.

We will enhance the services we provide by continuously improving our audit activities.

**The Internal Audit Staff Will Adhere to the Following Professional Standards and Codes:**

- *Government Auditing Standards* promulgated by the Comptroller General of the United States (Yellow Book).
- *The International Standards for the Professional Practice of Internal Auditing (the Standards)* of the Institute of Internal Auditors (Red Book).
- Technology information systems auditing standards as appropriate.
- The Port of Seattle Employee's Code of Conduct.
- The Institute of Internal Auditors Code of Ethics.
- The Port of Seattle Internal Audit's Handbook including its protocols, policies, and procedures.

The Internal Audit Department Charter may be modified by a written document executed by all of the participating parties. This Charter will be effective upon execution and will continue indefinitely until it is modified.

IN WITNESS WHEREOF, the parties hereto have caused this Internal Audit Charter to be executed by their proper officers thereunto duly authorized, and their official seals to be affixed as of \_\_\_\_\_, 2012.

\_\_\_\_\_  
Port Commission President

\_\_\_\_\_  
Date

\_\_\_\_\_  
Audit Committee Chair

\_\_\_\_\_  
Date

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Date

\_\_\_\_\_  
Internal Audit Director

\_\_\_\_\_  
Date