



REPORT TO THE RISK MANAGEMENT COMMITTEE

Recommendation to Amend the Office of Audit Charter

March 2015

Purpose

The Office of Audit requests that the Risk Management Committee approve and recommend the Board of Directors approve an amended Office of Audit Charter (Charter) to incorporate administrative reporting to the President and Chief Executive Officer and updates to its quality assurance and improvement program.



Background

- The Board of Directors adopted the Office of Audit Charter in September 2014.
- The Charter states, “The Office of Audit will govern itself by adherence to The Institute of Internal Auditors’ (IIA) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*.”
- *Standard 1110 – Organizational Independence* requires, “The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.”



Discussion

- IIA Practice Advisory 1110-1: Organizational Independence states, “The chief audit executive, reporting functionally to the board and administratively to the organization’s chief executive officer, facilitates organizational independence.”
- Functional reporting to the board typically involves the board:
 - Approving the internal audit activity’s overall charter;
 - Approving the internal audit risk assessment and related audit plan;
 - Receiving communications from the chief audit executive on the results of the internal audit activities or other matters that the chief audit executive determines are necessary;
 - Approving all decisions regarding the performance evaluation, appointment, or removal of the chief audit executive;
 - Approving the annual compensation and salary adjustment of the chief audit executive;
 - Making appropriate inquiries of management and the chief audit executive to determine whether there is audit scope or budgetary limitations that impede the ability of the internal audit activity to execute its responsibilities.

Discussion – Continued

- Administrative reporting is the reporting relationship within the organization's management structure that facilitates the day-to-day operations of the internal audit activity.
- Administrative reporting typically includes:
 - Budget and management accounting;
 - Human resource administration, including personnel evaluations and compensation;
 - Internal communications and information flows; and
 - Administration of the internal audit activity's policies and procedures.

Discussion – Continued

- The proposed amended Charter provides for a dual reporting relationship between the Board and the President and Chief Executive Officer (CEO), and accomplishes this by incorporating administrative reporting to the CEO which will include internal communications and information flows to senior management.
- In addition, the proposed amended Charter incorporates, in its quality assurance and improvement program, additional independent assessments to be conducted, with results reported to senior management, the Risk Management Committee, and the Board.



Recommendation

The Office of Audit requests that the Risk Management Committee approve and recommend the Board of Directors approve the amended Office of Audit Charter.



Ronald Reagan Washington National Airport



Dulles Corridor Metrorail Project



Dulles Toll Road



Washington Dulles International Airport



METROPOLITAN WASHINGTON
AIRPORTS AUTHORITY

REPORT TO THE RISK MANAGEMENT COMMITTEE

RECOMMENDATION TO AMEND THE OFFICE OF AUDIT CHARTER

MARCH 2015

ACTION REQUESTED

The Office of Audit requests that the Risk Management Committee approve and recommend to the Board of Directors that it approve an amended Office of Audit Charter (attached hereto) to incorporate administrative reporting to the President and Chief Executive Officer and updates to its Quality Assurance and Improvement Program.

BACKGROUND

The Board of Directors adopted the Office of Audit Charter (Charter) in September 2014.

The Charter states, “The Office of Audit will govern itself by adherence to The Institute of Internal Auditors’ (IIA) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*.” *Standard 1110 – Organizational Independence* requires, “The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.”

With respect to the subject of “Organizational Independence,” the Charter provides for the Vice President of Audit to report only to the Co-Chairs of the Risk Management Committee of the Board. It states that the Vice President “reports to the Chairs of the Risk Management Committee [and]...communicates and interacts directly with the Risk Management Committee and Board in open and executive sessions...”

DISCUSSION

While the Charter addresses the matter of “Organizational Independence” by providing for the Vice President for Audit to report solely to the Risk Management Committee Co-Chairs, the IIA Standard 1110 on “Organizational Independence” calls for a dual reporting relationship in which a chief audit executive reports both to an organization’s board of directors and to its chief executive officer. This is explained in the IIA’s interpretation of Standard 1110 which is set out in its Practice Advisory 1110-1, “Organizational Independence.” The Practice Advisory states, “The chief audit

executive, reporting functionally to the board and administratively to the organization's chief executive officer, facilitates organizational independence.”

As outlined in the IIA Practice Advisory, “functional reporting” to the board typically involves the board:

- Approving the internal audit activity's overall charter;
- Approving the internal audit risk assessment and related audit plan;
- Receiving communications from the chief audit executive on the results of the internal audit activities or other matters that the chief audit executive determines are necessary;
- Approving all decisions regarding the performance evaluation, appointment, or removal of the chief audit executive;
- Approving the annual compensation and salary adjustment of the chief audit executive; and
- Making appropriate inquiries of management and the chief audit executive to determine whether there is audit scope or budgetary limitations that impede the ability of the internal audit activity to execute its responsibilities.

“Administrative” reporting is the reporting relationship within the organization's management structure that facilitates the day-to-day operations of the internal audit activity. It typically includes:

- Budget and management accounting;
- Human resource administration, including personnel evaluations and compensation;
- Internal communications and information flows; and
- Administration of the internal audit activity's policies and procedures.

The proposed amended Charter provides for a dual reporting relationship between the Board and the President and Chief Executive Officer (CEO), and accomplishes this by incorporating administrative reporting to the CEO which will include internal communications and information flows to senior management.

In addition, the proposed amended Charter incorporates, in its quality assurance and improvement program, additional independent assessments to be conducted, with results reported to senior management, the Risk Management Committee, and the Board.

RECOMMENDATION

The Office of Audit requests that the Risk Management Committee approve and recommend to the Board of Directors that it approve the attached amended Office of Audit Charter.

Prepared by:

Office of Audit
March 2015

Attachment

Metropolitan Washington Airports Authority

Office of Audit Charter

PURPOSE

This Audit Charter (the Charter) sets out the specific responsibilities delegated by the Board of Directors (Board) of the Metropolitan Washington Airports Authority (Airports Authority) through the Risk Management Committee to the Office of Audit and details the manner in which the Office of Audit will operate.

INTRODUCTION

The Office of Audit is an independent and objective assurance and consulting **activity function** that is guided by a philosophy of adding value to improve the operations of the Airports Authority. It assists the Airports Authority in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Airports Authority's governance, risk management, and internal controls.

ROLE

The Board, as part of its oversight role, established the Office of Audit and defined the Office of Audit's role and **functionsresponsibilities**. ~~The Airports Authority "Statement of Functions," as amended March 2014, states that the Office of Audit:~~

~~"Manages the Authority's audit activities. With guidance from the Board's Risk Management Committee, develops and implements a broad scope audit plan. The plan is designed to provide reasonable assurance that the Authority has an effective system of internal controls, encompassing accounting, financial, administrative operational, and computer controls. Evaluates controls and recommends improvements to management, reporting results to the Risk Management Committee and the Chief Executive Officer. Manages the activities of external auditors who perform an annual audit of the Authority's Financial Statements and related activities."~~

PROFESSIONALISM

The Office of Audit will govern itself by adherence to 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 (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Office of Audit's performance. The Office of Audit also adheres to

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers as applicable to guide operations.

AUTHORITY

The Office of Audit, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all Airports Authority records, physical properties, and personnel pertinent to carrying out any engagement.

ORGANIZATION

The Vice President for the Office Audit will report functionally to the reports to the Co-Chairs of the Risk Management Committee of the Board and administratively (i.e., day-to-day operations) to the President and Chief Executive Officer. The Vice President for Audit will communicate and interact directly with the Risk Management Committee and Board in open and executive sessions and between Board meetings, as appropriate. ~~The Vice President for Audit may engage independent Certified Public Accountants (CPA) or CPA firms to support the conduct of the audit plan.~~

INDEPENDENCE AND OBJECTIVITY

The Office of Audit is authorized to direct a broad, comprehensive program of internal auditing within the Airports Authority. The Office of Audit has full authority regarding matters including audit selection, scope, procedures, frequency, timing, and report content. The Office of Audit's objectivity and independence depend largely on having no responsibility for or authority over any of the activities or operations subject to its review. As such, the Office of Audit staff shall not have direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment and independence.

The Office of Audit will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. The Office of Audit's staff will make a balanced assessment of all the relevant circumstances and not be unduly influenced by its own interests or by others in forming judgments. The Vice President for Audit will confirm to the Risk Management Committee and the Board, at least annually, the independence of the Office of Audit.

RESPONSIBILITY

The Office of Audit shall have responsibility for the examination and evaluation of the Airports Authority's governance, risk management, compliance with laws and regulations, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the Airports Authority's stated goals and objectives. The Vice President for Audit is responsible for providing the Audit Charter, the annual risk assessment and audit plan, and the reports produced by the Office of Audit to senior management and the Risk Management Committee for its review and consideration. In addition, the Vice President shall periodically report on the Office of Audit's purpose, authority, responsibility, and performance relative to its plan; significant Airports Authority risk exposures and control issues, including fraud risks and governance issues; and provide consulting and advisory services as needed or when requested by the Board or senior management, as appropriate.

The Vice President for Audit shall actively monitor the progress of the yearly external financial statement audit for the Airports Authority and assist the Risk Management Committee in evaluating the quality of performance of the external auditors and the degree of coordination with the Office of Audit. Moreover, the Vice President shall assist the Risk Management Committee with the selection of an external audit firm, as requested.

RISK ASSESSMENT AND AUDIT PLAN

At least annually, the Vice President for Audit shall submit to senior management, the Risk Management Committee, and the Board a risk assessment and audit plan for the next calendar year. The audit plan shall be developed based on the risk assessment and shall include the resource requirements necessary to implement the plan. The audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology with appropriate inputs from senior management and the Board. The Vice President for Audit shall communicate any resource limitations affecting the implementation of the plan to the Risk Management Committee. The Vice President for Audit will review and may adjust the plan in response to changes in the Airports Authority's governance, risk and compliance assurance needs, as well as changes in business strategies, industry economics and business operations. Any significant deviation from the approved audit plan will be communicated to senior management, the Risk Management Committee, and the Board through periodic activity reports.

REPORTING AND MONITORING

The Vice President for Audit shall prepare and submit to senior management, the Risk Management Committee, and the Board a written report following the conclusion of each internal audit engagement. The reports shall include any recommendations and

management's responses to the recommendations along with an anticipated completion date for each recommendation or explanation of management's decision not to implement the recommendation. The Office of Audit also shall conduct an annual audit follow-up review to assess management's efforts to implement all open recommendations.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

The Office of Audit will maintain a Quality Assurance and Improvement Program. It will include an evaluation of the Office of Audit's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether the Office of Audit staff apply the Code of Ethics appropriately as well as delineate opportunities for improvement.

INTERNAL AND EXTERNAL ASSESSMENTS

The Vice President for Audit is responsible for providing continuous monitoring and periodic self-assessments of the internal audit activity regarding its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to the audit plan. The Vice President for Audit, with participation by senior management, the Risk Management Committee, and the Board, will ensure that an external assessment of the office is conducted at least once every five years by a qualified, independent reviewer or review team from outside the Airports Authority. In addition, the Vice President for Audit will ensure that annual assessments from an independent Airports Authority office are conducted. Results of each independent assessment, including action plans for addressing any recommendations, will be reported to ~~will communicate the results of the internal assessments and external assessments to~~ senior management, the Risk Management Committee, and the Board.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

~~The Office of Audit will maintain a Quality Assurance and Improvement Program. It will include an evaluation of the Office of Audit's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether the Office of Audit staff apply the Code of Ethics appropriately as well as delineate opportunities for improvement.~~

*For Consideration by the Risk Management Committee
and Board of Directors on ~~September 17, 2014~~ March 18, 2015*