



PORT HOUSTONSM
THE INTERNATIONAL PORT OF TEXAS

PORT OF HOUSTON AUTHORITY
INTERNAL AUDIT CHARTER

September 27, 2022

A. INTRODUCTION

Attribute Standard 1000 of the 2017 International Standards for the Professional Practice of Internal Auditing (“*The Standards*”) as issued by the *Institute of Internal Auditors* (“*IIA*”) requires the Audit Organization to define the mission, scope, authority, responsibility, and accountability of the Internal Audit (*IA*) function using a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes, and incorporating a Code of Ethics of the *IIA* by adopting an Internal Audit Charter.

The *IIA* Standards require adherence to the mandatory elements of the International Professional Practices Framework, which consist of Core Principles for the Practice of Internal Auditing, the Definition of Internal Auditing, the *IIA* Code of Ethics, and International Standards for the Professional Practice of Internal Auditing. The Internal Audit Department (“*IAD*”) Charter is the commitment by all relevant parties to support and execute these activities correlated to items specified within this document and as expressed in the Mission and Vision Statement of the Port of Houston Authority (“*PHA*”).

B. MISSION STATEMENT AND SCOPE OF WORK

1. The *Mission Statement* of the *IAD* is to perform the Internal Audit (“*IA*”) function for the *PHA* as Audit Organization. This includes provision of independent, objective assurance and consulting services designed to add value and improve the *PHA*’s operations. In doing so, we use Generally Accepted Governmental Auditing Standards (“*GAGAS*”) and *The Standards*. The *IAD* helps divisional and departmental management of the *PHA* accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of various processes (*i.e. risk management, control, and governance*).

2. The *Scope of Work* of the *IA* function is to determine whether the organization’s strategic design, implementation, documentation, and reporting of various processes are adequate and operating in a manner as represented by management. This should ensure that:

- a. Risks are identified, communicated, documented, and managed
- b. Interaction with the various governance groups occurs as needed
- c. Significant financial, managerial, and operational information is accurate, relevant, reliable, and timely
- d. Employees’ actions are in compliance with policies, standards, procedures, and applicable laws and regulations
- e. Resources are acquired economically, used efficiently, and adequately safeguarded/maintained
- f. Programs, plans, and objectives are achieved as committed and/or budgeted
- g. Quality and continuous improvements are fostered within the *PHA*’s control processes
- h. Significant legislative and regulatory issues impacting the *PHA* are identified, recognized, and addressed appropriately
- i. Opportunities for improving management control, accountability, and the *PHA*’s image that are identified will be communicated to the proper level of management

C. RESPONSIBILITY

1. The IAD, which includes the PHA chief audit executive (“CAE”) and staff, has responsibility to:

a. Develop a flexible Annual Audit Plan using appropriate risk-based methodology, including any risk or control concerns expressed by Audit Committee of the Port Commission (“Audit Committee”) and/or PHA management, and submit that plan to the Port Commission for review and approval. The flexible Annual Audit Plan includes the latitude for adequate follow-up on any issues identified during the engagement process and includes relevant resource limitations and their impact on *Scope of Work*;

b. Implement the Annual Audit Plan as approved by the Port Commission, including any special tasks or projects requested by the Audit Committee and/or PHA management;

c. Provide periodic reports to the Audit Committee summarizing the results of each engagement that identify audit findings, commendations, best practices, recommendations, conclusions, and Departmental Management responses. These reports are issued by the IAD and distributed to the Port Commission and PHA divisional and departmental management. Final Reports are also made available to the external auditor, to enhance reliability, facilitate communication, and reduce costs of the overall audit process;

d. Maintain a staff with sufficient knowledge, skills, experience, and professional certifications to meet requirements of *The Standards*. This includes adequate continuing professional education (“CPE”) to maintain licensure and/or certifications and apply relevant GAGAS;

e. Establish and maintain an IAD Policies and Procedures Manual that contains specific guidelines for operations of the IA function and serves as a reference for design, execution, and assessment of the audit activities;

f. Establish and maintain a Quality Assurance and Improvement Program, to provide reasonable assurance regarding the operations of the IAD in relationship to its compliance with professional standards, this Charter, and the IAD Policies and Procedures Manual. This will include internal and external review and reporting of periodic results in performance to the Port Commission, Audit Committee and/or PHA management, along with a feedback mechanism of measurable value for assessment that will be provided to the PHA;

g. Perform relevant consulting services related to control and process implementation and optimization to assist PHA divisional and departmental management in meeting their objectives and foster synergies within the organization, while leveraging resource utilization that promotes development of professional staff with skill sets valuable to operational effectiveness and efficiencies. The IAD may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources;

h. Establish and maintain sufficient and adequate levels of relevant and dynamic knowledge base, by evaluating and monitoring new or emerging services, computer hardware and software systems, processes, functions, operations, and controls coincident with the development, implementation and/or expansion of the PHA’s operations;

i. Assist in the investigation of alleged fraud, waste, and abuse within the PHA as requested by the PHA’s General Counsel, PHA security, any law enforcement agency or judiciary, and notify the Audit Committee, Executive Director, and General Counsel of the results; and

j. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal coverage, avoiding duplication of effort, building professional rapport, and further developing reliance on credibility and validity of the internal audit function.

D. ACCOUNTABILITY

The CAE, in performing the IA function, shall be accountable to the Audit Committee of the Port Commission. This will be measured by:

1. Preparing a Risk-based Annual Audit Plan and providing periodic updates to the Audit Committee regarding its status and related matters, including resources;
2. Providing a periodic assessment on the adequacy, effectiveness, status of the PHA's divisions and departments, and/or component processes for controlling their activities and managing their risks, as set out in the *Mission Statement and Scope of Work* and supported by projects that the IAD has performed;
3. Reporting scope of work, results, conclusions, significant issues (including unmitigated risks and control deficiencies as expressed in engagement-level assessments), potential improvements (*i.e. recommendations*), and the status of follow-up procedures performed;
4. Maintaining adequate documentation to support conclusions in the form of workpaper files that can also be reviewed for efficiency, relevance to audit plan and program, future audit work, and quality assessment purposes; and
5. Coordinating with and providing assessments of the other control and monitoring functions (*i.e. risk management, compliance, security, ethics, environmental, etc.*)

E. INDEPENDENCE

1. Because of the unique nature of the IA function and the potential for ambiguity and conflicting interests, the independence of the IA function is critical to its success. Independence is vital both in substance and perception, in order to build a foundation of integrity upon which the efficacy and reliability of the IA function can be established and sustained.

2. To provide for the independence of the IA function, IAD personnel report to the CAE who reports functionally to the Audit Committee and administratively to the Chief Financial Officer.

3. In the event the IA function must investigate serious concerns identified under the GAGAS or The Standards (e.g. external impairments, fraud, etc.), IAD personnel shall be provided unrestricted access to the PHA Finance & Administration Department, PHA's Legal Department (subject to the maintenance of appropriate privileges), and appropriate Law Enforcement. If the IA function encounters interference in determining the scope of internal auditing, performing work, or communicating results, the CAE must disclose such interference to the Audit Committee of the Port Commission.

F. AUTHORITY

1. In order for the IAD to fulfill its responsibilities, provide adequate accountability, and maintain independence, it shall have:

a. Continual unrestricted access to all functions, records, property, and personnel of the PHA in meeting its specific audit objectives (subject to the maintenance of appropriate legal privileges and confidentiality). This includes full access to all systems that input, process, store, and report any and all information of the operations of the PHA which are not limited or otherwise restricted;

b. Full and unrestricted access to the Port Commission, management, and appropriate law enforcement (subject to the maintenance of appropriate legal privileges and confidentiality);

c. The ability to allocate audit resources, set audit frequencies, select subjects, determine scope of work, and apply audit techniques required to accomplish audit objectives, without external impairments; and

d. The necessary assistance and/or cooperation of personnel in relation to performance of engagement activity. This includes all PHA divisions and departments where cost efficient and where outsourced functions are procured for the PHA's business.

2. To further maintain independence, reliability, and integrity, the IA function, as performed by the IAD, expressly excludes:

a. Responsibility for any operational duties of the PHA, including those circumstances where the CAE certifies or attests to the effectiveness and conformity to organizational policies, procedures, and applicable laws and regulations of such operations;

b. The authority to initiate or approve transactions that are outside of the direct operations of the IA function and its activities; and

c. The authority to direct the activities of the PHA's employees outside the IA function.

G. PROFESSIONAL STANDARDS

1. As indicated in the *Introduction* and *Mission Statement and Scope of Work* sections, the IA function within the IAD will conform and adhere to GAGAS and *The Standards* or provide appropriate disclosure when exception or limitation exists or occurs.

2. As part of providing assurance to continued adherence, the IAD will undergo a Peer Review engagement every five years, which will render an independent opinion on conformance to the professional standards and requirements reference above.

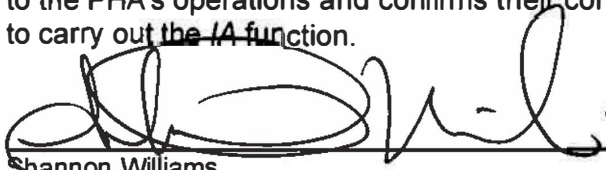
3. In addition, after a successful IIA peer review, for all audits or engagements where the IAD applies GAGAS or *The Standards*, the IAD will provide positive assurance, in its report or other deliverable, as to its adherence to them and its application of them in its report or other deliverable.

H. AMENDMENT OF THE INTERNAL AUDIT CHARTER

The CAE is responsible for ensuring that the Charter of the IAD is periodically reviewed and updated or revised as necessary. Any amendment and/or revision shall be signed and approved by the CAE, Chief Financial Officer, and the Chair of the Audit Committee.

EXECUTIVE ENDORSEMENT

This Internal Audit Charter of the PHA is the formal document that specifies the *Mission Statement, Scope of Work, Responsibility, Accountability, Authority, and Independence* of the IA function. This Charter is a binding commitment and is vital to all stakeholders of the PHA. The endorsements below of this Internal Audit Charter underscores the importance of the IA function in relationship to the PHA's operations and confirms their continued cooperation in fulfillment of their obligation to carry out the IA function.


Shannon Williams
Chief Audit Executive
Port of Houston Authority


R. Timothy Finley
Chief Financial Officer
Port of Houston Authority


Thomas J. Heidt
Chief Operating Officer
Port of Houston Authority


Roger Guenther
Executive Director
Port of Houston Authority


Ric Campo
Chair, Audit Committee
Port Commission of the Port of Houston Authority

RELEVANT PROFESSIONAL STANDARDS -

GAGAS Chapters 1-3; IIA *Standards* (all, but emphasis on): 1000; 1000.A1; 1000.C1 ; 1010; 1110; 1110.A1 ; 1111; 1112; 1130; 1320; 2000; 2100; 2600 and related IIA Practice Advisories: 1000-1 ; 1000.C1-2; 2060-2; 2100-3; 2330.A1-2; 2500.A1 -1