

San Francisco Bay Area Rapid Transit District

Internal Audit Charter



DRAFT

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I PURPOSE

The purpose of the internal audit function is to strengthen BART's ability to create, protect, and sustain value by providing BART with independent, risk-based, and objective assurance, advice, insight, and foresight.

The primary purpose of an internal audit charter is to define the scope, authority, and responsibilities of the internal audit function within an organization. It serves as a formal document that outlines the internal audit's mandate, including its organizational position, reporting relationships, types of services offered, and other key specifications. Essentially, the charter establishes the framework for the internal audit's activities and ensures its independence and objectivity.

The internal audit function enhances BART'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.

BART's internal audit function is most effective when:

1. Internal auditing is performed by competent professionals in conformance with the *Generally Accepted Government Auditing Standards* (GAGAS) of the United States Government Accountability Office (GAO) and the Institute of Internal Auditors' (IIA) *Global Internal Audit Standards* (Standards), which are set in the public interest.
2. The internal audit function is independently positioned with direct accountability to the Audit Committee and senior management.
3. Internal auditors are free from undue influence and committed to making objective assessments.

II PROFESSIONAL STANDARDS

BART's internal audit function will adhere to the mandatory elements contained within the *Generally Accepted Government Auditing Standards* (GAGAS) of the United States



Government Accountability Office (GAO). Additionally, internal audit will adhere to the mandatory elements of The Institute of Internal Auditors' (IIA) *International Professional Practices Framework* (IPPF), which are the combination of the *Global Internal Audit Standards* and *Topical Requirements*.

The Manager of Internal Audit will report periodically to the BART senior management and the Audit Committee regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

III AUTHORITY

Internal Audit, in the discharge of its duties, shall be accountable to the reporting structure as governed by the most recent and approved BART Organization Chart. The reporting structure will have the Internal Audit division led by the Manager of Internal Audit (Manager). Additionally, the Manager will report to a Director-level or higher, senior BART executive, who will be deemed the chief audit executive for additional reporting. The senior BART executive will be a direct report to the General Manager or a designee of the General Manager.

This Internal Audit Charter (Charter) 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.
- 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 BART and other specialized services from within or outside of BART to complete internal audit services.

To establish, maintain, and assure that the internal audit function has sufficient authority to fulfill its duties, the Audit Committee of the BART Board of Directors will:

- Review the letter of authority, also known as the Charter, that describes Internal Audit's authority, roles, and responsibilities.
- Review Internal Audit's risk assessment and annual (or periodic) audit plan.



- Review Internal Audit's quality assessment and improvement program, as required by professional auditing standards.

IV INDEPENDENCE

The internal audit function 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.

The internal audit function will report functionally to the Audit Committee and administratively (for example, day-to-day operations) to the General Manager or designee. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the Audit Committee, when necessary, without interference, and supports the internal auditors' ability to maintain objectivity.

The Manager of Internal Audit will confirm to the Audit Committee, at least annually, the organizational independence of the internal audit function. If the governance structure does not support organizational independence, the Internal Audit Manager will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The Internal Audit Manager will disclose to the Audit 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 purpose.

Changes to the Charter

Circumstances may justify a follow-up discussion between the internal audit, the Audit Committee, and senior management on the Internal Audit's purpose 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.
- Significant changes in the internal audit function, Audit Committee, and/or senior management.
- Significant changes to BART'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.

V INTERNAL AUDIT ROLES AND RESPONSIBILITIES

Ethics and Professionalism

The Manager of Internal Audit will ensure that internal auditors:

- Conform with 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.

Objectivity

The Manager of Internal Audit 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 Internal Audit Manager 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 BART or its affiliates.
- Initiating or approving transactions external to the internal audit function.
- Directing the activities of any BART employee who 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 Manager of Internal Audit, the Audit Committee, management, or others.
- Disclose impairments of independence or objectivity on an individual project basis by completing the IA Conflict of Interest Attestation form.
- 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 Manager of Internal Audit has the responsibility to:

- At least annually, develop a risk-based Internal Audit Plan that considers the input of the Audit Committee and senior management.
- Present the plan to the Audit Committee and senior management and submit the plan to the Audit Committee for review.
- Communicate the impact of resource limitations on the Internal Audit Plan to the Audit Committee and senior management.
- Review and adjust the internal audit plan, as necessary, in response to changes in BART's business, risks, operations, programs, systems, and controls.
- Communicate with the Audit 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 Audit Committee and senior management periodically, 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 BART and communicate to the Audit 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 BART'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 Audit 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 Internal Audit Manager cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and, if necessary, escalated to the Audit Committee.

Communication with the Audit Committee and Senior Management

The Manager of Internal Audit will report periodically to the Audit Committee and senior management regarding:

- The Internal Audit function's purpose.
- 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 Audit Committee that could interfere with the achievement of BART's strategic objectives.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risks that the internal audit function determines may be unacceptable or the acceptance of a risk that is beyond BART's risk appetite.

VI QUALITY MANAGEMENT PROGRAM

The internal audit function will develop, implement, and maintain a quality management 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 will also 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.

Periodically, the audit function will communicate with the Audit 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. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.



VII SCOPE

The scope of internal audit services covers the entire breadth of the organization, including all BART'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 Audit Committee and management on the adequacy and effectiveness of governance, risk management, and control processes for BART.

The nature and scope of advisory services may be agreed upon with the party requesting the service, provided the internal audit function does not assume management responsibility. 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 BART's strategic objectives are appropriately identified and managed.
- The actions of BART's officers, directors, management, employees, contractors and other relevant parties comply with BART'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 BART.
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information are reliable.

Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

Approved by the General Manager/Chief Financial Officer on [date]

Reviewed by Audit Committee on [date]

Acknowledgments/Signatures

Internal Audit Manager Date

Audit Committee Chair Date

General Manager/Chief Financial Officer [optional] Date