

## Internal Audit Charter

Note: Revision # should be listed in descending order starting with most recent version at the top.

Revision Date (For IBC Use Only)	Revision #	Description/Modification	Revision Section (s)	Author
2/6/2025	7	Update Charter to align with the newly implemented Institute of Internal Auditors Global Internal Audit Standards. Additionally, consolidated references to the Internal Audit Plan which includes Environment Health and Safety (EH&S) for consistency throughout the document.	Various Sections	Salman Ali SVP Internal Audit
9/14/2023	6	Charter Update – Change to CEO title.	Various Sections	Angela Gonzalez, SVP Internal Audit
7/12/2023	5	Annual Review – Change CEO title.	Various Sections	Angela Gonzalez, SVP Internal Audit
8/4/2022	4	Update to Charter to include Internal Audit's responsibility for communicating to the Audit Committee regarding external audits or requests and change to Internal Audit line of reporting	Various Sections	Angela Gonzalez, SVP Internal Audit
8/10/2021	3	Update to Charter to include Internal Audit responsibility for the Environmental Health and Safety (EH&S) Compliance Audit Program and added references to the Office of Ethics and Compliance	Various Sections	Angela Gonzalez, SVP Internal Audit
7/16/2020	2	Update to Charter to align with the Institute of Internal Auditors International Professional Practices Framework (IPPF) e-Scribe	Various Sections	Angela Gonzalez SVP Internal Audit
10/5/2018	1	Update to Charter	Various Sections	Angela Gonzalez,

				SVP Internal Audit
12/17/2015	0	Creation of Charter This Charter replaces the Internal Audit Program Company Policy 5-1. There were 5 prior versions of the previous policy	N/A	Jennifer Faulkner, SVP Internal Audit

## 1 PURPOSE

### Purpose

The mission of the Internal Audit (IA) function is to provide independent, objective audit and advisory services designed to add value, manage risks, and improve NYPA and Canal Corporation (NYPA and Canals) operations. IA helps the organization accomplish its objectives by bringing a systemic and disciplined approach to evaluating and improving the effectiveness of NYPA and Canals governance, risk management, and internal controls. This includes processes designed to evaluate the effectiveness and efficiency of operations, ability to execute on strategic initiatives, reliability of financial reporting, and compliance with applicable laws and regulations.

## 2 STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING COMMITMENT TO ADHERING TO THE GLOBAL INTERNAL AUDIT STANDARDS

NYPA'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 (Standards), which are set in the public interest.

The Chief Audit Executive (CAE) will report annually to senior management and the Audit Committee of the Board of Trustees (Audit Committee) regarding the IA Department's conformance with the Standards which will be assessed through a quality assurance and improvement program.

## 3 MANDATE

### 3.1 Authority

The internal audit function's authority is created by its direct reporting relationship to the Audit Committee. The CAE 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 CAE will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the SVP, Chief Risk &

Resiliency Officer. 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.

To establish, maintain, and assure that NYPA and Canals' IA Department has sufficient authority to fulfill its duties, the Audit Committee will:

- Review the internal audit charter annually with the CAE to consider changes affecting the organization, such as the employment of a new CAE or changes in the type, severity, and interdependencies of risks to the organization; and approve the internal audit charter upon changes.
- Approve the risk-based Internal Audit plan and Environmental Health & Safety (EH&S) Compliance Audit plan (collectively known as 'the Internal Audit Plan').
- Approve the IA Department's budget and resource plan.
- Receive communications from the CAE on the IA Department's performance relative to its plan and other matters.
- Provide input to senior management on the appointment and removal of the CAE ensuring adequate competencies and qualifications and conformance with the Standards.
- Approve decisions regarding the appointment and removal of the CAE.
- Provide insight regarding the remuneration of the CAE.
- Make appropriate inquiries of management and the CAE to determine whether there is inappropriate scope or resource limitations.
- Discuss with the CAE and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Discuss with the CAE and senior management other topics that should be included in the internal audit charter.
- Participate in discussions with the CAE and senior management about the "essential conditions," described in the Standards, which establish the foundation that enables an effective internal audit function.
- Ensure a quality assurance and improvement program has been established and review the results annually.
- Make appropriate inquiries of senior management and the CAE to determine whether scope or resource limitations are inappropriate.

The CAE will have unrestricted access to, and communicate and interact directly with, the Audit Committee, including private meetings without management present. The CAE will also have access to the Executive Management Committee (EMC).

The Audit Committee authorizes the IA Department to:

- Have full and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary NYPA and Canals personnel, as well as other specialized services from within or outside NYPA and Canals, to complete the engagement.

### **3.2 Responsibilities**

The CAE has the responsibility to:

- Submit, at least annually, to executive management and the Audit Committee a risk-based Internal Audit plan for review and approval. The CAE must create an internal audit plan that supports the achievement of the organization's objectives.
- Communicate to executive management and the Audit Committee the impact of resource limitations on the Internal Audit plan.
- Review and adjust the Internal Audit plan as necessary, in response to changes in NYPA and Canals' governance, statutory authority, business, risks, operations, programs, systems, and controls.
- Communicate to executive management and the Audit Committee any significant interim changes to the Internal Audit Plan.
- Ensure each engagement of the Internal Audit plan is fully executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement observations and corrective actions and report periodically to executive management and the Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of independence, integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the IA department collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the IA charter.
- Ensure trends and emerging issues that could impact NYPA and Canals are considered and communicated to executive management and the Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.

- Establish and ensure adherence to policies and procedures designed to guide the IA department.
- Ensure adherence to NYPA and Canals' Code of Conduct and relevant policies and procedures, unless such policies and procedures conflict with the IA charter. Any such conflicts will be resolved or otherwise communicated to executive management, the Office of Ethics and Compliance and the Audit Committee.
- Ensure that internal auditors conform with the Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Ensure conformance of the IA department with the (Standards), with the following qualifications:
  - If the IA department is prohibited by law or regulation from conformance with certain parts of the Standards, the CAE will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
- If the Standards are used in conjunction with requirements issued by other authoritative bodies, the CAE will ensure that the IA department conforms with the Standards, even if the IA department also conforms with the more restrictive requirements of other authoritative bodies. 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 CAE will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The CAE 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 mandate.
- In coordination with the Controller, Law Department, and the Corporate Secretary's Office, communicate to the Audit Committee any external audit engagements or requests applicable to NYPA or Canals; provide related updates on key audit developments and obtain comments on engagement reports prior to final issuance or publication.
- Provide periodic communications to executive management and the Audit Committee regarding required communications noted by the Standards, including but not limited to; ethical violations, impairments to objectivity, disagreements affecting IA's ability to execute its responsibilities, plans for external quality assessments, IA strategy and budget, and the impact of technology limitations on the internal audit function.

## **4 INDEPENDENCE AND OBJECTIVITY**

The CAE will ensure that the IA department remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the CAE determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties, including the Chief Ethics and Compliance Officer.

Internal auditors will maintain an unbiased approach that allows them to perform engagements objectively and in such a manner that they can justify their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

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

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any financial or operational duties for NYPA and Canals or their affiliates.
- Initiating or approving transactions external to the IA department.
- Directing the activities of any NYPA and Canals employee not employed by the IA department, except to the extent that such employees have been appropriately assigned to audit teams or to otherwise assist internal auditors.

Where the CAE has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to the CAE and other appropriate parties, including the Chief Ethics and Compliance Officer.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process under examination.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest or undue influence with their own interests or by others in forming judgments.

The CAE will confirm to the Audit Committee, at least annually, the organizational independence of the IA department.

The CAE will disclose to the Audit Committee any interference or undue influence and their related implications in determining the scope of internal auditing, performing work, and/or communicating results.

### **Scope of Internal Audit Activities**

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for NYPA and Canals. Internal Audit is also responsible for conducting annual Compliance audits. Internal audit assessments include evaluating whether:

- Risks related to the achievement of NYPA and Canals' strategic objectives are appropriately identified and managed.
- The actions of NYPA and Canals' officers, directors, employees, contingent workers, and consultants are compliant with NYPA and Canals' policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact NYPA and Canals operations.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.
- Collaboration occurs among IA, Enterprise Risk and Resilience and the Ethics and Compliance Office to report significant risk exposures and control issues, including fraud risks and governance issues.

The CAE also coordinates activities, where possible, and may rely upon the work of other internal and approved external assurance and consulting service providers as needed. The IA Department may perform advisory and related client service activities, the nature and scope of which will be agreed upon with the client, provided the IA department does not assume management responsibility.

## **5 QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

IA will maintain a Quality Assurance and Improvement Program that covers all aspects of the IA function. The program will include an evaluation of the IA department's conformance with the Standards and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the IA department and identify opportunities for improvement.

The CAE will communicate to executive management and the Audit Committee on the IA department's Quality Assurance and Improvement Program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside NYPA and Canals.

## **6 MANAGING THE INTERNAL AUDIT FUNCTION**

The CAE is delegated the authority and discretion to perform audit and advisory services and to oversee the IA function. The CAE will promote a strong control environment and emulate appropriate "tone at the top." The CAE will also be responsible for maintaining a professional IA



department which possesses sufficient knowledge, skills, experience, and professional qualifications to meet the requirements of the IA charter.

In addition, the CAE will be responsible for overseeing the following aspects of the IA function:

- Developing and overseeing the execution of IA and EH&S Compliance audit work programs which should address the appropriate scope and techniques required to achieve the audit objectives.
- Overseeing the development of work papers that meet the quality standards required by management and are consistent with audit professional standards.
- Coordinating alignment with other risk management and compliance functions.
- Serving as a business partner to proactively identify risks and support execution of NYPA and Canals strategies.
- Maintaining updated job descriptions, roles, and competencies for each staff level and updating the organizational chart, as necessary.
- Periodically reviewing critical hiring and recruiting needs and any competency gaps.
- Developing staff with skills that can be transferred to other areas of the business.
- Aligning to professional standards and serving as a training and talent development organization within NYPA and Canals.
- Effectively onboarding IA new hires and providing core training materials and ongoing training and development that correlates to competency and career planning.
- Developing and deploying effective methodologies to execute the function's mandate.
- Assessing, identifying and deploying appropriate technologies required to support the function and add value to NYPA and Canals.

## 7 NATURE OF WORK

IA will develop an annual audit plan based on the prioritization of the audit universe, an appropriate risk-based methodology, and input from management and the Audit Committee. The established audit universe defines the auditable entities and risks that IA will monitor and mitigate. These elements will include operational, financial, compliance, strategic and information technology risk. IA will generally perform three categories of IA activities:

- **Audits** – IA will provide independent assurance activities of the performance of NYPA and Canals governance, risk management, compliance and control processes and EH&S compliance.
- **Assessments** – IA will provide independent assessment activities focused on process improvement opportunities, risk identification and mitigation within new processes and initiatives.
- **Advisory** – IA will provide various consulting activities in either documented form or real-time feedback applied to new processes, initiatives, or other identified management requests. IA is considered a partner and trusted advisor in these efforts.



## **8 ENGAGEMENT PLANNING AND AUDIT PERFORMANCE**

IA will perform an annual risk assessment to create the Internal Audit plan. As part of the risk assessment, IA will consider feedback from management at various levels, existing risk profile, emerging risks, strategic objectives, prior years' internal audit results, and significant upcoming industry, regulatory and organizational changes, among others, to understand risks faced by NYPA and Canals. In addition to the development and execution of the Internal Audit plan, IA will be responsible for budget and resource allocation, managing personnel assigned to projects, scope determination, and communication protocols with management for each of its projects.

Annually IA will execute the Internal Audit plan and, including as appropriate, any special projects requested by the Audit Committee, the CEO and/or applicable members of management. As part of audit execution, IA will be responsible for:

- Establishing end-to-end audit timelines including ongoing risk monitoring activities, planning, and fieldwork, required status meetings and reporting.
- Establishing an understanding with the business regarding audit objectives, scope, timelines, and reporting of observations and recommendations.
- Using all records, personnel, and physical properties within NYPA and Canals in an ethical manner, and in accordance with NYPA and Canals policies and procedures, to avoid undue interruption of normal operations.
- Taking responsibility for employee privacy and confidentiality of information obtained during audit projects.

## **9 COMMUNICATING RESULTS**

The CAE will report periodically to executive management and the Audit Committee regarding:

- The IA department's purpose, authority, and responsibility.
- The IA department's plan and performance relative to its plan.
- The IA department's conformance with the IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to NYPA and Canals.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

IA will review IA reports and communicate all observations with appropriate management in a manner that will allow management to assess the adequacy of internal controls and understand remediation factors that should take place. All observations will be agreed upon with management prior to report issuance. In addition, IA will execute a report rating process whereby observations and reports will be rated against a scale of pre-defined criteria. Observations will be rated on a scale of High, Medium, and Low, and reports will be evaluated as Satisfactory, Some Improvement Needed, Considerable Improvement Needed and Unsatisfactory. Ratings will be relative to the individual observation, risk categories, or risks to NYPA and Canals and may consider materiality or potential impact.

IA will provide reasonable and appropriate recommendations for corrective action plans (i.e., management action plans and/or management recommendations) which management will agree to and provide IA with an action owner and timeline by which remediation is expected.

## 10 MONITORING PROCESS

Management action plans will be monitored on a monthly basis. Any recommended action that, in the judgment of IA, does not receive adequate attention will be escalated to an appropriate level of management for resolution. The escalation process may involve successive levels of management and may include the EMC, the CEO, and the Audit Committee in the event a high rated observation is not timely or satisfactorily resolved. Management of the audited organization shall be notified of the intent to escalate a particular issue and will be encouraged to participate in its resolution.

### Approval/Signatures

*Salman Ali*

2/14/2025

Chief Audit Executive

Date

Board/Audit Committee Chair

Date

Chief Executive Officer

Date