

Metra Internal Audit Charter

Approved by the Audit and Finance Committee on **[DATE OF APPROVAL]**

Introduction

“Metra” is comprised of the Northeast Illinois Regional Commuter Railroad Corporation and the Commuter Rail Division of the Regional Transportation Authority. Metra provides commuter rail services in the Chicago-land area. It is one of the largest and most complex commuter rail systems in North America, serving a six-county region of more than 3,700 square miles.

To assist Metra as set forth in this charter, Metra’s Board of Directors established Metra’s Internal Audit Department (Internal Audit). Internal Audit’s responsibilities are defined in this charter, which is approved by the Audit and Finance Committee of the Board of Directors. Pursuant to Board Ordinance, the Chief Audit Officer (CAO) reports to the Executive Director and the Audit and Finance Committee of the Board of Directors, which ensures an adequate level of independence from management.

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the organization’s operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes. The objectives of internal audit are to assist members of the organization in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed, and by promoting effective control at reasonable cost.

Authorization and Responsibilities

Authorization is granted for full and complete access to any of the organization's records (either manual or electronic), physical properties, and personnel relevant to an audit engagement. Documents and information given to internal auditors during a periodic review will be handled in the same prudent manner as by those employees normally accountable for them.

Internal auditors have no direct responsibility or any authority over any of the activities or operations that they review. They should not engage in company operating activities, as involvement in operating activities could violate industry-accepted auditor independence standards.

Recommendations and opinions on standards of internal control that apply to a specific activity may be included in the written report of audit findings which is given to management for review and implementation.

The CAO is responsible for ensuring that all activities of the Internal Audit Department are carried out in compliance with the “International Standards for the Professional Practice of Internal Auditing” (Standards), as updated and amended, promulgated by the Institute of Internal Auditors.

Under the Illinois Freedom of Information Act, internal audit materials have been specifically exempted from public disclosure. To maximize the effectiveness of the internal audit function,

the CAO and Internal Audit staff will maintain the confidentiality of all materials compiled for audit purposes and all reports issued by Internal Audit.

Definition of Audit Scope

The scope of internal audit encompasses the following activities:

- Review the adequacy and effectiveness of management's processes for risk management, internal control, and governance.
- Review the adequacy and effectiveness of management's system for strategic and annual plans and objective setting, and ensure the annual internal audit plan is designed to assist in attaining these objectives.
- Review established systems, policies, and procedures to determine if they are adequate to ensure the organization is in compliance with laws and regulations.
- Review financial reporting and disclosure controls and advise management in their representations and assertions regarding these controls.
- Review means of safeguarding assets.
- Conduct an annual risk assessment identifying and evaluating events that could affect achievement of Metra's objectives, employing an enterprise-wide perspective and utilizing a systematic approach to identify and categorize risk.
- Appraise efficiency and effectiveness with which resources are deployed.
- Coordinate audit activities with those of the organization's external financial auditors, Regional Transportation Authority internal auditors, and other federal and state oversight bodies.
- Advise in the design, development, testing and implementation of new business processes and control systems, including electronic management information and data processing systems, *e.g.*, ERP.
- Assist the Board of Directors, the Audit and Finance Committee and the Executive Office with special engagements and consultations.
- Review the organization's guidelines for ethical business conduct and the process for ensuring compliance.
- Periodically review procedures for receipt, retention, and treatment of complaints about accounting and auditing matters.

- Ensure compliance with MET 14-01 requirements, including periodic reviews of executive compensation and benefits.
- Evaluate plans and actions taken to correct reported conditions.
- Provide adequate follow-up to ensure corrective action is taken and evaluate its effectiveness and report results.
- Submit annual audit plans and quarterly status reporting to the Audit and Finance Committee of the Board of Directors.
- Periodically report audit findings and status of corrective action to the Audit and Finance Committee of the Board of Directors.
- Annually review the Internal Audit Charter and policies/procedures, modify, if appropriate, and submit to Audit and Finance Committee of the Board of Directors for review and/or approval.

Reporting Accountabilities

Following an audit, a draft matrix of issues will be distributed for review by all audit participants. The auditee will prepare a Management Response and Action Plan to address each issue in the matrix. Disagreements between the auditee and Internal Audit concerning issues and adequacy of action plans should be resolved at this time.

Upon receiving all Management Response and Action Plans and deeming them sufficient, Internal Audit will prepare a draft Audit Report and/or Management Letter and submit these documents to the auditee for review at least three business days before the Closing Conference. The Audit Report will contain significant issues and recommendations while the Management Letter will be used to convey non-material comments to the auditee, such as input concerning best practices and areas for improvements. A Closing Conference will be conducted by Internal Audit staff and the auditee, providing the auditee an opportunity to comment on the language in the Audit Report and/or Management Letter.

Following the conclusion of each audit, either an Audit Report or Management Letter will be prepared and issued under the direction of the CAO. Audit Reports will be distributed to the Board of Directors, the Executive Director, the auditee, key stakeholders, and senior staff (as identified by the Executive Director). Management Letters will be provided to the Executive Director and the auditee.

On a quarterly basis, Internal Audit will compile all open and recently-closed issues identified in previous audits and summarize them in a report for the Executive Director and the Audit and Finance Committee of the Board of Directors.

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