

SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

CHARTER OF THE AUDIT COMMITTEE

ORGANIZATIONAL PRINCIPLES

Purpose

The purpose of the Audit Committee (Committee) is to provide structured, systematic oversight of the San Diego County Regional Airport Authority's (Authority) governance, risk management, and internal control practices. Public Utilities Code §170018 states that the Committee shall serve as a guardian of the public trust, acting independently, and charged with oversight responsibilities for reviewing the Authority's internal controls, financial reporting obligations, operating efficiencies, ethical behavior, and regular attention to cashflows, capital expenditures, regulatory compliance, and operations. The Committee assists the Authority's Board of Directors (Board) and management by providing advice and guidance related to the Authority's:

- Values and ethics;
- Governance structure;
- Risk Management;
- Internal control framework;
- Oversight of the Office of the Chief Auditor, external auditors, and other providers of assurance; and
- Financial statements and public accountability reporting.

The Committee reviews each of the items noted above and provides the Authority Board with independent advice and guidance regarding the adequacy and effectiveness of management's practices and potential improvements to those practices.

Mandate

The mandate for the establishment of the Committee is contained in Public Utilities Code §§170013 and 170018.

Authority

The Charter of the Audit Committee sets out the authority of the Committee to carry out the responsibilities established for it by the Authority Board.

In discharging its responsibilities, the Committee shall have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties. The Committee shall also have unrestricted access to records, data, and reports. The Committee shall interact with these employees and management through the Chief Auditor, the President/CEO, or a designee.

The Committee is entitled to receive any explanatory information that it deems necessary to discharge its responsibilities. The Authority's management and staff should cooperate with Committee requests. Committee requests shall be directed to the Chief Auditor, the President/CEO, or a designee.

The Committee may engage independent advisor(s), subject to Authority Board approval, that it deems necessary to execute its responsibilities and shall be provided the necessary resources for such purposes.

The Committee is empowered to:

- Recommend to the Authority Board or the appropriate Board committee the appointment and compensation of the external auditor.
- Oversee all audit and non-audit services performed by internal and external auditors.
- Review any disagreements between management and the external auditor regarding financial reporting and other matters.
- Review all auditing and non-auditing services performed by auditors.

Composition of the Committee

The composition of the Committee is specified in Public Utilities Code §§170013 and 170018. Public Utilities Code §170013 states that the Authority Board shall appoint a seven-member Committee consisting of four members of the Authority Board and the three public members appointed pursuant to Public Utilities Code §170018. Each member of the Committee shall be a voting member. The Authority Board shall select the three public members from among the following categories of persons, with no more than one appointee from each category at any one time:

- A professional with experience in the field of public finance and budgeting;
- An architect or civil engineer licensed to practice in this state;
- A professional with experience in the field of real estate or land economics;
- A person with experience in managing construction of large-scale public works projects;
- A person with public or private sector executive level decision making experience;
- A person who resides within the airport influence area of the San Diego International Airport; and
- A person with experience in environmental justice as it pertains to land use.

The Authority Board may appoint other persons to serve as nonvoting, non-compensated, *ex officio* members on the Committee. In appointing the public members to the Committee, the Authority Board shall provide for selection policies, appointment procedures, conflict-of-interest policies, length-of-term policies, and policies for providing compensation, if any.

The Chair and Vice-Chair of the Committee

The Authority Board Chair shall designate the Chair and Vice-Chair of the Committee.

Terms of Office

The public members shall be appointed by the Authority Board for staggered three-year terms. Public members may serve a maximum of two full terms.

Quorum and Voting

Four (4) Committee members are required to be present to have a quorum. Pursuant to Public Utilities Code §170018, an affirmative vote by at least five members of the Committee shall be required for approval of the annual internal and external audits, including performance monitoring, the auditor's annual Audit Plan, and actions recommending or approving debt financing for the Authority.

OPERATIONAL PRINCIPLES

Committee Values

The Committee shall conduct itself in accordance with the code of values and ethics of the Authority as outlined in Authority Policy Article 2 and Authority Code Article 2. The Committee expects that management and staff of the Authority shall adhere to these requirements.

Communications

The Committee expects that all communication with management and staff of the Authority as well as with any external assurance providers shall be direct, open, and complete.

Work Plan

The Committee chair shall collaborate with senior management and the Chief Auditor to establish a work plan to ensure that the responsibilities of the Committee are scheduled and carried out.

Meeting Agenda

The Committee chair shall establish agendas for Committee meetings in consultation with Committee members, management, and the Chief Auditor.

Information Requirements

The Committee shall establish and communicate its requirements for information, including the nature, extent, and timing of information. Information related to or to be discussed at a Committee meeting shall be provided to the Committee at least one week prior to the Committee meeting.

Executive Sessions

The Committee may schedule and hold, if necessary, private sessions with the Chief Auditor, external assurance providers, and others who the Committee may deem appropriate. These Executive Sessions shall be subject to the Ralph M. Brown Act.

Preparation and Attendance

Committee members are obligated to prepare for and participate in Committee meetings.

Conflict(s) of Interest

Committee members shall adhere to the Authority's Code of ethics and conduct as outlined in Authority Code Article 2. Additionally, it is the responsibility of Committee members to disclose any conflict of interest or appearance of a conflict of interest to the Committee as outlined in Authority Code Section 2.30. If there is any question as to whether Committee member(s) should recuse themselves from a vote, the Committee member should consult with the General Counsel.

Orientation and Training

Committee members shall receive orientation training on the purpose and mandate of the Committee and the Authority's objectives. A process of continuing education shall be established.

OPERATIONAL PROCEDURES AND RESPONSIBILITIES

Meetings

The Committee shall meet as often as it determines is necessary, but not less frequently than four times per year. All meetings shall be subject to the Ralph M. Brown Act.

Minutes

Minutes and other relevant documentation of all meetings held shall be prepared in accordance with applicable law and/or other applicable requirements.

Required Attendance

The Chief Auditor or the Chief Auditor's designee is required to attend Committee meetings. Additionally, the Committee may require any officer or employee of the Authority, including the external auditor, to attend any meeting of the Committee, or to meet with any members of, or consultants to, the Committee.

Remuneration of Committee Members

Payment rates and allowances for Committee members' time and/or services are established formally in Authority Policy 1.20.

Responsibilities

Pursuant to Public Utilities Code §170018 the Committee shall, at a minimum:

- (1) Regularly review the Authority's accounting, audit, and performance monitoring processes;
- (2) At the time of contract renewal, recommend to the appropriate committee and the Authority Board its nomination for an external auditor and the compensation of that auditor, and consider at least every three years, whether there should be a rotation of the audit firm or the lead audit partner to ensure continuing auditor independence;
- (3) Advise the appropriate committee and the Authority Board regarding the selection of the auditor;
- (4) Be responsible for oversight and monitoring of internal and external audit functions, and monitoring performance of, and internal compliance with, authority policies and procedures;
- (5) Be responsible for overseeing the annual audit by the external auditors and any internal audits; and
- (6) Make recommendations to the full Authority Board regarding paragraphs (1) to (5), inclusive.

Values and Ethics

To obtain reasonable assurance with respect to the Authority's values and ethics practices, the Committee shall:

- Review and assess the policies, procedures, and practices established by the Authority to monitor compliance with the code of conduct and ethical policies by all employees of the Authority as outlined in Authority Policy Article 2 and Authority Code Article 2;
- Provide oversight of the mechanisms established by management to establish and maintain high ethical standards for all employees of the Authority; and
- Review and provide advice on the systems and practices established by management to monitor compliance with laws, regulations, policies, and standards of ethical conduct and identify and deal with any legal or ethical violations.

ORGANIZATIONAL GOVERNANCE

To obtain reasonable assurance with respect to the Authority's governance process, the Committee shall review and provide advice on the governance process established and maintained within the organization and the procedures to ensure that they are operating as intended.

Risk Management

To obtain reasonable assurance with respect to the Authority's risk management, the Committee shall:

- Periodically review the Authority's risk profile;
- Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by management and the Authority Board
- Provide oversight of the adequacy of the combined assurance being provided; and
- Review and provide advice on the risk management processes established and maintained by management and the procedures in place to ensure that they are operating as intended.

Fraud

To obtain reasonable assurance with respect to the Authority's procedures for the prevention and detection of fraud, the Committee shall:

- Oversee management's arrangements for the prevention and deterrence of fraud;
- Ensure that appropriate action is taken against known perpetrators of fraud;
- Inquire with management and internal and external auditors to ensure the Authority has appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected; and
- The Committee shall oversee a process for the confidential, anonymous submission of complaints including, but not limited to, fraud, accounting, auditing, ethics, and code of conduct matters; as maintained and carried out through the Office of the Chief Auditor.

Control

To obtain reasonable assurance with respect to the adequacy and effectiveness of the Authority's controls in responding to risks within the Authority's governance, operations, and information systems, the Committee shall:

- Consider the effectiveness of the Authority's control framework, including information technology security and control;
- Review and provide advice on the controls within the Authority; and
- Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to management and the Authority Board.

Compliance

The Committee shall:

- Review the effectiveness of the systems for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance; and
- Review the observations and conclusions of internal and external auditors and the findings of regulatory agencies.

OVERSIGHT OF THE INTERNAL AUDIT FUNCTION

Office of the Chief Auditor

To obtain reasonable assurance with respect to work of the Office of the Chief Auditor, the Committee shall provide the following oversight functions:

Office of the Chief Auditor Charter and Resources

- Review, and forward to the Authority Board for approval, the Charter of the Office of the Chief Auditor at least annually. The Charter should be reviewed to ensure that it accurately reflects the Office of the Chief Auditor's purpose, authority, and responsibility, consistent with the mandatory guidance of The Institute of Internal Auditors' (IIA) International Professional Practices Framework and the scope and nature of assurance and consulting services, as well as changes in the financial, risk management, and governance processes of the Authority and reflects developments in the professional practice of internal auditing; and
- Advise the Authority Board about increases and decreases to the requested resources to achieve the internal Audit Plan and evaluate whether any additional resources are needed permanently or should be provided through outsourcing.

Chief Auditor Performance

- Advise the Authority Board regarding the qualifications and recruitment, appointment, replacement, reassignment, or dismissal of the Chief Auditor;
- Provide input to the Authority Board or the Executive Personnel and Compensation Committee related to evaluating the performance of the Chief Auditor; and
- Recommend, as needed, to the Authority Board or the Executive Personnel and Compensation Committee the appropriate compensation of the Chief Auditor.

Internal Audit Strategy and Plan

- Review and provide input on the Office of the Chief Auditor's strategic plan, objectives, performance measures, and outcomes;
- Review and approve the risk-based proposed Audit Plan and make recommendations concerning internal audit special request audits, investigations, and the internal audit resources necessary to achieve the Audit Plan; and
- Review the Office of the Chief Auditor's performance relative to its Audit Plan.

Internal Audit Engagement and Follow Up

- Review internal audit reports and other communications to management;
- Review and track management's action plans to address the results of audits performed by internal audit;
- Review and advise management on the results of any special investigations;
- Inquire of the Chief Auditor, or others, whether any internal audit engagements or non-audit engagements have been completed, but not reported to the Committee; if so, inquire whether any matters of significance arose from such work; and
- Inquire of the Chief Auditor, or others, whether any evidence of fraud has been identified during internal audits or consulting engagements and evaluate what additional actions, if any, should be taken.

Standards Conformance

- Inquire of the Chief Auditor about steps taken to ensure that the Office of the Chief Auditor conforms to The IIA's International Standards for the Professional Practice of Internal Auditing (Standards);
- Ensure that the Office of the Chief Auditor has a quality assurance and improvement program, and that the results of these periodic assessments performed are presented to the Committee;
- Ensure that the Office of the Chief Auditor has an external quality assurance review performed every five years;
- Review the results of the independent external quality assurance review and monitor the implementation of the Office of the Chief Auditor's action plans to address any recommendations; and
- Advise the Authority Board about any recommendations for the continuous improvement of the Office of the Chief Auditor.

OVERSIGHT OF THE EXTERNAL AUDIT FUNCTION AND OTHER EXTERNAL ASSURANCE PROVIDERS

To obtain reasonable assurance with respect to the work of the external assurance providers, the Committee shall meet with the external assurance providers during the planning phase of the audit engagement, the presentation of the audited financial statements, and the discussion of the results of audit engagements and recommendations for management.

The Committee shall:

- Advise the Authority Board on the engagement of each external auditor;
- Review the external auditors' proposed audit team composition, audit scope and approach, including coordination of audit efforts with the Office of the Chief Auditor;

- Provide input with regard to audit engagement fees and terms, as well as all non-audit engagements with the external auditor;
- Review the performance of the external auditors;
- Inquire with the external auditors about their relationships with the Authority, including non-audit services provided to the Authority. The Committee is responsible for discussing the information with the external auditors to review and confirm their independence;
- Hold regularly scheduled exclusive meetings with external auditors to discuss any sensitive matters. These meetings are subject to the Ralph M. Brown Act;
- Advise the Authority Board when any significant development or action occurs with respect to the external auditor, or when it is determined it is necessary to do so to protect and preserve the interests of the Authority;
- Monitor management's progress on action plans;
- Consider at least every three (3) years whether there should be a rotation of the lead audit partner or the audit firm itself.

To obtain reasonable assurance that management has acted on the results of internal and external audit engagements, the Committee shall regularly review reports on the progress of implementing approved management action plans and audit recommendations resulting from completed audits.

Financial Statements and Public Accountability Reporting

The Committee is responsible for the oversight of the independent audit of the Authority's financial statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory, compliance, and ethics.

The Committee shall:

- Review the scope of audits, including obtaining assurances from the external auditor that the specific audit was conducted in a manner consistent with generally accepted accounting standards;
- Review with management and the external auditors the results of audit engagements, including difficulties encountered;
- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional regulatory pronouncements, and understand their impact on the financial statements;
- Review the annual financial statements, Annual Comprehensive Financial Report (ACFR), and other reports issued and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles;

- Review other financial reports, as necessary, issued by the Authority in accordance with generally accepted accounting and/or audit standards and the corresponding external auditor's reports; and
- Review matters required to be communicated by the external auditor to the Committee under generally accepted auditing standards.

OTHER DUTIES AND RESPONSIBILITIES

In addition, the Committee shall:

- Perform other activities related to this Charter as requested by the Authority Board;
- Institute special investigations as needed;
- Regularly evaluate its performance and that of its individual members; and
- Review, at least annually, its Charter and recommend any proposed changes to the Authority Board for approval.

REPORTING REQUIREMENTS

The Committee shall report to the Authority Board annually, summarizing the Committee's activities and recommendations. The report may be delivered during a Committee meeting attended by the Authority Board or during a regularly scheduled meeting of the Authority Board.

The report should include:

- A summary of the work the Committee performed to fully discharge its responsibilities during the preceding year;
- A summary of management's progress in addressing the results of internal and external audit reports;
- Details of meetings, including the number of meetings held during the relevant period; and
- Information required, if any, by new or emerging governance developments.

The Committee may report to the Authority Board at any time regarding any other matter it deems of sufficient importance.

[Amended by Resolution No. 2021-0108 dated October 7, 2021]

[Amended by Resolution No. 2020-0097 dated October 1, 2020]

[Amended by Resolution No. 2018-0116 dated October 4, 2018]

[Amended by Resolution No. 2010-0023 dated March 4, 2010]

[Amended by Resolution No. 2006-0080 dated July 6, 2006]

[Adopted by Resolution No. 2003-061 dated October 2, 2003]