

Exhibit to Agenda Item #4

Board Policy Committee and Special SMUD Board of Directors Meeting
Wednesday, April 18, 2018, scheduled to begin at 5:30 p.m.
Customer Service Center, Rubicon Room

Agenda

Requesting approval of revisions to Board-Staff Linkage BL-3, Board-Internal Auditor Relationship

Align BL-3 with the International Institute of Internal Auditor (IIA) Standards:

- Definition of Internal Auditing
- Internal Audit Mission
- Internal Audit Governance
- Independence
- Quality assurance and Improvement

BL-3 Changes

The Internal Auditor provides independent, objective assurance and consulting services to the Board and management designed to add value and improve the SMUD's organization's operations. The Internal Auditor's mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight.

The Internal Auditor will govern the internal audit department by adhering to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing.

The Internal Auditor reports functionally to the Board and to the Chief Executive Officer and General Manager for all administrative matters. The Board may provide input into the audit planning process and may require that special projects and reviews be conducted.

The Chief Executive Officer and General Manager is responsible for hiring and terminating the Internal Auditor with the concurrence of the Board. As part of the hiring process, the Chief Executive Officer and General Manager will recommend two qualified final candidates to the Board for its consideration. The Chief Executive Officer and General Manager may rank the candidates in order of preference.

BL-3 Changes

The Internal Auditor will assure that the internal audit department remains free from all conditions that threaten the ability of the auditors to carry out their responsibilities in an unbiased manner; including matters of audit selection, scope, procedures, frequency, timing, and report content.

The Internal Auditor shall conduct audit services reviews as identified in the annual audit plan, investigations, and special projects requested by management, Chief Legal Officer and General Counsel, or the Board. The work of the Internal Auditor shall provide reasonable assurance regarding the achievement of objectives in the following areas:

- a) Adherence to plans, policies and procedures.
- b) Compliance with applicable laws and regulations.
- c) Effectiveness and application of administrative and financial controls.
- d) Effectiveness and efficiency of operations.
- e) Reliability of data.
- f) Safeguarding assets.
- g) Accuracy of the Strategic Direction monitoring reports.

BL-3 Changes

The Internal Auditor in the performance of his or her duties shall have unlimited access to all activities, records, property and personnel of SMUD including the Board of Directors.

The Internal Auditor will maintain a quality assurance and improvement program that covers all aspects of the internal audit department.

The Board shall receive the results of all audits it requests and all results from the annual audit plan. Audit reports from the annual audit plan will be placed on a Board committee agenda for discussion as an information item. In addition, the Internal Auditor shall inform the Board of the results of any other audit when he or she reasonably determines that the audit indicates a significant financial, operational, or reputational risk to SMUD. In all cases, reports will be sent to individuals, be it the Board or management, who are in positions to see that action is taken on audit findings and recommendations.