

Exhibit to Agenda Item #4

Board Finance & Audit Committee Meeting and Special SMUD
Board of Directors Meeting

Tuesday, January 14, 2020 scheduled to begin at 5:30 p.m.

SMUD Headquarters Building, Auditorium

Agenda

- Internal Auditors
 - Governance Role and Value
- Internal Audit at SMUD
- Annual Disclosures
- Noteworthy Items
- Key Focus Areas for 2020
- Questions

Internal Auditors

Governance Role and Value

The Auditor Role in Governance

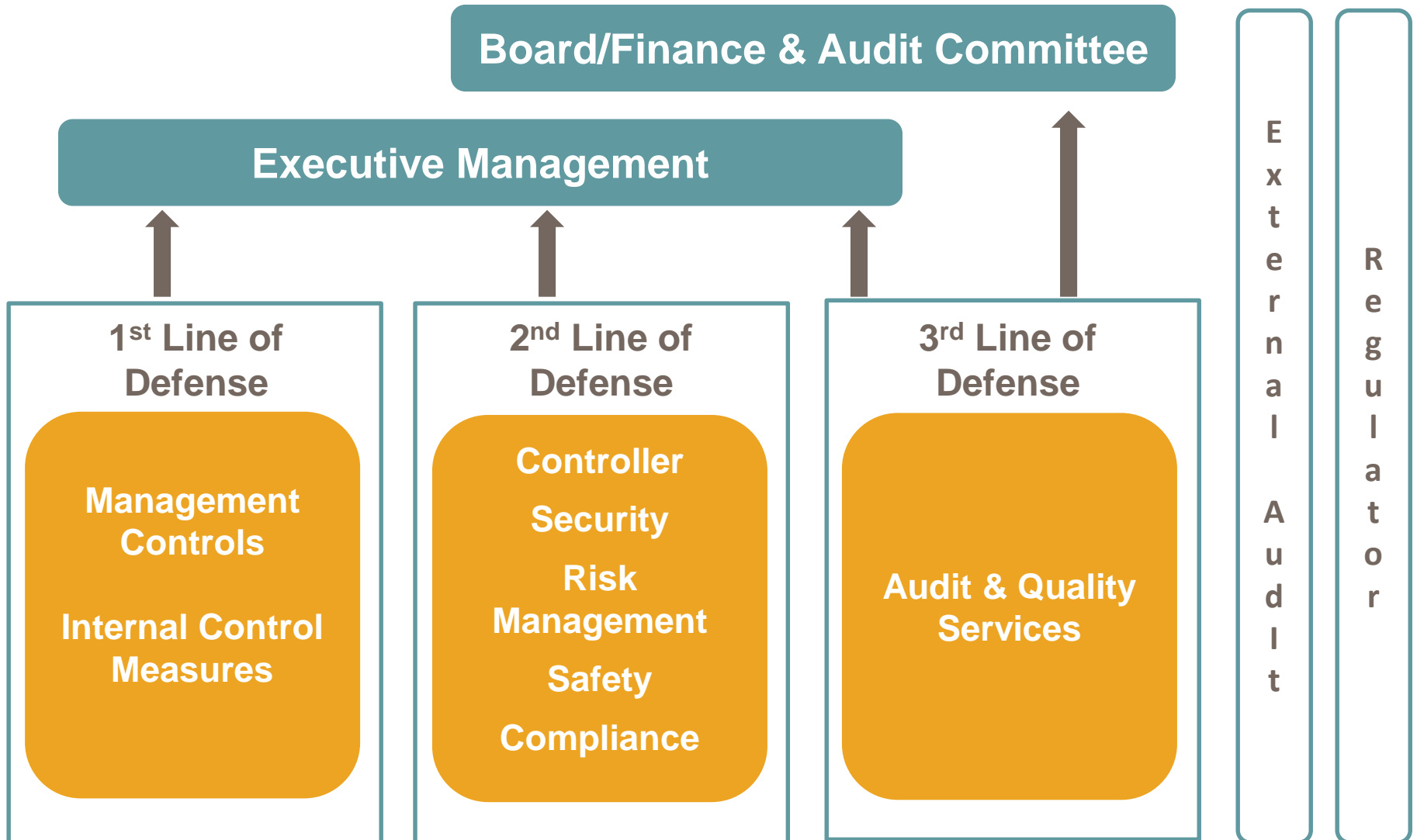
- Resource to the Board and Executive management providing objective assurance and insight on the effectiveness and efficiency of risk management, internal control and governance processes
- Assurance is provided through assessing and reporting on the effectiveness of processes
- Insights provide positive change and enhance and protect organizational value



Value Proposition

- Help SMUD improve governance, manage risks, and implement controls to more effectively achieve its goals.
- Provides the Board and Executive management with independent and objective assessments

The Three Lines of Defense



Internal Audit Vision

Our Vision

- Valued business partner
- Continuous improvement and innovation
- High performing, risk intelligent team



Trusted Audit Partner

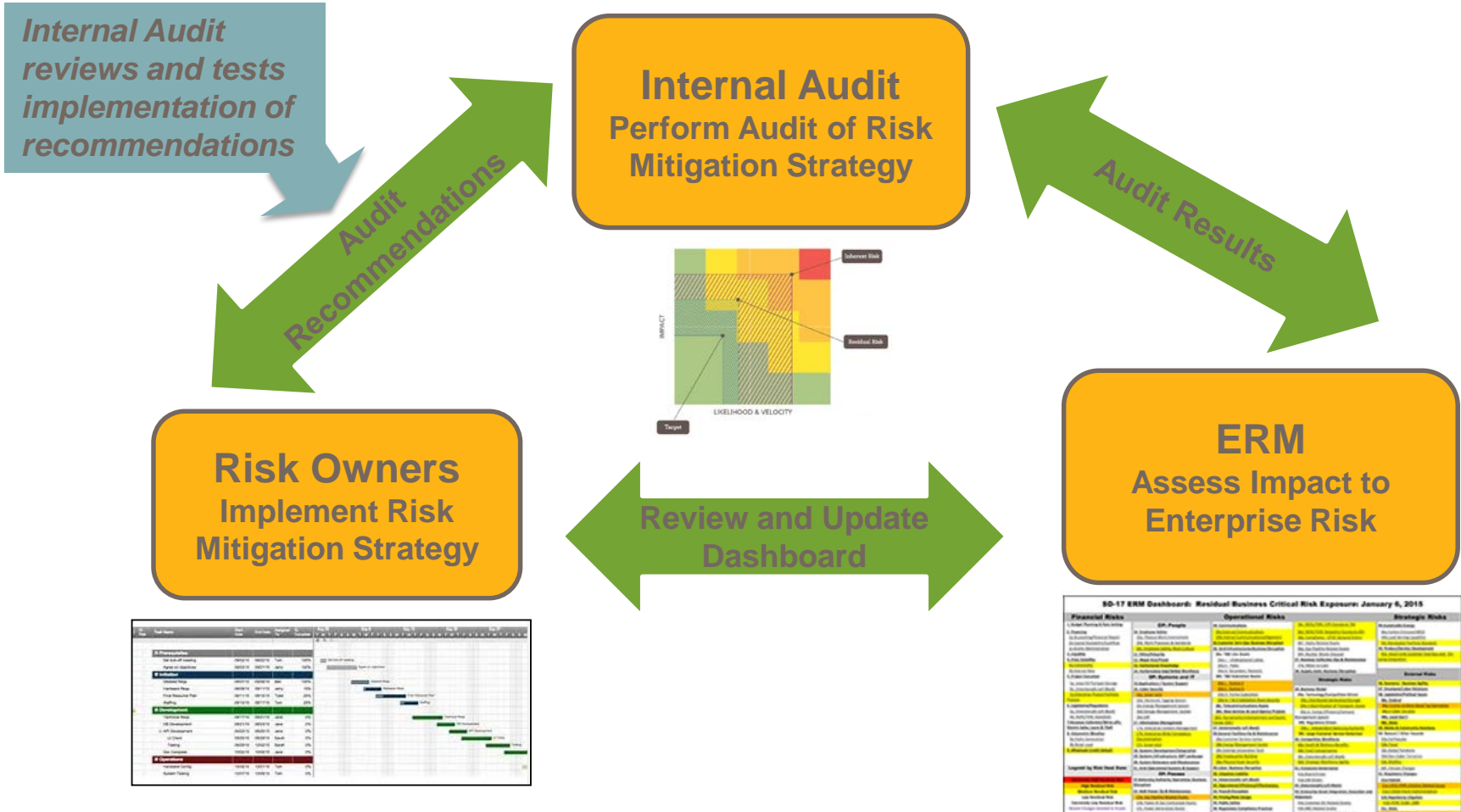
Internal Audit at SMUD

Board-Internal Auditor Relationship (BL-3)

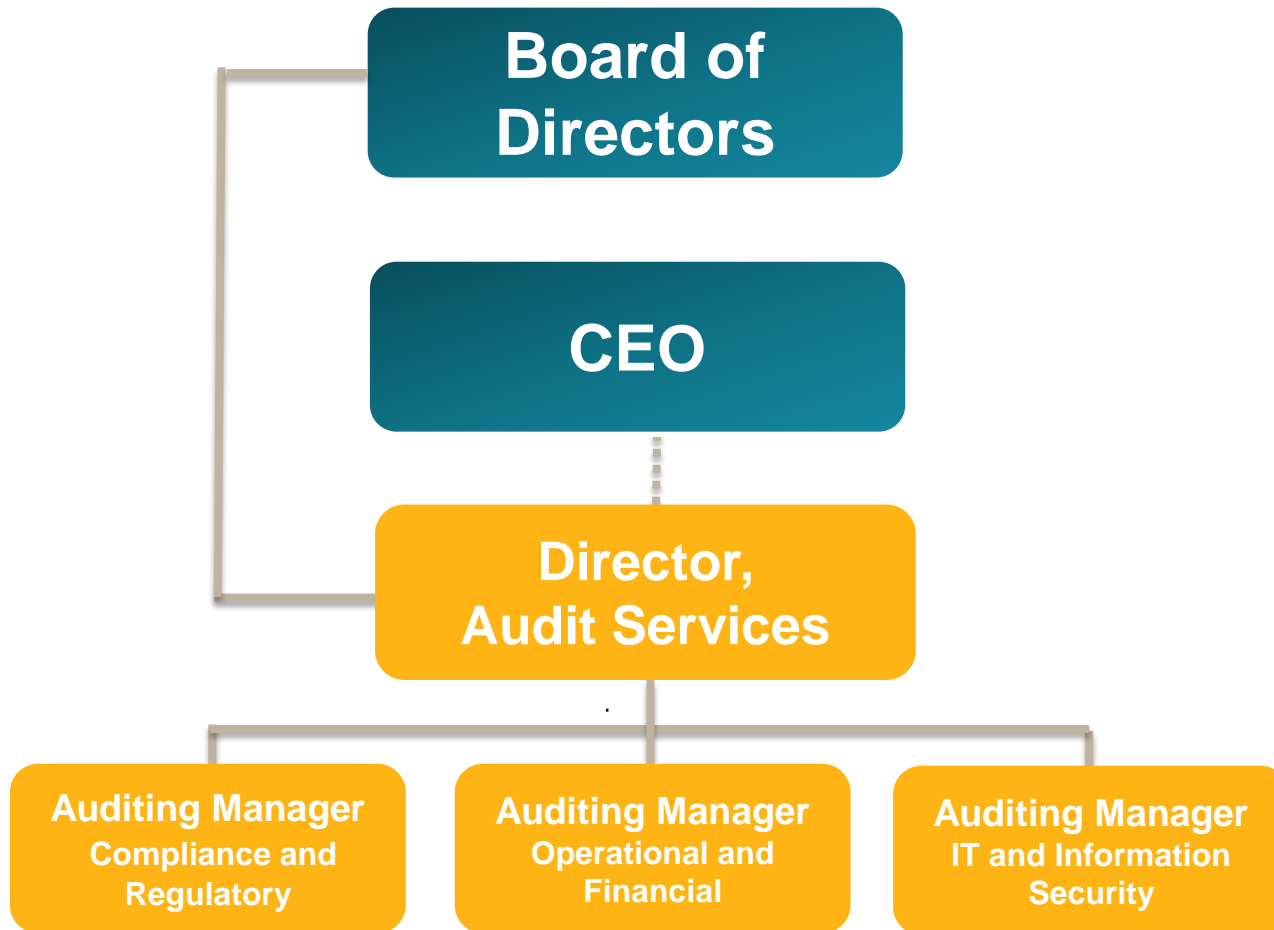


- **Reviewing accuracy of the Strategic Direction Monitoring Reports**
- **Assessing efficiency and effectiveness**
 - Operations/processes
 - Internal controls
 - Financial controls
- **Verifying compliance**
 - Applicable laws and regulations
 - Policies and procedures
- **Conducting special projects, investigations and advisory services**

Internal Audit and ERM – Audit Results



Reporting Relationship & Organization



Purpose, Authority & Responsibility

Purpose

- Independent appraisal function
- Assist Board and Management to effectively carry out duties and responsibilities and meet business objectives
- Audit, provide recommendations, consult and advise

Authority

- Unlimited access to all of SMUD
- Direct access to the Finance and Audit Committee
- Allocate resources, select audits and scope to accomplish audit objectives
- Obtain necessary assistance

Responsibility

- Submit to Finance and Audit Committee the annual audit plan
- Report results and recommendations of each audit
- Conduct special projects, audits and advisory services, investigations
- Maintain an improvement program

Internal Audit Professionalism

Institute of Internal Auditors (IIA)

International Professional Practices Framework (IPPF)

Definition

Internal auditing is an *independent, objective, assurance and consulting activity* designed to add value and improve an organization's operations

Code of Ethics

Internal auditors are expected to apply and uphold principles

- Integrity
- Objectivity
- Confidentiality
- Competency

IIA Standards

Principle-focused and provide a framework for performing and promoting internal auditing

Core Principles

Principles support mandatory guidance of the IPPF Standards

Integrity * Competence * Objective * Alignment * Reporting
* Quality * Communication * Insightful * Improvement

Noteworthy Items

Other Work

- Participated in the working sessions to develop the SMUD 2019 Wildfire Mitigation plan
- Reviewed the Reliability Standard Audit Worksheets (RSAWS) to support in the WECC Compliance Audit
- Mapped assurance roles for 2nd Line of Defense

Skill Development and Processes

- Provided training for audit team in critical thinking, root cause analysis, emotional intelligence and report writing
- Implemented new software for Annual Audit Planning and Audit Process

**2nd Line of
Defense**

Controller

Security

**Risk
Management**

Safety

Compliance

2020 Audit Plan – Key Focus Areas

- Board Monitoring Reports
- Ethics Program
- IT Change Management
- Low Carbon Fuel Standard
- Non-Disclosure Agreements / Data Sharing Agreements
- Transmission Maintenance Inspection Program
- Vendor Master File

Questions?