

Exhibit to Agenda Item #5

Provide the Board with an informational presentation on the 2022 Audit and Quality Services plan.

Board Finance & Audit Committee and Special SMUD Board of Directors Meeting
Tuesday, January 18, 2022, scheduled to begin at 5:30 p.m.

Virtual Meeting (online)

Agenda

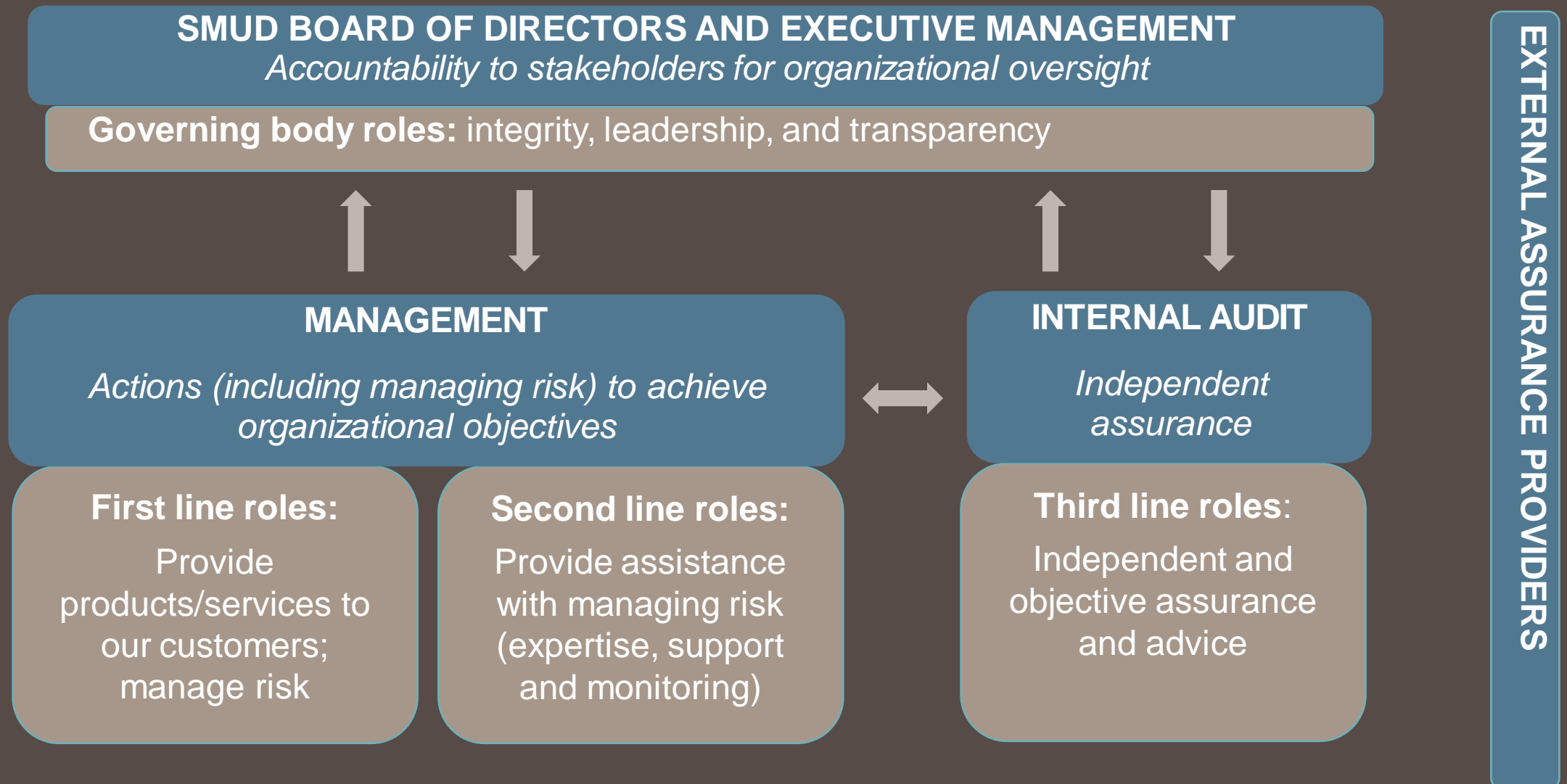
- Internal Audit
 - Governance Role and Value
- Internal Audit at SMUD
- Annual Disclosures
- Key Focus Areas for 2022
- Questions

Internal Audit - Governance Role

Value Proposition – Internal Audit helps SMUD improve governance, manage risks, and implement controls



The IIA's Three Lines Model



Internal Audit Vision

Vision – Trusted Audit Partner

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

Our work helps drive a culture of governance, accountability, compliance, and execution within SMUD.



Board-Internal Auditor Relationship

The Board-Staff Linkage BL-3 establishes Internal Audit's role

- **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**

BL-3 Purpose, Authority & Responsibility

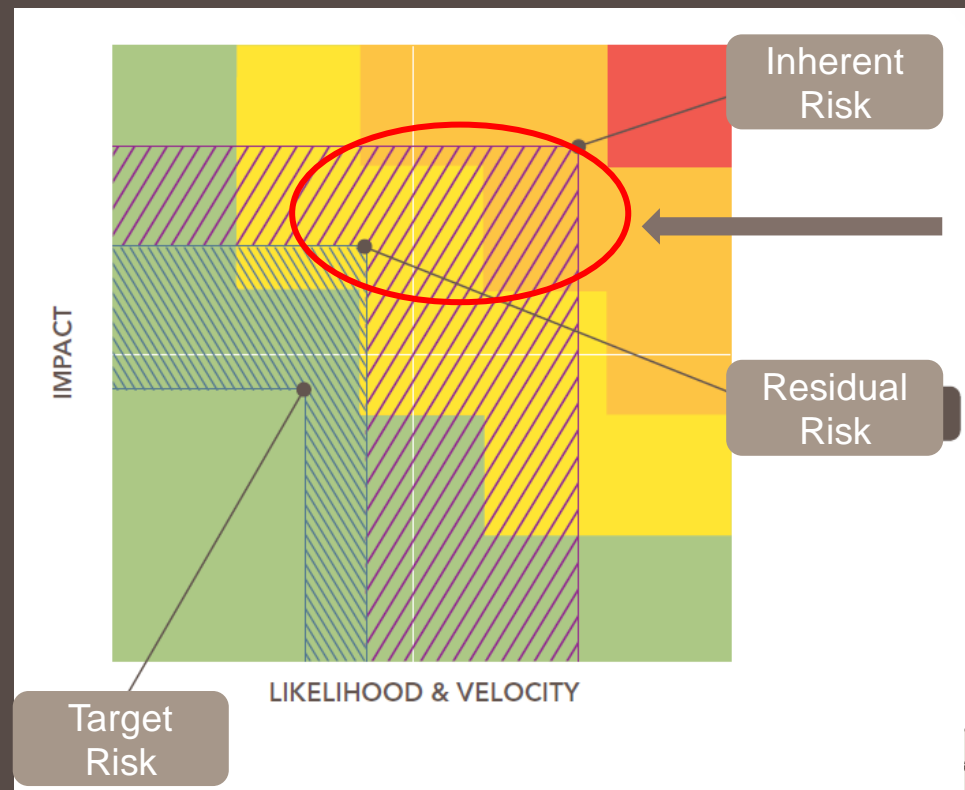
Purpose	Authority	Responsibility
<ul style="list-style-type: none">• Independent appraisal function• Assist Board and Management to effectively carry out duties and responsibilities and meet business objectives• Audit, provide recommendations, consult and advise	<ul style="list-style-type: none">• Unlimited 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	<ul style="list-style-type: none">• 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 and Enterprise Risk Management (ERM)

ERM

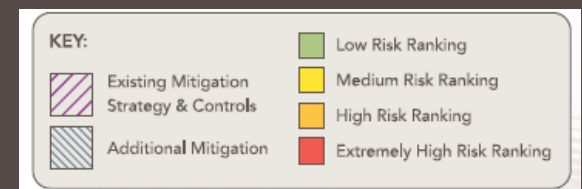
Works with the business to evaluate residual risk and establish risk targets

Risk Matrix



Internal Audit

Provides Independent and objective assurance on mitigations to reduce risk



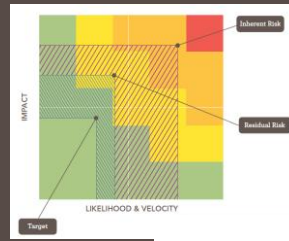
Internal Audit and ERM – Audit Results

Internal Audit reviews and tests implementation of recommendations

Audit Recommendations

**Internal Audit
Perform Audit of Risk
Mitigation Strategy**

Audit Results



**Risk Owners
Implement Risk
Mitigation Strategy**

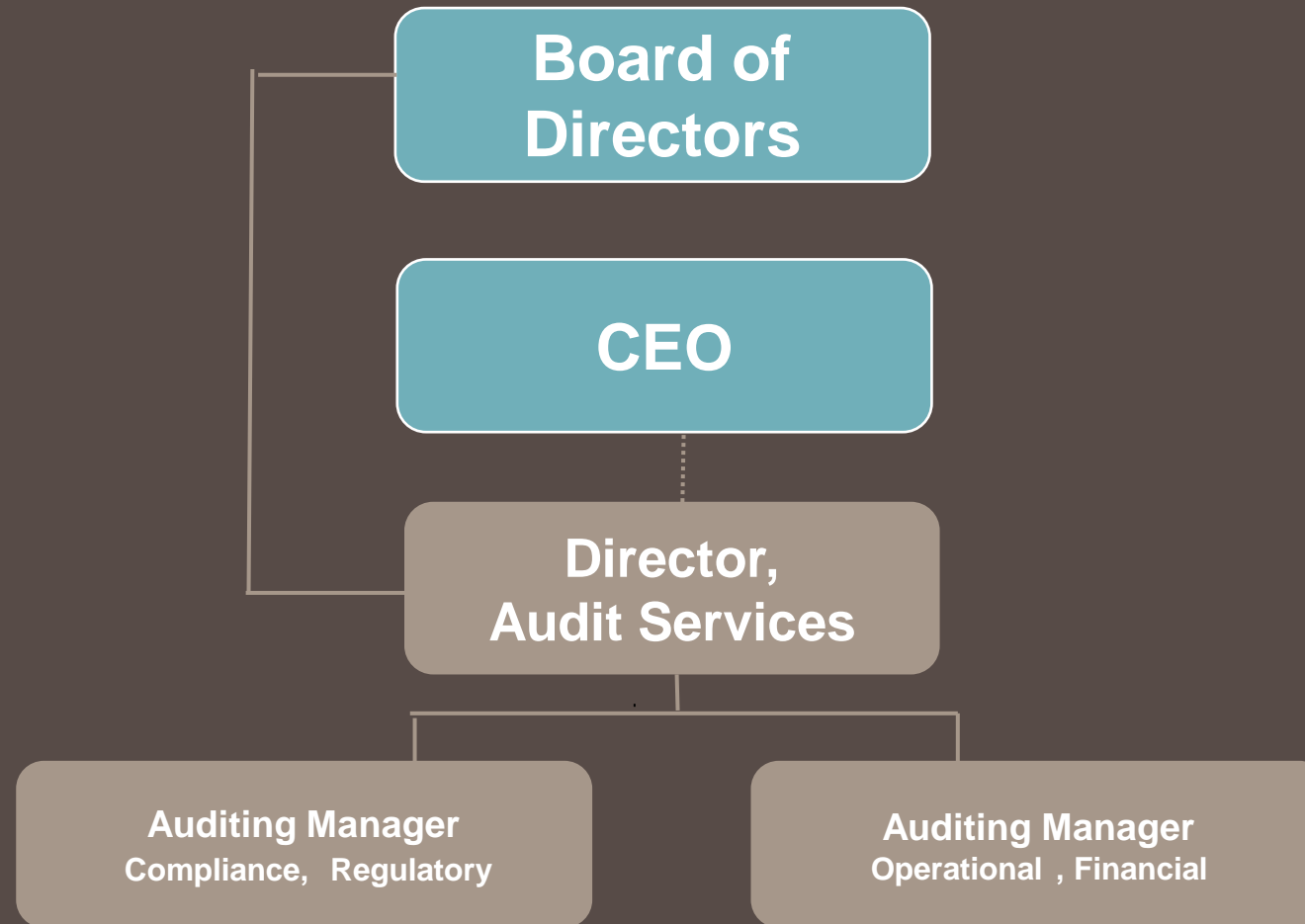
Review and Update
Dashboard

**ERM
Assess Impact to
Enterprise Risk**



Risk ID	Risk Description	Risk Category	Risk Rating	Risk Status	Residual Risk
R001	IT System Outage	Operational	High	Active	High
R002	Supply Chain Disruption	Operational	Medium	Active	Medium
R003	Financial Market Volatility	Financial	Medium	Active	Medium
R004	Regulatory Changes	Compliance	Medium	Active	Medium
R005	Climate Change Impact	Environmental	Medium	Active	Medium
R006	Cybersecurity Breach	Operational	High	Active	High
R007	Human Resource Shortage	Operational	Medium	Active	Medium
R008	Reputation Damage	Operational	Medium	Active	Medium
R009	Legal Litigation	Compliance	Medium	Active	Medium
R010	Geopolitical Instability	Financial	Medium	Active	Medium

Reporting Relationship & Organization



Internal Audit Professionalism

Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF)		
Definition	Code of Ethics	IIA Standards
Internal auditing is an <i>independent, objective, assurance</i> and <i>consulting</i> activity designed to add value and improve an organization's operations	Internal auditors are expected to apply and uphold principles <ul style="list-style-type: none">• Integrity• Objectivity• Confidentiality• Competency	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		

2022 Audit Plan – Key Focus Areas

- Board Monitoring Reports
- Arc Flash
- Community Funding
- Data Governance/Data Categorization
- GO165 – Transmission Line Maintenance
- Internal Compliance Program (SMUD and BANC)
- Procurement

Questions?