Exhibit to Agenda Item #3
Provide the Board with an informational presentation on Internal Audit and the 2023 Annual Plan.

Board Finance & Audit Committee and Special SMUD Board of Directors Meeting Meeting
Tuesday, January 17, 2023, scheduled to begin at 5:30 p.m.
Virtual Meeting (online)
Agenda

• Governance & Internal Audit
• Internal Audit at SMUD
• Annual Disclosures
• Key Focus Areas for 2023
• Questions
Our Role in Governance

- We provide objective assurance and insight on the effectiveness and efficiency of risk management, internal control, and governance processes.
- Our insights promote positive change and innovation

Value Proposition

- Internal Audit helps SMUD improve governance, manage risks, and implement controls
Internal Audit Vision

Vision – Trusted Audit Partner

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

Working collaboratively builds trust and results in a more effective audit process
The Three Lines Model

SMUD BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT
Accountability to stakeholders for organizational oversight

Governing body roles: integrity, leadership, and transparency

MANAGEMENT
Actions (including managing risk) to achieve organizational objectives

First line roles: Provide products/services to our customers; manage risk

Second line roles: Provide assistance with managing risk (expertise, support and monitoring)

INTERNAL AUDIT
Independent assurance

Third line roles: Independent and objective assurance and advice

EXTERNAL ASSURANCE PROVIDERS

INTEGRITY, LEADERSHIP, AND TRANSPARENCY
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

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<tr>
<th>Purpose</th>
<th>Authority</th>
<th>Responsibility</th>
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<td>• Independent appraisal function</td>
<td>• Unlimited access to all of SMUD</td>
<td>• Submit to Finance and Audit Committee the annual audit plan</td>
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<td>• Assist Board and Management to effectively carry out duties and responsibilities and meet business objectives</td>
<td>• Direct access to the Finance and Audit Committee</td>
<td>• Report results and recommendations of each audit</td>
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<td>• Audit, provide recommendations, consult and advise</td>
<td>• Allocate resources, select audits and scope to accomplish audit objectives</td>
<td>• Conduct special projects, audits and advisory services, investigations</td>
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<td>• Obtain necessary assistance</td>
<td>• Maintain an improvement program</td>
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Internal Audit and ERM – Audit Results

Internal Audit reviews and tests implementation of recommendations

Internal Audit
Perform Audit of Risk and Mitigation

Audit Recommendations

ERM
Assess Impact to Enterprise Risk

Risk Owners
Implement Risk Mitigation Strategy

Review and Update Dashboard
Reporting Relationship & Organization

- Board of Directors
- CEO
- Director, Audit Services
- Audit Manager
- Audit Manager
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
2023 Audit Plan – Key Focus Areas

- Board Monitoring Reports
- Enterprise Continuity Management Program
- Fall Protection
- Hearing Conservation
- Procurement
- Workforce Planning
- Technology - tbd