Exhibit to Agenda Item #6
Provide the Board with an informational presentation on Internal Audit and the 2024 Annual Plan.

Board Finance & Audit Committee and Special SMUD Board of Directors Meeting
Tuesday, January 16, 2024, scheduled to begin at 6:00 p.m.
SMUD Headquarters Building, Auditorium
Agenda

• Governance & Internal Audit
• Internal Audit at SMUD
• Annual Disclosures
• Key Focus Areas for 2024
• Questions
Governance & Internal Audit

Governance

The combination of processes and structures designed to help SMUD achieve its goals. Those processes and structures inform, direct, manage, and monitor the activities of SMUD.

Internal Audit

Internal auditing identifies the risks that could keep SMUD from achieving its goals, making sure leaders know about these risks, and recommending improvements to help reduce the risks.

Our assurance services give the Board confidence about SMUD’s governance, risk management and control processes.
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
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

January 16, 2024
Board Finance & Audit Committee and Special SMUD Board of Directors Meeting
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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<tbody>
<tr>
<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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January 16, 2024 8 Board Finance & Audit Committee and Special SMUD Board of Directors Meeting

Internal Audit & Enterprise Risk Management – Audit Results

Internal Audit reviews and tests implementation of recommendations

Internal Audit
Perform Audit of Risk and Mitigation

Audit Recommendations

Risk Owners
Implement Risk Mitigation Strategy

Review and Update Dashboard

Audit Results

Enterprise Risk Management
Assess Impact to Enterprise Risk
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

January 16, 2024
Board Finance & Audit Committee and Special SMUD Board of Directors Meeting
2024 Audit Plan – Key Focus Areas

• Board Monitoring Reports
• Asset Replacement
• Fall Protection
• Grants Management
• IT Project Management
• Personal Protective Equipment