

Category: Board-Staff Linkage
Policy No.: BL-3
Title: Board-Internal Auditor Relationship

The Internal Auditor provides independent, objective assurance and consulting services to the Board and management designed to add value and improve SMUD's operations. The Internal Auditor's purpose is to strengthen SMUD's ability to create, protect, and sustain value by providing the Board and management with independent, risk-based and objective assurance, advice, insight and foresight.

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, which are the Global Internal Audit Standards and Topical Requirement.

To provide for the independence of the internal audit function, the Internal Auditor has a direct reporting relationship to the Board of Directors. In addition, the Internal Auditor reports to the Chief Executive Officer and General Manager (CEO) 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 CEO is responsible for hiring and terminating the Internal Auditor with the concurrence of the Board. As part of the hiring process, the CEO will recommend two qualified final candidates to the Board for its consideration. The CEO may rank the candidates in order of preference.

The CEO is responsible for the evaluation of the Internal Auditor's performance. The Board, at its discretion, may participate in the Internal Auditor's performance evaluation.

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 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.

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

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.

The Internal Auditor will follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results to the Board and senior management quarterly. The Internal Auditor will communicate to the Board and senior management, as necessary, management’s responses to risk that the Internal Auditor determines may be unacceptable or acceptance of a risk that may be beyond SMUD’s risk appetite.

Monitoring Method: Board Report

Frequency: Annual

Versioning:

December 19, 2002	Resolution No. 02-12-14	Date of Adoption.
October 16, 2003	Resolution No. 03-10-14	Date of Revision.
April 20, 2006	Resolution No. 06-04-10	Date of Revision.
December 18, 2008	Resolution No. 08-12-10	Date of Revision.
November 1, 2012	Resolution No. 12-11-08	Date of Revision.
August 20, 2015	Resolution No. 15-08-02	Date of Revision.
April 19, 2018	Resolution No. 18-04-06	Date of Revision.
September 21, 2023	Resolution No. 23-09-02	Date of Revision.
January 16, 2025	Resolution No. 25-01-04	Date of Revision.