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

Board/Finance & Audit Committee

Executive Management

1st Line of Defense
- Management Controls
- Internal Control Measures

2nd Line of Defense
- Controller
- Security
- Risk Management
- Safety
- Compliance

3rd Line of Defense
- Audit & Quality Services

External Auditor
Regulator

January 14, 2020
Internal Audit Vision

Our Vision

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

Trusted Audit Partner
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

Internal Audit reviews and tests implementation of recommendations

Risk Owners Implement Risk Mitigation Strategy

Internal Audit Perform Audit of Risk Mitigation Strategy

ERM Assess Impact to Enterprise Risk

Audit Results

Review and Update Dashboard

January 14, 2020
**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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## Internal Audit Professionalism

### Institute of Internal Auditors (IIA)

**International Professional Practices Framework (IPPF)**

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<tr>
<th>Definition</th>
<th>Code of Ethics</th>
<th>IIA Standards</th>
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<td>Internal auditing is an <em>independent, objective, assurance</em> and <em>consulting</em> activity designed to add value and improve an organization’s operations</td>
<td>Internal auditors are expected to apply and uphold principles • Integrity • Objectivity • Confidentiality • Competency</td>
<td>Principle-focused and provide a framework for performing and promoting internal auditing</td>
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### 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
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?