Exhibit to Agenda Item #10

Provide the Board with an informational presentation on the 2021 Audit and Quality Services Plan.

Board of Directors Meeting
Thursday, January 21, 2021, scheduled to begin at 5:30 p.m.
Virtual Meeting (online)
Agenda

Internal Auditors
  • Governance Role and Value

Internal Audit at SMUD

Annual Disclosures

Noteworthy Items

Key Focus Areas for 2021

Questions
Internal Auditors
Governance Role and Value

The Auditor Role in Governance

• 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 Audit Regulator
Internal Audit Vision

Our Vision

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

Trusted Audit Partner
Internal Audit at SMUD

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**
- **Internal Audit**
  - Perform Audit of Risk Mitigation Strategy
- **ERM**
  - Assess Impact to Enterprise Risk
- **Risk Owners**
  - Implement Risk Mitigation Strategy
- **Review and Update Dashboard**

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Reporting Relationship & Organization

Board of Directors

CEO

Director, Audit Services

Auditing Manager Compliance and Regulatory
Auditing Manager Operational and Financial
Auditing Manager IT and Cybersecurity
### Purpose

- Independent appraisal function
- Assist Board and Management to effectively carry out duties and responsibilities and meet business objectives
- Audit, provide recommendations, consult and advise

### Authority

- 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

### Responsibility

- 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 Professionalism

### Institute of Internal Auditors (IIA)

**International Professional Practices Framework (IPPF)**

<table>
<thead>
<tr>
<th>Definition</th>
<th>Code of Ethics</th>
<th>IIA Standards</th>
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<tbody>
<tr>
<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

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Noteworthy Items

**Non Audit Work**

- COVID-19 response effort, including labor and non-labor submittals to FEMA for reimbursement
- Enterprise project management project support
- Net Energy Metering successor rate support

**Trusted Audit Partner**

- Audit guide to educate and assist customers in understanding the audit process and our mutual roles
- Communication templates to provide clear information and a consistent experience
2021 Audit Plan – Key Focus Areas

Board Monitoring Reports
Cloud Services
Ethics
Low Carbon Fuel Standard Program
Sustainable Communities
Transmission Maintenance Inspection Program
Vendor Master File
Questions?