Exhibit to Agenda Item #5
Provide the Board with an informational presentation on the 2022 Audit and Quality Services plan.

Board Finance & Audit Committee and Special SMUD Board of Directors Meeting Meeting
Tuesday, January 18, 2022, scheduled to begin at 5:30 p.m.
Virtual Meeting (online)
Agenda

• Internal Audit
  • Governance Role and Value
• Internal Audit at SMUD
• Annual Disclosures
• Key Focus Areas for 2022
• Questions
Internal Audit - Governance Role

Value Proposition – Internal Audit helps SMUD improve governance, manage risks, and implement controls
The IIA’s 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

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EXTERNAL ASSURANCE PROVIDERS
Internal Audit Vision

Vision – Trusted Audit Partner

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

Our work helps drive a culture of governance, accountability, compliance, and execution within SMUD.
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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<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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<tr>
<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 Enterprise Risk Management (ERM)

ERM
Works with the business to evaluate residual risk and establish risk targets

Internal Audit
Provides independent and objective assurance on mitigations to reduce risk

**Risk Matrix**

- **Inherent Risk**
- **Residual Risk**
- **Target Risk**

**KEY:**
- Low Risk Ranking
- Medium Risk Ranking
- High Risk Ranking
- Extremely High Risk Ranking

**January 18, 2022**

Board Finance and Audit Committee and Special SMUD Board of Directors Meeting
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

Review and Update Dashboard

January 18, 2022
Board Finance and Audit Committee and Special SMUD Board of Directors Meeting
Reporting Relationship & Organization

Board of Directors

CEO

Director, Audit Services

Auditing Manager
Compliance, Regulatory

Auditing Manager
Operational, Financial
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 18, 2022
2022 Audit Plan – Key Focus Areas

- Board Monitoring Reports
- Arc Flash
- Community Funding
- Data Governance/Data Categorization
- GO165 – Transmission Line Maintenance
- Internal Compliance Program (SMUD and BANC)
- Procurement
Questions?