

# California Public Utilities Commission Internal Audit Charter

## Approved January 11, 2018

### Purpose and Mission

The purpose of the California Public Utilities Commission's (CPUC) Internal Audit (IA) Unit is to provide independent, objective assurance and consulting services designed to add value and improve the CPUC's operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The IA Unit helps the CPUC accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

### Standards for the Professional Practice of Internal Auditing

The IA Unit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The chief audit executive will report periodically to senior management and the Commission regarding the IA Unit's conformance to the Code of Ethics and the Standards.

### Authority

The chief audit executive will report functionally to the Commission, through the Finance and Administration Committee, and administratively (i.e., day-to-day operations) to the Deputy Executive Director, Internal Operations. To establish, maintain, and assure that the CPUC's IA Unit has sufficient authority to fulfill its duties, the Commission will:

- Approve the IA Unit's charter.
- Approve the risk-based internal audit plan.
- Approve the IA Unit's budget and resource plan.
- Receive communications from the chief audit executive on the IA Unit's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the chief audit executive.
- Approve the remuneration of the chief audit executive.
- Make appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations that affect the IA Unit's ability to fulfill its mission.

The chief audit executive will have unrestricted access to, and communicate and interact directly with the Commission including in private meetings without management present.

The Commission authorizes the IA Unit to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the CPUC, as well as other specialized services from within or outside the CPUC in order to complete the engagement.

### Independence and Objectivity

The chief audit executive will ensure that the IA Unit remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the chief audit executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the CPUC or its affiliates.
- Initiating or approving transactions external to the IA Unit.
- Directing the activities of any CPUC employee not employed by the IA Unit except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The chief audit executive will confirm to the Commission at least annually, the organizational independence of the IA Unit.

The chief audit executive will disclose to the Commission any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

### Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Commission, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the CPUC. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the CPUC's strategic objectives are appropriately identified and managed.
- The actions of the CPUC's officers, directors, employees, and contractors are in compliance with the CPUC's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the CPUC.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The chief audit executive will report periodically to senior management and the Commission regarding:

- The IA Unit's purpose, authority, and responsibility.
- The IA Unit's plan and performance relative to its plan.
- The IA Unit's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Commission.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the CPUC.

The chief audit executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The IA Unit may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the IA Unit does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

## Responsibility

The chief audit executive has the responsibility to:

- Submit, at least annually, to senior management and the Commission a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Commission the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in the CPUC's business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the Commission any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Commission any corrective actions not effectively implemented.

- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the IA Unit collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact the CPUC are considered and communicated to senior management and the Commission as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the IA Unit
- Ensure adherence to CPUC’s relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Commission.
- Ensure conformance of the IA Unit with the Standards, with the following qualifications:
  - If the IA Unit is prohibited by law or regulation from conformance with certain parts of the Standards, the chief audit executive will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
  - If the Standards are used in conjunction with requirements issued by other authoritative bodies, the chief audit executive will ensure that the IA Unit conforms with the Standards, even if the IA Unit also conforms with the more restrictive requirements of other authoritative bodies.

## Quality Assurance and Improvement Program

The IA Unit will maintain a quality assurance and improvement program that covers all aspects of the IA Unit. The program will include an evaluation of the IA Unit’s conformance with the Standards and an evaluation of whether internal auditors apply The IIA’s Code of Ethics. The program will also assess the efficiency and effectiveness of the IA Unit and identify opportunities for improvement.

The chief audit executive will communicate to senior management and Commission on the IA Unit’s quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the CPUC.