



California Public Utilities Commission Internal Audit Charter

Policy

It is the policy of the California Public Utilities Commission's (CPUC) to establish and maintain an independent and objective internal audit function and provide the resources necessary to enable Internal Audit Services (IAS) to achieve its mission and discharge its responsibilities.

Purpose

The purpose of the CPUC IAS is to provide independent, objective assurance and consulting services designed to add value and improve the CPUC's operations.

Mission

The mission of IAS is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. IAS assists CPUC's management in the discharge of their oversight, management, and operating responsibilities through independent audits and consultations designed to assess and promote the systems of internal controls, including effective and efficient operations. IAS will accomplish this through communication, monitoring, and collaboration with management. This supports the accomplishment of CPUC objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Authority

IAS operational authority is cited in the following statutes and guidelines:

- Government Code sections 13885 to 13888 – Internal Audits
- Public Utilities Code Section 307.6 – Chief Internal Auditor, CPUC's chief audit executive
- State Administrative Manual Section 20040 – Internal Audit Organizations
- *International Standards for the Professional Practice of Internal Auditing (Standards)*

In the performance of their duties, IAS staff is authorized to:

- Review and evaluate all policies, procedures, and practices for any CPUC activity, program, or function.
- Have full, free, and unrestricted access to all functions, records, documentation, computer files, property, and personnel relevant to the

performance of any audit assignment, subject to accountability for confidentiality and safeguarding of records and information.

- Allocate resources, set frequencies, select subjects, determine scope 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 audit objectives.

IAS staff is not authorized to:

- Perform any operational duties for CPUC activities, programs, or functions.
- Initiate or approve transactions external to IAS.
- Direct the activities of any CPUC employee not employed by IAS except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

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.

Accountability and Reporting Structure

To permit the rendering of impartial and unbiased judgment essential to the proper conduct of audits, internal auditors will be independent of the activities they audit. This independence is based primarily upon organizational status and objectivity and is required by external industry standards.

The Chief Internal Auditor will report to the Commissioners of the CPUC, through the Audit Committee, and under the general direction of the President. IAS staff report to the Chief Internal Auditor.

The Chief Internal Auditor will have unrestricted access to, and communicate and interact directly with, the Commission including in private meetings without management present.

Independence and Objectivity

IAS has complete independence with respect to the units under audit, and consequently, is free from interference in determining the scope of internal auditing, performing work, and communicating results. The Chief Internal Auditor will ensure that IAS remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner. Where the Chief Internal Auditor 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 exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. The audit staff will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. Internal auditors will not assess specific operations for which they had responsibility within the previous year. If the Chief Internal Auditor determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

The Chief Internal Auditor will confirm to the Commission, at least annually, the organizational independence of IAS.

Scope of Internal Audit Activities

The scope of IAS work is to determine whether CPUC's network of risk management, control, and governance processes, as designed and represented by management at all levels, is adequate and functioning. The scope may include:

- Ensuring programs and systems are operating within the highest standards and are directed toward the requirements defined in the Federal and State laws, regulations, and the CPUC policies and procedures.
- Reviewing the reliability and integrity of financial and operating controls and information and the means used to identify, measure, classify, and report such information.
- Assessing business risks and verifying appropriate mitigating control mechanisms are in place.
- Reviewing established system of internal control to ascertain whether they are functioning as designed.
- Appraising the efficiency of processes and resources deployed.
- Evaluating information technology governance and security practices and ensuring that they adequately protect information assets, support CPUC's objectives, and are in compliance with applicable policies, rules, and regulations.

The Chief Internal Auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. IAS may perform special operational reviews, consulting and advisory services at the request of the Commission or executive management, related to governance, risk management, and control processes, as appropriate.

Upon request by the Commission, executive management or control agencies including the California State Auditor, IAS may also perform investigations. These are independent evaluations of allegations generally focused on improper governmental activities including misuse of resources, fraud, financial irregularities, significant control weaknesses, and unethical behavior or actions. Excluded investigations are those conducted by specific internal CPUC divisions, such as Human Resources or Equal Employment Opportunity Office.

Opportunities for improving management control, quality and effectiveness of services, and the CPUC's reputation identified during audits are communicated by IAS to the appropriate levels of management.

Responsibility

Under the direction of the Chief Internal Auditor, IAS has the responsibility to:

- Submit, at least annually, to the Audit Committee a flexible, risk-based internal audit plan prior to the end of the fiscal year, including any significant risk exposures and control issues identified by Commissioners and senior management, for review and approval.
- Communicate to the Audit Committee any significant interim changes to or the impact of resource limitations on the internal audit plan.
- Issue periodic reports to the Audit Committee summarizing the results of audit activities and any corrective actions not effectively implemented.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter.
- Provide consulting services to assist management in meeting its objectives.
- Provide consulting services or investigate employee misconduct or suspected fraudulent activities within or external to the CPUC and notify the Commission of the result.
- Develop a quality assurance and improvement plan (QAIP), incorporating both internal and external assessments, that covers all aspects of the internal audit activity.
- Ensure conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Standards for the Professional Practice of Internal Auditing

IAS 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 Internal Auditor will report periodically to the Commission regarding IAS' conformance to the Code of Ethics and the *Standards*.

Quality Assurance and Improvement Program

The *Standards* require that internal audit organizations develop and maintain a QAIP that covers all aspects of the internal audit organization. The QAIP will include an evaluation of IAS' conformance with the *Standards* and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The QAIP will also assess the efficiency and effectiveness of IAS and identify opportunities for improvement.

The Chief Internal Auditor will communicate to the Commissioners on IAS' QAIP, 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.

Approval

Approved by the Audit Committee of the CPUC on June 27, 2019

MS
Committee Member
Genevieve Shuman
Committee Member

President
Title
Commissioner
Title