

FOR CONSIDERATION

March 28, 2017

TO: The Finance and Audit Committee

FROM: Kathleen H. Mitterway, Director of Audit

REQUEST: Recommendation for Approval of Revised Internal Audit Charter

Requested Action

The Finance and Audit Committee (the “Committee”) is being requested to adopt a resolution approving revisions to the Utility Debt Securitization Authority (the “Authority”) Internal Audit Charter (the “Charter”) in the form attached hereto.

Background

The Charter, which was most recently adopted by the Committee on April 27, 2015, establishes the purpose, authority and responsibilities of Internal Audit. Consistent with the Charter, the Committee has undertaken a thorough review of the Charter’s adequacy and recommends some changes including recognition of the mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing (“Standards”) and the Definition of Internal Auditing in the Charter, based on the revised Standards, effective January 2017.

Recommendation

Based upon the foregoing, I recommend approval of the above-requested action by adoption of a resolution in the form of the draft resolution attached hereto.

Attachments

Exhibit A Resolution

**RECOMMENDATION FOR APPROVAL OF REVISED UTILITY DEBT
SECURITAZATION AUTHORITY INTERNAL AUDIT CHARTER**

WHEREAS, the Trustees adopted on April 27, 2015, an Internal Audit (“Charter”) which establishes, among other things, the purpose, authority and responsibilities of Internal Audit; and

WHEREAS, the Trustees have reviewed the proposed revised Internal Audit Charter and believes it is reasonable and appropriate to revise it for the reasons set forth in the accompanying memorandum:

NOW, THEREFORE, BE IT RESOLVED, that the Trustees hereby adopt the Utility Debt Securitization Authority’s “Internal Audit Charter (March 28, 2017)” in the form presented at this meeting; and be it further

RESOLVED, that this resolution take effect immediately.

Attachment A-1 Internal Audit Charter - Redline

Attachment A-2 Internal Audit Charter - Clean Version of Charter for Adoption

UTILITY DEBT SECURITIZATION AUTHORITY INTERNAL AUDIT CHARTER

INTRODUCTION:

Internal Auditing is an independent and objective assurance and consulting function that seeks to support and advance the mission of the Utility Debt Securitization Authority (the "Authority"). It assists the Authority in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control.

ROLE:

The internal audit function is established by the Board of Trustees of the Authority and is overseen by the Finance and Audit Committee of the Board of Trustees of the Authority. For all purposes, the Finance and Audit Committee ~~carries~~carry out the Board's administration and oversight of the Internal Audit function. The internal audit function's responsibilities are defined by this Charter.

PROFESSIONALISM:

The internal audit activity will ~~be governed~~govern itself by adherence to The Institute of Internal Auditors' ~~mandatory guidance including ("IIA's") Mandatory Guidance, which includes the Definition~~Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, ~~and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance and the Definition of Internal Auditing.~~ The IIA's Mandatory Guidance constitutes ~~principles of~~ the fundamental requirements for the professional practice of internal auditing and ~~for evaluating principles against which to evaluate~~ the effectiveness of the internal audit activity's performance.

~~The Institute of Internal Auditors'~~The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations.

In addition, the internal audit activity will adhere to the Authority's relevant policies and procedures.

AUTHORITY:

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of Authority's records, physical properties, and personnel, including trustees of the Authority, pertinent to carrying out any engagement. All employees of the Authority and the Long Island Power Authority ("LIPA") are expected to assist the internal audit activity in fulfilling its roles and responsibilities.

It is recognized that the Authority has contracted with LIPA to carry out certain Authority functions, including internal audit activities. Internal Audit activity will encompass services provided by LIPA related to Authority functions.

ORGANIZATION:

The ~~director~~Director of ~~audit~~Audit will report ~~functionally~~on functional matters to the Authority's Board and administratively (i.e. day to day operations) to the Chief Executive Officer of LIPA.

The ~~UDSA~~Authority's Board will

- Approve the internal audit charter.
- ~~Receive communications from the~~Receive communications from the ~~director~~Director of ~~audit~~Audit on the internal ~~audit activity's~~audit's activity and performance relative to its plan and other matters:
- ~~as they pertain to the Authority.~~ as they pertain to the Authority.
- Make appropriate inquiries of management and the ~~director~~Director of ~~audit~~Audit to determine whether there is inappropriate scope or resource limitations.

The ~~director~~Director of ~~audit~~Audit will communicate and interact directly with the ~~UDSA~~Authority's Board, including in executive sessions and between ~~UDSA~~Authority Board meetings as appropriate.

INDEPENDENCE AND OBJECTIVITY:

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

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

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors 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.

The ~~director~~Director of ~~audit~~Audit will confirm to the Authority Board, at least annually, the organizational independence of the internal audit activity.

RESPONSIBILITY:

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:

- Evaluating risk exposure relating to achievement of the organization's objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.

- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.

INTERNAL AUDIT PLAN:

At least annually, the ~~director~~Director of ~~audit~~Audit will submit to Authority management and the Authority's Board an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The director of audit will communicate the impact of resource limitations and significant interim changes to Authority management and the Authority's Board.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of Authority management and the Authority's Board. The director of audit will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to Authority management and the Authority's Board through periodic activity reports.

REPORTING AND MONITORING:

A written report will be prepared and issued by the ~~director~~Director of ~~audit~~Audit or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Authority's Board.

The internal audit report may include Authority or LIPA management's response ~~and~~ corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The ~~director~~Director of ~~audit~~Audit will periodically report to Authority and LIPA management and the Authority's Board on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Authority management and the Authority's Board.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The ~~director~~Director of ~~audit~~Audit will communicate to Authority and LIPA management and the Authority's Board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments.

Internal Audit Activity Charter

Approved this _____ day of _____, _____.

Director of ~~audit~~Audit, LIPA

Chairman of the Finance & Audit Committee

Chief Executive Officer of ~~LIPA and~~ UD SA

**UTILITY DEBT SECURITIZATION AUTHORITY
INTERNAL AUDIT CHARTER**

INTRODUCTION:

Internal Auditing is an independent and objective assurance and consulting function that seeks to support and advance the mission of the Utility Debt Securitization Authority (the "Authority"). It assists the Authority in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control.

ROLE:

The internal audit function is established by the Board of Trustees of the Authority and is overseen by the Finance and Audit Committee of the Board of Trustees of the Authority. For all purposes, the Finance and Audit Committee carry out the Board's administration and oversight of the Internal Audit function. The internal audit function's responsibilities are defined by this Charter.

PROFESSIONALISM:

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' ("IIA's") Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Practice of Internal Auditing* and the Definition of Internal Auditing. The IIA's Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and principles against which to evaluate the effectiveness of the internal audit activity's performance.

The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations.

In addition, the internal audit activity will adhere to the Authority's relevant policies and procedures.

AUTHORITY:

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of Authority's records, physical properties, and personnel, including trustees of the Authority, pertinent to carrying out any engagement. All employees of the Authority and the Long Island Power Authority ("LIPA") are expected to assist the internal audit activity in fulfilling its roles and responsibilities.

It is recognized that the Authority has contracted with LIPA to carry out certain Authority functions, including internal audit activities. Internal Audit activity will encompass services provided by LIPA related to Authority functions.

ORGANIZATION:

The Director of Audit will report on functional matters to the Authority's Board and administratively (i.e. day to day operations) to the Chief Executive Officer of LIPA.

The Authority's Board will

- Approve the internal audit charter.
- Receive communications from the Director of Audit on the internal audit's activity and performance relative to its plan and other matters as they pertain to the Authority.
- Make appropriate inquiries of management and the Director of Audit to determine whether there is inappropriate scope or resource limitations.

The Director of Audit will communicate and interact directly with the Authority's Board, including in executive sessions and between Authority Board meetings as appropriate.

INDEPENDENCE AND OBJECTIVITY:

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

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

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors 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.

The Director of Audit will confirm to the Authority Board, at least annually, the organizational independence of the internal audit activity.

RESPONSIBILITY:

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:

- Evaluating risk exposure relating to achievement of the organization's objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.

- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
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At least annually, the Director of Audit will submit to Authority management and the Authority's Board an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The director of audit will communicate the impact of resource limitations and significant interim changes to Authority management and the Authority's Board.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of Authority management and the Authority's Board. The director of audit will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to Authority management and the Authority's Board through periodic activity reports.

REPORTING AND MONITORING:

A written report will be prepared and issued by the Director of Audit or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Authority's Board.

The internal audit report may include Authority or LIPA management's response corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The Director of Audit will periodically report to Authority and LIPA management and the Authority's Board on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Authority management and the Authority's Board.

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The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Director of Audit will communicate to Authority and LIPA management and the Authority's Board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments.

Internal Audit Activity Charter

Approved this _____ day of _____, _____.

Director of Audit, LIPA

Chairman of the Finance & Audit Committee

Chief Executive Officer of LIPA and UDSA

TO: The Trustees of the Finance & Audit Committee

FROM: Kathleen H. Mitterway, Director of Audit

SUBJECT: Annual Internal Audit Activity Independence Confirmation

Summary

Internal Auditing is an independent and objective assurance and consulting function that seeks to support and advance the mission of the Utility Debt Securitization Authority (the “Authority”). It assists the Authority in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control.

International Standards for the Professional Practice of Internal Auditing (Standards), Attribute Standard 1110 – Organizational Independence, specifically states that the Chief Audit Executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The Chief Audit Executive must confirm to the Board, at least annually, the organizational independence of the internal audit activity.

The Director of Audit reports on functional matters to the Board and administratively (i.e. day to day operations) to the Chief Executive Officer.

Therefore, on this 28th day of March 2017, Kathleen H. Mitterway, LIPA Director of Audit, acknowledges and confirms that the internal audit activity is operating independently of management.