### BOARD AGENDA SUMMARY SHEET

<table>
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<tr>
<th>Committee or Board:</th>
<th>Finance and Audit</th>
<th>Date:</th>
<th>January 18, 2019</th>
<th>Board Meeting Date:</th>
<th>January 23, 2019</th>
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**For All Voting Items:**

**Title of Agenda Item:** Review of Internal Audit Charter and Confirmation of Independence

**Consent Agenda:** ☐ Yes ☒ No

**Accompanying Presentation:** ☐ Yes ☒ No

**Recommendation from Committee:** ☒ N/A ☐ F&A; ☐ GP&P; ☐ Oversight & REV

**LIPA Presenter:** Kathleen Mitterway

**PSEG Long Island Presenter:** N/A

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<th>Requested Action:</th>
<th>The Finance and Audit Committee is requested to adopt a resolution recommending revisions to the Authority’s Internal Audit Charter.</th>
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<th>Summary: (include proposed amendments to Board Policies, if applicable)</th>
<th>Minor revisions are suggested to the Internal Audit Charter, including:</th>
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<td>• to update the title of the head of the audit department to Vice President – Audit.</td>
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<td>• clarify that references to the Board in the Charter are to the Finance and Audit Committee.</td>
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<td>• clarify the Finance and Audit Committee’s role in reviewing decisions to hire or dismiss the head of the audit department.</td>
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While part of the presentation, no specific action is required with respect to the Confirmation of Independence.
TO: The Finance and Audit Committee

FROM: Kathleen H. Mitterway, Vice President - Audit

REQUEST: Recommendation for Approval of Revised Internal Audit Charter

Requested Action

The Finance and Audit Committee (the “Committee”) is requested to adopt a resolution recommending revisions to the Long Island Power 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 March 29, 2018, establishes the purpose, authority and responsibilities of Internal Audit.

Proposed Changes

Consistent with the Charter, the Committee has undertaken a thorough annual review of the Charter’s adequacy. Minor revisions are suggested, including:

• to update the title of the head of the audit department to Vice President – Audit
• clarify that references to the Board in the Charter are to the Finance and Audit Committee
• clarify the Finance and Audit Committee’s role in reviewing decisions to hire or dismiss the head of the audit department.

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
Exhibit B Internal Audit Charter — Redline
Exhibit C Internal Audit Charter — Clean Version for Adoption
RECOMMENDATION FOR APPROVAL OF REVISED LONG ISLAND POWER AUTHORITY INTERNAL AUDIT CHARTER

WHEREAS, the Trustees adopted on March 29, 2018, 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 approve it for the reasons set forth in the accompanying memorandum:

NOW, THEREFORE, BE IT RESOLVED, that the Trustees hereby adopt the Long Island Power Authority’s “Internal Audit Charter” in the form presented at this meeting.
INTRODUCTION:

Internal Auditing is an independent and objective assurance and consulting function that seeks to support and advance the mission of the Long Island Power Authority (The “LIPA” or “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 and is overseen by the Finance and Audit Committee of the Board of Trustees. For all purposes, the Finance and Audit Committee carry out the Board’s administration and oversight of the Internal Audit function (and references to the “Board” in the Charter shall be to the Finance and Audit Committee). 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' Mandatory Guidance, which includes 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 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 of the internal audit activity's performance.

The Institute of Internal Auditors' 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 and the internal audit activity's standard operating procedures manual.

INTERNAL AUDIT 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 and PSEG Long Island records, physical properties, and personnel pertinent to carrying out any engagement. All employees are expected to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Finance and Audit Committee.

ORGANIZATION:
The Director of Vice President - Audit will report on functional matters to the Finance and Audit Committee and administratively (i.e. day to day operations) to the Chief Executive Officer.

The Finance and Audit Committee will
• Approve the internal audit charter.
• Approve the risk based internal audit plan.
• Approve the internal audit budget and resource plan.
• Receive communications from the Director of Vice President - Audit on the internal audit activity’s performance relative to its plan and other matters.
• Review and Approve decisions regarding the appointment and removal of the Vice President - Audit.
• Make appropriate inquiries of management and the Director of Vice President - Audit to determine whether there is inappropriate scope or resource limitations.

The Director of Vice President - Audit will communicate and interact directly with the Finance and Audit Committee members, Board, including in executive sessions and between 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 Vice President - Audit will confirm to the Finance and Audit Committee, 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. Assurance engagements include:

• Evaluating risk exposure relating to achievement of the organization’s mission.
• 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 the effectiveness and efficiency with which resources are employed.
• 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.

The internal audit activity may perform consulting, advisory and related client service engagements and activities, the nature and scope of which will be agreed with the client, provided that the internal audit activity does not assume management responsibility.

INTERNAL AUDIT PLAN:

At least annually, the Director of Vice President - Audit will submit to senior management and the Finance and Audit Committee 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 Vice President - Audit will communicate the impact of resource limitations and significant interim changes to the Chief Executive Officer and the Finance and Audit Committee Board.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Finance and Audit Committee Board. The Director of Vice President - 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 senior management and the Finance and Audit Committee Board through periodic activity reports.

It is recognized that the Authority has contracted with PSEG Long Island and other entities to carry out certain Authority functions. Internal Audit activity will encompass services provided by such service providers and the internal audit plan will reflect the scope of internal audit responsibility.
REPORTING AND MONITORING:

A written report will be prepared and issued by the Director of Vice President - 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 Finance and Audit Committee Board.

The internal audit report may include management’s response (LIPA, the Authority or PSEG Long Island, or other service providers, as the case may be) 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 of Vice President - Audit will periodically report to the Chief Executive Officer and the Finance and Audit Committee 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 senior management and the Finance and Audit Committee 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 of Vice President - Audit will communicate to senior management and the Finance and Audit Committee 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 Vice President - Audit

__________________________________________
Chairman of the Finance & Audit Committee

_______________________________
Chief Executive Officer
LONG ISLAND POWER 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 Long Island Power Authority (“LIPA” or “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 and is overseen by the Finance and Audit Committee of the Board of Trustees. The internal audit function’s responsibilities are defined by this Charter.

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The Institute of Internal Auditors' 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 and the internal audit activity's standard operating procedures manual.

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ORGANIZATION:

The Vice President - Audit will report on functional matters to the Finance and Audit Committee and administratively (i.e. day to day operations) to the Chief Executive Officer.
The Finance and Audit Committee will:

- Approve the internal audit charter.
- Approve the risk based internal audit plan.
- Approve the internal audit budget and resource plan.
- Receive communications from the Vice President - Audit on the internal audit activity’s performance relative to its plan and other matters.
- Review and approve the appointment or removal of the Vice President - Audit.
- Make appropriate inquiries of management and the Vice President - Audit to determine whether there is inappropriate scope or resource limitations.

The Vice President - Audit will communicate and interact directly with the Finance and Audit Committee members, including in executive sessions and between 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.

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The Vice President - Audit will confirm to the Finance and Audit Committee, 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. Assurance engagements include:

- Evaluating risk exposure relating to achievement of the organization’s mission.
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The internal audit activity may perform consulting, advisory and related client service engagements and activities, the nature and scope of which will be agreed with the client, provided that the internal audit activity does not assume management responsibility.

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The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Finance and Audit Committee. The Vice President - 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 senior management and the Finance and Audit Committee through periodic activity reports.

It is recognized that the Authority has contracted with PSEG Long Island and other entities to carry out certain Authority functions. Internal Audit activity will encompass services provided by such service providers and the internal audit plan will reflect the scope of internal audit responsibility.

REPORTING AND MONITORING:

A written report will be prepared and issued by the Vice President - 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 Finance and Audit Committee.
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The Vice President - Audit will communicate to senior management and the Finance and Audit Committee 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 ____________, __________.

________________________________________
Vice President - Audit

________________________________________
Chairman of the Finance & Audit Committee

________________________________________
Chief Executive Officer
Internal Auditing is an independent and objective assurance and consulting function that seeks to support and advance the mission of the Long Island Power 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.

Standard 1110 – Organizational Independence of the International Standards for the Professional Practice of Internal Auditing (“Standards”), 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 Board has established an Audit Relationships Policy (“Policy”). Pursuant to that Policy, the internal auditor function, among other things:

- conduct audits as identified in the annual audit plan, as well as special projects as requested by the Finance and Audit Committee of the Board, acting as a whole, or management;
- internal auditors have unlimited access to all the activities, records, property, and personnel of the Authority and its service providers in the performance of their duties;
- the Finance and Audit Committee annually reviews and provides guidance on the audit plan as well as the internal audit charter, activities, staffing, budget and organizational structure and confirms the independence of the internal auditors;
- the Finance and Audit Committee monitors, in consultation with the Vice President – Audit, the significant findings of internal audit reports and the status of the implementation of management’s action plans in response to such audit findings;
- the Finance and Audit Committee meets at least twice per year with the Vice President – Audit independent of other Authority staff; and
- the Vice President - Audit reports on the above functional matters to the Board and administratively (i.e. day-to-day operations) to the Chief Executive Officer.

Therefore, on this 23th day of January 2019, Kathleen H. Mitterway, LIPA Vice President - Audit, acknowledges and confirms to the Finance and Audit Committee that the internal audit activity is operating independently of management.