

May 18, 2022

TO: The Trustees of the Finance & Audit Committee

FROM: Billy Raley, LIPA Senior Vice President of Transmission and Distribution
Interim Chief Audit Executive

SUBJECT: Annual Internal Audit Activity Independence and Code of Ethics Confirmation

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”). It assists the LIPA 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 confirm to the Board, at least annually, the organizational independence of the internal audit activity.

Standard 2060 – Reporting to Senior Management and the Board - The Chief Audit Executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards.

The Board has established an Audit Relationships Policy (“Policy”). Pursuant to that Policy, the LIPA's internal auditors provide independent, objective assurance and consulting services to the Board and management designed to improve the organization's operations, risk management, control, and governance processes.

- The internal auditors shall conduct audits as identified in the annual audit plan as well as special projects requested by the Finance and Audit Committee, or management.
- The annual audit plan will include audits of LIPA and its service providers, and the internal auditors shall have unlimited access to all activities, records, property, and personnel of LIPA and its service providers in the performance of their duties.
- The Finance and Audit Committee will annually review and provide guidance on the audit plan as well as the charter, activities, staffing, budget, and organizational structure of the Internal Audit Department and will confirm the independence of the internal auditors. The Interim Chief Audit Executive shall administratively report to the Chief Executive Officer.
- The Finance & Audit Committee will review and approve the appointment or removal of the chief audit executive / Director of Audit Services.
- The Finance and Audit Committee will monitor, in consultation with the Interim Chief Audit Executive 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 will meet at least twice per year with the Interim Chief Audit Executive independent of other LIPA staff and will report any significant internal audit findings to the Board in a timely manner

Therefore, on this 18th day of May 2022, Billy Raley, Interim Chief Audit Executive, acknowledges and confirms to the Finance and Audit Committee that the internal audit activity is operating independently of management and conforms with the Code of Ethics and the Standards.

FOR CONSIDERATION

May 18, 2022

TO: The Finance and Audit Committee of the Board of Trustees

FROM: Thomas Falcone

SUBJECT: Recommendation to Approve Amendments to the Board Policy on Audit Relationships

Requested Action

The Finance and Audit Committee (the “Committee”) of the Board of Trustees (the “Board”) of the Long Island Power Authority (“LIPA”) is requested to adopt a resolution recommending approval of an amended Board Policy on Audit Relationships, as further described below.

Board Policy on Audit Relationships

The Finance and Audit Committee of LIPA’s Board of Trustees, in its Charter, was delegated the responsibility of reviewing LIPA’s policies regarding Audit Relationships.

The Board Policy on Audit Relationships defines the expectations of the Board regarding the existing authority granted to the Finance and Audit Committee for:

- Selecting an independent certified public accounting firm to conduct annual audits of LIPA.
- The annual review of the audit plan as well as the Charter, activities, staffing, budget, and organizational structure of Internal Audit, and confirming the independence of the internal auditors.
- Monitoring, in consultation with the –Interim Chief Audit Executive, the significant findings of internal audit reports and the status of the implementation of management’s action plans in response to such audit findings.
- Setting forth the procedures for the Board of Trustee’s receipt, review and implementation of any recommendations in a Management and Operations Audit conducted by the New York State Department of Public Service (“DPS”).

Proposed Changes to Board Policy

The proposed change to the Board Policy includes the change in reporting relationship. The Chief Audit Executive reports administratively to the Senior Vice President of Transmission and Distribution. The proposed changes to the Policy are more specifically set forth in **Exhibit “B”**.

Recommendation

Based upon the foregoing, I recommend the approval of the adoption of the resolution in the form attached hereto as **Exhibit “A”**.

Attachments

Exhibit “A” Resolution

Exhibit “B” Board Policy on Audit Relationships (redline)

Exhibit “C” Board Policy on Audit Relationships (clean)

RESOLUTION RECOMMENDING APPROVAL OF AMENDMENTS TO THE LONG ISLAND POWER AUTHORITY BOARD POLICY ON AUDIT RELATIONSHIPS

WHEREAS, the Board of Trustees of Long Island Power Authority (“LIPA”) oversees the management of the Authority, the contractual relationship with LIPA’s Service Provider, and fulfillment of LIPA’s mission; and

WHEREAS, as stewards of LIPA, the Trustees are responsible for setting LIPA’s audit relationship policy and overseeing its fulfillment; and

WHEREAS, the Finance & Audit Committee of LIPA’s Board of Trustees, in its Charter, was delegated the responsibility of reviewing LIPA’s policies regarding Audit Relationships;

WHEREAS, in LIPA’s By-Laws, LIPA’s Board of Trustees delegated certain responsibilities to the Chief Executive Officer for managing and directing the staff of LIPA; and

WHEREAS, policies addressing audit relationships have been recommended by the Finance & Audit Committee for adoption by the Board.

NOW, THEREFORE, BE IT IS RESOLVED, that the Finance and Audit Committee hereby recommends approval and adoption of the amended Policy on Audit Relationships, in accordance with the accompanying memorandum; and

BE IT FURTHER RESOLVED, that the Policy on Audit Relationships be subject to annual review and evaluation by the Finance & Audit Committee in accordance with the accompanying memorandum.

Dated: May 18, 2022



Board Policy:	Audit Relationship
Policy Type:	Governance Process
Monitored by:	Finance and Audit Committee
Board Resolution:	#1355, approved March 29, 2017 #1410, amended March 29, 2018 #1420, amended July 25, 2018 #1462, amended January 23, 2019 #1528, amended, May 20, 2020 [#1632], amended, May 19, 2021 [#xxxx], amended, May 18, 2022

Board Policy on Audit Relationships

The Board of Trustees (Board) shall do the following regarding the independent external auditor, the internal auditors of LIPA, and the management and operations audits conducted by the Department of Public Service.

Independent External Auditor

- The Board, on the recommendation of the Finance and Audit Committee, will select an independent certified public accounting firm to conduct annual audits of LIPA. The Board will make the choice of the external auditor based on advice from staff and others as it deems necessary to exercise prudent, independent judgement.
- The Finance and Audit Committee will annually review the audit services to be performed by such independent auditor, including the scope, fees and terms thereof and all relationships between the auditor and LIPA.
- The Finance and Audit Committee will meet each year with the external auditors at the commencement of the annual audit and again after the audit is complete. The meeting at the completion of the audit will be independent of staff. The Committee members will report any significant findings to the Board in a timely manner.

Internal Auditors

LIPA's internal auditors provide independent, objective assurance and consulting services to the Board and management designed to improve the organization's operations, risk management, control, and governance processes.

- The internal audit activity will adhere 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 internal auditors shall conduct audits as identified in the annual audit plan as well as special projects requested by the Finance and Audit Committee, or management.
- The annual audit plan will include audits of LIPA and its service providers, and the

internal auditors shall have unlimited access to all activities, records, property, and personnel of LIPA and its service providers in the performance of their duties.

- The Finance and Audit Committee will annually review and provide guidance on the audit plan as well as the charter, activities, staffing, budget, and organizational structure of the Internal Audit Department and will confirm the independence of the internal auditors. The individual serving as chief audit executive shall administratively report to the Senior Vice President of Transmission and Distribution.
- The Finance & Audit Committee will review and approve the appointment or removal of the individual serving as chief audit executive. The CEO may appoint an individual to serve as chief audit executive on an interim basis.
- The Finance and Audit Committee will monitor, in consultation with the individual serving as chief audit executive, 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 will meet at least twice per year with the individual serving as chief audit executive independent of other LIPA staff and will report any significant internal audit findings to the Board in a timely manner.

Management and Operations Audits

The LIPA Reform Act (the "Act") directs the Department of Public Service to conduct comprehensive management and operations audits of LIPA and PSEG Long Island at least once every five years.

- Upon completion of an audit, the Department of Public Service must deliver to the LIPA Board a report of its findings together with any recommendations for improvements. Absent a preliminary finding of inconsistency made by the Board, under the procedures set forth in the Act, the audit report's recommendations become final 30 days after receipt by the Board.
- Ninety days after the audit report's finalization, LIPA's Chief Executive Officer, in coordination with PSEG Long Island, shall submit an implementation plan to the Oversight and Clean Energy Committee of the Board to effectuate the audit's recommendations.
- LIPA's Chief Executive Officer, together with PSEG Long Island, will submit an annual report to the Oversight and Clean Energy Committee of the Board and the Department of Public Service on the status of the implementation plan. That annual report will include a summary of the activities completed to date and any revisions to completion targets. The annual report will be reviewed by Internal Audit for completeness prior to submission. The Oversight and Clean Energy Committee will report significant matters to the Board.
- Internal Audit will review the effectiveness of the implementation plan in addressing each audit recommendation after the completion of the plan for that recommendation.

The Finance and Audit Committee will annually review the provisions of the Board Policy on Audit Relationships.



Board Policy:	Audit Relationship
Policy Type:	Governance Process
Monitored by:	Finance and Audit Committee
Board Resolution:	#1355, approved March 29, 2017 #1410, amended March 29, 2018 #1420, amended July 25, 2018 #1462, amended January 23, 2019 #1528, amended, May 20, 2020 [#1632], amended, May 19, 2021 [#xxxx], amended, May 18, 2022

Board Policy on Audit Relationships

The Board of Trustees (Board) shall do the following regarding the independent external auditor, the internal auditors of LIPA, and the management and operations audits conducted by the Department of Public Service.

Independent External Auditor

- The Board, on the recommendation of the Finance and Audit Committee, will select an independent certified public accounting firm to conduct annual audits of LIPA. The Board will make the choice of the external auditor based on advice from staff and others as it deems necessary to exercise prudent, independent judgement.
- The Finance and Audit Committee will annually review the audit services to be performed by such independent auditor, including the scope, fees and terms thereof and all relationships between the auditor and LIPA.
- The Finance and Audit Committee will meet each year with the external auditors at the commencement of the annual audit and again after the audit is complete. The meeting at the completion of the audit will be independent of staff. The Committee members will report any significant findings to the Board in a timely manner.

Internal Auditors

LIPA's internal auditors provide independent, objective assurance and consulting services to the Board and management designed to improve the organization's operations, risk management, control, and governance processes.

- The internal audit activity will adhere 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 internal auditors shall conduct audits as identified in the annual audit plan as well as special projects requested by the Finance and Audit Committee, or management.
- The annual audit plan will include audits of LIPA and its service providers, and the

internal auditors shall have unlimited access to all activities, records, property, and personnel of LIPA and its service providers in the performance of their duties.

- The Finance and Audit Committee will annually review and provide guidance on the audit plan as well as the charter, activities, staffing, budget, and organizational structure of the Internal Audit Department and will confirm the independence of the internal auditors. The individual serving as chief audit executive shall administratively report to the Senior Vice President of Transmission and Distribution.
- The Finance & Audit Committee will review and approve the appointment or removal of the individual serving as chief audit executive. The CEO may appoint an individual to serve as chief audit executive on an interim basis.
- The Finance and Audit Committee will monitor, in consultation with the individual serving as chief audit executive, 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 will meet at least twice per year with the individual serving as chief audit executive independent of other LIPA staff and will report any significant internal audit findings to the Board in a timely manner.

Management and Operations Audits

The LIPA Reform Act (the "Act") directs the Department of Public Service to conduct comprehensive management and operations audits of LIPA and PSEG Long Island at least once every five years.

- Upon completion of an audit, the Department of Public Service must deliver to the LIPA Board a report of its findings together with any recommendations for improvements. Absent a preliminary finding of inconsistency made by the Board, under the procedures set forth in the Act, the audit report's recommendations become final 30 days after receipt by the Board.
- Ninety days after the audit report's finalization, LIPA's Chief Executive Officer, in coordination with PSEG Long Island, shall submit an implementation plan to the Oversight and Clean Energy Committee of the Board to effectuate the audit's recommendations.
- LIPA's Chief Executive Officer, together with PSEG Long Island, will submit an annual report to the Oversight and Clean Energy Committee of the Board and the Department of Public Service on the status of the implementation plan. That annual report will include a summary of the activities completed to date and any revisions to completion targets. The annual report will be reviewed by Internal Audit for completeness prior to submission. The Oversight and Clean Energy Committee will report significant matters to the Board.
- Internal Audit will review the effectiveness of the implementation plan in addressing each audit recommendation after the completion of the plan for that recommendation.

The Finance and Audit Committee will annually review the provisions of the Board Policy on Audit Relationships.

FOR CONSIDERATION

May 18, 2022

TO: The Finance and Audit Committee

FROM: Billy Raley

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 “LIPA”) Internal Audit Charter (the “Charter”) in the form attached hereto.

Background

The Charter, which was most recently adopted by the Committee on May 19, 2021, 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. Suggested revisions:

- update the reference that the individual serving as chief audit executive reports administratively to the Senior Vice President of Transmission and Distribution

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 May 19, 2021, 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.

**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"). It assists LIPA 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.

PROFESSIONALISM:

The internal audit activity will adhere 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' Recommended and Supplemental Guidance will also be adhered to as applicable to guide operations.

In addition, the internal audit activity will adhere to LIPA'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 LIPA 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 individual serving as chief audit executive will report on functional matters to the Finance and Audit Committee and administratively (i.e. day to day operations) to the ~~Chief Administrative Officer~~ Senior Vice President of Transmission and Distribution.

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 –individual serving as chief audit executive on the internal audit activity’s performance relative to its plan and other matters.
- Review and approve the appointment or removal of the individual serving as chief audit executive.
- Delegate to the CEO the power to appoint an individual to serve as chief audit executive on an interim basis.
- Make appropriate inquiries of management and the individual serving as chief audit executive to determine whether there is inappropriate scope or resource limitations.

The individual serving as chief audit executive 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.

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 individual serving as chief audit executive 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. Consulting engagements include, but are not limited to:

- Participation in significant system implementation efforts.
- Specific management requests to promote efficiency and effectiveness of an operation or processes.

INTERNAL AUDIT PLAN:

At least annually, the individual serving as chief audit executive will submit to senior management and the Finance and Audit Committee 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 individual serving as chief audit executive will communicate the impact of resource limitations and significant interim changes to the Chief Executive Officer and the Finance and Audit Committee.

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 individual serving as chief audit executive 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 LIPA has contracted with PSEG Long Island and other entities to carry out certain 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 individual serving as chief audit executive 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.

The internal audit report may include management's response (LIPA, 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 individual serving as chief audit executive will periodically report to the Chief Executive Officer and the Finance and Audit Committee 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.

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 individual serving as chief audit executive 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 _____, _____.

-Chief Audit Executive

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"). It assists LIPA 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.

PROFESSIONALISM:

The internal audit activity will adhere 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 internal audit activity's performance.

The Institute of Internal Auditors' Recommended and Supplemental Guidance will also be adhered to as applicable to guide operations.

In addition, the internal audit activity will adhere to LIPA'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 LIPA 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 individual serving as chief audit executive will report on functional matters to the Finance and Audit Committee and administratively (i.e. day to day operations) to the Senior Vice President of Transmission and Distribution.

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 –individual serving as chief audit executive on the internal audit activity’s performance relative to its plan and other matters.
- Review and approve the appointment or removal of the individual serving as chief audit executive.
- Delegate to the CEO the power to appoint an individual to serve as chief audit executive on an interim basis.
- Make appropriate inquiries of management and the individual serving as chief audit executive to determine whether there is inappropriate scope or resource limitations.

The individual serving as chief audit executive 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.

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 individual serving as chief audit executive 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. Consulting engagements include, but are not limited to:

- Participation in significant system implementation efforts.
- Specific management requests to promote efficiency and effectiveness of an operation or processes.

INTERNAL AUDIT PLAN:

At least annually, the individual serving as chief audit executive will submit to senior management and the Finance and Audit Committee 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 individual serving as chief audit executive will communicate the impact of resource limitations and significant interim changes to the Chief Executive Officer and the Finance and Audit Committee.

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 individual serving as chief audit executive 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 LIPA has contracted with PSEG Long Island and other entities to carry out certain 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 individual serving as chief audit executive 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.

The internal audit report may include management's response (LIPA, 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 individual serving as chief audit executive will periodically report to the Chief Executive Officer and the Finance and Audit Committee 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.

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 individual serving as chief audit executive 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 _____, _____.

Chief Audit Executive

Chairman of the Finance & Audit Committee

Chief Executive Officer