



Item 5.2: Review and Approval of Internal Audit Department Charter

Bill Wullenjohn

Director of Internal Audit

Finance & Audit Committee Meeting

ERCOT Public

February 9, 2015

Review and Approval of Internal Audit Department Charter

Annual Review of the Internal Audit Department Charter

Internal Audit is not recommending any changes to the current charter. The current charter was approved by the Finance and Audit Committee on February 10, 2014, and is attached.

(Proposed Charter is included in this presentation.)



Internal Audit Department Charter

MISSION AND SCOPE OF WORK

The mission of the Internal Audit Department is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of the Internal Audit Department is to determine whether the organization's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- The systems of internal control established to ensure compliance with ERCOT's policies, plans and procedures, laws, and regulations are adequate and functioning as intended.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization's control process.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed properly.

Opportunities for improving management control, economy, and the organization's image may be identified during audits. They will be communicated to the appropriate level of management.

ACCOUNTABILITY

The Director of Internal Audit is the Chief Audit Executive at ERCOT. The Chief Audit Executive (CAE), in the discharge of his/her duties, shall be accountable to management and the Finance and Audit Committee of the Board of Directors to:

- Provide annually an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Provide information periodically on the status and results of the annual audit plan, the sufficiency of department resources, and a regular report on Internal Audit personnel.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

INDEPENDENCE

To provide for the independence of the Internal Audit Department, its personnel report to the CAE, who reports administratively to the Chief Executive Officer and functionally to the Finance and Audit Committee of the Board of Directors. The Finance and Audit Committee demonstrates this functional reporting relationship by:

- Approving the Internal Audit Department Charter;
- Approving the risk-based, Annual Internal Audit Plan;
- Approving the Internal Audit Department's budget and resource plan;
- Receiving communications from the CAE on the Internal Audit Department's performance relative to its plan and other matters;
- Approving decisions regarding the appointment and removal of the CAE;
- Concurring with the annual compensation and salary adjustment of the CAE; and
- Making appropriate inquiries of management and the CAE to determine whether there are inappropriate scope or resource limitations.

The CAE enhances independence and meets the Institute of Internal Auditors' *Standard* requirement of communication and direct interaction with the Board through periodic meetings with the Finance and Audit Committee, including private sessions. In addition, the CAE confirms with the Finance and Audit Committee the organizational independence of the Internal Audit Department on an annual basis.

RESPONSIBILITY

The CAE and staff of the Internal Audit Department have responsibility to:

- Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Finance and Audit Committee for review and approval.
- Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the Finance and Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.

- Establish a quality assurance program by which the CAE assures the operation of internal auditing activities.
- Perform consulting services, beyond Internal Audit's assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services. When performing these consulting services, the Internal Audit Department will maintain and monitor its independence and objectivity.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the Finance and Audit Committee and management summarizing results of audit activities.
- Keep the Finance and Audit Committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the Finance and Audit Committee.
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the Finance and Audit Committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

AUTHORITY

The CAE and staff of the Internal Audit Department are authorized to:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the Finance and Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization.
- Provide assurance services to external parties (e.g., the PUCT per Protocol 1.4.3.1.(2)).

The CAE and staff of the Internal Audit Department are not authorized to:

- Perform any operational duties for the organization or its affiliates.
- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any organization employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.
- Implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that would normally be audited.

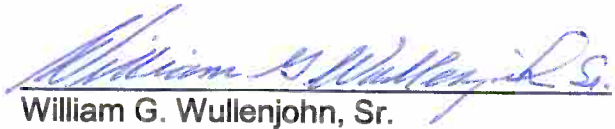
STANDARDS OF AUDIT PRACTICE

The Internal Audit Department will govern itself by adherence to the Institute of Internal Auditors' mandatory guidance including the definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*. This mandatory guidance constitutes statements of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Internal Audit Department's performance and constitute an addendum to this charter.

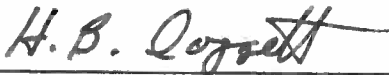
The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the Internal Audit Department will adhere to ERCOT's policies and procedures and Internal Audit's procedures guide.

PERIODIC ASSESSMENT

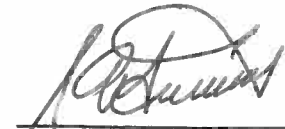
The Chief Audit Executive should at least annually assess whether the mission, responsibility, and authority, as defined in this charter, continue to be adequate to enable the Internal Audit Department to accomplish its objectives. The result of this annual assessment should be communicated to senior management and the Finance and Audit Committee.



William G. Wullenjohn, Sr.
Director, Internal Audit Department
Chief Audit Executive



Trip Doggett
President and Chief Executive Officer



Jorge Bermudez
Finance and Audit Committee Chair

February 10, 2014
Dated



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