



**MEMORANDUM**

To: Finance and Governance (F&A) Committee  
 From: Terry Bulger, F&A Committee Chairman  
 Date: August 5, 2019  
 Re: Item 5 – Review of Annual Committee Self-Evaluation Process

**F&A Committee Charter Requirement for Annual Self-Evaluation**

The F&A Committee Charter provides:

The Committee shall undertake an annual evaluation assessing its performance and, in light of this, consider changes in its membership, Charter or procedures. The Committee shall report to the Board the results of its evaluation, including recommended Charter, membership and other changes, if any.

**Proposed Self-Evaluation Questionnaire Provided for Review and Comment**

Attached is the proposed 2019 Annual Committee Self-Evaluation questionnaire for your review and comment.

The Committee is being provided the proposed questionnaire to allow for time to consider modifications as follows:

Committee Meeting	Task
August 2019	<ul style="list-style-type: none"> <li>Review proposed questionnaire for modifications.</li> </ul>
October 2019	<ul style="list-style-type: none"> <li>Requested modifications incorporated into questionnaire for discussion.</li> <li>Questionnaire issued to Committee for completion shortly after Committee meeting.</li> </ul>
December 2019	<ul style="list-style-type: none"> <li>Questionnaire results discussed.</li> </ul>

With this schedule, the Committee would be on track to have the results discussed at the December 2019 Committee meeting.

ERCOT Finance & Audit Committee Annual Self-Evaluation (2018 <sup>9</sup> )		Yes	No	Not Sure	Comments
1.	Does the committee have the appropriate number of members? The committee should not be so large that: <ul style="list-style-type: none"> <li>▪ its ability to operate efficiently and effectively is reduced</li> <li>▪ members' ability to raise issues is hampered</li> <li>▪ it is difficult to get a quorum when a time-sensitive issue arises</li> </ul>				
2.	Committee members demonstrate their objectivity during meetings through behaviors such as driving agendas, rigorous probing of issues, consulting with other parties, and hiring experts, as necessary.				
3.	Differences of opinion on issues are resolved to the satisfaction of the committee.				
4.	Committee members challenge the Chair as appropriate.				
5.	The committee charter is used as a document to guide the committee in its efforts, and to help guide the committee's agenda.				
6.	Committee members are financially literate, and the committee has determined that it has adequate financial expertise in accordance with its charter.				
7.	Committee members participate in some form of continuing education to stay abreast of changes in the financial accounting and reporting, regulatory and ethics areas.				
8.	The committee understands how the organization's performance compares with its budgetary targets and its peers, and how management plans to address any unfavorable variances.				
9.	The committee discusses the initial selection of or changes in significant accounting policies used in developing the financial statements, the reason for and impact of any changes in policy, and reasons alternative treatments were not adopted.				

ERCOT Finance & Audit Committee Annual Self-Evaluation (2018 <sup>9</sup> )		Yes	No	Not Sure	Comments
10.	The committee discusses significant, complex, or unusual transactions with management and the external auditors.				
11.	The committee understands which areas represent high risk for material misstatement of the financial statements, and discusses assumptions and approaches used with management and the external auditors.				
12.	The committee forms its own view of the risk of material misstatement due to fraud, discusses with management and the external auditors their views on the risk of material misstatement due to fraud, and is comfortable that any differences in views can be reconciled.				
13.	The committee fully understands significant changes in financial statements from prior years and from budget, and is provided with sufficient, reliable evidence to support variances.				
14.	The committee commits sufficient time to review, discuss, and consider the financial statements.				
15.	The committee makes optimum use of the meeting time allotted.				
16.	The committee meets with financial management to discuss results <u>when</u> reported <del>before finalization</del> .				
17.	Committee members have a clear understanding of ERCOT's debt structure and cash management practices.				
18.	Committee members receive sufficient details regarding long-term financial planning.				
19.	The committee makes appropriate use of the Credit Work Group and other workgroups or task forces to investigate issues defined by the committee.				
20.	The committee engages outside experts as appropriate.				
<u>21.</u>	<u>The committee appropriately weighs the interests of the Public Utility Commission of Texas, market participants, and legislature when appropriate in making decisions.</u>				

ERCOT Finance & Audit Committee Annual Self-Evaluation (2018 <sup>9</sup> )		Yes	No	Not Sure	Comments
<a href="#">21-22</a>	The organization's financial reporting processes are stronger as a result of management's interactions with the committee.				
<a href="#">22-23</a>	The committee understands and agrees with the board on which categories of internal control it oversees. Categories include: <ul style="list-style-type: none"> <li>▪ Integrity of financial reporting</li> <li>▪ Compliance with laws and regulations</li> <li>▪ Operational efficiency and effectiveness</li> </ul>				
<a href="#">23-24</a>	The committee and the board concur with any changes to the committee's internal control oversight mandate.				
<a href="#">24-25</a>	The committee understands the current high-risk areas in the categories of controls it oversees, as well as how management addresses those areas.				
<a href="#">25-26</a>	The committee is cognizant of the line between oversight and management, and endeavors to respect that line.				
<a href="#">26-27</a>	The committee conducts executive sessions in a manner that offers a "safe haven" to the individual, while at the same time asking tough and necessary questions, evaluating the answers, and pursuing issues that might arise to a satisfactory resolution.				
<a href="#">27-28</a>	The committee does its part to ensure the objectivity of the internal audit team.				
<a href="#">28-29</a>	The committee provides constructive feedback to the chief audit executive at least annually.				
<a href="#">29-30</a>	The committee receives sufficient detail regarding material issues and complaints brought forward which relate to the company's fraud, ethics or accounting practices.				

ERCOT Finance & Audit Committee Annual Self-Evaluation (2018 <del>9</del> )		Yes	No	Not Sure	Comments
<a href="#">30-31</a>	The committee has developed the scope of work to be done by the independent auditor and by the internal audit department based upon a reasoned review of the risks or exposures to the company.				
<a href="#">31-32</a>	The committee communicates at an appropriate level of detail when informing the Board of its actions.				
<a href="#">32-33</a>	Committee members receive clear and succinct agendas and supporting written material sufficiently prior to scheduled meetings.				
<a href="#">33-34</a>	Committee members have adequate opportunities to discuss issues and ask questions.				
<a href="#">34-35</a>	The frequency of committee meetings is appropriate for the responsibilities assigned to the committee.				
<a href="#">35-36</a>	Meeting facilities and presentation materials are effective for the conduct of committee activities.				
<a href="#">36-37</a>	The committee is efficient and value adding.				
<a href="#">37-38</a>	Please add additional comments, questions and suggestions here.				