



Item 3: Results of Examination and Independent Report from the Service Auditor

Grayson Taylor, Senior Manager
Schellman & Company, LLC

Finance & Audit Committee Meeting
ERCOT Public
December 7, 2020

Discussion Topics

1. ERCOT Examination Overview
2. Audit Approach
3. Auditor Independence



SOC 1 Examination Overview

Overview

- SOC 1 Examinations, under the Statement on Standards for Attestation Engagements (SSAE) No. 18, are utilized to report on controls at service organizations that are relevant to user entities' internal control over financial reporting.
- The 2020 SOC 1 examination examined ERCOT Settlement Operations and the supporting IT applications and systems for the period October 1, 2019, to September 30, 2020.
- 19 Control Objectives were within the scope of the 2020 examination.
- Testing was conducted in two phases: (Q2) April-May 2020 and (Q3) September 2020



SOC 1 Examination Overview

Results

- The 2020 SOC 1 Examination Report for Settlement Operations is ready for issuance pending Board approval.
- The report will be issued with an unmodified (“clean”) opinion.
- No testing exceptions were identified during the 2020 examination.



Audit Approach

Audit Team

- The audit team for the ERCOT SOC 1 Engagement consists of a primary and secondary principal, senior manager, and audit manager and experienced senior auditors.
- The audit report is subjected to a quality assurance process, and is reviewed by the senior auditor, audit manager, and two principals prior to release to ERCOT for review and approval. Two additional reviews are performed by operations personnel during final report preparation procedures.

Sampling

- Testing is performed in two phases (Q2 and Q3) and the sampling methodology covers the full 12-month review period
- Our sampling approach is based on the AICPA's AU-C Section 530



Auditor Independence

- Professional standards require that CPA firms maintain independence in fact and appearance from their clients.
- To meet this requirement, we have implemented the following policies and procedures:
 - Implementation of Quality Control Procedures
 - Education on Independence
 - Elimination of all consulting services
 - Prohibition of any direct or materially indirect financial interest in clients by employees or their close relatives
 - Annual independence verification



Our Remote Audit Approach

In Response to the COVID-19 Pandemic

- In the midst of the COVID-19 pandemic our first priority is the health and safety of our teams and our clients. However, our commitment to deliver quality and consistent services is unchanged, whether they be performed onsite or remotely, should they occur under normal conditions or during these challenging times.
- Our audit reproach for the 2020 Type 2 SOC 1 examination was modified in order to accommodate both the needs of ERCOT and the travel restrictions put in place by Schellman & Company in response to the COVID-19 pandemic.
- Despite the modifications to the execution of the examination, all procedures were performed in accordance with SOC 1 examination and AICPA audit standards and guidelines.



Our Remote Audit Approach

Modifications to Examination Execution

- In lieu of in-person, onsite meetings with subject matter experts and control owners, meetings were held using commercial meeting software, both video and audio, in order to conduct interviews.
- A request and document management system was used in order to manage evidence requests and artifacts. This system, AuditSource, was developed and is solely owned by Schellman. AuditSource was used in prior examinations.
- Remote video walk throughs of the in-scope facilities were performed for the purposes of completing observation testing of the physical and environmental controls of the secure facilities. This video observation was in addition to inspection testing of relevant artifacts.

