



Item 4.2: Report on December 31, 2020 Financial Audit

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Urgent Finance & Audit Committee and Board of
Directors Meeting

ERCOT Public

July 23, 2021



Electric Reliability Council of Texas, Inc. Report on December 31, 2020 Financial Audit

July 23, 2021

Presented by:

Jeff Gendreau CPA, Partner

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Audit presentation topics

- Audit status
- Internal control communication
- Auditor Communication with Those Charged with Governance
- Questions



Audit Status

- We are substantially complete with our audit of the financial statements of ERCOT and expect to issue an unmodified report on the financial statements on or about July 23, 2021, pending the receipt of a signed management letter of representation and responses to letters of inquiry from legal counsel.
- Audit was conducted remotely with no difficulties.
- Management was cooperative and available.
- Revised audit timeline was maintained and there was regular communication between management and auditors leading up to and throughout the period of the audit engagement.



Audit overview

- Audit performed in accordance with Generally Accepted Auditing Standards
- Audit is based on assessment of risk in key financial statement areas. Key areas of focus included:
 - Unrestricted and restricted cash and investments
 - Accounts payable
 - Payroll
 - Accounts receivable/revenue recognition
 - Market settlement liabilities
 - Security deposits
 - Notes payable
 - Property, equipment and systems under development
 - Evaluation of controls over cash disbursements, payroll, settlements and information technology
 - Analytical review of statements of financial position and statements of activities and net assets
 - Financial reporting
 - Subsequent events



Audit overview

- Audit objective – obtain reasonable assurance that the financial statements are free from material misstatement.
- We expect to issue an unmodified report (clean opinion)



Internal control communication

AU-C Section 265

*Communicating Internal Control Related Matters
Identified in an Audit*

Material weaknesses noted in ERCOT's internal
control:

– None noted

Auditor Communication with Those Charged with Governance

Significant Findings from the Audit

Area to Be Communicated	Auditor's Response
<p style="text-align: center;">Auditor's View on Qualitative Aspects of Significant Accounting Practices</p> <ul style="list-style-type: none"> – Significant accounting policies – Sensitive estimates – Financial statement disclosures 	<ul style="list-style-type: none"> – ERCOT's significant accounting policies are discussed in Note 2. ASC 2016-02 – <i>Leases (Topic 842)</i> was early adopted by ERCOT in 2020 using the optional transition method. – Management's methodologies to record estimates appear to be consistent in their application and appear to make use of reasonable assumptions. – Disclosures are neutral, consistent, and clear.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audit (cont.)

Area to Be Communicated	Auditor's Response
Significant Difficulties Encountered in Performing the Audit	> We encountered no difficulties performing our audit.
Fraud	> We did not identify any known suspected instances of fraud during our audit.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audit (cont.)

Area to Be Communicated	Auditor's Response
<p style="text-align: center;">Uncorrected Misstatements and Corrected Misstatements</p>	<ul style="list-style-type: none"> <li data-bbox="923 582 1831 982">> Professional standards require to accumulate all known and misstatements identified during the audit, other than those that trivial, and communicate them the appropriate level of management. <li data-bbox="923 1025 1831 1196">> Uncorrected misstatements to immaterial passed audit adjustments. <li data-bbox="923 1239 1831 1353">> There were no audit identified by us.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audit

Area to be Communicated	Auditor's Response
<p>Disagreements with Management</p>	<p>> Professional standards define a disagreement with management as a matter, whether or not resolved to satisfaction, concerning a financial accounting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements were encountered during the course of the audit.</p>
<p>Other Findings or Issues</p>	<p>> As a result of the legislative, regulatory, pending or threatened litigation and other events surrounding Winter Storm Uri, we revised our risk assessment to expand our testing in certain audit areas, and additionally identified and performed procedures to address risks relative to the completeness and of the Organization's subsequent events disclosures management's evaluation of going concern, engaging in various consultations about such matters with our Firm's Professional Practice Group.</p>

Auditor Communication with Those Charged with Governance

Significant Findings from the Audit (cont.)

Area to Be Communicated	Auditor's Response
<p style="text-align: center;">Management Representations</p>	<p>> We have requested certain representations from management that are in the management representation letter.</p>
<p style="text-align: center;">Going Concern</p>	<p>> Management's evaluation of going concern did not identify any conditions or events that give rise to substantial doubt about the ability of the Organization to continue as a going concern.</p>

Auditor Communication with Those Charged with Governance

Significant Findings from the Audit

Area to Be Communicated	Auditor's Response
Management's Consultations with Accountants	<ul style="list-style-type: none">– Professional standards require a consulting accountant to discuss any consultations about auditing or the application of accounting principles the current auditor to determine that consultant has all the relevant facts. To the best of our knowledge and belief, management has not consulted with obtained opinions from other independent accountants on auditing and or the application of accounting principles during the past year.

Auditor Communication with Those Charged with Governance

Significant Findings from the Audit

Area to Be	Auditor's Response
Auditor Independence	– We are not aware of any relationships between Baker US, LLP and ERCOT that, in our professional judgment, may reasonably be thought to bear our independence.



Audit summary

Thank You!

We appreciate the work performed by ERCOT's accounting staff, management, and Internal Audit staff in preparing for and assisting in the audit!

We would be happy to answer any questions regarding the audit.