

# *Presentation to the ISO Board of Governors*

General Session  
November 1-2, 2010

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# *Agenda*

Our Audit Objectives

Timing

Key Audit Areas

Audit Strategy

Other Audit Related Services

Closing

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## ***Our Audit Objectives***

Our audit of the ISO's 2010 financial statements is directed towards delivering assurance at three levels:

- Independent opinions and reports that add credibility to financial statements released by the ISO
  - Annual financial statements (general purpose)
  - FERC Form 1 financial statements
- Assistance to the audit committee in discharging their corporate governance and compliance responsibilities
- Observations and advice on financial reporting and business issues

Our engagement letter sets out the terms of our appointment as auditors of the ISO

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# *Timing*

## **Activity**

Meeting with Audit Committee

Audit planning and interim testing

Audit fieldwork

Issuance of audit reports

Report to the Audit Committee

## **Dates**

November 2010

November 2010 - January 2011

March 2011

April 2011

May 2011

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## ***Key Audit Areas***

Areas requiring significant judgment and analysis by ISO management and PwC include:

- New headquarters
  - Accounting for construction costs (capitalized vs. expensed)
  - Treatment of interest expenditures
  - Accounting for power purchase agreement
- Old Headquarters Building
  - Accounting for lease termination/exiting the properties
  - Determination of amount and trigger date of lease liability
  - Accounting for other related occupancy costs

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## *Key Audit Areas*

- Generator noncompliance fines
  - Estimate of net realizable amount of fines to be retained by the ISO (original fines date back to 2000/2001)
  - Accounting for changes in rulings and other recent events
- Contingencies
  - Market disputes in Good Faith Negotiations (GFN) and beyond
  - ISO and related GMC exposures – not market issues
- Other
  - Determination of fair value for hard to value investments
  - Accounting for forfeited LGIP deposits
  - Risk of management override of controls

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# ***Audit Strategy***

- A risk-based audit approach focused on key risks identified and management judgments and estimates
- Includes selective testing of internal controls but not an opinion on controls
- Excludes most financial flows in the market except for cash held on behalf of market participants

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## ***Other Audit Related Services***

- HR related assurances - Executive compensation, Code of Conduct, employee savings plan audit - separate reports issued
- Assistance with accounting, reporting and related issues – feedback on risk management, asset management and internal controls (formal recommendations made annually); management transition assistance; assess new developments (lease, solar power, etc.)
- Knowledge sharing – PwC Quarterly webcasts for ISO management, CFO Direct on-line resource, assistance in staff training, distribution of publications on governance and other emerging topics; ISO/RTO best practices
- Continued focus on independence – All services are clearly within independence guidelines for auditors; strict required QC rotation; other compliance monitoring



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## ***Closing***

- We continue to report to and communicate directly with the Audit Committee / Board of Governors
- We are independent of the ISO and have no relationships with the ISO that would impair our independence
- PwC encourages communication and feedback from the Audit Committee
- Questions?