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California ISO Audit Results for 2010 SAS 70 and Audit Plan for 2011

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Agenda

SAS 70 Background

Results of Audit

Scope of Audit

Audit Plan for 2011

Closing Thoughts

SAS 70 Background

- Purpose of report
 - To report on the ISO's internal controls relating primarily to its market operations and settlements activities
- Expected use of report
 - Assurance to market participants who rely on the ISO's processing the report is required by some market participants and their auditors to comply with Sarbanes-Oxley (404 Attest)
- Report period
 - November 1, 2009 – October 31, 2010

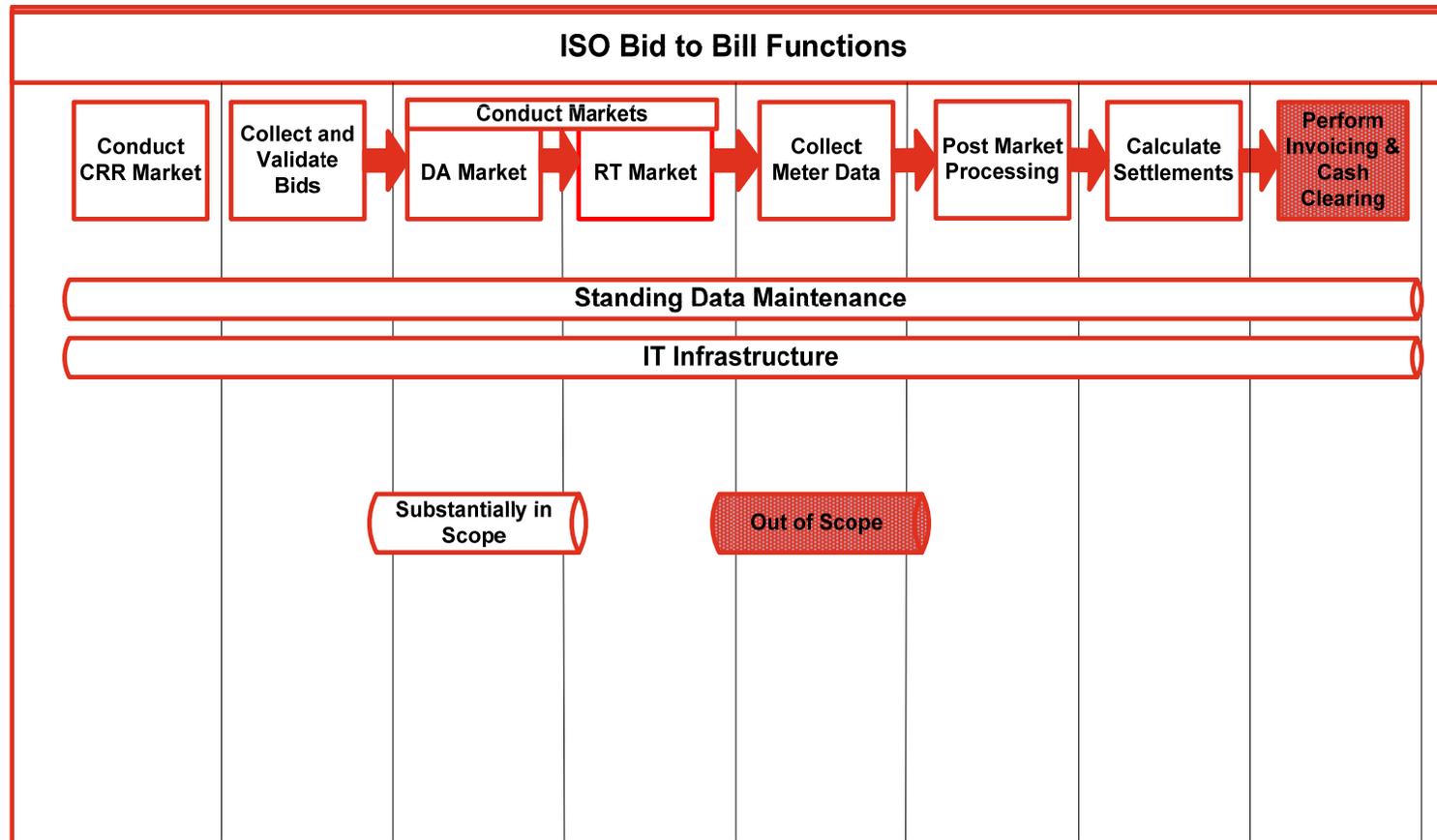
Results of Audit

- PwC opinion and report were issued December 3, 2010
- The opinion is unqualified
 - Controls were suitably designed
 - Controls were operating effectively
- No exceptions identified in our testing
- Observations and recommendations

Scope of Audit

- Scope is similar to SAS 70 type 2 report issued in December 2009
- Processes not included in scope of report
 - Control room and operational judgments and decisions
 - Processes after the settlement statement preparation (such as invoicing and market clearing)
 - Other functions that are transparent to the market

Scope of Audit



Audit Plan for 2011

- The next audit period has already begun – started on November 1, 2010
- Report expected to be issued in December 2011
- New guidance issued and effective for this 2011 audit cycle – Statement on Standards for Attestation Engagements 16 (SSAE 16)
- Similarities and differences between SAS 70 and SSAE 16 – impact on the ISO is not expected to be significant but does require additional ISO effort

Audit Plan for 2011

Similarities	Differences
Scope of controls is focused on controls that would be relevant to a market participants internal control over financial reporting	Management of the ISO to provide a written assertion on the fair presentation, suitability of design, and operating effectiveness (based on ISO assessment)
Description of controls under SAS 70 will be the basis for the description under SSAE 16	Opinion will change – will be modified but generally cover same scope
Restricted use of report (ISO management, market participants, and their auditors)	Suitability of design of controls will be covered for the entire period

Closing thoughts

- Unqualified opinion and no exceptions for 2010 are significant accomplishments for the ISO
- Demonstrated a high level of ownership for the control environment
- ISO has taken steps to prepare for the new standard
- Questions

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