

***California ISO  
Audit Results for 2011  
SSAE 16 & Looking  
Forward for 2012***

December 15, 2011

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# ***Agenda***

**SSAE 16 Background**

**Results of Audit**

**Scope of Audit**

**Looking Forward**

**Closing Thoughts**

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# ***SSAE 16 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 controls related to the ISO's market settlements
  - The report is required by some market participants and their auditors to comply with Sarbanes-Oxley (404 Attest)
- **Report period**
  - November 1, 2010 – October 31, 2011
- **This is the first report issued by the ISO under the new standard, Statement on Standards for Attestation Engagements No. 16 (SSAE 16)**

# ***SSAE 16 vs. SAS 70***

## ***Similarities***

Scope of controls focused on controls that would be relevant to a market participant's internal control over financial reporting

Description of controls under SAS 70 were the basis for the description under SSAE 16

Restricted use of report (ISO management, market participants, and their auditors)

## ***Differences***

Management of the ISO provided a written assertion on the fair presentation, suitability of design, and operating effectiveness (based on ISO assessment)

Opinion changed – was modified but generally covered the same scope

Suitability of design of controls covered the entire period

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## ***Results of Audit***

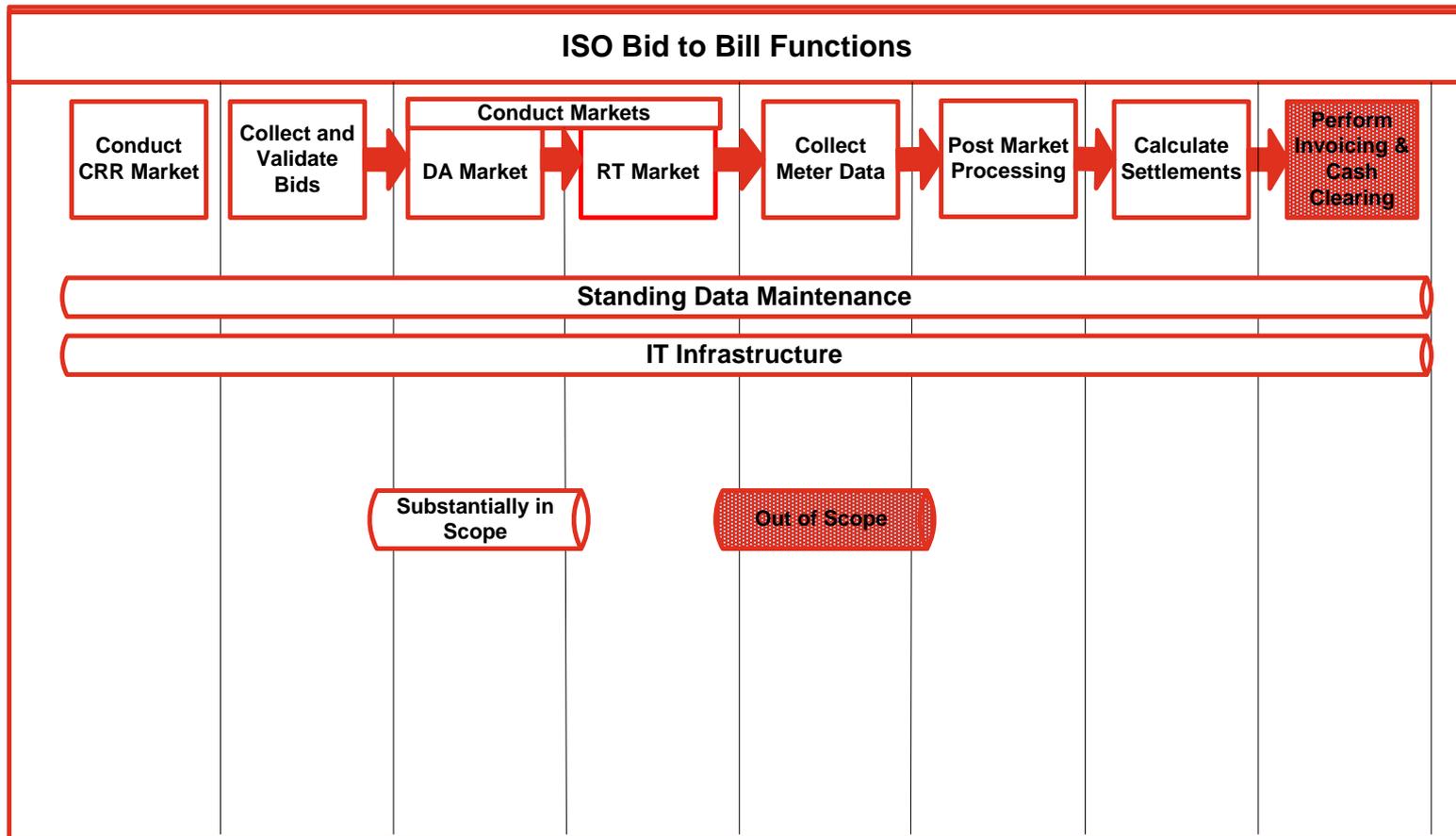
- PwC opinion and report were issued on December 7, 2011
- The opinion is unqualified
  - Controls were suitably designed
  - Controls were operating effectively
- Two exceptions were identified during our testing
  - Disclosed in the results section of the report
  - Determined to not impact the achievement of the control objective, and therefore did not impact the opinion

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## ***Scope of Audit***

- **Scope is similar to prior year market controls report issued in December 2010**
- **Processes not included in the 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**
- **Testing of controls**
  - **Covers 12 main areas (the 12 control objectives)**
  - **Over 60 different control activities tested**
  - **Over 1600 transactions/items tested**

# Scope of Audit



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## ***Looking Forward***

- The next audit period has already begun – started on November 1, 2011
- PwC and ISO staff have begun planning for next year's internal controls audit
  - Continuous process improvement cycle
  - Debrief on 2011 and lessons learned for 2012
  - No significant changes in control environment are anticipated

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## ***Closing Thoughts***

- Unqualified opinion is a significant accomplishment for the ISO
- Demonstrated a high level of ownership for the control environment and ownership of the controls report
- Benefits of the audit include:
  - Direct assurance to market participants/ auditors
  - Internal assurance to ISO management related to market controls
  - Process improvement feedback from PwC
  - Governance coverage by ISO Board
- Questions?

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# ***Thank you***

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