Item 5.1: Review of Requirements for Annual System and Organization Control Audit

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Finance and Audit Committee Meeting

ERCOT Public
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Finance and Audit Committee Request

- **Purpose**

  Review of the 2024 System and Organization Control (SOC) audit requirements, followed by presentation of the SOC audit report

- **Voting Items / Requests**

  Recommend that the Board accept the 2024 System and Organization Control (SOC) audit report

Key Takeaway: Performing the SOC audit of ERCOT's market Settlements operations is required by Protocols Section 1.4.3.1 (1)

SOC Audit Background

- Statement on Standards for Attestation Engagements No. 21 (SSAE 21) is the American Institute of Certified Public Accountants (AICPA) audit standard for reporting on controls at service organizations
- SSAE 21 examinations are performed by an independent auditor who assesses the description of the system, and the suitability of the design and operating effectiveness of controls, at an organization that provides services to user entities when those controls are likely to be relevant to user entities' internal control over financial reporting (ICFR).
- Market Participants rely on ERCOT's market Settlements and Billing processes, as the results impact their financial statements. Therefore, ERCOT's System and Organization Control (SOC) examination report provides critical information to user entity financial executives and their financial auditors.
- The result of a SOC examination is a report, which includes an opinion letter from the auditor, on controls placed in operation at the service organization. ERCOT's SOC 1, Type 2 audit covers the controls surrounding the Settlements and Billing operations that ERCOT performs for Market Participants, for a period of time from October 1 to September 30. Once the report has been accepted by the Board, ERCOT issues a Market Notice that the confidential report is available to Market Participants.

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Scope of SOC audit at ERCOT

ERCOT has identified 22 Objectives and 117 controls related to market Settlements and Billing. The controls correspond to ERCOT's market functions and are deemed relevant to internal control over financial reporting (ICFR) for Market Participants, as well as risks to ERCOT.

The 22 objectives cover two specific topic areas:

- Transaction processing controls
    - Registration/Qualification
    - Network Operations Model
    - ERCOT Market Operations (DAM, RTM and CRR)
    - Data Acquisition, Aggregation and Validation
    - Settlement, Billing, and Financial Transfer
- General IT controls
    - Access controls (Logical & Physical)
    - Program change management and system development
    - Scheduled processing, backup, and recovery

ERCOT employs a third-party audit firm to conduct an examination of the Settlements and Billing processes.