

WECC Internal Controls Evaluation Process

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Introduction

As part of the ERO Enterprise Risk-Based Compliance Oversight Framework,¹ the Western Electricity Coordinating Council (WECC) is implementing the ERO Enterprise Guide for Internal Controls² to review and assess Internal Controls. An effective set of Internal Controls can provide reasonable assurance to WECC that an entity will meet its objective of maintaining compliance with mandatory NERC Reliability Standards and enhance Bulk Power System (BPS) reliability.

What are Internal Controls?

In the context of the Risk-Based Compliance Oversight Framework, Internal Controls are the processes, practices, policies or procedures, system applications and technology tools, and skilled human capital an entity employs to prevent, detect, and correct noncompliance with Reliability Standards and/or address risks associated with the reliable operation of its business.³

More simply put, Internal Controls are the activities that ensure you will meet your objective.

Objective of Internal Controls

Internal Controls are implemented to ensure compliance with NERC Reliability Standards and requirements. Since these Standards and requirements are implemented to ensure reliability and security of the Interconnection, it can be assumed that strong Internal Controls Program will reduce the risk to reliability and security of the Interconnection.

Importance of Internal Controls to ERO Enterprise

To assure reliability and security of the Bulk Power System (BPS), the ERO Enterprise focuses on the following principles identified in the ICE guide for implementation of Internal Controls review. WECC's Internal Controls assessment process is based on the same guiding principles.

- Demonstrate reasonable assurance of a registered entity's ability to mitigate reliability risk
- Inform the risk-based approach for developing registered entity oversight and monitoring
- Focus on repeatability and sustainability to ensure reliability and security rather than administration to assemble and archive evidence

¹ NERC, [ERO Enterprise Guide for Compliance Monitoring](#), October 2016, page 2

² NERC, [ERO Enterprise Guide for Internal Controls](#), Version 2, September 2017

³ ERO Enterprise guide to Internal Controls, page 10

Benefits of Internal Controls Evaluation (ICE) to the Entity

A strong Internal Controls Program allows the entity to be organized and provides reasonable assurance of the timely implementation of compliance Standards. This allows the entity to reduce the administrative burden of preparing for a compliance monitoring engagement such as Audit, Self-Certification, Spot Check or investigation.

Since strong Internal Controls help ensure prevention of non-compliance or early detection and correction of non-compliance, it also influences the entity's Compliance Oversight Plan (COP). As per the ERO Enterprise Guide for Compliance Monitoring, the COP determines the scope, frequency and type of compliance monitoring activity (i.e., Audit, Spot Check, Self-Certification or Self-Monitoring). If during a WECC Internal Controls Assessment an entity is determined to have strong Internal Controls for a specific standard and requirement or for overarching controls, the WECC Compliance Risk Analysis Team will consider the maturity of Internal Controls to determine:

- frequency of compliance monitoring, and either
- type of compliance monitoring for that specific Standard, or
- scope of WECC's compliance monitoring activities.

WECC Internal Controls Assessment Process

WECC performs a review of entity's Internal Controls in three ways as identified below:

1. During an ICE engagement.
2. During an Audit without ICE.
3. During Self Report, Self-Certification, Mitigation Plan and Completion of Mitigation Plan reviews.

This paper focuses on the first way, WECC Internal Control Assessment process during an ICE engagement; and the second, during an Audit when entity has not volunteered for ICE.

WECC ICE Process

WECC's ICE process can be summarized in five steps as listed below.

1. Identify ICE Scope
2. Entity Provides Internal Controls
3. Control Design Effectiveness
4. Control Implementation Effectiveness
5. ICE Results

The WECC Risk Team and Audit Team will perform ICE in conjunction with entity's Audit. The Risk Team will be responsible for identifying the ICE Scope, collecting the entity's internal controls and performing

the review of control design. The Audit Team will perform the implementation review of the controls identified as strong during the design review to understand its effectiveness. The ICE results will be determined by the Risk Team and Audit Team after the Audit engagement. WECC will update an entity's COP based on the maturity of the entity's Internal Controls program. The details of the steps of the ICE process are described below.

1. Identify ICE Scope

When determining the ICE Scope, WECC will consider requirements identified during Inherent Risk Assessment (IRA) as well as those identified as performance concerns during the development of the COP. The requirements that are inherently risky or have been identified in one of the Performance Considerations are recommended for Audit scope. A subset of the Requirements will be then reviewed on specific characteristics of the Standard and Requirement such as,

- Is this an event-driven Requirement (performance-based Requirement)?
- Past performance on the Requirement for the entity
- Does the Requirement have a possibility of causing a high impact to the reliability of the Interconnection if violated?

2. Entity Provided Internal Controls

If an entity has volunteered for ICE, WECC will expect the entity to provide its Internal Controls information, in a format that the entity chooses. If the entity does not have its controls organized in a centrally located area, the entity can use WECC guidance questions as a template for providing Internal Controls information. On average, WECC will expect the entity to provide controls for following three areas:

1. Overview of entity's Internal Controls Program.
2. General Controls/Key Controls that the entity has implemented across the organization.
3. Specific controls for each set of Standards and requirements in the scope of the ICE.

3. Controls Design Effectiveness

If an entity has volunteered for ICE, upon receipt of the entity's list of Internal Controls, the WECC Risk Team will review the controls to understand the following points:

- Clarity of the Objective of the Internal Control
- Addressing all the risks associated to meet the objective
- Clearly defining controls to mitigate these risks
- Repeatability of the controls

The WECC Risk Team might conduct conference call or WebEx meetings, or request additional documents to understand the design of the Internal Controls and ensure the repeatability of the control.

Once the design review is complete, the Risk Team will identify the controls that meet the above design criteria and discuss the control design with the WECC Audit Team before the start of the Audit engagement.

4. Control Implementation Effectiveness

During the Audit, the Audit Team will review the Internal Controls implementation and test the effectiveness of the controls implementation. The objective of the implementation review is to understand if the controls are implemented as designed. Auditors may conduct interviews or walk-throughs, or ask for specific documentation to check the implementation.

Since it is possible for an entity to be compliant with the Standards and requirements without the implementation of effective Internal Controls, there will not be any non-compliance if an entity fails to show implementation of the designed controls.

5. ICE Results

After an Audit, WECC's Audit Team and Risk Team will discuss the maturity of the entity's Internal Controls before finalizing the results of ICE and its influence on entity's COP. The results will be shared with the entity after the completion of the review.

Conclusion

Internal Controls Evaluation will be performed by WECC outside of ICE, as part of Audit or Self Report and Mitigation Plan reviews. Effective Internal Controls that prevent, detect, or correct noncompliance can provide reasonable assurance to WECC that a registered entity will be compliant with the Reliability Standards. Maturity of Entity's Internal Controls can influence entity's Compliance Oversight Plan.