

From: David.Steele@ca.ey.com
To: [David Steele](#)
Subject: Scanned document from David.Steele@ca.ey.com
Date: Tuesday, January 20, 2015 1:22:18 PM
Attachments: [20150120-115040.pdf](#)

Martin, Craig

From: MBradbury@nalconenergy.com
Sent: Monday, January 19, 2015 11:08 AM
To: Martin, Craig
Subject: RE: Audit of LCP Project Controls

Hi Craig

Here are the objectives and scope for each of these audits:

RISK MANAGEMENT

Objectives

To examine the Lower Churchill Project's Risk Management Framework for the purpose of:

- Determining if the framework is consistent with best practices, and;
- Ensuring that the framework is effectively implemented.

Phase I - Review of the LCP Risk Management Plan in the Context of Best Practices

Scope

In this phase of the audit, we examined LCP risk management policies and procedures in the context of best practices. "Best practices" for this phase of the audit scope were defined as the Enterprise Risk Management Integrated Framework as published by COSO (The Committee of Sponsoring Organizations of the Treadway Commission) and Risk Management Principles and Guidelines as published by the Canadian Standards Association Standard # CAN/CSA-ISO 31000-10.

Phase II - Testing for Compliance

Scope

In this phase, our audit team tested LCP risk management practices for compliance with the risk management plans as documented.

RISK REGISTER AUDITS

Objectives

The objective of this audit is to examine a sample of key risks as identified in the LCP Risk Register and test to ensure:

1. The risk ranking has been determined in accordance with LCP Risk Management Methodology.
2. Effectiveness of the risk management steps taken to date in view of desired residual risk at this point in time.

Scope

Three risks selected were LCPR003 - Final Project Integration; LCPR004: Building the Operations Organization; LCPR033: Contractor Performance .

CHANGE MANAGEMENT

Objectives

1. To ensure an adequate control environment.
2. To ensure procedures are effective.

Scope

Ensure:

1. the existence of a written charter and appropriate policies and procedures
2. that personnel have appropriate skill and objectivity
3. that the function has proper performance measures in place.

Our audit program focuses on certain elements of internal control in the areas of competencies, performance, technology controls and control monitoring activities. Our work in this regard has been guided by the Internal Control Integrated Framework as published by COSO (The Committee of Sponsoring Organizations of the Treadway Commission).

Ensure that Change Management activities have effective procedures by examining LCP Change Management policies and procedures in the context of best practices. "Best practices" for this phase of the audit scope are defined as:

- Construction Audit Guide - Institute of Internal Auditors Research Foundation and;
- Project Management Body of Knowledge (PMBOK) - Third Edition - Project Management Institute

Those plans and procedures that are being examined include but are not limited to:

1. Project Change Management Plan (LCP-PT-MD-0000-PM-PL-0002-01, Rev B2)
2. Change Management Procedure (LCP-PT-MD-0000-PM-PR-0005-01)

Let me know if you have further questions.

Mark



Mark Bradbury
 Manager, Internal Audit
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From: "Martin, Craig" <CMartin@gov.nl.ca>
 To: "MBradbury@nalcorenergy.com" <MBradbury@nalcorenergy.com>
 Cc: "Gilbert Bennett (gbennett@nalcorenergy.com)" <gbennett@nalcorenergy.com>, "Bown, Charles W." <cbown@gov.nl.ca>
 Date: 01/19/2015 10:35 AM
 Subject: RE: Audit of LCP Project Controls

Mark,

Could you also please send me the "Internal Audit – [NAME] Audit Objectives & Scope" documents (same as the Project Controls Document) for these three audits as well.

Thanks

Craig

From: Martin, Craig
Sent: Monday, January 19, 2015 9:08 AM
To: 'MBradbury@nalcorenergy.com'
Cc: Gilbert Bennett (gbennett@nalcorenergy.com); Bown, Charles W.
Subject: RE: Audit of LCP Project Controls

Mark,

Could you please provide an update on the following three audits:

1. Risk Management
2. Risk Register Audits (3 under review)
3. Change Management

In your November presentation to Committee, you indicated that the first was at the "Drafting report" stage and the latter two were in progress.

Regards

Craig

From: MBradbury@nalcorenergy.com [<mailto:MBradbury@nalcorenergy.com>]
Sent: Friday, January 16, 2015 9:09 AM
To: Martin, Craig
Cc: GBennett@nalcorenergy.com; JamesMeaney@lowerchurchillproject.ca; EdBush@lowerchurchillproject.ca
Subject: Audit of LCP Project Controls

Hi Craig

As discussed, here are the Internal Audit objectives and scope for this assignment. Please let me know if I can be of any assistance in identifying any possible duplication in the E&Y scope statement. Perhaps I could make a couple of observations on that point.

The September Oversight Committee Report suggested that the E&Y effort would include "assessing the methods for calculating and reporting costs". I expect duplication with E&Y in this area, as one of our stated objectives is to "examine the LCP Project Controls Policies and Procedures to determine if appropriate controls exist surrounding the various functions and to ensure they comply with best practices". One of the Project Controls functions under review in this audit is "cost control".

Your report also suggested that E&Y would be "confirming the completeness and accuracy of the information reported on cost and schedule". I am not sure how E&Y will address this one, but for both incurred costs and scheduling, we recognize that both processes are founded to a degree on estimations. Hence by their very nature, they do not easily lend themselves to "accuracy" in the traditional sense. Under the scope of our current audit, we would approach this in two ways. First we would do a reasonableness check on incurred cost information by checking its consistency with cost information as contained in Nalcor's financial reporting systems. As you know this latter cost information is audited by Deloitte and hence already has a degree of independent assurance attached to it. We would also examine both the costing and scheduling processes to see that they were designed in accordance with best practices and that they contain generally accepted control mechanisms. Having satisfied ourselves as to the robustness of procedures and controls as designed, we would then in a subsequent audit, test for compliance of the Project Team with those procedures and controls. In this manner, we would endeavour to lend assurance that the cost and schedule information as presented is reliable and useful for decision-making purposes.

Mark



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**Internal Audit – LCP Project Controls
Audit Objectives & Scope
Project # 14-16**

Line of Business	Lower Churchill Project
Department	Project Controls
Audit	Project Controls Process Audit
Audit Risk Level	Medium
Person Responsible	Anthony Embury – LCP Project Controls Manager
Supervisor	Ron Power
Auditors	Doug Woodford/Alison Ball

AUDIT OBJECTIVES

The objectives of this audit are as follows:

1. To ensure that the Project Controls Function has an adequate control environment that includes a charter, written policies and procedures, personnel have appropriate skills and training, and the function has proper performance measures in place to demonstrate their effectiveness.

2. To examine the LCP Project Controls Policies and Procedures to determine if appropriate controls exist surrounding the various functions and to ensure they comply with best practices.

AUDIT SCOPE

The scope will involve reviewing the following areas within the Project Controls Function:

- a) Work Breakdown Structure
- b) Cost Control
- c) Planning and Scheduling
- d) Progress and Performance Measurement

e) Communications Plan and Reporting

The estimating and cost baseline process will not be examined as this would have been satisfied as a result of the DG3 approval process. The project closeout will also be deferred until the pertinent management plans are available for review.

The management plans to be examined are as follows:

- a) Project Controls Management Plan (LCP-PT-MD-0000-PC-PL-0001-01)
- b) Project Work Breakdown Structure and Code of Accounts (LCP-PT-MD-0000-PC-LS-0001-01)
- c) Other documents as deemed necessary

The following sources will be reviewed when considering compliance with best practices:

- a) Project Management Body of Knowledge (PMBOK) - Third Edition, Project Management Institute
- b) The Practitioner's Blueprint to Construction Auditing, Ron Risner, The IIA Research Foundation
- c) Internal Control - Integrated Framework, COSO, May 2013
- d) Other sources that are deemed appropriate."

The scope of this audit will not include testing of compliance of the Project Controls team with the various related management plans. This will form part of the scope of a subsequent audit.