

From: [Richard Noble](#)
To: [David Steele](#); [Paul Hickey](#)
Subject: RE: Update before I head off on vaction
Date: Saturday, March 14, 2015 10:37:46 AM

Hi David,

The progress this week was encouraging. Sorry to see he's pinged you during your time away.

On the subject of limitations I'm afraid it's "same old same old" repeat of Groundhog Day.

Our advice is that based on our experience, the scope of IA's work as outlined in their audit plan/ program did not appear to be an adequate basis for the OC group to place its full reliance. It was also executed by an inexperienced group. We have yet to see the report. As such there are limitations in the assurance they can draw.

Our current audit is indeed not repeating the limited program that IA did. But clearly we would be remiss were we not to make clear those limitations and allow the OC to draw assurance from something that currently appears inadequate Etcetera

Rather than repeat the discussion... (and in the middle of your time away) Perhaps you could forward the email to me copying Craig and I'll suggest I am open to talk it through with him on Monday... Or wait till your return.

Cheers,

Richard

From: David Steele
Sent: Friday, March 13, 2015 8:30:12 PM
To: Paul Hickey; Richard Noble
Subject: FW: Update before I head off on vaction

Gentlemen,

Could you please review and offer thoughts?

Dave

From: Martin, Craig
Sent: Friday, March 13, 2015 2:13:38 PM
To: David Steele
Subject: RE: Update before I head off on vaction

David,

Hope you had a good vacation. It's been a hectic week on this end getting the latest report finalized and issued. Wanted to follow up with you on a couple of items.

1. I've had e-mails from and spoken with Emiliano on his progress on the Cost and Schedule Project Controls review. Understand that this week's meetings with Internal Audit went well. He be reviewing further documents next week and anticipates that the actual field execution should begin the following week of March 23, 2015.
2. With respect to the inherent limitation you've noted, as we have discussed, Internal Audit has already undertaken reviews with respect to:
 - 1) Risk Management audit – Phase 1 & 2 – Consistency with best practices and compliance testing
 - 2) Risk Management audit – Phase 3 – Risk Register testing
 - 3) Change and Interface Management Audit (Scope Management)

Their audit for item 2) has been completed and the audits for items 1) and 3) are currently being finalized by Internal Audit. The Committee's mandate is to understand the assurance that can be drawn from existing oversight processes (internal audits work in this case) to avoid unnecessarily duplicating these processes. The Scope of Work (SOW) we developed for this Review of Project Controls for Cost and Schedule states recognizes that this work has been undertaken, stating:

- This scope will not include a review of the Scope (Change Management) and Risk Management processes or the completeness and accuracy of the logs/registers generated. Nalcor's Internal Audit Department is currently completing reviews of these processes. The Internal audit reports will be made available to Committee representatives when completed for review for reliance purposes.
 - o The scope of the consultant's work will require access to logs/ registers relating to Scope (Change Management) and Risk Management for the purposes of evaluating management processes and controls with respect to Cost and Schedule forecasting and reporting.

There is no limitation in the current scope of work to access to the outputs from the Change and Risk Management processes to ensure they are interacting with and integrated into the Cost and Schedule Project Controls. The only limitation is that the review will not include a review of the Scope and Risk Management processes themselves since Internal Audit has already completed this work and are finalizing their files. Given that Internal Audit has already undertaken this work, there is no desire to duplicate these audit activities. The plan is to leverage Internal Audit's work and, as noted in the SOW, review their work for reliance purposes when completed. If any gaps are identified through the reliance review of the program and the files, we'll determine how to address those gaps. Given that Internal audit is finishing up those files, it's very likely that this will happen while the current SOW is being executed.

3. Outstanding invoices. Fiscal year cut-off is mid-April. Please forward the current billings as soon as you can and please forward all billings to the end of March 2015 by April 4, 2015 so I can ensure it gets processed in this year's budget.
4. Still need your signed copies of the couple of SOW's that we drafted within the terms of the current contract.

Talk to you next week.

Thanks

Craig

From: David Steele [<mailto:david.steele@ca.ey.com>]
Sent: Friday, March 06, 2015 3:04 PM
To: Martin, Craig
Subject: Update before I head off on vacation

Hi Craig,

Thanks for working with us through scoping discussions for the contemplated SOW to conduct a review of the Cost and Schedule Management and Reporting for the Muskrat Falls Project. We are set up and Emiliano will be onsite with Nalcor IA next week. As mentioned, please contact Richard as the prime executive contact in my absence until the March 19th. Also consider Paul Hickey as a secondary executive level contact.

Also, I've consulted with our team on the matters regarding scope and coverage.... The same matters you and I have been discussing. Our understanding and recommendation are as follows.

We believe there is an inherent limitation to the scope of the review as currently contemplated. In order for the Oversight Committee to meet its objectives of assessing the completeness and accuracy of cost and schedule information being reported to them, a review connecting the key elements of the Project's Risk and Scope Management processes to the Cost and Schedule reporting/ processes needs to be completed. Nalcor IA have conducted audits of Risk and Scope Management and issued Draft reports which have not yet been supplied to the Committee. There are inherent limitations of reviewing separate components of Project Management and Controls by separate groups, as such processes are inextricably linked. In addition, from a preliminary review by EY of Nalcor's IA planning documentation for their Risk Management audit, we believe there are gaps in coverage between what they are doing vs what the current scope contemplated or EY's review. This will limit the value provided to the Committee and the ability to meet its objectives at

this time.

I understand that the Committee has accepted this limitation at this point in time, as there is current momentum and acceptance by Nalcor for EY to begin work, and that there will soon be an opportunity to assess gaps in coverage between the work EY will conduct for the Committee and the work Nalcor IA has completed.

Given this, our recommendation is for the Committee to identify and assess the gaps in coverage in the near term (1-2 months). IA reports are currently completed in draft and there should be a reasonable expectation to move them to a final state in a timely manner to get them into the Committee's hands. Once the identified gaps in coverage identified, a review/audit should be conducted to close the gaps, and the Committee will then be in a better position to assess the completeness and accuracy of cost and schedule information reported. Timeliness will be key, as the process components (IA conducted, EY to be conducted in March/April, GAPS to be assessed in the future) will all done at separate points in time, and it will not take much time before the results become stale and out of sync, preventing the Committee from getting the full picture required to meet its objectives. Given this, some procedures to bridge the time lapse should also be considered as part of the gap assessment. Extent will be determined by how much time elapses.

I will be glad to discuss further with you when I get back. If you want to discuss before then, please reach out to Richard.

Thanks Craig,
Dave

David Steele | Partner | Advisory Services

Ernst & Young LLP
Cell: +1 709 769 2080 | David.Steele@ca.ey.com

CONFIDENTIAL and/or PRIVILEGED. If received in error please notify the sender and permanently delete.
CONFIDENTIEL et/ou PRIVILÉGIÉ. Si ce courriel est reçu par erreur, veuillez nous en aviser et en effacer toute trace. EY, 222 Bay St, PO Box 251, Toronto, ON M5K 1J7. www.ey.com/ca To unsubscribe from commercial electronic messages / Pour vous désabonner des messages électroniques commerciaux : Unsubscribe@ca.ey.com

“This email and any attached files are intended for the sole use of the primary and copied addressee(s) and may contain privileged and/or confidential information. Any distribution, use or copying by any means of this information is strictly prohibited. If you received this email in error, please delete it immediately and notify the sender.”