

**From:** [David Steele](#)  
**To:** [Martin, Craig](#)  
**Cc:** [Richard Noble](#)  
**Subject:** RE: Paragraphs with EY suggestions.docx  
**Date:** Wednesday, June 24, 2015 9:39:00 AM  
**Attachments:** [Report revisions v2.docx](#)

---

Hello Craig,

I understand that the Oversight Committee would like to place reliance on other oversight activities, this makes good sense and we are in agreement with that objective.

Where we were coming from is that the OC (and EY) have not done very limited reliance work. I know you are familiar with these concepts, but I wanted to relay a few points..... Relying on the work of others is a concept well documented in professional standards. We are not saying that you can't or shouldn't rely on the work of IA... you should strive for this where possible. What we are indicating is that should not do so at this point in time... considering the very limited reliance procedures performed. I recall when we were planning the cost and schedule review and were considering the inclusion of a reliance-gap assessment on IA's work that it was decided to wait on that piece and that a future piece of work should be undertaken to achieve this. Now that IA has finished their work, EY is substantially finished their work, we recommend that this next piece of work should be undertaken by the OC.

Just a few points on reliance review.... In addition to general procedures to assess and conclude on independence and objectivity, the following would be required at a minimum:

- Evaluate and perform procedures on Internal Audits work to confirm its adequacy for the OC's purposes. This includes delving into working papers (not just the report):
  - Work is performed by persons having adequate technical training and proficiency,
  - Work is properly supervised, reviewed and documented,
  - Sufficient appropriate audit evidence is obtained to be able to draw reasonable conclusions,
  - The conclusions reached are appropriate in the circumstances and any reports prepared are consistent with the results of the work performed, and
  - Any exceptions or unusual matters disclosed.

I believe IA are operating in the same manner for their reliance on EY's work, that is why they have requested access to our working papers and have asked for the profiles of our team members. They will likely do an in-depth review of our files before concluding on their ability to rely. I suspect they will want to meet with at a few points during and when concluding on their reliance procedures.

Given some of the points raised above, I have attached a suggested revision that I think is accurate. I have not changed the language used in the reported results by Internal Audit (comprehensive, best practices, etc. – I assume you have lifted that directly from the IA reports themselves), as I am comfortable that the disclosure following those statements that adequately qualifies the work the OC has done around reliance. Without that disclosure, I am not comfortable. Please give it a review and let me know your thoughts. Thanks.

Regards,

Dave

**David Steele** | Partner | Advisory Services

Ernst & Young LLP

Cell: +1 709 769 2080 | [David.Steele@ca.ey.com](mailto:David.Steele@ca.ey.com)

---

**From:** Martin, Craig [mailto:CMartin@gov.nl.ca]  
**Sent:** Tuesday, June 23, 2015 3:29 PM  
**To:** David Steele  
**Cc:** Richard Noble  
**Subject:** RE: Paragraphs with EY suggestions.docx

David & Richard,

Please see attached.

I want to ensure the statements made in the Report are accurate and attribute the conclusions expressed to Internal Audit. However, the extent of the reservations expressed in the version you returned would cause a common reader to conclude that there is no value to the work undertaken by Internal Audit and that no reliance can be placed upon it.

Please review the attached and advise with your comments. I have attempted to address the concerns raised but in the context that the Committee has already expressed in its mandate that it will attempt to rely on other Oversight activities and leverage those activities where appropriate.

Craig

## Other Assurance Reviews

In fulfilling its mandate, throughout the construction period the Committee will examine issues such as whether management processes and controls are well-designed and followed. The Committee provides the following update with respect to three areas of focus for review:

### 1. Project Controls for Risk Management

Nalcor's Internal Audit Department has completed its review and report on the Project controls and procedures for risk management. Their primary objectives of the audit were to determine if the risk management framework for the Project is consistent with best practices and is being effectively implemented. Representatives of the Committee including representatives of Ernst & Young, LLP met with Internal Audit to review these audit plans and final reports. The Internal Audit report indicates that adequate resources

have been allocated within the project to manage risk, and consistent with best practices risks are being categorized and ranked properly. In addition, an in-depth review of a sample of key risks found that there were no current issues and the risks were being effectively managed. Internal Audit concluded that Nalcor's risk management plan for the Project effectively identifies and manages risks that could prevent the project from achieving its objectives.

Although this review of Internal Audit's file by the Committee representatives did not constitute a full reliance review of the audit program, there was one reservation noted with respect to the audit plan. The Internal Audit assessment did not fully test the risk quantification for the program or the method of sizing contingency requirements. It has also performed only limited tests on the method of reporting risk. EY has recommended that further work should be undertaken to address these areas to further assess the risk management methods applied by the program.

## 2. Project Controls for Change Management

Nalcor's Internal Audit Department completed its review and report on the Project controls and procedures for change management. Their objectives of the audit were to determine if the Project change management plan and procedures are consistent with best practices and to ensure that change management has adequate design and support. Representatives of the Committee including representatives of Ernst & Young, LLP met with Internal Audit to review these audit plans and final reports. The audit involved a comprehensive review of the Project Charter, change management procedures, and human resources involved in the change management process. The audit file indicates that there was a low risk issue identified relating to the timelines of Project Change Notice approvals. Management has committed to identify criteria and method to better document approvals during urgent or emergency events. Internal Audit concluded that Nalcor's change management process is in alignment with best practices and is operating within a properly designed control environment.

Although this review of Internal Audit's file by the Committee representatives did not constitute a full reliance review of the program, there were no gaps identified in the audit plan.

## 3. Project Controls for Cost and Schedule

As noted in the September 2014 Committee Report, Ernst & Young, LLP (EY), in its role as consultant to the Committee has been engaged to undertake a review of the Project Controls for Cost and Schedule. EY has completed its execution of this work and is currently finalizing their report. This report was not available at time of issuance of this report. The Committee will post the EY report to the Committee website when completed and will include the contents of that report in the next Committee report for the quarter ended June 2015.

---

**From:** David Steele [<mailto:david.steele@ca.ey.com>]  
**Sent:** Tuesday, June 23, 2015 12:54 PM  
**To:** Martin, Craig  
**Cc:** Richard Noble  
**Subject:** Paragraphs with EY suggestions.docx

Craig,

Attached is suggested wording for your draft OC report. The main edits point to the protection of the OC, to avoid in appropriate implication that a reliance review was done or that the OC agrees with IA's overarching conclusions. Please let me or Richard know if you would like to discuss further. Thanks.

Dave

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](http://www.ey.com/ca) To unsubscribe from commercial electronic messages / Pour vous désabonner des messages électroniques commerciaux : [Unsubscribe@ca.ey.com](mailto: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.”