

From: David Steele
To: WalterParsons@gov.nl.ca
Cc: [Paul Hickey](#)
Subject: EY Proposed SOW
Date: Wednesday, January 18, 2017 2:49:45 PM
Attachments: [EY Recommendations Review and Assurance Scoping 18.01.2017.pdf](#)
[image003.jpg](#)

Hello Walter,

Attached for consideration is EY's proposed SOW. Please distribute as appropriate. We look forward to your feedback and further discussions on the subject. When ready, please advise on next steps. Thank you.

Regards,

David

Find us on: [Facebook](#) | [LinkedIn](#) | [Twitter](#) | [YouTube](#)



David Steele | Partner | Advisory Services

Ernst & Young LLP

Fortis Place, 5 Springdale Street, Suite 800, St. John's, Newfoundland and Labrador A1E 0E4, Canada

Office: +1 709 570 8264 | Cell: +1 709 769 2080 | David.Steele@ca.ey.com

Website: <http://www.ey.com>

Melanie Brooks | Phone: 1 709 726 2840 | melanie.brooks@ca.ey.com

Proudly serving Canada for over 150 years

Muskrat Falls Project

18th January 2017

Proposed EY scope of work

- ▶ This document proposes a scope of work for EY to assist GNL achieve appropriate oversight of the Muskrat Falls Project and is based on our meeting on 5th January 2017 and subsequent direction provided by GNL
- ▶ There are two components, which will deliver the outcomes required by GNL

Step A

- ▶ A review of the status of implementation by Nalcor and GNL of the recommendations from EY's interim report of April 2016 (the "Interim Report")



- ▶ This review will deliver one of the two committed follow ups to EY's interim report
- ▶ The second committed follow up, a cost, schedule and risk review of Nalcor's updated forecast, will be addressed in Step B

Step B

- ▶ On-going independent assurance in support of the Oversight Committee's governance role



- ▶ With a strengthened Oversight Committee, an ongoing assurance role will deliver independent assurance to project processes, forecasts, risk management and governance
- ▶ Ongoing assurance will also provide a platform from which to provide targeted support on any critical emergent issues that might arise

Step A: Review of status of implementation of EY recommendations

Scope and outline workplan

- ▶ EY will evaluate and report on the status of implementation of the recommendations made in its April 2016 Interim Report (see appendix A for full recommendations)
- ▶ The review will include: obtaining updates, reviewing actions taken (governance and processes) and verification of implementation.
- ▶ EY will identify any actions required for full implementation of the recommendations

WEEK ONE	WEEK TWO	WEEK THREE	WEEK FOUR
<ul style="list-style-type: none"> ▶ Document Review ▶ Preparation for St. John's visit ▶ VC/phone discussions with Nalcor's board and management and GNL 	<ul style="list-style-type: none"> ▶ Interviews with project management team members and board representatives ▶ Working sessions on planning and forecasting, risk and contingency, governance and reporting ▶ Review of QRA process ▶ Follow up discussions based on findings 		<ul style="list-style-type: none"> ▶ Discussion of draft findings with Nalcor's management and board, and GNL ▶ Finalisation of Report

AVAILABLE RESOURCE	ROLE
David Steele	Local Engagement Partner
Paul Hickey	Local Relationship Partner
Michael Kennedy	Delivery Executive
Tim Calver	Engagement Lead
Damian Joy	Subject Matter Resource
Aman Gill	Subject Matter Resource

- ▶ **EY will provide a written report, generally in the format of the Interim Report**
- ▶ **The professional fees for this review are \$160-170,000 CAD excluding tax and expenses.**
- ▶ Note that section 3.6 of the EY report stated that EY will *assess the reasonableness of Nalcor's reforecast cost and schedule when completed*..... This action will not be completed as part of Step A, but should be established as the initial set of activities for ongoing assurance (Step B), to be established by the strengthened Oversight Committee

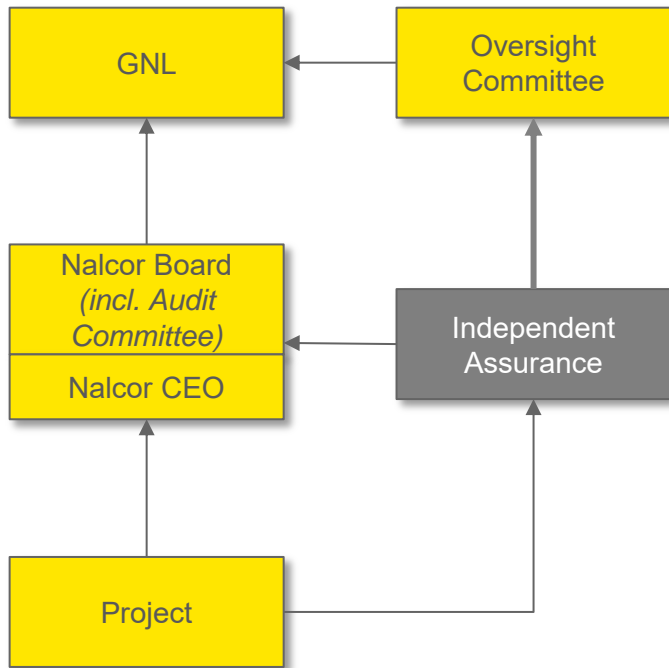
Step B: Ongoing Independent Assurance

Considerations for the Oversight Committee

CIMFP Exhibit P-03389

Page 5

- ▶ The scope of an independent assurance function should be determined by the strengthened Oversight Committee as part of the design of overall project governance and assurance, and reflect the specific characteristics of the project and the priorities of the key stakeholders



- ▶ The scope defined in this document is intended as a basis for discussion with GNL and to facilitate clarity for all stakeholders, including the Nalcor board and Audit Committee, on the role and scope of the independent assurance

- ▶ Independent Assurance is generally part of a '3 lines of defence' assurance model, in which:
 - ▶ **Line 1 – Management**
 - ▶ Responsible for delivery to scope, budget and schedule
 - ▶ Assurance provided through self-managed quality control and advice from 3rd party specialists procured to manage risk through the project's lifecycle
 - ▶ **Line 2 – Project Assurance (internal)**
 - ▶ Supporting and reporting to management
 - ▶ Flexible resource to provide assurance that key risk areas are being effectively managed – can include qualitative technical reviews of project information, processes, governance, resources and systems
 - ▶ Provide objective interventional advice, challenge and oversight to the efficiency and effectiveness of the program
 - ▶ Reporting link to the 3rd line of defence to maintain integrity
 - ▶ **Line 3 – Independent Assurance**
 - ▶ Provides an independent and systematic evaluation of the risk management framework including governance, processes and controls
 - ▶ Audits the compliance of lines 1 and 2 to the risk framework
 - ▶ Generally a predetermined cycle of periodic reviews

Step B: Ongoing Independent Assurance

Considerations for the Oversight Committee

CIMFP Exhibit P-03389

Page 6

Context

- ▶ The role of assurance is to provide information to those that sponsor, govern and manage a project, to assist the responsible decision makers, reduce the causes of project failure, promote the conditions for success and deliver improved outcomes
- ▶ One important enabler to this is a constructive and open relationship with the project team

Scope of independent assurance role

- ▶ The scope and depth of project assurance can vary to reflect the outcomes required. EY would be happy to discuss options, related outcomes and costs in detail with the Oversight Committee
- ▶ Based on discussions to date, we understand that GNL requires independent assurance to deliver the following outcomes:
 - ▶ Independent review of the reasonableness of any significant update to the project's cost and schedule forecast
 - ▶ Independent review of project progress, status and risk reporting - seeking to prevent / eliminate surprises
 - ▶ Assurance of the integrity of critical project processes, including ongoing implementation of the recommendations from the Interim Report
 - ▶ Early identifications of key project issues, associated action plans agreed with project leadership and assurance of the implementation of these action plans
 - ▶ Deep dive independent reviews of critical risks and issues to provide a dependable source of information free of biases and filters

Step B: Ongoing Independent Assurance

Considerations for the Oversight Committee

CIMFP Exhibit P-03389

Page 7

Timing

- ▶ Continuous review of management reporting for issue identification and performance trending
- ▶ Periodic review cycle to synchronise with Nalcor / GNL reporting processes
- ▶ Reviews to continue until completion of the project and close out of significant contractual issues / material events - this may continue beyond completion of actual construction work

Illustrative activities

- ▶ Remote review of monthly project reporting and performance information
- ▶ For periodic reviews:
 - ▶ In advance – consultation with GNL (and Nalcor) to agree on focus areas of review
 - ▶ Desk top review of update reports from Nalcor project leadership team
 - ▶ On-site work at project office in St John's (10 day period). Schedule of meetings to reflect focus of review. Site visits, as considered necessary at critical stages
 - ▶ Submit and discuss draft report first with Nalcor, finalize and issue to GNL, highlighting differences of view

Additional considerations

- ▶ The reporting format and requirement for public disclosure will need to be discussed and agreed
- ▶ The EY Interim Report indicated EY would review and report on the updated forecast of cost, schedule and risks. It is anticipated that Nalcor will issue a full project update covering cost, schedule and risks in the Spring of 2017. A comprehensive review of this update by EY is an essential starting or anchor point for subsequent independent assurance activities. This review should be conducted in parallel with management's update activities so that EY can provide it's findings in a timely manner to both GNL and Nalcor

Appendix A – Recommendations from Interim Report

CIMFP Exhibit P-03389

Page 8



Recommendations from April 2016 report

Recommendations:

- ▶ Section 1.6 of EY Interim Report
 - ▶ the Project should revise its planning and forecasting processes to explicitly include the regular reporting of a fully risk-adjusted final forecast of cost and schedule
 - ▶ the Project contingency should make appropriate allowances for all risks, including strategic, at a confidence level reflecting stakeholders' required cost certainty. EY recommends that consideration be given to the use of a more conservative confidence level for setting Project contingency, based on a thorough risk assessment
 - ▶ the sufficiency of the Project contingency should be reviewed quarterly to assess whether it appropriately covers all risks, taking account of the effectiveness of mitigation plans and the likelihood of risks crystallizing
 - ▶ there should be separation of the Project contingency into an amount to be managed by the Project team and an amount to be managed at a higher level of governance
- ▶ Section 1.8 of EY Interim Report
 - ▶ Project governance and independent oversight should be re-evaluated by the Provincial Government and strengthened at the Project, Nalcor Board and Provincial Government levels
 - ▶ Project reporting should be enhanced to support senior management focus on key risks and issues, to communicate more clearly how key risks are reflected in the forecast and to enable more effective Provincial Government oversight

Appendix B – Interview and Document list for Step A

CIMFP Exhibit P-03389

Page 10



Interview list and initial documents required for Step A

Interview List

- ▶ Orientation discussions with Minister for Energy and Natural Resources, Head of Oversight Committee and Nalcor CEO and Chair of Audit Committee
- ▶ Project Director for Muskrat Falls and Transmission Lines projects
- ▶ Project Component Managers
- ▶ Project Controls Lead
- ▶ Project Finance Lead
- ▶ Other Project team members with significant involvement in the planning, forecasting, risk management & reporting processes

Documentation required for the start of the review:

- ▶ Documented response to recommendations from Nalcor
- ▶ Any relevant updated project process documents (e.g. risk, forecasting, contingency management etc.)
- ▶ Recent reports evidencing risk adjusted final forecast reporting
- ▶ Documents detailing current cost and schedule forecast
- ▶ Documentation of most recent QRA processes
- ▶ Quantitative report on contingency calculation and management
- ▶ Documented response to recommendations from GNL
- ▶ Any documents relating to updated governance processes

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity.

Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2017 Ernst & Young LLP.

All Rights Reserved.

1412-1367409

ED 0115

ey.com