

**From:** David Steele  
**To:** [Paul Hickey](#); [Michael Kennedy](#)  
**Subject:** FW: UPDATED VERSION - EY Independent Assurance  
**Date:** Thursday, May 11, 2017 1:05:00 PM  
**Attachments:** [EY Independent Assurance - 5 April 2017.pdf](#)  
[EY Independent Assurance - 5 April 2017.pptx](#)  
[image001.gif](#)

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Team,

I met with the new Chair of the Oversight Committee, Charles Bown.

He has met with Bern and then the Premier and presented their position. Here is what I heard:

- \$1m is too much, the Premier doesn't want to spend that amount.
- They would like an efficient approach to close off the first report. They liked the activities outlined in Phase I in the attached deck, but with a report. I indicated that this report would be qualified as to what it is not, i.e. it is not an updated assessment of cost, schedule and related risk. He was fine with that.
- They do not want a deep dive and an updated assessment of project cost, schedule and related risk (Phase II).
- They are interested in ongoing assurance as contemplated. However, they want us to break down the 4 weeks so we can demonstrate that we will not be intensively on site for a full 2 week period being disruptive, pulling the project team away from their jobs.

Next steps:

He would like an updated slide deck that shows two phases, the immediate update and then the quarterly review. Mike, do you have cycles with anyone on your team to modify the attached with new pricing considerations? I am in orals today and in a workshop tomorrow.

Let me know your thoughts.

Regards,

David

**David Steele** | Managing Partner – St. John's

Ernst & Young LLP  
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**From:** David Steele  
**Sent:** Wednesday, May 03, 2017 9:59 AM  
**To:** Paul Hickey  
**Subject:** FW: UPDATED VERSION - EY Independent Assurance

Regards,

David

**David Steele** | Managing Partner – St. John's

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**From:** Melanie Brooks

**Sent:** Wednesday, April 05, 2017 11:57 AM

**To:** David Steele; Paul Hickey

**Subject:** UPDATED VERSION - EY Independent Assurance

Here is the updated version.



**Melanie Brooks** | Executive Assistant | Enterprise Support Services | Business Support Centre

**Executive Assistant to:**

David Steele, Advisory

Derek Purchase, Partner, Assurance

Paul Hickey, Partner, TAS

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# Muskrat Falls Project Independent Assurance

Work phases and fee estimate for F2018

5 April 2017

# Independent Assurance

## Objectives

CIMFP Exhibit P-03394

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- ▶ The objectives of the work phases described on the next page are to:
  - ▶ Assist GNL's Oversight Committee (OC) to achieve appropriate independent assurance over the Muskrat Falls Project.
  - ▶ Enable EY to provide the OC with a report on Nalcor's new reforecast prior to Nalcor's release thereof. This requires that EY performs its review activities concurrently with Nalcor reforecasting activities.
- ▶ Time will be of the essence in successfully achieving the above objectives.
- ▶ The following are essential requirements to EY starting its fieldwork:
  - ▶ Receipt of substantially all information requested from Nalcor.
  - ▶ A confirmed schedule of meetings between EY and key representatives from Nalcor and GNL.

# Independent Assurance

Fiscal 2018

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Phase	Timing	Activities/Outcomes	Fee
I. Independent Assurance Mobilization	April – May 2017 (5 weeks)	<ul style="list-style-type: none"> <li>▶ EY to review the status of Nalcor and GNL’s implementation of EY’s April 2016 report (the “Interim Report”) recommendations.</li> <li>▶ EY to obtain a preliminary update from GNL / Nalcor on project status and key issues.</li> <li>▶ EY to advise OC and Cabinet on current status, including issues and risks.</li> <li>▶ EY facilitates the co-development of “Ongoing Independent Assurance” protocols, scope and schedule with OC and Nalcor.</li> </ul>	\$200K
II. Report on Nalcor’s reforecast cost and schedule	May – July 2017 (10 weeks)	<ul style="list-style-type: none"> <li>▶ EY will perform its review and issue a report on the reasonableness of Nalcor’s reforecast cost and schedule.</li> <li>▶ <i>EY’s fieldwork will be concurrent with Nalcor’s reforecast activities. EY will provide GNL with its report prior to Nalcor’s release of the reforecast. Time is of the essence in achieving this timeline.</i></li> </ul>	\$450K
III. Quarterly report (Qtr. ended 30 Sept 17)	October 2017 (4 weeks)	<ul style="list-style-type: none"> <li>▶ Delivering and reporting on ongoing independent assurance procedures with respect to project processes, forecasts, risk management and governance.</li> </ul>	\$175K
IV. Quarterly report (Qtr. ended 31 Dec 17)	January 2018 (4 weeks)	<ul style="list-style-type: none"> <li>▶ Delivering and reporting on ongoing independent assurance procedures with respect to project processes, forecasts, risk management and governance.</li> </ul>	\$175K

The above fee estimates are for professional services. Out of pocket expenses will be charged to GNL at cost incurred. HST is extra.

# Appendix A – Overview of Independent Assurance for Muskrat Falls

CIMFP Exhibit P-03394

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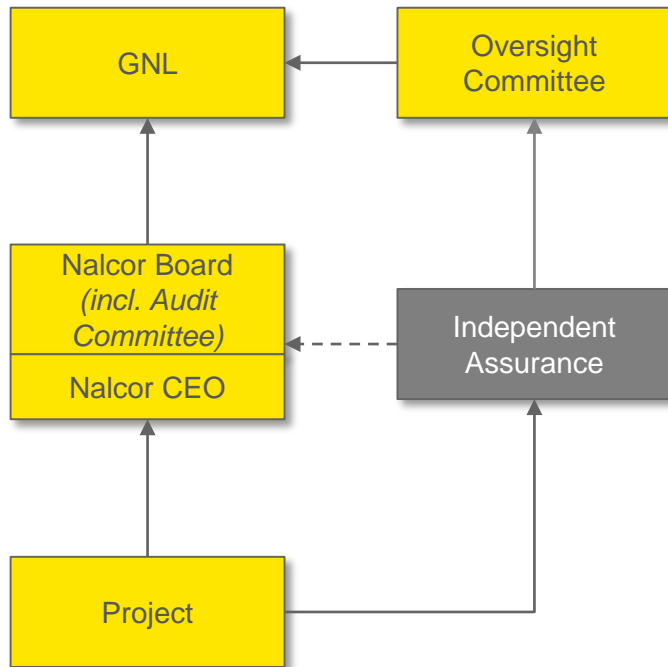
# Independent Assurance for Muskrat Falls

## Context

CIMFP Exhibit P-03394

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Independent Assurance is a forward-looking collaboration between all key stakeholders.



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 3<sup>rd</sup> 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 3<sup>rd</sup> line of defence to maintain integrity

▶ **Line 3 – Independent Assurance**

- ▶ Provides an independent and systematic evaluation of the project’s risk management framework including governance, processes and controls
- ▶ Independent assessment of the project’s reported cost and schedule forecast and related risks
- ▶ Audits the compliance of Lines 1 and 2 to the risk framework
- ▶ Generally a predetermined cycle of periodic reviews

# Appendix B – Recommendations from Interim Report

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# Recommendations from April 2016 report

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## 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 C – Interview and Document list

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# Interview list and initial documents required for mobilization

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## 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

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Fiscal 2018

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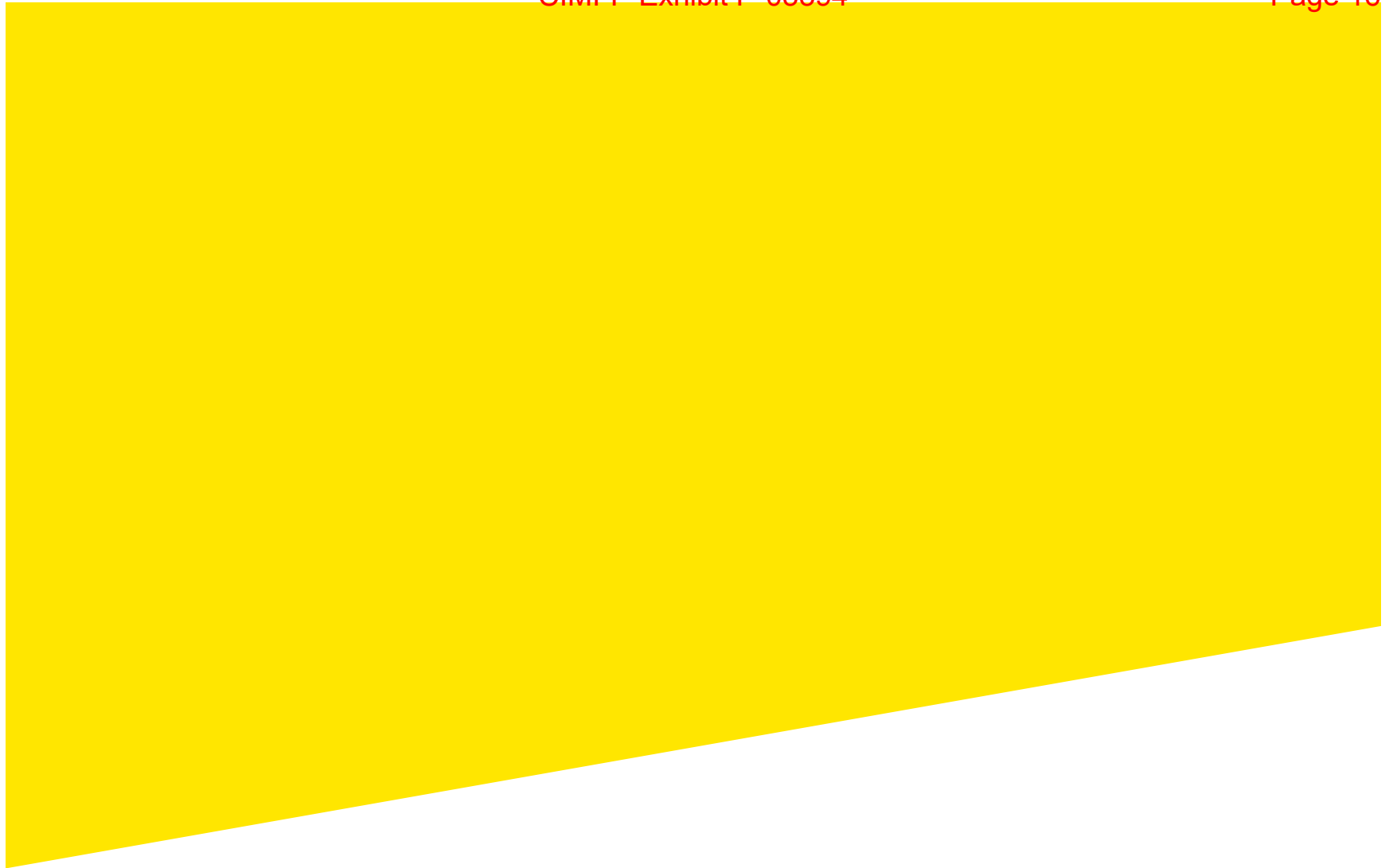
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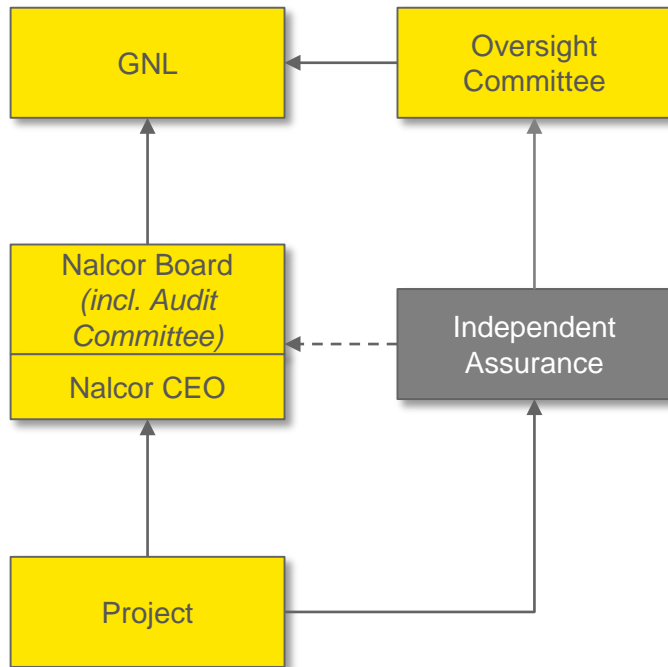
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