

**From:** [Martin, Craig](#)  
**To:** [stevepellerin@lowerchurchillproject.ca](mailto:stevepellerin@lowerchurchillproject.ca)  
**Subject:** FYI  
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**Attachments:** [.png](#)  
[Letter to Derrick Sturge re Additional Auditing Procedures July 31, 2014 COR-2014-0685-01.PDF](#)

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**Craig Martin, CPA, CMA**

Executive Director,

Muskrat Falls Oversight Committee

(709) 729-0966

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Government of Newfoundland and Labrador  
Executive Council  
Clerk of the Executive Council  
and Secretary to Cabinet

July 31, 2014

Mr. Derrick Sturge  
Vice-President, Finance and Chief Financial Officer  
Nalcor Energy  
500 Columbus Drive  
St. John's, NL A1B 0C9

**RE: Additional Auditing Procedures**

Dear Mr. Sturge,

I am writing to request that Nalcor Energy engage its external auditors for the purposes of conducting several scopes of work to provide additional assurances and proactive public disclosure with respect to the expenditures of the Muskrat Falls Project. The scopes of work have been developed in discussions between representatives of the Muskrat Falls Oversight Committee, the GM Finance for Nalcor and your external auditor Deloitte.

The requested scopes of work are as follows:

1. Combined Financial Statements and Audit Report – Muskrat Falls Project

In addition to issuing annual audited financial statements for Nalcor and its subsidiaries, Nalcor is requested to direct its external auditor to prepare and issue combined annual audited financial statement for the following Muskrat Falls entities:

- Labrador-Island Link Limited Partnership
- Muskrat Falls Corporation
- Labrador Transmission Corporation
- Lower Churchill Management Corporation

With respect to the year ended December 31, 2013, the combined audited financial statements for the above noted Muskrat Falls entities should be prepared and released publicly as soon as reasonably possible.

2. Additional Audit Procedures – Muskrat Falls Project

Commencing for the fiscal year ended December 31, 2014, while conducting the annual external audit for the Muskrat Falls entities, the following additional testing and procedures are requested to be completed:

Additional Testing

- In addition to the representative sample selected as part of the year end audit to test the validity of expenditures in the following entities – Labrador Transmission Corporation, Muskrat Falls Corporation and Labrador-Island Link Limited Partnership, an additional sample be selected, to be agreed upon by the Committee before the commencement of the audit.

Additional Procedures

- Compare all samples selected as part of the audit to the approved budget for the Muskrat Falls Project to ensure these expenditures are an approved budget item.
- Review Nalcor's policy/process for overhead classification and allocation. Determine a sample size for testing of overhead allocations such that it provides the same proportionate coverage as that provided by sample noted above. Review those transactions sampled to ensure they are:
  - ✓ Properly classified as overhead in accordance with the policy; and
  - ✓ Properly allocated to the entities in accordance with the policy.

The external auditor should report on the results of these additional procedures.

Thank you on behalf of the Muskrat Falls Oversight Committee for your cooperation on the implementation of these additional audit procedures.

Sincerely,



JULIA MULLALEY