

Internal Audit Planning Audit Committee – Nalcor Energy November 2015

Boundless Energy



Presentation Purpose

1. Audit & Resource Plan – 2016-2020

- Audit Universe - To outline how the Internal Audit Universe is developed.
- Audit Selection – To outline how audits are selected for the Internal Audit Five Year Audit Plan.
- Available Resources – To outline the departments available hours to audit.
- Hours Allocation – To outline audit coverage amount business areas.
- To obtain approval for the Five Year Internal Audit Plan.

2. Internal Audit Activity

- To outline scope changes to 2015 Audit Plan
- Review the audits currently in progress - Dashboard

3. Metrics

- Audit Cycle Times

1. Audit & Resource Plan 2016-2020

Audit Universe

Definition: *The Audit Universe is a listing of all potential auditable areas of the business, including business partners and joint ventures.*

The Audit Universe is managed and updated by:

- Conducting interviews
- Attendance in LOB/Function area meetings
- Results of prior Internal Audits and associated follow up
- Reviewing various documents including, but not limited to:
 - Organization charts
 - Significant Business Process (RACI Charts)
 - Insurance documentation
 - Information Systems work plan
 - ERM Risk Registers
 - Board Meeting Minutes
 - Other compliance or audit reporting completed by other areas of the business
 - Various Business Strategy documents

Audit Selection

The follow is a summary of factors contributing to the inclusion in the 5 year audit plan based on risk level.

- **High Risk Audits**
 - All high risk audit items included within the 5 Year Plan.
 - Timing within the 5 year period is impacted by timing of prior audit and/or similarity of coverage in another audit.
- **Medium Risk Audits**
 - Medium-High audits have priority for inclusion.
 - Stage of project/process.
 - Linkages to other Medium-High audit areas.
 - Areas currently under significant change.
 - Areas of current strategic importance to Nalcor Energy.
 - Required for Regulatory Compliance
- **Low Risk Audits**
 - Request of Board or Executive Management (e.g. Executive Expenditure Audit).
 - Small selection.
 - Required for Regulatory Compliance

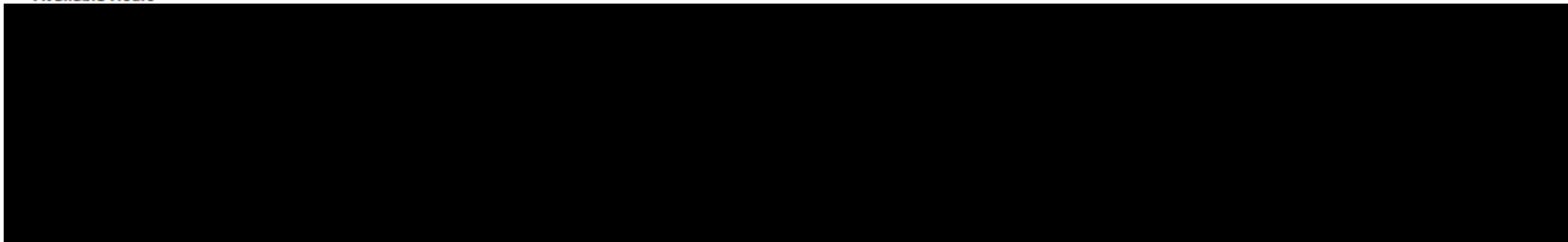
Available Resources

- Available resources based on full compliment of Internal Audit Team.
- 5 year plan assumes static compliment of employees.
- Training hours set at 5% of hours, with exception of student and new hire.
- 2016 hours available = 7,421, 2015 hours available = 7,204 (Increase in 217 hours due to decreased admin and training).
- Administrative hours
 - 2015 budgeted at 42% consolidated, as of Q3 2015 actual at 37%.
 - 2016 budgeted at 41% consolidated. If exceed target, will move 2017 audits into 2016.
 - Administrative Hours may include, but not limited to:
 - Internal Audit staff meetings, safety meetings, Executive, LOB or functional area meetings, data analytics, process improvement, reliance on other assurance providers work, periodic assessments, Quality Assurance program, research, coaching, performance reviews or planning.

Available Hours

Nalcor Energy - Internal Audit - 2016 Resource Plan										
Management	Governance, Risk and Control Group					Project & Compliance Group			Total	
<u>Manager, Internal Audit</u>	<u>Senior Internal Auditor</u>	<u>Audit Lead</u>	<u>Internal Auditor</u>	<u>Co-op Student</u>	<u>GRC Total</u>	<u>Audit Lead</u>	<u>Internal Auditor</u>	<u>Internal Auditor</u>	<u>P&C Total</u>	<u>Internal Audit Total</u>
<i>J Borden</i>	<i>P Mooney</i>	<i>S Wilkins</i>	<i>A Ball</i>	-		<i>D Woodford</i>	<i>J Chafe</i>	<i>K Fowler</i>		

Available Hours



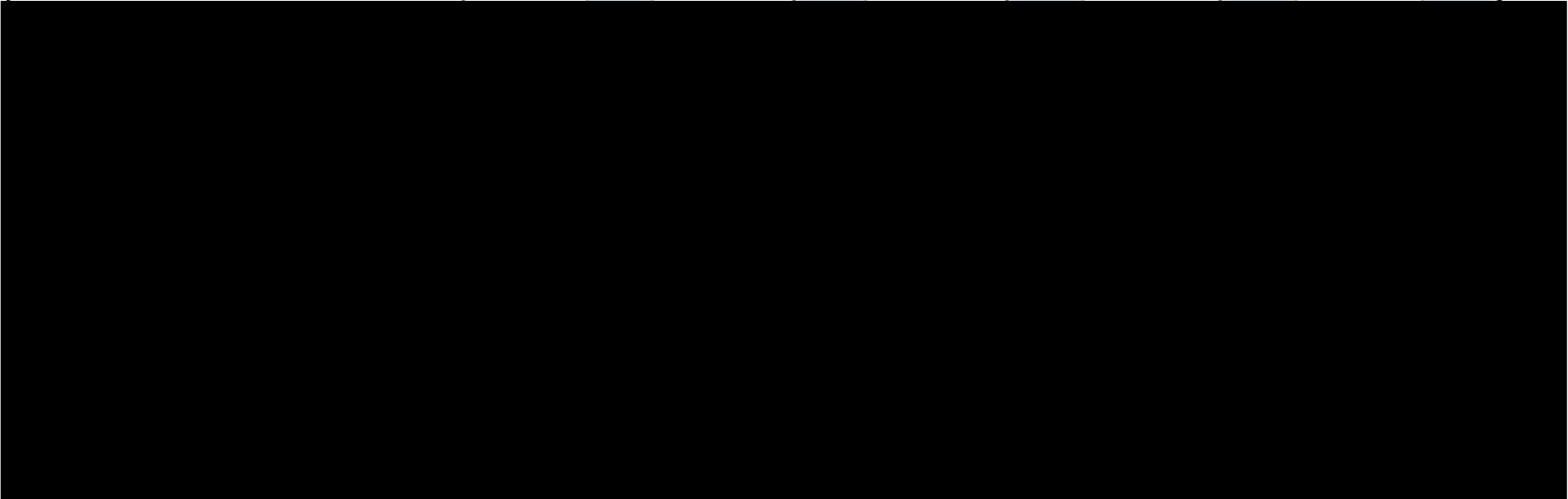
Net Available	<u>318</u>	<u>765</u>	<u>995</u>	<u>1,221</u>	<u>716</u>	<u>3,696</u>	<u>977</u>	<u>1,221</u>	<u>1,209</u>	<u>3,407</u>	<u>7,421</u>
Training	5%	5%	5%	4%	11%	6%	4%	4%	5%	5%	5%
% Admin	80%	50%	35%	25%	50%	40%	40%	25%	25%	30%	41%

Hours Allocation

- 2016 audits are fixed once audit plan is approved.
 - Any additions are at the discretion of the Manager, Internal Audit based on risk.
 - An audit may be removed from the 1 year audit plan by the Manager, Internal Audit. This would only occur if the audit does not make sense from a business point of view (e.g. project delayed, risk covered in another audit)
 - Summary of changes presented to Audit Committee.
- 2017-2020 hours may be reallocated based on change business strategy and changing risk environment.
- Nalcor Energy Hours vs. Line of Business Allocations
 - Hours are assigned to a line of business, if the audit is solely related to that line of business. If related to more than one line of business, the hours are assigned to Nalcor Energy. This results in higher allocation to Nalcor Energy.
- Lower Churchill Project hours is primarily project execution audits. Integration is included in NL Hydro (e.g. Building The Production Organization – BPTO) hours and Project Governance is included in Nalcor Energy (e.g. Joint Development Agreement – JDA).
- IT system audits are assigned to Nalcor Energy vs. individual Line of Business.

Hours Allocation

Nalcor Energy - Internal Audit 2016-2020 Audit Plan Hours Allocation										
Line of Business	2016	% of Total	2017	% of Total	2018	% of Total	2019	% of Total	2020	% of Total



2. Internal Audit Activity

2015 Audit Plan – Status Update

Below is a summary of changes made to the 2015 Audit Plan based on emerging risks.

Nalcor Energy - Internal Audit 2015 Audit Plan Adjustments			
Line of Business	Change	Audit Description	Explanation
LCP - ML	Add	Maritime Link Quality Assurance	QA of Maritime Link Cable deemed most critical piece of project.
LCP - ML	Remove	Maritime Link Interface Mgmt	Maritime Link Quality Assurance deemed critical.
LCP	Add	Information Security	Additional due diligence based potential for data breach.
LCP	Add	LCP HR (compentency and Training)	Deemed necessary based on number of employees and contractors on LCP
LCP	Remove	Project Execution Mgmt Plan (Scope and Approach)	This audit was intended to cover the scope of the project and the management approach. An audit during the execution phase of the project was deemed to have limited value.
LCP	Remove	Engineering / Construction Management Plan	This audit was intended to cover the construction design of the project. An audit during the execution phase of the project was deemed to have limited value.
LCP	Add	Opron Construction	Contract Award review at request of CEO.
NLH/LCP	Add	3 Invesigations	Investigations added as they arise.

Dashboard

- Below is a summary of current audits in various stages of completion.

Nalcor Energy - Internal Audit Dashboard									
Nov-15									
Project	Risk	LOB	Project #	Issue Risk			Total # OS issues		
				H	M	L	H	M	L
[Redacted Content]									

3. Metrics

Audit Cycle Times

Average Calendar Days - Audit Issue Reports							
Cycles		2014			2015		
<u>Cycle</u>	<u>Cycle Class</u>	<u>Target 2014</u>	<u>Actual 2014</u>	<u>Variance (Over) / Under</u>	<u>Target 2015</u>	<u>Actual 2015</u>	<u>Variance (Over) / Under</u>
Start - Audit Review	IAC	3.8	3.9	(0.1)	3.6	0.5	3.1
Audit Review - Area Review	IAC	3.4	4.7	(1.3)	4.5	7.3	(2.8)
Area Review - Initial Response	MC	15	36.1	(21.1)	15	23.6	(8.6)
Initial Response - Formal Response	MC	5	7.7	(2.7)	3	2.8	0.2
Formal Response - Finalized	IAC	2.5	1.3	1.2	2.3	2.5	(0.2)
No Actions Required - Completion	IAC	1.5	1.2	0.2	1.3	0.8	0.5
Totals IA Controllable	IAC	11.2	11.1	0.1	11.7	11.1	0.6
Totals Management Controllable	MC	20	43.8	(23.8)	18	26.4	(8.4)
IAC - Internal Audit Controllable							
MC - Management Controllable							

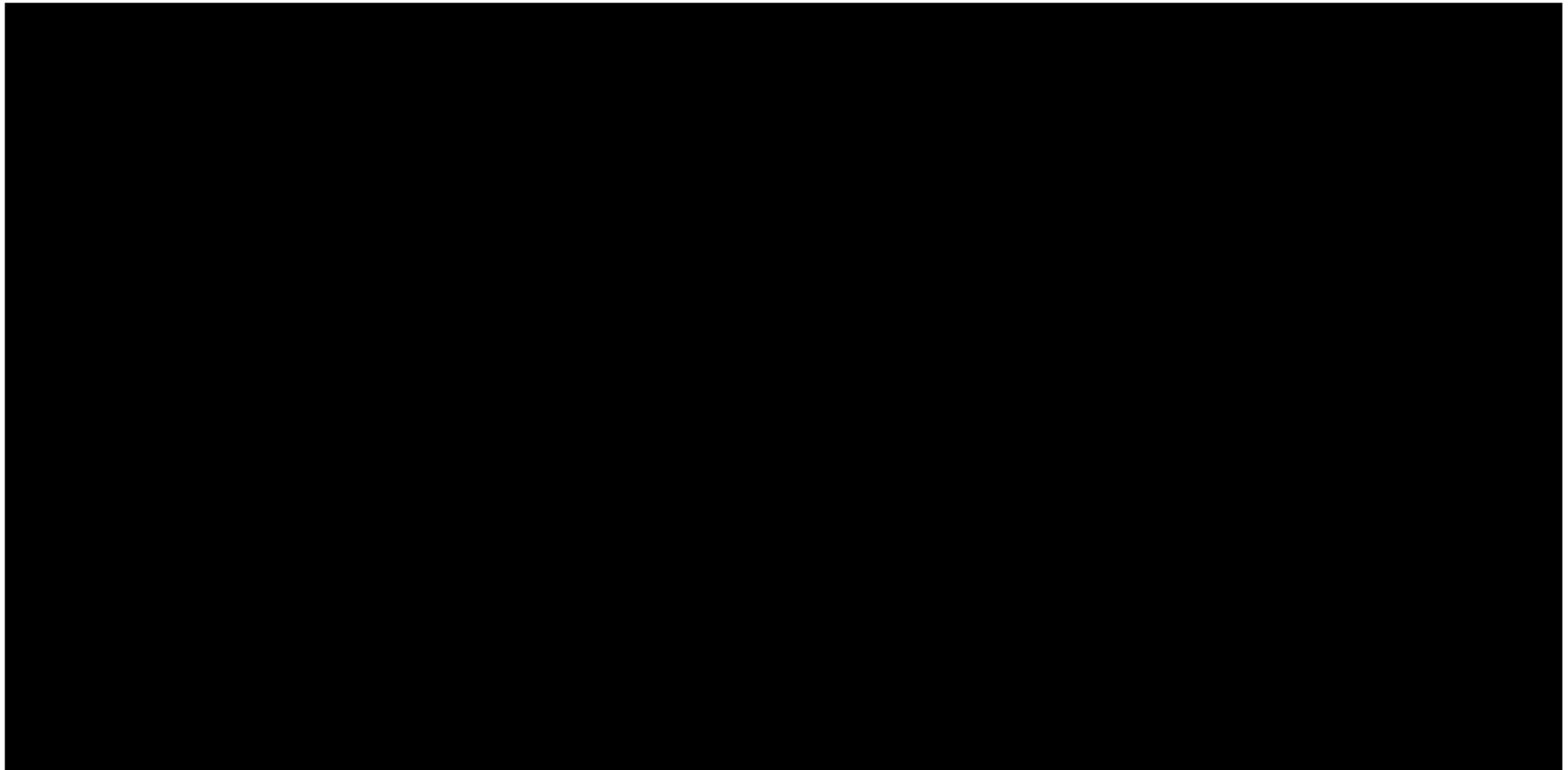
QUESTIONS?

APPENDIX A

2016-2020 Plan Detail

Plan Detail – CF(L) Co

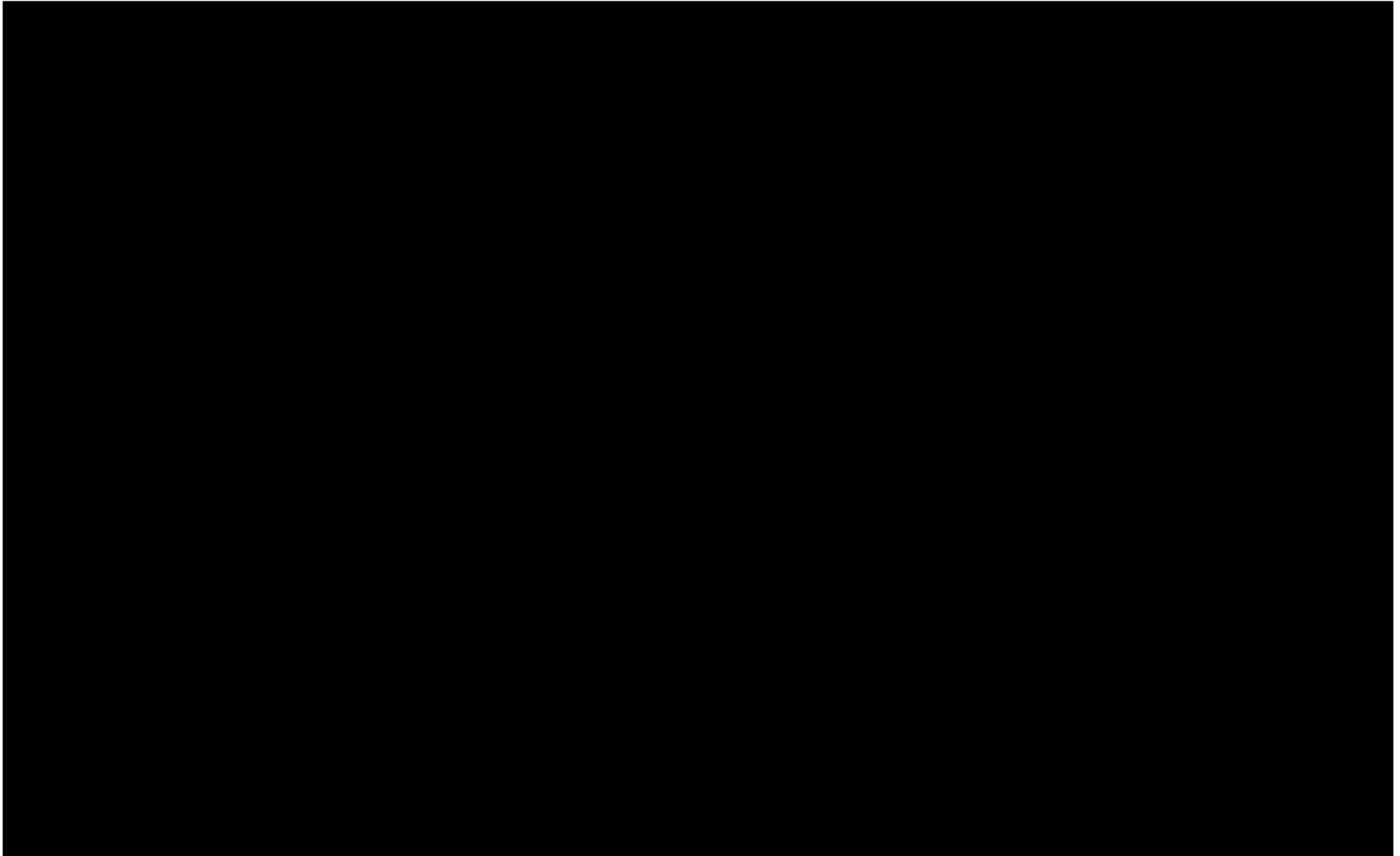
Nalcor Energy 5 Year Audit Plan - CF(L)Co							
Audit Description	Risk Level	Audit Year					Total
		2016	2017	2018	2019	2020	



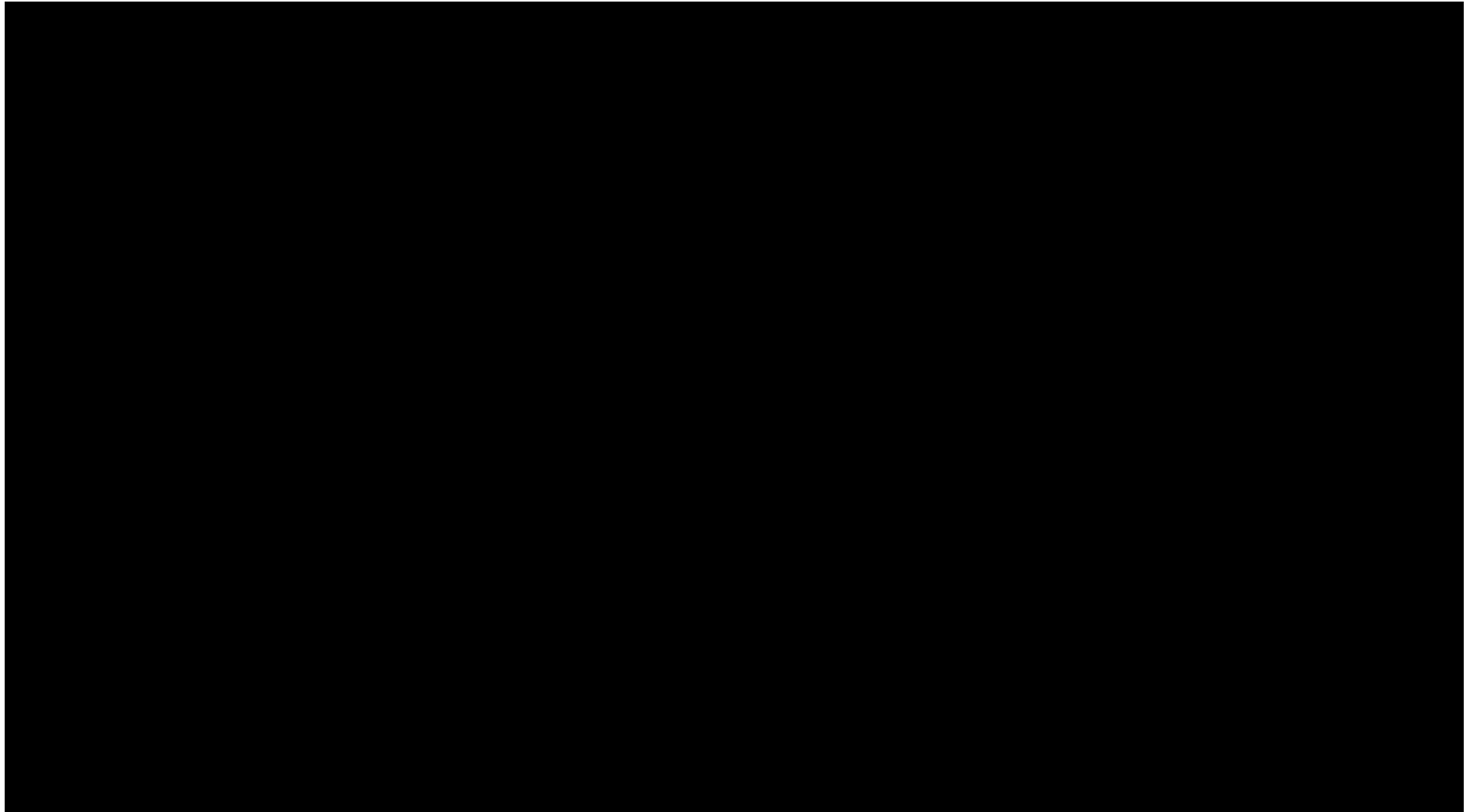
Plan Detail – Lower Churchill Project

Nalcor Energy 5 Year Audit Plan - Lower Churchill Project							
Audit Description	Risk Level	Audit Year					Total
		2016	2017	2018	2019	2020	
Cost Contingency (Requested by Government Oversight Committee)	High	150					150
SLI Contract	Medium	150					150
LCP Risk Register items	High	150					150
Innu Benefits Agreement	Medium	200	100				300
LCP Contract Compliance	High	200	500	400			1,100
LCP Environment (Contract Exhibit Governance and Compliance)	Medium	200					200
Project Controls, Capital Expenditure, Reliance and Compliance (Financial Authority)	Medium	200					200
Maritime Link	Medium	600	600	250			1,450
Current Risk Register Items (LCP and ML)	High		150	100			250
Contingency, Investigations and Follow-up	Medium	350	270	140			760
Total Hours for Line of Business		2,200	1,620	890	-	-	4,710
% of Hours allocated to Line of Business		30%	22%	12%	0%	0%	13%

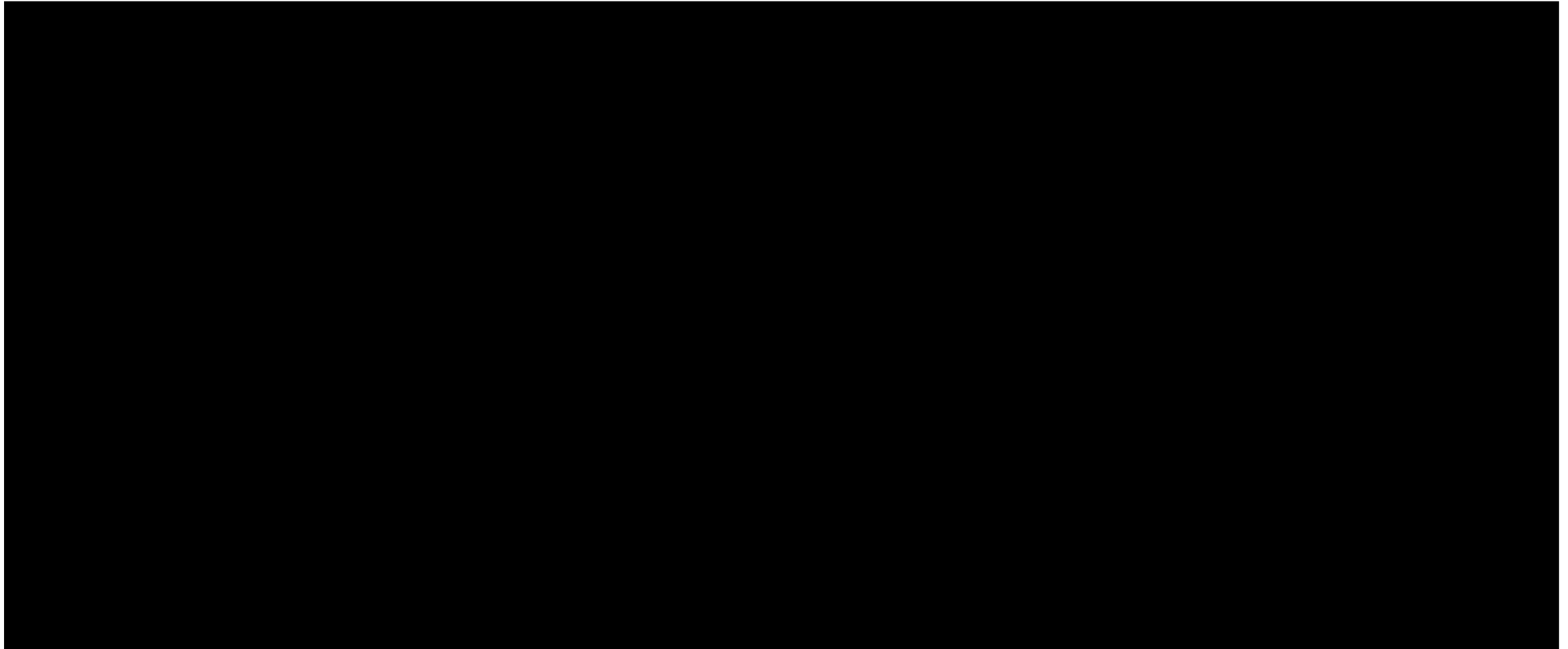
Plan Detail– Nalcor Energy (Corporate) page 1



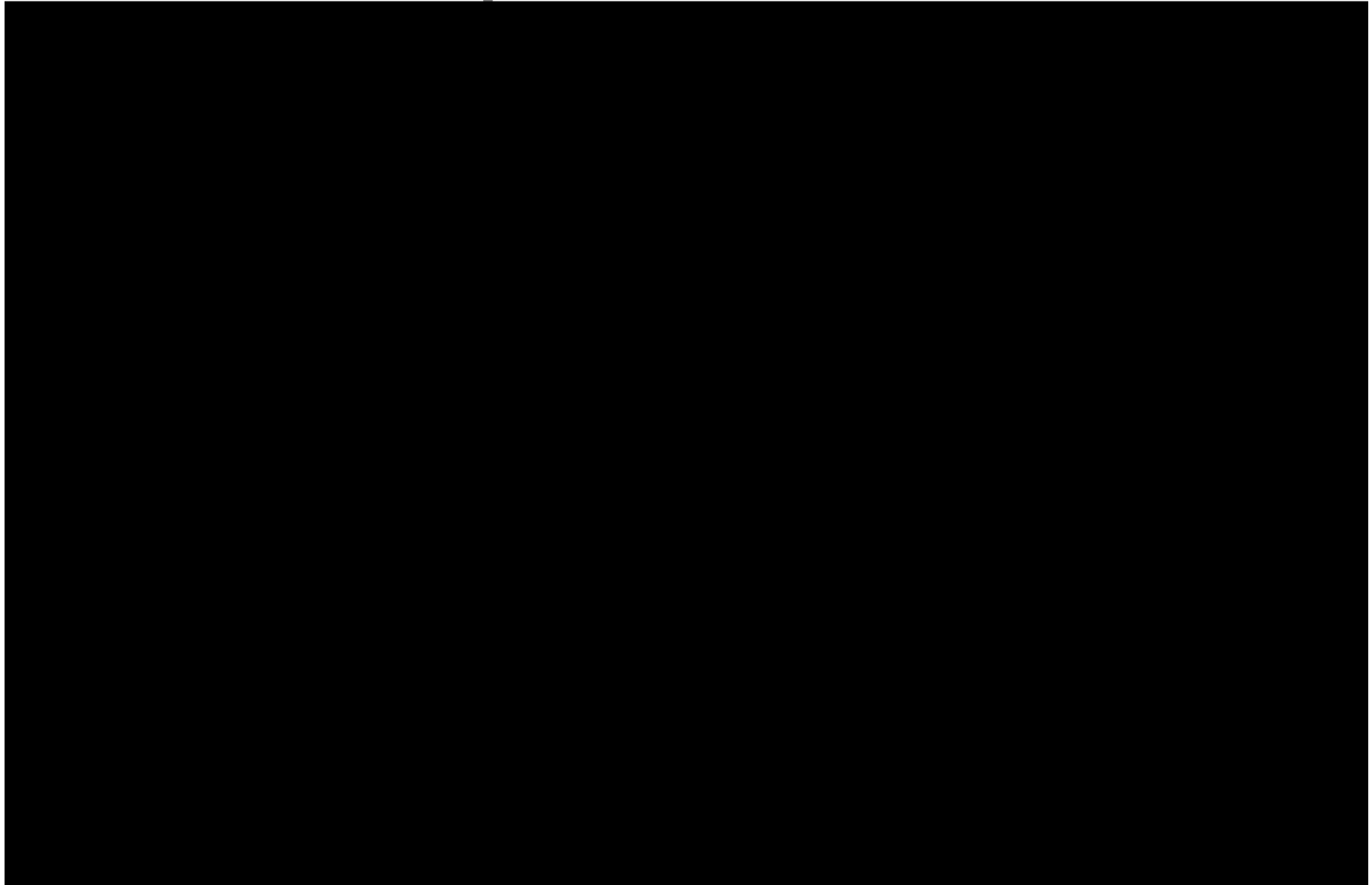
Plan Detail – Nalcor Energy (Corporate) page 2



Plan Detail – Energy Marketing



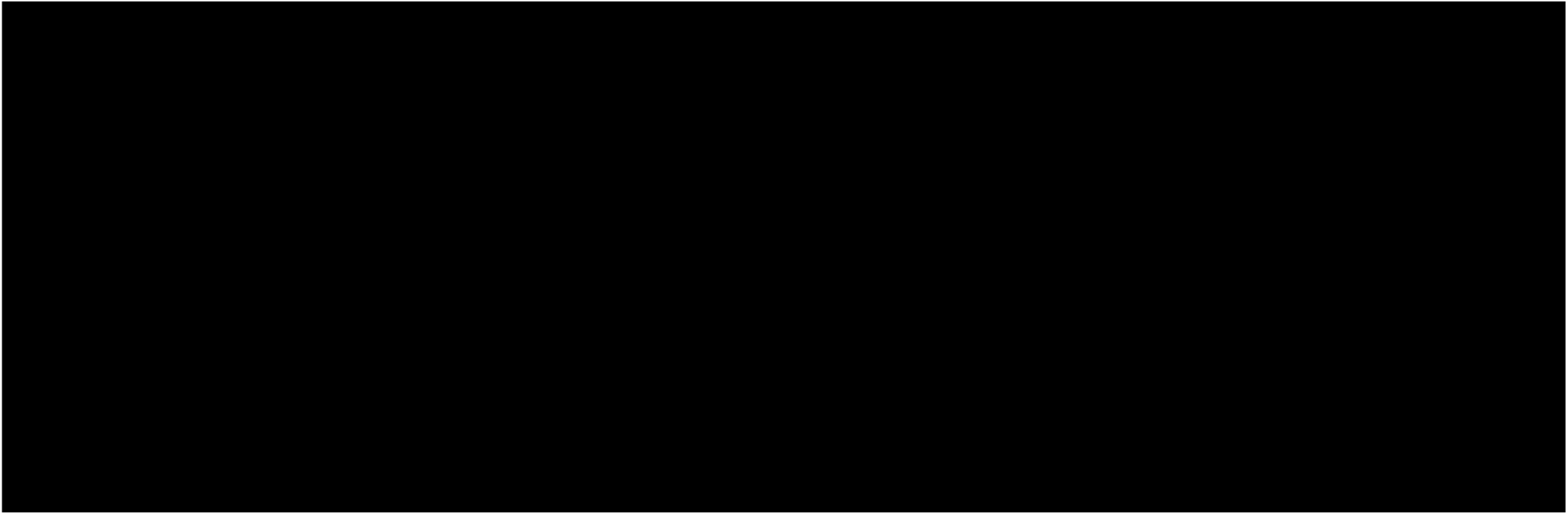
Plan Detail – NL Hydro



Plan Detail – Oil & Gas



Plan Detail – Bull Arm Fabrication



A proud, diverse energy company, whose people are committed to building a bright future for Newfoundland and Labrador, unified by our core values.

Teamwork

Sharing our ideas in an open and supportive manner to achieve excellence.

Open Communication

Fostering an environment where information moves freely in a timely manner.

Honesty and Trust

Being sincere in everything we say and do.

Safety

Relentless commitment to protecting ourselves, our colleagues, and our community.

Respect and Dignity

Appreciating the individuality of others by our words and actions.

Leadership

Empowering individuals to help, guide and inspire others.

Accountability

Holding ourselves responsible for our actions and performance.