

Nalcor Energy Internal Audit Audit Plan

November 2017

Boundless Energy



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1. Report Purpose

For approval

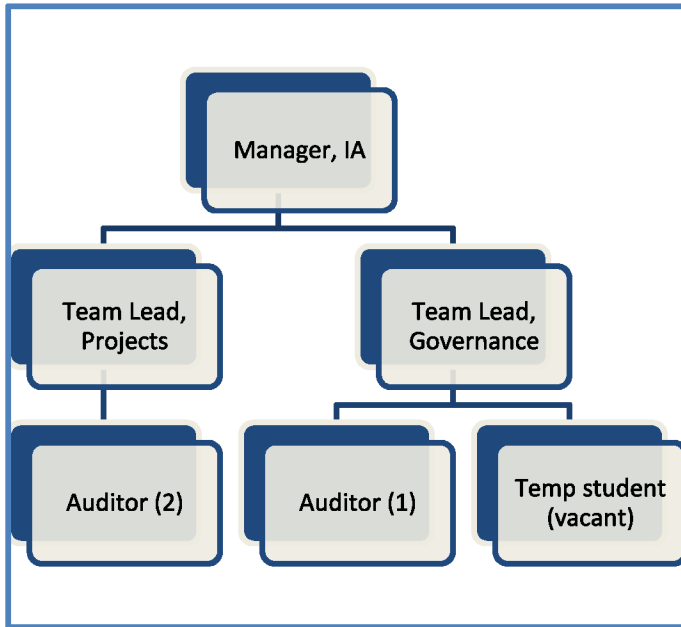
This purpose of this report is to obtain approval for the Nalcor Energy Internal Audit Plan for 2018 from the Nalcor Energy Audit Committee.

Subsidiary plans are also presented to the subsidiary audit committee and/or boards. The NL Hydro plan is developed by the NL Hydro Internal Audit team and presented to the NL Hydro Board of Directors for approval. The Churchill Falls Plan (within Power Supply) is prepared by the Nalcor Energy IA team and presented Churchill Falls (Labrador) Corporation Audit Committee for approval.

For information

As per the Internal Audit Charter, changes to the current year plan are reported to the Audit Committee. Appendix A is for information and will not be reviewed in detailed during the Audit Committee meeting.

2. Resource Plan



Nalcor Energy Internal Audit is comprised of five (5) auditors, plus a Manager, Internal Audit. Based on the resources plan, 4,787 hours are available in 2018 to complete new audits. Three auditors are assigned primarily to the Lower Churchill Project and two are assigned to all other lines of businesses and corporate services (excluding NL Hydro).

NL Hydro also has 2 employees dedicated to NL Hydro audits, which results in an additional 1,475 hours available in 2018. The NL Hydro Manager, IA will be on leave for 8 months of 2018, therefore, Nalcor Energy IA will manage the NLH audit plan.

Total hours available for both audit teams are 6,262.

Figure 1 - Org Chart - Nalcor Energy Internal Audit

Nalcor Energy - Internal Audit - 2018 Resource Plan	Governance, Risk and Control						Project & Compliance Group						Total
	Manager		Team Lead		Internal Auditor		Team Lead		Internal Auditor		Internal Auditor		
Work Execution Time													
New Audit	162	10%	826	50%	1032	63%	826	50%	909	55%	1,033	63%	4,787
Contingency, Carry over, F/U ¹	646	40%	165	10%	206	13%	248	15%	273	17%	207	13%	1,745
Audit Execution Total Time	808	50%	990	60%	1,237	75%	1,074	65%	1,182	72%	1,239	75%	6,532
Non-Audit Activities ²	808	50%	661	40%	413	25%	578	35%	471	29%	413	25%	3,343
	1,615		1,652		1,651		1,653		1,653		1,653		9,875
Annual leave, statutory holidays, training etc.	335		298		299		298		298		298		1,824
	<u>1,950</u>		<u>1,949</u>		<u>1,950</u>		<u>1,950</u>		<u>1,950</u>		<u>1,950</u>		<u>11,699</u>

Notes
 1 - Contingency, Carry Over, Follow Up - Hours available for additional audits based on Board of Director requests, management requests, the changing risk environment, and/or scope expansions. Internal Audit standards require a follow up process in place on previous audit recommendations.
 2 - Non-Audit Activities - Internal Audit staff meetings, safety meetings, LOB or functional area meetings, data analytics, process improvement, reliance on other assurance providers work, periodic assessments, quality assurance program, research, coaching, performance reviews and planning. A full Quality Assurance and Improvement Program review is to required in 2018, therefore, non-audit activities increases for the Audit Lead (GRC).

Figure 2 - Available Hours

3. Audit Plan - 2018

Internal Audit Plan Methodology

The Internal Audit Plan is derived from corporate risk assessments, discussion with management, previous internal audits results, research and industry best practice and trends. The planning process is consistent with the International Institute of Internal Auditor Guidance.

The **2018 Audit Plan** is fixed once approved by the Audit Committee, with the below exceptions.

- The Manager, Internal Audit may add audits based on changing risk throughout the year.
- In rare cases, an audit may be removed from the 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). A summary of changes would be presented to Audit Committee / Board annually.
- The Audit Committee / Board can change the plan at any time.

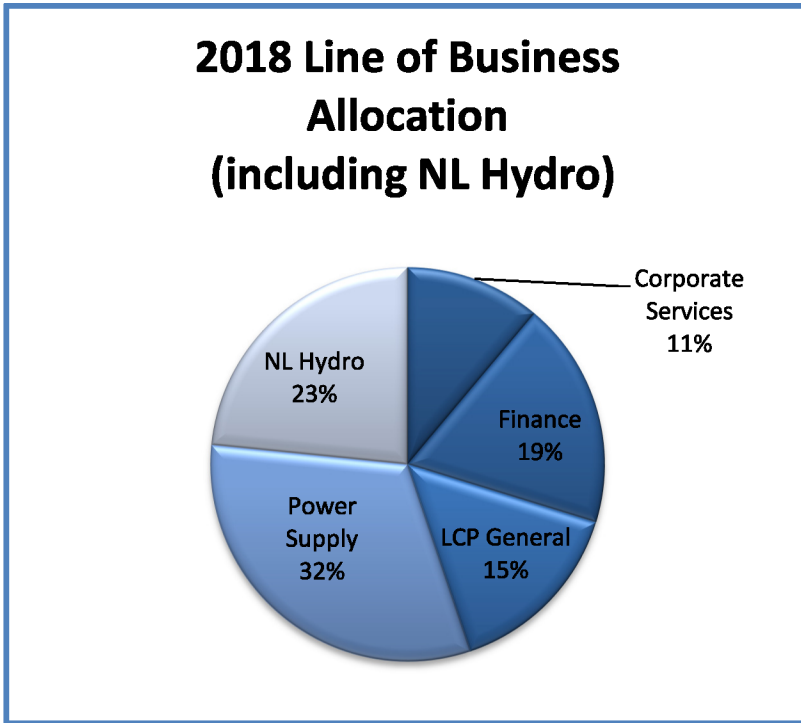
2019-2022 (Year 2-5) audits on the 5 year plan is for planning and resource purposes only and it will be reassessed during the planning phase each year, therefore, it may change based on changing business strategy and risk environment.

Detailed scopes of each audit will be determined during the individual audit planning stage, in which a detailed risk assessment will be completed and used to develop an audit program.

Audits previously requested by the Audit Committee are listed below to obtain alignment on continued inclusion in the audit plan.

- Executive Expenditure Review – Detailed review of executive’s expenditure on an annual basis, including corporate cards, vehicles costs and travel expenditures.
- External Audit Assistance – In order to reduce the external audit costs, Internal Audit provides testing assistance to the external auditor.

Line of Business Allocation

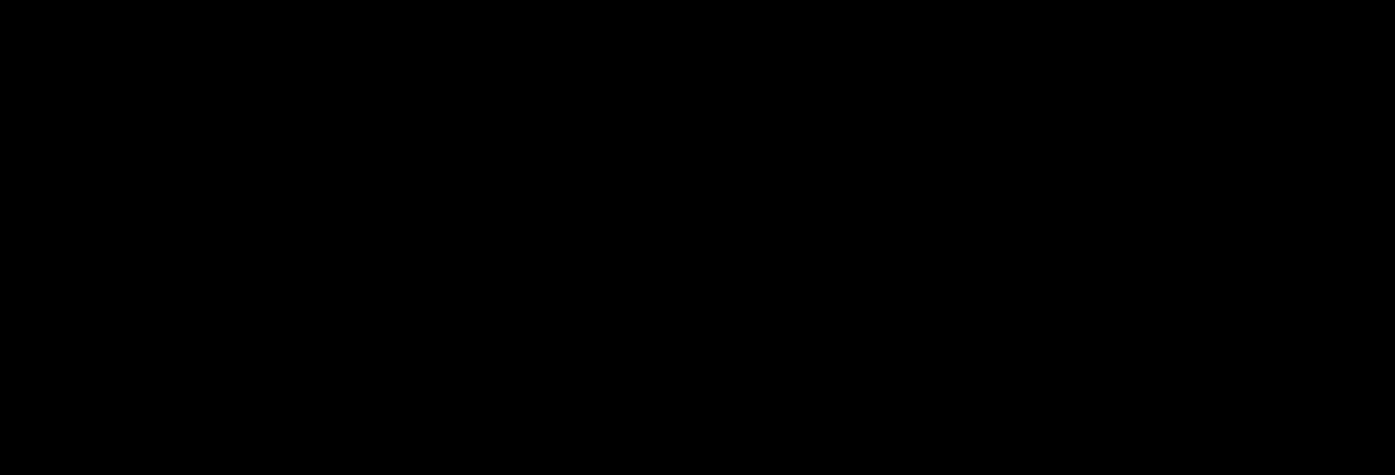


The line of business allocation is based on the number of hours assigned to each audit in the 2018 audit plan based on Executive Vice President / President accountability with the exception of LCP General. For audit efficiencies, several of the Lower Churchill Project audits cover both Power Supply (Transmission Link) and Power Generation (Muskrat Falls) in one audit, which would be identify as LCP General. Audits specific to the Lower Churchill Project comprise 29% of the resource allocation and are covered in Power Supply, LCP General and Finance. Corporate Services audits for this year include the Oil & Gas line of business and Health & Safety.

Figure 3 - 2018 Line of Business Allocation

Nalcor Energy - Audit Plan 2018

Org Structure - EVP Accountability	Line of Business / Department	Audit Name	Risk Level	2018 hrs
Finance	Finance			
	Information Technology			
LCP General	Project Control	Contractor Performance - Compliance	Medium	350
		LCP Reporting Quality Assurance	Low	150
	Safety	LCP - Health & Safety	High	200
	LCP Finance	LCP Project Financing	Medium	250
Power Supply	Churchill Falls			
	Transition to Operations	Electricity System Integration - Ready for operation	High	250
		Electricity System Integration - Build the Production Organization	High	350
Total Hours - Nalcor Energy Internal Audit				4,825

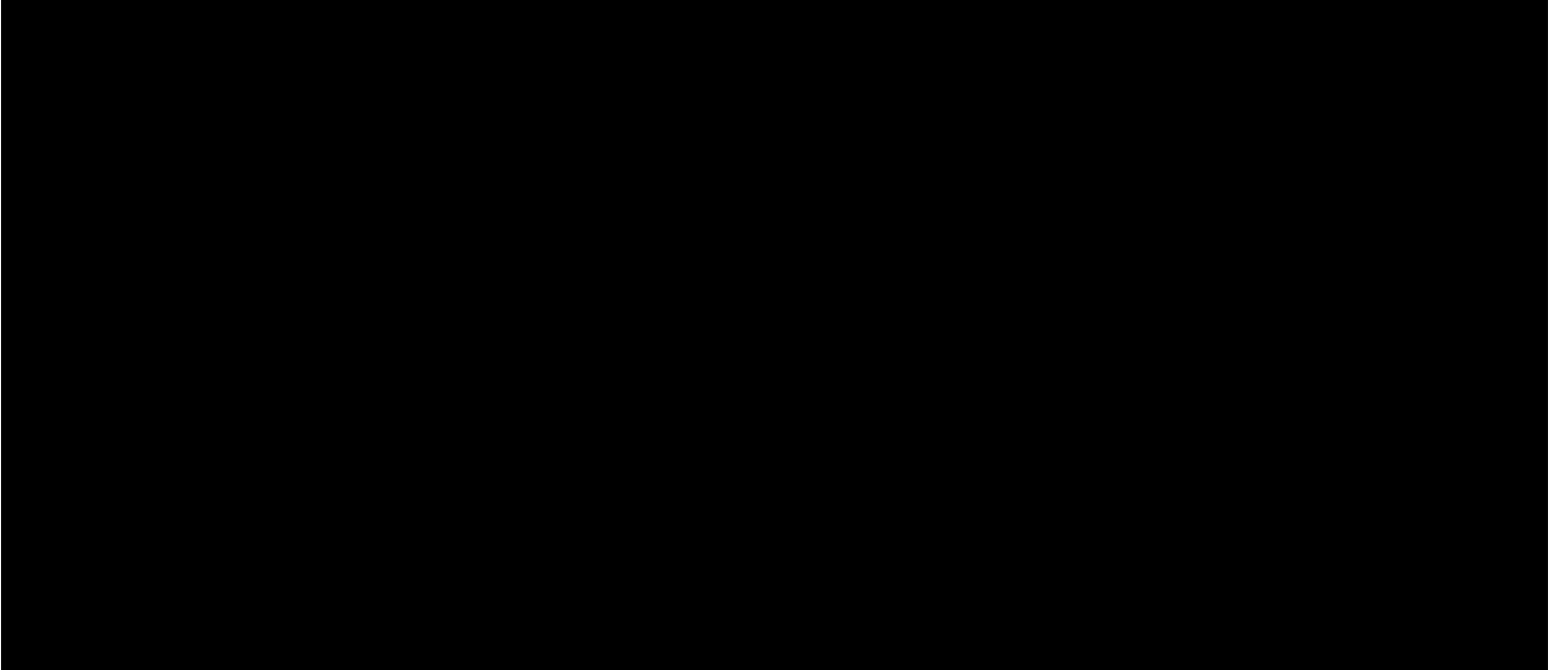


4. Internal Audit Activity

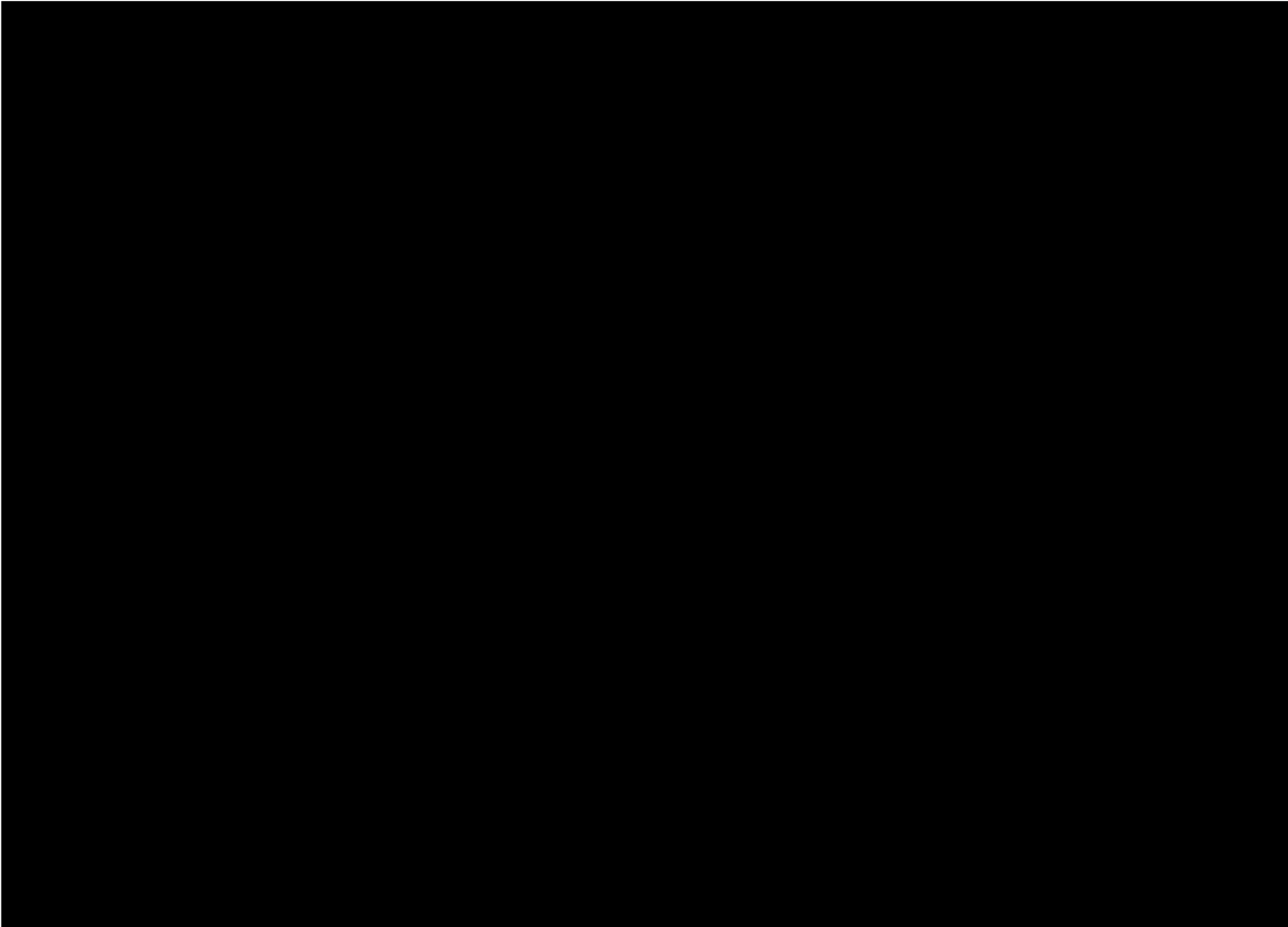
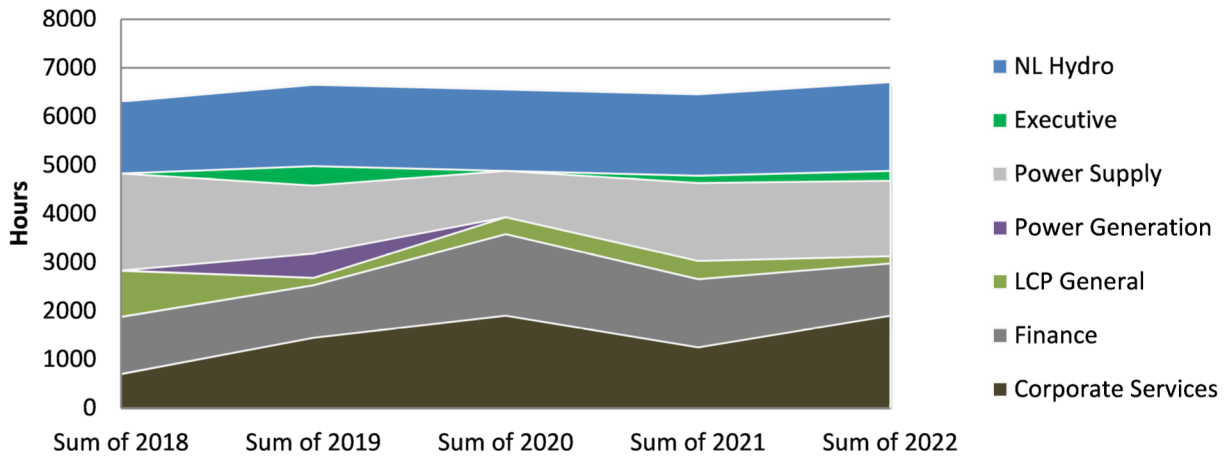
Changes to the Nalcor Energy 2017 Audit Plan

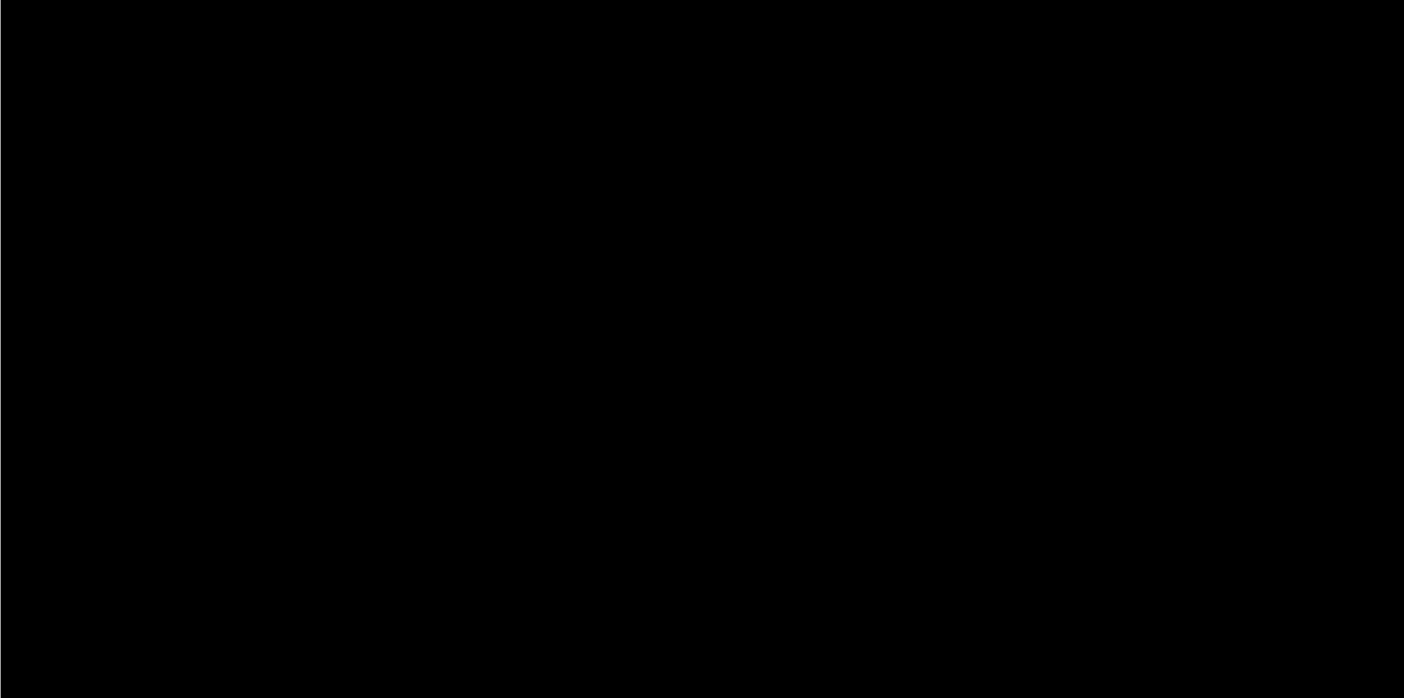
In accordance with the IA charter, changes to the approved annual plan must be presented to the Audit Committee. Below is a summary of changes made to the 2017 Audit Plan based on business requests and/or changing risks.

Nalcor Energy – Internal Audit 2017 Audit Plan Adjustments			
Lines of Business	Change type	Audit Title	Audit Description
Nalcor Energy	Add	Whistleblower	Joint investigation with HR regarding allegation against employee.
Power Generation	Add	Site Procurement, Invoice attest, allowance and respectful workplace review	Four piece investigation completed with HR based on anonymous letter regarding Muskrat Falls Site.
Power Generation	Add	Innu Benefits	Review of procurement related to the Innu Benefits Agreement.
[Redacted]			
Nalcor Energy	Add	Auditor General	Coordinate and support all Auditor General activities.
[Redacted]			



5 Year Resource Allocation (Nalcor Energy and NL Hydro)





Org Structure - EVP Accountability	Line of Business / Department	Audit Name	Risk Lev	2018 hrs	2019 hrs	2020 hrs	2021 hrs	2022 hrs
LCP General	Project Control	Contractor Performance - Compliance	Medium	350				
		LCP Reporting Quality Assurance	Low	150	150	150	150	150
	Environment	Environmental Assessment (EA) Compliance	Medium				225	
	Information Management	LCP - Data transfer / Lessons learned	Medium			200		
	LCP Finance	LCP Project Financing	Medium	250				
Power Generation	Safety	LCP - Health & Safety	High	200				
	Management	Project Close - Muskrat Falls	High		350			
	Procurement	Surplus & Disposal	Low		150			

Org Structure - EVP Accountability	Line of Business / Department	Audit Name	Risk Lev	2018 hrs	2019 hrs	2020 hrs	2021 hrs	2022 hrs
Power Supply								
	Management	Project Close - Labrador Transmission Link / Labrador Island Link	High	450				
	Transition to Operations	Electricity System Integration - Ready for operation	High	250				
		Transition to Operations - Cost Review	Medium		200			
		Electricity System Integration - Build the Production Organization	High	350				
	Muskrat Falls	Long Term Asset Management	Medium				200	
		Environmental Monitoring - Muskrat Falls	Medium					200

Estimated Hours

Total Audit Hours Required