

AMPCO SUPPLEMENTARY INTERROGATORY 17

QUESTION

Please provide a detailed description of the audit processes applied to financial settlement.

RESPONSE

The OPA's settlement transactions are verified by a combination of the internal auditor's review and the external auditor's review. The internal auditor review of the settlement process tests and verifies the input data from the IESO, the calculations of the actual payment to the counter-party is correct and matches to the counter-party contract terms and that the amount calculated is what is paid. The internal auditor review also tests the internal controls over the process such that the controls are sufficient and effective in preventing errors and omissions. The external auditor confirms the existence of the controls, tests them with sampling procedures and verifies that a sample of payments are correctly processed. The two steps in combination provide the assurance to the Board of Directors that the results accurately represent the transactions and that the controls are efficient and effective.

Internal audits within the OPA are executed on a three year risk-based rotational audit plan that is updated annually. In 2007, OPA management requested an internal audit of the Contract Management Department's settlement process from the Finance & Revenue Audit Service Team, which is part of the Ontario Internal Audit Division at the Treasury Board Office in the Ministry of Finance.

The scope, approach and conclusion for the internal audit are described in the following excerpt from the internal audit report:

AUDIT OBJECTIVE & SCOPE

This audit was performed at the request of OPA management. The audit objective was to assess whether the OPA achieves effective and efficient operations in the contract management settlement process and payment practices in relation to electricity generation.

The audit criteria used to evaluate this objective were:

- Payments are supported, accurate, properly authorized, and calculated in accordance with contract terms and prices;*
- Payments are properly recorded and completed in a timely manner;*
- Processes in place are fully documented in corporate policies and/or procedures;*
- An effective reporting structure is in place to ensure senior management is aware of the financial practices and exceptions are escalated as required;*

- *An appropriate mechanism is in place for managing existing contracts;*
- *Key controls, processes and proper staffing are identified by the Division.*

APPROACH

The engagement focused on procedures used by the Contract Management Division - Settlement Process to manage the supplier contracts and calculate the payment amounts. Our audit approach included, but was not limited to:

- *Obtaining a working understanding of the environment;*
- *Obtaining and reviewing organization charts and reporting relationships;*
- *Review high level process flow documents and/or department procedures manual showing the current process for contract management and invoice payment to identify key controls, common practices, potential risks, and areas for improvement;*
- *Review of current Risk Management Framework; and*
- *Examination on a sample basis, contracts, invoices, supporting documents and payments to ensure effective and efficient operations and compliance with established practices.*

CONCLUSION

The processes in place for the payment practices in relation to contract management Division – Settlement Process (e.g., monthly invoice preparation/validation) and payment practices for electricity generation and demand reductions are effective and efficient.

As they have done every year, the OPA's external auditors would have performed the procedures described in paragraph 1, above within the context of verifying that the financial statements present fairly, in all material respects, the financial position of the OPA as at December 31, 2007. The auditor's report for that year was included in the OPA's 2007 Annual Report, filed in EB-2008-0312 at Exhibit A-5-1, page 30.

Based on the internal audit schedule currently in place, the next internal audit of this process is scheduled to be undertaken in 2010.