

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 25.20 and 25.21 of the
Electricity Act, 1998;

AND IN THE MATTER OF a Submission by the Ontario
Power Authority to the Ontario Energy Board for the review
of its proposed expenditure and revenue requirements for
the year 2014.

AFFIDAVIT

I, Terry Gabriele, of the City of Toronto, in the Province Ontario, MAKE OATH AND SAY
AS FOLLOWS:

1. I am Director, Finance, and also the Internal Audit Manager, for the Ontario Power Authority (OPA) and as such I have knowledge of the matters addressed in this affidavit.
2. As the OPA's Internal Audit Manager, I am responsible for the development of the Internal Audit Plan, monitoring the execution of the Internal Audit Plan, executing select audits and reviews aligned with the Internal Audit Plan, and reporting results of the internal audits to the Audit Committee of the OPA's Board of Directors. In my role as Internal Audit Manager, I report directly to the Audit Committee. I also report administratively to the Vice President Business Strategy and Solutions.

3. The fundamental purpose of the Internal Audit function is to assist management of the OPA and the Audit Committee in the effective discharge of their responsibilities with respect to ensuring that controls and procedures are operating as intended. It is the ultimate responsibility of management to establish adequate internal control policies and procedures to create a strong internal control environment.
4. The internal audit program is not a review of operating budgets or financial forecasts, nor is it a review of the annual business plan. The program focuses on business procedures and processes, and not on the financial outcomes of those procedures and processes.
5. Any audit that bears on a current year's expenses would occur only after the fact and generally in future years as an element of controls and assurance testing. The "controls" aspect of controls and assurance testing relates to the segregation of duties, authorization of transactions and review of accounts and the "assurance" aspect relates to the reasonableness of processes and procedures.
6. It is management of the OPA, rather than the internal audit function, that is responsible for the efficiency and effectiveness of operations and financial outcomes. The evidence filed in this proceeding explains the measures and metrics developed by management for the specific purpose of reporting on the effectiveness of activities in the 2014 business plan.

7. The OPA's Board of Directors does not review day-to-day activities of the organization and, accordingly, the Board of Directors requires assurance, independent from management, that processes and procedures employed at the OPA are reasonable. The internal audit review of procedures is one method by which the Board of Directors can receive this assurance.
8. Internal audits are not relevant to the 2014 business plan, nor are they relevant to the OPA's Revenue Requirement Submission to the Ontario Energy Board (OEB). The internal audit program is built on a five-year cycle and examines activities that have concluded, as opposed to the 2014 business plan, which is a forecast of the future.
9. Business processes reviewed as part of the internal audit function can and do change over time. For instance, the OPA is currently working with electricity distributors (LDCs) to develop the new Conservation First Framework which will fundamentally change the way conservation is delivered and significantly enhance the role of LDCs. Similarly, generation procurement, once a public competitive process, moved into a standard offer program (FIT and microFIT) and now a public competitive process will be re-introduced, for the Large Renewable Procurement program.
10. An internal audit reviewing the process for conservation program delivery from 2011-2014 will not provide insight into the effectiveness of the Conservation First

Framework to be delivered by LDCs in 2015 and beyond. Reviews of processes for standard offer programs will not provide useful insight into 2014 expenses related to the Large Renewable Procurement program. In short, the OPA's internal audit program does not provide insight into the efficiency and effectiveness of the 2014 business plan.

11. More generally, internal audits do not provide insight into the overall efficiency and effectiveness of operations. They are designed to provide reasonable assurance that controls and procedures are operating as intended and to recommend incremental improvements to processes.
12. In order to assist with an understanding of the internal audit function, I will provide an example of how an internal audit report might address a specific element of operations. The example (exaggerated for clarity of concept) is a situation in which an internal audit is conducted of a business process used for 40,000 transactions. In this example, the audit reveals that two transactions may have passed when they should have failed.
13. The outcome of the internal audit in my example is a recommendation for an incremental improvement to the particular process in order to prevent future recurrence of the two failed transactions, rather than an assessment that the process largely operated in an appropriate fashion. Management may then

implement the recommendation or it may decide, with its reasons for doing so, that implementation of the recommendation is not warranted.

14. Continuing with the example, management's decision is reviewed by the Audit Committee when the auditor's report is presented to the Board of Directors. The Audit Committee decides whether management has taken appropriate action.
15. The important point of this example is that the internal audit report does not assess whether the costs and other consequences of changing the particular process are warranted due to the two failed transactions. The internal audit report is not a basis for forming conclusions about the cost-effectiveness or efficiency of changing the process that was used for 40,000 transactions.
16. An internal auditor holds a unique position in that he or she reports directly to the Audit Committee and yet is still an employee of the organization. The direct reporting relationship with the Audit Committee provides independence from other parts of the organization and is relied upon by the Board of Directors for assurance that controls and procedures implemented by management are operating as intended.
17. It is fundamental to the internal auditor's reporting relationship with the Audit Committee that the Audit Committee can be confident that audit reports are prepared without in any way being influenced by the implications of the reports becoming available to another audience. To the extent that external parties

become involved in an examination of internal audit reports, the unique position of the auditor, with duties to the Audit Committee and an employment relationship with the organization, will be compromised. To the extent that there is any reason for the Board of Directors to think that there has been any reason for influence on the independence and objectivity of the auditor, the Board of Directors will be unable to rely on audit opinions.

18. The preparation and reporting of the auditor's findings cannot be influenced by an awareness of viewpoints of different audiences, but must be focused on the pure purpose of providing information to the Audit Committee and management. It is particularly important not to compromise the integrity of the internal audit process by seeking to gain insights from audit reports that they do not actually provide, such as insights into the efficiency and effectiveness of the OPA's 2014 business plan.
19. When an audit review has been completed, all findings are communicated both verbally and in written form to both the Audit Committee and management. Also, on an annual basis, the Internal Audit function oversees a follow-up review of internal audit reports and recommendations
20. The most recent review completed by BDO Dunwoody found that, of the 42 outstanding recommendations for audits completed in the period spanning January 2009 through February 2013, 29 were complete and nine were

substantially complete, with four having some additional work to complete. Three of the four are related to a records retention program at the OPA and a project is under way to codify and structure the 15 terabytes of electronic documents and the existing inventory of paper documents. The final recommendation is a review of external vendors providing incentive redemption services and is under way. BDO Dunwoody has concluded that, of the 42 recommendations, there are zero that have not been or will not be implemented by the OPA.

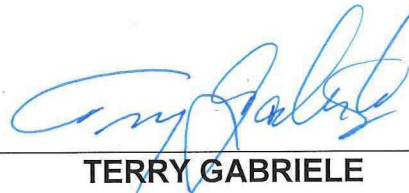
21. The OPA contracts with LDCs to deliver electricity savings through specific conservation programs. Under the contracts with the LDCs, the OPA reviews the controls and procedures of the LDCs to obtain reasonable assurance that those controls and procedures are operating as intended. The reviews assess controls and procedures employed by the LDCs in the delivery of electricity savings through the LDC-managed conservation programs. These reviews are not related to any costs or operating expenses in the OPA's 2014 business plan or in its Revenue Requirement Submission to the OEB.

SWORN before me at the City of)
Toronto, this 18th day of July,)
2014)
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A COMMISSIONER, ETC.

Michael Lyle


TERRY GABRIELE