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22 February 2010

To: All Pipeline Companies under the Board's Jurisdiction

### **Financial Regulatory Audit Policy**

On 23 February 1999, the National Energy Board (Board) revised its Financial Regulatory Audit Policy (Audit Policy) which is applicable to all regulated pipeline companies.

As more than ten years have passed since the Audit Policy revision and in light of the risk-based lifecycle regulatory approach adopted by the Board, the Board has undertaken a review and update of the Audit Policy.

The Board's updated Audit Policy is set out in the attachment. A few notable changes between the 1999 version and the latest version are highlighted below.

In the Objectives section, the Board has combined the previous Objectives 1 and 2 into one objective and has revised Objective 4 to focus on obtaining information on companies' current operations, management systems, procedures and internal controls. As part of this objective, the Board will be reviewing the extent to which companies have documented their key toll and tariff processes and procedures, including clearly defined roles and responsibilities for each function and an appropriate training program for new employees. The goal of this documentation is to ensure that regulatory requirements are fully understood and complied with on an ongoing basis.

The Board's audit approach and procedures are unchanged from the current practice. Following each audit, the Board will issue its draft audit report which provides a summary of the information examined and any Findings, Recommendations and significant observations. The Company would then have an opportunity to comment on these matters before the Board issues its final report, which would be a public document to be served on shippers and interested persons and posted on the Board's website. The final report will either reflect the Company's comments through amendment of the draft report or incorporate the Company's comments with a final comment from the Board.

Pipeline companies are directed to serve a copy of this letter on all of their shippers and interested persons.

Yours truly,

A handwritten signature in black ink that reads "AnneMarie Erickson".

Anne-Marie Erickson  
Acting Secretary of the Board

## **Financial Regulatory Audit Policy of the National Energy Board**

On 23 February 1999, the Board revised its Financial Regulatory Audit Policy (Audit Policy) which is applicable to all regulated pipeline companies. As more than ten years have passed since the Audit Policy revision and in light of the risk-based lifecycle regulatory approach adopted by the Board, the Board has undertaken a review and update of the Audit Policy.

The Board considers financial regulatory audits to be an important regulatory tool to ensure compliance with the *National Energy Board Act* (NEB Act), regulations, orders, and decisions, as well as documenting companies' current operations, management systems, procedures and internal controls. Accordingly, the Board is issuing an updated Audit Policy as set out below. Financial regulatory audits will be carried out on the basis of the following objectives, confidentiality guidelines, approach and procedure.

### **A. Objectives**

1. To determine whether the company has complied with the NEB Act, regulations, decisions, toll orders and other accounting and reporting directives.
2. To verify that the financial information contained in various company applications or submissions to the Board agrees with the company's records.
3. To examine whether cross-subsidies have occurred.
4. To obtain information on the company's current operations, management systems, procedures and internal controls.

### **B. Audit Confidentiality**

While the Board will continue to make its final audit reports public, the following guidelines on audit confidentiality will be observed.

1. Documents, or copies thereof, obtained from the company during an audit will not be placed on the public record.
2. Confidentiality of audit working papers, including company documents, will be protected by strict internal Board protocol regarding access and by exemptions that may be applicable under the *Access to Information Act*.
3. For documents containing information of a sensitive nature, a company may request that only senior representatives of the Board shall have access.

4. Should the Board wish to raise a matter arising out of an audit in a public proceeding, the Board will not use documents obtained during the audit as direct evidence. Rather, during the proceeding, the Board will request such information directly from the company so that it would have an opportunity to respond as it sees fit.

### **C. Approach**

To identify companies for audit, the Board follows a risk-based approach, which takes into account, among other things, the relationship between the company and its shippers and the availability to the Board of current financial information. The Board may also initiate an audit should it become aware of any violation of the NEB Act, regulations, decisions, toll orders or other accounting and reporting directives.

The Board generally recognizes the opinions expressed by the external auditors on the financial statements of the company and will not normally duplicate the work of the external auditors. The Board will examine information related to issues raised by shippers and interested persons and matters of concern to the Board. The Board will also observe the extent to which companies have put in place management systems, procedures and internal controls to ensure that regulatory requirements are fully understood and complied with on an ongoing basis.

With respect to those companies that operate under negotiated toll settlements, the Board will also review the performance measures utilized by the companies to determine whether the settlements are achieving their objectives.

### **D. Procedure**

1. Before fieldwork commences, an audit plan is approved by the Board, the company is notified of the scope of the examination, and is consulted on timing for the audit.
2. Best efforts will be made to conduct an audit of a particular company when there are no Part IV matters from that company before the Board. However, should the Board find it necessary to conduct an audit when Part IV matters for a company are being considered, it would not be the Board's intention to examine issues that had been raised in those matters.
3. Following the completion of the fieldwork, the Board will issue to the regulated company for comment a draft audit report, which describes all Findings, Recommendations and significant observations.
4. After considering any comments received from the company, the Board will issue its final audit report reflecting these comments as appropriate. The company will then be required to send copies of the final report to its shippers and interested persons. The final audit report will be a public document and will be posted on the Board's website.