



N.V. GEMEENSCHAPPELIJK ELECTRICITEITSBEDRIJF BOVENWINDSE EILANDEN

"NV GEBE"

INTERNAL AUDIT PLAN 2015

May 2015



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1. Role of Internal Audit

As per the Institute of Internal Auditors (IIA): "Internal Auditing is an *independent, objective assurance and consulting activity* designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of *risk management, control, and governance processes*".

Internal Audit is therefore an important tool of management for NV GEBE. According to the Internal Audit Charter, the Internal Audit department is responsible for developing an annual Internal Audit Plan. This Internal Audit Plan combines the results from the Risk and Control Assessment, the priorities given by the Managing Board and the Audit Committee and the Internal Audit time/capacity and results in a planning of audits for a year.

All internal NV GEBE procedures are potential audit objects (see internal audit universe documented in the strategic document). The risk based approach is applicable at NV GEBE and therefore the focus will be on key internal control procedures. Priority will be given to high risk areas or areas directed by the Managing Board and/or Supervisory Board of directors through the Audit Committee. Considering the fact that no elaborate risk assessment, e.g. Enterprise Risk Management, has taken place at NV GEBE, the key risks were identified by the Internal Audit Department, in close consultation with management. See separate spreadsheet on risk analysis/ key risks of NV GEBE in the appendix. A detailed risk & control assessment per process is prepared at the beginning of the audit of that process.

The internal audit plan will consist of the following components:

- Risk assessment;
- Outline of key Business Processes;
- Scheduling of the work to be undertaken by the internal audit function within the year 2015;
- An overview of the audit execution activities.

Budget and Resources:

Presently Budget resource will be difficult to estimate due to the following:

- All audits that have been executed during 2013 and 2014 and are about to execute in 2015, can be categorized as first time/ second time audits which makes it difficult to make an estimate.
- All audits that have been executed up to present took longer than initially anticipated.

In conclusion after executing the Internal Audit plan 2015. The Internal Audit Department will have a better overview to provide the above mentioned in the 2016 Audit plan.

Impact of resource limitations:

For 2015 we estimate that external support will be needed as was the case in 2014. We proposed to contract external support for specific audits.

2. Risk Assessment

In accordance with IIA performance standard 2010 and 2120 the internal audit department must establish a risk-based plan to determine the priorities of the internal audit activity consistent with the organization's goals. Internal Audit has an ongoing responsibility to evaluate the effectiveness and contribute to the improvement of risk management arrangements within NV GEBE.

Managing risk is a shared responsibility of all members of an organization. Each process owner should be aware of the risks that threaten their process, the risks should be rated and internal controls should be implemented to mitigate those risks. Directors have a responsibility to lead and provide support with regards to implementation of a risk management program and internal audit has responsibility to evaluate the effectiveness of this program.

However, up to now NV GEBE has not implemented a risk management (ERM) program. This has a negative effect on the internal audit department's ability to meet one of its fundamental roles, namely:

"The internal auditors' core ERM role is to provide objective assurance to the board and senior management on the effectiveness of the ERM activities in helping ensure key business risks are managed appropriately and the system of internal control is operating effectively".

For that reason we executed our own high level risk assessment covering the key risks (see appendix). We schedule a detailed risk and control assessment review at the start of each audit and that way gradually document an integral assessment for all of NV GEBE's processes. The risk assessment will be revisited every year following its initial documentation.

Based on the high level risk analysis, key business processes have been identified that will serve as audit objects. In addition the financial statements have been analysed and management's and the Audit Committee's input has been obtained (through interviews) to identify the focus areas for the internal audit department. Specific developments in the organization such as implementation of a new system, suspected irregularities etc. have also influenced the plan.

The company's business processes identified have been categorized in management processes, operational processes and supporting processes.

3. Business processes

The business processes can be categorized as follows:

- management processes;
- operational processes; and
- supporting processes.

The following business processes were identified as high priority processes at NV GEBE:

Management

- Strategic Management process
- Corporate Governance process

Operational

- Production process (power plant)
- Distribution process
 - o Movement analysis (from production at power plant to consumer)
 - o Meter affairs/ management process (including maintenance)
 - o Project management
- Revenue process (electricity and water) including invoicing and collecting of accounts receivable
- Purchasing process (e.g. fuel, lubricants, water, contractors)

Supporting

- HRM process (including payroll and pension)
- Financial Management process

In addition to the audit of business processes it is imperative that follow up is given on audit findings in order to improve the effectiveness and efficiency of business processes. In order to monitor the follow up given on audit findings (by the internal and external auditor), a management action plan was introduced where audit findings and management action are documented. Each quarter a follow up review is scheduled to determine the status of the follow up given on audit findings, which is also documented in the management action plan.

4. Internal Audit Plan 2015

When identifying individual audits for 2015 we considered:

- Areas where there have been changes to processes or new processes (e.g., acquisitions of equipment/ change of process owner)
- Areas that have experienced errors or control breakdowns
- Complexity of the process
- Level of change within the process
- Risk of fraud within the process
- Areas that are critical to the implementation of the company's strategic objectives
- Results of prior internal audits, particularly where prior issues were not resolved in a timely manner
- Audits of special projects
- Management requests

The following plan has been defined for 2015:

Period	Description	Audit Focus	Type of Assignment
May - June	Production process	Operational	Audit
June	General expenses (analytical review and accuracy of invoices)	Financial	Audit
July	Follow-up Management Action Plan		
July	Verification of administrative status of Meter resealing project.	Operational	Audit
July - Dec	Implementation of Enterprise Risk Management		Special project
August	Information Technology (IT) Audit (outsource via tender)	Supporting/ Operational	Audit
August	Purchasing process	Operational	Audit
September	Fuel clause calculation	Operational / Financial	Audit
October- Dec	Revisit of the ISO project		Special project
October- Nov	Revenue process (electricity and water) including invoicing and collecting of accounts receivable	Operational	Audit
October	Follow-up Management Action Plan		
November	Follow-up 2013/2014 special assignments (Food coupon/ overtime/ SVP etc)		Special Assignment
December	Corporate Governance process	Management	Audit

As the execution of the audit plan is dependent on external factors the audit plan serves as a guideline and can change during the year. Furthermore we would like to reserve capacity for the handling of emerging urgent matters and or special assignments as indicated by the Supervisory Board or Managing Board.

As documented in our roadmap we have also identified the following projects for 2015:

- Facilitating role as project manager during implementation of Enterprise Risk Management (overall championing / coordinating/ coaching ERM activities) supported by an external company.
- Facilitating role in the revisiting of ISO project (documentation of procedures) as project manager by reviewing the procedures, and updating changes accordingly based on input by process owners.
- Further implementation of methodology that is IIA compliant (e.g. completing risk & control matrix/ complying with IIA standards) which will be a continuation process throughout 2016. (See Internal Audit Roadmap)
- Setting up standardized training schedule for internal audit staff as required by IIA. (see internal audit roadmap)

In addition to the above we will plan meetings with the Managing Board and Audit Committee quarterly to discuss the status of the planned procedures.

5. Internal audit execution

Internal audit execution can be divided in the following phases:

- Engagement planning
- Process documentation
- Walk through
- Testing
- Reporting

Please find below an overview of the main activities that form part of the (sub) phases of the audit execution. Only the main activities have been highlighted.

Per audit the level of detail of the work to be performed will be determined by the audit team.

Engagement planning

5.1 Discuss audit scope and objectives

5.2 Gain an understanding of the operations, processes and procedures

5.3 Communicate internal audit scope

5.1 Discuss audit scope and objectives

- Organize kick-off meeting with key staff. During the meeting the following is most commonly discussed:
 - Key concerns or areas of interest
 - Past history of errors, complaints or internal control break-downs
 - Objectives of the process
 - Recent changes in the process, people or systems
 - Introduction of the audit team
 - Discussion of the audit process (what to expect)
 - Timing of audit fieldwork and reporting

The following deliverables are common in this phase:

- Minutes should be documented and retained within the working papers.
- At a minimum the attendees, date and key areas discussed should be documented.
- For efficiency, these may be hand written notes scanned into the file/folder.

5.2 Gain an understanding of the operations, processes and procedures

Gather materials, including:

- Prior year IA workpapers
- Risks identified during the risk assessment
- Policies and procedures documentation
- Organization chart

- External auditor reports, including management letters
- Other industry or process research

The following deliverables are common in this phase:

A planning memo covering the following:

- Overview of the area to be audited
- Objectives
- Scope
- Date, time and attendees at the kick-off meeting
- Key internal audit contacts
- Audit timing

Process documentation

5.4 Identify key risk and controls

5.5 Assess design effectiveness of controls

5.6 Confirm assessment and documentation with process owner/ key personnel

5.4 Identify key risk and controls

The process risks and controls may be identified through a combination of:

- Interviews with key personnel responsible for the (sub) process
- Inspection of department policies and procedures
- Review of prior year internal audit work papers
- As result of 5.4 risk and control matrix will be updated.

5.5 Assess design effectiveness of controls

During this phase the following should be considered:

- Authority and competence of person performing the control
- Can the control prevent the specified risk?
- Can the control effectively prevent or detect errors or fraud that could result in misstatements in the financial statements?
- Are the controls designed adequately to assist the company to meet its strategic objectives?
- Is the control designed for optimal efficiency?

The results of the assessment of the design is a memo outlining the findings.

Walk through

5.7 Execute walk through

A walk through is performed to:

- Confirm the auditor's understanding of the process
- Confirm that the controls have been implemented
- Identify missing controls
- Identify where controls are not appropriately designed

- Confirm that GEBE personnel understand what is required of them.

The results of the walkthrough will be documented in a memo outlining the findings.

Testing

5.8 Design testing strategy for key controls

5.9 Execute testing

5.10 Discuss potential findings with process owner/ key personnel

5.11 Identify causes of deficiencies and opportunities for process improvement

The following is taken into consideration when designing the testing activities (5.8):

- As the risk associated with the control being tested increases, the evidence that the auditor should obtain also increases.
- The test strategy is judgmental, but should link back to the risk assessment.
- Tests should be designed to confirm that the control is operating effectively over an appropriate period of time. For most internal audits, a one year period is used.

The testing will be documented in a spreadsheet.

The following is considered when performing steps 5.9 – 5.11:

The auditor evaluates the evidence gathered to determine whether the operation of a control is effective, considering:

- whether the control is operated as designed
- consistency of application of the control
- competency of the personnel performing the control.

While IA must avoid performing the role of management, we may be involved by:

- Researching the root cause of the issue
- Identifying compensating controls
- Designing new controls for implementation
- Providing training to management and employees

Internal audit will avoid making management decisions regarding the appropriate controls to implement. Determining appropriate level of controls will always be a management decision.

Reporting

5.12 Draft audit report

- The Internal Audit Department will prepare a draft audit report and provide the draft audit report to the process owner: Manager/ Department head.
- Discuss/ review draft report with the respective process owner (Manager/ Department head). The process owner will have 10 days to respond.
- Complete desired changes on the final draft of the audit report.
- Issue final report to the Managing Board and the Audit Committee.

6. Internal audit team

The internal audit department consists of the following employees:

- Ms. S. Daniel → Department Head
- Ms. U. Granger → Senior Auditor
- Ms. L. Carty → Senior Auditor

Resources; the department currently consists of 2 assistants and 1 manager. Therefore external support will be hired for specific audits such as production / Revenue /IT.

For more information on the responsibilities and authority of the internal audit department please refer to the internal audit charter.

Internal Audit Plan 2015 NV GEBE


Approved this 12th day of May, 2015.



Head Internal Audit



President Managing Board



Chair Audit Committee



7. Appendix: Risk Assessment

RISKS	RISK MANAGEMENT				CURRENT RISK MANAGEMENT STRATEGY (what already happens)	High Impact (P.M. etc)	Net Risk	Acceptable (P.M.)	H/GEBE Process effected	Process included in plan	
	RISK DESCRIPTION	RISK CATEGORY	WPAIT ANALYSIS								
			Significance	Likelihood							Exposure
1	Risk of power plant failure (due to natural causes) caused by mechanical failure	Operational	3	2	6	High	High	Production process/ Financial Management Process	Yes		
2	Risk of impairment of assets (technology obsolescence)	Operational	3	2	6	Medium	Medium	Production process/ Financial Management Process	Yes		
3	Risks that required capital projects are not executed (major system implementations/ upgrades)	Strategic	4	1	4	Low	Low	Production process/ Purchasing Process	Yes		
4	Risk of misappropriation of assets (e.g. unauthorized purchases)	Operational	2	2	4	Medium	Medium	Purchasing Process	Yes		
5	Risk of early termination of concession agreement and/or other changes to regulatory elements (e.g. environmental legislation)	Regulatory	2	1	2	Low	Low	Strategic Management Process	No		
6	Risk of political intervention (e.g. special price sector charges)	Regulatory	1	1	1	Medium	Medium	Strategic Management Process	No		
7	Risk of lack of fuel, lubricants etc. supply	Operational	1	1	1	Low	Low	Production Process	Yes		
8	Risk of lack of water supply (AHP/IN) and/or risk of contaminated water supply	Operational	1	1	1	Medium	Medium	Distribution Process	Yes		
9	Price risk (price volatility fuel)	Operational	2	2	4	Medium	Medium	Revenue Process	Yes		
10	Risk of supply chain disruption	Operational	2	2	4	Medium	Medium	Distribution Process	Yes		
11	Risk of IT & cyber security	Operational	2	2	4	Medium	Medium	ICT Process	Yes		
12	Risk of supply to unregistered (unknown) meters → theft of services	Operational	2	1	2	Low	Low	Distribution Process/ Revenue Process	Yes		
13	Risk of (strong) local competition	Strategic	2	1	2	Low	Low	Revenue Process/ Strategic Management Process	Yes/No		
14	Risk of customer's seeking substitute energy provision (business/home owners' solar panels etc.)	Strategic	2	1	2	Medium	Medium	Revenue Process	Yes		
15	Risk that clients are charged at incorrect tariffs	Operational	2	1	2	Low	Low	Revenue Process	Yes		
16	Risk that clients are inaccurately charged (data reliability)	Operational	2	1	2	Low	Low	Revenue Process	Yes		
17	Risk of non-payment of customers	Operational	2	2	4	Medium	Medium	Revenue Process	Yes		
18	Risk of human capital defect	Operational	2	2	4	Medium	Medium	HRM Process	Yes		
19	Risk of inaccurate/incomplete financial reporting (financial/compliance/contractual)	Financial	2	1	2	Low	Low	Financial Management Process	Yes		
20	Risk of safety and environmental risks	Regulatory	2	1	2	Medium	Medium	Strategic Management Process	No		

Since it is the first time that this exercise has been performed at NV GEBE, "W" was chosen for all current risk management activities (bruidende principe)