Procedure for Conducting Off-Site Compliance Audits

CP-03
Rev. 7

The NERC Rules of Procedure and the Regional Delegation Agreement are the overriding documents that govern the implementation of the CMEP.

Process Owner: AVP, Compliance
Effective Date: 9/26/2018
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**Review and Re-Approval Requirements**

This document will be reviewed every two years from the effective date, or as appropriate for possible revision. The existing or revised document will be re-approved by the NPCC Compliance Committee, distributed to staff and committees / working groups, as applicable, and will be posted to the NPCC website for Registered Entity reference.
1. **Introduction**

1.1. All Registered Entities within the NPCC Region are subject to Audits for compliance with all reliability standards applicable to the identified functions performed by the Registered Entity. NPCC has developed and implemented this procedure for conducting Off-Site Compliance Audits of its Registered Entities. The goal of this procedure, including the use of the NERC Compliance Process Directives and Bulletins, is to ensure consistency and objectivity in assessing all Off-Site Compliance Audits.

1.2. The terminology used herein is as defined by the NERC Rules of Procedure, NERC Glossary of Terms, and NPCC Glossary.

2. **Audit Schedule**

2.1. NPCC will identify entities for Off-Site compliance monitoring engagements as required in the NERC Rules of Procedure. By October 1st of each calendar year, the NPCC Compliance staff will post the entities scheduled for an Off-Site compliance monitoring in the next calendar year on the NPCC website. Off-site audits do not follow a three (3) year cycle and use NERC Risk Based concepts to determine the depth and frequency. Only On-Site audits of the Reliability Coordinator (RC), Balancing Authority (BA), and Transmission Operator (TOP) functions are based on a rolling three (3) year cycle.

2.2. The NPCC Entity Risk Assessment group, using NERC Risk Based concepts to perform Inherent Risk Assessments (IRA) and voluntary Internal Control Evaluations (ICE), will recommend the type of Compliance Monitoring to be performed: Off-Site Audit, Spot Check (CP-05), or Guided Self-Certification (CP-06). The Director, Compliance Monitoring & IT will make the final determination of the type Compliance Monitoring engagement.

2.3. Each Registered Entity that will have an Off-Site Audit for that calendar year will be notified in accordance with Section 5 Audit Process.

2.4. The Off-Site compliance audit schedule may change subject to the availability of the audit team, availability of entity Subject Matter Experts, or other circumstances at the request of the entity (i.e. scheduled outage, unforeseen emergencies, etc.).

2.5. The audit schedule will be maintained on the NPCC public website under Compliance, Documents, Audit Schedule.

3. **Audit Scope**

3.1. An audit scope will be identified by the NPCC Entity Risk Assessment (ERA) group using NERC Risk Based concepts to perform Inherent Risk Assessments (IRA) and voluntary Internal Control Evaluations (ICE). The ERA group will use the annual NERC CMEP Implementation Plan which contains NERC Risk Elements to establish the initial baseline of reliability standards. In addition, the NPCC CMEP Implementation Plan may add NERC Reliability Standards and NPCC Regional Reliability Standards into the baseline. The Director, Compliance Monitoring & IT will review the recommendations of the ERA group, and determine the final scope.
3.2. The start date for the audit period will be the latter of the entity’s registration date, or the day after the end date of the previous Compliance Monitoring engagement for each audited Registered Function. The end date for the audit period will be the date that the Notification Letter is provided to the Registered Entity by NPCC. If the data retention requirements of a reliability standard do not cover the full period of the Off-Site audit, the audit will only be applicable to the data retention period specified in the reliability standard.

4. **Audit Team Participants**

4.1. The Off-Site audit team will consist of a minimum of two persons. A member of NPCC staff will serve as the Audit Team Lead (ATL). All auditors must have completed the NERC Audit Training and remain current in all required auditor qualification training.

4.2. At NERC’s discretion, a NERC staff member may participate as observers on any Regional Entity Audit Team at any time. In addition, any applicable ERO Governmental Authority may participate on an audit team as an observer in any Regional Entity audit within its jurisdiction. The NPCC Director, Compliance Monitoring & IT shall ensure that NERC, FERC, or Canadian Provincial Regulatory observers meet the applicable sections of the NERC Rules of Procedure to qualify as Audit Observers.

4.3. **Conflicts of Interest**

4.3.1. NPCC will review the make-up of the audit team to avoid conflict of interest situations. A Registered Entity may object to an Audit Team member on the grounds of a Conflict of Interest or any other perceived circumstance that could interfere with the team member’s impartial performance of his or her duties. This objection must be provided in writing to the NPCC Director, Compliance Monitoring & IT no later than 15 days prior to the start of the Off-Site audit. The NPCC Director, Compliance Monitoring & IT will make the final determination on whether the team member will participate in the audit.

4.3.2. The NPCC Director, Compliance Monitoring & IT will review proposed Audit Observers for conflicts of interest and bring them to the attention of NERC or the Regulatory body.

4.4. **Confidentiality**

4.4.1. All Audit Team members must sign the “Northeast Power Coordinating Council Confidentiality Agreement” prior to reviewing any audit materials. It is the responsibility of the NPCC Compliance staff to ensure that Confidentiality Agreements are properly executed prior to any Audit Team member receiving any audit materials. Prior to the audit, copies of the executed Confidentiality Agreements will be provided to the Registered Entity.

4.4.2. Audit Team members should not discuss aspects of the audit with anyone other than Audit Team members or NPCC executives. Once the Final Audit Reports are published, Audit Team members will securely dispose of all materials collected prior to and during the audit. The NPCC Compliance staff will retain supporting audit materials in accordance with NERC requirements.

4.4.3. Information deemed by NPCC or the Registered Entity as Critical Energy Infrastructure Information (CEII) or other confidential information as defined in NERC’s Rules of Procedure Section 1501 shall be redacted from any public reports.
4.4.4. The Registered Entity will have the option to retain confidential and/or secure information within their control. This information can be shared at face-to-face meeting with Audit Team members, but will not be released to the auditors’ control. This is consistent with NERC’s Rules of Procedure Section 1500.

4.5. NERC Compliance Audit Directives, Bulletins, and Tools

4.5.1. NERC Compliance staff has developed Compliance Audit Directives, Bulletins and Tools for all Regional Entities to use in performing Compliance Audits and Spot Checks. Their purpose is to provide consistency and objectivity in assessing each Compliance Audit and Spot Check.

4.5.2. The Tools [NERC Reliability Standard Audit Worksheets (RSAWs)] are based on the specific reliability standards to be reviewed during the audit.

5. Audit Process

5.1. NPCC Compliance staff will send the “Northeast Power Coordinating Council Code of Conduct,” NERC Confidentiality Agreement for NERC Compliance Monitoring Team, and Non-Disclosure Agreement to all Audit Team members. Audit Team members sign and return agreements.

5.2. NPCC Compliance staff notifies the Registered Entity of the audit at least 90 days prior to the beginning of the Off-site Audit via an Audit Notification Letter (ANL) that will include, but is not limited to, the Audit Team members’ biographical and non-disclosure information, the Pre-Audit material, the Request for Compliance Data and Documentation, the Standards and specific requirements being audited and a link to the NERC RSAWs.

5.3. The beginning of the Off-site Audit will be the date of the data submittal, as identified in the Audit Notification Letter.

5.4. NPCC shall request that the Registered Entity completes and returns Pre-Audit material within 30 days after receipt of the ANL and all other requested documentation to NPCC within 90 days after the ANL. NPCC will confirm the receipt of the material with the Registered Entity.

5.5. The ATL will make an initial call to the Registered Entity’s Primary Compliance Contact within 10 business days of the notification package transmittal. The call will serve as an introduction and an opportunity to verify that the entity has received the notification package and to answer any questions regarding the survey and data submittals.

5.6. Audit Team reviews the completed Pre-Audit material and supporting documentation and formulates any additional questions for the Registered Entity. The Audit Team will also review the following submissions from the Registered Entity:

5.6.1. Self-Certification Submittals

5.6.2. Review of any outstanding Compliance Violations and / or Mitigation Plans that the Registered Entity might have with NPCC and NERC

5.6.3. Review of supporting documentation.
5.7. NPCC will provide instruction in the ANL to address the situation where the entity, after receiving notice of an Off-Site Audit, discovers a potential non-compliance (PNC) while gathering evidence. If the PNC is associated with an in-scope Requirement, it will be recommended that the entity utilize the normal Compliance Portal Self-Report template and that the entity immediately notify the ATL identified in the ANL of the situation. For any PNC for a Requirement that is in scope for the audit, the ATL may supply the Entity with a form to be completed containing pertinent information on any/all such potential non-compliance issues. The self-discovery and reporting of the possible violation during the preparation for a scheduled audit will be reviewed by the Compliance Enforcement staff. NPCC will recommend that the entity begin performing and documenting any mitigating actions for the possible violation. Any PNC that is associated with a Requirement that is not in scope will be processed by NPCC Enforcement. If the entity is approved for self-logging, the entity may self-log an eligible PNC that is not in scope.

5.8. An Audit Team provides the entity with an Exit Briefing upon completion of the audit. This briefing shall summarize the results and findings of the audit.

5.9. The Audit Team will provide NPCC Enforcement staff with any PNCs identified during the Off-Site audit and the details supporting the finding. The Auditor may provide NPCC Enforcement staff with the basis for Find Fix Track (FFT) treatment of any compliance issues which may qualify for FFT treatment.

5.10. The ATL will develop a first draft of both a public audit report and a non-public audit report that will be circulated to Audit Team members for review two (2) weeks following the Off-Site Audit. In accordance with NERC guidance, no public report shall be published for CIP audits.

5.11. Following the Audit Team’s review, the first draft of the audit reports and any recommendations will be sent to the Registered Entity for review within thirty (30) days following the Off-Site Audit. The draft audit reports should also be provided to NERC as applicable.

5.12. The Registered Entity has two (2) weeks to submit comments back to the ATL.

5.13. Registered Entity comments will be taken under consideration by the ATL.

5.14. The Director, Compliance Monitoring & IT finalizes the audit reports within 60 days following the Off-Site Audit and will provide the Final Audit Reports to the Registered Entity.

5.15. The Final Audit Reports will reside on the NPCC secure servers for review by the NPCC Assistant Vice President, Compliance.

5.16. Any PNC issues identified in the audit report will be processed by NPCC Enforcement as per the NERC Rules of Procedure.

5.17. If the results of the audit and the final reports verify compliance to all standards and requirements audited, NPCC will provide the Final Audit Reports in accordance with the appropriate jurisdictional requirements.

5.18. The Final Public Report will not be made public until any unresolved compliance issues are fully settled.

5.19. NPCC Compliance staff will retain supporting audit material in accordance with the appropriate jurisdictional requirements.
6. **References**

6.1. Delegation Agreement between NERC and NPCC


6.3. NPCC CP-01, Implementation of the NPCC Compliance Monitoring and Enforcement Program (CMEP)

6.4. NERC Rules of Procedure Section 403.11-12

6.5. NERC Rules of Procedure Section 1501 and 1502

6.6. NERC Questionnaire/Reliability Standard Audit Worksheets (Q/RSAWs)

6.7. NPCC CMEP Implementation Plan (latest version)

6.8. Nova Scotia May 9, 2010 MOU between NPCC, Nova Scotia Power and NERC

6.9. Ontario February 5, 2010 MOU between NPCC, Ontario IESO, and NERC

6.10. Quebec September 24, 2014 MOU between NPCC, the Regie, and NERC

6.11. Quebec QCMEP


6.13. New Brunswick CMEP
### 6.14. Summary of Changes

<table>
<thead>
<tr>
<th>Revision</th>
<th>Reason for Change</th>
<th>Reviewed by</th>
<th>Date Approved by Compliance Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>None – This procedure is the original issue.</td>
<td>Sal Buffamante</td>
<td>07/22/2008</td>
</tr>
<tr>
<td>1</td>
<td>Section 2. Audit Schedule - changed to: “the NPCC Compliance staff will post the next year’s audit schedule for the next calendar year’s Off-Site Compliance Audits on the NPCC website” Section 2.1 Changed to “60 days”</td>
<td>S. Buffamante</td>
<td>06/10/2009</td>
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<tr>
<td>2</td>
<td>Section 1: Changed “Auditor Guide” to “Compliance Process Directives and Bulletins” Section 2: Incorporated previous statement 2.1 into Section 5. Added Section 2.2 and 2.3 regarding Audit Schedule Section 3: Refined definition of audit period. Section 4.2.1: Added NPCC executives to those who can review audit material. Section 4.3: Clarified “Auditor Guide” Section 5.2: changed “60 days” to “90 days” and provided more detail. Section 5.3: Preaudit Survey due 60 days prior to Off-Site audit. Other documentation due 30 days prior to Off-Site audit. Section 5.4: Added new action - Lead Auditor to contact audited entity within 10 business days of notification letter transmittal. Section 5.5.1: Removed bullet for “Monthly compliance reports”. Section 5.6: Added sentence restricting CIP audit reports to be non-public only. Section 5.7: Changed “three weeks” to “thirty days”. Section 5.9: Added new action – Audit Manager will provide list of PVs resulting from the audit to NPCC Enforcement staff. Section 5.11, 5.12 &amp; 5.13: Changed “Compliance” to “Enforcement”. Section 5.12: clarified “AVP of Compliance Audits and Investigations” Section 6: Changed “NERC Auditor Guide” to “NERC</td>
<td>Ben Eng</td>
<td>12/12/2011</td>
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<td>Revision</td>
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<td>Date Approved by Compliance Committee</td>
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<td>Compliance Process Directives and Bulletins” and updated references.</td>
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<td></td>
<td>Section 7: Summary of Changes changed to tabulation format to be consistent with other CPs. Transposed Revision 0 and Revision 1 information into tabulation.</td>
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<td>3</td>
<td>Section 2: added the term “generally” for audit interval.</td>
<td>Ben Eng</td>
<td>12/18/2013</td>
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<tr>
<td></td>
<td>Section 3: added verbiage regarding new 2014 AML, risk based methodology for scoping, and audit period end date.</td>
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<td>Section 4: added verbiage regarding audit observers, and combined previous confidentiality agreements into one NPCC Confidentiality Agreement</td>
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<td></td>
<td>Section 5: added verbiage regarding FFT for PVs, changed “Alleged” to “Possible”, and instruction for potential self-reports after receipt of audit notification letter.</td>
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<td>Section 6: added/updated references</td>
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<td>4</td>
<td>General reformatting of entire document. Section 3: Added NERC Risk Based Concepts (ERA, IRA, ICE)</td>
<td>Scott Nied</td>
<td>12/03/2015</td>
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<td>5</td>
<td>Deleted references to contract auditors. Corrected language regarding auditor training.</td>
<td>Marie Kozub</td>
<td>09/21/2016</td>
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<td>6</td>
<td>Changes to Personnel titles, date of audit notifications, process for self-identified possible non-compliance after receipt of audit notification.</td>
<td>John Muir</td>
<td>12/07/2017</td>
</tr>
<tr>
<td>7</td>
<td>Modify the Audit Period End Date for consistency with other Regions.</td>
<td>John Muir</td>
<td>9/26/18</td>
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