

Memorandum

To: THE AUDIT COMMITTEE OF
THE BOARD OF DIRECTORS
of the Independent Electricity System Operator

From: Susan Nicholson
Corporate Controller

Date: June 13, 2017

Re: Review Performance and Recommend Reappointment of External Auditors

KPMG LLP ("KPMG") has completed the audit of the 2016 IESO corporate financial statements and the IESO Pension Plan's 2016 financial statements, both of which were presented and approved by the Board of Directors.

KPMG was appointed IESO's auditor for a term of five years with an option to renew for a further five years following a competitive procurement process in 2010. The 2016 audits were the second year in the five year extension period.

In 2016 the Audit Committee asked Management to investigate if there is a mandatory period for audit partner rotation in Canada. We were happy to report back that based the Canadian Public Accountability Board (CPAB) Rules of Professional Conduct, no maximum engagement period exists as the IESO is neither a reporting issuer nor a listed entity.

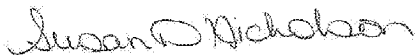
As part of the engagement decision, we have again reviewed the Chartered Professional Accountants of Canada (CPA Canada) discussion paper entitled "Enhancing Audit Quality: Canadian Perspectives". In the discussion paper the following alternatives were recommended to promote independence: mandatory audit firm rotation; mandatory tendering; and mandatory comprehensive review. The IESO has historically followed the last two alternatives and may consider the first, mandatory audit firm rotation, during the next competitive procurement process for external audit services in three years' time.

As part of the mandatory comprehensive review the IESO utilizes the CPA Canada auditor assessment tool. This assessment is focused on three key factors of audit quality:

1. Independence, objectivity and professional skepticism – Do the auditors approach their work with objectivity to ensure they appropriately question and challenge management’s assertions in preparing the financial statements?
2. Quality of the engagement team – Does the audit firm put forward team members with appropriate industry and technical skills to carry out an effective audit?
3. Quality of communications and interactions with the external auditor – Are the communications with the external auditor (written and oral) clear, concise and free of boilerplate language? Is the auditor open and frank, particularly in areas of significant judgments and estimates or when initial views differ from management?

The review, conducted in May, highlighted strong performance in all three of the key factors of audit quality. This was consistent for both the corporate and pension plan audits. Comments included the recognition of engagement and knowledge within the audit teams as well as the experience and knowledge of the partner. Matthew Betik is a leading partner at KPMG in terms of both public sector accounting standards and rate regulation entities. This knowledge, in combination with Matt’s open and frank nature, has been particularly useful while discussing significant judgments and estimates. This is particularly true with respect to the work preparing for and implementing the adoption of accounting policy changes for 2016, in terms of both rate regulated accounting and the inclusion of market accounts on the corporate financial statements. Both Matt and Michel Picard, from KPMG, have provided extensive consultation as we have moved the accounting policy changes forward with both government and the Audit General’s office.

Subject to recommendation by the Audit Committee at its meeting on June 13th, the Board of Directors will be requested on June 14, 2017 to approve the appointment of KPMG as the IESO’s corporate and pension plan auditor for fiscal 2017



Susan Nicholson