



Export Development Canada
Special Examination Report—2009



Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

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Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

17 June 2009

To the Board of Directors of
Export Development Canada

We have completed the special examination of Export Development Canada in accordance with the plan presented to the Audit Committee of the Board of Directors on 29 April 2008. As required by section 139 of the *Financial Administration Act* (FAA), we are pleased to provide the attached final special examination report to the Board of Directors.

The attached special examination opinion is dated 20 February 2009. We note that a change to section 138 of the FAA, effective 12 March 2009, has changed the requirement for a special examination to be carried out at least every ten years rather than every five years.

I would like to take this opportunity to express my appreciation to the Board members, management and the Corporation's staff for the excellent co-operation and assistance offered to us during the examination.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. Flageole'.

Richard Flageole, FCA
Assistant Auditor General

Attach.

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Export Development Canada

Special Examination Report—2009

Main Points

What we examined

Export Development Canada (the Corporation) is Canada's export credit agency, supporting a broad range of exporters across Canada. It operates on a self-sustaining basis, generating enough income to protect its assets, manage its exposure to credit and market risk, and maintain enough capital to meet future demand. According to its annual report, in 2008, the Corporation served 8,312 customers; it also facilitated exports totalling \$85.8 billion and investments in 184 markets.

Export Development Canada reports to Parliament through the Minister for International Trade. In 2008, it had assets of about \$35.2 billion and the equivalent of about 1,063 full-time employees.

We examined whether the Corporation's systems and practices provide it with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

Why it's important

Export Development Canada has a mandate to support and develop Canada's export trade and Canadian capacity to engage in that trade as well as to respond to international business opportunities. A key goal is to ensure that Canadian companies of all sizes have access to the financing and risk management services they need to compete in the international marketplace.

What we found

We found no significant deficiencies in the Corporation's systems and practices. They were maintained, during the period covered by our examination, in a way that provided the Corporation with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively. Below, we note some good practices as well as some opportunities for improvement.

- The Corporation has in place the key elements of a good governance framework. It has a sound corporate planning process that provides clear direction for its activities and considers

relevant information from a number of sources, including its Board of Directors.

- Export Development Canada has a financial risk and capital management framework that addresses credit and market risk and capital sufficiency. It has also developed an Enterprise Risk Management (ERM) framework that identifies underlying principles, roles and responsibilities, and a methodology for managing risk. The Corporation needs to assign responsibility for monitoring and managing its key risks and to monitor and report on the top risks more formally and systematically.
- In its management of information technology (IT), EDC has no formally approved IT project management framework in place. Additionally, the IT Security governance framework is currently incomplete. We encourage management to implement their plans to address these areas.

The Corporation has responded. The Corporation agrees with all the recommendations. Its responses follow the recommendations throughout this report.

Special Examination Opinion

To the Board of Directors of Export Development Canada

1. Under section 131 of the *Financial Administration Act* (FAA), Export Development Canada is required to maintain financial and management control and information systems and management practices that provide reasonable assurance that its assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.
2. Our responsibility is to express an opinion on whether there is reasonable assurance that during the period covered by the examination—from March to November 2008—there were no significant deficiencies in the Corporation's systems and practices.
3. We based our examination plan on our survey of the Corporation's systems and practices and a risk analysis of the Corporation. On 29 April 2008, we submitted the plan to the Audit Committee of the Board of Directors. The plan identified the systems and practices that we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. Those are the systems and practices that we selected for examination.
4. The plan included the criteria that we used to examine the Corporation's systems and practices. These criteria were selected for this examination in consultation with the Corporation. The criteria were based on our experience with performance auditing and our knowledge of the subject matter. The criteria and the systems and practices we examined are listed in **About the Special Examination** at the end of this report.
5. We conducted our examination in accordance with our plan and with the standards for assurance engagements established by The Canadian Institute of Chartered Accountants. Accordingly, it included the tests and other procedures we considered necessary in the circumstances. In carrying out the special examination, we relied on internal audits of the Corporate Social Responsibility Framework and the Enterprise Risk Management Framework.

6. In our opinion, based on the criteria established for the examination, there is reasonable assurance that during the period covered by the examination there were no significant deficiencies in the Corporation's systems and practices.

7. The rest of this report provides an overview of the Corporation and more detailed information on our examination observations and recommendations.



Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
20 February 2009

Overview of Export Development Canada

Background

8. According to its Annual Report, in 2008, Export Development Canada (EDC or the Corporation) served 8,312 customers and facilitated \$85.8 billion in exports and investments in 184 markets, of which \$14 billion was provided through financing and \$71.8 billion through insurance products. Operating out of 15 offices across Canada and 14 representations abroad, the Corporation continues to expand its products and services, as well as its representation abroad to meet the changing needs of Canadian exporters. Exhibit 1 includes some of EDC's performance measures and selected financial data for the past five years.

Exhibit 1 Export Development Canada's performance measures and selected financial data between 2004 and 2008

Major Performance Measures	2004	2005	2006	2007	2008
Various customer satisfaction measures	81.8%	84.8%	84.2%	84.5%	*
Employee retention	–	–	93.2%	94.9%	91.8%
Voluntary turnover rate	5.3%	5.8%	6.8%	–	–
Business volume (\$ billions)	\$54.9	\$57.4	\$66.1	\$77.7	\$85.8
Partnership volume (\$ billions)	\$8.0	\$9.5	\$11.5	\$11.7	\$14.1
Gross efficiency ratio (ratio of operating expenses over net income; the lower the better)	18.5%	20.5%	25.9%	22.0%	23.3%
Return on equity	35.7%	27.0%	20.4%	7.9%	3.4%

* In 2008, this measure was not reported.

Selected Financial Data (\$ millions)	2004	2005	2006	2007	2008
Net income (loss) for the year	1,242	1,287	1,222	473	206
Loans, net of allowance for credit losses at 31 December	15,500	14,273	17,143	17,203	28,281
Guarantees (net of allowance for credit losses) in force at 31 December	2,584	2,380	2,870	2,832	3,790
Insurance and bonding (net of allowance for insurance claims) in force at 31 December	11,754	13,631	15,981	17,250	23,616

Source: EDC Annual Reports from 2004 to 2008

Mandate

9. The Corporation was established by an Act of Parliament (*Export Development Act*) on 1 October 1969. The Corporation is accountable to Parliament through the Minister of International Trade. Under the Act, the Corporation "... is established for the purposes of supporting and developing, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade and to respond to international business opportunities."

10. The Corporation's purposes and powers are governed by the Act, as well as the Export Development Canada Exercise of Certain Powers Regulations. As required by the Act, a review of the Corporation's enabling legislation was undertaken in 2008 and tabled in Parliament in February 2009. The review reconfirmed EDC's mandate, while recommending some changes to the Act and its Regulations.

11. The *Export Development Act* provides that the Minister of International Trade may, with concurrence from the Minister of Finance, authorize the Corporation to undertake certain transactions on behalf of the Government of Canada. These transactions and the legislative authorities that underlie them have come to be known collectively as the "Canada Account." The Board of Directors is responsible only for ensuring that the transactions made by the Corporation under the Canada Account are administered appropriately. The assets administered under the Canada Account amounted to \$3.4 billion at 31 December 2008, consisting mainly of loans receivable and accrued interest and fees.

Corporate objectives

12. The Corporation's mission is to "anticipate the needs of Canadian companies as they work to expand their international reach." Underlying its mission is its vision: "EDC will be the recognized leader in providing groundbreaking commercial financial solutions to companies of all sizes, helping them succeed in the global marketplace and create enduring prosperity for Canada."

13. As set out in its 2008–2012 Corporate Plan Summary, the Corporation's operating principles are to conduct its business in a way that

- is respectful of international agreements to which Canada is a party,
- is consistent with its Corporate Social Responsibility (CSR) commitments, and
- ensures the sound financial management of its activities.

14. The Corporation's Business Strategy is anchored in the following three objectives:

- connecting with Canadian exporters and investors by reaching out to Canadian companies to better understand their needs and provide its expertise and solutions;
- facilitating integrative trade by providing a wide range of trade finance and risk management solutions, adapted to the needs of integrative trade; and
- leveraging the organization by optimizing the use and allocation of its resources to serve Canadian companies more effectively.

15. The Corporation operates on a financially self-sustaining basis in accordance with commercial principles. It assesses the credit risks it assumes and uses those assessments to calculate its insurance premiums, interest rates, and fees for financing and pricing of other financial instruments.

16. Operations are funded by borrowing money on Canadian and international capital markets and through a range of cash management activities. The Corporation is currently the only agent Crown corporation that issues debt instruments in Canadian capital markets to finance its operations.

Products and services

17. The Corporation provides an array of products and services to enable Canadian exporters to operate competitively in international markets. For small exporters, these services form part of a standard offering package; for larger exporters, they can be tailored to meet specific needs. In addition, the Corporation acts as a source of information and education for Canadian exporters. The Corporation's main products and services are the following:

- **Financing.** EDC provides lines of credit, loans, project financing, and loan guarantees designed specifically to help Canadian companies provide their customers with flexible medium- or long-term financing, and tailored to meet evolving market conditions throughout the world. As at 31 December 2008, EDC had gross loans receivable of \$30.9 billion outstanding and \$4.1 billion in loan guarantees outstanding.
- **Equity financing.** EDC may also provide equity or other forms of investments (including fund investments) to support current or emerging Canadian exporters and to facilitate globalization of

Canadian companies. As of 31 December 2008, EDC's equity financing portfolio amounted to \$150 million.

- **Insurance.** EDC offers an array of insurance products designed to protect policyholders against various types of risk, namely credit risks and political risks. As of 31 December 2008, EDC's exposure to insurance products totalled \$18.8 billion.
- **Bonding.** EDC provides contract bonding to help Canadian companies post or secure sureties, guarantee bids, performance bonds, and other obligations related to export trade. At 31 December 2008, EDC had total bonding contracts outstanding of \$5.4 billion.

18. During the period under review, the Corporation faced significant challenges as a result of a tightening of credit markets, troubled US financial institutions, and the global economic slowdown. The Corporation continues to face these challenges. Management is monitoring this situation and the impact on the Corporation's operations and financial position, while remaining responsive to the needs of Canadian exporters.

Focus of the special examination

19. We examined Export Development Canada's systems and practices in the areas of corporate governance, strategic planning and performance measurement, strategic risk management, financial risk management, change management, corporate social responsibility, human resources management, and information technology management. Our objective was to determine whether those systems and practices provide Export Development Canada with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

20. Further details on the audit objective, scope, criteria, and approach are provided in **About the Special Examination** at the end of this report.

Observations and Recommendations

Corporate governance

21. Corporate governance refers to the structures, systems, and practices for overseeing the direction and management of an organization so that it can carry out its mandate and achieve its objectives. Sound corporate governance practices are essential to meeting the statutory control objectives outlined in Part X of the *Financial Administration Act* for Crown corporations.
22. We expected that Export Development Canada (EDC or the Corporation) would have an effective governance framework that meets best practice expectations in Board stewardship, shareholder relations, and communication with the public. Having such a framework in place would ensure that the Corporation fulfills its mandate in a manner that maximizes both its overall effectiveness and its ability to balance public policy objectives with its commercial objectives.
23. In reviewing EDC's corporate governance practices, we looked at important governance elements, such as
- roles and responsibilities, independence, capability, and membership of the Board;
 - Board members' orientation and training;
 - ethics and values;
 - Board self-evaluation and evaluation of the President;
 - corporate performance information; and
 - the internal audit function.
24. We found that the Corporation has an effective governance framework and follows sound corporate governance practices. In 2004, we noted that EDC needed to improve its conflict of interest and disclosure policies. The Corporation has since revised these policies.

The Board of Directors follows sound corporate governance practices

25. The Corporation has in place the key elements of a good governance framework. The Board assumes stewardship of the Corporation and works closely with management. It approves strategic direction, identifies principal risks, and has an effective succession plan.
26. There are clearly defined and understood roles and responsibilities for all parties in the governance framework. The Board Charter defines Board composition as well as the roles and responsibilities of Directors. The Board is supported by five committees: the Audit Committee, the

Risk Management Committee, the Human Resource Committee, the Business Development Committee, and the Nominating and Corporate Governance Committee. Each committee operates under terms of reference that are reviewed, updated, and approved by the Board.

27. The Board has inventoried the skills and experience of its Directors. This is updated regularly as Board membership changes, and compared with a list of desired skills and experience. Any gaps in skills and experience are communicated to the Minister and Privy Council Office for consideration.

28. The Corporation provides new Board members with a formal orientation to learn about EDC and their role on the Board. A Board of Directors' reference manual is also maintained; it includes comprehensive and up-to-date documentation on the Corporation. Board members are encouraged to take ongoing training through internal and external courses and conferences.

29. The Corporation's Board membership changed almost entirely over the two years between April 2006 and April 2008. In addition, three vacancies currently exist on the Board. While management recognizes that this is not ideal, the Corporation does not have control over the timing and timeliness of Directors' appointments. In order to sustain effective oversight, the onus is on management and Board members to ensure that sufficient knowledge transfer takes place. We found that the ongoing training of Directors has contributed to ensuring effective knowledge transfer.

30. The Board has a practice of engaging an external party to conduct an assessment of its own performance annually. Based on the 2007 evaluation, Directors were satisfied with the functioning of the Board and its committees.

31. The Board, via its Human Resource Committee, is also active in annually assessing the performance of the President and CEO and setting objectives for that position. It also reviews succession plans for the executive team and oversees the President and CEO's role in planning the succession of senior management.

32. In our 2004 special examination, we recommended that the Corporation enhance its conflict of interest and disclosure policies for directors and employees. Since that time, the Corporation has revised its Code of Business Ethics and Code of Conduct for directors and employees. The latter is reviewed regularly to ensure it remains appropriate and in line with best practices. Such a review is currently underway.

33. The Corporation's internal audit function helps it accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes. The Board, through its Audit Committee, approves internal audit plans, and the audits are carried out according to those plans. A risk-based audit strategy—updated annually—is used to plan these audits. Regular reporting to the Audit Committee on the results of internal audit activities is part of this system.

34. In 2005, the Institute of Internal Auditors (IIA) conducted a Quality Assessment of the Corporation's Internal Audit. The IIA concluded that the Corporation's internal audit function complied with the standards of the Institute.

The Corporation has taken appropriate steps toward effective conversion to International Financial Reporting Standards

35. Publicly accountable enterprises, including Crown corporations such as EDC, with 31 December year ends, are required to adopt International Financial Reporting Standards (IFRS) for the year beginning 1 January 2011. IFRS is being adopted in Canada to better harmonize current accounting policies with international standards. The conversion to IFRS is a fundamental change in financial reporting and may significantly affect the management of Crown corporations. The responsibility for adequately planning and managing the conversion to IFRS rests with management. The Board's responsibility is to oversee the process and ensure that an effective conversion to these standards takes place. Both EDC management and the Board need to address issues related to changes in risk, financial reporting, and internal controls triggered by the conversion.

36. We examined how the Corporation was preparing for an effective conversion. In order to manage the conversion, a project structure with steering and technical committees was put in place. Using a high-level assessment of the impacts of IFRS on its financial statements, the Corporation prepared a detailed conversion plan against which progress is tracked monthly. The Corporation has also engaged an external accounting firm to help it interpret IFRS, as necessary, during the transition. To date, management has regularly informed the Audit Committee on progress made against the transition plan, on accounting issues that have been examined, and on areas where transition to IFRS will have significant impacts on the financial statements.

37. In our view, the Corporation has taken the appropriate steps, at this point in time, for an effective conversion to IFRS. A successful

conversion to IFRS will continue to require sustained attention from management and the Board of Directors.

Strategic planning and performance measurement

38. The process of strategic planning includes assessing and adjusting the organization's direction in response to a changing environment. The Corporate Plan sets the Corporation's priorities and the allocation of its resources to achieve what is considered important to its success.

39. We expected the Corporation to have systems and practices that would provide for sound strategic planning, taking into account the internal and external environment and organizational strengths and weaknesses. We expected that the Corporation would have clearly defined strategic directions and specific measurable goals and objectives consistent with its legislated mandate and government priorities. We also expected that the Corporation's strategic direction and goals would reflect the Corporation's environment, identified risks, and the financial and operational implications of achieving its goals and objectives.

40. We found that the Corporation has a sound strategic planning process that provides clear direction for its activities and considers relevant information from a number of sources. The planning process defines the Corporation's vision, mission, core values, resources, and objectives—all of which are congruent with its mandate.

The Corporate Plan provides clear direction for the Corporation's activities

41. A sound strategic planning process provides clear direction for activities. The Corporation annually develops a five-year Corporate Plan as part of its strategic planning exercise. In doing so, it gathers information from many sources, both internal and external, to ensure that its strategic direction reflects the shareholder's needs and priorities while addressing the evolving needs of Canadian exporters. However, we found that the Corporation did not systematically include the results of its Enterprise Risk Management (ERM) assessment in this strategic planning exercise. Management has indicated that such a systematic process will be implemented in the 2010–2014 strategic planning exercise.

42. The Corporation's senior management and Board of Directors are engaged in the strategic planning process. A number of retreats are held throughout the process, where senior management reviews various information and discusses topics such as the Corporation's Corporate Social Responsibility framework, current challenges and

opportunities, and how it is serving Canadian exporters. Directors are engaged during the process, and provide input at numerous stages of the process.

43. Each department of the Corporation is responsible for preparing a business or operational plan that sets out the environment in which it is operating and how this affects the department, its objectives, and its strategies for the planning period. These plans are important to the strategic planning exercise, and objectives for the individual departments are rolled up to develop the corporate objectives and performance targets. When the strategic planning exercise is completed, business and operational plans are updated to ensure that they are in line with the Corporate Plan. We found that the corporate objectives and business plans are well aligned.

Performance measures do not always address the full scope of the corporate objectives

44. As part of its strategic planning process, the Corporation has set out its Business Strategy, anchored in three strategic objectives:

- connecting with exporters and investors,
- facilitating integrative trade, and
- leveraging the organization (optimizing the use of its resources).

For each of these objectives, performance measures and targets are established in order to measure success. While we found the performance measures to be specific and measurable, they do not always allow for a full assessment of the extent to which corporate objectives are being achieved. For example, while total business volume gives some indication of the Corporation's achievement in facilitating integrative trade, it measures only one component of achieving this objective.

45. In our 2004 special examination report, we encouraged the Corporation to continue refining its performance measures so that it could track its success in developing partnerships. At that time, no partnership performance measures existed. Following the last special examination, the Corporation added the volume of partnerships to its performance measures. For the 2008 fiscal year, it introduced an additional performance measure, the number of partnership transactions, but this had not yet been reported on at the time of this special examination.

46. Recommendation. Export Development Canada (EDC) should continue to refine its performance measures to ensure that they clearly demonstrate success in achieving its corporate objectives.

The Corporation's response. The Corporation agrees with the recommendation. EDC's performance measures are developed as part of the overall strategic planning process. In establishing performance measures, the Corporation works to ensure clarity and alignment with the stated corporate objectives. EDC will continue to review its performance measurement program on an annual basis and will look to improve communication of the link between objectives, measures, targets, and performance through both its Corporate Plan and Annual Report.

The Corporation monitors and reports its performance measures

47. Overall, the Corporation has a good structure and processes in place to monitor the performance measures selected. The Corporation's Annual Report provides information that clearly relates to its Corporate Plan objectives and how it meets them.

48. Corporate objectives and performance measures and targets are integrated into the organization via the departmental business and operational plans. We noted that the process of developing business plans in support of the 2008–2012 Corporate Plan included objectives and performance targets for the planning period but did not measure performance during the previous period or report on teams' achievement of previous objectives. Management recognizes this, and has indicated that such reporting on previous performance objectives will be included in the process supporting the 2009–2013 Corporate Plan.

49. In addition, business plan objectives are assigned to individual performance objectives via the individual's performance assessments. Individual objectives are set by team leaders for individual team members for the following year, based on corporate and departmental objectives. Moreover, a corporate incentive program exists that rewards achievement of a number of the key performance measures.

Strategic risk management

50. The Corporation's business involves assuming risk. As such, it must manage these risks in ways that allow it to remain financially sustainable, and do not compromise its ability to serve Canadian exporters. The Corporation's risk management systems and practices are key in achieving its mandate effectively and safeguarding its assets.

51. We expected the Corporation to have an enterprise risk management framework that promotes a corporate and systematic

approach to managing risk. We also expected that risks were identified, measured, mitigated, monitored, and reported on in a way that ensured achievement of the Corporation's strategic and operational objectives.

The Corporation has established an Enterprise Risk Management framework

52. The Corporation has developed an Enterprise Risk Management (ERM) framework that identifies underlying principles, roles and responsibilities, and a methodology for managing and measuring risk. Under its ERM framework, three categories of risks have been identified: credit risk, market risk, and operational risk (which includes organizational and business risks). A risk management policy has been developed for identifying, measuring, managing, and monitoring credit risk and market risk—and their impact on the Corporation's capital position.

Ownership of risk mitigation strategies is not explicit

53. The Corporation has identified and documented its risk profile through management interviews that were designed to identify and prioritize key risks affecting the Corporation now and in the future. In the 2007 assessment, eight strategic risks were classified as the Corporation's top risks. For these top risks, management examines the context and identifies mitigating strategies and initiatives to be implemented. However, ownership and responsibility for the success of these mitigating strategies is not explicitly assigned.

54. **Recommendation.** Export Development Canada (EDC) should assign responsibility for monitoring and mitigating its key risks. Moreover, the Corporation should implement more formal and systematic monitoring and reporting for the top risks identified.

The Corporation's response. The Corporation agrees with the recommendation to consider assigning responsibility for monitoring and mitigating key risks as well as for a more formal and systematic monitoring and reporting of the top risks identified. The Corporation's current Enterprise Risk Management (ERM) process already ensures that key risks identified are effectively managed and monitored. Its executive team is also actively engaged in identifying measures to limit the key risks identified on an ongoing basis.

The Corporation has not yet formalized an operational risk management policy

55. The Corporation defines operational risk as the risk of direct or indirect loss resulting from the organizational environment, external events, and internal processes, people, or systems. It also includes risk

to the Corporation's reputation and the risk of not meeting its mandate or regulatory requirements. In our 2004 special examination report, we observed that the Corporation was in the process of implementing an operational risk management framework to formalize its risk management practices. In 2008, we found that although the Corporation has developed a "white paper" on operational risk management, it has not yet formalized its practices in an operational risk management policy.

56. Recommendation. Export Development Canada (EDC) should review best practices in identifying and managing operational risks and decide which operational risks are relevant to it and how it may need to change its risk classification and mitigation methodology to include operational risk in its risk assessment and policies.

The Corporation's response. The Corporation agrees with the recommendation that it consider undertaking a review of best practices in identifying and managing operational risks. EDC's current Enterprise Risk Management (ERM) program provides, at the corporate level, management's views of current and emerging credit, market and operational risks/challenges that EDC is facing or will face, and how well it considers these risks to be managed. The program also identifies the controls or mitigants in place to manage these risks. The Corporation has not experienced significant operational risk-related losses and will continue to maintain a strong culture of internal control as well as an operating environment that encourages high levels of integrity and professional standards.

Financial risk management

57. The Corporation's financing and insurance services, as well as its treasury operations, expose it to significant financial risks. In order to ensure its financial sustainability, the Corporation must maintain sound and robust risk management practices, from the time an exposure (transaction) begins until the end of the exposure's life cycle. When entering into loan or insurance agreements, the Corporation exposes itself to a credit risk associated with either the borrower's or the insured's customers. Moreover, since an important portion of its operations are transacted in foreign currencies, and are interest-rate sensitive, the Corporation's activities also expose it to significant market risk.

58. Current market turmoil has tested the robustness of the Corporation's financial risk management framework, and has allowed the Corporation to assess whether its credit and market risk management framework effectively protects it from undesirable and unexpected consequences in such extreme circumstances. The Corporation has not, to date, suffered a significant deterioration of its

capital position due to recent market upheaval. This suggests that its credit and market risk policies effectively manage and mitigate the Corporation's exposures. These kinds of events and circumstances highlight the importance of systematic stress testing of credit and market risk assumptions. This approach would help the Corporation to ensure that it preserves sufficient capital for such unexpected events.

59. We expected the Corporation to employ sound financial risk management practices. We found that overall, the Corporation's policies, systems, and practices provide reasonable assurance that financial risk is managed, mitigated, and reported. Specifically, the Corporation has a risk and capital management framework composed of credit risk, market risk, and capital adequacy policies that document and define these risks, key principles, tolerance limits, and policies on measurement, management, monitoring, and reporting of risks. These policies are annually reviewed and approved by the Board of Directors.

The Corporation has appropriate policies and procedures to manage and measure its credit risk

60. The Corporation defines credit risk as the risk of loss incurred if a party fails to meet its financial commitments. The Corporation is exposed to credit risk under its financing and insurance programs, and treasury activities. We expected the Corporation to effectively assign, identify, measure, manage, monitor, and report its exposure to credit risk. In current market and economic conditions, the likelihood of organizations defaulting on their loans may rise, which makes credit risk management systems and practices increasingly vital to the Corporation.

61. We found that credit risk is managed from inception of a transaction with a customer (loan or insurance) to the end of its life cycle, by

- ensuring appropriate assessment and review of the credit risk in a given transaction prior to its approval,
- assessing whether the level of risk is acceptable to the Corporation,
- ensuring that pricing of the transaction reflects the inherent credit risk,
- monitoring credit risk on an ongoing basis, and
- ensuring that appropriate measures are taken when the level of credit risk is no longer acceptable.

62. The Corporation reviews its policies and benchmarks selected policies to industry practice approximately every five years. Such a benchmarking exercise has recently been carried out for a number of the Corporation's credit risk policies and practices. Results of this exercise show that the Corporation's policies are generally aligned with industry practice.

63. The Corporation uses risk assessment models to measure credit risk. The use of these models provides a consistent approach to risk assessment and pricing across the Corporation. These models are also used to assess overall credit risk and expected losses.

64. The Corporation has set credit risk tolerance limits for its loan and insurance portfolios in policies that define the risk limits by industry, country, and debtor. Furthermore, counterparty limits that relate to the Corporation's treasury operations have been established in a separate policy. A credit risk assessment is prepared by the business teams before a transaction is approved, and may require endorsement by an independent risk officer, senior management, or the Board's Risk Management Committee before final approval. The Corporation's delegation of authorities provides for escalation of transaction approvals based on the level of credit risk associated with the transaction.

65. After transactions are endorsed and approved, credit risk is measured and monitored on a daily basis by the Corporation's Risk Management Office. Reports of credit risk by rating category are provided monthly to senior management and quarterly to the Board of Directors.

66. Industry practice for monitoring credit risk includes ongoing stress testing of credit risk against limits to ensure sufficient capital is available for unusual circumstances. We found that although the Corporation does not stress test its risk limits systematically to assess its position against its limits in different market conditions, it does perform stress testing on selected segments of the portfolio when specific risks are identified. Management has indicated that systematic stress testing for credit risk will be performed once the new capital management system, Kamakura Risk Manager (KRM), is implemented.

67. The Corporation has a policy that identifies proactive steps to manage credit risk concentrations. Its Risk Transfer policy defines a list of vehicles and tools that may be used for credit portfolio management and may reduce or eliminate credit risk exposure.

68. The Corporation's policies for managing credit risk are in line with Department of Finance guidelines, which set out minimum acceptable counterparty credit ratings concerning the Corporation's

investments and other financial instruments. The Corporation's policies and procedures also set limits and describe how credit risk associated with these financial instruments should be managed.

The Corporation has systems and practices to effectively manage and measure its market risk

69. Through its treasury operations, the Corporation funds the loans issued, manages liquidities, and ensures proper matching of assets and liabilities. The Corporation's operations mainly occur in US dollars, based on the London Interbank Offered Rate (LIBOR) for US dollar transactions and the prime rate for Canadian dollar transactions.

70. We expected the Corporation's strategies and programs for managing these exposures to be consistent with corporate objectives and risk tolerances; that senior managers would identify, quantify, and manage risk exposures; and that there would be appropriate monitoring and reporting of market risk transactions. In our examination, we found that systems and practices were in place to ensure that treasury activities managed market risk in line with corporate objectives.

71. The Corporation defines market risk as the possibility of financial loss resulting from either interest rate or exchange rate movements, or both. Its market risk management policies provide tools to measure interest rate and foreign exchange rate sensitivity. They include measuring the sensitivity of assets and liabilities against changes in interest rates and foreign exchange rates, and analyzing their impact on the value of the portfolio and on net income. The policies set tolerance limits for sensitivity of assets and liabilities to changes in interest rates and foreign exchange rates. Analyses against these limits are performed monthly and reported to senior management.

72. The Corporation defines liquidity risk as the risk that it would be unable to honour daily cash flow commitments or the risk that it would have to obtain funds rapidly, possibly at a very high premium, during severe market conditions. We expected that the Corporation's systems and practices would ensure that sufficient liquidity is maintained to ensure operations can be sustained and its assets safeguarded.

73. The Corporation's liquidity policy states that it must maintain cash equivalents sufficient to meet minimum requirements. We found that the Corporation complies with its liquidity policy. When the Corporation temporarily exited the capital markets during a time of recent financial turmoil, its level of liquidity was sufficient to sustain the Corporation's activities.

74. The Corporation defines capital adequacy as a measurement of the demand for capital. In other words, it is the amount of capital required to cover the risks it has assumed in its operations, compared with the supply of capital. In current market and economic conditions, where losses based on the Corporation's exposures may increase, capital adequacy is key to ensuring the Corporation's continued sustainability.

75. In our 2004 special examination report, we observed that although the Corporation had implemented a model to assess the adequacy of its capital, management was still considering how to best enhance the way it managed economic capital. Since then, the Corporation has developed and implemented a Capital Adequacy Policy. This policy is well defined and outlines capitalization targets, how capital should be attributed, how and when strategic risk capital should be deployed, when there is eligibility for a dividend, and what information should be reported to management and the Board of Directors. We noted that the Corporation reports its capital demand and supply monthly to senior management and quarterly to the Board of Directors.

Systematic stress testing is not implemented

76. The measure of the demand for capital rests on the models and assumptions used to measure various risks. Although these models were developed based on recognized guidelines for financial institutions (such as the Office of the Superintendent of Financial Institutions' guidelines on Capital Adequacy Requirements and the Basel II Framework), management recognizes that their reliability can only be validated by backtesting the estimates generated from the models against actual results where credible loss data is available. However, although the Corporation performs stress testing on an "as-needed" basis for specific market events, it does not systematically perform capital calculations under stressed market conditions in order to determine if sufficient capital has been maintained. As stated previously, management expects that the implementation of the new capital management system, Kamakura Risk Manager, will provide the Corporation with a more robust view of its capital position and asset and liability management, and will enable systematic stress testing of the capital position.

77. Recommendation. Export Development Canada (EDC) should implement stress testing of its credit and market risks on an ongoing basis.

The Corporation's response. The Corporation agrees with the recommendation to implement systematic stress testing of credit and market risk assumptions in its current models. The Corporation will be employing a scenario-based approach to its stress tests, which will be performed on a quarterly basis. The Kamakura Risk Manager (KRM) application, upon implementation, will serve as the engine for the Corporation's capital calculation. KRM's ability to stress test all risk assumptions using both a scenario-based approach as well as random simulation techniques will allow the Corporation to incorporate stress test results as part of its regular capital reporting.

Change management

78. The Corporation has undergone significant change over the last five years, including a corporate reorganization, changes in how it carries out operations, and significant changes to its systems and practices. Such change initiatives affect job descriptions, processes and procedures, as well as corporate culture.

79. Successful implementation of significant change initiatives requires much more than effective project management. Implementation must be supported by a systematic change management framework that includes the following key components:

- establishing a vision,
- involving the right people (senior management and effective leaders as change agents),
- clear, appropriate, and constant communication,
- empowering action at all levels,
- creating short-term wins, and
- sustaining the change.

80. We expected the Corporation to have a formal change management framework encompassing the above-mentioned key components, and to apply this management framework to all significant change initiatives. Moreover, given the number of significant and competing change initiatives underway during our examination, we expected that resources would be adequately allocated to each initiative, and that senior management would be appropriately and sufficiently involved, to ensure that the Corporation's capacity was monitored and preserved, and to prevent failure of any significant initiative.

The Corporation has in place a sound change management framework

81. The Corporation has a formal and comprehensive change management framework. This framework includes the key components that need to be addressed in the change initiative, including establishing a vision, performing an environment assessment, setting up change management and implementation teams, establishing a communication strategy, and ensuring that performance measures are established and included in individual performance objectives to measure and monitor success of the implementation of the change initiative. The framework encompasses all key components required to ensure successful implementation of change initiatives.

82. For the two projects we examined (Loans Transformation Project and Customer Relationship Management System), we found that the Corporation has applied its change management framework effectively.

83. We also noted that the concurrent implementation of these two initiatives created some capacity strain and some organizational fatigue, as some individuals (for example, the business teams) were affected by both initiatives at the same time. Management recognizes the organizational strain created by multiple, competing change initiatives happening at the same time and monitors the impacts of these initiatives on the Corporation's capacity.

Corporate social responsibility

84. One of the Corporation's operating principles is to conduct its business in a manner that respects international agreements to which Canada is a party, and that is consistent with its Corporate Social Responsibility (CSR) statement. This statement commits the Corporation to carry out its mandate in a socially responsible manner consistent with its corporate values. We expected this statement to reflect best practices in the areas of business ethics, transparency, community investment, organizational climate, and the environment.

85. We also expected the Corporation to ensure that risks related to CSR are identified, mitigated, monitored, and reported as appropriate, in a way that is consistent with government expectations and the Corporation's tolerance for risk.

A sound corporate social responsibility framework has been implemented

86. We found that the Corporation's CSR framework is consistent with those established at other international export credit agencies. Policies and processes are in place for environmental reviews, disclosure and anti-corruption programs, and ethics awareness. Several

internal coordinating committees ensure the implementation of the Corporation's commitments in this area. They include the Corporate Social Responsibility Committee, the Anti-Corruption Committee, and the Environmental Review Advisory Committee. Before engaging in new CSR initiatives, the Corporation benchmarks relevant practices and receives advice from a council of external experts. Internal Audit completed a review of the CSR program in 2008, using external consultants to assess selected CSR practices and to recommend improvements. All of these practices form a sound framework within which the Corporation manages its CSR commitments.

External performance measures and reporting need to be improved

87. The Corporation has a number of reporting mechanisms, including the Annual Report, the annual CSR Report, and its corporate website, where activities related to its CSR initiatives are summarized. In using these mechanisms, the Corporation could improve its description of CSR processes and practices and how they contribute to achieving its commitments in this area. This would allow its shareholder and stakeholders to understand the CSR accountability structure in place, including the roles and responsibilities of various committees.

88. Our examination also reviewed performance reporting to see how well the selected measures demonstrate achievement of the Corporation's CSR objectives. This reporting could be expanded to include baseline information and targets. The Corporation has recognized the need to update its CSR performance measures to better demonstrate the impact of what it does. We encourage management to implement these updated measures on a timely basis.

89. Recommendation. Export Development Canada (EDC) should enhance its public reporting to better describe how its Corporate Social Responsibility (CSR) activities align with its business strategy. EDC should also continue to develop its CSR performance measures to better demonstrate what it does in the CSR area.

***The Corporation's response.** The Corporation agrees with the recommendation. Public reporting in 2008 has been modified to better illustrate how EDC's CSR activities are integrated into EDC's business strategy. Performance indicators reflecting the fulfillment of its commitment to CSR were updated in fall 2008. Baseline indicators are used, and then targets and measures will stay in place for a subsequent two to three years in order that time series data may be collected to reflect progress in the areas that comprise CSR.*

Documentation of evaluation processes need to be improved

90. When an environmental review of a transaction is not subject to the Environmental Review Directive (as discussed in paragraphs 93 to 98), processes are in place to assess and mitigate various risks associated with the transaction. We reviewed a number of files to evaluate how these processes were operating. We found that for certain assessments, such as reputation risk and human rights risk, no standardized procedures had to be completed for each evaluation. In addition, we noted that inconsistent levels of documentation existed to support various risk assessments. The 2008 Internal Audit review also noted these weaknesses. The Corporation is working to ensure consistent implementation of these processes and their documentation. For processes such as reputation risk assessments and human rights risk assessments, the Corporation is formalizing its requirements.

91. Recommendation. Export Development Canada (EDC) should improve its documentation of compliance with its Corporate Social Responsibility (CSR) review processes.

The Corporation's response. The Corporation agrees with the recommendation, and, in response to a recommendation from EDC's Internal Audit on Corporate Social Responsibility conducted in 2008, work has been completed to satisfactorily document our CSR review processes.

Environmental Risk Management processes were reviewed separately

92. To expand on the environmental aspect of corporate social responsibility, the *Export Development Act* has since 2001 required the Corporation to determine whether a project could have adverse environmental effects despite mitigation measures and, if so, whether EDC's support for the project is justified.

93. To meet this requirement, EDC uses an environmental risk management process that has two components:

- the Environmental Review Directive, which responds to EDC's legal obligation to carry out environmental reviews of transactions in accordance with the *Export Development Act*; and
- other environmental review processes to conduct environmental reviews of transactions that do not fall within the scope of the Directive.

94. The Directive requires EDC to assess the potential adverse environmental effects of all project-related transactions that are worth over 10 million Special Drawing Rights (an international monetary

unit used by the International Monetary Fund), or approximately CDN\$18.9 million, and have repayment terms of two years or more.

95. For the projects subject to the Directive, EDC first determines whether adverse environmental effects are likely to occur despite mitigation measures. It then determines whether it is justified in entering into the transaction.

96. For certain other transactions not subject to the Directive, including those not related to projects, EDC assesses the risk to its environmental reputation using other review processes. The Corporation's ranking of risk under these processes is considered with other risk factors when the Corporation agrees or declines to support a project.

97. Concurrent with this special examination, our Office conducted an audit of the Corporation's environmental review systems and practices. The report on that audit will assess in detail the design and implementation of the Corporation's environmental review systems and practices and the implementation of its Environmental Review Directive. The report is expected to be tabled in Parliament in June 2009.

Human resources management

98. The Corporation's success depends in large part on the quality and performance of its employees. Its strategy for human resources is to create and sustain a desirable work climate by enhancing its reputation as a career choice for high-potential candidates and applying talent management strategies, targeted career development, succession planning, and learning. The Corporation has been recognized by outside organizations as an exemplary workplace, and has received numerous awards for this.

99. We expected the Corporation's human resources systems and practices to be designed and managed in a manner that provides the Corporation with the core competencies and skills needed to meet its goals and objectives. As such, we expected its total compensation plan to be consistent with the achievement of its business objectives and strategies. We also expected appropriate and sufficient corporate succession planning to be in place to ensure core competencies would be sustained when individuals in key positions left the organization.

The Corporation has implemented an enhanced compensation framework

100. The Corporation's new compensation framework, implemented over a two-year period starting in 2006, was a response to employees' concerns about the lack of transparency in how compensation

was determined. The Corporation has now refined its job classifications, job descriptions, and salary ranges, and has enhanced corporate-wide transparency for employees. Its compensation philosophy is to provide total cash compensation that will be competitive at the median level of comparable groups. Salaries are benchmarked annually against those of 80 other organizations composed of financial institutions, other Crown corporations, and various industries, to ensure that they reflect current compensation approaches and levels. The Corporation's incentive programs are designed to reward behaviours consistent with its corporate objectives.

The Corporation monitors and manages talent and competency gaps

101. The Corporation has developed a talent management process that identifies high-potential individuals within the organization, assesses them against the required competencies and skills, and provides appropriate developmental and training opportunities to address any gaps and promote the development of leaders within the organization. High-potential candidates have a leadership profile and development plan that outlines the course the individual needs to follow to progress in the organization.

102. The Corporation identifies and monitors anticipated staffing needs at senior levels and analyzes the competencies and skills required to fill those positions. The Corporation has identified vulnerabilities due to retirement at the executive level, and has identified candidates to address these gaps. The Corporation's succession plan includes employees at the vice-presidential and director levels who have been identified as being high-performing individuals.

103. Senior management regularly monitors its senior level talent and succession plans. The Corporate succession plan is updated regularly by senior management and reviewed annually by the Board of Directors' Human Resources Committee.

Information technology management

104. The Corporation operates in a highly automated environment where information technology (IT) is essential to both its operations and its ability to meet its objectives. To ensure effectiveness and integrity, the Corporation's systems have to be up and running at all times and adequately safeguarded and tested. The Corporation must also adequately prioritize its information technology efforts and align them with corporate objectives. We expected that the Corporation would have planned, developed, and implemented information management systems that support the organization's strategic and

operational objectives, ensure business continuity, provide security, and satisfy informational needs with due consideration for cost/benefit and timeliness.

The information technology strategic plan does not contain performance measures

105. In the past year, a new information technology (IT) structure has been put in place as part of the Corporation's initiative to streamline processes and improve efficiency. This has affected how this area does business and in many cases has resulted in changes to systems and practices.

106. The IT strategic plan for the new structure is well linked to the Corporate objectives and strategies. The current IT strategic plan has detailed objectives and strategies but there is a need to incorporate performance measures to monitor how well the objectives are being achieved. This would enable management to follow up and measure performance.

107. Elements of an IT operational plan can be found in two separate documents. This makes it difficult to see the complete picture of what is being planned for the coming year as well as the performance of planned projects and activities. Combining these two documents would provide management with better information to determine the effectiveness of this plan.

108. Recommendation. Export Development Canada (EDC) should develop key performance measures and incorporate them into its information technology (IT) strategic plan. Current operational information should be consolidated into an overall operational plan that would describe the IT initiatives, resource requirements, and how the use of resources and achievement of benefits will be monitored and managed.

The Corporation's response. The Corporation agrees with the recommendation. EDC's Corporate IT Strategy will be updated in 2009, incorporating appropriate measures to manage to desired outcomes, such as the IT metric included in EDC's Corporate Plan, which monitors the ratio of technology investments driving business value compared with investments maintaining core technology assets and infrastructure. Business Solutions and Technology's (BS&T) Enterprise Portfolio Management Office (EPMO) will track both business IT projects as well as internal BS&T continuous improvement projects in an overall tactical plan, which includes a description of the initiative, resource requirements, and benefits to be achieved. The tactical plan will be finalized by the end of the first quarter of 2009 and monitored through regular BS&T management meetings.

No formally approved corporate IT project management framework is in place

109. Since our last special examination, the Corporation has worked on improving its informal project management practices. Currently, no formally approved corporate IT project management policy is in place. Although the Corporation intends to implement such a policy in the near future, the current practice has resulted in inconsistent use of IT project management practices for various projects. For example, business cases lacked an assessment to evaluate whether each project has the required skills and resources available to be completed successfully.

110. Recommendation. Export Development Canada (EDC) should put in place a formal information technology (IT) project management framework.

The Corporation's response. The Corporation agrees with the recommendation. Business Solutions and Technology's (BS&T) project management framework was updated in 2008 and enhancements will be rolled out to BS&T staff in 2009 to continue to ensure consistent project planning and creation of project artifacts across EDC IT projects. Consistent project prioritization and coordination will be maintained through our Enterprise Portfolio Management Office portfolio management disciplines.

The IT Security governance framework is currently incomplete

111. In 2006, the Corporation recognized that its information security policies were out of date. Since that time, an overall IT Security Program Architecture has been put in place and the IT Security Policy has been updated and approved. An IT Security Officer (ITSO) position has been created to deal specifically with IT-related security issues. IT standards are also being developed (8 out of 18 have been drafted and approved).

112. The IT Security Governance framework is currently incomplete. There is no IT Security Steering Committee in place. This committee would normally oversee and endorse IT security initiatives, approve the policies and standards being proposed, and be the forum where IT security performance metrics are discussed. In addition, there is no reporting relationship between the Departmental Security Officer and the ITSO. The Departmental Security Officer has overall responsibility for security at the Corporation. It would be important to establish a reporting relationship so that executive management receives a complete picture of security issues on a regular basis.

113. Continued education and communication on IT security issues as well as orientation sessions are normally part of a comprehensive security awareness program. Currently, this type of program is not in place. The Corporation has recognized that this needs to be addressed and is developing a security awareness program that it expects to have in place early in 2009.

114. Recommendation. Export Development Canada (EDC) should continue to implement the information technology (IT) Security Program Architecture, address gaps in the IT Security Governance Framework, and implement a security awareness program.

The Corporation's response. The Corporation agrees with the recommendation and will continue to implement its IT Security Program Architecture throughout 2009. Gaps in the IT Security Governance Framework will be closed through establishment of an IT Security Steering Committee. A security awareness program has been developed and rolled out to Business Solutions and Technology staff in 2008, with rollout to the full Corporation to be completed in 2009.

Business continuity programs are working effectively

115. Regular testing has proved that the Corporation's business continuity program is effective. During three significant business disruptions in the last 10 years, the Corporation has continued operations without any significant issues. Business continuity program testing is done regularly. Internal Audit has reviewed these test results and found that overall they are working well and that improvements have been made where needed.

Conclusion

116. We concluded that during the period under examination, Export Development Canada's systems and practices were maintained in a manner to provide the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

117. The Board of Directors follows good governance practices. EDC has sound corporate planning processes that provide clear direction for its activities. The financial risk and capital management framework in place at the Corporation addresses credit and market risk and capital sufficiency. EDC also has an Enterprise Risk Management framework that identifies roles and responsibilities and a methodology for managing risk.

118. We found that the systems and practices that support the core business in the areas of change management, corporate social responsibility, human resource management, and information technology management had no significant deficiencies. We did note some areas for improvement in the various aspects of the Corporation we examined and we encourage management to continue in their commitment to address these aspects.

About the Special Examination

All of the audit work in this report was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

Objective

Under section 138 of the *Financial Administration Act* (FAA), federal Crown corporations are subject to a special examination once every 10 years. Special examinations of Crown corporations are a form of performance audit where the scope is set by the FAA to include the entire corporation. In special examinations, the Auditor General provides an opinion on the management of the corporation as a whole. The opinion for this special examination is found on page 3 of this report.

Special examinations answer the question: Do the corporation's systems and practices provide reasonable assurance that assets are safeguarded and controlled, resources are managed economically and efficiently, and operations are carried out effectively?

Key systems and practices examined, criteria, and approach

At the start of this special examination, we presented the Corporation's audit committee with an audit plan that identified the systems and practices, and related criteria we considered essential to providing the Corporation with reasonable assurance that its assets are safeguarded and controlled, its resources managed economically and efficiently, and its operations carried out effectively. These are the systems and practices and criteria that we used for examination.

Key system and practice examined	Criteria
Governance	To maximize the Corporation's effectiveness and its ability to balance public policy objectives with its commercial objectives, the Corporation should have a well-performing corporate governance framework that meets the expectations of best practices in Board stewardship, shareholder relations, and communications with the public.
Strategic planning and performance measurement	<p>The Corporation should have clearly defined strategic directions and specific and measurable goals and objectives to achieve its legislative, commercial, and public policy mandate, and its strategic direction and goals should be reflected in its operational plans.</p> <p>The Corporation should measure achievement of its mandate and statutory objectives. Reports should provide complete, accurate, timely, and balanced information for decision making and accountability.</p>
Strategic risk management	The Corporation should have a corporate-wide approach to risk management in place which reflects best practices. Risks should be identified, measured, mitigated, monitored, and reported on in order to ensure achievement of the Corporation's strategic and operational objectives.

Key system and practice examined	Criteria
Financial risk management	The Corporation should have policies, systems, and practices in place which define, monitor, manage, and report financial risks, while also allowing it to achieve its objectives.
Change management	To ensure that implementation of significant changes is successful, the Corporation should have the key competencies it needs to adapt to this new way of doing business, and that the level of risk to which it is exposed is not significantly increased. Change initiatives must be managed in a systematic manner, and communication must be clear and transparent.
Human resource management	Human resources should be managed in a manner that provides the Corporation with the core competencies and skills it needs to achieve its goals and objectives economically and efficiently.
Corporate social responsibility	The Corporation should ensure that risks related to its corporate social responsibility are identified, mitigated, monitored, and reported as appropriate, consistent with government expectations and the Corporation's tolerance for risk.
Information technology management	The planning, development, implementation, and management of information technology and information management systems should support the Corporation's strategic and operational objectives, ensure business continuity, and satisfy informational needs at an acceptable cost and on a timely basis.

Audit work completed

Audit work for this special examination was substantially completed on 20 February 2009.

Audit team

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Appendix List of recommendations

The following is a list of recommendations found in the Special Examination Report. The number in front of the recommendation indicates the paragraph where it appears in the report. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Strategic planning and performance measurement	
<p>46. Export Development Canada (EDC) should continue to refine its performance measures to ensure that they clearly demonstrate success in achieving its corporate objectives. (38–45)</p>	<p>The Corporation agrees with the recommendation. EDC’s performance measures are developed as part of the overall strategic planning process. In establishing performance measures, the Corporation works to ensure clarity and alignment with the stated corporate objectives. EDC will continue to review its performance measurement program on an annual basis and will look to improve communication of the link between objectives, measures, targets, and performance through both its Corporate Plan and Annual Report.</p>
Strategic risk management	
<p>54. Export Development Canada (EDC) should assign responsibility for monitoring and mitigating its key risks. Moreover, the Corporation should implement more formal and systematic monitoring and reporting for the top risks identified. (50–53)</p>	<p>The Corporation agrees with the recommendation to consider assigning responsibility for monitoring and mitigating key risks as well as for a more formal and systematic monitoring and reporting of the top risks identified. The Corporation’s current Enterprise Risk Management (ERM) process already ensures that key risks identified are effectively managed and monitored. Its executive team is also actively engaged in identifying measures to limit the key risks identified on an ongoing basis.</p>
<p>56. Export Development Canada (EDC) should review best practices in identifying and managing operational risks and decide which operational risks are relevant to it and how it may need to change its risk classification and mitigation methodology to include operational risk in its risk assessment and policies. (55)</p>	<p>The Corporation agrees with the recommendation that it consider undertaking a review of best practices in identifying and managing operational risks. EDC’s current Enterprise Risk Management (ERM) program provides, at the corporate level, management’s views of current and emerging credit, market and operational risks/challenges that EDC is facing or will face, and how well it considers these risks to be managed. The program also identifies the controls or mitigants in place to manage these risks. The Corporation has not experienced significant operational risk-related losses and will continue to maintain a strong culture of internal control as well as an operating environment that encourages high levels of integrity and professional standards.</p>

Recommendation	Response
Financial risk management	
<p>77. Export Development Canada (EDC) should implement stress testing of its credit and market risks on an ongoing basis. (57–76)</p>	<p>The Corporation agrees with the recommendation to implement systematic stress testing of credit and market risk assumptions in its current models. The Corporation will be employing a scenario-based approach to its stress tests, which will be performed on a quarterly basis. The Kamakura Risk Manager (KRM) application, upon implementation, will serve as the engine for the Corporation’s capital calculation. KRM’s ability to stress test all risk assumptions using both a scenario-based approach as well as random simulation techniques will allow the Corporation to incorporate stress test results as part of its regular capital reporting.</p>
Corporate social responsibility	
<p>89. Export Development Canada (EDC) should enhance its public reporting to better describe how its Corporate Social Responsibility activities align with its business strategy. EDC should also continue to develop its CSR performance measures to better demonstrate what it does in the CSR arena. (84–88)</p>	<p>The Corporation agrees with the recommendation. Public reporting in 2008 has been modified to better illustrate how EDC’s CSR activities are integrated into EDC’s business strategy. Performance indicators reflecting the fulfillment of its commitment to CSR were updated in fall 2008. Baseline indicators are used, and then targets and measures will stay in place for a subsequent two to three years in order that time series data may be collected to reflect progress in the areas that comprise CSR.</p>
<p>91. Export Development Canada (EDC) should improve its documentation of compliance with its Corporate Social Responsibility review processes. (90)</p>	<p>The Corporation agrees with the recommendation, and, in response to a recommendation from EDC’s Internal Audit on Corporate Social Responsibility conducted in 2008, work has been completed to satisfactorily document our CSR review processes.</p>

Recommendation	Response
<p>Information technology management</p> <p>108. Export Development Canada (EDC) should develop key performance measures and incorporate them into its IT strategic plan. Current operational information should be consolidated into an overall operational plan that would describe the IT initiatives, resource requirements, and how the use of resources and achievement of benefits will be monitored and managed. (104–107)</p> <p>110. Export Development Canada (EDC) should put in place a formal information technology (IT) project management framework. (109)</p> <p>114. Export Development Canada (EDC) should continue to implement the information technology (IT) Security Program Architecture, address gaps in the IT Security Governance Framework, and implement a security awareness program. (111–113)</p>	<p>The Corporation agrees with the recommendation. EDC's Corporate IT Strategy will be updated in 2009, incorporating appropriate measures to manage to desired outcomes, such as the IT metric included in EDC's Corporate Plan, which monitors the ratio of technology investments driving business value compared with investments maintaining core technology assets and infrastructure. Business Solutions and Technology's (BS&T) Enterprise Portfolio Management Office (EPMO) will track both business IT projects as well as internal BS&T continuous improvement projects in an overall tactical plan, which includes a description of the initiative, resource requirements, and benefits to be achieved. The tactical plan will be finalized by the end of the first quarter of 2009 and monitored through regular BS&T management meetings.</p> <p>The Corporation agrees with the recommendation. Business Solutions and Technology's (BS&T) project management framework was updated in 2008 and enhancements will be rolled out to BS&T staff in 2009 to continue to ensure consistent project planning and creation of project artifacts across EDC IT projects. Consistent project prioritization and coordination will be maintained through our Enterprise Portfolio Management Office portfolio management disciplines.</p> <p>The Corporation agrees with the recommendation and will continue to implement its IT Security Program Architecture throughout 2009. Gaps in the IT Security Governance Framework will be closed through establishment of an IT Security Steering Committee. A security awareness program has been developed and rolled out to Business Solutions and Technology staff in 2008, with rollout to the full Corporation to be completed in 2009.</p>

