

**Corporate Social Responsibility (CSR) - Phase II
Final Audit Report
Report Nr. 04/11
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Introduction

As per our 2011/2012 Audit Plan, EDC Internal Audit performed an audit of the Corporate Social Responsibility (CSR) framework at EDC. EDC has a CSR Statement of Commitment which incorporates five operating principles that define how EDC executes its commitment to CSR as follows; Business Ethics, Environment, Transparency, Employee Engagement and Community Investment. The operating principles are supported by policies, programs and/or practices such as the Code of Business Ethics and Code of Conduct, Disclosure Policy, Anti-Corruption Program and environmental review practices which support the Environmental and Social Risk Management Policy.

Audit Objectives & Scope

The objective of this audit was to evaluate the CSR framework in place to ensure consistent application of EDC's CSR operating principles. Specifically, consideration was given to the design and operating effectiveness of the controls in place to ensure:

- There is a CSR framework which supports EDC in carrying out its mandate in a socially responsible manner.
- Appropriate tools are in place to assist EDC employees and customers in carrying out their responsibilities with respect to the CSR operating principles.
- EDC's CSR Program is monitored to ensure compliance and, performance against objectives is measured and reported annually.

The scope of this audit included the Business Ethics, Environment and Transparency operating principles of EDC's CSR Statement of Commitment. Coverage of the remaining CSR principles was obtained through audits of EDC's pervasive controls.

Internal Audit Opinion

In our opinion, key controls pertaining to business ethics, transparency and environment components of the CSR Statement of Commitment are **Well Controlled**¹. Through our detailed audit testing we have verified that key controls designed to mitigate governance, reputation and compliance risk as it relates to these CSR components are effectively designed and operating as intended. A comprehensive policy

¹Our standard audit opinions are as follows:

- **Strong Controls:** Key controls are effectively designed and operating as intended. Best in class internal controls exist. Objectives of the audited process are most likely to be achieved.
- **Well Controlled:** Key controls are effectively designed and operating as intended. Objectives of the audited process are likely to be achieved.
- **Opportunities Exist to Improve Controls:** One or more key controls do not exist, are not designed properly or are not operating as intended. Objectives of the process may not be achieved. The financial and/or reputation impact to the audited process is more than inconsequential. Timely action is required.
- **Not Controlled:** Multiple key controls do not exist, are not designed properly or are not operating as intended. Objectives of the process are unlikely to be achieved. The financial and/or reputation impact to the audited process is material. Action must follow immediately.

framework is in place including periodic reviews and benchmarking of policies and practices. Operational tools and guidelines are in place to promote consistent application of EDC's CSR policies on a transactional level. Finally, CSR performance measures are in place and are reviewed periodically to ensure their continued relevance. Moderate² areas for improvement were noted with respect to the development of internal guidance, including key milestones which identify the activities and responsibilities associated with the implementation of the Climate Change commitment outlined in the Environmental and Social Risk Management Policy and the monitoring of environmental covenants. These are described in the following section.

Audit Findings & Recommendations

Climate Change

EDC's commitments on Climate Change, as outlined in the Environmental and Social Risk Management Policy, are a shared responsibility across different teams at EDC. For example, the commitment includes EDC's EnviroExports program, customer engagement, project level climate change assessments and relevant research. In order to effectively meet its policy commitments to Climate Change, we are recommending that guidance be developed which identifies key milestones for the activities and the responsibilities of specific groups.

Rating of Audit Finding - Moderate

Action Owner – SVP, Legal Services & Secretary

Due Date – Q4 2011

Environmental Covenants

EDC can choose to include covenants in loan agreements for financing transactions were deemed necessary based on risk assessments. Environmental covenants are one type that can be applied and are a key feature of EDC's CSR monitoring controls. The controls for the tracking of environmental covenants were found not to be effective. A secondary, compensating process had been developed by EAS, however this resulted in duplication of effort and we found one exception in our testing where a review had not been completed on a timely basis. We are recommending that the controls related to the tracking and monitoring of environmental covenants be strengthened. We are also recommending improved communication between Asset Management and EAS regarding the purpose of the EAS memos including their use for the annual obligor monitoring that is conducted by Asset Management.

² Our audit findings are ranked as follows:

- Major - a key control does not exist, is poorly designed or is not operating as intended and the financial and/or reputation risk is more than inconsequential. The process objective to which the control relates is unlikely to be achieved. Corrective action is needed to ensure controls are cost effective and/or process objectives are achieved.
- Moderate - a key control does not exist, is poorly designed or is not operating as intended and the financial and/or reputation risk to the process is more than inconsequential. However, a compensating control exists. Corrective action is needed to avoid sole reliance on compensating controls and/or ensure controls are cost effective.
- Minor - a weakness in the design and/or operation of a non-key process control. Ability to achieve process objectives is unlikely to be impacted. Corrective action is suggested to ensure controls are cost effective.

Rating of Audit Finding - Moderate

Action Owner – Director, Environmental Advisory Services with Director, Asset Management

Due Date – Q3 2011

Conclusion

The audit findings and recommendations have been communicated to and agreed by management, who has developed action plans that are scheduled for implementation no later than Q4 2011.

We would like to thank management for their support throughout the audit.

