

**Delegation of Authority (DOA) - Phase II
Final Audit Report
Report Nr. 20/10
December 6, 2010**

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Introduction

In accordance with our FY 2010 Audit Plan, EDC Internal Audit performed an audit of Delegation of Authority (DOA). Delegation of authority within EDC is established and governed through the Export Development Act, EDC By-Laws, and GEN-002. Specifically, Section 8(2) of the Export Development Act assigns authority to the President and CEO of EDC for all matters that are not explicitly reserved to the Board of Directors. Section 19 (1) of the EDC By-Laws outlines the transactions the Board of Directors reserves the right to authorize. Authority for all other transactions rests with the President & CEO of EDC. EDC's GEN-002 outlines the process for assigning this DOA. The appendices to GEN 002 detail the approved DOA levels by transaction type.

Audit Objectives & Scope

The DOA audit has been conducted in two phases. Phase I of the audit was completed in 2009 and resulted in a *Well Controlled*¹ opinion on the design effectiveness of the DOA controls. We issued the results of Phase II testing for the majority of the GEN-002 Appendices in Q2 2010. This report addresses the Phase II results for two appendices in the table below that were undergoing changes when we did our testing earlier in 2010. The overall objective of Phase II was to perform detailed testing of the DOA controls to ensure they are operating as intended.

The scope of this audit included the following GEN 002 appendices:

| GEN-002 Appendix | Electronic/Manual | System Used to Capture DOA |
|--|-------------------|----------------------------|
| Appendices C/C1 & C/C1(LTP): Credit Granting Authority and Credit Granting Endorsement-Financing, Insurance, Guarantees and Equity | Electronic | MBC |
| Appendix G/G1- Treasury Division | Manual | Not Applicable |

Internal Audit Opinion

In our opinion, application of the DOA levels outlined in the Appendices of GEN-002 included in the scope of this audit is *Well Controlled*. Specifically, the results of our detailed testing confirm that transactions are being approved in accordance with the levels specified in the following appendices of GEN-002:

- Appendices C/C1(LTP) - Financing/CIB/PRI
- Appendix G/G1 - Treasury Division

A moderate² area for improvement was identified and is outlined in the following section.

¹ Our 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.

² The ratings of our audit findings are 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.

Audit Findings & Recommendations

1. Appendix G - Update to reflect current practice

Based on recommendations from the DOA Phase 1 audit, in accordance with Appendix G, Treasury personnel were made aware of the need to "*obtain formal DOA approvals for long term borrowings (electronic or hard copy) and retain in files.*" Previously these DOA approvals had tended to be given verbally. Subsequent discussions with Treasury indicated that they interpreted the Phase 1 audit recommendation to apply only at the Treasurer authority level and above and IA saw evidence of this control operating at those authority levels. IA is recommending that Treasury update the Long Term Borrowing Activity DOA in Appendix G so that it reflects the current practice of only requiring formal DOA sign off at the Treasurer level and above.

Rating of Audit Finding - Moderate
Action Owners - VP and Treasurer
Due Dates - Q4 2011

Conclusion

The audit findings and recommendations have been communicated to and agreed by management, who have 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.