

**Delegation of Authority, Phase 1  
Final Audit Report  
Report Nr. 10/09  
September 29, 2009**

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## Introduction

In accordance with our 2009 Audit Plan, EDC Internal Audit (IA) performed an audit of internal controls relating to Delegation of Authority (DOA) at EDC. 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 and its appendices include the approved DOAs levels by transaction type.

## Audit Objective

The objective of this audit was to evaluate the design effectiveness of controls pertaining to the Delegation of Authority (DOA). The following criteria were used as the basis for assessing design effectiveness:

- DOA is formally defined and approved for all business transactions.
- The process for maintaining DOAs is defined and communicated.
- DOAs have been communicated across EDC.
- Rules pertaining to the re-delegation of authority have been defined and communicated.

Audit fieldwork was performed between May and August 2009.

## Internal Audit Opinion

In our opinion, the delegation of authority process is **Well Controlled**<sup>1</sup> from a design effectiveness perspective. No major<sup>2</sup> control issues were found during the audit work. We found that the controls were effectively designed to address the governance ERM risk element as it pertains to EDC's delegation of authority. Some moderate issues were noted and are described in the following section.

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<sup>1</sup> 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.

<sup>2</sup> 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.

## Audit Findings & Recommendations

### 1. DOA approvals for investment and borrowing activities are not always formally documented and retained.

The scope of our audit included a walkthrough of a limited number of transactions to ensure DOA approvals were obtained in accordance with the appendices of GEN-002. As a result of this walkthrough we found that formal DOA approvals are not always obtained for investment and borrowing activities. However, we also observed that monitoring controls are in place that would detect material errors or unauthorized transactions. To facilitate consistent DOA authorization at a transactional level, we recommend that the current reporting be modified to highlight daily transactions requiring approval by the Deputy Treasurer or higher. Formal authorizations of these transactions should be obtained and retained on file.

Rating of Audit Finding - Moderate  
Action Owner - Deputy Treasurer  
Due Dates - Q1 2010

### 2. Guidance with respect to the re-delegation of authority is not explicitly defined for all DOA tables included as the appendices of GEN-002.

The main body of GEN-002 does not include explicit guidelines with respect to the re-delegation of authority. For example, there is no guidance on the amount of DOA a leader may delegate to a subordinate or contract staff on a permanent basis. As a result, some DOA tables included as the Appendices to GEN-002 include such guidance while others do not. We recommend that GEN-002 include guidance on the re-delegation of authority to subordinates and contract employees.

Rating of Audit Finding - Moderate  
Action Owner - General Counsel & Senior Assistant Secretary  
Due Dates - Q2 2010

### 3. Delegation of authorities pertaining to operating and capital expenditures could be further clarified.

Appendix N of GEN-002 outlines the DOA for operating and capital expenditures. Use of the term budget authority in Table 1 of the Appendix could cause confusion as this table is meant to depict DOA levels. In addition, restrictions with respect to the types of operating and capital expenditures a given DOA level may approve are not fully defined. Based on our walkthroughs, we did not find any evidence that these issues have caused confusion in approving operating and capital expenditures. We recommend Table 1 be amended to refer to Delegation of Authority. Clarification around the types of expenditures that Table 1 applies should also be included.

Rating of Audit Finding - Moderate  
Action Owner - Senior Purchasing Advisor  
Due Dates - Q1 2010

## 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 Q2 2010. We would like to thank management for their support throughout the audit.