

**Entity Level Controls - Control Environment, Phase 1  
Final Audit Report  
Report Nr. 08/09  
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## Introduction

In accordance with our 2009 Audit Plan, EDC Internal Audit (IA) is performing a number of audits with the objective of evaluating the design effectiveness of EDC's entity level controls. Entity level controls set positive conditions for the execution of transactional controls and as such form the internal control infrastructure. Examples of entity level controls include: management's risk assessment process, general computer controls, controls to monitor operating results, period-end closing and financial reporting controls, policies that address significant business control and risk management practices, and controls within the control environment. Control environment has a pervasive effect on the control consciousness and effectiveness within a company and is central to all other entity-level controls.

## Audit Objectives & Scope

The objective of this audit was to evaluate the design effectiveness of one component of entity level controls, the Control Environment. The scope of our audit included an examination of the following attributes of the Control Environment:

- Integrity and Ethical Values
- Commitment to Competence
- Communication with EDC's Board of Directors
- Organizational Structure
- Human Resource Policies and Practices

Delegation of Authority was excluded from the scope of this audit as it is being examined through a separate audit.

## Internal Audit Opinion

In our opinion, the overall Control Environment at EDC is **Well Controlled**<sup>1</sup>. No major<sup>2</sup> control issues were noted. We found that the controls were effectively designed to address the following ERM risk elements as they pertain to EDC's control environment: fraud and ethical, incentive, people/skills, governance, reputation, external disruption, change management/alignment, compliance and strategy.

## Conclusion

The audit results have been communicated and agreed to by management. We would like to thank management for their support throughout the audit.

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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.