

**Entity Level Controls - Risk Assessment - Phase II  
Final Audit Report  
Report Nr. 23/10  
January 7, 2011**

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## Introduction

In accordance with our 2010 Audit Plan, we have completed an audit of EDC's entity level risk assessment process. This audit was conducted in support of Internal Audit's 2010 opinion on the operating effectiveness of pervasive controls. The Committee of Sponsoring Organizations' (COSO) Internal Control Framework is being used as the basis for our assessment. One of the key premises underlying COSO is that effective internal controls provide reasonable assurance regarding the achievement of an organization's objectives. The risk assessment process identifies what could go wrong relative to the achievement of an organization's objectives and therefore, provides important context for identifying what controls are needed.

EDC's Enterprise Risk Management (ERM) Framework addresses risk assessment and has been in place since 2000. The ERM framework includes a formal review of credit, market, and operational risks on an annual basis. This annual assessment is supported on an on-going basis through the work performed by cross functional committees such as: Management Risk Management Committee, Asset Liability Committee, Business Architecture Review Committee, and Executive Review Committee.

## Audit Objectives & Scope

Phase I of this audit was performed in 2009. The objective was to evaluate the design effectiveness of the controls in place to ensure entity level risks related to the achievement of EDC's corporate business objectives are identified, evaluated and managed.

The objective of this Phase II audit was to perform detailed testing to confirm that controls were operating as intended. The scope of the audit included consideration of the extent to which:

- ✓ Business objectives exist so as to support the identification of what could go wrong;
- ✓ Risks are identified and evaluated;
- ✓ Mitigation action plans are created, implemented and reported; and
- ✓ Monitoring activities are in place to identify new events that could impact risk management activities.

Audit fieldwork was performed during November and December 2010.

## Internal Audit Opinion

In our opinion, the controls to identify, evaluate and manage entity level risks relevant to the achievement of EDC's corporate business objectives are **Well Controlled**<sup>1</sup>. The results of our detailed testing confirmed that key controls are operating as intended. Minor<sup>2</sup> areas for improvement were identified and have been discussed with management.

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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> 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.

## Conclusion

Minor audit findings and recommendations have been discussed with management. Minor audit findings are not included in the scope of our follow up processes and accordingly, action owners and due dates were not established.

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