

**Equity Investment Program
Substantive Follow-Up Audit
Final Report
Report Nr. 04/10
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Introduction

In 2008, Internal Audit (IA) conducted an audit of EDC's Equity Investment program. Since the program's inception in 1997, the Equity Program ("Equity") has supported directly and indirectly over 150 Canadian companies, helping them enter new and emerging markets. Investments are made either directly or via funds.

Major and moderate audit findings were identified as a result of the 2008 audit and were subsequently addressed by management. When major audit findings are reported, it is IA's standard practice to conduct a substantive follow-up audit to confirm that new controls have been designed effectively and are operating as intended.

Audit Objectives & Scope

The objective of this substantive follow-up audit was to evaluate the new controls implemented by management to address major and moderate audit findings reported in our 2008 audit. The scope of the audit focused on audit findings in the following areas:

- Timeliness and quality of information to support fund investment valuations
- Valuation Policy and procedures
- Frequency of valuations and Valuation Committee meetings
- Valuation roles and responsibilities
- Timeliness of information used for direct investment valuations

Audit fieldwork was performed in February 2010.

Internal Audit Opinion

Our 2008 audit contained an opinion that "*Opportunities Exist to Improve Controls¹*" with respect to the Equity Investment program.

In our opinion, the Equity Investment Program is now "*Well Controlled*".

We found that the due diligence process for new fund investments now includes the requirement to obtain the funds' valuation policies as well as quarterly (unaudited) and annual audited financial statements to support valuations used to ensure compliance with GAAP (Canadian, U.S., IFRS). The Corporate Controller's Group is included in this process to review compliance of the valuation policies. The scope of the quarterly and annual investment valuations now includes results of communication between the EDC equity team and the funds' CFOs as well as consideration of the potential impact of general market/industry conditions on valuations. Full valuations are performed in Q2 and Q4 while during Q1 and Q3, full valuations are only performed when there are material changes. The timelines for quarterly Investment Monitoring reports, the Valuation Committee meeting schedule and deadlines for financial reporting have been aligned to ensure timeliness and completeness of equity investment reporting.

The Valuation Policy was finalized and incorporates several key elements that pertain to the Valuation Committee. For example, the quarterly Valuation Committee meetings now include consideration of any subsequent events with material impact on quarterly and annual financial reporting. The Valuation Committee has approval authority for all investment valuations and quorum has been revised to require a representative from the Controller's Group.

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/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/reputation impact to the audited process is material. Action must follow immediately.

Conclusion

The substantive follow-up conclusions have been communicated to and agreed by management.

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