

**Expanded Business Control Framework
Final Audit Report
Report Nr.6/09
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Introduction

In accordance with our 2009 Audit Plan, EDC Internal Audit (IA) performed an audit of the Expanded Business Control Framework. With the passing of the 2009 Budget on March 12, 2009 EDC was granted a two-year temporary expansion of its mandate to help increase access to credit for Canadian companies. This expansion allows EDC to support domestic trade by participating in domestic financing and insurance with private sector financial institutions, private insurance providers and the surety industry. EDC's capacity to undertake this expanded mandate is also supported by the Government's increase of EDC's contingent liability, share capital and borrowing limits. In addition, the Government (GoC) increased the limit on the amount of support that can occur under the Canada Account. The 2009 Budget also established a requirement to regularly report to Parliament on the progress of Budget initiatives. EDC is expected to provide the GoC with information on a monthly basis about its activities for inclusion in these reports.

As of May 31, 2009, under its expanded mandate, EDC signed nearly \$100M in domestic financing loans. In terms of domestic bonding, reinsurance and guarantees, both with surety and banking partners in Canada, EDC provided almost \$19M in support.

Audit Objectives & Scope

The overall objectives of this audit were to document and evaluate the design effectiveness of the:

- control framework for business transactions associated with EDC's expanded mandate and/or increased capacity that will not follow existing process flows; and
- controls to ensure the accuracy and completeness of classifying and reporting transactions in terms of core business, expanded mandate and enhanced credit capacity.

The scope of the audit included:

- the Canada Account for the Detroit 3 (D3);
- Domestic Financing;
- Domestic Bonding & Surety; and
- the monthly overall reporting.

Currently, EDC is in the process of completing various partnership agreements for the Domestic Supplemental Insurance (DSI) program. As such, an assessment of DSI could not be included in this report but will be completed subsequent to the finalization of agreements under that program.

Audit fieldwork was performed during May and June 2009.

Internal Audit Opinion

In our opinion, the Expanded Business Control Framework is **Well Controlled**¹. We found that the controls surrounding the processing and reporting of the expanded mandate transactions were designed effectively.

The expanded mandate implementation is a key priority for EDC. Internal and external communication of the expanded mandate was timely and occurred through various means, including procedures documents, Q&As, Executive webcasts, press releases, etc. The principle of supporting transactions within existing competencies and following existing processes, systems and credit risk methodologies where applicable was emphasized to minimize impact on core business. Existing information systems were leveraged and clear criteria for the desired solution were established with a goal of minimizing the modifications required and gauging alignment with the long term IT vision. Reporting requirements to the GoC were determined through planning and consultations among key external stakeholders.

Based on the transaction walkthroughs we performed, we found that:

- Eligibility criteria established for the expanded mandate transactions were applied consistently.
- Existing EDC processes were adhered to where applicable (e.g., Environmental reviews, credit authorization and approvals).
- A process is in place to verify the accuracy of the information included in the Business Credit Availability Program (BCAP) - Monthly Reporting by Crown Corporations.

During the course of our audit work IA identified one finding that was considered minor². This finding has been communicated to management.

Conclusion

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

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.