

**Financial Statement Closing Process
Final Audit Report
Report Nr. 17/10
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Introduction

In accordance with our FY 2010 Audit Plan, EDC Internal Audit performed an audit of the Financial Statement Closing Process (FSCP). The Financial Administration Act (FAA), section 131(4) sets forth the requirement for Crown corporations to prepare annual financial statements in accordance with generally accepted accounting principles. EDC's financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) submitted to the Board of Directors on a quarterly basis for their review and approval and published in the Annual Report. Commencing in 2011, EDC's financial statements will be prepared in accordance with International Financial Reporting Standards (IFRS). In addition, EDC will be publishing quarterly financial statements.

The FSCP includes the controls and monitoring mechanisms which ensure the objectives of producing accurate, complete and timely financial statements are achieved. In 2009, we concluded that FSCP controls were effectively designed.

Audit Objectives & Scope

The overall objective of this audit was to evaluate the operating effectiveness of FSCP controls. The scope of the audit includes controls relating to journal entries, accounts reconciliations, reserve analysis, opening and closing of financial periods, mapping of chart of accounts to the financial statements, review of the financial reporting package, monitoring of Generally Accepted Accounting Principles (GAAP) changes, and documentation of the close process. An evaluation of the operating effectiveness of these controls was achieved through detailed testing. The audit addressed the following ERM risk elements: measurement risk, compliance risk, and financial management/reporting risk.

Internal Audit Opinion

In our opinion, the Financial Statement Closing Process is *Well Controlled*¹. Key controls within the financial statement closing process are effectively designed and are operating as intended including those controls recently implemented to address the deficiencies found in Phase I of this audit. One moderate² issue was noted and is described in the following section.

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.

Audit Findings & Recommendations

1. Quarterly Review of Account Reconciliations

Testing of a sample of quarterly account reconciliations during the audit found that they were not all consistently prepared and reviewed. Specifically, we noted that some reconciliations were not performed at quarter end and others did not contain evidence of an independent review. Timely and properly reviewed account reconciliations decreases the likelihood of timing errors in the financial statements, helps to detect errors relating to the account balance and allows management to promptly resolve any issues. As result, we have recommended that management consider developing an account reconciliation guideline. The guideline would provide instructions to employees who are responsible for completing reconciliations. In addition, management should communicate expectations on timelines to all individuals who are responsible for preparing account reconciliations.

Rating of Audit Finding - Moderate
Action Owner - Manager, Financial Reporting
Due Dates - Q2 2011

Conclusion

The audit findings and recommendations have been communicated to and agreed by management, who has developed action plans that are scheduled for implementation no later than Q2 2011. We would like to thank management for their support throughout the audit.