

**Purchasing Audit
Substantive Follow-up Audit Report
Final Report Nr. 21/09
December 22, 2009**

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Director, Office of the Auditor General

Audit Team:
H. Klosevych
N. Bylen
A. Lowe

Vice President, Internal Audit
M. Ryan

Introduction

In 2008, IA performed an audit of the control framework surrounding the procurement of goods and services less than \$500k CAD. EDC's Procurement Policy (ADM-003) and related Procurement Procedure Framework (PPF) provide the principles, authority and responsibility for the procurement of goods and services.

A number of major¹ and moderate audit findings were identified as a result of this audit and were subsequently addressed by management. When major audit findings are reported, IA's standard practice is to conduct a substantive follow-up audit within 6 months of when action was taken to address the findings. All major audit findings were resolved in Q2 2009. Accordingly IA launched a substantive follow-up audit in Q4 2009.

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 report and provide a revised audit opinion. The scope of the audit focused on the following areas:

- Controls in the Procurement Policy, the PPF and the Rules for Retaining External Resources;
- Amendments to the Delegation of Authority (Appendix N) with respect to the second signing officer;
- Implementation of quarterly exception reporting;
- Enhancements to the role of the Procurement Review Committee (PRC);
- Communication of important procurement standards with other key groups i.e. Security and Legal and also to the Corporation.

Detailed audit work in support of this substantive follow-up audit was completed in November and December 2009.

Internal Audit Opinion

The original Purchasing audit report issued in 2008 contained an opinion that *Opportunities Exist to Improve Controls*² with respect to the Purchasing process. In our opinion, the Purchasing process is now "*Well Controlled*".

¹ 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.

² 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.

IA found that the Procurement Procedure Framework (PPF) has been revised and communication of procurement policies and the PPF was improved. For example, to enhance corporate awareness of important procurement procedures, a section on Signing Authority was included in the Code of Conduct Refresher in 2009, completion of which is mandatory for all employees. Purchasing is also responsible for coordinating a Legal Services review for all contracts greater than \$250k and if required for other dollar amounts. We also found evidence of changes to the Delegation of Authority Appendix N - Table Notes (Paragraph 5) to state that the second signing officer may be designated by Purchasing as permitted by the Standing Resolution on Signing Authorities. The *Rules for Retaining External Resources* now require that exceptions to the Rules include the completion of an "Exception Request to the Rules for Retaining External Resources" form. The membership of the PRC has been expanded and their role enhanced to include review of procurement and contracting issues. Quarterly exception reporting is provided to the PRC and the VP & Corporate Controller so that decisions can be taken on appropriate remedial actions if required.

Conclusion

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