

**Quarterly Administrative Follow Up Audit**  
**Quarter Ended December 31, 2010**  
**January 14, 2011**  
**Report Nr 29/10**

**Distribution:**

To: President & CEO  
Senior Vice President & Chief Financial Officer  
Senior Vice President, Business Development  
Senior Vice President, Business Solutions & Technology  
Senior Vice President, Human Resources & Corporate Services  
Senior Vice President, Insurance  
Senior Vice President, Legal Services & Secretary

CC: See attached distribution list

**Vice President, Internal Audit**  
**Monica Ryan**

CC: Vice President & Chief Risk Officer  
Vice President & Corporate Controller  
General Counsel & Senior Assistant Secretary  
Vice President, Credit Insurance Underwriting  
Vice President, Insurance COE & CARD  
Vice President, Portfolio Management  
Vice President & Treasurer  
Vice President & Chief Information Officer  
Vice President, Client Services  
Vice President, CIB and PRI Underwriting  
Vice President, Customer Experience Group  
Vice President, Financing  
Vice President, Project Finance  
Assistant Controller, Corporate Finance & Control  
Assistant Secretary & Legal Counsel  
Assistant General Counsel, Legal Services - Insurance  
Deputy Treasurer  
Director, Asset Management  
Director, CIB Underwriting  
Director, Corporate Accounting  
Director, Business Solutions Delivery  
Director, Enterprise Portfolio Management  
Director, Financial Institutions  
Director, Loans Services  
Director, Market Risk Management  
Director, Cash Management, Taxation & Corporate Insurance  
Director, CARD  
Director, Infrastructure & Operations  
Director, Political Risk Insurance  
Manager, Accounts Payable  
Manager, Business Solutions, Insurance  
Manager, Credit Standards & Scoring  
Manager, Client Service Centre  
Manager, Corporate Banking  
Manager, Insurance Accounting & Canada Account  
Manager, Loans Accounting  
Manager, Relationship & Asset Management  
Manager, Treasury Accounting  
Manager, Financial Planning & Analysis  
Manager, IT Business Management  
Manager, Operations Control  
Manager, Financial Reporting  
Program Delivery Manager, BSD Solution Services  
Project Business Lead, Loans Services  
Sr. Credit Risk Manager, MRM  
Sr. Financial Engineer, Treasury  
Sr. Risk Transfer Manager  
Sr. Legal Counsel, Legal Services- Insurance

## Introduction

A strong indicator of an effective internal control environment is the timeliness with which management takes action to address reported control deficiencies. For this reason, EDC Internal Audit has implemented a follow up process to ensure internal audit findings and the related recommendations are properly addressed on a timely basis. This report summarizes the results of our Quarterly Administrative Follow-Up Audit for the fourth quarter ending December 31, 2010.

## Objective & Scope

The objective of this audit was to assess the extent to which audit recommendations due to be completed in the fourth quarter have been implemented. Through this audit, we also track the number of times an audit recommendation is retargeted. Any recommendations retargeted two or more times are highlighted in this report when appropriate. The scope of this audit is limited to the implementation status of audit recommendations relating to major<sup>1</sup> and moderate audit findings. Minor audit findings and recommendations are reported to management for information purposes only and are therefore excluded from the scope of this follow up audit.

## Overall Opinion

In our opinion, the implementation rate of audit recommendations is *Well Controlled*<sup>2</sup> for the fourth quarter ending December 31, 2010. As of September 30, 2010, 28 audit recommendations were due to be implemented in Q4 2010. Of the 28 recommendations due in Q4, 1 recommendation was retargeted to Q1 2011. Furthermore in recognition of changes in business circumstances, IA deferred the target date and modified the details for 4 recommendations. The remaining 23 recommendations were closed in the quarter. Further details by business group are provided in the following section.

## Detailed Audit Results

The table shown below provides a summary of open, closed and re-targeted action plans by business group.

Group	Open Beginning Q4 2010	Additions in Q4	Closed in Q4 <sup>*</sup>	Retargeted	Open End Q4 2010	Due in Q1 2011
President's Group	7	0	3	1	4	1
BD&O: Financing	0	0	0	0	0	0
BD&O: Insurance	32	7	12	0	27	14
Business Development	0	13	0	0	13	2
Corporate Secretariat & Legal	1	1	1	0	1	0
Human Resources	0	0	0	0	0	0
Finance	10	17	10	0	17	0
BS&T	3	8	5	0	6	2
<b>Totals</b>	<b>53</b>	<b>46</b>	<b>31</b>	<b>1</b>	<b>68</b>	<b>19</b>

<sup>\*</sup> 4 recommendations that were made in Q4 2010 were also closed in the same quarter, and 4 recommendations were closed early, increasing the total number of recommendations implemented in Q4 2010 to 31.

At the end of Q4 2010, there are 68 open audit recommendations; 19 of these open audit recommendations are due to be implemented by the end of Q1 2011.

<sup>1</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.

<sup>2</sup> Our standard audit opinions are as follows:

**Strong** - 100% of the audit recommendations due to be implemented in the current quarter were completed.

**Well Controlled** - 70% - 99% of the audit recommendations due to be implemented in the current quarter were completed.

**Opportunity Exists to Improve Implementation Rates** - 50% - 69% of the audit recommendations due to be implemented in the current quarter were completed.

**Not Controlled** - less than 50% of the audit recommendations due to be implemented in the current quarter were completed.

## Conclusion

The results of this audit have been communicated to and agreed with management. We would like to thank management for their continued support.

