

**Compensation Framework  
Audit Report  
Report # 9/16  
November 22, 2016**

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## Introduction

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As per our 2016 Audit Plan, Internal Audit performed an audit of EDC's Compensation Framework. Significant improvements were made to EDC's compensation framework as a result of the HR 2.0 project. Improvements include an HR system upgrade, a functional competencies assessment, the development of role profiles and a simplified career framework. The development and implementation of the Compensation Framework was led by the Compensation & Benefits group while the Human Resources Information Systems & Operations (HRIS) group led the system upgrade.

## Audit Objectives & Scope

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The overall objectives of this audit was to examine the design and operating effectiveness of the controls surrounding the design and administration of the compensation framework and included an examination of the following areas:

- Governance;
- Implementation of the Compensation Framework; and
- Information Security and Data Integrity

The audit scope did not include an assessment of: (i) other elements of the Total Rewards program (i.e. incentive pay, benefits program, employee development and work environment); and (ii) Executive (i.e. SVP and CEO) compensation.

## Internal Audit Opinion

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In our opinion, the Compensation Framework process is "**Well Controlled**"<sup>1</sup>. Effective controls exist with respect to the governance and oversight of the Framework as well as the development and implementation of the Framework. Moderate findings were noted with respect to information security and data integrity and are described in the section that follows. Management has agreed to implement the corrective actions no later than Q4 2016.

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<sup>1</sup> 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.

## Audit Findings & Action Plans

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### 1. HRIS & Operations Change Management Process

Within the HR system, changes performed by the HRIS group include changes to job code tables, salary band tables, and employee salary tables. The HRIS & Operations change management process begins with HRIS & Operations receiving a change request from the Compensation team. The change is made in the HR system HR by HRIS & Operations and a reconciliation is performed afterwards to ensure the correct change was made. While it was noted that the HRIS & Operations group reconciles the uploaded data within the HR system to what was requested by the Compensation team, the change management process does not require the HRIS & Operations group to retain documentation of this reconciliation. Furthermore, changes made to the HR system compensation tables are not validated with the Compensation team once the change has been made nor are notifications sent to the Compensation team once the change is complete. Management has agreed to update their change management process to include the retention of the reconciliations performed and notify Compensation that the requested changes have been made.

Rating of Audit Finding – Moderate<sup>2</sup>

Action Owner – Manager, HRIS

Due Date – Q4 2016

### 2. HR System Privileged Access Review

Within the HR system there are various levels of access granted to all employees. For most employees, self-serve access is granted to view their own profile. Employees within HR that need to perform functions beyond viewing their own information, such as running reports, receive privileged access. While it was noted there is a process requiring HRIS & Operations to review privileged access for appropriateness in the HR System on an annual basis it was noted, during the audit, that documentation of the privileged user access review was not retained and was unavailable to demonstrate the occurrence of this review. However, based on our testing we were able to verify that access within the HR system was appropriately granted.

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<sup>2</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.

Management has agreed to retain evidence for all access reviews performed for the HR system users and store the evidence in a central, secure location.

Rating of Audit Finding – Moderate

Action Owner – Manager, HRIS

Due Date – Q4 2016

## **Conclusion**

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The audit findings have been communicated to and agreed by management who has developed appropriate action plans that are to be completed no later than Q4 2016.

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