

**Valuation of Financial Instruments – End of Day Process  
Audit Report  
Report # 10/16  
November 22, 2016**

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## Introduction

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In accordance with the EDC 2016 Audit Plan, the audit of Valuation of Financial Instruments – End of Day (EOD) looked at valuation processes relating to marketable securities and derivatives. EOD processes are integral to a number of significant balance sheet and income statement accounts including: marketable securities, derivative instruments, investment revenue, and interest expense. They are also the starting point for the measurement of market risk. The fair value exposure of EDC's Treasury portfolio as of June 30 2016 included: liabilities of \$41.6 billion (bonds and commercial paper), assets of CAD 6.5 billion (bonds and Treasury bills), and CAD 2.0 billion notional in net derivative positions (currency and interest rate swaps and swaptions).

Daily valuation processes within EOD are managed by the Market Risk group, reporting to Risk Quantification with the Risk Management Office while accounting processes are the responsibility of Treasury Accounting, reporting to Corporate Finance and Control.

## Audit Objectives and Scope

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The objective of this audit was to evaluate the effectiveness of controls related to the EOD processes. The audit included a review of controls over governance, data validity, posting of valuation adjustments, access to systems, end-user-computing, model risk, and reporting.

EOD involves retrieving current market data from external sources to value financial instruments. In some cases, valuations are obtained directly from external data sources while for other instruments (e.g. derivatives) valuations are derived from models using market data.

The audit scope excluded the review of the Collateral program for derivatives and financial instruments related notes to the financial statements.

## Internal audit opinion

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In our opinion, Valuation of Financial Instruments – End of Day processes are “**Well Controlled**<sup>1</sup>”. Effective controls exist related to the daily valuation of financial instruments. Only minor findings were noted. While management has agreed to implement corrective actions no later than Q1 2017, these will not be subject to our follow-up process.

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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.

## Conclusion

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The audit finding has been communicated to and agreed by management, who has agreed to develop action plans no later than Q1 2017.

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