

**Maintain & Report on Financing Assets
Audit Report
Report #11/16
November 22, 2016**

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Introduction

In accordance with the 2016 EDC Audit Plan, the audit of Maintain & Report on Financing Assets (MRFA) looked at the design and operating effectiveness of controls related to processes that impact the Commercial Banking System, including manual data input and monitoring processes and downstream data transfer processes related to the key areas of accounting and risk management data.

Commercial Banking System is the system of record for both loans administration and covenants tracking. Data input relates to creating and maintaining records within the Commercial Banking System for assets such as loans and guarantees. The integrity of Commercial Banking System data has a pervasive impact on a number of downstream processes, in particular on data used for both financial reporting and risk management reporting. The upstream processes exist within Loans Services, reporting to Financial Operations; Loans Accounting, reporting to Corporate Finance and Control; and Credit Risk Management and Risk Quantification who both report to the Risk Management Office (RMO). The downstream data transfer processes are within Loans Accounting and Risk Quantification.

Audit Objectives & Scope

The objective of this audit was to evaluate the effectiveness of Commercial Banking System data integrity controls. The audit included a review of controls pertaining to governance, data integrity, monitoring and reporting, and access management around the Commercial Banking System.

The audit excluded the data integration processes between the Commercial Banking System and other business application and data-marts where data migration is automated. Data integration between systems in EDC will be covered in separate audits.

Internal Audit Opinion

In our opinion MRFA processes are **“Well Controlled”**¹.

Effective controls exist related to data integrity around the Commercial Banking System. While a number of Moderate and Minor findings were noted, as described in the section that follows, we do not believe that they represent a significant breakdown in controls. Management has agreed to implement the corrective actions no later than Q2 2017.

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.

Audit Findings & Action Plans

1. Review of Reporting Covenants Input into the Commercial Banking System

Reporting covenants input in the Commercial Banking System are not subject to validation or review. As a result, input errors/mistakes at the time of recording the covenants (reporting) in the Commercial Banking System could remain undetected.

While the Covenant Officer extracts covenant information from the Loan Agreement and inputs it into a standard excel template to be reviewed by the Asset Manager (AM) to ensure the accuracy, the process is not repeated for inputs into the Commercial Banking System, which is the system of record for loans administration and covenants tracking.

Management has agreed to design and implement a process to ensure a two touch Commercial Banking System input approach for reporting covenants.

Rating of Audit Finding – Moderate²

Action Owner – Director, Credit Risk Management

Due Dates – Q1, 2017

2. Tracking and Reporting of Overdue Reporting Covenants

While Credit Risk Management (CRM) staff generates a weekly overdue reporting covenant report and circulates it to the CRM team for information, there is no evidence of actions taken on the report circulated to management for review and oversight. Further, overdue reporting covenants are not included in the CRM monthly dashboard. As a result, long overdue reporting covenants may not be actioned on a timely basis.

Evidence of management oversight on the overdue reporting covenant monitoring process is lacking. For example, review of a weekly report noted that there are some reporting covenants overdue for more than 100 days with no documented action plans. The overdue items were mainly comprised of late financial statements and missing certificates across a small number of borrowers. These gaps would ultimately be highlighted through the annual review process.

CRM has agreed to document the actions taken for overdue reporting covenants, and also to include overdue reporting covenants in the CRM monthly dashboard.

Rating of Audit Finding – Moderate

Action Owner – Director, Credit Risk Management

Due Dates – All actions to be completed by Q2, 2017

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.

3. Month-end closing checklist process

There is no documented evidence of any review/ sign-off on the month end closing process/checklist by the Manager, Loan Services. As well, the process is not documented. As a result, issues/exceptions identified during the process may not be escalated on a timely basis to the appropriate levels for resolution.

While Loan Services performs several steps including completing a checklist as part of the month end closing process, these steps (roles / timing / escalation of exceptions) are not formally documented.

Management has agreed to document the month end closing process, identifying the roles and responsibilities including the need to escalate exceptions to appropriate authorities. A month-end checklist will be developed for all operational teams and approved by management each month to indicate readiness to close.

Rating of Audit Finding – Moderate
Action Owner – Manager, Loans Services
Due Dates – Q1, 2017

4. Review of changes made to CEDM extracts

The process of manual changes to the Credit Exposure Data Mart (CEDM) data extract, which is performed by the Risk Quantification team prior to uploading the data to the web-based tool, is not formally documented. Further, the manual changes to the extract lack independent review/oversight. As a result, management reporting and risk measurement may have undetected errors.

Two extracts are taken from the Corporate Data Warehouse: the Loans Provisioning Data Mart (LPDM) extract and the CEDM extract. The Loans Accounting team provides the Risk Quantification team with a list of changes made to its LPDM extract post month end. This extract also includes Loans data from other sources. These changes are listed in an excel file and shared with the Manager, Risk Quantification who updates the CEDM data extracts per the changes provided by the loans accounting team, prior to uploading the data to the web-based tool. No errors were found within this extract through our sample review.

Management has agreed to document the process of manual changes to CEDM, detailing the steps to be followed in updating the CEDM data extract including independent review/oversight of manual changes.

Rating of Audit Finding – Moderate
Action Owner – Manager, Risk Quantification
Due Dates – Q2, 2017

5. Procedure Documentation

The monthly cash clearing account reconciliation process is not formally documented. Furthermore, there is no evidence that the procedure document currently in use for the obligor status change process is formally approved. In the absence of a formally approved procedure document staff may adopt inconsistent practices. A review and sign-off process helps ensure oversight is consistent and effective.

The Loans Accounting team processes changes to the obligor status in the Commercial Banking System per the Risk Classification Memo received from the Risk Management Office. This team also prepares a monthly reconciliation of the cash clearing account to identify any open entries not cleared within a reasonable time.

Management has developed a plan to document the monthly cash clearing account reconciliation process and to review and approve procedure documents for the cash clearing account and the obligor status change processes.

Rating of Audit Finding – Moderate

Action Owner – Manager, Loans Accounting

Due Dates – All actions to be completed by Q4, 2016

6. Review of Access Rights to Loan Services Folders

There is no formal process in place to periodically review the staff access rights to the Loan Services (LS) team's network folders. As a result, any unauthorized alteration / changes to the documents could go undetected.

The above folders contain information such as record of WACs actioned by the LS team: monthly reporting, evidence of management oversight / review, evidence of facilities input reviews, and the Commercial Banking System data extracts being used by other EDC teams. No exceptions were noted in the review of items on the drive.

Management has developed action plans update the existing procedure. An annual review of access to drive(s) that they manage will take place in Q1 each year for the previous year.

Rating of Audit Finding – Moderate

Action Owner – Manager, Loans Services – Centre of Expertise

Due Dates – Q4, 2016

Conclusion

The audit findings have been communicated to and agreed by management, who has developed appropriate action plans that are scheduled for implementation no later than Q2 2017.

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