

**Pension Investment and Obligations
Audit Report
Report # 3/16
August 23, 2016**

Distribution:

President & CEO
Senior Vice President & Chief Financial Officer
Senior Vice President, Human Resources
Vice President & Corporate Controller
Director, Pension Services

CC: Senior Vice President, Business Development
Senior Vice President, Corporate Affairs
Senior Vice President & Chief Risk Officer
Senior Vice President, Chief Corporate Advisor
Senior Vice President, Financing & Investments
Senior Vice President, Insurance
Senior Vice President, Strategy & Innovation
Director, Public Affairs

Principal, Office of the Auditor General
Director, Office of the Auditor General

Audit Team:
Ramesh Baddepudi

Senior Vice President & Chief Internal Auditor
Sameer Madhok

Table of Contents

Introduction 3

Audit Objectives & Scope..... 3

Internal Audit Opinion..... 3

Audit Findings & Action Plans 4

Conclusion..... 5

Introduction

As per EDC's FY2016 Audit Plan, Internal Audit performed an audit of the pension investment and obligations process. Pension investments and obligations are administered by the Pension Services team (within Human Resources) and Corporate Accounting. This process is governed by two key committees: the Human Resources Committee of the Board of Directors (HRC) and the Management Pension Committee (MPC). EDC relies on outsourced service providers for core pension related services such as the disbursement of pension contributions to investment managers and the maintenance of the pensioner payroll (i.e. the Custodian). In addition, an outsourced service provider performs benefit calculations and initiates/approves payments for both the Defined Benefit (DB) and Defined Contribution (DC) components of the Registered Pension Plan (RPP) and Supplementary Retirement Plan (SRP).

Audit Objectives & Scope

The overall objectives of this audit were to review controls pertaining to the pension investment and obligations process and include an examination of the following areas:

- Oversight of third party service providers;
- Governance of pension plan investments and senior management reporting; and
- Determination of funding requirements, collection of contributions, and benefit payments.

The scope of this audit was to evaluate the design and operating effectiveness of controls related to the administration of EDC's pension plans. The audit covered the Registered Pension Plan (RPP) and both the defined benefit and defined contribution components. Excluded from the scope were other post-employment benefits (e.g. dental, medical) transactions. The testing period for our audit was from January 1, 2015 to May 31, 2016.

Internal Audit Opinion

In our opinion, the pension plans administration process is **"Well Controlled¹"**. Effective controls exist with respect to the oversight of third party service providers; governance of pension plan investments; and the determination of funding requirements, collection of contributions and benefit payments. Moderate issues were noted and are described in the section that follows. Management has agreed to implement the corrective actions no later than Q4 2016.

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. Assurance from Service Providers

As part of ongoing monitoring of outsourced service providers (OSP), Pension Services receives, on an annual basis, generic care and control reports to provide assurance over key controls supporting pension administration. During the audit, it was noted that although Pension Services annually monitors outsourced service providers care and control reports, Pension Services has not identified the risks and mitigating controls they are expecting the OSP to provide. As such, some risks may not be adequately monitored by Pension Services or poor performance (e.g. miscalculations or not meeting service levels) of the OSP may go undetected which could result in an inability to deliver on the pension program.

It was noted that the assessment of the impact was not fully documented by EDC. Management has agreed to complete a risk analysis specific to their OSPs to identify the financial and/or reputational risks, their probability of occurring, and the severity of the impact if those risks were to occur. In addition to this, the service providers' reports will be reviewed for risks and controls mapping.

Rating of Audit Finding – Moderate²

Action Owner – Director, Pension Services

Due Date – Q4 2016

2. Business Continuity Planning and Disaster Recovery Planning of Service Providers

Good outsourcers' governance practices include the need for organizations to address appropriate business continuity planning (BCP) when entering into a material outsourcing arrangement. As such, BCP and disaster recovery plan (DRP) should be addressed through contractual agreements with service providers. Management has agreed to perform an internal risk analysis relating to their OSPs and include requirements to provide their BCP and DRP status as part of their service compliance certificate sign-off.

Rating of Audit Finding – Moderate

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.

Action Owner – Director, Pension Services
Due Date – Q4 2016

3. End User Computing Controls

End user computing applications refers to programs and tools that are generated by business users such as personal productivity tools and spreadsheets. Extensive use of end user applications introduces an element of risk as these tools are outside of the formal IT control environment. Pension Services has developed a spreadsheet-based tool which performs various calculations to determine funding requirements. It was noted during the audit that individuals, that did not require it for their job function, had access to the spreadsheet. Management has agreed to perform quarterly access reviews, and retain supporting evidence.

Rating of Audit Finding – Moderate
Action Owner – Director, Pension Services
Due Date – Q3 2016

4. Access to the External Service Provider's FTP Site

Authorized employees within the Human Resource Department have access to the benefits administration outsource service provider FTP site, which allows users to upload or download sensitive data relating to pensions. During the audit, it was noted that five (5) employees retained inappropriate access; in addition, user access reviews were not formally documented. Management has agreed to review and update the list of users with access to the secure FTP site and restrict access based on current roles. Also, user access reviews will be performed every quarter with sufficient supporting evidence retained.

Rating of Audit Finding – Moderate
Action Owner – Director, Pension Services
Due Date – Q3 2016

Conclusion

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.