

THE AUDIT COMMITTEE HANDBOOK



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Ontario

Deposit Insurance
Corporation of Ontario

Société ontarienne
d'assurance-dépôts

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INTRODUCTION

PURPOSE

The purpose of this handbook is to provide guidance for the Audit Committee in fulfilling its minimum regulatory responsibilities. The Handbook outlines industry best practices that may be modified as appropriate to reflect the complexity of each institution.

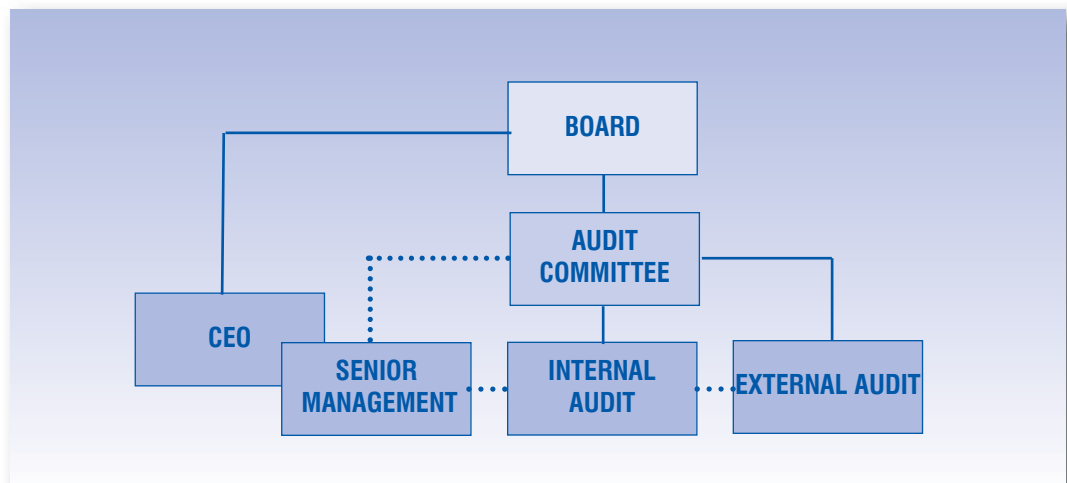
The Audit Committee is an integral part of the overall framework of corporate governance. Together with senior management, internal and external auditors, it provides oversight that fosters an environment where:

- risks are assessed and adequately mitigated;
- reporting is accurate, timely and relevant;
- assets and member interests are safeguarded;
- positive ethics are upheld; and
- compliance is assured.

In today's regulatory environment, the Audit Committee is not only responsible and accountable for financial reporting but also the oversight of risk management, ethics and compliance for the institution.

It is important for the Board and the Audit Committee to have a strong understanding of the risks facing the institution, the ways in which management addresses and mitigates those risks, and to ensure that the financial statements accurately reflect the activities of the institution. These functions are assessed through an audit program, carried out by a combination of internal and external auditors. The Audit Committee's role is to confirm that the audit plan requires that key risks are reviewed systematically and periodically by both the internal and external auditors and that any resulting material weaknesses are rectified by senior management.

Equally important is the relationship between the auditors, the Audit Committee and management. It must be one of mutual respect and open communication in order to achieve a common goal of maintaining an effective control environment to ensure the protection of all stakeholders' interests.



Generally, the role of the Audit Committee encompasses four critical responsibilities:

1. Oversight and review of financial reporting;
2. Oversight of risk management and controls;
3. Oversight of audit activities; and
4. Oversight of compliance activities.

Under the Act¹ the Board of every credit union is required to establish an Audit Committee that is composed of members appointed by the Board from among the directors. Both the Act and accompanying regulations provide further information on the composition, powers and duties of the Audit Committee which are discussed in greater detail in this handbook.

An Audit Committee Checklist is provided in Appendix 1 which includes a summary of the duties of the Audit Committee as prescribed in the Act and Regulations. Additional guidance on the duties of the Audit Committee described in this Handbook is provided in Appendix 2-12.

References:

Please note that references to the Act and Regulations are to specific sections or paragraphs as indicated.

Acknowledgements:

DICO wishes to acknowledge the following as valuable sources of information and for providing assistance in developing this Handbook:

- Credit Union Central of Saskatchewan
- The Canadian Institute of Chartered Accountants
- The Institute of Chartered Accountants of Ontario
- The Institute of Internal Auditors
- The Conference Board of Canada
- Deloitte and Touche, LLP
- American Institute of Certified Public Accountants
- DICO's Stakeholder Advisory Committee
- DICO's Auditor Advisory Committee

¹ *Credit Unions and Caisses Populaires Act, 1994* and accompanying Regulations.

Part 1: ORGANIZATION OF THE AUDIT COMMITTEE

The growing complexity of the financial services industry and its regulatory environment require increased attention and diligence in the area of corporate governance and accountability. The Audit Committee plays a key role in the oversight of the credit union's affairs. While management is responsible for the day to day operations of the financial reporting, control environment and technological infrastructure, the Audit Committee is responsible for the oversight of management with respect to these activities.

1. Composition and Organization

Each member of the Audit Committee must be a director of the credit union.

Section 125 (1) of the Act:

The Board of every credit union shall establish an Audit Committee composed of members appointed by the Board from among the directors.

Size

Section 125 of the Act:

(2) The Audit Committee must have at least three members.

The number of Audit Committee members will vary between institutions depending on the size and complexity of the organization. Larger, more complex organizations may require more than the regulatory minimum to be able to adequately address the many areas of oversight and provide a more thorough review of more complex areas.

Competencies

Section 125 of the Act:

(4) Every member of an Audit Committee shall satisfy such training requirements or qualifications for Audit Committee members as are established by the credit union;

Audit Committee members should be able to read financial statements and be familiar with the key risks to which the credit union is exposed (strategic, economic, operational and financial). Ideally, members should have some work experience in the financial services sector to sufficiently understand financial reporting and internal control principles to address issues in a knowledgeable manner.

At a minimum, there should be at least one Audit Committee member who has accounting and/or related financial and risk management expertise. This expertise would generally be obtained through employment in finance or accounting, completion of a professional designation or exposure to financial reporting oversight.

The Audit Committee should develop an appropriate program of continuing education to address any knowledge gaps for the key risks and complex issues facing the credit union.

Succession Planning

Succession planning is important to ensure a sufficient level of knowledge is maintained and that new ideas and views are presented. One way to achieve this is to define a limit on the time a member may serve on the Audit Committee in a particular capacity. While this serves to bring in new perspectives, it may also enhance the level of expertise gained by the committee through longer term members.

Independence

The Audit Committee is accountable to the Board and should keep it informed of issues raised by the auditors, matters under consideration and any decisions taken.

Members of the Audit Committee must not have a direct or indirect material relationship with the credit union that would hinder their ability to make independent choices and act in the best interests of the credit union's stakeholders.

Structure

A Chair for the Audit Committee should be appointed who coordinates activities and communications between the auditors, management and the committee. Regular contact should be maintained with these groups to keep current with developments in changes to accounting and audit procedures, risks, controls, industry trends, technology advancements, etc.

Meetings and Minutes

Section 125 of the Act:

(5) The Audit Committee shall hold a meeting no less frequently than once every quarter during each year and meetings may be called by the credit union's auditor, a member of the Audit Committee or any director.

Section 125 of the Act:

(7) The Audit Committee shall keep minutes of its meetings.

(8) The Audit Committee shall report to the Board within 60 days after each committee meeting or at the next Board meeting, whichever is earlier, setting out the results of the meeting.

The Audit Committee must meet at least quarterly. These meetings can be called by the credit union's auditor, member of the Audit Committee or any director. These meetings may be held in person at a location chosen by the group, by conference call or other electronic means.

Minutes must be kept of each committee meeting and the committee must report to the Board within 60 days following each meeting regarding the topics discussed and decisions reached. The report should include the agenda, minutes and any reports received from the auditors and management.

The external auditors should be informed of all Audit Committee meetings and should be invited to attend to address any matters relating to their responsibilities. In addition, a senior financial manager and head of internal audit (or designated internal auditor) should also be invited to participate in the meetings.

Separate meetings should be held with the internal/external auditors to allow for more open dialogue which may not be possible in a more formal or inclusive meeting. It is not necessary to take minutes of these meetings however, the date and topics of each meeting should be noted.

“In-Camera” Meetings

“In-camera” meetings are an important source of information for the Audit Committee that allows the committee to speak privately, one-on-one with various members of management (CFO/Controller, CEO/GM, Head of Internal Audit, External Audit, General Counsel, etc.) for the purpose of obtaining candid responses to the working operations of the credit union.

Appendix 4 provides examples of open-ended questions that the Audit Committee might consider and ask under these conditions. Detailed minutes are usually not recorded for “in-camera” meetings but it is suggested that the meeting date, topics discussed and summary of responses are recorded and maintained. Any material issues identified should be brought forward and added to the agenda for formal committee consideration.

2. Charter (Terms of Reference)

An Audit Committee Charter formally outlines the committee’s roles and responsibilities and helps members understand their function within the organization. Charters should be reviewed and revised periodically to ensure they reflect any changes in the organization. Generally, an Audit Committee Charter should outline the following:

- Purpose;
- Accountability and Authority;
- Composition;
- Appointment and Terms;
- Meetings and Reporting to the Board;
- Financial Reporting Processes, Accounting Policies, Financial Controls, Compliance and Risk Management practices;
- Relationships and Meetings with the Auditors;
- Annual review of Charter responsibilities.

Appendix 2 provides an example of an Audit Committee Charter that can be modified as appropriate.

3. Operation

Once the Charter has been created, a detailed Audit Committee work plan can be developed. This annual work plan, defines the frequency and order of various tasks, and outlines how the committee will fulfill its responsibilities as documented in the Charter for the upcoming year. The work plan is reviewed and approved by the Board and helps the Audit Committee develop its upcoming agendas. The extent of the activities included in the work plan will be determined by the size and the complexity of the credit union.

The audit program should be based on a coordination of internal and external audit reviews that will take place over the course of the year. The extent of the reviews should be dependent on the level of risk associated with the organization’s activities and the complexity of operations. The committee’s oversight ensures that the audit program is cost-effective and provides comprehensive testing of all key areas to provide reasonable assurance that risks to the organization have been mitigated to an acceptable level to safeguard the interests of all stakeholders of the credit union.

Appendix 3 contains an outline of a sample Audit Committee work plan that can be modified as appropriate.

4. Reporting

Section 125 of the Act:

(9) The Audit Committee shall report to the members of the credit union at the annual meeting by a report containing such information as may be prescribed.

The Audit Committee is required to submit an annual report to the members of the credit union at the Annual Meeting.

Section 27 (2) of the Regulations prescribes the contents of the report as:

- 1. The number of meetings held by the committee during the year.*
- 2. A summary of the significant activities undertaken by the committee during the year and a description of the actual and expected results.*
- 3. Confirmation that the committee is conducting its affairs in accordance with the Act and the accompanying regulations.*
- 4. Information on any failure of the credit union to implement or complete the implementation of any significant recommendation previously made by the Audit Committee.*
- 5. Details of any other matter that is required to be disclosed pursuant to the Act or regulations.*

Section 27 (3) of the Regulations:

The Audit Committee may, in its annual report, report on such other matters as the committee considers appropriate.

Minimum requirements for the annual report to the members are outlined in the Regulations. The Audit Committee should ensure that the report includes any material issues, weaknesses or deficiencies that have not been adequately addressed.

5. Committee Evaluation

*Section 27 (1) of the Regulations requires that the Audit Committee must:
19. Review, at least annually, the effectiveness of the committee in carrying out its duties.*

Each year, the committee should perform a self evaluation that identifies the committee's strengths and weaknesses and to create a plan of action to address any areas of weaknesses. Feedback should be obtained from the committee members and from other groups with which the committee interacts such as other members of the Board, senior management, internal and external auditors.

In addition, the performance of each member should be evaluated by the Chair of the committee and a recommendation made to the Board regarding extending the term of the member in question. The performance of the Chair should be evaluated by the Board.

Appendix 5 provides an example of an Audit Committee Performance Evaluation that can be used to evaluate the effectiveness of the Audit Committee's activities during the year.

PART 2: OVERSIGHT RESPONSIBILITIES

The Audit Committee has oversight responsibilities for:

- financial reporting and disclosure;
- the external audit function;
- the internal audit function;
- risk management and control environment; and
- compliance.

The committee's understanding and oversight in the above areas will assist in the safeguarding of assets of all stakeholders of the credit union. The extent of oversight and review in these areas will be affected by:

- the committee's confidence in management and the auditors;
- the risk management and control environment for both the financial and operational practices used at the credit union;
- the complexity of the credit union and the reporting requirements;
- unresolved issues;
- adjustments; and
- unusual or abnormal events during the year.

1. Financial Reporting & Disclosure

Section 27 (1) of the Regulations prescribes the following duties in relation to the oversight of the financial reporting process and financial statement disclosure:

- 6. Review the annual audited financial statements and make such recommendations to the Board as the committee considers appropriate;*
- 7. Review the audited financial statements of each subsidiary of the credit union;*
- 11. Report to the Board any significant changes in the accounting principles and practices followed by the credit union;*
- 12. Recommend to the Board arrangements to safeguard the credit union's assets, to ensure the timeliness, accuracy and reliability of accounting data, to maintain adherence to the lending and investment policies and procedures and to provide for other matters concerning the financial policies of the credit union;*
- 16. Assess whether the staff of the credit union is adequate to fulfill the credit union's accounting and financial responsibilities.*

In accordance with the Act, financial statements are to be prepared according to generally accepted accounting principles as found in the Handbook of the Canadian Institute of Chartered Accountants and as they are amended/adopted from time to time.

The Audit Committee and the Board of Directors should review the financial statements of the credit union to gain an understanding of:

- performance trends;
- levels of capital, asset quality, earnings, liquidity, liabilities; and
- relationships between asset quality, capital, earnings, liquidity and risk.

A review of comparative statements and other financial information that provides year over year comparisons, variances from budget and ratio analysis for key performance indicators helps identify potential weaknesses and control deficiencies that may need to be addressed. The committee should address questions to management with respect to material changes in comparative results or material variances to budget targets and ratios. These questions will help the committee understand how well management is managing the financial and operational risks of the business and to ensure that all material risks are appropriately disclosed.

2. External Audit

Section 27 (1) of the Regulations prescribes the following duties in relation to the oversight of the external auditor activities:

- 2. Review and make recommendations to the Board about the selection, terms of the engagement letter, remuneration and evaluation of the auditor;*
- 3. Review the scope and plan of an audit with the auditor;*
- 4. Discuss with the auditor the audit findings, any restrictions on the scope of the auditor's work and any problems that the auditor experienced in performing the audit;*
- 5. Review and make recommendations to the Board about any management letters, recommendations and reports by the auditor about the business or financial statements of the credit union and any response to them by management of the credit union;*
- 6. Report to the Board on any conflict between the auditor and management that the committee is unable to resolve within a reasonable time.*

The Audit Committee is responsible for overseeing the credit union's financial reporting and control environment. This includes overseeing the relationship with the external auditors and involves the direct communication, meetings and discussions with the external auditors. This helps reinforce the independence of the external auditors from management and encourage open and candid discussions with the committee. Any issue of concern noted by the external auditor during their reviews should be directly communicated to the Audit Committee.

DICO's Expectations: External Audit Scope

DICO has established minimum expectations for all auditors when conducting an examination of the credit union's financial statements as part of the annual external audit in accordance with Section 171.1 of the Act (Full details of these minimum expectations are available on DICO's web site www.dico.com).

171. (1) *The Superintendent may, in writing, require that the auditor of a credit union,*
- (a) report to the Superintendent on the extent of the auditor's procedures in the examination of the credit union's financial statements;*
 - (b) enlarge or extend the scope of that examination; or*
 - (c) in the form of perform any other specific procedure. 1994, c. 11, s. 171 (1); 1997, c. 28, s. 53.*
- 171.1 *The Corporation may exercise the powers of the Superintendent under section 171 and, for that purpose, the references to the Superintendent in section 171 shall be deemed to be references to the Corporation.*

External auditors are required to confirm that appropriate tests and procedures have been undertaken in addressing the issues outlined in DICO's minimum audit expectations. Any material deficiencies must be reported to the Board and the Audit Committee in the form of a management letter in accordance with the requirements outlined in Section 172 of the Act.

Section 172 of the Act :Duty to report contravention, etc.

- (1) The auditor of a credit union shall report in writing to the Chair of the board and to the Audit Committee of the credit union any transaction or conditions that have come to the auditor's attention adversely affecting the credit union that, in the auditor's opinion, are not satisfactory and require rectification.*
- (2) Without restricting the generality of subsection (1), the auditor shall report on*
 - (a) transactions of the credit union that, in the auditor's opinion, have not been within the powers of the credit union;*
 - (b) loans made by the credit union to any person the aggregate amount of which exceeds one half of one per cent of the total assets of the credit union and in respect of which, in the auditor's opinion, loss to the credit union is likely to occur; or*
 - (c) any circumstances that indicate that there may have been a contravention of this Act or the regulations.*

Same

- (3) If a report is made with respect to loans described in clause (2) (b), it is not necessary to report those loans again unless, in the opinion of the auditor, the amount of the loss likely to occur has increased.*

Senior management must develop necessary action plans to rectify any identified material weaknesses and deficiencies. The Audit Committee should approve these action plans and monitor the completion of identified resolution strategies and activities.

i) External Auditor Selection and Fees

The Audit Committee is responsible for recommending an external auditor to the Board of Directors. The Committee should ensure that the qualifications and experience of the external auditor are appropriate for the extent and cost of services of the credit union.

The Audit Committee should create a Request for Proposal (RFP) which describes the audit requirements of the credit union to prospective external auditors. The response from the auditors will provide additional information to the topics outlined and how the auditor or firm can meet those requirements.

Audit fees proposed by the external auditor should be reviewed and brought forward by the Audit Committee to the Board. The fees should reflect the need for value and audit effectiveness. Fees should be appropriate for the audit plan proposed and the size, complexity and risk profile of the credit union.

These fees should include the scope of DICO's minimum audit expectations.

An outline of external auditor selection criteria can be found in Appendix 7.

ii) External Auditor Independence

The Audit Committee should ensure that the external auditor is, and remains, independent and objective in its assessment of the financial information and controls of the credit union. The external auditor should disclose any issues or relationships with the credit union that might impair their independence. The Audit Committee should periodically assess the external auditor's independence.

Appendix 6 outlines questions that the Audit Committee can pose to the external auditor to assess their level of independence.

iii) External Audit Services

External auditors offer both audit and non-audit related services. These services and their associated costs will depend on the complexity of the credit union, its risk profile and the extent of the services required by the Audit Committee. The Audit Committee should ensure it receives good value from the activities performed by the External Auditors.

The Act requires that a credit union obtain an expression of an audit opinion from a qualified external auditor. The auditor will examine the financial records and operations of a credit union to ensure the financial reports fairly present the operations and financial position of the credit union. This audit opinion should be reviewed by the Audit Committee and Board and included in the annual report of the credit union. Any concerns expressed by the external auditors in this opinion must be addressed by the Audit Committee to correct noted deficiencies.

Depending on the circumstances, the Audit Committee may incorporate other types of audits into the audit program at appropriate intervals such as:

- (a) Operational – review of the quality of the risks and control systems in place to ensure the accuracy, timeliness and integrity of the credit union's operations.
- (b) Compliance – review of the processes in place in the credit union to ensure compliance with all laws, regulations, policies and procedures.
- (c) Management – review of management's approach to risk management and the achievement of the credit union's objectives.

Non-audit Services

The External Auditor may offer a number of non-audit services such as reviewing the introduction of new products or services, or proposals relating to systems design and implementation etc.

The Audit Committee should exercise extreme caution when engaging the external auditor for additional non-audit services and must ensure that the Audit firm or auditor are fully independent from services being contemplated. Additional fees for any non-audit services should also be reviewed by the Audit Committee.

iv) Audit Planning

Once the external auditor has been appointed, the external auditor will prepare a letter that outlines the terms of the engagement and the services, costs and timing that are to be provided.

Annually, the external auditor will provide the Audit Committee with a written record of details on the scope of the audit, special areas of emphasis (fraud, compliance, acquisitions, etc.), degree of reliance (if any) on internal audit activities, materiality levels, timing, extent of testing, priorities and any assumptions to be used during the engagement.

The Audit Committee oversees the audit plan including meeting periodically with the external auditors to discuss any unforeseen situations and those issues that may increase the risk to the credit union or may impact the scope of the audit engagement.

v) Audit Results

At the completion of the audit work by the external auditor, the auditor provides a report outlining the results of their work and any findings or irregularities they may have uncovered. The auditor will then meet with the Audit Committee and management to discuss the report and findings.

The Audit Committee should take the opportunity to ask questions to:

- evaluate the performance and the level of cooperation provided by management;
- identify if any problems were encountered;
- confirm any suggestions for improvement;
- determine if any negative trends are emerging of which the Board should be made aware.

The Audit Committee then provides a report to the Board outlining the results of their review.

vi) External Audit Evaluation

The Audit Committee evaluates the performance of the External Auditor on the effectiveness and efficiency of the annual year-end audit process. Areas to evaluate include:

- comprehensiveness of the audit plan;
- timeliness of completion of the plan;
- timeliness and quality of the communications promised under the plan;
- competency & knowledge of the external audit staff; and
- adequacy of resources allocated to the project.

Input to this evaluation should be obtained from various levels of staff that had dealings with the external auditors during the review. A sample evaluation of the external auditors is included in Appendix 9.

3. Internal Audit

Section 27 (1) of the Regulations prescribes the following duties in relation to the oversight of the internal auditor activities:

- 8. Review the effectiveness of the credit union's internal audit practices and make recommendations to the Board to address any deficiencies;*
- 9. Review the organization and assess the degree of independence of the credit union's internal auditors, if any, including their mandate, work plans and any problems that they experience or issues they raise relating to the performance of audits;*
- 10. Review findings and recommendations of the internal auditors concerning the accounting practices and internal control practices and review the responses by the management of the credit union to any significant or material deficiencies.*

The internal audit function should be designed to provide an independent review and assessment of the governance, risk management and operational processes used by the credit union and provide recommendations to improve the control environment. Internal auditors should have open and unrestricted access to all records and systems at the credit union.

The internal auditor should have an in-depth understanding of risk assessment and risk management practices, the sector, the credit union's business and its systems and processes.

Depending on the size and complexity of the credit union, the internal audit function can be performed "in-house" by employees independent of daily operations or outsourced to a third party service provider. Whether performed in-house or outsourced, the internal audit function should be under the oversight of the Audit Committee. The Audit Committee is responsible for creating a comprehensive audit program which includes both internal and external audit components. Every credit union should create an appropriate internal audit function based on its size and complexity.

a. Responsibilities

The key responsibilities of internal audit include:

- examining and evaluating the adequacy, effectiveness and efficiency of risk management practices and methodologies;
- reviewing management, financial and operational information systems;
- reviewing the accuracy, reliability and timeliness of all information produced;
- reviewing methods used to safeguard assets;
- reviewing the credit union's system of assessing its capital in relation to its estimate of risk;
- testing of transactions and controls;
- reviewing processes used to ensure compliance with legal and regulatory requirements, codes of conduct; and
- carrying out special investigations as needed.

b. Independence and Relationship with the Audit Committee

Internal auditors should be independent, free from bias or undue influence and be able to exercise their professional judgment. To facilitate this independence, the internal audit function reports directly to the Audit Committee to allow for organizational freedom and access to all company records. The Internal Auditor ought not to have any operational accountability or responsibilities that would be subject to subsequent internal audit review.

The designated internal auditor should be invited to Audit Committee meetings to discuss audit plans, findings and observations. In these meetings, discussions should include:

- a review and approval the annual audit plan;
- reports of internal audit reviews;
- the review of progress of management's resolution of any outstanding audit weaknesses;
- the competency of management with respect to the operation of the credit union.

The Audit Committee should approve the appointment (and replacement) of the designated internal auditor, the performance evaluation and salary, and periodically review and approve the internal audit Charter. The Audit Committee should also approve and evaluate the performance of any external third party supplier and audit fees.

c. Internal Audit Organization and Planning

Internal audit activities are coordinated with the external audit function to ensure a comprehensive review of the credit union's activities and adequacy of the financial information reported. This approach results in a complete and efficient review of the credit union's governance and reporting activities with the least amount of duplication effort. External Audit is responsible for performing the financial audit and attesting to accounting reports issued to external users. Internal Audit is responsible for reviewing the effectiveness and efficiency of business operations, system controls, accounting and process controls and reporting to internal users. Each group may consider relying on the work of the other in scoping their audit reviews based on the competence, objectivity, accuracy and completeness of the work performed. Communication between these two groups ought to occur regularly to discuss common issues, share knowledge and expertise and the scope of each other's work.

This organization and planning of the internal audit function involves a definition of roles and responsibilities which begins with the Internal Audit Charter.

i. Internal Audit Charter

Once management and Board have identified and quantified the risks facing the organization through a risk assessment process, they identify internal audit requirements. The Internal Audit Charter outlines the role, purpose, accountability, responsibility and independence of the internal audit function. It also outlines its authority, the scope of work to be performed, audit planning, reporting and the audit standards to be employed. An example of an Internal Audit Charter can be found in the Appendix 10.

If the internal audit function is to be performed by an external third party, the contract should cover the same elements as the Internal Audit Charter.

ii. Internal Audit Plan

The level of risk to which the credit union is exposed in attempting to achieve its goals and objectives is the primary factor that determines the scope, timing, funding and

skill requirements for internal audit activities. This forms the foundation of the audit coverage and the annual audit plan. Activities that are determined to be higher risk (by virtue of transaction complexity, nature, size, volume, known weaknesses, etc.) would be audited in more depth and more frequently than an activity that is low risk. This process will ensure alignment with the credit union's objectives and lead to a more effective and efficient use of audit resources.

The Board, management and the external auditors may also have specific requests that ought to be considered in the audit plan, if feasible. The plan should also provide for time to address optional or unplanned requests.

Internal audit reviews include assessments regarding financial, operational (including compliance with regulatory, legal and internal policy requirements) and information technology processes.

The annual plan and progress made on the audit plan are reviewed with the Audit Committee at each committee meeting. Any deferrals in the plan should be identified and brought to the Committee's attention.

iii. Internal Audit Process

1. Engagement Letter

Once the plan has been finalized, the plan can be executed. This can be done in a series of audit projects. Whether performed in-house or by a third party, each review should be outlined in an engagement letter which identifies the scope of the work to be performed, the audit methodology the auditor intends to use, the timing of the work and communications/reports to be issued.

2. Communication

The Internal Auditor should provide regular updates to management about the progress of the audit work and any findings noted during the review.

3. Working Papers

The Internal Auditor should keep working papers as a record of their review to document the scope, interviews, testing and results of their review.

4. Reports

The audit report is a summary of Internal Audit's assessment of the adequacy of management's risk management practices. It identifies both strengths and weaknesses in the control environment. The audit report format includes the following information:

- Objective and Background – outlining why the area was selected for audit and the activities in which the area engages;
- Scope of coverage – summarizes the activities reviewed, time frame of the review, key risks reviewed;
- Findings – notes any weakness and defines their materiality;
- Recommendations – provides direction to management on the activities required to correct any material weaknesses;
- Management action plan – defines who is responsible for correcting any material weaknesses and provides management with the opportunity to respond to the weakness and details the actions and timeframe to correct them;
- Responsibility and due date – defines who is responsible for ensuring completing the actions and the date by which they are to be completed.

Copies of the reports are sent to those individuals responsible for addressing any weaknesses, their supervisors and the CEO. In addition, the Audit Committee receives copies of reports which should be reviewed during its regular meetings.

5. Follow-up

Progress toward the resolution of audit issues and control weaknesses or deficiencies is monitored by Internal Audit and tested again until resolved. The status of outstanding audit issues should be shared with management, the CEO and the Audit Committee.

6. Evaluation of Internal Audit

After each audit and on an annual basis, management and the Audit Committee evaluates the performance of Internal Audit based on the following criteria:

- Effective and efficient use of resources;
- Cooperation;
- Experience/expertise/knowledge;
- Effectiveness of communication;
- Timeliness and adequacy of reporting;
- Adequacy of coverage.

A sample evaluation form is included in the Appendix 10.

4. Risk Management and Control Environment

Risk management involves all of the policies, procedures and mechanisms implemented by management. Internal controls are embedded into the risk management structure so that processes operate as designed to enhance the organization's ability to mitigate risks. It is management's responsibility to design and implement an effective system of internal control. The Audit Committee is responsible to ensure that an effective risk management and control environment is in place. The formality of the risk management process and internal controls should be scaled as appropriate but must be effective regardless of size or complexity.

The Audit Committee should review and evaluate how well activities are coordinated to assure itself that risks are being properly managed and that it has fulfilled its oversight responsibilities with respect to risk management and controls.

Sample evaluation questions are included in Appendix 12.

5. Compliance Activities

Section 27 (1) of the Regulations prescribes the following duties in relation to the oversight of compliance related activities:

- 13. Review any report about the affairs of the credit union made by the Corporation or Superintendent, monitor the implementation of any significant recommendations and report to the Board on the progress of the implementation;*
- 14. Review the credit union's policies and procedures governing the way in which it meets the requirements under the Act and any other applicable legislation;*
- 15. Review material legal proceedings to which the credit union is a party;*
- 17. Monitor the adherence of the credit union's directors, officers and employees to the credit union's standards of business conduct and ethical behavior;*
- 18. Review the credit union's disaster recovery and business continuity plans.*

Compliance activities occur at various levels and are imposed from both internal and external sources to the credit union. Credit unions must comply with Board approved policies, the credit union's by-laws, the Act, Regulations and DICO's by-laws and other provincial and federal legislation. The Audit Committee is responsible for satisfying itself that the credit union is in compliance with these requirements. A compliance officer is required by FINTRAC² to ensure that an appropriate compliance regime is in place with respect to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act. In many credit unions, the compliance officer is also responsible for conducting periodic compliance reviews, assessing the impact of new laws and regulations on operations, policies and procedures and providing guidance on compliance issues. Compliance reporting that summarizes activities and results is provided regularly to the Audit Committee.

The Audit Committee and management should be familiar with the legislation applicable to credit unions in Ontario, including DICO's and the credit union's by-laws, to satisfy themselves that the credit union is in full compliance.

DICO regularly examines credit unions to assess ongoing compliance with the requirements of the Act and Regulations governing credit unions. These examinations also review the compliance regime surrounding money laundering and anti-terrorist financing.

In addition, management creates and the Board reviews and approves internal policies relating to by-laws, authorities, limits, codes of ethics, business continuity plans, standards and procedures to guide staff in their daily activities. These activities should be undertaken at least annually.

An Examination Report outlines any deficiencies that the credit union is required to resolve. The Audit Committee and management are responsible for insuring that all material weaknesses and deficiencies are corrected and that the Board is kept informed of progress of resolution activities. Depending on the severity of the deficiency, DICO may impose conditions of deposit insurance, issue a compliance order, or place the credit union under Supervision or Administration.

²Financial Transactions and Reports Analysis Centre of Canada

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APPENDIX 1

Audit Committee Checklist

Considerations

- 1 Do we understand the mandate of the Audit Committee and the roles and responsibilities as defined in Sections 125-128 of the Act and Section 27 of the Regulations? (Please see reverse for a detailed Checklist)**

If not:

- Should we ask the Board to develop and provide a “Charter” to help clarify our responsibilities?
- Should we request formal training?
- Does every director have a copy of the Director’s Handbook?
- Does every director have access to the Reference Manual on Sound Business and Financial Practices?

- 2 Have we reviewed the latest Examination Report?**

If yes:

- Has an action plan been developed and approved by the Board to resolve the major deficiencies and implement the recommendations outlined?
- Are we providing the Board with an update on the status on the implementation of the action plan?

If not:

- What actions need to be taken to ensure that corrective action is implemented?

- 3 Do we hold meetings at least every 3 months as required?**

If not:

- Do we need to develop a meeting schedule to ensure we comply with the requirements of the Act/Regulations?

- 4 Are proper minutes prepared and a report provided to the Board at either the next Board meeting, or no later than 60 days after the committee meeting, whichever occurs first?**

- Have we reviewed the self-assessment reports and followed up with management for resolution of noted deficiencies?
- Have we reviewed the policies and procedures, and related internal controls, and ensured that these meet the requirements under the Act and any other applicable legislation?
- Have recommendations (where appropriate) to maintain adherence to the lending and investment policies and procedures been submitted to the Board for review and approval?
- Have we ensured that the Board has reviewed and approved the investment and lending policies?

Audit Committee Checklist

This checklist has been developed from the requirements set out in Section 27 of the Regulations. The checklist should be considered as minimum requirements. Audit Committees may establish more conservative guidelines.

Quarterly, have we:

- Reviewed any report about the affairs of the credit union made by the Superintendent or DICO?
- Monitored the implementation of recommendations in that report the committee considers significant?
- Reported to the Board on the progress of its implementation?
- Reviewed the findings and recommendations of the internal auditors that they consider to be significant concerning the improvement of accounting practices and internal control practices?
- Reviewed the response to those recommendations by management?
- Reviewed the organization and assessed the degree of independence of our internal auditors, including their work plans and any problems that they experience or issues raised in performing audits?
- Reported to the Board on any conflict arising between the auditor and management that we are not able to resolve in a reasonable time?

Recommended to the Board arrangements to:

- Safeguard assets?
- Ensure the timeliness, accuracy and reliability of accounting data?
- Maintain adherence to lending and investment policies and procedures?
- Provide for other matters concerning financial policies?
- Reported to the Board any significant changes in the accounting principles and practices?
- Reviewed material legal proceedings to which the credit union is a party?
- Monitored the adherence of directors, officers and employees to standards of business conduct and ethical behaviors (code of conduct)?

Annually, have we:

- Reviewed and made recommendations to the Board about the terms of the engagement letter and the remuneration of the auditor?
- Reviewed with the auditor the scope and plan of an audit?

Discussed with the auditor:

- The audit findings?
- Any restrictions on the scope of the auditor's work?
- Any problems the auditor experienced in performing the audit?
- Reviewed the annual audited financial statements and made such recommendations to the Board as the committee considers appropriate?
- Reviewed the audited financial statements of each subsidiary of the credit union, if any?
- Reviewed and made recommendations to the Board about any management letters, recommendations and reports by the auditor about the business or financial statements of the credit union and any response to them by management?
- Reviewed the disaster recovery and business continuity plans?
- Reviewed the policies and procedures governing the way in which the credit union meets the requirements under the Act and any other applicable legislation and reported to the Board the results of that review?
- Assessed whether the staff is adequate to fulfill the credit union's accounting and financial responsibilities?

APPENDIX 2

Sample Audit Committee Charter - ABC Credit Union

Purpose:

The committee's purpose is to oversee and assess the:

- i. integrity of the financial reporting process and financial statements;
- ii. adequacy of the internal and external audit functions;
- iii. adequacy and effectiveness of internal controls;
- iv. adequacy and effectiveness of the risk management process;
- v. compliance with legal and regulatory requirements;
- vi. external auditor's qualifications and independence;
- vii. performance of the external auditors; and
- viii. performance of the internal audit function.

Without actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the committee shall be entitled to rely on: (i) the integrity of those persons or organizations within and outside the credit union from which it receives information, and (ii) the accuracy of the financial and other information provided to the committee by such persons or organizations.

Accountability:

The committee is responsible to the Board of Directors of the credit union.

Composition:

1. The Board shall appoint a committee of at least three directors. The committee will appoint a Chairperson from among its members. The Chair of the Board maybe appointed an "ex-officio" member of the committee.
2. A quorum will consist of a majority of committee members.
3. None of the members of the committee shall be an officer or employee of the credit union or any of its subsidiaries and each member of the committee shall be unrelated and independent.
4. All members of the committee should be financially literate (as determined by the Board in its reasonable business judgment). Ideally, at least one member of the committee is a financial expert (as defined by the Board). The committee and its financial expert (if applicable) are not accountable or responsible for the day-to-day operation or performance of activities of the credit union. In particular, designated financial experts shall not be accountable for giving professional opinions on financial controls or the internal or external audit of the credit union's financial information.

Appointment and Terms:

Committee members will be appointed by the Board and will serve for a term, specified by the Board, until other Board appointees replace them or until their appointment is revoked.

Authority:

1. In fulfilling its role, the committee has the authority to investigate any matter with unrestricted access to external auditors, corporate documentation and the staff of the credit union.
2. The committee may (i) require the external auditors and internal auditors to perform such supplemental reviews or audits as the committee may deem desirable and (ii) retain such special legal, accounting, financial or other consultants as necessary to carry out the committee's duties. All such decisions are the sole determination of the committee and at the credit union's expense.

Meetings:

1. The committee shall meet at least quarterly or at the call of the Chair, management, internal audit or external audit;
2. The external auditor shall be given notice of every committee meeting;
3. The committee shall meet periodically with management of the finance and internal audit functions, and the external auditors in separate in-camera meetings to discuss any matters that the committee or each of these persons believes should be discussed privately;
4. The committee shall also meet periodically without management present.

Reporting:

1. The committee will maintain a complete written report of its meetings detailing the results of those meetings;
2. The committee will report to the Board at the meeting of the Board that follows each committee meeting.

Financial Reporting Processes and Accounting Policies:

1. The committee will review and discuss with management, the internal auditors and external auditors:
 - a) the appropriateness and acceptability of the accounting principles and practices used in the financial reporting;
 - b) *any changes in accounting principles or practices, and*
 - c) *all significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including the effects of alternative methods on the financial statements.*
2. The committee will review and discuss with management, the internal auditors and external auditors the business purpose and economic effect of transactions, contract arrangements, obligations, guarantees and other relationships that are "off-balance sheet" and their impact on the reported financial results.

Controls over Financial Information:

1. The committee will review and discuss with management, the external auditors and internal auditors:
 - a) *the adequacy and effectiveness of the internal accounting and financial controls and the recommendations of management, the external auditors and the internal auditors for the improvement of accounting practices and internal controls;*
 - b) *any material weaknesses in the internal control environment, including computerized information system controls and security; and*

c) *the compliance of management with the processes, procedures and internal controls.*

2. The committee will review with management each set of interim financial statements, in conjunction with the progress to plan, budget and variances to date.

External Audit Relationship:

1. The committee shall review the audit function generally, at least annually, with the external auditors, internal auditors and management. Such reviews will include objectives, staffing, co-ordination, internal audit requirements, general audit approach, and scope of proposed audits. The review also includes overall audit plans, the responsibilities of management, internal auditors and external auditors; and the timing and estimated budgets of the audits.

The committee shall, at least annually, evaluate the performance of the external auditors and make recommendations to the Board on the reappointment or appointment of the external auditors. The committee has authority to terminate the external auditors at any time. If a change in external auditors is proposed, the committee shall review the reasons for the change and any other significant issues related to the change, including the response of the incumbent auditors, and investigate the qualifications of the proposed auditors before making its recommendation to the Board.

2. The committee will review the independence of the external auditors and make recommendations to the Board on any appropriate actions to be taken which the committee deems necessary to maintain the independence of the external auditors.
3. The committee will approve the terms of engagement of the external auditors with respect to the conduct of the annual audit, and approve all compensation paid to the external auditors with respect to the conduct of the annual audit.
4. The committee will meet in-camera with the external auditor to discuss any difficulties or disputes with management or the internal auditors, and any other relevant audit related matters.
5. The committee will review and discuss with the external auditor, all reports which the external auditors are required to provide to the committee or the Board.

Internal Audit Activities:

1. The committee will evaluate the internal audit function including its activities, organizational structure, qualifications and effectiveness.
2. The committee meets periodically alone with the head of internal audit to discuss reports and recommendations, progress of activities, extent to which prior recommendations have been implemented, and any other significant matters. Discussions will include any difficulties or disputes that arise with management and the adequacy of management's responses in correcting audit related deficiencies. The head of the internal audit function has unrestricted access to the committee.

Ethical Compliance, Legal Compliance and Risk Management:

1. The committee shall meet periodically with management to review and discuss significant risk exposures and the steps management has taken to monitor and control these risks.
2. The committee will review reports received from the regulators and compliance officer for evidence of non-compliance or deficiencies in complying with applicable laws, regulations, guidelines and by-laws.

3. The committee will establish procedures for the receipt of, and response to, complaints concerning accounting, internal controls, and code of conduct or auditing matters.

Other Responsibilities:

The committee will perform any other function specifically delegated to the committee by the Board, and undertake on behalf of the Board other activities as may be necessary or desirable to assist the Board.

The Charter:

The committee shall review and reassess this Charter at least annually or otherwise as it deems appropriate and recommend changes to the Board. Each year, the committee shall review its performance in relation to this Charter.

The Board shall have the authority to amend or modify any provision of the Charter at any time, provided that the Board may make no such amendment or modification that is inconsistent with the provisions of the *Credit Unions and Caisses Populaires Act, 1994*, the accompanying Regulations and the standards of Sound Business Practice as provided by the Deposit Insurance Corporation of Ontario.

This mandate was last revised and approved by the Board of ABC Credit Union on (insert date).

APPENDIX 3

Audit Committee WORK PLAN - ABC Credit Union

Purpose of this tool: This tool is designed to help Audit Committees make the Charter a living document. Use it to build your work plan and manage your meeting agendas. This is a sample and should be modified to reflect your Audit Committee's Charter. This document outlines the responsibilities, steps to accomplish the responsibilities, deliverable and scheduling/timing for inclusion in the work plan.

Action	Steps	Deliverable	Audit Committee Meetings				
			Q1	Q2	Q3	Q4	As Needed
GENERAL RESPONSIBILITIES							
Evaluate each committee member's independence	Test for independence based on the Act and other guidelines outlined by the Board.	Report to the Board that the review has taken place; include any matters that need to be brought to its attention. Whenever a new member is added, acknowledge that independence has been verified.					
Review the financial literacy of the committee members	Determine if at least one committee member can be designated as a financial expert. If lacking, determine how independent advice/ interpretation will be obtained as needed.	Document the discussion in the Audit Committee meeting minutes.					
Review the Charter & work plan	Review and assess the completeness & appropriateness of the Charter in light of new best practices or new regulatory requirements. Build an annual work plan based on the committee Charter.	Report to the Board that the review has taken place. Include any recommended changes.					
Prepare agenda (committee chair with input from the committee) in consultation with management & auditors & meet at least 4 times per year	Agendas for meetings are prepared & provided to members in advance along with briefing materials. All members are expected to attend each meeting.	Meeting minutes are prepared that document decisions made & actions required. Minutes are distributed as soon as possible but no later than five days. Meeting minutes are filed with the Board.					
Conduct in-camera meetings without management present	Sessions are held in conjunction with meetings or with invitations to individuals with whom the committee would like to meet.	Action steps to be taken will be developed if necessary.					
Periodically meet privately with management to discuss matters of importance	Independently keep up to date on new developments related to the sector, regulatory & competitive environments. The Chair will discuss issues, concerns or new developments with management.	Document discussions & report to the committee. Items of importance or requiring action will be added to the agenda of the next meeting.					
As necessary, hire outside counsel or other advisors at the company's expense	Establish a budget for this purpose. Request for Proposals may be used if time permits (RFP).	Report from outside counsel or advisor.					

Action	Steps	Deliverable	Audit Committee Meetings				
			Q1	Q2	Q3	Q4	As Needed
Review the Audit Committee's effectiveness.	Conduct a self-assessment of committee & individual performance.	Report & discuss with the Board recommendations to improve effectiveness.					
FINANCIAL REPORTING PROCESSES AND ACCOUNTING POLICIES							
Review issues with management regarding accounting policies and financial statement presentation.	Discuss judgments made and any significant changes in the selection or application of accounting policies. Analyze & discuss the effects of alternative accounting methods of the financial statements.	Report to the Board that the review has taken place and note matters that need to be brought to its attention.					
Review with management & the external auditor the effect of regulatory & accounting initiatives as well as off-balance sheet structures on the financial statements.	Discuss in meetings with management and the external auditors.	Record discussion & any action steps in Audit Committee meeting minutes.					
REVIEW OF FINANCIAL/CONTROLS INFORMATION							
Review with management, the head of internal audit and the external auditor the adequacy of internal controls & effectiveness of the control environment.	Review all reports from control related audits completed in the past year & management's response. Discuss key internal controls, override of controls & understand how these controls will be monitored & tested. Discuss changes to the internal control system including material control deficiencies & any special audit steps taken or required.	Report to the Board on issues relating to internal control, effectiveness of the control environment & the need for independent assurance.					
Review & discuss with management the financial statements & progress to plan including the budget & variances to dates.	Discuss the financial position, performance to date & projected results for the remainder of the year.	Report to the Board that the review has taken place & note matters that need to be brought to its attention.					
EXTERNAL AUDIT RELATIONSHIP							
Review the audit plan & scope with the external auditor. Discuss any significant changes.	Meet with the external auditor, controller & head of internal audit to discuss last year's audit, lessons learned & planned scope for the current year. Address the coordination of internal & external audit efforts to assure the completeness of coverage and effective use of resources.	Document the meeting in the Audit Committee meeting minutes.					
Appoint the external auditor & establish the fees.	Decide on auditor selection criteria. Review the plan for the audit of the current year. Consider past performance of the current external auditor & any difficulties encountered. Review the scope of all services provided to the company by the external auditor.	Request RFPs if changes are being considered. Prepare an engagement letter for the next audit.					

Action	Steps	Deliverable	Audit Committee Meetings				
			Q1	Q2	Q3	Q4	As Needed
Periodically meeting privately with the external auditor to discuss relevant matters.	The committee will discuss with the external auditor any issues, concerns or new developments.	Items of importance or requiring action will be added to the agenda of the next committee meeting.					
Review the external auditor's report after completion of the audit.	<p>Review with management & the external auditors:</p> <ul style="list-style-type: none"> The audit of the financial statements and the report; The auditor's judgment about the quality & acceptability of accounting principles applied in the financial reporting including ramifications of alternative treatments; Audit adjustments & misstatements identified in the report; Serious difficulties or disputes with management Other material written communication between the external auditor & management. <p>Review with management the course of action to be taken for any items requiring follow-up.</p>	Submit reports & documentation of discussions, resolution of disagreements or action plan for any follow-up items to the Board.					
Evaluate the performance of the external auditors.	<p>Review information from meeting minutes & in-camera sessions conducted throughout the year.</p> <p>Work through a formal assessment tool to assess.</p>	Document the evaluation in the meeting minutes & recommendations for change.					
INTERNAL AUDIT ACTIVITIES							
Review with management & the head of internal audit (or 3rd party internal auditor) the internal audit function.	<p>Review reports for internal audits conducted during the last 12 months.</p> <p>Discuss the status of or need for internal audits planned for the next quarter/year. Discuss any changes required in the scope of the internal audits.</p> <p>Discuss any difficulties encountered in conducting internal audits including and restrictions of the scope of the work or access to information.</p> <p>Discuss the internal audit responsibilities, budget, staffing & performance.</p>	<p>Report on the status of the internal audit function & internal audit plans for the next year.</p> <p>Include audits of other elements of the control environment to be performed by the External Auditor in the engagement letter.</p>					
Periodically meet privately with the head of internal audit (or equivalent) to discuss matters of importance.	Discuss any issues, concerns or new developments pertaining to internal audit.	<p>Document discussions & report to the committee.</p> <p>Items of importance or requiring action will be added to the agenda of the next meeting.</p>					
Review & advise on the selection, replacement or dismissal of the head of internal audit.	<p>Meet in-camera as necessary to address these matters.</p> <p>Obtain feedback about the performance of the head of internal audit from executive management and the external auditor.</p> <p>Discuss job satisfaction & other employment issues with the head of internal audit.</p>	Report on the performance of the head of internal audit (or equivalent) including the effectiveness of the internal audit function.					

Action	Steps	Deliverable	Audit Committee Meetings				
			Q1	Q2	Q3	Q4	As Needed
ETHICAL COMPLIANCE, LEGAL COMPLIANCE AND RISK MANAGEMENT							
Discuss with management the significant risk exposures & the steps taken by management to control them.	Independently keep up-to-date on new developments related to the sector, competitive and regulatory environments. Review & discuss the enterprise risk management and report.	Report on the effectiveness of the risk management process. Create an action plan & follow-up plan for recommended changes. Report to the Board that the review has taken place & note information that needs to be brought to its attention.					
Review legal & regulatory matters that could have significant impacts on the organization.	Discuss legal & regulatory matters that may have a material impact on the financial statement, policies and operations. Review reports received from regulators & consider steps that may need to be taken to ensure that compliance is at an acceptable level. Create an action plan & follow-up plan for noted deficiencies.	Report to the Board that the review has taken place and note matters that need to be brought to its attention.					
Review any complaints that are received regarding accounting, internal control, and code of conduct or auditing matters.	Create procedures for the receipt & review of complaints. Ensure proper steps are taken to investigate & resolve complaints. Discuss the status or resolution of each complaint & look for trends or patterns.	Report to the Board that the review has taken place & note matters that need to be brought to its attention.					
Perform such other functions as assigned by law, Charter, bylaws or the Board of Directors.	Monitor developments in the regulatory, legislative & legal environments & respond to any new requirements as needed.	Appropriate response as required.					

Source: AICPA, The Conference Board & Deloitte & Touche LLP

APPENDIX 4

SAMPLE QUESTIONS FOR IN-CAMERA SESSIONS - ABC Credit Union

Purpose of this tool: The sample below are questions that the Audit Committee can ask various parties during their in-camera sessions. All areas listed may not be applicable to all credit unions.

Questions for the Chief Financial Officer/Controller:

1. Are there any issues since our last meeting that you wish to discuss with the Audit Committee? If so, please elaborate.
2. Do you believe the financial statements fairly present the company's financial position? If no, why?
3. Are you satisfied that an appropriate audit was performed by the external auditors? If not, why?
4. Are you aware of any disagreements between the management of the company and the external auditor? If so, please elaborate.
5. Has appropriate "tone at the top" been set with respect to the importance of and compliance with internal control systems? If so, please elaborate how it is demonstrated. If not, why?
6. Are you aware of any current or past fraud occurrence or any kind of fraud in the organization?
7. What situations can you identify in which fraud could occur?
8. Discuss areas in which an accounting treatment could be construed as aggressive.
9. Is there any activity at the executive level of management that you consider to be non-compliant with applicable laws, regulations or acceptable accounting principles? If so, please elaborate.
10. Have you encountered any situations in which the organization complied with legal minimums yet failed to go the extra mile to demonstrate its commitment to the highest ethical standards? If so, please elaborate.
11. Is there any activity in the organization that you are uncomfortable with or consider unusual or that warrants further investigation? If so, please elaborate.
12. Do you feel comfortable raising issues without the fear of retribution? If not, why?
13. Are there any questions we have not asked that should be asked? If so, please elaborate.

Questions for the Chief Executive Officer/General Manager:

1. Are there any issues since our last meeting that you wish to discuss with the Audit Committee? If so, please elaborate.
2. Do you believe the financial statements fairly present the company's financial position? If no, why?
3. Are you satisfied that an appropriate audit was performed by the external auditors? If not, why?

4. Are you aware of any disagreements between the management of the company and the external auditor? If so, please elaborate.
5. Are you aware of any disagreements between the management of the company and the internal auditor? If so, please elaborate.
6. Is there any activity at the executive level of management that you consider to be non-compliant with applicable laws, regulations or acceptable accounting principles? If so, please elaborate.
7. Have you encountered any situations in which the organization complied with legal minimums yet failed to go the extra mile to demonstrate its commitment to the highest ethical standards? If so, please elaborate.
8. Is there any activity in the organization that you are uncomfortable with or consider unusual or that warrants further investigation? If so, please elaborate.
9. Are there any questions we have not asked that should be asked? If so, please elaborate.

Questions for the Head of Internal Audit Team:

1. Are there any issues since our last meeting that you wish to discuss with the Audit Committee? If so, please elaborate.
2. Overall, is management cooperating with the internal audit team?
3. Does management have a positive attitude in response to findings and recommendations or is it defensive of findings?
4. Has management set an appropriate "tone at the top" with respect to the importance of & compliance with internal control systems? If so, please elaborate how it is demonstrated. If not, why?
5. Discuss areas in which an accounting treatment could be construed as aggressive.
6. Have you encountered any situations in which the organization complied with legal minimums yet failed to go the extra mile to demonstrate its commitment to the highest ethical standards? If so, please elaborate.
7. Do you have the freedom to conduct audits as necessary throughout the company? If no, please elaborate on any difficulties encountered.
8. Were you restricted or denied access to requested information? If yes, please elaborate.
9. Have you been pressured to change findings or minimize the language in those findings so as to not reflect badly on another member of management? If so, please elaborate.
10. Are findings and recommendations given the level of discussion needed to properly satisfy any issues raised to your satisfaction? If not, please elaborate.
11. Do you feel comfortable raising issues without the fear of retribution? If not, why?
12. Is there any activity at the executive level of management that you consider to be non-compliant with applicable laws, regulations or acceptable accounting principles? If so, please elaborate.
13. Are there any questions we have not asked that should be asked? If so, please elaborate.

Questions for General Counsel:

1. Are there any issues since our last meeting that you wish to discuss with the Audit Committee? If so, please elaborate.
2. Are you aware of any issues that could cause embarrassment to the company if it were known publically? If so, please elaborate.
3. Is there any activity at the executive level of management that you consider to be non-compliant with applicable laws, regulations and guidelines? If so, please elaborate.
4. Have you encountered any situations in which the organization complied with legal minimums yet failed to go the extra mile to demonstrate its commitment to the highest ethical standards? If so, please elaborate.
5. Is there any activity in the organization that you are uncomfortable with or consider unusual or that warrants further investigation? If so, please elaborate.
6. Are there any questions we have not asked that should be asked? If so, please elaborate.

Questions for the Audit Committee

1. Are we comfortable that we are receiving sufficient information in order to fulfill our responsibilities?
2. Do we fully understand the content of the various reports and information that we receive?
3. Do we concentrate on material risk areas and are we confident that any material weaknesses have been/are being appropriately addressed?
4. Do we have all have the appropriate knowledge and skills?
5. Are there areas where additional training is required?
6. Do we need to invite external experts to provide guidance on complex issues?
7. Are we working together in the best interests of the credit union?
8. How well is the committee undertaking its responsibilities?

APPENDIX 5

SAMPLE Audit Committee PERFORMANCE EVALUATION - ABC Credit Union

Purpose of this tool: The sample questions provided in this tool are a starting point to evaluating the performance and effectiveness of the Audit Committee. Prior to completion, the committee should determine how it can best ensure that responses reflect a forthright exchange of ideas and opinions among Audit Committee members. Feedback should also be obtained from those with which the committee has dealings. The document should be summarized with results provided to the Board.

Consideration	Yes	No	Not Sure	Comments
1. Potential Audit Committee members are identified with consideration being given to the candidate's qualifications for serving on the Audit Committee.				
2. Audit Committee members have the appropriate qualifications to meet the objectives of the Audit Committee's Charter including appropriate financial literacy.				
3. Audit Committee members have differing perspectives due to a diversity of experiences and backgrounds.				
4. The Audit Committee demonstrates integrity, credibility, trustworthiness, willingness to actively participate, ability to constructively handle conflict, interpersonal skills and proactiveness.				
5. The Audit Committee demonstrates appropriate sector knowledge.				
6. Members of the Audit Committee meet all applicable independence requirements.				
7. The Audit Committee reviews its Charter annually to determine whether its responsibilities are adequately described and recommends any changes to the Board for approval.				
8. The Audit Committee members have participated in a continuing education program to enhance understanding of relevant auditing, accounting, regulatory and sector issues.				
9. New Audit Committee members are provided with an orientation program to educate them on the company, their responsibilities and the company's financial reporting and accounting practices.				
10. The Audit Committee Chair's leadership is effective.				
Understanding the Business and Risks				
11. The Audit Committee considers the pressures on management that may impact the quality of financial reporting (e.g. earning targets, compensation plans, performance measures).				
12. The Audit Committee understands & approves the process implemented by management to effectively identify, assess & respond to the organization's key risks.				
13. The Audit Committee has an understanding of fraud risks.				
14. Management provides the Audit Committee with reports that include benchmarking information (comparing the company's financial performance & ratios with sector competitors/peers) with explanations for areas that differ significantly.				

Consideration	Yes	No	Not Sure	Comments
Processes & Procedures				
15. The Audit Committee reports its proceedings and recommendations to the Board after each committee meeting.				
16. The Audit Committee dedicates appropriate time and resources to execute its responsibilities.				
17. The Audit Committee participates in the development of a work plan to ensure that responsibilities are met.				
18. Audit Committee members have the option to influence their meeting agendas in order to address emerging issues.				
19. Audit Committee meetings are conducted in an effective manner with time primarily being spent on significant issues.				
20. The Audit Committee Chair encourages input on the meeting agenda from the committee, management, the internal & independent auditors & Board.				
21. The agenda and related information (e.g. prior meeting minutes, financial statements, etc.) are circulated in advance of meetings to allow Audit Committee members sufficient time to study & understand the information.				
22. The written materials provided to Audit Committee members are appropriately balanced (e.g. relevant and concise).				
23. The Audit Committee meetings are held at least quarterly.				
24. The Audit Committee maintains adequate minutes of each meeting.				
25. The Audit Committee, together with the human resources/compensation committee, annually reviews management incentive plans to consider whether the incentive process is appropriate.				
26. The Audit Committee respects the lines between oversight and management of the financial reporting process.				
27. Audit Committee members come to the meetings well prepared.				
Communications				
28. The level of openness between the Audit Committee and relevant parties is appropriate (Board members, management, internal & external audit).				
29. For matters that require specialized expertise, the Audit Committee engages external parties as appropriate.				
30. The Audit Committee receives and analyzes information from management on significant industry trends, estimates and variations from budget.				
31. If applicable, Audit Committee members periodically visit company locations to conduct on-site meetings with key members of management.				
Oversight of the Financial Reporting Process, Including Internal				
32. The Audit Committee considers the quality and appropriateness of financial accounting and reporting.				

Consideration	Yes	No	Not Sure	Comments
33. The Audit Committee reviews the company's significant accounting policies.				
34. The Audit Committee receives sufficient information to assess and understand management's process to evaluate the organization's system of internal controls (e.g. financial reporting, operational, system and compliance controls).				
35. The Audit Committee oversees the organization's external financial reporting and internal control over financial reporting.				
36. The Audit Committee understands and gives appropriate consideration to the internal control testing conducted by management, the internal and external auditors and compliance officer to assess the process of detecting internal control issues or fraud.				
37. If management's assessment of internal controls resulted in the identification of significant deficiencies or material weaknesses, plans to address these issues are reviewed, evaluated and monitored by the Audit Committee.				
38. The Audit Committee makes inquiries of the appropriate parties (internal & external audit, management) on the depth of experience and sufficiency of the company's accounting and finance staff.				
39. The Audit Committee reviews the reports written by the auditors (external and internal) and follows-up to determine that all significant matters raised are addressed.				
40. The Audit Committee ensures that management takes action to achieve resolution when there are instances of repeat comments from auditors, particularly for those related to internal controls.				
41. Adjustments to the financial statements that resulted from the audit process are reviewed by the Audit Committee, regardless of whether they were recorded by management.				
Oversight of Audit Functions				
42. The Audit Committee understands the coordination of work between the auditors (internal & external).				
43. The Audit Committee regularly reviews the adequacy of the internal audit function (e.g. Charter, plan, budget, compliance and number, quality and continuity of staff).				
44. The Audit Committee oversees the role of the head of internal audit at least annually (e.g. appointment, evaluation, compensation and retention).				
45. The Audit Committee provides feedback to the head of internal audit at least annually.				
46. The internal audit reporting lines established with the Audit Committee promote an atmosphere where significant issues that might involve management will be brought to the attention of the Audit Committee.				
47. The Audit Committee appropriately considers internal audit reports, management's responses and improvement actions.				
48. The Audit Committee oversees the role of the external auditors (e.g. appointment, compensation, evaluation, retention and pre-approval of services).				

Consideration	Yes	No	Not Sure	Comments
Overall Ethics and Compliance Culture				
49. The Audit Committee has an effective process to evaluate the external auditor's qualifications and performance.				
50. The Audit Committee considers the scope of non-audit services provided by the external auditor in determining the auditor's independence.				
51. The Audit Committee has in-camera sessions with management, internal audit and external audit which result in candid discussions of pertinent issues.				
52. Audit Committee members are notified of communications received from regulatory bodies relating to areas of non-compliance or deficiencies.				
53. The Audit Committee oversees management's procedures for enforcing the company's code of conduct.				
54. The Audit Committee determines that there is a senior level person designated as specifically responsible for knowing and understanding relevant legal and regulatory requirements.				
55. The Audit Committee oversees the process in place to address: <ul style="list-style-type: none"> a. <i>the risks of noncompliance with applicable laws & regulations</i> b. <i>conflicts of interest</i> c. <i>violations of the code of ethical conduct</i> 				
56. The Audit Committee oversees the organization's complaint process and reviews complaints.				
Monitoring Activities				
57. An annual performance evaluation of the Audit Committee is conducted and the findings are presented to the full Board.				
58. Matters identified from the Audit Committee self-assessment that requires action are resolved.				
59. The Audit Committee is provided sufficient funding to fulfill its objectives.				
General				
Note: Any other significant matters with regard to the performance of the Audit Committee & any issues the committee should address in the future.				

APPENDIX 6

SAMPLE QUESTIONS REGARDING INDEPENDENCE OF THE EXTERNAL AUDITORS - ABC Credit Union

Purpose of this tool: The sample questions provided in this tool are sample questions Audit Committees may ask the external auditors regarding their independence, if applicable to their situation.

Relationship with the Audit Committee:

1. Do you understand our role and expectations as outlined in the Audit Committee Charter?
2. Do you believe your relationship with the Audit Committee reflects the position that you are ultimately accountable to the Board?
3. Do you have enough access to the Audit Committee to facilitate confidential exchanges of information?

General:

1. What process does your firm use to ensure key audit staff is independent and objective with respect to our audit?
2. Have you been subject to fee pressures from the company?
3. Have you been subject to any actual or threatened litigation by our company?
4. Has management put any pressure on you to accept accounting practices that might be considered to be inappropriate?

Firm Safeguards:

1. What policies and procedures intended to promote quality control are in place in your firm?
2. What policies or procedures are in place that will help identify interests and relationships between you and your clients?
3. Are staff members empowered to communicate within the firm any issue of independence and objectivity that concerns them?
4. Is a partner available who did not take part in the audit engagement and therefore can carry out reviews of the work done and assess the objectivity of the audit partner and key audit staff and the independence of the firm?
5. Do you have procedures for discussing independence issues with a third party such as an expert within the firm with responsibility for maintaining the firm's independence or a provincial institute of chartered accountants?
6. What are your procedures for rotation of senior personnel (if applicable)?
7. What policies and procedures are in place to assess whether particular risks in specific circumstances can be interpreted as clearly significant?
8. What policies and procedures are in place for documenting, for each audit engagement, whether there have been circumstances and facts that may have impaired an auditor's independence, how the auditor assesses risks and which safeguards were taken to avoid, mitigate or reduce risk to an appropriately low level?

-
9. What policies and procedures are in place for refusing to perform or withdraw from an audit engagement where the risks posed by certain activities or interests of an auditor cannot be eliminated or limited by other safeguards and where the auditor chooses not to eliminate those activities or interests?

Relationships with the company:

1. What financial relationships does your firm have with the company - consider:
 - a. *loans, debtor-creditor relationships;*
 - b. *savings or chequing accounts;*
 - c. *credit cards.*
2. What employment relationships exist between your firm and our company?
 - a. *Current or former employees of the firm employed by the company or serving on the Board of Directors?*
 - b. *Close family members of the firm employed by the company?*
 - c. *Former employees of the company employed by the firm?*
3. What business relationships exist between your firm and our company?
 - a. *The firm is a significant supplier to the company?*
 - b. *The firm and the company have common investments?*
 4. *What contingent fee arrangements exist between your firm and our company?*

Non-audit services:

1. What non-audit services does your firm provide to our company?
2. What fees do non-audit services generate for your firm and how do they compare to the audit fees?
3. What percentage of firm revenue is derived from our company?
4. Is the service being performed principally for the Audit Committee?
5. What are the effects of the service on audit effectiveness or on the quality and timeliness of the entity's financial reporting process?
6. Will the service be performed by specialists who ordinarily provide recurring audit support?
7. Will the service be performed by audit personnel and will it enhance their knowledge of the entity's business or operations?
8. Will the role of those performing the service be inconsistent with the auditor's role?
9. Will the audit firm's personnel be assuming a management role or be creating a mutuality of interest with management?
10. Does the audit firm have unique expertise in the service?

APPENDIX 7

SAMPLE CRITERIA FOR SELECTING AN EXTERNAL AUDITOR

ABC Credit Union

Purpose of this tool: The sample questions provided in this tool are sample questions Audit Committees may consider when selecting an external auditor.

1. Qualifications/Licensing:
 - a. *Does the auditor hold an active professional accounting designation? (what and when?)*
 - b. *Do they meet provincial licensing requirements?*
 - c. *What are the qualifications of those actually performing and supervising the audit work?*
 - d. *How do they meet the Independence standard?*
 - e. *How do they meet the Conflict of Interest standard?*
2. Experience (skills, knowledge & capability) requirements:
 - a. *Does the auditor have experience auditing credit unions of a particular size and complexity?*
 - b. *Understanding of the credit union sector?*
 - c. *Understanding of the Act, Regulations and Guidelines?*
 - d. *Length of time auditing credit unions of similar size and complexity?*
 - e. *Profile of typical clients firm currently audits?*
 - f. *References (reputation)?*
3. Risk Assessment:
 - a. *How does the firm perform a risk assessment prior to conducting the audit to identify key risk areas for focus during the audit engagement?*
4. Staffing
 - a. *For the size and complexity of the credit union, does the audit firm have sufficient staff with the necessary experience and skills to be able to complete the identified audit work?*
 - b. *What are your commitments to staff continuity?*
 - c. *What is your staff turnover experienced in the last 3 years?*
 - d. *Any disciplinary actions against the firm or their partners/staff? If yes, describe.*
 - e. *Would you be willing to provide biographies on each of the assigned resources?*
5. Continuing Education & Training:
 - a. *How does the firm stay current with accounting developments?*
 - b. *How does the firm stay current with credit union sector developments?*

APPENDIX 8

SAMPLE REQUEST FOR PROPOSAL LETTER- ABC Credit Union

Purpose of this tool: This tool provides a sample outline that may be used by an organization's management team to request a proposal letter from qualified external audit firms when seeking a new service provider. The sample letter should be subject to Audit Committee review and discussion.

[Place on company letterhead]

[Current Date]

[Name of Managing Partner],
[External Auditing Firm],
[Street Address],
[City, Province, Postal Code]

Dear [insert managing partner's name],

Our company is accepting proposals from external audit firms to provide audit and tax services for our company in the future. We invite your firm to submit a proposal to us by [insert date for submission] for consideration. A description of our company, the services needed and other pertinent information follows:

Background of the Credit Union

Use this space to provide an overview of the credit union (size, product & services offered) and its audit operations. Indicate the fiscal year end date and filing financial statement deadline.

Services to Be Performed

Your proposal is expected to cover the following services:

Use this space to list the services required such as:

1. Annual audit to be completed in compliance with the above filing requirements;
2. Tax filings for the company and related entity.

Key Personnel

The following are the key contacts for information you may seek in preparing your proposal:

Use this space to provide names, title and contact information for key contacts.

Relationship with Prior External Audit Service Provider

Use this space to describe the relationship with the prior auditor that the credit union is willing to disclose at this stage in the proposal process. External audit firms may request additional information which you may choose to disclose if the external audit firm signs a nondisclosure agreement.

Other Information

Use this space to discuss other information that an external audit firm may need to provide an informed proposal on the auditing and/or tax work that is required. As mentioned above, the credit union should only disclose information here that it is comfortable disclosing; additional information may be available to the audit firms interested in making a serious proposal after signing a nondisclosure agreement.

Your Response to the Request for Proposal

In responding to this request, we require the following information:

Use this space to list the desired information from the audit firm to obtain information as outlined Appendix 6.

Evaluation of Proposals

The credit union will evaluate proposals on a qualitative basis. This includes the review of the firm's peer review report and related materials, interviews with senior engagement personnel to be assigned to our company, results of discussions with other clients, and the firm's completeness and timeliness in its response.

As previously mentioned, if you choose to respond to this request, please do so by [insert date].

Sincerely,

[Name, Position]

APPENDIX 9

SAMPLE EXTERNAL AUDITOR EVALUATION QUESTIONS

ABC Credit Union

Purpose of this tool: The sample questions included in this tool are only a starting point to evaluating the performance and effectiveness of the external auditor. Audit Committee member should ask follow-up questions as needed.

1. Did the auditor meet with the Audit Committee when requested?
2. Did the auditor inform the committee of any risks of which the committee was not previously aware?
3. Did the auditor adequately discuss the quality of financial reporting including the applicability of new and significant accounting principles?
4. Did the auditor communicate issues freely with the Audit Committee or did the auditor seem protective of management?
5. Does it appear that management exercises undue influence on the external auditor?
6. Does it appear that the auditor is reluctant or hesitant to raise issues that would reflect negatively on management?
7. Is the Audit Committee satisfied with the planning and conduct of the audit?
8. Review all audit-related and non-audit services conducted by the auditor in the prior year. Is the committee satisfied that the external auditor remains independent and objective both in fact and appearance?
9. Is the Audit Committee satisfied with its relationship and communication with the auditor? In making this determination, the Audit Committee should consider:
 - a. *whether the partner-in-charge of the audit participated in Audit Committee meetings;*
 - b. *whether the auditor was forthright and competent in the required discussions with the Audit Committee;*
 - c. *whether the auditor was forthright and complete during their in-camera discussions with the Audit Committee;*
 - d. *whether the auditor was on-time in their delivery of services to the company;*
 - e. *whether reports were clear; and*
 - f. *whether the committee was briefed on significant issues prior to Audit Committee meetings.*
10. Was the audit fee fair and reasonable in relation to what Audit Committees know about fees charged to other companies and in line with the complexity and the risk environment of the company?
11. Did the external auditor provide constructive observations, implications and recommendations in areas needing improvements particularly with respect to the company's risk management, corporate governance, financial accounting and related risks and controls?
12. Was the scope of the audit adequate to address all of the financial reporting and control environment risks facing the company?

Questions to ask of the Head of Internal Audit (or the Committee if there is no Head), the Controller and senior management:

1. From your perspective in working with the external auditor, are you satisfied with the scope, nature, extent and timing of testing performed by the auditor?
2. Did the external auditor work with you to ensure the coordination of audit efforts, the completeness of coverage, reduction of redundant efforts and the effective use of audit resources?
3. Are you satisfied with the knowledge, skills and abilities of the staff assigned to do the audit?
4. Are you satisfied with the engagement leadership assigned including partners, managers and fieldwork leaders?
5. Did the external auditor work with the internal auditors according to their plan?
6. Was cooperative work conducted in the spirit of professionalism and mutual respect?
7. Are you satisfied that the external auditor remains independent of the company in spite of any audit-related or non-audit services the auditor provides to the organization?
8. Are you aware of any other information that might impair the independence of the external audit firm?
9. Are you aware of any individuals on the audit team that might not be independent with respect to the company for whatever reason?
10. If the choice were yours, would you hire the firm to conduct next year's audit?
11. If it was up to you, what changes would you make?

APPENDIX 10

SAMPLE INTERNAL AUDIT Charter - ABC Credit Union

Role

The internal auditing department is established by the Board of Directors. Its responsibilities are defined by the Audit Committee of the Board of Directors as part of their oversight function.

Purpose

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the credit union. It assists the credit union in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control and governance processes.

Accountability

The internal audit department shall be accountable to the Audit Committee to:

- a) Provide an annual assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- b) Report significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes and provide information concerning such issues through resolution.
- c) Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.
- d) Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, ethics, external audit).

Independence

1. To provide for the independence of the internal auditing department, its personnel report to the head of internal audit who reports functionally to the Audit Committee and administratively to the chief executive officer.
2. All internal audit activities shall remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of an independent and objective attitude necessary in providing reports.
3. Internal auditors shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop nor install systems or procedures, prepare records or engage in any other activity which would normally be audited.

Responsibility

The head of internal audit and staff of the internal audit department have the responsibility to:

- a) Develop a flexible annual audit plan using an appropriate risk-based methodology including any risks or control concerns identified by management and submit that plan (as well as periodic updates) to the Audit Committee for review and approval.

-
- b) Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and/or the Audit Committee.
 - c) Utilize professional audit staff with sufficient knowledge, skills, experience, and professional certifications as needed to meet the requirements of this Charter.
 - d) Issue periodic reports to the Audit Committee and management summarizing results of audit activities.
 - e) Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.
 - f) Provide a list of significant measurement goals and results to the Audit Committee.
 - g) Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the Audit Committee of the results.
 - h) Consider the scope of work of the external auditors for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

Authority

1. Authority is granted for full, free and unrestricted access to any and all credit union records, physical properties and personnel relevant to any function under review. All employees are required to assist internal audit in fulfilling its function. Internal audit shall also have free and unrestricted access to the chair of the Board of Directors and the Audit Committee.
2. Documents and information given to internal audit during a periodic review will be handled in the same prudent and confidential manner as those employees normally accountable for them.

Scope

1. The scope of work of the internal audit department is to determine whether the organization's network of risk management, control and governance processes as designed and represented by management is adequate and functioning in a manner to ensure:
 - a) *Risks are appropriately identified and managed.*
 - b) *Significant financial, managerial and operating information is accurate, reliable and timely.*
 - c) *Employees' actions are in compliance with policies, standards, procedures and applicable laws, regulations and by-laws.*
 - d) *Resources are acquired economically, used efficiently and adequately protected.*
 - e) *Quality and continuous improvement are fostered in the organization's control and risk management processes.*
 - f) *Programs, plans and objectives are achieved.*
 - g) *Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.*
2. Opportunities for improving management control, profitability and the organization's image may be identified during audits. These observations will be communicated to the appropriate level of management.

Audit Planning

Annually, internal audit shall submit to senior management and the Audit Committee a summary of the audit work plan, staffing plan and budget for the following fiscal year. The audit work plan is to be developed using a risk-based methodology and prioritized accordingly. Any significant change from the formally approved work plan shall be communicated to senior management and the Audit Committee through periodic activity reports.

Reporting

1. A written report will be prepared and issued by internal audit or designee following the conclusion of each audit and will be distributed as appropriate. A copy of each audit report and a summarization will be forwarded to the Chief Executive Officer and the chair of the Audit Committee.
2. Internal audit shall be responsible for appropriate follow-up on audit findings and recommendations. All significant findings will remain in an open issues file until cleared by internal audit or the Audit Committee.

Periodic Review

The head of internal audit should periodically assess whether the purpose, authority and responsibility as defined in this Charter continues to be adequate to enable the internal auditing activity to accomplish its objectives. The results of this review should be communicated to senior management and the Board of Directors.

Standards of Audit Practice

The internal audit department will meet or exceed generally accepted auditing standards.

Internal Audit Director

Chief Executive Auditor

Audit Committee Chair

This mandate was last revised and approved by the Board on [**insert date**].

Source: Institute of Internal Auditors

APPENDIX 11

SAMPLE INTERNAL AUDITOR EVALUATION QUESTIONS

ABC Credit Union

Purpose of this tool: The sample questions included below are only a starting point to evaluating the performance and effectiveness of the internal audit team. Audit Committee members should ask follow-up questions as deemed necessary.

1. Does the team appear to be using its time and resources effectively and efficiently?
2. Are the team's size and structure adequate to meet its established objectives?
3. Is the experience level of the internal auditors adequate?
4. Does the team appear to be objective?
5. What procedures are performed to ensure objectivity?
6. Is the technical knowledge of the team members sufficient to ensure that duties are performed appropriately?
7. Does the team have an appropriate continuing education program?
8. Are there team members with sufficient information systems auditing expertise to address the level of technology used by the organization?
9. Is the team's work planned appropriately?
10. Does planning include written audit plans?
11. What types of reports are issued by the internal audit team and to whom?
12. Are the internal audit reports issued on a timely basis?
13. Do internal audit reports include sufficient detail to initiate necessary action by management and/or the Audit Committee?
14. Does management respond in an appropriate and timely fashion to significant recommendations and comments made by the internal auditors?
15. Do internal audit procedures encompass operational as well as financial areas?
16. Was the team's involvement in the annual audit effective?
17. What could be done in the future to maximize the team's effectiveness and efficiency?
18. To what extent is outsourcing used in the internal audit function, what areas are outsourced and to whom are they outsourced?
19. What criteria are used to establish and prioritize the annual and long range internal audit plan?
20. Is the department's work concentrated in areas of high risk, judgment and sensitivity?
21. To what extent does the internal audit team keep itself informed about and involved in professional activities?
22. What are the internal audit's view regarding controls, the risk of fraud and compliance matters?
23. Has the internal audit Charter been evaluated recently to determine whether it is still appropriate?

Source: AICPA

APPENDIX 12

Sample Evaluation Questions Risk Management and Control Environment

Consideration	Yes	No	Not Applicable	Comments
1. Does the board review the qualifications and independence of the internal and external auditors?				
2. Do internal and external auditors report their finding directly to the Audit Committee?				
3. Do internal/external auditors periodically access the adequacy of internal control systems?				
4. Does the board receive adequate information about the internal risk assessment process?				
5. Does the compliance officer provide a report on adherence to all applicable legislation?				
6. Do the board and management appropriately evaluate risks when planning for new products and activities?				
7. Do the board and management discuss and appropriately consider control issues when planning for new products and activities?				
8. Is audit staff or other control experts involved in control discussion when developing new products and activities?				
9. Are technology issues considered and appropriately addressed?				
10. Do policies and procedures exist to ensure that critical decisions are made with appropriate approval?				
11. Are risk-taking activities appropriately segregated from reconciliation activities?				
12. Does a vacation policy for critical employees ensure that their absence for at least a consecutive two week period?				
13. Is there a system in place to ensure that duties are rotated periodically?				
14. Is separation of duties and dual controls emphasized in the organizational structure?				
15. Do accounting systems properly identify, assemble, analyze, classify, record and report financial transactions in accordance with GAAP?				
16. Are reports generated for operational, managerial and compliance-related activities sufficient to properly manage and control the organization?				

Consideration	Yes	No	Not Applicable	Comments
17. Do accounting and information systems ensure that risk-taking activities are within policy guidelines?				
18. Does staff understand their roles and their accountability for the activities they conduct?				
19. Does the board review the actions management takes to deal with material control weaknesses and verify that those actions are objective and adequate?				
20. Do audit reports contain sufficient detail?				
21. Does the Audit Committee approve the selection of key internal audit personnel?				
22. Does the Audit Committee approve the scope of audit activities?				
23. Does the Audit Committee review results of all audits?				
24. Does the Audit Committee periodically include other audits (other than financial) in the audit program?				



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