

Role and Responsibilities of the Audit Committee

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**Deposit Insurance
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**Société ontarienne
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Agenda

- ❖ Context of the Audit Committee in Governance
- ❖ New Responsibilities under revised Act
- ❖ Reporting to members
- ❖ Self evaluation
- ❖ Legal responsibilities

Highlights

- ❖ Powers and duties of the Audit Committee have changed somewhat
- ❖ Critical role in Corporate Governance
- ❖ Several important responsibilities, i.e. internal & external audit and compliance
- ❖ Annual comprehensive reports to members
- ❖ Protection from potential liability

Context of the Audit Committee in Governance

- ❖ Recent global events underline the need for further reforms in governance processes
- ❖ Despite all the new rules put in place failures of all sorts still happened
- ❖ Why?
- ❖ Did the boards of these institutions really, truly understand the risks inherent in their businesses?
- ❖ Was there adequate oversight by the board and its committees over these risks?

Role in Corporate Governance

- ❖ Integral part of overall governance framework
- ❖ Bylaws
- ❖ Together with management, internal and external auditors, provide oversight:
 - Risks assessed and adequately mitigated
 - Accurate, timely and relevant reporting
 - Safeguarding of assets and member interests
 - Uphold positive ethics
 - Assure compliance

Role in Corporate Governance../2

Reports to Board but has certain duties:

- ❖ Required to notify Board, auditor, DICO, FSCO if misappropriation or failure of Director, officer or employee to comply with legislation/by-laws
- ❖ Retaining assistance where misappropriation has occurred
- ❖ Can call Board meeting to discuss matter of concern
- ❖ Relationship with external auditor

Role in Corporate Governance ../3

Composition and Organization

- ❖ Number of members can vary – all must be board members
- ❖ Desired skill sets
 - Availability of financially literate members ?
- ❖ Continuing education
- ❖ Succession planning
- ❖ Independence
- ❖ Structure

Role in Corporate Governance ../4

Charter (Terms of Reference)

- ❖ Outline roles and responsibilities
- ❖ Helps understand function
- ❖ Reviewed and revised regularly

Role in Corporate Governance ../5

Meetings and minutes

- ❖ Quarterly meetings required with comprehensive minutes
- ❖ Must report to Board within 60 days
- ❖ External auditor invited where appropriate
- ❖ Agenda
- ❖ Work plan – best practice

Role in Corporate Governance ../6

In-camera meetings – Best Practice

- ❖ Summary of topics and discussion
- ❖ Material items brought forward for formal committee consideration
- ❖ With internal and external auditors
- ❖ With CFO

New Responsibilities

Four critical responsibilities:

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

Responsibilities

Financial Reporting and Disclosure

- ❖ Annual audited financial statements
- ❖ Subsidiaries
- ❖ Significant changes in accounting principles / practices
- ❖ Recommendations re: safeguarding assets, accounting data adherence to P&P
- ❖ Assess adequacy of staff

Responsibilities ../2

External Audit

- ❖ Recommend selection and engagement terms, remuneration and evaluation
- ❖ Review audit scope and plan
- ❖ Discuss audit findings
- ❖ Management letters / recommendations
- ❖ Report on any unresolved conflicts between auditor and management

Responsibilities ../3

Auditor Selection and Fees

- ❖ Request for proposal
- ❖ Fees reflective of value and effectiveness
- ❖ Independence
- ❖ External audit services

Responsibilities

External Audit Scope

- ❖ Terms of engagement
- ❖ Written record detailing:
 - scope of audit
 - special areas of emphasis
 - degree of reliance
 - materiality levels
 - timing
 - extent of testing
 - priorities and any assumptions

Responsibilities

External Audit Scope ../2

DICO or FSCO can require auditor to:

- ❖ Report on extent of procedures in examination of financial statements
- ❖ Enlarge or extend scope of examination
- ❖ Perform any other specific procedure
- ❖ Duty to report contravention (S 172)

Responsibilities

External Audit Scope ../3

Consider high risk areas (examples):

- ❖ Reports not provided for each Board meeting
- ❖ Ineffective internal audit program
- ❖ Restricted party loans not approved by Board
- ❖ Inadequate loan and mortgage documentation
- ❖ Connected parties not identified
- ❖ Inaccurate delinquency reports

Responsibilities

External Audit Scope ../4

High risk areas (examples cont'd)

- ❖ IRR methodology not appropriate
- ❖ Surprise cash counts not conducted
- ❖ Incomplete signing authorities
- ❖ Dormant and inactive accounts
- ❖ Only one signature on corporate cheques
- ❖ Suspense accounts not reconciled
- ❖ Access controls to data system lacking / inadequate

Responsibilities

External Audit

Review audit results and discuss report and findings:

- ❖ Evaluate performance and level of cooperation of management
- ❖ Identify any problems encountered
- ❖ Confirm suggestions for improvement
- ❖ Determine if any negative trends

External Audit

Evaluate performance of external auditor:

- ❖ Comprehensiveness of audit plan
- ❖ Timeliness of completion
- ❖ Timeliness and quality of communications
- ❖ Competency and knowledge of audit staff
- ❖ Adequacy of resources allocated

Responsibilities

Internal Audit

Review effectiveness of internal audit practices

- ❖ Oversight of internal audit function
- ❖ Appropriate based on size and complexity

Responsibilities

Internal Audit ../2

Assess degree of independence of internal auditors

- ❖ Free from bias or undue influence
- ❖ Able to exercise professional judgment
- ❖ Reports directly to Audit Committee
- ❖ Access to all company records
- ❖ No operational accountability or responsibilities

Responsibilities

Internal Audit ../3

Organization and Planning

- ❖ Coordinated with external audit function
- ❖ Regular communication
- ❖ Review and approve annual audit plan
- ❖ Internal audit responsible for review of
 - business operations
 - system controls
 - accounting and process controls and
 - reporting to internal users

Responsibilities

Internal Audit ../4

Review findings and recommendations

- ❖ Reports of the internal auditor
- ❖ Progress of management's resolution of audit findings
- ❖ Competency of management with respect to operation of credit union

Responsibilities

Compliance Activities

Audit Committee:

- ❖ Reviews reports by DICO and monitor implementation of significant recommendations
- ❖ Reviews P&P governing the way in which it meets the requirements under the Act
- ❖ Reviews material legal proceedings
- ❖ Monitors adherence to code of conduct and ethical behaviour
- ❖ Reviews disaster recovery and business continuity plans

Responsibilities

Enterprise Risk Management Framework

Audit Committee:

- ❖ Reviews management's identification of the principal risks facing the credit union
- ❖ Ensures that there is a process in place to measure, monitor and manage those risks
- ❖ Reports to the Board of directors and ultimately to the membership on risk management

Reporting to Members at AGM

- ❖ Number of meetings held
- ❖ Summary of significant activities
- ❖ Confirmation re affairs
- ❖ Information on failure to implement recommendations
- ❖ Any other matter required to be disclosed
- ❖ Other matters as appropriate

Self Evaluation

Annually:

- ❖ Feedback from members and other groups
- ❖ Identify committee strengths and weaknesses
- ❖ Create a plan of action to address areas for enhancement
- ❖ Chair evaluates each member
- ❖ Chair evaluated by Board

Self Evaluation ../2

The Audit Committee (sample questions):

- ❖ Holds meetings at least quarterly
- ❖ Reports proceedings and recommendations to the Board
- ❖ Maintains adequate minutes
- ❖ Members come to meetings well prepared
- ❖ Provides feedback to internal audit at least annually
- ❖ Has an effective process to evaluate external auditor's qualifications and performance
- ❖ Has an understanding of fraud risks

Legal Responsibilities

In addition to responsibilities set out under S 27 of the Regulation, Audit Committee members are responsible to:

- ❖ Carry out their job honestly, in good faith and in the best interest of the credit union
- ❖ Exercise care, diligence and skill a reasonably prudent person would exercise

Legal Responsibilities ../2

- ❖ Hold in strict confidence all transactions and other information
- ❖ Disclose when there may be a conflict of interest
- ❖ Comply with all relevant sections of the Act, Regulations, DICO by-laws, articles and by-laws of the credit union and other applicable laws and statutes
- ❖ Refrain from management or involvement in day to day activities

In Summary

- ❖ Powers and duties of the Audit Committee have changed somewhat
- ❖ Critical role in Corporate Governance
- ❖ Several Important responsibilities
i.e. internal & external audit and compliance
- ❖ Annual comprehensive reports to members
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DICO Guidance & Helpful Tools

- ❖ Audit Committee Handbook
- ❖ Director's Handbook
- ❖ Guidance Notes
- ❖ DICO Website
- ❖ DICO Staff

Thank you!

Questions?

