

# Self-Assessment

Section	Topic	Page
10000	Executive Summary.....	10-2
10100	Assessment Workbooks.....	10-3
10200	Management Representation Letter.....	10-4
10300	Board Resolution.....	10-6
10400	Filing Dates.....	10-8

## Executive Summary

Each year, the board and management are required to review the credit union's compliance with sound business and financial practices.

Annually, management is required provide a representation letter to the board of directors regarding its assessment of adherence to management's responsibilities under the standards of sound business and financial practices

Annually, member institutions are required to forward to DICO a copy of a board resolution indicating that the board is fulfilling its responsibilities under the Standards. The resolution sets out DICO's minimum requirements although boards are free to expand on these if they wish.

DICO has developed sample assessment workbooks that may be used by member institutions to help assess its effectiveness concerning its responsibilities for governance practices as outlined in DICO By-Law No.5.

The workbooks are generally suitable for operations of all sizes and complexity<sup>1</sup>. Each member institution needs to satisfy the same criteria, where they apply, taking into account the scope and complexity of its own operations.

There is no requirement to complete or file the workbook with DICO. Institutions may develop their own assessment tools or modify the workbook to suit their particular requirements

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<sup>1</sup> A modified version of this workbook has been developed for institutions with less complex operations that meet specified criteria.

## Assessment Workbooks

Separate workbooks have been developed for the board of directors and management.

### Board Workbook

**Part I** outlines the criteria which should be considered when addressing the fundamental elements of the governance standard. It contains a series of statements and considerations relating to the responsibilities of the board of directors.

**Part II** is an assessment tool for the board to help evaluate the member institution's adherence with the standards and identify any material weaknesses or deficiencies that may need to be addressed. It also provides references to DICO publications, the Act and Regulations that institutions may wish to review as part of its assessment process when evaluating the effectiveness of governance practices.

**Part III** contains information on the reporting requirement. Under By-law No. 5, as a condition of the renewal of the policy of deposit insurance, each member institution is required to attest annually that:

- management has provided a representation letter to the board of directors regarding its assessment of adherence to management's responsibilities under the standards of sound business and financial practices
- the board of directors is familiar with, and is acting in compliance with, the standards of sound business and financial practices

A sample management representation letter and copy of a **board resolution** is included in the workbook. The **board resolution** sets out DICO's minimum requirements although boards are free to expand on these if they wish.

**Part IV** provides a sample action plan that may be helpful in identifying and resolving material weaknesses.

### Management Workbook

**Part I** is an assessment tool for management to help evaluate the member institution's adherence with the standards and identify any material weaknesses or deficiencies that may need to be addressed. It also provides references to DICO publications, the Act and Regulations that institutions may wish to review as part of its assessment process when evaluating the effectiveness of governance practices. Additional considerations are also provided for each of the risk management areas.

**Part II** contains information on the reporting requirement.

A sample management representation letter and is included.

**Part III** provides a sample action plan that may be helpful in identifying and resolving material weaknesses.

## **Management Representation Letter**

Annually, management is required provide a representation letter to the board of directors regarding its assessment of adherence to management’s responsibilities under the standards of sound business and financial practices

In order to complete the management representation letter, it is expected that senior management typically would review internal management assessments by individuals who manage the institution's operations as to whether the significant issues in their areas of responsibility are being identified and addressed. Senior management should also review periodic validations that the assessments have been conducted competently and with integrity and the significant issues are being dealt with.

The annual representation letter by management to the member institution’s board of directors is to contain the statements as outlined in a sample management representation letter provided.

The board will determine when the letter should be provided and what additional evidence or documentation is required. The sample letter may be modified by institutions as appropriate, although it should:

- confirm that management is familiar with the contents of By-law No.5 and that they are fulfilling their responsibilities under the Standards
- identify any outstanding deficiencies or exceptions
- include an action plan to address to any outstanding deficiencies or exceptions

**A sample management representation letter is provided below.**

## Sample Management Representation Letter

To: Board of Directors

This representation letter in respect of <name of member institution> (the “institution”) concerns adherence to the Deposit Insurance Corporation of Ontario (“DICO”) Standards of Sound Business and Financial Practices (the “Standards”) as outlined in DICO By-law No.5.

Management are familiar with the contents of the DICO By-law No. 5 as it applies to the institution and acknowledge their responsibilities under the Standards, which include:

- implementing appropriate and prudent risk management policies, procedures and controls for each of the Standards
- developing and implementing an appropriate and prudent business strategy and business plans
- providing the board of directors with timely, relevant and accurate reports on the implementation of the institution’s business strategy and business plans and any material risk that may affect business objectives

Management confirms that they are fulfilling their responsibilities under the Standards [*if applicable, add: “except as indicated below”*].

After careful consideration, management have concluded that to the best of their knowledge [*if applicable, add: “except as indicated below”*] the operations of the member institution are being managed in accordance with the DICO Standards.

[*If applicable, add: “The following deficiency(ies) or exception(s) are outstanding: <provide description or reference an appended document to the same effect>”*]

[*If applicable, add: “The action plan(s) have not been met to date in that: <provide description or reference appended document to the same effect>.”*]

In arriving at our conclusions we have exercised prudent judgment and have caused the appropriate amount of testing and/or review (both through internal management assessments and internal reporting) to take place.

Dated at <insert place> <month> <day>, <year>.

## **Board Resolution**

Annually, member institutions are required to forward to DICO a copy of a board resolution indicating that the board is fulfilling its responsibilities under the Standards. The resolution sets out DICO's minimum requirements although boards are free to expand on these if they wish.

In coming to a conclusion on whether the institution is following the Standards, a board of directors needs to assess its own governance effectiveness as well as to understand and assess how management determine that significant issues at different levels in the organization are identified and addressed. In turn, a board assessment of managements' assertions could include some confirmation against periodic observations received from external sources (such as external auditors, etc.).

The board workbook has been designed to help directors in obtaining reasonable assurance that their member institution is following the Standards, except as identified.

A copy of the resolution is to be forwarded to DICO along with the Annual Member Institution Return within 75 days of the institution's fiscal year end.

An action plan should include a description of any significant or material issue being addressed, the manner of addressing it, designated responsibility for corrective action and appropriate timeframes for completion.

**A sample board resolution is provided below.**

## Sample Resolution of the Board of Directors

### It is resolved that:

This resolution is made in respect of <name of member institution> (the “member institution”) and concerns its adherence to the Deposit Insurance Corporation of Ontario (“DICO”) Standards of Sound Business and Financial Practices (the “Standards”) as outlined in DICO By-law No.5.

The board of directors (the “board”) of the member institution is familiar with the contents of the Standards By-law and acknowledges its responsibilities under the Standards, which include:

- establishing appropriate and prudent risk management policies for each of the Standards and obtaining reasonable assurance that the institution is adhering to its risk management policies for significant risks
- establishing the responsibilities, accountability and authority of board committees
- establishing standards of business conduct and ethical behaviour
- appointing appropriately skilled and experienced management to implement the board’s objectives
- establishing the business objectives of the institution consistent with cooperative principles and approving the institution’s business strategy and business plans
- evaluating the institution’s actual operating and financial results against business plans
- evaluating the effectiveness of management

The board of directors of the member institution is, to the best of its knowledge and abilities, fulfilling its responsibilities under the Standards [*if applicable, add: "except as indicated below"*].

The board has carefully considered the management representation letter dated <month> <day>, <year> addressed to the board concerning adherence to the Standards. The board has also carefully considered other information, and made such inquiries as it deems appropriate, relevant to the forming of its opinion on whether the member is following the Standards.

It is the opinion of the board that to the best of its knowledge, it has obtained reasonable assurance that the member institution is following the Standards [*add, if applicable: "except as indicated in the representation letter and/or below"*].

[*If applicable, add: "With respect to the deficiency (ies) or exception(s) not indicated in the representation letter, the board of directors confirms that an action plan(plans) addressing their correction has(have) been prepared and is(are) being implemented. A copy of the action plan(s) is being (has been) submitted to DICO and/or the Financial Services Commission of Ontario."*]

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The foregoing is certified as a true copy of a resolution of the board of directors of <name of member institution> passed at a meeting of the board held on the <day> of <month>, <year>. Dated at <insert place> this <day>of<month>, <year>.

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Corporate Secretary

## Filing Dates

A copy of the board resolution confirming that the board is fulfilling its responsibilities under the standards of By-Law No.5 is to be forwarded to DICO within 75 days of the member institution's fiscal year end.

The following table provides details of the filing requirements for different fiscal year ends.

<b>Member Institution Fiscal Year End</b>	<b>Copy of Board Resolution to be submitted to DICO by:</b>
July 31 <sup>st</sup>	October 15 <sup>th</sup>
August 31 <sup>st</sup>	November 15 <sup>th</sup>
September 30 <sup>th</sup>	December 15 <sup>th</sup>
October 31 <sup>st</sup>	January 15 <sup>th</sup>
November 30 <sup>th</sup>	February 15 <sup>th</sup>
December 31 <sup>st</sup>	March 15 <sup>th</sup>
January 31 <sup>st</sup>	April 15 <sup>th</sup>
February 28 <sup>th</sup>	May 15 <sup>th</sup>
March 31 <sup>st</sup>	June 15 <sup>th</sup>
April 30 <sup>th</sup>	July 15 <sup>th</sup>
May 31 <sup>st</sup>	August 15 <sup>th</sup>
June 30 <sup>th</sup>	September 15 <sup>th</sup>