



**Ontario**

Deposit Insurance  
Corporation of Ontario

Société ontarienne  
d'assurance-dépôts

# AUDIT COMMITTEE HANDBOOK 2016

Ce document est également disponible en français

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Throughout this document the term “credit union” also refers to “caisse populaire”.

## Introduction

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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. Thus, the Audit Committee is an integral part of the overall framework of corporate governance and 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.

Together with senior management, internal and external auditors, the Audit Committee 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 credit union.

In order to ensure these responsibilities are effectively completed, the Audit Committee should:

- Exercise sound unbiased judgement and decision making;
- Have appropriate qualifications and competencies individually and collectively;
- Be supported by competent, robust and independent risk management and control functions;
- Follow good governance practices for its own work as a committee; and
- Seek third party advice on certain matters, where appropriate.

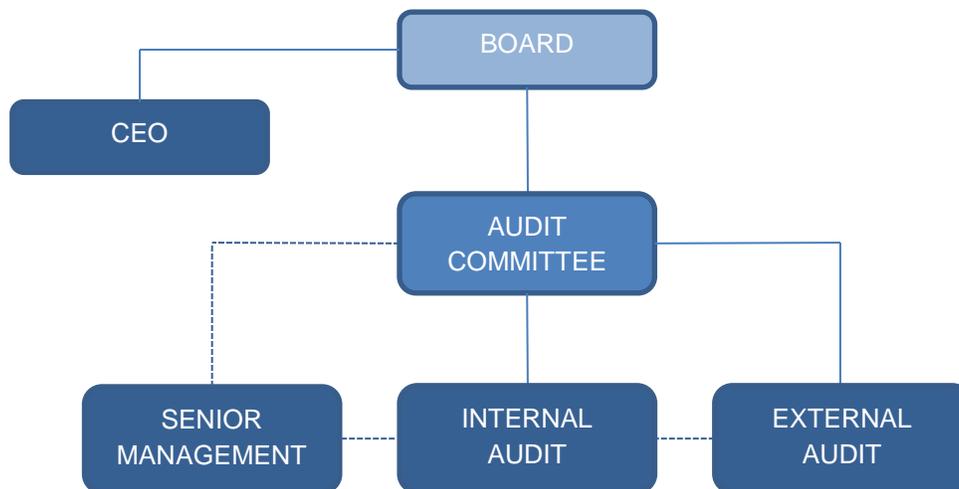
This Audit Committee Handbook (the "Handbook") provides guidance for the Audit Committee in fulfilling its minimum regulatory responsibilities and outlines industry best practices that may be modified as appropriate to reflect the complexity of each credit union.

It is important for the Board and the Audit Committee to have a strong understanding of the risks facing the credit union, the ways in which management addresses and mitigates those risks, and to ensure that the financial statements accurately reflect the activities of the credit union. 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 the audit plan requires that key risks are reviewed systematically and periodically by both the internal and external auditors and any resulting material weaknesses are rectified.

# AUDIT COMMITTEE HANDBOOK

The Audit Committee, through its oversight role, helps ensure the credit union operates in a safe and prudent manner and adheres to the standards outlined in DICO By-law No.5 – Standards of Sound Business and Financial Practices (“By-law No. 5”).

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 oversight responsibilities:

- Review of financial reporting;
- Risk management and controls;
- Audit activities; and
- Compliance activities.

Under the *Credit Unions and Caisses Populaires Act, 1994* (the “Act”), the Board is required to establish an Audit Committee composed of members appointed by the Board from among the directors. Both the Act and accompanying regulations provide information on the composition, powers and duties of the Audit Committee which are discussed in greater detail in the 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 Ontario Regulation 237/09 (the “Regulations”). The “Guidance Note – Corporate Governance for Audit Committee” and companion document, “Self-Assessment Workbook: Corporate Governance – Audit Committee”, located on DICO’s website, provide additional information about the responsibilities of the Audit Committee. Finally, helpful sample tools for optional adoption are provided in Appendices 2 to 12.

## Organization of the Audit Committee

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### 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.

### Number of Audit Committee Members

*Section 125 of the Act:*

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

The number of Audit Committee members will vary between credit unions based on their size and complexity. Larger, more complex credit unions may require more than three members to be able to adequately address the many areas of oversight and provide a more thorough review of more complex areas.

### Chair

A Chair for the Audit Committee should be appointed from among the members. The role of the Chair is to coordinate activities and communications between the auditors, management and the committee. It is strongly suggested the Chair have a high level of understanding and expertise in accounting, or related financial and risk management obtained through employment or completion of a professional accounting designation (e.g. CPA).

### Independence

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

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.

### 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 as determined through an evaluation process as outlined in the Guidance Note: Director Training and Qualifications for the key risks and complex issues facing the credit union.

## **Succession Planning**

Succession planning is important to ensure a balance between maintaining a sufficient level of knowledge versus the presentation of new ideas and views. One way to achieve this is to establish a limit on the time and number of terms a member may serve on the Audit Committee.

## **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.
- (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, a member of the Audit Committee or any director. They may be held in person at a location chosen by the group, by conference call or other electronic means. The Chair should confirm meeting agendas and priorities, promote independent, effective and timely decision making and ensure that deliberations are appropriately recorded.

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 and internal auditors should be informed of all Audit Committee meetings and should be invited to attend to address any matters relating to their responsibilities.

## **“In-Camera” Sessions**

An “in-camera” session should be planned for each meeting as it is an important source of information for the Audit Committee, allowing the committee to speak privately with various members of management (CFO/Controller, CEO/GM, General Counsel, etc.) for the purpose

of obtaining candid responses to the working operations of the credit union. Also, in camera sessions should be held with the external auditors to allow for more open dialogue which may not be possible in a more formal or inclusive meeting.

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. 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.

### Audit Committee Charter (Terms of Reference)

An Audit Committee Charter formally outlines the committee’s roles and responsibilities and helps members understand their function within the credit union. Charters should be reviewed and revised periodically to ensure they reflect any changes in the credit union. 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; and
- Annual review of Charter responsibilities.

Appendix 2 provides a sample Audit Committee Charter.

### Audit Committee Work Plan

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 is typically approved by the Board, which may also help the Audit Committee develop 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 credit union’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 an effective control environment is in place and the risks to the credit union have been mitigated to an acceptable level to safeguard the interests of stakeholders.

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

## 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 the report includes any material issues, weaknesses or deficiencies that have not been adequately addressed.

## 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 weakness. 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 at least annually by the Board.

## AUDIT COMMITTEE HANDBOOK

Section 125(4) of the Act states that “every member of an Audit Committee shall satisfy such training requirements or qualifications for Audit Committee members as are established by the credit union.” These qualifications should be outlined in their policy on Director Training and Qualifications.

As outlined in Section 92(1)13 of the Act, directors serving on the Audit Committee who have not met the training requirements or qualifications established by the credit union are disqualified from being directors and must be removed from the Audit Committee and 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.

## Oversight Responsibilities

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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.

## 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 International Financial Reporting Standards ("IFRS") 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.

## External Audit

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

1. Review and make recommendations to the Board about the terms of the engagement letter and the remuneration of the auditor;
2. Review with the auditor the scope and plan of the audit;
3. 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
4. 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
5. 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 auditor and involves the direct communication, meetings and discussions with the external auditors. This helps reinforce the independence of the external auditor from management and encourages 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. The Audit Committee should ensure that there is open communication and mutual respect between the external auditor and management in order that the audit can be completed in the most effective manner and that recommendations are properly implemented. A free flow of information is critical to a robust and effective audit process.

The Audit Committee should be vigilant in looking for potential warning signs that the audit engagement is being compromised by issues between the external auditor and management.

The Audit Committee must act immediately when it senses that there are issues that may be affecting the audit process.

The Audit Committee should focus its oversight on the following:

- The rationale used to support critical audit planning decisions;
- The timing of major audit activities;
- Whether the external auditor's analysis of the credit union's specific business risks illustrates a sufficient knowledge of the credit union's business;
- The key audit deliverables; and
- The necessary resources are allocated to execute the audit plan.

## 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](http://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) Perform any other specific procedure.

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.
- (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. The Audit Committee will work closely with the external auditor to ensure implementation of the recommendations. The entire process should be fully documented to ensure that any changes to controls and procedures are properly recorded and communicated to employees that are affected by the changes.

## **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, including a Canadian professional accounting designation, 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. A sample “RFP” letter can be found in Appendix 8. 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 full scope of DICO’s minimum audit expectations. An outline of external auditor selection criteria can be found in Appendix 7.

## **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.

## **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; and
- 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.

### **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 external auditor should review their proposed audit strategy and audit plan with the Audit Committee early in the financial reporting year.

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.

## 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; and
- Determine if any negative trends are emerging of which the Board should be made aware.

The primary focus of the evaluation of the audit results and discussions with the external auditor is to ensure that the Audit Committee has enough information for recommending the approval of the financial statements to the Board. The Audit Committee should review all communications between the external auditor, management and the committee for indications the audit was completed in a professional and independent manner. The Audit Committee provides a report to the Board outlining the results of their review.

## External Auditor Evaluation

A key oversight activity of the Audit Committee is assessing on an annual basis the effectiveness of the external auditor. The annual assessment helps the Audit Committee meet their responsibility to make an informed recommendation to the Board about reappointing the external auditor. At least once every 5 years, the Audit Committee should undertake a more comprehensive review of the external auditor to ensure the auditor is functioning in an independent manner. This helps address potential concerns over familiarity and self-interest conflicts between long serving external auditors and the credit unions they audit. This familiarity may create a threat to the independence that prevents the auditor from using an appropriate level of professional skepticism. The annual review focuses on the auditor team, their independence and objectivity and the annual quality of the audit work performed; the comprehensive review focuses on the audit firm, its independence and the application of professional skepticism.

Annually, the Audit Committee evaluates the performance of the external auditor on the effectiveness and efficiency of the annual 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;
- Adequacy of resources allocated to the project;
- Timeliness of reporting; and
- Timely communication with management and the Audit Committee about areas of concern that have been found during the audit.

The comprehensive review provides the opportunity to identify trends and/or issues that may not be readily apparent on an annual basis, for example:

- The impact of the tenure of the audit firm on audit quality;
- Trends in the audit firm's performance and expertise in the credit union sector;
- Incidences of independence threats and the effectiveness of safeguards to mitigate those threats;
- The responsiveness of the audit firm to changes in the credit union's business and suggestions for improvement from regulators, the audit committee and/or management;
- The consistency and rigour of the professional skepticism applied by the external auditor, for example, when challenging management's significant accounting judgments; and
- The quality of the engagement team and its communications.

The annual assessment of the external auditor should include the following steps:

### ***1. Determine the scope, timing and process of the annual assessment***

The Audit Committee chair, with the assistance of other committee members, determines the parameters of the assessment including the questions the Audit Committee needs to consider in conducting the assessment. The Audit Committee should continuously evaluate the external auditor's performance throughout the audit. It is best to conduct the annual assessment as soon after the completion of the audit while it is still fresh in Audit Committee members' minds. It is often advantageous to discuss the annual assessment and the upcoming year's audit strategy at the same meeting so the upcoming year's audit strategy can incorporate suggestions for improvement from the annual assessment. In conducting the annual assessment, the Audit Committee should take into account audit quality and quality of service considerations.

### ***2. Obtain input from various credit union personnel***

The Audit Committee should include input from various levels of staff and senior management that had dealings with the external auditors in the evaluation process as their responses will help to confirm (or contradict) the Audit Committee's own assessment of the external auditor's performance.

### ***3. Assess areas for the Audit Committee to consider***

The Audit Committee should assess how the external auditor was able to achieve the following characteristics of audit engagement:

- Exhibits appropriate values, ethics and attitudes;
- Has the requisite knowledge, skills and experience and sufficient time allocated to perform the audit work;
- Applies a rigorous audit process and quality control procedures that complies with all laws, regulations and applicable standards;
- Provides useful and timely reports; and
- Interacts appropriately with relevant stakeholders.

## ***4. Amalgamate the findings and communicate the results to the Board***

When the assessment is complete, the Audit Committee will be in a position to recommend whether or not the Board should nominate the external auditor for reappointment for another year. The Audit Committee should present to the Board the results of the annual assessment, setting out the process it undertook and the rationale for its recommendations.

Sample evaluation questions of the external auditor are included in Appendix 9.

## **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 Audit Committee provides oversight to the internal audit function. It is the responsibility of the Audit Committee to:

- Appoint a qualified internal auditor;
- Ensure the internal audit function is operating independently;
- Ensure the audit function has the personnel that have the required qualifications and knowledge of the activities being audited; and
- Ensure the internal auditor has the expertise to competently complete the audit responsibilities.

The Audit Committee should ensure that candidates for the position are individuals with appropriate professional qualifications such as members in good standing of the Institute of Internal Auditors or Chartered Professional Accountants. The internal auditor is expected to adhere to all professional standards of their professional organization. Independent practitioners hired to fill the role of internal auditor should be able to demonstrate their professional qualifications and have adequate liability insurance. The internal auditor should have an in-depth understanding of risk assessment and risk management practices, the credit union sector, the credit union's business and its systems, processes and controls.

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.

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.

## **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.

## **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 should not 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 of the annual audit plan;
- Reports of internal audit reviews;
- The review of progress of management's resolution of any outstanding audit weaknesses; and
- 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 related to the internal audit function.

## 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 should be ongoing throughout the year to discuss common issues, share knowledge and expertise and the scope of each other's work.

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

## Internal Audit Charter

Once management and the Board have identified and quantified the risks facing the credit union 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 for optional adoption 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.

## 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. The Audit Committee should ensure the internal audit plans are appropriate for the risk appetite of the credit union and address all relevant activities throughout the review cycles. 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 deemed 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 auditor may also have specific requests that should 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.

## **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 remediation 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 completion of the remediation activities and the date by which they are to be completed; and
- 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.

## Follow-up

The Audit Committee should review all areas of weakness that have been identified as part of the internal audit and ensure management develops and properly implements the necessary action plans to successfully mitigate any identified problem areas. 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. The entire process should be fully documented to ensure any changes to controls and procedures are properly recorded and communicated to employees affected by the changes.

## Evaluation of Internal Audit

A key oversight activity of the Audit Committee is assessing on an annual basis the effectiveness of the internal auditor. The annual assessment helps the Audit Committee meet their responsibility to make an informed recommendation to the Board about reappointing the internal auditor. 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; and
- Adequacy of coverage.

The annual assessment of the internal auditor should follow the same process as outlined for the external auditor:

### ***1. Determine the scope, timing and process of the annual assessment***

The Audit Committee chair, with the assistance of other committee members, determines the parameters of the assessment including the questions the Audit Committee needs to consider in conducting the assessment. The Audit Committee should continuously evaluate the internal auditor's performance throughout the audit. It is best to conduct the annual assessment as soon after the completion of the audit while it is still fresh in Audit Committee members' minds. It is often advantageous to discuss the annual assessment and the upcoming year's audit strategy at the same meeting so the upcoming year's audit strategy can incorporate suggestions for improvement from the annual assessment. In conducting the annual assessment, the Audit Committee should take into account audit quality and quality of service considerations.

### ***2. Obtain input from various credit union personnel***

The Audit Committee should include input to the evaluation from various levels of staff and senior management that had dealings with the internal auditors as their responses will help to confirm (or contradict) the Audit Committee's assessment.

### **3. Assess areas for the Audit Committee to consider**

The Audit Committee should consider the following factors when performing the annual assessment:

- Independence, objectivity and professional skepticism;
- Quality of the work performed by the internal auditor; and
- Communication and interaction with the internal auditor.

### **4. Amalgamate the findings and communicate the results to the Board**

When the assessment is complete, the Audit Committee will be in a position to recommend whether the Board should nominate the internal auditor for reappointment for another year. The Audit Committee should present to the Board the results of the annual assessment, setting out the process it undertook and the rationale for its recommendations.

A sample evaluation form is included in the Appendix 11.

## **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 processes designed to enhance the credit union's ability to mitigate risks operate effectively. It is management's responsibility to design and implement an effective system of internal control. The Audit Committee is responsible to ensure an effective risk management and control environment is in place. 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 risks are being properly managed and it has fulfilled its oversight responsibilities with respect to risk management and controls.

### **Enterprise Risk Management (Class 2 credit unions only)**

Each Class 2 credit union is required to implement a comprehensive enterprise risk management (ERM) framework appropriately scaled to reflect its size, complexity and risk profile. An ERM framework includes the processes the credit union uses to identify and manage significant risks and to realize opportunities related to the achievement of their objectives. It involves an objective, pro-active enterprise wide view of all risks and their associated risk tolerances to ensure they are fully aligned with the corporate objectives and strategies. The framework also reflects the quality, competencies and capacity of the credit union's human resources, technology and capital.

The Audit Committee should fully understand the credit union's ERM framework and supporting processes and practices as well as how they align to the risk appetite and risk tolerances of the credit union. The ERM framework should set out how the identified risks are assessed, prioritized and addressed. With regards to the ERM program in place at the credit union, the Audit Committee should:

- Ensure management reporting provides the required information to fully outline the significant risks affecting the credit union;
- Review reports from internal audit that provide details about the adequacy of risk management and mitigation activities;
- Monitor the implementation of risk management and mitigation activities for significant risk exposures;
- Confirm the appropriateness of strategies to address any material increase in risk exposures;
- Demonstrate appropriate and comprehensive deliberations on ERM practices, evaluations, findings and recommendations;
- Confirm ERM reports adequately set out the basis for identifying and quantifying emerging risks; and
- Ensure the reports to the Board about ERM processes and practices are sufficiently comprehensive and identify risk exposure levels and recommended strategies to address significant risk exposures where appropriate.

Sample evaluation questions about the Risk Management and Control Environment are included in Appendix 12.

### 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 the credit union is in compliance with these requirements. A compliance officer is required by FINTRAC to ensure 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.

## AUDIT COMMITTEE HANDBOOK

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 the credit union is in full compliance.

The committee should undertake regular comprehensive reviews of the compliance with all policies and confirm procedures and practices remain appropriate to ensure areas of weakness and deficiencies are identified and corrected in a timely manner. Reports to the Audit Committee on compliance should be comprehensive and supported by additional documentation where appropriate including details of the assessment, review practices and the results.

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.

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. An Examination Report outlines any deficiencies the credit union is required to resolve. The Audit Committee should conduct a comprehensive review of any examination report or recommendations made by DICO and obtain a full understanding of the impacts and implications of any noted weaknesses or deficiencies. The Audit Committee and management are responsible for insuring all material weaknesses and deficiencies are corrected and 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.

## 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?**

If not:

Do we have a “Charter” that clarifies our responsibilities?

Do all members meet the credit union’s competency requirements?

If there are members who do not meet the credit unions competency requirements, is there a training/mentoring program in place?

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 and the Corporate Governance Guidance Notes for the Audit Committee?

**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?

Is the Board provided with status updates on implementation of the action plan on a regular basis?

If not:

What actions need to be taken to ensure 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 HANDBOOK

This checklist has been developed from the requirements set out in Section 27 of the Regulation. 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 significant recommendations in that report?

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 they experience or issues raised in performing audits?

Reported to the Board on any conflict arising between the auditor and management 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 behaviours (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?

## AUDIT COMMITTEE HANDBOOK

- 
- 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

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### 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 may be 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) and shall meet the competency and training requirements established by the credit union. 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 of 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 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.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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)

# AUDIT COMMITTEE HANDBOOK

## Appendix 3 – Audit Committee Work Plan

### Purpose

*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, deliverables and scheduling/timing for inclusion in the work plan.*

Action	Steps	Deliverable	Audit Committee Meetings				
			Q1	Q2	Q3	Q4	As Needed
<b>General Responsibilities</b>							
Evaluate each committee member's independence	Test for independence based on the Act and other guidelines outlined by the Board	Report to the Board 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 and work plan	Review and assess the completeness and appropriateness of the Charter in light of new best practices or new regulatory requirements. Build an annual work plan based on the Charter	Report to the Board the review has taken place. Include any recommended changes.					
Prepare agenda (committee chair with input from the committee) in consultation with management and auditors meet at least 4 times per year	Agendas for meetings are prepared and 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 and actions required. Minutes are distributed as soon as possible but no later than five days after meeting. 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 in necessary.					
Periodically meet privately with management to discuss matters of importance	Independently keep up to date on new developments related to the sector, regulatory and competitive environments. The Chair will discuss issues, concerns or new developments with management	Document discussions and 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					
Review the Audit Committee's effectiveness	Conduct a self-assessment of committee and individual performance	Report and discuss with the Board recommendations to improve effectiveness					
<b>Financial Reporting Processes and Accounting Policies</b>							
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 and discuss the effects of alternative accounting methods of the financial statements	Report to the Board the review has taken place and note matters that need to be brought to its attention					

# AUDIT COMMITTEE HANDBOOK

Action	Steps	Deliverable	Audit Committee Meetings				
			Q1	Q2	Q3	Q4	As Needed
Review with management and the external auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the financial statements.	Discuss in meetings with management and the external auditors	Record discussion and any action steps in Audit Committee meeting minutes.					
<b>Review of Financial Controls Information</b>							
Review with management, the head of internal audit and the external auditor the adequacy of internal controls and effectiveness of the control environment	Review all reports from control related audit completed in the past year and management's response. Discuss key internal controls, override of controls and understand how these controls will be monitored and tested. Discuss changes to the internal control system including material control deficiencies and any special audit steps taken or required	Report to the Board on issues relating to internal control, effectiveness of the control environment and the need for independent assurance					
Review and discuss with management the financial statements and progress to plan including the budget and variances to date	Discuss the financial position, performance to date and projected results for the remainder of the year.	Report to the Board the review has taken place and note matters that need to be brought to its attention.					
<b>External Audit Relationship</b>							
Review the audit plan and scope with the external auditor. Discuss any significant changes.	Meet with the external auditor, controller and head of internal audit to discuss last year's audit, lessons learned and planned scope for the current year. Address the coordination of internal and 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 and 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 and any difficulties encountered. Review the scope of all services provided to the company by the external auditor	Request RFP's if changes are being considered. Prepare an engagement letter for the next audit.					
Periodically meet 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 audit.	Review with management and the external auditors: <ul style="list-style-type: none"> <li>o The audit of the financial statements</li> <li>o The auditor's judgment about the quality and acceptability of accounting principles applied in the financial reporting including ramifications of alternative treatments;</li> <li>o Audit adjustments and misstatements identified in the report;</li> <li>o Serious difficulties or disputes with management</li> <li>o Other material, written communication between the external auditor and management</li> </ul> Review with management the course of action to be taken for any items requiring follow-up	Submit reports and documentation of discussions, resolution of disagreements or action plan for any follow-up items to the Board					

# AUDIT COMMITTEE HANDBOOK

Action	Steps	Deliverable	Audit Committee Meetings				
			Q1	Q2	Q3	Q4	As Needed
Evaluate the performance of the external auditors.	Review information from meeting minutes and in-camera sessions conducted throughout the year. Work through a formal assessment tool to asses.	Document the evaluation in the meeting minutes and recommendations for change.					
<b>Internal Audit Activities</b>							
Review with management and the head of internal audit (or 3 <sup>rd</sup> party internal auditor) the internal audit function.	Review reports for internal audits conducted during the last 12 months. 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. Discuss any difficulties encountered in conducting internal audits including restrictions of the scope of the work or access to information. Discuss the internal audit responsibilities, budget, staffing and performance.	Report on the status of the internal audit function and internal audit plans for the next year. Include audits of other elements of the control environment to be performed by the external auditor in the engagement letter.					
Periodically meet privately with the head of internal ( or equivalent) to discuss matters of importance	Discuss any issues, concerns or new developments pertaining to internal audit.	Document discussions and report to the committee. Items of importance or requiring action will be added to the agenda of the next meeting.					
Review and advise on the selection, replacement or dismissal of the head of internal audit.	Meet in-camera as necessary to address these matters. Obtain feedback about the performance of the head of internal audit from executive management and the external auditor. Discuss job satisfaction and other employment issues with the head of internal audit.	Report on the performance of the head of internal audit ( or equivalent) including the effectiveness of the internal audit function					
<b>Ethical Compliance, Legal Compliance and Risk Management</b>							
Discuss with management the significant risk exposures and 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 and discuss the enterprise risk management and report.	Report on the effectiveness of the risk management process. Create an action plan and follow-up plan for recommended changes. Report to the Board the review has taken place and note information that needs to be brought to its attention.					
Review and complaints that are received regarding accounting, internal control, and code of conduct or auditing matters.	Create procedures for the receipt and review of complaints. Ensure proper steps are taken to investigate and resolved complaints. Discuss the status or resolution of reach complaint and look for trends or patterns.	Report to the Board the review has taken place and note matters that need to be brought to its attention.					
Perform such other functions as assigned by law, Charter, by-laws or the Board of Directors.	Monitor developments in the regulatory, legislative and legal environments and 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

### Purpose

*The sample questions below are questions the Audit Committee can ask various parties during their in-camera sessions. All areas listed may not be applicable to all credit unions. Where appropriate, the Audit Committee should ask the party to elaborate or provide further explanation to questions.*

### **Questions for the Chief Financial Officer/Controller:**

1. Are there any issues since our last meeting you wish to discuss with the Audit Committee?
2. Do you believe the financial statements fairly present the company's financial position?
3. Are you satisfied an appropriate audit was performed by the external auditors?
4. Are you aware of any disagreements between the management of the company and the external auditor?
5. Has an appropriate "tone at the top" been set with respect to the importance of and compliance with internal control systems?
6. Are you aware of any current or past fraud occurrence or any kind of fraud in the credit union?
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 you consider to be non-compliant with applicable laws, regulations or acceptable accounting principles?
10. Have you encountered any situations in which the credit union complied with legal minimums yet failed to go the extra mile to demonstrate its commitment to the highest ethical standards?
11. Is there any activity in the credit union you are uncomfortable with or consider unusual or that warrants further investigation?
12. Do you feel comfortable raising issues without the fear of retribution?
13. Are there any questions we have not asked that should be asked?

### **Questions for the Chief Executive Officer/ General Manager:**

1. Are there any issues since our last meeting you wish to discuss with the Audit Committee?
2. Do you believe the financial statements fairly present the company's financial position?
3. Are you satisfied an appropriate audit was performed by the external auditors?
4. Are you aware of any disagreements between the management of the company and the external auditor?
5. Are you aware of any disagreements between the management of the company and the internal auditor?
6. Is there any activity at the executive level of management you consider to be non-compliant with applicable laws, regulations or acceptable accounting principles?
7. Have you encountered any situations in which the credit union complied with legal minimums yet failed to go the extra mile to demonstrate its commitment to the highest ethical standards?

8. Is there any activity in the credit union you are uncomfortable with or consider unusual or that warrants further investigation?
9. Are there any questions we have not asked that should be asked?

### **Questions for the Head of Internal Audit Team:**

1. Are there any issues since our last meeting you wish to discuss with the Audit Committee?
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 and compliance with internal control systems?
5. Discuss areas in which an accounting treatment could be construed as aggressive.
6. Have you encountered any situations in which the credit union complied with legal minimums yet failed to go the extra mile to demonstrate its commitment to the highest ethical standards?
7. Do you have the freedom to conduct audits as necessary throughout the company?
8. Were you restricted or denied access to requested information?
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?
10. Are findings and recommendations given the level of discussion needed to properly satisfy any issues raised to your satisfaction?
11. Do you feel comfortable raising issues without the fear of retribution?
12. Are there any activities at the executive level of management that you consider to be non-compliant with applicable laws, regulations or acceptable accounting principles?
13. Are there any questions we have not asked that should be asked?

### **Questions for General Counsel:**

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

### **Questions for the Audit Committee:**

1. Are we comfortable we are receiving sufficient information in order to fulfill our responsibilities?
2. Do we fully understand the content of the various reports and information we receive?
3. Do we concentrate on material risk areas and are we confident any material weaknesses have been/are being appropriately addressed?
4. Do we have all 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

### Purpose

*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 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 members are identified with consideration being given to the candidate's qualifications for serving on the Audit Committee				
2. Members have the appropriate qualifications to meet the objectives of the Charter including appropriate financial literacy.				
3. 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 pro-activeness				
5. The Audit Committee demonstrates appropriate sector knowledge.				
6. Members 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 members have participated in a continuing education program to enhance understanding of relevant auditing, accounting, regulatory and sector issues.				
9. New 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 Chair's leadership is effective.				
<b>Understanding the Business and Risks</b>				
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 and approves the process implemented by management to effectively identify, assess and respond to the credit union'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				

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Consideration	Yes	No	Not Sure	Comments
(comparing the company's financial performance and ratios with sector competitors/peers) with explanations for areas that differ significantly.				
<b>Processes and Procedures</b>				
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. Members have the option to influence their meeting agendas in order to address emerging issues.				
19. Meetings are conducted in an effective manner with time primarily being spent on significant issues.				
20. The Chair encourages input on the meeting agenda from the committee, management, the internal and independent auditors and 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 and understand the information.				
22. The written material provided to members are appropriately balanced (e.g. relevant and concise).				
23. The 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. Members come to the meetings well prepared				
<b>Communications</b>				
28. The level of openness between the Audit Committee and relevant parties is appropriate (Board members, management, internal and external auditors).				
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, members periodically visit company locations to conduct on-site meetings with key members of management.				
<b>Oversight of the Financial Reporting Process</b>				
32. The Audit Committee considers the quality and appropriateness of financial accounting and reporting				
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 credit union's system of internal controls				

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Consideration	Yes	No	Not Sure	Comments
(e.g. financial reporting, operational, system and compliance controls).				
35. The Audit Committee oversees the credit union'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 office 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 reviews, evaluation and monitored by the Audit Committee.				
38. The Audit Committee makes inquiries of the appropriate parties (internal and external audit, management) in 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.				
<b>Oversight of Audit Functions</b>				
42. The Audit Committee understands the coordination of work between the auditors ( internal and 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).				

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Consideration	Yes	No	Not Sure	Comments
<b>Overall Ethics and Compliance Culture</b>				
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. 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"> <li>a) The risks of noncompliance with applicable laws and regulations</li> <li>b) Conflicts of interest</li> <li>c) Violations of the code of ethical conduct</li> </ul>				
56. The Audit Committee oversees the credit union's complaint process and reviews complaints.				
<b>Monitoring Activities</b>				
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.				
<b>General</b>				
Note: Any other significant matters with regard to the performance of the Audit Committee and any issues the committee should address in the future.				

## Appendix 6 – Sample Questions Independence of the External Auditor

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### Purpose

*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 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 Credit Union**

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

### **Non-Audit Services**

1. What non-audit services does your firm provide to our credit union?
2. What fees do non-audit services generate for your firm and how do they compare to the audit fees?
3. What percentage of the firm revenue is derived from our credit union?
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

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### Purpose

*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 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 developments?
  - c. How does the firm stay current with changes in the Acts, Regulations, and Guidelines pertinent to the credit union sector?
  - d. Does the firm have a Continuing Professional Education program?
6. Audit Services (financial, operational, compliance, management):
  - a. Does the audit firm perform the full range of audit services?
  - b. Can they accommodate the extent and timing of services that the credit union requires?

- c. Does the annual planning process include a detailed explanation of the scope of the audit review(s) to be performed during the year?
  - d. Are these services provided by the same or different principals in the firm (independence)?
  - e. Do you provide services to any company that is a competitor of this credit union?
  - f. How will the firm approach the audit of the credit union, including the use of any association or affiliate member firm personnel?
7. Audit Reporting:
- a. A summary of all findings will be provided to credit union management and the Audit Committee of the Board in the form of a management letter in addition to the financial statements and opinion rendered upon them.
8. Quality Assurance:
- a. Does the audit firm participate in a quality assurance program or peer review program that attests to the quality of the work that the audit firm performs?
  - b. Would you provide a copy of your last peer review assessment and results?
  - c. Litigation or outstanding judgments or disciplinary actions against the firm?
  - d. Would you provide the names and contact information for other similarly sized clients of the partner/manager to be assigned for reference?
  - e. Why would your firm be our best choice?
9. Fees:
- a. What are the fees for the various services being proposed?
  - b. What kind of guarantee is there on the fees?
  - c. What kind of price increases will occur in future years?

## Appendix 8 – Sample Request for Proposal Letter – ABC Credit Union

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### Purpose

*This sample outline may be used by a credit union'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 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, titles 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 in 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

*The sample questions included in this tool are only a starting point to evaluating the performance and effectiveness of the external auditor. Audit Committee members 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 Committee 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 credit union?
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

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### **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 credit union'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 credit union'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 credit union 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 credit union, 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 credit union 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 credit union 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 credit union'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 credit union's control and risk management processes.
  - f. Programs, plans and objectives are achieved.
  - g. Significant legislative or regulatory issues impacting the credit union are recognized and addressed appropriately.
- 2. Opportunities for improving management control, profitability and the credit union'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. This mandate was last revised and approved by the Board on [insert date]

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Internal Audit Director

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Chief Executive Auditor

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Audit Committee Chair

*Source: Institute of Internal Auditors*

## Appendix 11 – Sample Internal Auditor Evaluation Questions – ABC Credit Union

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### Purpose

*The sample questions listed below are only a starting point to evaluating the performance and effectiveness of the internal auditor. Audit Committee members should ask follow-up questions as needed.*

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 credit union?
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 is 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: American Institute of Certified Public Accountants*

## Appendix 12 – Sample Evaluation Questions Risk Management and Control Environment

Consideration	Yes	No	N/A	Comments
1. Does the Board review the qualifications and independence of the internal and external auditors?				
2. Do internal and external auditors report their findings directly to the Audit Committee?				
3. Do internal/external auditors periodically assess 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 discussions 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. Is there a system in place to ensure that duties are rotated periodically?				
13. Is separation of duties and dual controls emphasized in the organizational structure?				
14. Do accounting systems properly identify, assemble, analyze, classify, record and report financial transactions in accordance with IFRS?				
15. Are reports generated for operational, managerial and compliance-related activities sufficient to properly manage and control the credit union?				
16. Do accounting and information systems ensure that risk-taking activities are within policy guidelines?				
17. Does staff understand their roles and their accountability for the activities they conduct?				
18. Does the Board review the actions management takes to deal with material control weaknesses and verify that those actions are objective and adequate?				
19. Do audit reports contain sufficient detail?				
20. Does the Audit Committee approve the selection of key internal audit personnel?				
21. Does the Audit Committee approve the scope of audit activities?				
22. Does the Audit Committee review results of all audits?				
23. Does the Audit Committee periodically include other audits (other than financial) in the audit program?				





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