



**Ontario**

Deposit Insurance  
Corporation of Ontario

Société ontarienne  
d'assurance-dépôts

## **Guidance Note:**

*Corporate Governance - Audit Committee*

January 2018

**Ce document est aussi disponible en français.**

### Applicability

The Guidance Note: Corporate Governance – Audit Committee (the “Guidance Note”) is for use by all credit unions. It outlines the minimum expectations for sound corporate governance for a credit union as set out in *the Credit Union and Caisses Populaires Act, 1994 (the “Act”)*, *Ontario Regulation 237/09 (the “Regulation”)* and DICO By-law No.5 – Standards of Sound Business and Financial Practices (“By-law No. 5”). It sets out the criteria DICO will use when evaluating the effectiveness of corporate governance practices for the Audit Committee and will also form an input into the Differential Premium Score Determination for deposit insurance premium purposes.

The Guidance Note also provides an explanation of the fundamental concepts that form the basis of the responsibilities of the committee in implementing effective governance policies and risk management practices to ensure the continued viability of the credit union in the best interest of its depositors and shareholders.

This Guidance Note complements the information provided in, and should be read in conjunction with, other DICO guidance notes and supporting publications available on DICO’s website ([www.dico.com](http://www.dico.com)) which include:

- DICO By-laws
- Guidance Notes
- Application Guides
- Handbooks
- Checklists
- Manuals
- Webinars
- Advisories
- Other additional tools

Throughout this document:

- the term “credit union” also refers to “caisse populaire” and “league”.
- the term “Board” refers to either the entire Board or a committee of the Board that has been delegated a particular element of Board oversight.
- the term “Senior Management” refers to the Chief Executive Officer (CEO) and individuals who are directly accountable to the CEO. In addition to the CEO’s direct reports, such as the heads of business units, Senior Management may also include the executives responsible for the oversight functions, such as the Chief Financial Officer, Chief Risk Officer, Chief Compliance Officer, Chief Internal Auditor, and Chief Actuary.
- the term “report” refers to a written report.
- the term “review” refers to the review and documentation within meeting minutes.
- The terms “regular” or “regularly” in reference to timing of reviews and reporting will vary depending on the size and complexity of the credit union.

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### Introduction

Corporate governance is the framework of responsibilities and accountabilities and the set of professional relationships through which a credit union:

- is directed and controlled;
- manages its business practices, services and products to generate revenues; and
- makes effective decisions and reports to its depositors, shareholders and other stakeholders.

Effective corporate governance is a result of both the structural elements (such as policies, sound business practices and accountabilities) and the behavioural factors that enhance the quality of the duty of care and diligence practiced by directors and management in achieving the mandate of the Board. Good corporate governance should provide appropriate direction for the board to pursue objectives that are in the best interest of the credit union and its depositors and shareholders and facilitate effective oversight of the credit union's management.

The Audit Committee plays a critical role in the overall framework of corporate governance and supports the Board through its oversight responsibilities. As such, it is important that the committee has a comprehensive understanding of the risks facing the credit union, the ways in which management addresses and mitigates those risks, and ensures that the financial statements accurately reflect the business of the credit union. The Audit Committee is supported through a robust audit program that is carried out by internal and external auditors. The committee's role is to ensure that an audit plan is properly designed and implemented for reviewing key risks in a systematic way and ensuring that remediation plans are implemented to correct any deficiencies identified.

The committee has oversight responsibilities relating to:

- financial reporting and disclosure
- internal audit
- external audit
- risk management
- controls and compliance

Different governance structures may result in certain of these responsibilities being assigned to other committees of the Board. For example, the Audit Committee has oversight responsibilities for compliance with risk management only, whereas the Risk Committee maintains overall accountability for risk management. In order to provide for flexibility in committee structures at different credit unions, subject to the requirements as set out in the Act and Regulation, DICO's expectations as outlined for the Audit Committee must be met by an appropriate committee designated by the Board.

To effectively fulfil these responsibilities, the committee should:

- exercise sound unbiased judgment 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.

The committee is responsible for ensuring the integrity of the credit union's financial statements, all disclosures have been fully reviewed and approved prior to distribution and all assets are appropriately safeguarded. The committee, through its oversight role, helps ensure that the credit union operates in a safe and prudent manner and adheres to the standards of sound business and financial practices as outlined in By-Law No. 5.

To effectively fulfil its responsibilities, the committee should develop a robust oversight framework consisting of regular reviews of financial reporting, processes and internal controls by the internal and external auditors, and the monitoring of the implementation of action plans to address areas of deficiency identified during the reviews conducted by the auditors.

Oversight of compliance with the credit union's code of conduct is an important function of the committee. The code of conduct should include a whistleblower and/or an ethical protocol framework.

This document provides credit unions with information that will assist in the development of appropriate standards for the Audit Committee. These standards have been grouped into four main areas: Practices and Expertise, Internal Audit, External Audit, and Risk and Compliance.

Throughout this Guidance Note, where the frequency of reviews, reporting and other periodic exercises is defined as "at least annually", it is expected that the frequency will increase with the level of riskiness and complexity of the activities under review. (i.e. semi-annually, quarterly, monthly).

## Practices and Expertise

### **MEMBER SELECTION, AUDIT COMMITTEE CHARTER, WORKPLAN, ANNUAL REPORTING, ASSESSMENT**

The selection of committee members should be undertaken with the goal that they have the necessary skills and qualifications to enable the committee to effectively discharge its statutory obligations.

Section 125(4) of the Act requires that each member of the Audit Committee satisfy the qualifications and training requirements as established by the credit union. The credit union should establish appropriate competency requirements for committee members and the Audit Committee Chair ("Chair").

At a minimum, committee members should have a sufficient understanding and knowledge of the core competencies (as outlined in “Guidance Note: Director Training and Qualifications” and described in the “Application Guide: Director Core Competencies”) in order to be an effective committee member. The committee should ensure that there is an appropriate on-boarding process for new directors. Committee members should have financial and risk management competencies and at least one member should have accounting or related financial management experience. The depth of the experience required will increase in direct proportion to the complexity of the credit union operations.

At least one member of the Audit Committee should have internal or external auditing experience to ensure that the committee can provide effective oversight of the auditors and contribute to the overall quality of the audit. The Chair should be suitably experienced, skillful and exhibit leadership that encourages open dialogue and debate and ensure that committee members have adequate opportunities for discussion, questions and follow-up in dealing with significant issues. The committee should ensure that all training programs developed for directors to meet the necessary qualifications are fully documented and that progress is reviewed on a regular basis.

The committee is expected to develop an Audit Committee Charter that formally outlines the roles and responsibilities of the committee as required in section 27 of the Regulation and provides members with a clear understanding of their function. The committee should establish policies and practices for orienting new members and ensuring that members are regularly updated on their responsibilities. The Audit Committee Handbook (“ACH”), available on DICO’s website, provides details of the areas that should be included in the Audit Committee Charter.

At a minimum, the committee must meet at least once each quarter as prescribed in Section 125(5) of the Act. Results must be reported to the Board within 60 days or the next Board meeting, whichever is earlier, as per Section 125(8) of the Act including information on any material deficiencies that may affect the credit union. Reports should include full details of any remediation plans to address identified deficiencies.

The committee must prepare a work plan for all meetings for the year that ensures that all the duties and responsibilities outlined in the Act (Sections 125 to 128) and the Regulation (Section 27) are fully addressed. An effective work plan allocates each duty and responsibility to a specific meeting agenda and date, sets out the kind of information and assurances to be provided and identifies who is accountable for providing this information and assurances. The Chair should confirm meeting agendas and priorities, promote independent, effective and timely decision making and ensure that deliberations are appropriately recorded. The ACH includes a sample workplan.

In accordance with the subsection 125(9) of the Act, the committee must submit a report to the members at the annual meeting that contains the following details as outlined in Section 27(2) of the Regulation:

- the number of meetings held by the committee during the year;
- a summary of significant activities undertaken by the committee during the year and a description of the actual and expected results;

- confirmation that the committee is conducting its affairs in accordance with the Act and the regulations; and
- all pertinent information on any failure of the credit union to implement or complete the implementation of any significant recommendation previously made by the committee.

At least annually, in accordance with Section 27(1)19 of the Regulation, the committee should review the effectiveness of the committee in fulfilling its responsibilities and fully document the process. In addition, the performance of each committee member should be evaluated as prescribed in Board approved procedures for evaluating committee members and determining their continuation on the committee. The effectiveness of the Chair should be evaluated at least annually as per the Board approved evaluation policy for the Chair. As outlined in subsection 92(1)(13) of the Act, directors 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 Board.

Further to subsection 92 (1) 13, subsection 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.” A sample Audit Committee Performance Evaluation is available in the ACH.

In accordance with Section 127 of the Act, the committee must promptly notify the Board, the credit union’s auditor, and DICO if any of the following matters come to the attention of the committee:

- Funds, securities or other property of the credit union have been or may have been misappropriated or misdirected.
- The Board, a director, an officer or an employee of the credit union has contravened or failed to comply with the Act, the Regulations of the by-laws and the contravention or failure to comply materially affects the credit union.

**At a minimum, DICO expects the committee to ensure that:**

- directors are made aware of their responsibilities and accountability;
- directors complete adequate orientation and training programs to meet director qualification standards established by the credit union;
- an appropriate workplan has been developed that ensures all the duties and responsibilities outlined in the Act and Regulation are fully addressed;
- reports to the Board are delivered within 60 days or at the next Board meeting and contain the necessary level of detail to allow the Board to make informed decisions;
- appropriate agendas and priorities have been set;
- it reviews and confirms that the quality of information it receives is appropriate to facilitate its deliberations;

- when needed, 3rd party assistance is obtained to fully understand complex issues or validation of management reporting and/or assertions; and
- the extent of its deliberations and supporting rationale for its decisions are fully documented and recorded.

### Internal Audit

#### **OVERSEEING AN INDEPENDENT INTERNAL AUDIT FUNCTION TO EVALUATE INTERNAL CONTROLS AND ENSURE THAT MANAGEMENT HAS MITIGATED ANY MATERIAL DEFICIENCIES**

Internal audit is a critical function that provides independent assurance that policies, procedures and controls are competently and consistently applied. The objectivity, independence and competence of the internal auditor are vital to its effectiveness.

The committee should ensure that the internal audit plans are appropriate for the size, complexity and risk tolerance of the credit union and address all relevant activities throughout the review cycles.

The committee's mandate is to review and approve the selection of the internal auditor as well as the annual audit plan for the credit union. The committee provides oversight to the internal audit function. It is the responsibility of the committee to appoint a professionally qualified internal auditor, ensure the internal audit function is operating independently, has the personnel with the requisite qualifications and knowledge of the activities being audited and expertise to effectively complete the internal audit responsibilities. The committee should ensure candidates for the position are individuals with appropriate professional qualifications such as the Certified Internal Auditor (CIA) designation or Certification in Risk Management Assurance (CRMA) from the Institute of Internal Auditors or a Chartered Professional Accountant (CPA) designation from Chartered Professional Accountants of Ontario. The internal auditor is expected to adhere to all professional standards of their professional organization. External professionals hired to fill the role of internal audit should be able to demonstrate their professional qualifications and have adequate third party liability insurance. The internal auditor should have an in-depth understanding of risk assessment and risk management practices, the credit union and/or financial services sector, the credit union's business and its systems, processes and controls, and its risk tolerance.

The committee should review the qualifications of the individuals completing the audit activities and ensure the level of review and documentation that has been completed by qualified professionals for the particular internal audit work undertaken is appropriate. In order to ensure independence, the internal audit role should report directly to the committee to provide the autonomy to fully review all aspects of the credit union's business. The internal auditor should have in camera meetings with the committee without management present as well as the ability to meet with the Board chair in situations where there are concerns with the committee.

All reports prepared specifically for the committee by the internal auditor related to audit activities should be reviewed and kept by the committee to ensure that all internal controls and practices of the credit union are working effectively.

The committee should evaluate the performance and effectiveness of the internal audit team and address any deficiencies with the internal auditor.

The committee should review all deficiencies that have been identified as part of the internal audit and ensure that Management develops and properly implements necessary action plans to successfully mitigate any identified deficiencies.

The committee should request that the internal auditor verify that the implementation of new controls and procedures are effectively addressing the identified deficiencies. The entire process should be fully documented to ensure that any changes to controls and procedures are properly recorded and communicated to employees affected by the changes.

At least once during the year, the committee should review the effectiveness of the overall control environment and performance of the internal auditor. The committee is responsible for reviewing and approving any changes to the Internal Auditor mandate and overall audit plan as necessary in light of changing conditions both internal and external to the credit union.

### **At a minimum, DICO expects the committee to:**

- ensure that internal auditor function is independent and has sufficient authority;
- ensure the incumbent possesses appropriate competencies and qualifications, is professionally accredited to conduct internal audits and where the incumbent is an external party, possesses adequate professional third party liability insurance;
- require and consider comprehensive reports from the internal auditor that outline the deficiencies noted in the audit and recommendations to correct them;
- fully evaluate management's responses, confirm the appropriateness of action plans to correct any material deficiencies and confirm the action plans are implemented and performing as anticipated; and
- provide a report to the Board that summarizes the internal auditor's plans and work conducted by the auditor.

### **UNDERTAKING ITS DUTIES WITH RESPECT TO THE INTERNAL AUDIT AS SET OUT IN THE REGULATION**

As part of its oversight responsibilities for the internal auditor outlined in Section 27 (1) of the regulations, the Audit Committee is required to discuss with the internal auditor the scope, plan and results of the audit worked conducted;

- discuss with the internal auditor the audit findings, any restriction on the scope of the internal auditor's work and any problems that the auditor experienced in performing the audit;
- review the organization and assess the degree of independence of the credit union's internal auditor; and
- review findings and recommendations of the internal auditors concerning the accounting practices and internal control practices and review responses by management to any significant or material deficiencies.

### External Audit

#### **UNDERTAKING ITS DUTIES WITH RESPECT TO THE EXTERNAL AUDIT AS SET OUT IN THE REGULATION**

The Audit Committee must ensure the integrity of the financial statements. The Act requires that a credit union obtain an opinion from a qualified external auditor regarding the fair presentation of the credit union's financial position as represented in their annual financial statements and related disclosures have been prepared in accordance with International Financial Reporting Standards (IFRS). The committee must ensure that the requirements relating to financial reporting and disclosure outlined in Section 27(1) of the Regulation are fully met.

As part of its oversight responsibilities for the external auditor the Audit Committee is required to:

- review and make recommendations to the Board about the terms of the engagement letter and remuneration of the auditor;
- review the scope and plan of an audit with the auditor;
- discuss with the external auditor any deficiencies noted, any restrictions on the scope of the auditor's work and any problems that the auditor may have experienced in performing the audit;
- 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; and
- report to the Board on any conflict between the auditor and management that the committee is unable to resolve within a reasonable time.

The committee should ensure the auditor is independent and has the appropriate qualifications to perform the audit work. In addition the committee should confirm the audit firm's internal policies and practices for quality control, before recommending the appointment of the external auditor to the Board.

To assess audit quality, the committee should annually assess the performance of the audit firm. In addition, a comprehensive audit firm review at least every five years should be conducted.

The annual assessment focuses on the engagement team, the engagement partner, their independence and objectivity and the annual quality of the audit work performed; the comprehensive review is broader in nature and focuses on the audit firm, its independence and the application of professional scepticism. The passage of time allows the audit committee to identify issues that may not be readily apparent on an annual basis. The results of these reviews will provide the information to make a recommendation for re-appointment of the auditor or the need to tender for audit services through a Request for Proposal (RFP) process. The committee should ensure that audit plans are appropriate, risk-based and address all relevant activities of the credit union over a measurable cycle, and that the work of internal and external auditors is co-ordinated.

The committee is expected to allow for sufficient deliberations on all aspects of the external audit and ensure that it fully understands the nature and extent of any material changes and deficiencies identified, their impact and recommendations for resolution. The committee should discuss the overall results of the audit, the annual financial statements and related documents, the audit report, the quality of the financial statements, any related concerns raised by the external auditor, and understand:

- areas of significant auditor judgment, including accounting policies, accounting estimates and financial statement disclosures;
- whether the external auditor might consider estimates/models to be “aggressive” or “conservative” and, specifically, regarding final valuation decisions; and
- those significant or unusual transactions that may adversely affect the credit union that, in the auditor’s opinion, are not satisfactory and require rectification.

The committee will oversee management to ensure recommendations are implemented in a timely manner. 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.

**At a minimum, DICO expects the committee to:**

- review the qualifications of the external auditor and make recommendations to the Board about the selection, terms of engagement, remuneration and evaluation of the auditor;
- review the scope and plan of an audit with the external auditor;
- discuss the audit findings with the auditor;

- discuss management letters, recommendations or reports by the auditor and any management responses, and ensure there is evidence of comprehensive deliberations regarding material findings and recommendations;
- hold in camera meetings with the external auditor to understand any material issues encountered during the audit and how these issues have been resolved;
- evaluate responses and confirm the appropriateness of action plans for any material recommendations;
- make recommendations to the Board about the findings from the audit;
- ensure recommendations are implemented by management in a timely manner; and
- evaluate the effectiveness of the auditor and report its findings to the Board.

### Risk Management and Compliance

#### **TAKING ALL REASONABLE STEPS TO ENSURE THAT THE CREDIT UNION IS IN COMPLIANCE WITH THE ACT, REGULATIONS AND OTHER LEGISLATIVE REQUIREMENTS**

The committee should ensure compliance with the Act, the regulations, DICO by-laws and the credit union's policies and by-laws. It should also ensure compliance with other relevant legislative requirements including, but not limited to consumer and privacy protection, anti-money laundering, income tax and employment legislations.

The regulation prescribes the following duties with regards to the oversight of compliance activities by the committee:

- recommend to the board arrangements to safeguard the credit union's assets, to ensure the timeliness, accuracy and reliability of accounting data and to maintain adherence to all by-laws and policies of the credit union;
- review any report about the affairs of the credit union made by regulators, internal audit and the external auditor and monitor the implementation of any significant recommendations and report to the Board on the progress of the implementation; and
- review the credit union's policies and procedures governing the way in which it meets the requirements under the Act, any other applicable legislation and prudent business practices.

The committee should undertake regular comprehensive reviews of the compliance with all policies and confirm that procedures and practices remain appropriate to ensure that deficiencies are identified and corrected in a timely manner.

Reports to the committee on compliance should be comprehensive and supported by additional documentation where appropriate including details of assessment, review practices and the results. The committee should conduct a comprehensive review of any examination report or recommendation made by DICO, the internal or external auditor and obtain a full understanding of the impacts and implications of any noted deficiencies.

### **ENSURE APPROPRIATE FOLLOW-UP ON ALL OUTSTANDING DEFICIENCIES INCLUDING FINDINGS AND RECOMMENDATIONS OF REGULATORS AND INTERNAL AND EXTERNAL AUDITORS**

The committee should ensure appropriate follow-up on all outstanding deficiencies that have been identified to ensure timely corrective action is taken. The committee should confirm that action plans are developed and approved that set out the specific strategies and methodologies to resolve or mitigate identified deficiencies along with appropriate timelines and responsibilities for completion. Timelines should be reflective of the materiality of the risk involved.

The committee is expected to require ongoing updates for all action items, evaluate the effectiveness of resolution strategies and ensure that identified deficiencies are addressed and resolved in the appropriate manner within approved timeframes. Alternative strategies should be developed to address continuing material deficiencies.

#### **At a minimum, DICO expects the committee to ensure that:**

- all reports from regulatory entities are reviewed and that the credit union implements changes to address any deficiencies identified in order to be in compliance;
- risk management and compliance reports are sufficiently comprehensive;
- examination and audit reports are fully reviewed and material deficiencies are fully evaluated;
- it fully understands the extent to which the credit union is in compliance with policies, procedures and practices;
- appropriate action plans have been developed and implemented to address any material deficiencies and significant recommendations;
- resolution strategies have been evaluated and approved; and
- status updates are reviewed and monitored to ensure that material deficiencies are resolved within established timelines.

## **ENTERPRISE RISK MANAGEMENT**

### ***(AUDIT OR OTHER DESIGNATED COMMITTEE)***

All credit unions are required to implement a comprehensive Enterprise Risk Management (ERM) framework that is appropriately scaled to reflect its size, complexity and risk profile. An ERM framework includes the processes that the credit union uses to identify and manage significant risks and 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 that they are fully aligned with corporate objectives and strategies, and reflect the quality, competencies and capacity of a credit union's human resources, technology and capital.

### **REVIEW MANAGEMENT'S IDENTIFICATION OF THE SIGNIFICANT RISKS OF THE CREDIT UNION IN ACCORDANCE WITH THE ERM POLICY**

ERM seeks to optimize risk management by balancing the cost of risk with the cost of control for all aspects of the credit union's potential risk areas to ensure organizational objectives are met within the Board's defined risk appetite. The risk appetite should take into account the quality and quantity of the credit union's capital.

The committee should understand the credit union's ERM framework and supporting process and practices and how they align with the risk appetite and risk tolerances for the credit union. The ERM framework should set out how identified significant risks are assessed, prioritized and addressed. The committee should ensure that management reports provide sufficient information to fully detail the significant risks affecting the credit union.

### **ENSURE THERE ARE ENTERPRISE RISK MANAGEMENT PROCESSES IN PLACE TO MEASURE, MONITOR, MANAGE AND MITIGATE SIGNIFICANT RISK EXPOSURES INCLUDING APPROPRIATE POLICIES, PROCEDURES AND CONTROLS**

The committee should understand the basis and the extent of risk identification and classification and the extent of risk mitigation factors and methodologies. The committee reviews the ERM reports prepared by internal audit or risk management group (as appropriate for the credit union's organizational structure) that should clearly outline how significant risks are measured and monitored and what strategies and processes have been implemented to mitigate significant risks. The committee should confirm that the internal auditor is testing controls mitigating the significant risks outlined in the ERM program through the internal audit workplan periodically to ensure that they are working effectively. The committee should review trends in risk exposure and ensure that appropriate actions have been identified and implemented to mitigate significant and increasing risk levels.

#### **At a minimum, DICO expects the committee to ensure that:**

- management reports provide sufficient information on risk management activities to address significant and increasing risk exposures;

- internal audit reports that outline the adequacy of risk management activities are reviewed;
- the implementation of risk management activities for significant risk exposures is monitored; and
- the appropriateness of strategies to address any material increase in risk exposures is confirmed.

### **OVERSEE THE APPLICATION OF ERM PRACTICES AND THE ON-GOING IDENTIFICATION OF EMERGING RISKS**

A critical function of the ERM regime is to identify, quantify, monitor and mitigate emerging risks which may affect the credit union. Management continually identifies emerging risks that could have a future impact on the credit union. Emerging risks are those that may not be considered significant at any particular time although may become so in the future. It is important that sufficient effort is undertaken to help identify and quantify potential emerging risk exposures. The committee should ensure that robust, thorough and frequent environmental reviews are being completed using various tools to help identify emerging risks. The use of external views and opinions are important in fully understanding the environment within which the credit union is operating. The development of risk mitigation strategies for the identified emerging risks is an important step in the process. The impact of emerging risks should be considered in the setting and reviewing of strategy and plans. Emerging risks should be documented and regularly reviewed to ensure that they are continually considered as part of the risk management process. The committee should oversee the application of ERM practices and confirm the on-going processes for identifying emerging risks are appropriate.

#### **At a minimum, DICO expects the committee to:**

- demonstrate appropriate and comprehensive deliberations on ERM practices, evaluations, deficiencies and recommendations; and
- confirm that ERM reports adequately set out the basis for identifying and quantifying emerging risks.

### **REPORT TO THE BOARD ON RISK EXPOSURE LEVELS**

The committee should review and confirm the adequacy of management reports and understand the nature and extent of significant and emerging risk exposures. As part of the reports to the Board, the committee should include written confirmation from internal audit that ERM is being used as input into the audit plan to help identify high risk areas that might need more frequent review and to ensure the controls that are in place are working. The committee should ensure reports to the Board adequately identify and quantify risk exposure levels. Material changes to risk levels should be identified along with recommended strategies to address significant exposures.

#### **At a minimum, DICO expects the committee to ensure that:**

- reports to the Board on ERM practices are sufficiently comprehensive and identify risk exposure levels and recommended strategies to address significant risk exposures where appropriate.

## **DICO Assessment Criteria**

As part of its on-going risk assessment and examination process, DICO will assess the adequacy of committee governance practices, taking into account the size, complexity and risk profile of the credit union.

DICO will assess the degree to which the committee:

- has developed an appropriate Audit Committee Charter;
- conducts annual self assessments of each member, the Chair and committee itself;
- has developed an appropriate process for the selection of future members and provides initial orientation and ongoing training;
- completes committee reports that are comprehensive and timely and accurately address all material risk areas;
- ensures that reports to the members of the credit union at the annual meeting contain all information as prescribed by the Act;
- conducts a regular comprehensive evaluation of its performance against its responsibilities and promptly addresses identified issues;
- establishes and oversees an internal audit function that is well documented with clear mandate, objectives, authority and leadership;
- reviews and approves the Internal Audit Charter and the annual Internal Audit Plan;
- ensures resourcing for the internal audit function is appropriate and staff have the appropriate independence, qualifications and experience for their roles;
- reviews and understands the internal audit policies, practices and methodologies that are effective and fully documented;
- reviews internal audit reports, discusses all deficiencies and assesses and monitors recommendations to ensure timely resolution;
- reviews the qualifications of the external auditor and makes recommendations to the Board about the selection, remuneration and evaluation of the external auditor;
- reports to the Board on the effectiveness of the internal and external audit functions;
- reports to the Board on findings identified or recommendations made by the internal auditors, external auditors and regulators and addresses any deficiencies identified and emerging risks or trends; and

- ensures risk management and compliance policies and practices are comprehensive, fully reviewed and discussed with recommendations implemented in a timely manner.

In addition for more complex credit unions, DICO will assess the:

- level of understanding of ERM practices;
- identification, measurement and oversight of existing significant risks and any emerging risks; and
- content, quality and frequency of ERM reporting.

Pursuant to By-law No. 5, at least annually, the board is required to review and assess the operations of the credit union and submit to DICO within 75 days of the end of the financial year, a board resolution, in the form outlined in Appendix A of that by-law confirming that:

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

The Audit Committee should review the management representation letter and confirm that the attestations made are in agreement with the committee's findings as a result of their reviews of management reports and oversight functions. The Audit Committee should provide their assurance to the Board that the management representation letter is complete and factual.

A sample Management Representation Letter is included in the "Self Assessment Workbook: Corporate Governance – Board of Directors". A sample Board resolution is included in the "Self Assessment Workbook: Corporate Governance – Board of Directors".