



Ontario

Deposit Insurance
Corporation of Ontario

Société ontarienne
d'assurance-dépôts

Self Assessment Workbook

Corporate Governance – Audit Committee

January 2018

Ce document est aussi disponible en français.

Applicability

The Self Assessment Workbook: Corporate Governance – Audit Committee (the “Workbook”) is for use by all credit unions.

This Workbook complements the information provided in, and should be read in conjunction with the Guidance Note: Corporate Governance – Audit Committee and other relevant DICO publications which include:

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

These publications are available on DICO’s website.

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Introduction

DICO's By-Law No. 5: Standards of Sound Business and Financial Practices ("By-Law No. 5") sets out the following:

Corporate Governance: Audit Committee

The Audit Committee supports the Board of Directors through oversight responsibilities relating to financial reporting and disclosure, internal audit, risk management, controls and compliance. The committee's understanding and oversight are critical for safeguarding assets of all stakeholders of the credit union.

The care, diligence, skill and prudence exhibited by a credit union's Audit Committee members has a critical influence on the credit union's viability, safety and soundness, its ability to execute its business strategy to achieve its business objectives and to promote confidence on the part of members and depositors. The fundamental elements of good corporate governance for the Audit Committee have been grouped into four main areas: Practices and Expertise, Internal Audit, External Audit, and Risk Management and Compliance.

All credit unions must comply with By-Law No. 5 Standards in By-Law No.5 have been designed in such a way that they are applicable to every credit union, regardless of its size or complexity. All credit unions are required to attest to their adherence to By-Law No. 5 annually. DICO has developed three "Assessment Workbooks": one for the Board, the Audit Committee, and for Management to assist in understanding DICO's expectations and confirming compliance with these Standards.

There is no requirement to complete or file these workbooks with DICO. However, credit unions are required to demonstrate that they have an appropriate process and record keeping in place to support their board's assessment of corporate governance and annual Attestation to DICO of their compliance with By-Law No. 5. Credit unions may develop their own assessment tools or modify the workbooks to suit their particular requirements.

This workbook for the audit committee is in three parts.

Part I Under By-law No. 5, each credit union is required to attest annually that:

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

In order to complete the management representation letter, senior management is required to review internal assessments by the individuals who manage the credit union's day-to-day operations as to whether the significant risks under their responsibility have been identified and addressed.

Senior management should also review reports from the internal auditor or another party not directly responsible for performing the task being validated to ensure that the assessments have been conducted competently, with integrity and that any identified material deficiencies are being resolved. The Audit Committee is required to review the management representation letter and confirm that the attestations made are in agreement with the committee's findings as a result of its reviews of management reports and oversight functions. The Audit Committee is required to provide its assurance to the Board that the management representation letter is complete and factual.

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

Part II is an assessment tool for the board to help evaluate the credit union's adherence to the standards and identify any material deficiencies that may need to be addressed.

Part III provides a sample action plan tracking matrix for use in identifying and resolving material deficiencies. The action plan should include a description of any material deficiencies being addressed, the manner of addressing them, designated responsibility for corrective action and appropriate timelines for completion.

Part I: Reporting Requirements

Sample Management Representation Letter

To: Board of Directors

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

Management is familiar with the contents of the DICO By-law No. 5 as it applies to the credit union and acknowledges their responsibilities under the Standards, which include:

- implementing appropriate and prudent risk management policies, procedures and controls for each of the Standards;
- monitor the effectiveness of risk management practices and controls for the credit union’s significant risks;
- developing and implementing an appropriate and prudent business strategy and business plans and monitoring the achievement of the plan;
- providing the board of directors with timely, relevant and accurate status reports on the implementation of the institution’s business strategy, business and financial plans and any significant risks that may affect business objectives and financial stability of the credit union.

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

After careful consideration, management has concluded that to the best of their knowledge [*if applicable, add: “except as indicated below”*] the operations of the credit union are being managed in accordance with the Act and Regulations, other legislation, DICO By-laws and Guidelines, DICO guidance, Standards of Sound Business and Financial Practices and the credit union’s by-laws and policies.

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

[*if applicable, add: “The action plan(s) have not been met to date in that: provide description or reference appended document to the same effect.” This section should outline outstanding significant risks of the credit union.*]

In arriving at our conclusions we have exercised prudent judgment and have ensured the appropriate amount of testing and/or review (through various methods such as ERM, internal audit, external audit, risk and controls self assessments, consultants, internal management assessments and internal reporting) has taken place.

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

Management Signature (s)

Resolution of the Board of Directors

It is resolved that:

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

The Board of Directors (the "Board ") of the credit union is familiar with the contents of the Standards By-law and acknowledges its responsibilities under the Standards, which include:

- understanding and fulfilling its responsibilities;
- exercising independent judgment;
- establishing the training requirements and qualifications for directors and members of the audit committee;
- establishing appropriate and prudent risk management policies;
- overseeing risk management policies and obtaining reasonable assurance that the credit union is adhering to its risk management policies for significant risks;
- establishing the responsibilities, accountability and authority of the CEO, the Audit Committee and other Board committees;
- establishing standards of business conduct and ethical behavior;
- selecting and evaluating the effectiveness of the CEO;
- ensuring that management is appropriately skilled and experienced to implement the Board's objectives;
- establishing the business objectives of the credit union consistent with co-operative principles and approving the credit union's business strategy and business plans;
- evaluating the credit union's actual operating and financial results against business plans and address any material variances;
- evaluating the effectiveness of the Board and oversee the responsibilities of the Audit Committee;

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- ensuring that employee compensation plans are consistent with prudential incentives; and
- affirming a control environment and ensuring that the credit union is in control.

The Board of Directors of the credit union is, to the best of its knowledge and abilities, fulfilling its responsibilities under the Standards [*if applicable, add: "except as indicated below"*].

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

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

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

The foregoing is certified as a true copy of a resolution of the board of directors of <name of credit union> passed at a meeting of the board held on the <day> of <month>, <year>.

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

Corporate Secretary

Copy to: Deposit Insurance Corporation of Ontario

Part II: Assessment Tool

1. Practices and Expertise

Element	Assessment Criteria	Yes	C.U. Reference or Evidence
<p>1. Member Selection, Audit Committee Charter, Workplan, Annual Reporting, Assessment</p>	<p><i>The Audit Committee has developed and implemented a charter (or terms of reference) which identifies the committee’s role (as detailed in Regulation s.27 and the Audit Committee Handbook) in overseeing:</i></p> <ul style="list-style-type: none"> • <i>The credit union’s financial reporting systems, process and disclosure</i> • <i>The appointment of the external auditor, the auditor’s accountability and the activities to be performed</i> • <i>Risk management and internal control (by Audit or other committee of the Board, depending on organizational structure of credit union)</i> • <i>Compliance activities</i> • <i>Other oversight responsibilities assigned by the Board</i> <p><i>An appropriate work plan has been developed that:</i></p> <ul style="list-style-type: none"> • <i>Allocates every duty and responsibility to a specific meeting agenda and date at which the item will be reviewed</i> • <i>Identifies the kind of information, reports and assurances that are to be provided to the Audit Committee at each meeting</i> • <i>Identifies who is accountable for providing this information and these assurances</i> <p><i>The documented operating practices of the Audit Committee adequately provide for:</i></p> <ul style="list-style-type: none"> • <i>Orienting new committee members, and ensuring that all members are regularly updated on their responsibilities</i> • <i>Promoting independent, effective, and timely</i> 	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>	<p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>

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	<i>Policies and practices relating to committee evaluation and assessment processes are adequate</i>	<input type="checkbox"/>	<hr/> <hr/>
<u>Date Last Reviewed</u> <hr/>	<u>Material Deficiencies (N/A if not applicable)</u> <hr/> <hr/> <hr/>	<u>Target Completion Date (if applicable)</u> <hr/>	
<u>Comments and/or exceptions:</u> <hr/>			

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	<i>Outstanding deficiencies are monitored and follow-up action has been initiated and/or completed to resolve any material deficiencies where appropriate</i>	<input type="checkbox"/>	_____ _____
<u>Date Last Reviewed</u> _____	<u>Material Deficiencies (N/A if not applicable)</u> _____ _____		<u>Target Completion Date (if applicable)</u> _____
3. Undertaking its duties with respect to the internal audit as set out in the Regulation.	<i>The Audit Committee reviews the effectiveness of the credit union’s internal audit practices and makes recommendations to the Board to address any deficiencies</i>	<input type="checkbox"/>	_____ _____
	<ul style="list-style-type: none"><i>The Audit Committee reviews and confirms the qualifications and expertise of auditors are appropriate for all areas of responsibility</i>	<input type="checkbox"/>	_____ _____
	<ul style="list-style-type: none"><i>There are objective qualification criteria for external resources</i>	<input type="checkbox"/>	_____ _____
	<ul style="list-style-type: none"><i>An evaluation of the performance of the audit team is completed</i>	<input type="checkbox"/>	_____ _____
	<i>The Audit Committee reviews the organization and assesses the degree of independence of the credit union’s internal auditors, including their mandate, work plans and any problems that they experience or issues they may have raised relating to the performance of audits</i>	<input type="checkbox"/>	_____ _____ _____
	<i>The Audit Committee reviews the findings and recommendations of the internal auditors concerning the accounting practices and internal control practices and reviews the responses by the management of the credit union to any material deficiencies</i>	<input type="checkbox"/>	_____ _____ _____
	<ul style="list-style-type: none"><i>There is evidence of comprehensive deliberations regarding any material findings and recommendations</i>	<input type="checkbox"/>	_____ _____
	<ul style="list-style-type: none"><i>The Audit Committee evaluates the responses and confirms the appropriateness of action plans for any material recommendations</i>	<input type="checkbox"/>	_____ _____ _____

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	<p><i>The Audit Committee completes an evaluation of the Internal Audit function on an annual basis using the following criteria:</i></p> <ul style="list-style-type: none"> • <i>Effective and efficient use of resources</i> • <i>Cooperation</i> • <i>Experience/expertise/knowledge</i> • <i>Effectiveness of communication</i> • <i>Timeliness and adequacy of reporting</i> • <i>Adequacy of coverage</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
<p><u>Date Last Reviewed</u></p> <hr/>	<p><u>Material Deficiencies (N/A if not applicable)</u></p> <hr/> <hr/>	<p><u>Target Completion Date (if applicable)</u></p> <hr/>	
<p><u>Comments and/or exceptions:</u></p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>			

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	<p><i>The Audit Committee evaluates the performance of the External Auditor on the effectiveness and efficiency of the annual year-end process, including the following areas:</i></p> <ul style="list-style-type: none"> • <i>Comprehensiveness of the audit plan</i> • <i>Timeliness of completion of the plan</i> • <i>Timeliness and quality of the communications promised under the plan</i> • <i>Competency & knowledge of the external audit staff</i> • <i>Adequacy of resources allocated to the project</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
<p><u>Date Last Reviewed</u></p> <hr/>	<p><u>Material Deficiencies (N/A if not applicable)</u></p> <hr/> <hr/> <hr/>	<p><u>Target Completion Date (if applicable)</u></p> <hr/>	
<p><u>Comments and/or exceptions:</u></p> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>			

4. Risk Management and Compliance			
Element	Assessment Criteria	Yes	C.U. Reference or Evidence
5. Taking all reasonable steps to ensure that the credit union is in compliance with the Act, Regulations and other legislative requirements	<p><i>The Audit Committee reviews and confirms compliance with:</i></p> <ul style="list-style-type: none"> <i>The Act and Regulation</i> <i>The credit union's By-laws</i> <i>Privacy and Anti-Money Laundering legislation</i> <i>Other relevant legislation</i> <i>The credit union's policies and procedures regarding risk management, and ensuring compliance with all credit union activities involving the source and application of the depositors' and the credit union's funds.</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
	<p><i>The Audit Committee evaluates the effectiveness of risk management practices</i></p> <ul style="list-style-type: none"> <i>The committee fully understands compliance policies, procedures and practices</i> <i>Risk management and compliance reports are sufficiently comprehensive</i> <i>There is evidence of sufficient committee deliberations</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
<u>Date Last Reviewed</u>	<u>Material Deficiencies (N/A if not applicable)</u>		<u>Target Completion Date (if applicable)</u>
_____	_____ _____ _____		_____
6. Ensure appropriate follow-up on all outstanding deficiencies including findings and recommendations of regulators and internal and external auditors	<p><i>The Audit Committee:</i></p> <ul style="list-style-type: none"> <i>Reviews all examination and other reports concerning the affairs and practices of the credit union</i> <i>Ensures that appropriate action plans have been developed and implemented to address any material deficiencies and significant recommendations</i> <i>Reviews and evaluates the appropriateness of resolution strategies to address any material deficiencies</i> <i>Monitors and addresses any material deficiencies and significant recommendations and ultimate correction of</i> 	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>

	<i>these material items.</i>		_____
<u>Date Last Reviewed</u>	<u>Material Deficiencies (N/A if not applicable)</u>		<u>Target Completion Date (if applicable)</u>
_____	_____ _____ _____		_____
<u>Enterprise Risk Management</u>			
7. Review management’s identification of the significant risks of the credit union in accordance with the ERM policy	<p><i>Management reports provide sufficient information to confirm that identification of significant risks is in accordance with ERM Policy</i></p> <p><i>Evidence of adequate Audit Committee deliberations on significant risks</i></p>	<input type="checkbox"/> <input type="checkbox"/>	_____
<u>Date Last Reviewed</u>	<u>Material Deficiencies (N/A if not applicable)</u>		<u>Target Completion Date (if applicable)</u>
_____	_____ _____ _____		_____
8. Ensure there are enterprise risk management processes in place to measure, monitor, manage, and mitigate significant risk exposures including appropriate policies, procedures and controls	<p><i>The Audit Committee understands the nature and extent of the ERM processes and practices, including:</i></p> <ul style="list-style-type: none"> • <i>The ERM framework adopted and implemented</i> • <i>The basis and extent of risk identification and classifications</i> • <i>The basis and extent of risk assessment and risk mitigation factors</i> <p><i>Management reports provide sufficient information on the management and mitigation activities to address significant risk exposures</i></p> <p><i>The Audit Committee reviews and confirms the adequacy of risk mitigation activities</i></p>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	_____

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	<p><i>The Audit Committee monitors the implementation of mitigation activities for significant risk exposures</i></p> <p><i>The Audit Committee reviews and confirms the appropriateness of strategies to address any material increase in risk exposure level</i></p>	<input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/>
<p><u>Date Last Reviewed</u></p> <hr/>	<p><u>Material Deficiencies (N/A if not applicable)</u></p> <hr/> <hr/> <hr/>		<p><u>Target Completion Date (if applicable)</u></p> <hr/>
<p>9. Oversee the application of ERM practices and the on-going identification of emerging risks</p>	<p><i>The Internal Audit review of ERM is thorough and complete</i></p> <p><i>The Audit Committee has a full appreciation of and is satisfied with the course of action being undertaken on any material findings and recommendations and confirms timely implementation</i></p> <p><i>Management reports adequately set out the basis for identifying and quantifying emerging risks</i></p> <p><i>The Audit Committee has fulsome deliberations on the analysis and identification of emerging risks</i></p>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/> <hr/>
<p><u>Date Last Reviewed</u></p> <hr/>	<p><u>Material Deficiencies (N/A if not applicable)</u></p> <hr/> <hr/> <hr/>		<p><u>Target Completion Date (if applicable)</u></p> <hr/>
<p>10. Report to the Board on risk exposure levels</p>	<p><i>The report to the Board adequately identifies and quantifies risk exposure levels</i></p> <p><i>Material changes to risk exposures levels are appropriately identified</i></p> <p><i>Material increased risk exposure levels are fully identified, with details of recommended strategies to address significant</i></p>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<hr/> <hr/> <hr/> <hr/>

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	<i>exposures where appropriate</i>	
<u>Date Last Reviewed</u> _____	<u>Material Deficiencies (N/A if not applicable)</u> _____ _____ _____	<u>Target Completion Date (if applicable)</u> _____
<i>Comments and/or exceptions:</i> _____ _____ _____ _____ _____ _____ _____ _____		

Part III: Sample Action Plan Tracking Matrix to monitor the resolution of material deficiencies identified through audits and examinations.

SUMMARY ACTION PLANS TO ADDRESS IDENTIFIED MATERIAL DEFICIENCIES IN BUSINESS AND FINANCIAL PRACTICES

Corporate Governance Area	Material Deficiencies	Summary Action Plan	Target Resolution Date	Assigned Responsibility	Status Update/ Date Completed
1. Practices and Expertise					
2. Internal Audit					
3. External Audit					
4. Risk Management and Compliance					