



# Internal Audit Assessment Criteria

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## OVERVIEW

An effective internal audit function serves as the cornerstone of an institution's governance framework and system of internal controls by providing independent and objective evaluation of risk management, controls and governance throughout the organization. The Corporation's ratings for risk management explicitly consider internal controls, which include the effectiveness of the internal audit function. As a result, an unsatisfactory rating for the internal audit function can have a significant impact on the overall rating for risk management within the credit union or SaskCentral.

Internal auditors provide the board and senior management with comprehensive assurance based on the highest level of independence and objectivity within an institution. This high level of independence is not available in the risk management, compliance and financial oversight functions. Internal audit provides assurance on the effectiveness of governance, risk management and internal controls, including the manner in which business line management and other oversight functions achieve the organization's risk management and control objectives.

The Institute of Internal Auditors (IIA) is an international governing body for internal auditors that bring some uniformity and consistency to the practice. The IIA provides general standards for performing internal audits and is considered an appropriate source for education and information. In its *Standards for the Professional Practice of Internal Auditing*, the IIA defines the internal auditing function as "an independent, objective assurance and consulting activity designed to add value and improve the organization's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

In practice, internal auditors work within the parameters of the institution's overall strategic plan and ERM framework, performing internal auditing functions so that they are coordinated with the larger goals and risk management objectives of the organization.

Internal auditors perform a variety of audits including compliance audits, operational audits, program audits, financial audits and information systems audits. Internal audit reports provide management with advice and information for making decisions or improving operations.

## KEY RESPONSIBILITIES

For more information related to regulatory requirements and expectations for internal audit, credit unions should refer to section 2.2 (Audit) of the Standards of Sound Business Practice, as well as regulatory directives and guidance. SaskCentral should refer to the prudential standards.

The internal audit function should be risk-based and resourced either in-house or through outsourcing as deemed necessary to ensure an organizational-wide focus. The Corporation looks to credit union and SaskCentral internal audit functions to fulfil the following responsibilities, in consideration of the nature, scope, complexity and risk profile:

- developing an appropriate internal audit charter and work plan to guide its activities
- coordinating with other oversight functions, external auditors, and considering regulator's recommendations to ensure the combined evaluation and testing of controls

are comprehensive, cost effective and appropriate to risks, business activities and changing circumstances

- having direct access to the audit committee and attending audit committee meetings
- testing the Enterprise Risk Management (ERM) mitigating strategies for effectiveness
- reviewing the institution's system of assessing its capital in relation to its estimate of risk considering its ERM framework, internal capital adequacy assessment process (ICAAP) and stress testing program
- ensuring the internal audit function is risk-based with an organizational-wide scope
- reviewing the reasonableness and approval process of senior management expenses
- examining and evaluating the adequacy and effectiveness of internal control systems
- reviewing the application and effectiveness of risk management procedures and risk assessment methodologies
- reviewing the management and financial information systems, including electronic information systems and electronic banking services
- providing an appraisal of the economy and efficiency of the operations
- testing of both transactions and the functioning of specific internal control procedures
- reviewing the systems established to ensure compliance with legal and regulatory requirements, codes of conduct and the implementation of policies and procedures
- testing the reliability and timeliness of regulatory reporting
- carrying out special investigations as required

## INTERNAL AUDIT ASSESSMENT CRITERIA

### 1. Mandate

- a) extent to which the function has a mandate establishing:
  - (i) clear objectives and enterprise-wide authority
  - (ii) authority to carry out its responsibilities independently
  - (iii) right of access to the organization's records, information and personnel
  - (iv) a requirement to express an opinion on the effectiveness of, and adherence to, the institution's organizational and procedural controls
  - (v) authority to follow-up with management on action taken in response to audit findings and recommendations
- b) extent to which the mandate is communicated within the organization

### 2. Organization Structure

- a) appropriateness of the stature and authority of the function head within the organization for the function to be effective in fulfilling its mandate
- b) extent to which the function head has direct access to the CEO and the board (or audit committee)
- c) appropriateness of the function's organization structure
- d) extent to which the function is independent of activities it audits and day-to-day internal control processes

### 3. Resources and Proficiency

- a) adequacy of the function's processes to determine the required:
  - (i) level of resources to effectively carry out responsibilities
  - (ii) range of qualifications, knowledge, skills and experience to fulfill its responsibilities
  - (iii) continued professional development programs to maintain/enhance staff competencies
- b) adequacy of the function's resources and appropriateness of its collective qualifications and competencies for carrying out its mandate
- c) sufficiency of staff development programs

**INTERNAL AUDIT ASSESSMENT CRITERIA****4. Methodology and Practices**

- a) adequacy of policies and practices to ensure that audit methodologies conform to generally accepted industry practices and current professional standards
- b) appropriateness of audit methodologies and practices to execute the function's mandate
- c) extent to which the function's audit methodology is risk-based and responds to changes in the organization's risk profile

**5. Planning**

- a) adequacy of policies and practices to review audit cycles in response to changes in the organization's environment and risk profile
- b) extent to which the audit planning process clearly identifies audit objectives and scope of work

**6. Reporting**

- a) adequacy of policies and practices to report audit findings and recommendations to management of the business units
- b) adequacy of policies and practices to follow-up on the resolution of audit findings and recommendations

**7. Functional Oversight**

- a) extent to which board, or a committee of the board, approval is required for:
  - (i) the appointment and/or removal of the function head
  - (ii) the function's mandate and resources
  - (iii) the function's annual work plan
- b) adequacy of policies and practices for monitoring of audit staff to ensure that they comply with standards of professional practice and use approved methodology in executing their reviews
- c) adequacy of policies and practices to report periodically to the board (or audit committee) and senior management on audit findings, recommendations and progress in meeting the internal audit work plan
- d) adequacy of policies and practices to perform periodic independent reviews of the function (including feedback received from the organization's external auditor) and communicate the results to the board (or audit committee) and senior management

## PERFORMANCE BENCHMARKS

The quality of the internal audit function will be demonstrated by how well the function promotes a sound control environment that mitigates risks, ensures control weaknesses are dealt with appropriately, and provides the board and senior management with reasonable assurance of the effectiveness and adherence to procedures and controls.

The Corporation will look to indicators of effective performance to guide its judgment in the course of its supervisory activities. These activities may include:

- a) discussions with directors, management (including the chief internal auditor, if applicable) and external auditors
- b) review of:
  - (i) audit plans and working paper files
  - (ii) audit findings and management's response to the audit committee
- c) assessment of the function's practices and reporting

Examples of indicators that could be used to guide supervisory judgment include the extent to which the internal audit function:

- regularly engages the audit committee on the continued appropriateness of internal audit resources and progress-to-plan
- proactively communicates to the audit committee significant findings and management's actions related to them
- reviews objectives, strategies, events, initiatives and transactions for changes that could materially impact the organization in order to ensure risk management and control practices continue to be appropriate and effective
- actively seeks risk management information from relevant sources (external auditor, Credit Union Deposit Guarantee Corporation, professional associations, etc.) that corroborate or enhance its risk assessments to ensure that areas of weaknesses are appropriately considered in its audit plan
- proactively follows up and reports on significant issues to ensure timely resolution
- appropriately differentiates between audit findings affecting "safety and soundness" from those affecting "operating efficiency," and the manner in which these are communicated to the audit committee and senior management, and followed up on