

**COMMUNITY CPS AUSTRALIA LTD**

**AUDIT AND  
FINANCE COMMITTEE**

**TERMS OF REFERENCE**

**&**

**OPERATING PROCEDURES**



## CONTENTS

### 1. Terms of Reference

1.1	Objective	Page 3
1.2	Authority	Page 3
1.3	Composition	Page 3
1.4	Term of Membership	Page 4
1.5	Secretarial and Meetings	Page 4
1.6	Access	Page 5
1.7	Duties and Responsibilities	
1.7.1	Audit	Page 5
1.7.2	Finance	Page 6
1.7.3	Risk Management	Page 6
1.7.4	Compliance	Page 7
1.8	Reporting	Page 8
1.9	Review	Page 8

### 2. Committee Operating Procedures

2.1	General	Page 8
2.2	Oversee External Audit	Page 9
2.3	Oversee Internal Audit	Page 10
2.4	The Establishment and Maintenance of an Approved Internal Audit Program	Page 11
2.5	Internal Audit Reports	Page 11
2.6	Introduction of and Changes to Member Services and Variation of Existing Procedures	Page 12
2.7	Meetings of the Committee	
2.7.1	Timing of Meetings	Page 12
2.7.2	Framework for Conduct of Meetings	Page 12

### 3. Questions for Discussion at Committee Meetings

3.1	Financial Statements and Transactions	Page 15
3.2	Auditor's Report and Scope of the Audit	Page 17
3.3	Questions for Private Discussion with the Auditors	Page 17

## **1. COMMITTEE TERMS OF REFERENCE**

The Audit and Finance Committee (the Committee) is a sub-committee of the Board of Directors with its composition, objectives, Terms of Reference, duties and responsibilities as specified below.

The Committee Terms of Reference embeds the APRA Prudential Standard APS 510: Governance regarding the Board Audit and Finance Committee, External and Internal Audit, and the Auditors' Independence requirements.

### **1.1 Objective**

The primary objective of the Committee is to assist the Board of Directors in discharging its oversight responsibilities by providing an objective non-executive review of the effectiveness of Community CPS Australia Ltd and its controlled entities (hereafter to be referred to as the "Group") financial reporting process, risk management framework, system of internal control, the external and internal audit functions and process for compliance with laws and regulations.

The Committee will also consider the finances of the organisations via individual entity and consolidated reporting.

### **1.2 Authority**

The Board Audit and Finance Committee has authority to conduct or authorise investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate, and oversee the work of any registered public accounting firm employed by the organisation to conduct the annual audit.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation.
- Seek any information it requires from employees - all of whom are directed to cooperate with the Committee's requests - or external parties.
- Meet with company officers, external auditors, or outside counsel, as necessary.

### **1.3 Composition**

The Committee must have at least three non-executive directors; a majority of the members must be independent. The Board of Directors will appoint the Committee members and the Committee chair. One of the non-executive directors, (that can not be the Chairman of the Board), shall be appointed Chair of the Committee. Each member will be financially literate and at least one member shall be designated as the 'financial expert'.

The Chief Executive Officer, Deputy Chief Executive Officer and Chief Financial Officer will be attendees of the Committee.

The Internal Audit Manager and External Auditors will be ex-officio attendees of the Committee.

#### **1.4 Term of Membership**

The Board representatives, including the Chair of the Committee, shall be appointed annually by the Board.

Management attendees shall be appointed and removed by the Chief Executive Officer in agreement with the Chair of the Committee. The Board shall decide in the event of non agreement.

#### **1.5 Secretarial and Meetings**

The Executive Support personnel shall be appointed Secretary of the Committee. The Secretary, in conjunction with the Chair, will draw up an agenda that will be circulated, together with explanatory documentation, at least one week prior to each meeting to the members of the Committee and the External auditors.

The Secretary will be responsible for keeping the minutes of meetings of the Committee, and circulating them to committee members and to other members of the Board of Directors.

The Committee will hold at least four regular meetings per year and such additional meetings as the Chair shall decide in order to fulfil its duties. All committee members are expected to attend each meeting, in person or via tele- or video conference unless prior to the meeting a formal apology has been received by the Secretary.

In addition, the Chair will call a meeting of the Committee if so requested by any committee member, the Chairman of the Board of Directors, or the Internal or External Auditors.

The External Auditors shall be given notice of all meetings and have the right to attend and speak.

A quorum for a Committee meeting is two committee members. Both of which must be non-executive directors.

The Committee shall meet with the External and Internal Auditors in private at least annually.

## 1.6 Access

The Committee must, at all times, have free and unfettered access to senior management, the Internal Auditors, the head of risk management functions, and the External Auditors, and vice-versa.

The Committee also has the right to summon any employee or contractor to attend a meeting.

Both Internal and External Auditors shall have free and unfettered access to the Committee, in the normal course of events through the Chair of the Committee.

Subject to approval from the Board of Directors the Committee shall have the authority to consult independent experts where it considers it necessary to carry out their duties.

## 1.7 Duties and Responsibilities

The Committee is responsible for the oversight of APRA statutory reporting requirements, as well as other financial reporting requirements, professional accounting requirements, internal and external audit functions, and the appointment of the Group's internal and external auditors. In addition, the Committee shall examine any other matters referred to it by the Board of Directors, and members of the Committee must be available to meet with APRA on request.

The duties of the Committee shall be as follows:

### 1.7.1 Audit

Objective	Authority
<i>1.7.1.1. External Audit</i>	
▪ Recommend to the Board the appointment / removal of external auditors.	Review & recommend
▪ Review the External Audit letter of engagement and remuneration at least annually.	Review & recommend
▪ Establish and maintain an Audit Policy covering external audit.	Undertake & advise Board on an exception basis
▪ Determine that no management restrictions are being placed on the external auditors.	Undertake & advise Board on an exception basis
▪ Assess whether or not the external auditors meet the Professional Independence test issued by CPA and APS 510.	Undertake & advise Board on an exception basis
▪ Evaluate the effectiveness of the External Auditors.	Undertake & advise Board on an exception basis
▪ Determine, review and assess the statutory responsibilities of External Audit.	Undertake & advise Board on an exception basis
▪ Review the annual External Audit plan, oversee the External Audit and monitor progress.	Undertake & advise Board on an exception basis

<b>Objective</b>	<b>Authority</b>
<ul style="list-style-type: none"> <li>– Enquire of the External Auditor as to: <ul style="list-style-type: none"> <li>• The results of their audit</li> <li>• The External Auditor evaluation of internal control procedures, i.e. reports relating to internal control deficiencies and recommendations for improvements</li> <li>• The External Auditor overall evaluation of the financial reports.</li> </ul> </li> </ul>	Undertake & advise Board on an exception basis
<b>1.7.1.2. Internal Audit</b>	
<ul style="list-style-type: none"> <li>▪ Approve the appointment / removal of the Internal Audit Manager.</li> </ul>	Review & approve
<ul style="list-style-type: none"> <li>▪ Establish and maintain an Internal Audit Charter.</li> </ul>	Review & recommend
<ul style="list-style-type: none"> <li>▪ Establish and maintain an Audit Policy covering internal audit.</li> </ul>	Undertake & advise Board on an exception basis
<ul style="list-style-type: none"> <li>▪ Ensure that the Group have an independent and adequately resourced internal audit function.</li> </ul>	Undertake & advise Board on an exception basis
<ul style="list-style-type: none"> <li>▪ Ensure that the objectives of the internal audit function include evaluation of the adequacy and effectiveness of the financial and risk management framework.</li> </ul>	Undertake & advise Board on an exception basis
<ul style="list-style-type: none"> <li>▪ Review and approve the Internal Audit Plan and report its content to the Board.</li> </ul>	Undertake & periodically update Board
<ul style="list-style-type: none"> <li>▪ Oversee Internal Audit and ensure a coordinated approach with External Audit.</li> </ul>	Undertake & advise Board on an exception basis
<ul style="list-style-type: none"> <li>▪ Receive and consider all Audit reports.</li> </ul>	Undertake & advise Board on an exception basis
<ul style="list-style-type: none"> <li>▪ Review the suitability of management processes and its internal controls to achieve the Group's strategic direction and business objectives.</li> </ul>	Undertake & advise Board on an exception basis

## 1.7.2 Finance

<b>Objective</b>	<b>Authority</b>
<ul style="list-style-type: none"> <li>▪ Ensure compliance with statutory responsibilities relating to financial disclosure.</li> </ul>	Undertake & periodically update Board
<ul style="list-style-type: none"> <li>▪ Review the annual proposed budget and recommend to the Board adoption by the Board if appropriate.</li> </ul>	Review & recommend
<ul style="list-style-type: none"> <li>▪ Review the annual financial report and after consultation with Internal and External Audit, recommend acceptance to the Board.</li> </ul>	Review & recommend
<ul style="list-style-type: none"> <li>▪ Review and assess the adequacy of the Group's Accounting Policy and recommend changes to the Board.</li> </ul>	Review & recommend
<ul style="list-style-type: none"> <li>▪ Review the appropriateness of and consider financial information produced for the Board, regulators and members.</li> </ul>	Undertake & advise Board on an exception basis for appropriateness, and update the Board as appropriate after reviewing monthly accounts

<b>Objective</b>	<b>Authority</b>
<ul style="list-style-type: none"> <li>▪ Consider the Group's financial and strategic position.</li> </ul>	Review & recommend
<ul style="list-style-type: none"> <li>▪ Consider the effect on the Group of any new or proposed accounting practices, principles, disclosure requirements and legislative or regulatory pronouncements.</li> </ul>	Undertake & advise Board on an exception basis

### 1.7.3 Risk Management

<b>Objective</b>	<b>Authority</b>
<ul style="list-style-type: none"> <li>▪ Review the risk management -framework, and Internal Audit Plan to ensure that the audit Plan covers major risks identified.</li> </ul>	Undertake & periodically update Board
<ul style="list-style-type: none"> <li>▪ Liaise with the Board Risk Committee to ensure that major risk areas are addressed by at least one of the Committees.</li> </ul>	Undertake & advise Board on an exception basis
<ul style="list-style-type: none"> <li>▪ Review fraud risks and fraud incidents to ensure that material fraud losses are appropriately reported to the Board and recognised in the financial reports.</li> </ul>	Undertake and periodically update the Board.
<ul style="list-style-type: none"> <li>▪ Liaise with the APRA on finance and audit matters.</li> </ul>	Undertake & advise Board on an exception basis

### 1.7.4 Compliance

<b>Objective</b>	<b>Authority</b>
<ul style="list-style-type: none"> <li>▪ Oversight of compliance with statutory and industry requirements.</li> </ul>	Undertake & advise Board on an exception basis
<ul style="list-style-type: none"> <li>▪ Review and determine the adequacy and effectiveness of the systems and procedures to monitor compliance with legislation and regulations, codes of conduct and any other regulatory and industry requirements.</li> </ul>	Undertake & periodically update Board
<ul style="list-style-type: none"> <li>▪ Obtain regular updates from management and the Group's legal counsel about compliance matters.</li> </ul>	Undertake & periodically update Board
<ul style="list-style-type: none"> <li>▪ Review the findings of any examinations by regulatory agencies, and any auditor observations.</li> </ul>	Undertake & advise Board on an exception basis

The Committee shall have authority to request auditors or other parties to conduct any specific additional examinations which are considered necessary to satisfy the Committee that:

- 1) the financial report is accurate;
- 2) the activities of the Group are being conducted in an efficient and effective manner; and
- 3) Group entities are in compliance with their statutory obligations.

Consider any related matters and call before the Committee such persons as it is considered necessary for the discharge of its responsibilities.

## **1.8 Reporting**

The Secretary shall submit a draft copy of the Committee Minutes to the Board at the next available meeting subsequent to the Committee meeting.

The Committee shall regularly update the Board about Committee activities, issues and related recommendations.

## **1.9 Review**

The Committee shall review and assess the adequacy of the Committee Terms of Reference annually, requesting Board approval for proposed changes, and ensure appropriate disclosure as may be required by law and regulation.

Confirm annually that all responsibilities outlined in this Terms of Reference have been carried out.

Evaluate the Committee's and individual member's performance on a regular basis.

## **2. COMMITTEE OPERATING PROCEDURES**

### **2.1 General**

The Committee shall:

- 2.1.1 Ensure that the Committee Terms of Reference and Operating Procedures (the Committee Charter) is clearly defined and regularly reviewed.
- 2.1.2 Be kept informed on accounting and financial policies and procedures to monitor the reliability or adequacy of accounting data, consider reliability and adequacy of accounting information and the dissemination thereof.
- 2.1.3 Establish and maintain policies and procedures for employees to submit confidentially information about accounting, internal control, compliance, audit, and other matters about which the employee has concerns. The Committee should also have a process for ensuring employees are aware of these policies and for dealing with matters raised by employees under these policies.
- 2.1.4 Receive relevant information (i.e. within the scope of the Committee's responsibilities) from Management as to current developments both within the Group and externally, which will effect the Group's operations
- 2.1.5 Consider appropriateness of Management's action with respect to 2.1.3 above.
- 2.1.6 Receive from Management, reports which materially impact on finances, risks, fraud and related policies relating to any significant internal developments within the Committee's sphere of interest, i.e. changes in senior accounting personnel, suspected material accounting errors or discrepancies undergoing investigation, material fraud incidents, proposed accounting principle and significant modification of accounting and/or financial reporting practices.
- 2.1.7 Receive from Management and individual members of the Committee information of significant external developments, e.g. new accounting or disclosure requirements, compliance with taxation law, other Commonwealth or State laws, or government economic control requirements etc. The Committee shall consider the appropriateness of actions being taken by Management with respect thereto.
- 2.1.8 Receive from Management reports relating to external compliance issues. This includes but is not limited to such matters as the Corporations Act, Banking Act, Prudential Standards, Consumer Credit Code, Codes of Conduct and other relevant legislation and industry codes of behaviour.
- 2.1.9. As necessary a Committee member may research financial statements, accounting records, previous audit findings and review actual operational procedures.

## **2.2 Overseer External Audit**

The Committee shall ensure that the Group's External Auditors provide all reports that are required of them under the Corporations Act and Prudential Standards.

A certificate or statement from the External Auditors that they have complied with all reporting requirements shall be considered to be satisfactory evidence of compliance.

2.2.1 Establish that the auditor has the capacity to conduct the audit work including:

- (i) knowledge of industry;
- (ii) computer audit support; and
- (iii) capacity to keep up to date with legislation and prudential standard requirements and other laws affecting business operations.

2.2.2 Ensure that the auditor is given all required access to:

- (i) information and reports;
- (ii) IT terminals and computer time;
- (iii) computer audit software;
- (iv) management and staff for explanations; and
- (v) solicitors, bankers and other parties, where information is sought.

2.2.3 Review with the auditor the audit scope and, if appropriate, suggest changes in the audit scope. This review will encompass:

- (i) the nature of areas covered in the audit;
- (ii) the nature of audit steps performed;
- (iii) specific areas of risk addressed by the auditor;
- (iv) level of reliance on internal controls placed by the auditor;
- (v) level of checks over exceptional transactions; and
- (vi) level of reliance on Internal Audit work by the auditor.

2.2.4 Review matters with the auditor and management which could assist the auditor to reduce the audit time, for example:

- (i) coordinated approach with the Internal Audit department;
- (ii) better management controls;
- (iii) better documentation of :
  - policies and systems;
  - procedures;
  - accounting reconciliations;
  - accounting work papers;
- (iv) better filing systems; and
- (v) better organisation structure.

2.2.5 Discuss with the auditor any problems encountered in the audit with respect to 2.2.2, 2.2.3 and 2.2.4 above.

2.2.6 Discuss with the auditor any changes to proposed audit frequency and cost of the audit, bearing in mind problems encountered and audit scope changes requested.

## 2.3 **Oversee Internal Audit**

2.3.1 Establish that the auditor has the capacity to conduct the audit work including:

- (i) knowledge of industry;
- (ii) understanding of information system;
- (iii) capacity to keep up to date with legislation and prudential standard requirements and other laws affecting business operations; and
- (iv) capacity to keep up to date with current audit methodologies, audit tools and techniques affecting the Internal Audit function.

2.3.2 Ensure that the auditor is given all required access to:

- (i) business lines and support functions, unfettered;
- (ii) management and staff for information and explanations;
- (iii) information systems and reports;
- (iv) appropriate computer equipment (hardware);
- (v) appropriate computerised assisted audit tools (software); and
- (vi) solicitors, bankers and other parties where information is sought.

2.3.3 Review with the auditor the audit scope and, if appropriate, suggest changes in the audit scope. This review will encompass:

- (i) the nature of areas covered in the audit;
- (ii) the nature of audit steps performed;
- (iii) specific areas of risk addressed by the auditor (are they inclusive of risks noted by the directors?);
- (iv) level of reliance placed on internal controls by the auditor; and
- (v) level of checks over exceptional transactions.

2.3.4 Review matters with the auditor and management which could assist the auditor to reduce the audit time, for example:

- (i) better management controls;
- (ii) better documentation of :
  - policies and systems;
  - procedures;
  - accounting reconciliations;
  - accounting work papers;
- (iii) better filing systems; and
- (iv) better organisation structure.

2.3.5 Discuss with the auditor any problems encountered in the audit with respect to 2.3.2, 2.3.3 and 2.3.4 above.

2.3.6 Discuss with the auditor the audit frequency and cost of the audit, bearing in mind problems encountered and audit scope changes requested.

## **2.4 The Establishment and Maintenance of an Approved Internal Audit Plan**

- 2.4.1 The Committee has responsibility to ensure that there is an established and maintained comprehensive Internal Audit Plan.
- 2.4.2 The Committee shall examine and approve the Internal Audit Plan and amendments submitted by the Internal Audit Manager.

## **2.5 Internal Audit Reports**

- 2.5.1 The Internal Audit Manager shall give written notice to the Committee and/or the Chair of the Committee regarding:
  - 2.5.1.1 Insufficient internal controls within proposed changes to / or new accounting policies and procedures; and only when audit concerns are not resolved with the Finance Manager.
  - 2.5.1.2 Suggested changes to internal controls.
  - 2.5.1.3 Variations to established Internal Audit Plan and reason for variations.
  - 2.5.1.4 Variations to special investigations and procedure appraisals for the current financial year.
  - 2.5.1.6 Changes in, or pending in statutory, or professional requirements and standards which may or do affect disclosure.
- 2.5.2 The Committee on examination of Reports under 2.4.1 shall satisfy itself that:
  - 2.5.2.1 All internal procedures as detailed by Management provide sufficient internal controls and checks to protect assets of the Group.
  - 2.5.2.2 Accounting procedures as detailed by Management are being carried out by all employees of the Group.
  - 2.5.2.3 Any breakdown in the internal controls and checks and departure from approved procedures shall be found by the checks or by Audit.
- 2.5.3 The Internal Audit Manager shall submit a quarterly report to the Committee of internal audits, special investigations and procedure appraisals in progress, or completed during the past quarter.

## **2.6 Meetings of the Committee**

### 2.6.1 Timing of Meetings

The Committee will hold a minimum of four meetings per year. These four meetings will be held in February, May, August and November.

Additionally, the Committee will hold ad-hoc meetings at the discretion of the Committee. The Committee may call a meeting in a month when it is not scheduled to meet to review the monthly financial information, if any Committee member thinks this would be beneficial prior to a Board meeting.

### 2.6.2 Framework for conduct of meetings

The following is a minimum but not all inclusive framework for the conduct of these meetings:

<i>Minimum Framework for the Committee Meetings' Agenda</i>	<i>Feb</i>	<i>May</i>	<i>Aug</i>	<i>Nov</i>
<b>External Audit</b>				
• Consider the obligation to provide information to the External Auditor	X	X	X	X
• Enquire as to independence of External Auditor	X	X	X	X
• Obtain a report on the progress of the external audits	X	X		X
• Review the effectiveness of the external audit				X
• Consider targeted reviews		X		
• Consider matters that may impact on the External Audit report		X		
• Consider the External Auditor independence declaration			X	
• Review of the External Auditor reports on ASIC Form FS71.			X	
• Review the External Auditor's report up to the latest balance date detailing the External Auditor's opinions as to whether: <ul style="list-style-type: none"> <li>- the Group has observed all the prudential standard requirements which APRA has set for the Group;</li> <li>- the statistical and financial data provided by the Group to APRA are reliable</li> <li>- the Credit Union has complied with statutory banking requirements, any conditions on the authority to carry on banking business, and any other conditions imposed by APRA in relation to the Group's operations; and</li> <li>- there are any matters which, in the auditor's opinion, may have the potential to prejudice materially the interests of depositors of the Credit Union.</li> </ul>			X	
• Review of the external audit reports on ASIC Form FS71			X	
• Review of external audit issues			X	

<i>Minimum Framework for the Committee Meetings' Agenda</i>	<i>Feb</i>	<i>May</i>	<i>Aug</i>	<i>Nov</i>
<ul style="list-style-type: none"> <li>Review of external audit report on the adequacy of compliance with prudential standards.</li> </ul>			X	
<ul style="list-style-type: none"> <li>Consider tripartite arrangements (APRA, External Auditor and Community CPS Australia)</li> </ul>				X
<ul style="list-style-type: none"> <li>Review of external auditors fee for the next year</li> </ul>		X		
<ul style="list-style-type: none"> <li>Review external audit plan including engagement letter. The Committee will discuss <ul style="list-style-type: none"> <li>the scope of and proposed plans for the audit.</li> <li>any suggested changes in the Group's accounting policies.</li> <li>recent developments in accounting standards and practices that may affect the Group.</li> </ul> </li> </ul>		X		
<b>Internal Audit</b>				
<ul style="list-style-type: none"> <li>Consider progressive report from the Internal Audit Manager on the internal audits, special investigations, and procedure appraisals completed or in progress.</li> </ul>	X	X	X	X
<ul style="list-style-type: none"> <li>Review of any internal control issues and compliance issues advised by management</li> </ul>	X	X	X	X
<ul style="list-style-type: none"> <li>Enquire as to Internal Audit's independence</li> </ul>	X	X	X	X
<ul style="list-style-type: none"> <li>Review performance of internal audit during the year. The Internal Audit Manager shall present to the Committee a report on the following: <ul style="list-style-type: none"> <li>A summary of audits and procedure appraisals contained in the current Internal Audit program that <b>may not</b> be completed by the end of the current financial year.</li> <li>Reasons for non-completion.</li> </ul> </li> </ul>		X		
<ul style="list-style-type: none"> <li>Review and approve the internal audit program for the next year.</li> </ul>		X		
<ul style="list-style-type: none"> <li>The Internal Audit Manager shall present to the Committee a report on the following: <ul style="list-style-type: none"> <li>a summary of audits, special investigations and procedure appraisals contained in the previous year's audit program that <b>were not</b> completed; and</li> <li>reasons for non-completion.</li> </ul> </li> </ul>			X	
<ul style="list-style-type: none"> <li>The Internal Audit Manager shall present to the Committee a proposed plan to complete audits, special investigations and procedure appraisals not completed during the previous financial year.</li> </ul>			X	
<i>Minimum Framework for the Committee Meetings' Agenda</i>	<i>Feb</i>	<i>May</i>	<i>Aug</i>	<i>Nov</i>
<b>Finance</b>				

<i>Minimum Framework for the Committee Meetings' Agenda</i>	<i>Feb</i>	<i>May</i>	<i>Aug</i>	<i>Nov</i>
• Consider financial reporting obligations	X	X	X	X
• Review the information and its appropriateness in the monthly financial reports provided to the Board for each of the entities and in a consolidated form. The Committee will review the monthly financial reports in the months it meets and will make recommendations to the Board as required.	X	X	X	X
• Review any emerging issues relating to the year end financial report (eg. changes to legislation, APRA prudential standards, accounting standards, etc.)		X		
• Before the financial statements are submitted to the Board for approval the Committee shall discuss : <ul style="list-style-type: none"> <li>– the results of the audit;</li> <li>– the External Auditors evaluation of internal control procedures, i.e. reports relating to internal control deficiencies and recommendations for improvements;</li> <li>– the External Auditors overall evaluation of the financial report;</li> <li>– management's overall evaluation of the financial report; and</li> <li>– events subsequent to Balance Date.</li> </ul>			X	
<b>Compliance</b>				
• Ensure all statutory requirements are met.	X	X	X	X
• Review annual report on compliance with legislation, codes of conduct, and any other regulatory and industry requirements.			X	
<b>Risk Management and Fraud</b>				
• Review the Fraud Incident Schedule & Fraud Risk Profile to ensure that material fraud losses are reported to the Board and recognised in the financial reports.	X	X	X	X
• New initiated and on going fraud investigations.	X	X	X	X
• Consider the Risk Committee Meetings Minutes, and any matter that may need to be addressed by/for the Audit and or Finance Department.	X	X	X	X

The Committee shall at any of its meetings, when necessary, consider post Audit letters of comment received from the External Audit and responses from Management to points raised.

### **3. QUESTIONS FOR DISCUSSION AT COMMITTEE MEETINGS**

The following is a list of questions that might help to clarify important matters and to stimulate discussion.

It is not a comprehensive checklist because the nature of credit unions, the backgrounds of committee members, and the extent of prior discussion with management and the course of current economic events will all tend to shift the focus of questioning.

It has been designed for a single annual meeting, but many of these matters could be discussed at meetings earlier in the year, particularly those relating to the scope of the audit.

Although some of the questions are suggested for private discussion with the auditors, the committee may prefer all parties present to ensure everyone has an opportunity for comment or rebuttal.

### **3.1 Financial Report and Transactions**

A detailed review of the annual financial reports should be made. The following general questions normally would be directed to management in the presence of the auditors. The auditors should be asked to comment on the responses.

- 1) Does the financial report satisfy all statutory disclosure requirements to which the Group is subject?
- 2) Is the financial report prepared in accordance with the best prevailing professional disclosure standards and if not, what adjustments would be required to meet these standards?
- 3) Have there been any changes in the accounting policies used during the year or changes in the method of applying those policies? If so, why? What has been the effect? What alternatives were considered? Do the auditors concur with the changes?
- 4) Are there any changes pending or in prospect in statutory, or professional requirements and standards that might affect future disclosure and if so, what are they and should they be incorporated at this time?
- 5) Are the Group's accounting principles in common usage, both in business in general and in the industry in particular?
- 6) Are the Group's financial reports comparable in extent and method of disclosure with other credit unions and companies in similar situations and industries?
- 7) Did any significant events occur during the year such as the acquisition of a subsidiary or disposing of a significant segment of the business? If so, how were these transactions treated in the financial report?
- 8) Are there any unusual items (prior period adjustments, extraordinary items, reserve transfers, etc) in the financial report and if so, what accounting treatment has been given them and what were the alternatives?
- 9) Were there any items of considerable significance, which were not given separate disclosure in the financial report? If so, what were they and what would the separate disclosure have been?

### **3.1 Financial Report and Transactions (continued)**

- 10) Are the financial reports significantly affected by transactions, which were not at arm's length, and if so, what was the impact of such transactions on the truth and fairness of the report?
- 11) Have there been any significant events since balance date that, if not disclosed, could affect the truth and fairness of the financial reports?
- 12) Are there any funds of the Group or any affiliate available for the discretionary use of a senior management officer? If so, what are the nature and volume of disbursements out of such funds? Have the auditors examined the supporting documentation?
- 13) Are there any significant arrangements in existence with members, suppliers, agents or employees of the Group or any affiliate that the Directors might perceive to be unusual or potentially embarrassing?
- 14) Is management aware of any transactions pending that could have a significant influence on the Group's financial position or future operations?
- 15) Is management satisfied both with their relationship with the auditors and the work the auditors carried out?
- 16) Is the full intent of the audit being satisfied?

### **3.2 Auditor's Report and Scope of the Audit**

The Committee should review the wording of the audit report in detail and inquire about the significance of any deviations from the standard form. The following questions would normally be directed to the auditors in the presence of management.

- 1) What was the scope of the audit in terms of subsidiary companies audited, locations visited, etc? What was omitted and why?
- 2) What was the basic audit approach? That is, was it systems orientated or approached by detailed tests of transactions? Were computer operations covered adequately? How did the auditors determine the level of materiality used during their audit? Were there any changes in audit emphasis during the year?
- 3) What was the timing of the audit? When were the systems reviewed? What verification steps were carried out prior to the year-end? How were transactions between the verification date and the year-end covered?
- 4) To what extent was the work of the internal auditors integrated with the work of external auditors? Is there scope for further integration? Are the auditors satisfied with the balance between internal controls in force and the costs of additional controls? (There are always some controls possible to increase the Group's security but they may cost more than is warranted by the risk).
- 5) Do the Auditors have any comments on the quality of the internal accounting records, internal accounting policies and the dissemination of those policies, the extent of adherence to directors' resolutions and the timeliness and completeness of reports to directors and members of management?
- 6) If other auditors were involved in any part of the work, what are the terms for the relationship with those other auditors? How frequent and in what form is the contact with the other auditors? To what extent do the auditors review the work performed by the other auditors? Are there any issues arising from the other auditors' work of which this committee should be made aware?

### **3.3 Questions for Private Discussions with the Auditors**

- 1) Did the auditors receive full co-operation from all management personnel? Was there any attempt, either overt or covert, to restrict the scope of the auditor's work in any way?
- 2) Did the auditors have any significant disagreements with management as to accounting policies or financial statement disclosure or any differences of opinion relating to the amount of judgement items such as depreciation, allowance for doubtful accounts, provisions, etc? How were such matters resolved?
- 3) Are the auditors aware of any illegal, improper or other questionable payments, or of any activities or transactions which could embarrass either the directors or the Group should these matters come to the attention of the public?
- 4) Have the auditors any comments with respect to the competence of the Group's financial management?
- 5) Are there any other matters that, in the opinion of the auditors, require investigation? Consider here potentially sensitive subjects such as conflicts of interest, incompetent or inadequately trained personnel, etc? Consider also proposed new systems (particularly computer systems), tax problems, asset valuation, inadequate budgeting, or any other matters not related directly to the statutory audit function.
- 6) Are there any procedural changes recommended to improve on operational performance of the credit union?