



Deposit Guarantee Corporation of Manitoba
La Société d'assurance-dépôts du Manitoba

Guideline

Subject: Prudential Standards - Guidance Framework (CUCM)

Effective Date: July 1, 2022

Table of Contents

1.0	INTRODUCTION	1
1.1	PRUDENTIAL STANDARDS	1
1.2	PURPOSE AND OBJECTIVE OF THE GUIDANCE FRAMEWORK	1
2.0	PRUDENTIAL STANDARD 1 – CORPORATE GOVERNANCE	2
2.1	OBJECTIVE.....	2
2.2	SUGGESTED APPROACH FOR COMPLIANCE	2
	Leadership.....	2
	Oversight	4
3.0	PRUDENTIAL STANDARD 2 – STRATEGIC MANAGEMENT	5
3.1	OBJECTIVE.....	5
3.2	SUGGESTED APPROACH FOR COMPLIANCE	5
	Corporate Vision, Mission, and Business Objectives	5
	Strategic Plan	6
4.0	PRUDENTIAL STANDARD 3 – RISK MANAGEMENT	8
4.1	OBJECTIVE.....	8
4.2	SUGGESTED APPROACH FOR COMPLIANCE	9
	Enterprise Risk Management	9
	Human Resource Risk.....	11
	Systems Credit Risk - Central Credit Committee (CCC).....	12
	Investment and Lending Risk	13
	Capital Risk.....	13
	Systemic Liquidity Risk (Liquidity Pool Management)	14
	Information Technology Risk	14
	Outsourcing Risk	15
	Outsourcing and Investment Risk – System Support Entities	16
	Business Continuity Risk	17
	Regulatory Compliance Risk	18
5.0	PRUDENTIAL STANDARD 4 – INTERNAL CONTROL STRUCTURE	19
5.1	OBJECTIVE.....	19
5.2	SUGGESTED APPROACH FOR COMPLIANCE	20
	Internal Control Environment and Internal Controls.....	20
	Audit Function.....	22

1.0 Introduction

1.1 Prudential Standards

On July 1, 2022, DGCM issued new Prudential Standards pursuant to s. 159.2 of *The Credit Unions and Caisses Populaires Act*. Credit Union Central of Manitoba (CUCM) must comply with the Prudential Standards (s. 159.2).

The Prudential Standards are available at this link:

<https://web2.gov.mb.ca/laws/regis/annual/2022/090.pdf>

The Prudential Standards contain rules respecting cu/caisse capital, liquidity, investments, lending, and other matters.

1.2 Purpose and Objective of the Guidance Framework

The purpose of this Guidance Framework is to assist CUCM's Board and Senior Managers with the development of governance practices, strategic management, risk management, and internal control practices in order to comply with DGCM's Prudential Standards.

This Guidance Framework contains a set of principles that assist CUCM to direct and manage its operations in a prudent, effective, and appropriate manner.

DGCM has developed four Standards:

- Prudential Standard 1 – Corporate Governance
- Prudential Standard 2 – Strategic Management
- Prudential Standard 3 – Risk Management
- Prudential Standard 4 – Internal Control Structure



2.0 Prudential Standard 1 – Corporate Governance

2.1 Objective

CUCM must effectively direct, oversee, and manage its business activities and ensure that performance, accountability, and integrity are achieved.

Corporate Governance is defined as a set of relationships between management, board, members and other stakeholders. Appropriate organizational structures, policies and other controls help promote, but do not ensure, good corporate governance. Effective corporate governance is the result of the structure and behavioral factors driven by dedicated directors and management performing faithfully their duty of care and loyalty.

A corporate culture that supports and provides appropriate norms and incentives for professional and responsible behavior is an essential foundation of good governance. The Board is expected to take the lead in establishing the tone at the top, and in setting professional standards and corporate values that promote integrity for itself, senior management and other employees.

What makes organizational structures and policies effective, in practice, are knowledgeable and competent individuals with a clear understanding of their role and a strong commitment to carrying out their respective responsibilities.

The care, diligence, and prudence exhibited by CUCM's Board and Chief Executive Officer (CEO) have a critical influence on CUCM's viability, safety, and soundness, and its ability to achieve its business objectives.

Corporate Governance involves the following key elements:

- Leadership
- Oversight

2.2 Suggested Approach for Compliance

Leadership

Leadership is the responsibility to set direction, establish structures of governance, and foster ethical conduct. It is the duty of the Board to establish strategic direction and ensure ongoing effective governance.



Guideline – Prudential Standards (CUCM)

The Board appoints the CEO and assigns authority to the CEO and Senior Management. The CEO is accountable to the Board. The CEO's duty is to plan, communicate, and set in motion the action to meet the Board's strategic direction.

Board of Directors Responsibilities

- Establish the strategic direction (*Refer to Prudential Standard 2 for more information*)
- Understand the significant risks and confirm that appropriate policies and procedures are followed to manage and mitigate risk (*Refer to Prudential Standard 3 for more information*)
- Establish an appropriate committee structure with documented responsibilities and authority
- Approve the organizational structure
- Understand the role of the Board vs. the role of CEO
- Formally establish the authority and accountability of the CEO
- Determine the desired qualifications of a CEO
- Appoint a CEO with the qualifications and competencies necessary to provide prudent management and leadership
- Approve appropriate policies
- Establish standards for business conduct and ethical behavior for Directors, management and staff, and obtain reasonable assurance of compliance
- Determine the desired qualifications of Directors, ensuring a balance of expertise and experience
- Ensure adequate Board and CEO succession plans are in place
- Encourage and provide training opportunities for Directors
- Exercise independent judgment, contracting external resources to obtain objective advice when necessary
- Maintain effective relations with the CEO, Senior Management, auditors, credit unions and the Caisse (cu/caisse) and DGCM

CEO Responsibilities

- Establish and execute plans that support the strategic direction (*Refer to Prudential Standard 2 for more information*)
- Identify the significant risks and implement an appropriate enterprise risk management (ERM) program (*Refer to Prudential Standard 3 for more information*)
- Develop and recommend policies for Board consideration
- Document procedures for the effective implementation of approved policies
- Communicate strategic plans and policies
- Develop and recommend business conduct and ethical behaviour standards for Board consideration



Guideline – Prudential Standards (CUCM)

- Establish and delegate, in writing, the authority and accountability of Senior Managers and staff
- Maintain effective relations with Board, staff, members, auditors, CUCM, and DGCM and other stakeholders.

Oversight

Oversight is the active stewardship and supervision of the operating environment. It is the duty of the Board to evaluate and regularly review policies, compliance with regulation, and performance of the CEO. It is the CEO's duty to ensure the Board has adequate information to make informed judgments, and to provide information about the control environment.

Board of Directors Responsibilities

- Annually evaluate the effectiveness of the CEO in managing operations in accordance with the business objectives, strategies, policies, and regulatory requirements
- Establish a process for regularly reviewing Board policies and approve policy changes
- Review and approve any proposed exceptions to policy
- Maintain an appropriate CEO compensation program which does not compromise CUCM's viability, solvency, and reputation
- Obtain reasonable assurance from the CEO that operations are conducted in a control environment that supports achievement of business objectives, and effective and prudent management of operations (*Refer to Prudential Standard 4 for more information*)
- Seek independent/audit validation that processes, policies, procedures, and controls are implemented (*Refer to Prudential Standard 4 for more information*)
- Monitor and obtain reasonable assurance of compliance with legislation, Prudential Standards, articles, and bylaws
- Annually evaluate the quality and effectiveness of the Board's performance
- Represent the interests of member credit unions

CEO Responsibilities

- Facilitate Board oversight by providing timely, accurate, relevant, and reliable reporting
- Assess and validate the effectiveness of the control environment (*Refer to Prudential Standard 4 for more information*)



3.0 Prudential Standard 2 – Strategic Management

3.1 Objective

CUCM must ensure that business operations are effectively planned, executed, and monitored.

Strategic management is the continuous planning, goal-setting, monitoring and realignment to achieve CUCM's business objectives. It is an integral function of managing the organization.

Effective strategic management empowers the Board and Senior Management to set the direction over the long term, to ensure short term plans and goals support this direction, to follow a sustainable business model to ensure its future viability, support its member credit unions and their business needs, and to avoid management by crisis.

Strategic Management includes the following key elements:

- Corporate Vision, Mission, and Business Objectives
- Strategic Plan

3.2 Suggested Approach for Compliance

Corporate Vision, Mission, and Business Objectives

The corporate vision is a statement that describes the long term direction of an organization. The corporate mission is a statement that defines its purpose and its values, and sets standards against which future decisions are evaluated.

Business objectives articulate long and short-term operating and financial goals. They provide the parameters for establishing a strategic plan, assessing activities, and evaluating the CEO's performance.

Board of Directors Responsibilities

- Determine the corporate vision and mission
- Establish the strategic direction
- Approve business objectives
- Stay informed about current business and economic trends
- Periodically review the corporate vision and mission to ensure that the statements remain relevant
- Regularly review business objectives to ensure they align with the strategic direction



CEO Responsibilities

- Draft and recommend business objectives for Board approval

Strategic Plan

The strategic plan states how an organization will follow its strategic direction to achieve its corporate vision and mission, and meet its business objectives.

The strategic plan establishes benchmarks to monitor performance. It considers the business, economic, and competitive environments, the financial position, and the significant risks in its current and planned activities. It should plan for CUCM to fulfill its role as manager of the cu/caisse Systems' Liquidity Pool and plan to meet the needs of its member credit unions.

A strategic plan may include the following:

- A scan of the environment
- The type of business activity
- The channels to conduct the business activity
- The significant risks
- The key functions and resources needed to conduct the business activity
- The expected long and short-term operating and financial results

In CUCM's annual operational plan, its operational objectives should be integrated with and support the strategic plan and should include measurable benchmarks.

Board of Directors Responsibilities

- Understand CUCM unique business model and mandate under the Act
- Understand the environment in which CUCM and its member credit unions operate
- Understand the significant risks to which CUCM and the cu/caisse are exposed, particularly Systemic Liquidity risks
- Approve the strategic plan and regularly review its implementation



Guideline – Prudential Standards (CUCM)

CEO Responsibilities

- Understand the environment in which CUCM and the cu/caisse operates
- Identify risks in achieving CUCM's strategic plan
- Develop a strategic plan to achieve the business objectives
- Develop a budget and annual operational plan for Board approval that supports the strategic plan
- Implement and manage the strategic plan, operational plan, and budget
- Regularly review the strategic plan with the Board and consider:
 - Current and anticipated conditions
 - Appropriateness of the plan given the environment, CUCM's performance, and resources
 - Sustainability in both the short and long term
 - Meeting of capital and profitability targets
 - Meeting the liquidity needs of cu/caisse
- Provide the Board with reliable, timely, and meaningful reports on:
 - Implementation of the strategic plan
 - CUCM performance in relation to the strategic plan, operational plan, and budget
 - Corrective action to address the areas where performance does not meet expected results



4.0 Prudential Standard 3 – Risk Management

4.1 Objective

CUCM must have a comprehensive approach to identifying, managing, and controlling business and operating risks.

Risk taking is an integral part of a financial institution. CUCM is exposed to a number of risks that can adversely affect its ability to achieve its business objectives. CUCM's primary business objective is to manage the Liquidity Pool for cu/caisse.

CUCM must manage systemic liquidity risks. CUCM must also manage risks to its own capital position, profitability, and ensure it can continue to provide critical services to cu/caisse.

CUCM should be in a position to identify the significant risks it faces, assess their potential impact and have policies and controls in place to manage them effectively. The objective of risk management is not to eliminate risk, but to manage it appropriately. CUCM should manage risks within defined risk/reward tolerances, or within expected threshold levels.

CUCM needs a comprehensive risk management framework. The recommended framework is Enterprise Risk Management (ERM).

Risk management practices should address, at a minimum, the following risks:

- Human Resource Risk
- Systems Credit Risk – Central Credit Committee (CCC)
- Investment and Lending Risk
- Capital Risk
- Systemic Liquidity Risk (Liquidity Pool Management)
- Information Technology Risk
- Outsourcing Risk
- System Support Entities: Outsourcing and Investment Risk
- Business Continuity Risk
- Regulatory Compliance Risk

An effective risk management framework and internal control structure should cover all operational risks. Operational risk is the risk of loss resulting from people, inadequate or failed internal processes and systems, or from external events.

All risks should be mitigated through an organization-wide effort that incorporates a three-line defense: business line processes and controls, risk management and internal oversight



activities, and internal audit. These Prudential Standards provide guidance on all three lines of defense.

4.2 Suggested Approach for Compliance

Enterprise Risk Management

ERM enables CUCM to employ an organization wide framework that supports the identification, assessment, and management of significant risks, and facilitates the creation of appropriate risk management practices. DGCM issued **Enterprise Risk Management (ERM) Guidelines** to provide supplementary guidance to these Prudential Standards and better define DGCM's expectations.

CUCM should implement an ERM Policy which establishes the ERM framework. The ERM Policy should include a risk management philosophy that sets the tone for CUCM's approach to risk management and defines its risk culture. This policy should also establish risk appetites and tolerances for all key business risks.

The ERM Policy must define a risk identification and reporting process and involves these five components:

- Risk Identification
- Risk Assessment and Measurement
- Risk Response and Action
- Reporting
- Monitoring

Board of Directors Responsibilities

- Develop and adopt a risk management philosophy
- Understand the key risks facing CUCM and evaluate these risks regularly
- Regularly review and approve an ERM Policy
- Regularly review and approve appropriate and prudent risk management policies
- Confirm that CUCM has an appropriate and effective ERM process and oversee that process



Guideline – Prudential Standards (CUCM)

CEO Responsibilities

- Identify risks, assess their significance, and determine a method for measuring and reporting those risks to the Board
- Develop and implement the ERM Policy, framework, and process
- Develop, recommend, and maintain appropriate and prudent risk management policies
- Develop and implement effective risk management procedures and controls
- Regularly review risk management procedures and controls
- Ensure that risk management reporting systems are in place to facilitate the monitoring of significant risks
- Ensure that appropriate mitigating controls are established when key risks or emerging risks are identified.
- Provide the Board with appropriate information or reports on key or emerging risks



Human Resource Risk

Human resource risk is the risk of failure to attract or retain qualified employees, and the risk of human error, negligence, or misconduct.

Human resource risk management policies and practices may address the following:

- Recruitment
- Confidentiality of employee information
- Training/education
- Performance management
- Compensation/retention
- Succession
- Termination

Board of Director Responsibilities

- Establish a human resource and compensation philosophy
- Regularly review and approve appropriate and prudent human resource policies that support the corporate culture
- Review and approve compensation programs that are consistent with the compensation philosophy and do not encourage unnecessary risk taking that could lead to financial or reputational loss

CEO Responsibilities

- Develop, recommend and maintain human resource management and compensation programs and policies which are in compliance with regulatory requirements
- Ensure the levels of authority delegated to managers and employees are reasonable and prudent, and are documented and acknowledged by employees in writing
- Maintain an organizational structure and staffing appropriate for the size and complexity of CUCM
- Document job descriptions and responsibilities for all employee positions
- Ensure employees receive clear communication regarding their individual responsibilities and acknowledge these in writing
- Encourage employees to maintain on-going training in line with their job duties and responsibilities
- Recommend and maintain succession plans appropriate for the size and complexity of CUCM
- Provide the Board with appropriate reports that will enable them to monitor the effectiveness of human resource management practices



Systems Credit Risk - Central Credit Committee (CCC)

CUCM provides credit adjudication services to cu/caisse through its Central Credit Committee (CCC). The CCC also provides expert lending advice and education. The primary role of the CCC is to approve cu/caisse loan applications in excess of discretionary lending limits established by DGCM. The CCC also works with DGCM to develop Model Loan policies for cu/caisse.

CCC's jurisdiction and role flows from the Act and Regulations along with policies set by DGCM.

CUCM should ensure that it maintains appropriate policies governing the CCC that address the following:

- Compliance with the Act, Regulations and DGCM policy respecting the jurisdiction and role of the CCC
- The process for approval and maintenance of Model Loan policies
- Loan adjudication including authority levels, confidentiality of data and information, adjudicator impartiality and independence, and reporting relationships
- Guidance respecting other service functions that CCC will fulfill such as providing appropriate oversight of cu/caisse lending, general advice, training and loan transaction reviews, and other services where required

Board of Directors Responsibilities

- Approve policies governing the CCC's operations
- Ensure CCC has been allocated adequate resources to undertake its adjudication role and to provide lending advice and credit oversight services to cu/caisse
- Review and discuss information and reports prepared by management on CCC activities

CEO Responsibilities

- Develop, recommend, and maintain prudent credit risk management policies and procedures that govern CCC loan adjudication
- Ensure that Model Loan policies are updated regularly
- Make recommendations to the Board respecting CCC's budget
- Ensure the CCC organizational structure, staffing, functional reporting relationships, and risk management practices provide adequate oversight over cu/caisse lending
- Provide the Board with information and reports on CCC activities
- Provide DGCM with appropriate reports respecting credit approvals and loan transaction reviews to enable them to monitor the effectiveness of the credit adjudication process
- Ensure that adjudicators have a sufficient degree of independence to render credit decisions and demonstrate impartiality



Guideline – Prudential Standards (CUCM)

- Ensure that confidentiality is maintained respecting specific loan files with disclosure on a need-to-know basis

Investment and Lending Risk

Investment risk is the potential loss, or liquidity deficiency resulting from CUCM's investment strategy. This strategy should follow a prudent person approach to mitigate risk and obtain a reasonable return. Credit risk is the potential financial loss resulting from any third's party failure to honour its obligations to CUCM.

CUCM investment and credit risk management should be closely aligned with its liquidity risk management framework.

DGCM has issued **Prudent Person Guidelines (CUCM)** that require CUCM to adhere to policies, standards, and procedures that a reasonable and prudent person would apply to a portfolio of investments and loans to avoid undue risk and obtain a reasonable return.

Capital Risk

Capital risk is the potential failure to maintain sufficient quantity and quality of capital and plan for future capital requirements.

Adequate capital is critical for CUCM's overall safety and soundness and should be assessed in view of the risks facing the organization. CUCM is expected to follow effective capital risk management practices.

The **Prudential Standards** establish minimum capital adequacy requirements that CUCM must meet at all times. DGCM has issued **Internal Capital Adequacy Assessment Process (ICAAP) Guidelines (CUCM)**. The ICAAP Guidelines require CUCM to implement a comprehensive process that establishes internal capital targets which can serve as a buffer over minimum capital requirements.



Systemic Liquidity Risk (Liquidity Pool Management)

Liquidity risk is a potential failure to meet day-to-day cash commitments including payment and settlement obligations. Given CUCM's role as the manager of the Systems' liquidity reserves in a mandatory liquidity pool, CUCM must mitigate liquidity risk at the systemic level and ensure that all cu/caisse can meet member demand for withdrawals in both normal and stressed conditions.

DGCM has issued comprehensive **Systemic Liquidity Risk Guidelines (CUCM)** that establish principles CUCM must adhere to in order to manage the liquidity pool and manage systemic liquidity risk.

Information Technology Risk

Information Technology (IT) risk is the potential financial, operational, and reputational loss resulting from CUCM's failure to safeguard IT assets and information and ensure the continuity of services and operations.

CUCM plays a major role in the banking systems platform for many of the Manitoba cu/caisse. It is also heavily involved in the payments and settlement functions for cu/caisse. The stability and security of these functions must remain a strong focus of CUCM's IT risk mitigating strategies.

DGCM issued **Information Technology (IT) and Outsourcing Guidelines** to provide supplementary guidance to these Prudential Standards.

IT risk management policies and practices should address the following:

- Identification and analysis of key IT risks and risk tolerances
- Formal IT risk assessment process
- Robust information security control framework that meets acceptable standards for confidentiality, integrity, and availability
- Prioritization of IT security for core banking systems
- Regular IT audits that prioritize the review of information security controls and banking system security and integrity
- Establishment of disaster recovery plans

Board of Directors Responsibilities

- Establish risk tolerances with respect to IT functions
- Ensure CUCM has an appropriate IT governance framework
- Provide strategic direction and oversight of the IT function and environment
- Regularly review and approve appropriate and prudent IT policies



Guideline – Prudential Standards (CUCM)

- Ensure CUCM performs regular IT audits and reviews findings

CEO Responsibilities

- Implement the IT governance framework
- Follow the Board's strategic direction and drive the IT function
- Develop, recommend, and maintain IT policies
- Implement a robust information security control framework that meets acceptable standards for confidentiality, integrity, and availability
- Ensure appropriate oversight of IT risks
- Ensure that personnel responsible for IT have adequate resources and training to execute their roles
- Ensure that the IT function is audited on a regular basis with priority for review of information security controls and banking systems
- Ensure disaster recovery plans are in place
- Provide the Board with appropriate reports, IT risk assessments and audit findings to enable it to perform its oversight function

Outsourcing Risk

Outsourcing occurs when a process or function that could be performed by CUCM is delegated to a service provider. Outsourcing risk is the potential financial or reputational loss resulting from the failure of a service provider to perform a function adequately.

DGCM issued **Information Technology (IT) and Outsourcing Guidelines** to provide supplementary guidance to these Prudential Standards.

Outsourcing risk management policies and practices should address the following:

- Formal contracts for material outsourcing agreements
- Criteria for choosing outsourcing partners (due diligence)
- Privacy, confidentiality, and security of information
- Access to premises and technology resources
- Accuracy and timeliness of work performed
- Performance monitoring and scheduled review for material contracts
- Dispute settlements

Board of Directors Responsibilities

- Regularly review and approve appropriate and prudent outsourcing policies
- Understand key risks related to material outsourcing contracts



Guideline – Prudential Standards (CUCM)

- Understand the business case and key risks for outsourcing a business function

CEO Responsibilities

- Develop, recommend, and maintain outsourcing management policies
- Determine circumstances in which outsourcing should be considered: cost, strategic analysis, and business case
- Conduct due diligence on service providers to assess their capability, expertise, financial strength and track record
- Ensure all material outsourcing agreements are subject to a formal written contract
- Establish performance and quality standards and a right to audit in the contract to ensure security and continuity of service
- Monitor the performance of service providers
- Provide the Board with appropriate reports so it can understand key risks related to material outsourced contracts

Outsourcing and Investment Risk – System Support Entities

CUCM invests in various support entities with other Canadian centrals to provide core services to cu/caisse. Given CUCM's minority ownership in these support entities, the reliance placed by cu/caisse on CUCM, and the critical services provided by these entities, CUCM must ensure that adequate risk management practices are followed by the support entities.

The same IT and Outsourcing Prudential Standards described above apply to CUCM's oversight of support entities. However, additional risk management practices may be required given CUCM's ownership or control interest in the entity and the systemic nature of risks associated with outsourcing to these entities.

Board of Directors Responsibilities

- Ensure that appropriate governance and management structures exist at each support entity
- Understand the nature of the investment and CUCM's oversight role
- Understand the key risks to CUCM and cu/caisse

CEO Responsibilities

- Ensure that the CUCM and cu/caisse oversight responsibilities are being appropriately fulfilled and there is clarity among cu/caisse and CUCM as to where accountability lies
- Provide the Board with reports respecting:
 - the investment, IT, and outsourcing risks associated with support entities
 - risk mitigation actions



Guideline – Prudential Standards (CUCM)

- confirmation that the support entities are providing the required services and meeting the goals of confidentiality, reliability, and integrity
- due diligence performed by CUCM or cu/caisse

Business Continuity Risk

Business continuity risk is the potential financial, operational and reputational loss resulting from an operational incident which threatens CUCM's ability to provide services to cu/caisse and their members.

Business continuity policies or plans should include organization wide plans to recover and restore functionality in the event of specified operational incidents.

Board of Directors Responsibilities

- Regularly review and approve appropriate and prudent business continuity risk policies or plans

CEO Responsibilities

- Develop, recommend, and maintain business continuity risk policies or develop specific business continuity plans
- Manage business interruption risk including through regular testing
- Provide the Board with appropriate reports that will enable it to monitor and evaluate any significant problems relating to business continuity risk



Regulatory Compliance Risk

Regulatory compliance risk is the potential financial or reputational loss due to non-compliance with laws, rules, and regulations. Non-compliance can affect reputation, safety, and soundness of CUCM and the cu/caisse systems.

DGCM expects every CUCM to establish an effective regulatory compliance framework. The compliance framework includes processes and controls that CUCM implements to manage and mitigate regulatory compliance risk.

Regulatory compliance risk management policies and practices may address the following:

- Establishment of a regulatory compliance framework to identify and manage regulatory compliance risk
- Assignment of responsibility and accountability
- Sufficient resources to support compliance activity including staff training and, where required, outsourcing to third parties for development or review of compliance processes, software, or applications

Board of Directors Responsibilities

- Regularly review and approve appropriate and prudent regulatory compliance policies
- Review reports from management regarding regulatory compliance including incidents of non-compliance
- Review third party reports including reports from regulators (e.g. FINTRAC)

CEO Responsibilities

- Develop, recommend, and maintain regulatory compliance policies and procedures
- Ensure that the staff assigned to perform these duties have appropriate expertise and training
- Provide the Board with appropriate reports that will enable it to monitor and evaluate regulatory compliance risk including incidents of non-compliance



5.0 Prudential Standard 4 – Internal Control Structure

5.1 Objective

CUCM must establish and maintain effective internal controls, and ensure these controls are reviewed and validated on a regular basis.

An effective internal control structure is comprised of the following key elements:

- Internal Control Environment and Internal Controls
- Audit Function

The internal control environment is the general attitude demonstrated by the Board and CEO in developing and maintaining an effective system of internal controls. The control philosophy, which is often referred to as the “tone at the top”, sets the foundation for all other components of internal control, providing discipline, support, and structure.

Internal controls protect the business activities, information, and assets. They commonly take the form of processes, policies, and procedures, and are embedded into business activities to manage risk and to assign responsibility to all employees.

The audit function is important in validating whether internal controls are effective and reliable. The audit function provides independent verification that internal controls are operating in a manner that contributes to effective and prudent management.

DGCM issued **Audit Committee & Internal Audit Guidelines** to provide supplementary guidance to these Prudential Standards.



5.2 Suggested Approach for Compliance

Internal Control Environment and Internal Controls

An internal control environment should address the following:

- A governance structure to manage and control business operations and risk
- Effective communications, focusing on timely, relevant, accurate, and reliable information provided to all levels of personnel
- An organizational structure to encourage cross-functional management of operations
- A set of appropriate and effective internal controls to support risk management principles
- A comprehensive reporting function to provide the Board with validation that the business operations/risks are effectively controlled

Board of Directors Responsibilities

- Establish an internal control philosophy that fosters an appropriate corporate culture
- Support the development and management of effective systems for internal controls
- Ensure internal control weaknesses are addressed
- Ensure the internal control environment contributes to CUCM's compliance with policies and regulatory requirements

CEO Responsibilities

- Set an appropriate “tone at the top” to reflect the importance of a robust internal control environment
- Establish an appropriate organizational structure
- Ensure CUCM has appropriate, effective, and reliable internal controls that support:
 - Monitoring of operations
 - Segregation of duties
 - Approval authorities
 - Physical and IT safeguards
 - Accounting and record keeping
 - Reporting from information systems
- Ensure that appropriate internal control procedures for approved policies are documented
- Communicate individual responsibilities for managing and controlling business operations
- Educate employees regarding the purpose and benefits of internal controls and the importance of respecting and complying with internal control systems



Guideline – Prudential Standards (CUCM)

- Regularly monitor the effectiveness of the internal control environment and all internal controls
- Provide the Board with accurate, timely, and reliable reports regarding the effectiveness of the internal control systems



Audit Function

The audit function validates that the internal control environment and internal controls are appropriate and effective. The audit function comprises:

- Audit Committee
- Internal Audit
- External Audit

DGCM issued **Audit Committee & Internal Audit Guidelines** to provide supplementary guidance to these Prudential Standards.

Audit Committee

The Audit Committee serves as the primary liaison between the Board and the internal and external auditors. The Audit Committee plays a key role in overseeing the integrity of management reporting, the mandate of the external/internal audit functions, and compliance with legal and regulatory requirements.

The Audit Committee has a functional reporting relationship with the external and internal auditors. It must review audit findings with the auditors, Board, and management.

The regulatory responsibilities of the Audit Committee are identified in *The Credit Unions and Caisses Populaires Regulations* and are also listed in DGCM's **Audit Committee and Internal Audit Guidelines**.

The Board should ensure that the Audit Committee has appropriate terms of reference that are regularly reviewed and describe its functional relationship with internal and external auditors. Audit Committee members cannot include the Board Chair and should be sufficiently independent and have appropriate expertise, as a whole, to perform their function.

Internal Audit

The role of the internal audit function is to evaluate the effectiveness of the internal control environment. The mandate of the function should be established in an internal audit charter. Every key process or significant business activity should fall within the risk assessment of the internal audit function.



Guideline – Prudential Standards (CUCM)

The internal audit function should:

- Execute the mandate approved by the Board and Audit Committee
- Independently assess compliance with internal controls
- Implement an appropriate and consistent risk-focused framework and approach
- Provide recommendations to improve processes and internal controls
- Follow-up on all recommendations
- Have access to the Audit Committee including in-camera meetings
- Provide independent reporting to the Audit Committee and the Board
- Be independent from the operations under review
- Have adequate expertise, including qualified audit professionals, and access to sufficient financial and other resources as required

External Audit

External auditors provide an independent opinion on CUCM's financial statements. In performing their audits, external auditors consider relevant internal controls but do not express an opinion as to their effectiveness. Specific duties of the external auditor are identified in *The Credit Unions and Caisses Populaires Act*.

Board of Directors Responsibilities

- Establish the mandate, responsibilities, duties, and authorities of the Audit Committee
- Approve the mandate of the internal audit function through the internal audit charter
- Ensure the internal audit function has a functional reporting relationship with the Audit Committee
- Ensure sufficient resources are allocated to the internal audit function
- Ensure the Audit Committee regularly reviews and approves the internal audit plan
- Seek validation that internal controls are effective and that appropriate action is taken to address significant weaknesses or failures

CEO Responsibilities

- Ensure the audit function has access to resources to evaluate the effectiveness of internal controls
- Review audit findings and recommendations and ensure that identified weaknesses or failures are addressed
- Ensure that the Board and Audit Committee receive appropriate audit reports and follow-up reports on actions taken to address weaknesses or failures

