

# SAMPLE CREDIT UNION INTERNAL AUDIT CHARTER

## Objectives

The internal audit function will provide independent internal oversight and evaluate and improve the effectiveness of the credit union's risk management, internal controls and governance processes. It is the policy of the Board of the credit union to have and to support an Internal Audit function that operates to best international standards.

## Independence and Objectivity

The role of Internal auditor is separate from other functions and does not engage in any other activity of the credit union, avoids conflicts of interests and is capable of operating independently of management and without undue influence over its activities.

Internal Audit is not part of the systems of governance, internal control, risk management or compliance but, rather is an independent appraisal function, which seeks to objectively and impartially review and report on those areas.

## Staffing & resources

Internal Audit will be given the multi-disciplinary resources it requires to adequately discharge its responsibilities.

## Authority and Access

The internal audit function shall have unrestricted and timely access, at all times, to the books, documents (including draft documents), personnel and physical properties of the credit union to enable it to carry out its functions under the Credit Union Act 1997 (as amended).

Internal Audit shall be afforded the full co-operation of all employees and agents of the Credit Union.

## **Scope of activities**

Internal Audit shall develop an overall audit strategy taking account, inter alia, of available resources, knowledge of the Credit Union, the work of external auditors and internal assurance providers, the Credit Union's risk assessment process and Internal Audit's own assessment of risk. Audits may range from periodic testing of transactions, best practice reviews, special investigations, appraisals of regulatory requirements to operational reviews and the detection of fraud.

Internal Audit shall:

- evaluate whether the risk management system, required to be maintained by a credit union under section 76B of the Credit Union 1997 Act 1997 (as amended), identifies and assesses significant risks in the credit union including the identification of operational risks, as required under section 76E of the Credit Union 1997 Act 1997 (as amended);
- ensure appropriate risk controls are selected that manage risks within the credit union's risk tolerance;
- ensure that relevant risk information is captured and communicated in a timely manner across the credit union, enabling officers of the credit union to carry out their responsibilities;
- evaluate the effectiveness of the credit union's information systems required under section 76G of the Credit Union 1997 Act 1997 (as amended);
- evaluate the accuracy, consistency, comprehensiveness, accessibility, timeliness, and security of management information required to be produced under section 76H of the Credit Union 1997 Act 1997 (as amended);
- review methods employed by the credit union to safeguard assets (including inspection and verification of cash, statements, bank reconciliations, securities and all records relating to loans and investments);
- assess the effectiveness of the compliance programme required under section 76B of the Credit Union 1997 Act 1997 (as amended), in ensuring compliance with legal and regulatory requirements and guidance<sup>6</sup>; and
- evaluate the effectiveness of the credit union's governance arrangements required under section 66A of the Credit Union 1997 Act 1997 (as amended).

## **Planning & Reporting**

Following consultation with Directors and review of risk analysis, the Internal Auditor will agree the internal audit plan with the audit committee.

The internal audit function shall report the results of its evaluations and recommendations to the audit committee on a quarterly basis. The internal audit function may report to the manager as appropriate, for example in relation to administrative issues such as human resource administration. Where a significant issue is identified in the course of the work of the internal audit function, this should be brought to the attention of the audit committee immediately.

The Internal Auditor will follow up on implementation of audit recommendations and report any significant non implementation to the audit committee.

**Reports will include the following:**

- the internal audit objectives, scope and work undertaken;
- an overall opinion on the effectiveness of the credit union’s risk management, internal controls and governance processes;
- internal audit findings including any weaknesses identified and the causes of such weaknesses;
- recommendations, ranked by priority, to address identified weaknesses;
- proposed action plans, including timelines, to implement recommendations; and
- an update on the implementation of action plans previously agreed by the audit committee including the status of open items.

**Procedures for Coordination between the internal audit function and the auditor**

The internal audit function should maintain open communication with the auditor. This should include a clear delineation of responsibilities, plans and procedures for cooperation to ensure effective audit coverage and to minimise duplication of effort

**Responsibilities of board of directors**

The audit committee should consider and review internal audit reports, ensure due consideration is given to recommendations of the internal audit function and ensure that there is appropriate follow-up on all weaknesses identified.

The board shall annually review the performance and effectiveness of the internal audit function, including reviewing and approving the internal audit charter and the internal audit plan and reviewing and approving any modifications to them, ensuring they are updated and that any issues identified in the review are managed and rectified in a timely manner.

The board of directors retains responsibility for the oversight of the internal audit function and for ensuring that the credit union complies with all requirements relating to the internal audit function.

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