

Directions for Assessing the Effectiveness of the Internal Audit Function in Credit Cooperatives

Date: 2018.07.10 (Amended)

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1. These Directions are set forth in accordance with Paragraph 2, Article 26 of the Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries to enhance the role and functions of the internal audit unit of credit cooperatives.

2. Assessment of the internal audit function in credit cooperatives will be conducted mainly through onsite inspection, which is supplemented by reviewing the internal audit reports submitted by credit cooperatives through the designated reporting system. Assessment will be conducted once every two years in principle.

3. Assessment items

Assessment items are categorized as follows with key assessment items in each category listed (see attachment):

(1) Internal audit organization and system

A. Manpower allocation and professionalism

- i. Personnel allocation, qualifications and training.
- ii. Audit training of respective unit's self-inspection personnel.

B. Independence

- i. Operation of the internal audit unit.
- ii. Appropriateness of the appointment, dismissal, promotion, reward/discipline, rotation, and performance review of

personnel in the internal audit unit.

C.Internal reporting

Interactions between internal audit unit and senior management.

(2)The performance of internal audit

A.Scope and depth of internal audit

- i. The frequency of internal audit, audit plan and execution of internal audit work as required by the competent authority.
- ii. The comprehensiveness of audit items (sampling).
- iii.The comprehensiveness of internal audit manual and appropriateness of audit trail (including working papers, review meeting minutes, and record of audit report modification) saved.

B.Internal audit results

The appropriateness of the content of internal audit reports.

(3)Follow-up operation

A.Internal audit management

- i. Supervising the formulation of contents and procedures for self-inspection by business and management units, and self-inspection conducted by each unit.
- ii.The filing of internal audit information.

B.The follow-up of deficiencies uncovered

The internal audit unit's follow-up of findings uncovered by financial examination authorities.

C.The reporting mechanism

The reporting of suspected fraud or significant contingent events and subsequent actions taken.

(4)Other items

Significant events other than those under the preceding

subparagraphs that may affect the performance of internal audit (including subsequent events).

4. Post-assessment supervisory measures

- (1) The assessment results will be used as reference in competent authority's decision to adjust examination frequency and financial supervision.
- (2) The competent authority will invite credit cooperatives that perform well in the internal audit function assessment to share their internal audit experience in internal audit seminars and forums for internal audit personnel of credit cooperatives, and require credit cooperatives to reward meritorious internal audit personnel.
- (3) The competent authority will invite a credit cooperative's chairman to discuss remedial actions and evaluate the capability of the credit cooperative's chief auditor if the credit cooperative performs poorly in the internal audit function assessment.