EM-31.8

Category: Board & Management Operations
Topic: Director Elections & Qualifications
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Overview

Board and management operations are heavily influenced by an institution's director election processes and the qualifications of board members. Farm Credit Administration (FCA) regulations and other guidance establish specific requirements for director elections and qualifications. Because the board establishes the institution's culture and guides overall operations, the election or appointment of qualified directors is key to a healthy institution. While elected directors play a vital role on the board, outside and other appointed directors are also very important. Outside and other appointed directors can provide financial and technical expertise to the board that may otherwise be limited. Further, training and self-evaluation programs help ensure the continued growth and education of all board members, thus enhancing their ability to skillfully guide the institution.

Examination Procedures and Guidance

General

1. Director Elections:

Evaluate processes and controls for nominating and electing board members.

Guidance:

An effective board of directors is a key ingredient for a healthy and successful cooperative. Director elections involve the membership in selecting qualified and diverse stockholders to serve as directors. Institutions use nominating committees and other election processes and controls, as outlined below, to carry out this important governance function.

Nominating Committees: One of the most important contributions a stockholder can make is to serve on the Nominating Committee. The committee's job is to identify, evaluate, and nominate candidates to stand for election to the institution's board. This helps ensure that director candidates have sufficient skills and experience to provide sound guidance and leadership to the institution.

An effective Nominating Committee is vital to ensuring sound governance. FCA Regulations identify specific Nominating Committee requirements as a framework for an effective committee; however, compliance with regulations means more than having policies, procedures, and processes that reflect the rules. Institutions need to also properly follow and implement those processes. Evaluative questions and items to consider when examining Nominating Committee compliance and effectiveness include:

- ***Regulatory Compliance:* Do Nominating Committee processes comply with regulatory requirements?** FCA Regulation 611.325 provides parameters for Nominating Committee powers, duties, and general operations. While the regulation sets forth general parameters, it requires each bank and association to have policies and procedures on its Nominating Committee to address the finer details of the committee's formation, composition, operation, resources, and duties. To aid institutions in developing these policies and procedures, FCA has supplemented the regulations with the following additional guidance:

    - FCA Bookletter BL-043 – Guidance on Farm Credit Bank and Association Nominating Committees
    - FAQs About Governance Changes in 2006 (see the *Nominating Committee* section)
    - The Role of Farm Credit System Nominating Committees (a brochure communicated to institutions in a November 9, 2010 Informational Memorandum)
    - The Director's Role (see the *Nominating Committee* section)

- ***Selection Process:* Is the process for finding Nominating Committee candidates effective?** In addition to meeting regulatory requirements, institution processes should be effective in identifying eligible, qualified candidates for stockholder election to the Nominating Committee. Sound business practices would include identifying alternative candidates (beyond the existing committee members) and identifying more candidates than there are positions, which gives stockholders a choice in the election process. Periodic turnover in the committee members is also beneficial, as it introduces fresh perspectives. Institutions that have a history of using the same individuals (or group of individuals) should be challenged to widen the search for committee candidates. Additionally, if director positions are based on regional, geographic, or commodity representation goals, having a similar representational structure for the Nominating Committee may be beneficial.

- ***Committee Responsibilities:* Is the Nominating Committee effective in carrying out its responsibilities?** Ultimately, the Nominating Committee's effectiveness is demonstrated through its ability to ensure competitive elections by identifying, evaluating, and nominating at least two qualified candidates for each director position. Institutions should have processes that ensure the committee receives and reviews all materials required by regulations. This includes evaluating potential candidates against the desired director qualifications policy, and considering any needs identified in the board self-evaluation, which the committee may request. In addition, FCA Regulation 611.325(d)(1) directs institution nominating committees to "...endeavor to ensure representation from all areas of [an institution's] territory and, as nearly as possible, all types of agriculture practiced within the territory." As an institution's borrower base becomes more diverse, we encourage the Nominating Committee to consider seeking out qualified candidates that are representative of diverse backgrounds and skills. Other considerations when evaluating Nominating Committee effectiveness include the following:

    - The identification and evaluation of director candidates is a difficult and time-consuming process that may take several months rather than one or two meetings. Among other duties, the Nominating Committee needs to orientate new members, review and discuss regulatory requirements, and review the large amount of information available to the committee. An institution must give the committee sufficient time and resources to complete its duties. *Note:* Management should ensure the committee has the information and resources it needs but should not be directly involved in committee activities. This is important to avoid potential conflicts of interest or interference with the process.

- The Nominating Committee may see its job as finding someone to run against the incumbent director, rather than finding the best qualified candidates. All candidates should be selected through a comprehensive evaluation process. The committee should not give special preference to incumbents, and there is no requirement that an incumbent be automatically nominated by the committee. Given this, look to the privacy of Nominating Committee meetings and if the committee has avoided even the appearance of influence over its activities by directors, officers, or employees.

Other Election Processes and Controls: FCA Regulations and other guidance identify several requirements related to director election processes and controls. The primary purpose of these requirements is to ensure elections are fair, impartial, and facilitate effective governance through implementation of cooperative principles. Evaluative questions and items to consider when examining these director election processes and controls include:

- ***Impartiality in Elections:*** **Does the institution remain impartial in director elections as required by FCA Regulation 611.320?** Institutions must adopt policies and procedures that ensure director elections are conducted in an impartial manner. Director candidates cannot be endorsed by the institution or its employees or agents. This is particularly important for incumbent directors so they are not given any favoritism or special treatment. Also, directors are prohibited from using their official capacity to take a position or campaign on behalf of anyone but themselves. The regulation also addresses the use of institution property, facilities, resources, and records to ensure equitable treatment for all candidates, including floor nominees. While the regulation outlines specific requirements, the overriding principle is that institutions, including officers, directors, employees, and agents, must remain impartial in director elections.

- ***Campaign Materials:*** **Are campaign and educational materials for director candidates handled in accordance with regulatory requirements?** FCA Regulation 611.320(e) prohibits institutions from distributing director candidate campaign materials. However, FCA Regulation 611.330(c) requires that institutions provide stockholders with disclosure statements prepared by each candidate that serve as educational materials to ensure an informed electorate. FCA Bookletter BL-056 clarifies the regulatory requirements by differentiating between campaign material and educational material. In general, campaign material is intended to influence stockholder voting decisions, while educational material is designed to inform voters of the candidate's background, experience, and qualifications. The Bookletter identifies specific expectations for addressing these materials as part of the impartiality in elections policy and procedures. The following provides additional guidance related to campaign and educational materials:

    - FCA Regulation 618.8310(b) requires institutions to provide a candidate (upon request) with a list of stockholders that can be used for distributing campaign materials.

    - Candidates should not use the Farm Credit System's Bio-star, the institution's logo, or other similar proprietary information in campaign materials. Institutions should address this in guidance and communicate it to candidates to help avoid an appearance that the institution has endorsed the candidate, which could result in a violation of FCA Regulation 611.320 on impartiality in elections.

  - FCA's FAQs About Governance Changes in 2006 (questions 33 and 34) discuss requesting and distributing educational and campaign materials.

- ***Floor Nominations:*** **Do floor nomination processes comply with regulatory requirements?** FCA Regulation 611.326 requires associations to allow floor nominations for every open stockholder-elected director position, and to adopt policies and procedures for making and accepting floor nominations. Banks that allow floor nominations must also adopt policies and procedures, and follow other related requirements. FCA Bookletter BL-055 provides additional guidance on floor nomination procedures. One important aspect discussed in both the Bookletter and the regulation is that institution policies and procedures do not have to require a second of a floor nomination; however, if any support for a floor nomination is required, it may not require more than a second. If this issue is not addressed in policies and procedures, then floor nominations do not need a second, although members may second a nomination to show support. After evaluating an institution's policies and procedures, examiners should review historical meeting records, disclosures, or other information to ensure compliance with policies, procedures, and regulatory requirements.

- ***Director Nominee Disclosures:*** **Do director nominee disclosure processes comply with regulatory requirements?** FCA Regulation 611.330 requires banks and associations to adopt policies and procedures that ensure a disclosure statement is prepared by each director nominee. These disclosure statements must be distributed to voting stockholders and include the information required by the regulation and referred to in FCA Regulation 620.6(e) and (f). Any person, including a floor nominee, who does not make the required disclosures under this regulation may not continue as a nominee or be placed on the ballot. These disclosures are part of the Annual Meeting Information Statement (AMIS) and ballots issued for director elections, pursuant to FCA Regulation 611.330(c).

- ***Confidentiality and Security in Voting:*** **Do election practices ensure confidentiality and security in voting?** FCA Regulation 611.340 requires banks and associations to have policies and procedures that ensure: 1) ballots will only be provided to the record date list of stockholders, 2) ballots and other election material will be adequately secured, and 3) certain information and materials regarding the election will remain confidential. Refer to the regulation for specific requirements. Institutions must either establish a tellers committee, consisting of voting stockholders, or hire an independent third party (e.g., an accounting or law firm) to validate and tabulate votes. Employees, directors, director nominees, and members of that election cycle's Nominating Committee are prohibited from serving on the tellers committee. A small number of institution administrative employees may assist the tellers committee in verifying a stockholder's eligibility to vote. The administrative employees may also be stockholders as long as there is no conflict of interest; however, they may not be members of the institution's management or leadership team. Verification of voter eligibility may be done in advance of the vote tabulation, but only after the record date list of voting stockholders has been provided to the tellers committee. The regulation also prohibits the use of signed ballots, and addresses proxy ballots and ballot security.

- ***Cooperative Principles in the Election Process:*** **Does the director election process promote the application of cooperative principles?** Following cooperative principles is key to System institution governance. FCA Regulations 611.350 and 615.5230 outline the requirements related to stockholder voting rights, including cumulative votes and holding regional voting in director elections, to ensure the proper application of cooperative principles. Internal controls should be sufficient to ensure processes for determining voting stockholders and conducting elections are sound, prevent manipulation, and comply with these regulatory requirements.

- ***Midterm Vacancies:*** **Have any midterm vacancies in stockholder-elected director positions been appropriately addressed?** Midterm director vacancies should be addressed in a reasonable and timely manner, consistent with the institution's bylaws. Institutions will typically have three options to fill midterm vacancies: have the board appoint a replacement to complete the term, hold a special election, or address the vacancy in the next regular election. However, institutions will need to accelerate the process if the board composition has fallen below the FCA Regulation 611.220(a)(2) mandatory minimum requirement that 60 percent of the board be stockholder-elected. Refer to questions 7 and 8 in the *Board Composition* section of FCA's FAQs About Governance Changes in 2006 for additional guidance.

Appointed Directors: Bank and association boards are allowed to appoint a limited number of directors. This includes both stockholders (appointed stockholder directors) and individuals with no System affiliation (outside directors). Each institution must always have at least one outside director, but may appoint more directors so long as stockholder-elected directors continue to constitute at least 60 percent of the members of each institution's board. The *Board Composition* section of FCA's FAQs About Governance Changes in 2006 answers common questions related to using this authority. Refer to FCA Bookletter BL-009 for specific guidance on board policy expectations and conflicts of interest for appointed directors. Also, refer to the examination guidance for the *Outside Director* procedure, as outside directors are the most common type of appointed director.

The following documents provide additional information and criteria related to election processes:

- FCA Regulation 611.110 on meetings of stockholders
- FAQs About Governance Changes in 2006 (see the *Director Elections and the AMIS* section)

2. Director Eligibility, Qualifications, & Training:

Evaluate the adequacy of policies and processes for director eligibility, qualifications, and training.

Guidance:

Institutions are to comply with director eligibility requirements contained in FCA Regulations and institution bylaws. Institutions are also required to establish a policy identifying desirable director qualifications. The policy on qualifications must be provided to the Nominating Committee for use in identifying director candidates. Once elected, each director must comply with the institution's policy regarding director training. These regulatory requirements are intended to promote strong corporate governance.

Evaluative questions and items to consider when examining policies and processes for director eligibility, qualifications, and training include:

- ***Eligibility for Board Membership and Subsequent Employment:*** **Are processes and controls sufficient to ensure compliance with director eligibility and subsequent employment**

restrictions? FCA Regulation 611.310 identifies eligibility and subsequent employment restrictions for bank and association board members. Institutions may have additional requirements in bylaws or policies. Processes and controls should be sufficient to ensure these eligibility and subsequent employment restrictions and requirements are followed. This should include making sure the Nominating Committee and board are aware of these restrictions and requirements. *Note:* Eligibility requirements included in bylaws or policies cannot exceed the scope of the institution's authority or be discriminatory. Also, the eligibility requirements may not deny a stockholder his or her "membership and voting interest in the association" pursuant to section 4.14B(c) of the Act.

- ***Desirable Director Qualifications:*** **Are the institution's policy and practices on director qualifications sufficient and in compliance with regulatory requirements?**

    - FCA Regulation 611.210(a)(1) requires banks and associations to have a policy that identifies desirable director qualifications. The policy must explain the type and level of knowledge and experience desired for board members. It must also be updated periodically and provided to the Nominating Committee. A sound business practice is to update it before providing it to the committee, using the results of the board's annual self-evaluation. This will help the committee to address any current board needs when identifying candidates. In addition, FCA Bookletter BL-009 identifies expectations for related policy guidance on appointing directors.

    - FCA Regulation 611.210(a)(2) requires all institution boards to have a financial expert and defines the qualifications for that position. FCA developed a Financial Expert Determination flowchart to assist in determining if an individual meets these qualifications. Refer to the *Financial Expert* section of FCA's FAQs About Governance Changes in 2006 for additional guidance.

- ***Board Training Needs:*** **Are the institution's policy and practices on director training sufficient and in compliance with regulatory requirements?** FCA Regulation 611.210(b) requires banks and associations to establish and maintain a policy and procedures on director training. The policy must identify training areas that support the institution's desired director qualifications. Newly elected or appointed directors must complete director orientation training within 1 year of their election or appointment. However, a sound business practice is to complete this training within 30 to 60 days of becoming a director. In addition to standard orientation information, the training should cover key issues such as fiduciary duties, standards of conduct, and committee functions. Also, the policy must require that incumbent directors attend training periodically to advance their skills. In implementing this requirement, boards should consider developing both group and individual annual training plans. Individual plans should be tailored to the director's position on the board, such as Audit Committee chair, and consider the results of any individual self-assessment or other feedback mechanism used to gauge board member performance. The training policy should specifically address ongoing training for directors related to the duties and functions of committees on which they serve. FCA Bookletter BL-060 provides guidance on this as it relates to helping directors carry out their Compensation Committee duties. The Director's Role is also a valuable resource for identifying potential training topics.

For additional guidance and clarification of regulatory requirements on director qualifications and training, refer to the *Board Composition* and *Board Development* sections of FCA's FAQs About Governance Changes in 2006.

3. Outside Directors:

Determine if the use of outside directors complies with regulations and provides expertise to the board.

Guidance:

FCA Regulation 611.220 requires banks and associations to have outside directors. These positions should bring an independent perspective to the board, and help the board acquire additional or specialized skills to supplement the skill set of stockholder-elected directors. For example, a board may find that none of the stockholder-elected directors have the necessary skills to be considered a financial expert. In general, as the scope and complexity of the institution's operations increase, the need for specialized skills on the board will also increase.

Evaluative questions and items to consider when examining the use of outside directors include:

- ***Selection Process:*** **Does the institution have adequate processes to identify outside director candidates?** The institution should conduct a formal search for candidates similar to what a nominating committee does for stockholder-elected directors. The search should center on candidates that can fill a specific board role or need. The board's desired director qualifications policy and its self-evaluation are vital tools in identifying those areas. Potential conflicts of interest are another important consideration. Recusals necessitated by the conflicts may reduce the person's value to the board. Sound business practices call for a process that provides the board at least two qualified candidates to choose from for each vacancy. The process should also include a formal performance assessment of any incumbent seeking reappointment. Processes that allow incumbents to go unchallenged or be reappointed for multiple successive terms should be questioned and discussed with the board.

- ***Regulatory Compliance:*** **Is the institution complying with FCA Regulation 611.220 on outside directors?** This regulation addresses specific requirements for eligibility, number, terms of office, and removal of outside directors. Institution bylaws, policies, or procedures should address these requirements and the institution's processes for ensuring compliance. In addition, institutions should maintain documentation supporting compliance with these requirements and the assessment of how each outside director helps the institution achieve the desired director qualifications pursuant to FCA Regulation 611.210(a).

The following documents provide additional information and criteria related to outside directors:

- FCA Regulation 619.9235 – Definition of Outside Director
- FCA Bookletter BL-009 – Farm Credit Bank and Association Appointed Directors
- FAQs About Governance Changes in 2006 (see the *Outside Director* section)

4. Board Self-Evaluations:

Evaluate the board's annual self-evaluation process, and determine if it is used to enhance the quality of board direction and oversight.

Guidance:

Self-evaluations provide the board a valuable tool to assess its strengths, weaknesses, and needs. This is particularly important to the strategic planning process as the board evaluates opportunities to improve its performance, especially in light of current and anticipated economic conditions. The following FCA Regulations refer to the need for board self-evaluations:

- FCA Regulation 618.8440(b)(2) requires the board to consider its annual self-evaluation as part of business planning. This includes reviewing internal and external factors to assess the board's needs, including skills and diversity, and developing strategies to address any identified weaknesses. The board should consider appointing qualified directors if the elected directors do not possess the desired skills or diversity.

- FCA Regulation 611.325(e) requires the board to provide the self-evaluation to the Nominating Committee upon their request.

The regulations do not require a specific method for completing the self-evaluation. Boards may complete it themselves or use outside facilitators, often in conjunction with their planning activities. Using outside facilitators often results in more effective evaluations as they can provide expertise, an objective opinion, and knowledge of best practices used by other boards. Refer to the *Board Development* section of FCA's FAQs About Governance Changes in 2006 for additional guidance. Importantly, the self-evaluation process should be a substantive, beneficial activity and not merely a routine exercise to satisfy regulatory requirements.

Evaluative questions and items to consider when examining the adequacy of board self-evaluations include:

- ***Self-Evaluation Process:* Does the board have a sufficient process to complete its self-evaluation?** The board should have a defined process for completing the annual self-evaluation. For example, the process should identify information such as applicable regulatory criteria, how all directors will be engaged in the process, who will compile results, and how the results will be communicated to the board. It should also address how audit and examination results will be considered, especially any concerns identified that involve board governance. If the institution does not have the expertise to design and implement a self-evaluation process, it should obtain some form of outside help, such as from the funding bank or an outside consultant. The board should also have a process to address issues raised in the self-evaluation. Recurring issues or weaknesses should receive increased scrutiny. The quality of the input received from directors, either in written form or as part of a group discussion, will dictate how useful the self-evaluation process will be. The board should ensure the self-evaluation process does not become a rubber stamp of the previous year's results. Continued use of the same input forms or facilitators can lead to stale results, so changes to the process may be needed to ensure the results remain fresh. Also, if all board members do not participate in the self-evaluation process, the results may be less useful because they may fail to capture key issues. This may be a basis for additional examination analysis.

- ***Self-Evaluation Results:* Are the self-evaluation results reasonable and incorporated into board operations?** The self-evaluation results should reflect a thoughtful and candid assessment of the board's performance. The results must be used when assessing the board's needs, including skills and diversity, as part of business planning pursuant to FCA Regulation 618.8440(b)(2). However, other opportunities exist for using the self-evaluation process to improve operations. For example, the board should consider the results when creating training plans or updating its policy regarding the desirable characteristics of director candidates. The results may also provide insight into the capability of the board, which must be considered when developing the capital adequacy plan pursuant to FCA Regulation 615.5200(c)(1).

- ***Nominating Committee Access:* Does the Nominating Committee have access to a summary of the board self-evaluation?** FCA Regulation 611.325(e) requires institutions to provide a summary of the current board self-evaluation to the Nominating Committee upon request. Policies and procedures adopted pursuant to FCA Regulation 611.325 should address this requirement, and the institution should have controls in place to ensure the committee is informed of its right to ask for this summary. Institution's should consider providing this material to the committee even without a request as it provides beneficial information for carrying out the committee's responsibilities. Institutions may require a pledge of confidentiality by committee members before releasing this information.

5. Audit:

Determine if the institution conducts an effective audit (scope, reporting, and followup) of director elections and qualifications.

Guidance:

The internal audit and review program is a key mechanism for ensuring effective director elections and qualifications and compliance with regulatory requirements. The internal auditor or other qualified, independent party should review the adequacy of processes to ensure compliance with applicable criteria. The audit risk assessment and scope should address direction and control of operations topics, and audit or review frequency should be commensurate with the complexity of the institution's operations and risk profile. A reliable audit program provides the board reasonable assurance that director elections and qualifications are sound and that reporting is complete and accurate.

Note: This procedure focuses on evaluating the reliability and effectiveness of internal audits and reviews in this topical area. Refer to the *Audit & Review Programs* topic in the Examination Manual for guidance on examining the overall internal audit and review program.

Evaluative questions and items to consider when examining the audit or review of director elections and qualifications include:

- ***Audit Coverage:* Is there periodic audit or review coverage of director elections and qualifications?** Audit or review coverage and frequency should be appropriate relative to risks, changes in the operating environment, regulatory requirements, and periodic testing needs. Coverage should also be consistent with the institution's risk assessment results and annual audit plan.

- ***Scope and Depth:* Are audit or review scope and depth sufficient to conclude on the adequacy, completeness, and timeliness of director elections and qualifications related processes?** The scope and depth of work, including transaction testing, should cover the primary processes and controls within the area being audited or reviewed and be sufficient to determine if internal controls are functioning as intended and regulatory requirements are met. The scope and depth of coverage should be documented and consistent with the approved audit or review plan and engagement contract (if applicable). Audit or review workpapers should be examined to verify the actual scope and depth of work performed. The workpapers may indicate the scope and depth deviated from what was identified (or implied) in the audit plan. For example, workpapers may indicate the work performed was limited to evaluating the existence of policies and procedures and didn't include reviewing other controls, such as training or reporting, or testing compliance with regulations or institution guidance. If the work deviated materially from the original planned scope, internal audit should notify the board (or Audit Committee, if so delegated) of the reasons for the change. Specific items that should be considered in the audit or review scope include:

- Policies and procedures for all major direction and control of operational areas, including:
  - Director elections
  - Director eligibility, qualifications, and training
  - Outside directors
  - Board self-evaluations
- Compliance with director elections and qualifications-related policies, procedures, FCA Regulations, and other FCA guidance.
- Monitoring and control processes (e.g., reporting, management oversight, delegated authorities, separation of duties, staffing, management information systems).
- Fraud-related threats and vulnerabilities, as well as anti-fraud controls.

- ***Reliability of Results:*** **Did FCA identify any concerns with audit or review reliability?** It is important to understand the scope and depth of the audit or review being examined, as discussed above, when evaluating audit or review reliability. With this understanding, the following are key considerations when evaluating the reliability of audit or review results:
  - *FCA Testing* – Evaluate the reliability of internal audit or review work by comparing the results to FCA's examination results in this area. This comparison often includes FCA testing transactions that were covered in the internal audit or review (transactions are often loans or loan applications, but may include other types of transactional activity, as well). In addition to the audit or review report, examiners should request and review the workpapers and hold discussions with the auditor to obtain a more thorough understanding of work completed. This can be especially important if the audit or review report is not sufficiently detailed or FCA's examination work and testing identifies potential concerns. Auditors and reviewers complete line sheets, flowcharts, control matrices, standard work programs, workpaper forms, or other relevant audit evidence when conducting and supporting their work. (IIA Standards 2240, 2300, 2310, and 2320) Workpapers should adequately document the work performed and support the final report. If FCA identifies weaknesses that were not identified in the audit or review, the cause for any discrepancy should be determined.
  - *Audit/Review Staffing* – Whether internal or outsourced, auditors and reviewers conducting the work need to be qualified, independent, and objective to ensure reliable results. They should have the right mix of knowledge, skills, and other competencies needed to perform the work. (IIA Standard 2230) Additionally, auditors and reviewers need to be independent of the activities they audit so they can carry out their work freely and objectively. (IIA Standards 1100, 1112, 1120, and 1130) For example, audit and review staff should not be involved in developing and

installing procedures, preparing records, operating a system of internal controls, or engaging in any other activity that they would normally review. Examiners should evaluate the staffing on the individual audit or review being examined as part of determining the reliability of results.

  - *Institution Review of Work Performed* – The institution should complete an independent review of the workpapers to ensure audit or review objectives and scope were met and the results and conclusions were reliable and supported. (IIA Standard 2340) Examples could include a supervisory review of in-house audit work by the Chief Audit Executive (CAE) or other audit staff, or a review of outsourced work by the CAE or audit coordinator. Examiners should consider whether the institution completed these reviews, and if any concerns were identified, when concluding on audit or review reliability.

- ***Reports:* Does the internal audit or review report sufficiently communicate director election and qualifications review results and recommendations, if applicable?** Examiners should consider the following when evaluating the audit or review report:

  - Is the report prepared and communicated in accordance with the institution's guidelines?
  - Is an executive summary or overview included to provide the board with a general conclusion on audit or review results?
  - Is the report accurate, concise, supported, and timely in communicating the audit or review objectives, scope, results, conclusions, and recommendations? (IIA Standards 2330, 2400, 2410, 2420, 2440, and 2450)
  - Are conclusions and recommendations realistic and reasonable, with material and higher risk issues clearly identified and prioritized?
  - Are conclusions and recommendations supported by convincing evidence and persuasive arguments (condition, criteria, cause, and effect)?
  - Do results in the workpapers align with report conclusions?
  - Does the report conclude whether the institution adheres to policies, procedures, and applicable laws or regulations, and whether operating processes and internal controls are effective?
  - Does the report address potential vulnerabilities to fraud, if applicable?

- ***Corrective Action:* Are management responses to audit or review findings in this area reasonable, complete, and timely? Have corrective actions been effective?** Audits and reviews are only effective if corrective action is taken to remedy the weaknesses identified. As such, there should be a reasonable, complete, and timely management response to the audit or review report. Management commitments and agreements or any areas of disagreement should be documented in the report or in a separate memo or tracking system. (IIA Standards 2500 and 2600) If corrective actions are not resolving the issues or concerns in a timely manner, examiners should further investigate the reasons. For example, this could indicate the audit or review did not sufficiently identify the underlying causes or materiality of weaknesses, sufficient resources are not being directed toward corrective actions, or weaknesses exist in the institution’s corrective action process, including board oversight of the process.