

IIA Canada Operating Contingency Fund

To our Ottawa Chapter members,

In early November 2011, the Interim Canadian Board (ICB) reached out to all chapters for support in their efforts to secure sufficient reserves (operating contingency fund) for IIA Canada. While the IIA Canada business plan projects a positive net contribution over the 2013-2015 time period, for financial stability and prudence, an operating contingency fund is being established for its inception in January 2013. The reserves are being established in part through corporate and private donations, IIA Global funds, and chapter contributions. Chapter contributions are expected to be returned within the next 5 years as IIA Canada builds its own cash reserves. These funds will be governed by a Canadian Institute of Internal Auditors (CIIA) Operating Contingency Fund Policy which sets out the restricted nature and access to this fund. This policy will be the basis of the agreement, which is currently being finalized.

Our Response

The Ottawa Board formed a sub-committee to more fully analyze the request of the ICB, including the level of funding that the Ottawa Chapter could support and an analysis of the IIA Canada business case. Supported by this sub-committee, the Ottawa Board set out governance expectations for managing and accessing funds consistent with the expressed intent of the fund. The Ottawa Board also appointed a board member to act as the IIA Ottawa Chapter's representative on a national working group, formed of representatives of the Canadian chapters, to establish a CIIA Operating Contingency Fund Policy, in line with our governance expectations.

In January 2011, the Canadian membership voted overwhelmingly in favour of the establishment of a Canadian institute. In line with this direction and based on the analysis conducted by the sub-committee, in February 2012, the Ottawa Board approved in principle to support the ICB's efforts through letter of intent for a conditional contribution to be transferred mid December 2012 upon creation of the IIA Canada entity. In May 2012, we reconfirmed its position and agreed to contribute \$85,000 in total for a term of up to 5 years (period requested). This level of funding considered our current financial position and our operating requirements for the next 5 years. As such, we have set aside our own contingency reserve of \$125,000 as well as a reserve of \$50,000 for potential Ottawa specific investment needs (Hence, a total reserve of \$175,000 will be maintained by Ottawa Chapter).

We feel that this significant contribution reflects our commitment to the development of IIA Canada, while being prudent and maintaining a sufficient reserve for potential operating requirements or investments for IIA Ottawa Chapter and our members.

We also believe that this contribution to the development of IIA Canada will serve our members. We have already seen some of the benefits in Canadian offerings (e.g. annual national conference, webinars, access to Canadian and bilingual materials, national chapter leadership forum). And we expect further benefits will be derived from a Canadian Institute.

Going Forward

The Board will continue to play a leadership role in the establishment and governance of this fund, as well as contribute to the IIA Canada's formation and development, hence building a stronger foundation for the benefit of our members. Throughout the coming years, we will keep you informed on the progress of IIA Canada, and the Board's assessment of our contribution. This will be done annually at the AGM, or more frequently by email, if required.

We welcome any questions or comments that you may have, which can be provided by email to me at jchampagne@bankofcanada.ca or to Michèle Serano at Michele.Serano@parl.gc.ca.

Kind regards,
Julie Champagne
President, IIA Ottawa Chapter

Questions & Answers

Q. How did the Ottawa Chapter accumulate these reserves?

A. The chapter has built a reserve of approximately \$250,000 through the success of the North-Eastern Conference in 2007 and small surpluses in three of the last four years. The Chapter seeks to break-even on an annual basis, yet has experienced higher than expected growth in its education programming.

Q. Will the Ottawa Chapter have sufficient reserves remaining to ensure its financial stability?

A. Yes. The Chapter's Board estimates that reserve funds remaining *after* this contribution is made will be sufficient to allow the chapter to sustain negative operations in future years. As well, we have considered potential Ottawa specific investment needs, such as the development of courses. For example, with support from the OCG, the Ottawa Chapter is developing a course on Auditing Grants and Contributions and in the past we have provided funds towards the translation of the CIA Learning System for the benefit of our members. As such, we feel that this significant contribution reflects our commitment to the development of IIA Canada, while being prudent and maintaining a sufficient reserve for potential operating requirements or investments for IIA Ottawa Chapter and our members.

Q. Why does the chapter Board see this as a positive investment for IIA members in Ottawa?

A. Given that members voted decisively in favour of the establishment of a Canadian Institute, the Board believes that this investment supports their vision and will provide value. Some examples of the benefits will include improved access to Canadian and bilingual materials, improved access to Canadian courses and events, and improved representation of the internal audit profession in Canada.

Q. Are other chapters in Canada contributing as well?

A. Yes. All Chapters have agreed to contribute what they can. Chapters who have built-up reserves by hosting successful national conferences and programs are generally in better financial position and are contributing more than markets that have not hosted these conferences.

Q. Can the Ottawa Chapter get its contribution back before the five years is up if we need it?

A. No, the contribution is locked in for five years. However, the amount of \$85,000 was determined based on serious and prudent consideration of what our chapter could afford to provide for the entire five years, and leaves our chapter with a healthy reserve should we run into hard times.

Q. Will the Ottawa Chapter know if the Canadian Institute is using the reserve we provided?

A. Yes. Regular financial reports containing information on the reserve fund balances and investment income earned will be provided to chapter presidents, and annual audited financial statements of the Canadian institute will be available.

Q. There are three sources for the reserve, (corporate and private donations, IIA Global funds, and chapter contributions). Has any priority of use been established?

A. Yes, prior to accessing the portion provided by chapters, the Canadian Institute must fully utilize the the balance provided by the other two sources. In other words, the money provided by the chapters is to be used as a last resort.

Q. Who will have access to the contingency fund?

A. The Chief Executive of the Canadian Institute can access the funds on approval of the Canadian Institute Board. However, prior to approval the Chief Executive must provide a detailed report to the board, including the following: the amount requested, the reason/purpose for accessing the funds, the plan and timing of replenishment of the funds.

Q. Are there any restrictions on what the reserve money can be used for?

A. Yes. The reserve fund money can only be used for tax, payroll and rent/utility expenses; contracted expenses that have come due; operating expenses that are past due; and other operational expenses

that have been identified in the business plan and budget. The reserve cannot be used for new ventures or programs; capital projects or spending; or pre-payment of travel expenses.

Q. Will our chapter earn any investment income on the money we're contributing to the reserve?

A. Yes. An investment policy has been established to ensure that the reserve is effectively and ethically maintained and managed, and that the reserve funds are invested to provide optimal returns after due consideration of yield, term, security and diversification.

Q. What happens if the Canadian Institute still needs a reserve after the five years?

A. In the unlikely event that the Canadian Institute still requires a reserve after the five years is up, each Canadian chapter will have the option to enter into a new agreement with the amount and terms to be established. There is however no requirement for chapters to continue to provide funding if they are not able or willing to do so.