 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10205
ACCOUNTING	EFFECTIVE DATE
	11/01/2018
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I. PURPOSE


Examiners must gain reasonable confidence in the accuracy of the credit union’s accounting and financial reporting to place reliance on Call Report Data and financial statements. Accurate financial statements are essential to ensure appropriate risk assessment and CAMELS ratings. The organization and accuracy of accounting is a very strong indicator of management effectiveness. Confidence in a credit union’s reported financial condition is key to ascertaining the safety and soundness of an institution.

II. PRIMARY REFERENCES

1. Michigan Credit Union Act:
 - a. [Section 382](#): Fiscal Year; GAAP
 - b. [Section 201](#) (1): Report of Financial Condition to Commissioner
 - c. [Section 201](#) (6-7): Making Records Available
 - d. [Section 305](#): Making Records Available
 - e. [Section 383](#): Reliance on Financial Statements by Directors
 - f. Credit Union Bylaws: Article VII(5) Post financials within 10 days and Treasurer Duties
2. NCUA Rules and Regulations:
 - a. [Section 702](#) PCA: NWR requirements per GAAP
 - b. [Section 741](#): Requirements for Insurance – GAAP and reporting
3. [NCUA Accounting Manual](#) for (Federal) Credit Unions

III. MINIMUM PROCEDURES

1. Ascertain adequacy of management by (at a minimum):
 - a. Reviewing the accuracy and organization of accounting records.
 - b. Evaluating management’s expertise in accounting and management systems to ensure accurate financial reporting.
2. Ascertain financial statement impact by:
 - a. Determining the level of financial statement error which may have an impact on the overall level of safety and soundness.
 - b. Using professional judgment, assess the likelihood that such error(s) may be present.
 - c. Evaluating the impact on the Net Worth Ratio.
 - d. Evaluating the impact on present and/or future earnings and liquidity.

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- e. Evaluating the impact on the credit union’s ability to remain financially sound in the short and long term.
- 3. General Accounting Review Requirements:
 - a. Review Supervisory Committee minutes, the most recent Supervisory Committee audit and previous examination; assess the materiality and recurrence of findings.
 - b. Through reliance on a recent professional audit, and/or by individual testing, gain assurance on the balance and administration of:
 - i. Loans: (tied to statements, and/or TB summaries, and/or Aires)
 - ii. Investments: (tied to statements or individual supporting documentation)
 - iii. Shares: (tied to TB summaries, and/or Aires)
 - iv. Reserves: (review all entries, reconcile)
 - v. Allowances: (test ALLL evaluation thoroughly)
 - vi. Other Material balance sheet items
 - c. Ascertain if previously cited Accounting/Reporting exceptions have been satisfactorily resolved.

IV. PROCEDURES TO PERFORM PERIODICALLY (when appropriate)

1. Balance Sheet Testing: Test most, or all, of the balance sheet items, verifying accuracy of reporting and appropriateness of underlying documentation. Review sample of general ledger account histories on large balance or “negative” balance accounts. Review reconciliations for high activity accounts (i.e. Suspense accounts). (Sample: Items Needed for Examination is a basic list of accounting related items which may be requested of management for this review.)
2. Review internal controls pertaining to accounting and reporting.
3. Review cash handling procedures and controls; a cash count may be performed.
4. Review audit work papers to gain a better understanding of the audit scope, and determine which exam procedures can be eliminated (or added) based upon reliance on the audit performed.
5. Review the file maintenance reports, including the practices and controls pertaining to file maintenance approval and entry.

V. ATTACHMENTS / FORMS

1. [10205-A: Sample: Accounting Items Needed for Examination](#)