 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10210
ACCOUNTING	EFFECTIVE DATE
	11/01/2018
SUBJECT	REVISION DATE
	11/01/2018
Audit Review	PAGE(S)
	Page 1 of 3

I. PURPOSE

The purpose of reviewing the audit is to determine compliance with state and federal regulations, potential risks and financial discrepancies, the scope of the general ledger review, whether the Supervisory Committee, if any, has fulfilled their audit responsibilities and to verify the financial statements fairly and accurately represent the condition of the credit union.


II. PRIMARY REFERENCES / RELATED REGULATIONS

1. [Michigan Credit Union Act Section 344](#)
2. Article IX Credit Union Bylaws
3. [NCUA Rules and Regulations 715](#) (except for 715.5 and 715.12) and [741.202](#)
4. [NCUA Supervisory Committee Guide](#)

III. MINIMUM PROCEDURES

1. Audit Requirements:

- a. An audit is required at least once every calendar year and must cover the period elapsed since the last audit was performed.
 - i. For institutions with assets of \$5 million or greater the audit must be performed by a certified public accountant (CPA) or other professionally qualified individual.
 - ii. For institutions with assets of \$5 million or less, the Board may authorize the Supervisory Committee to conduct the annual audit or it may be performed by a CPA or other professionally qualified individual.
 - iii. For institutions with assets of \$500 million or greater, a financial statement audit (opinion audit), per generally accepted accounting standards (GAAS) is required to be performed by an independent state-licensed person.
- b. If the credit union has a Supervisory Committee, they are responsible for setting the audit engagement. The audit is under the direction of the Supervisory Committee. If there is no Supervisory Committee, the Board of Directors takes on this responsibility. Audit reports must be delivered to the Supervisory Committee within 120 days of the effective date of the audit. The Supervisory Committee must submit the audit to the Board of Directors, and follow up to ensure corrective action, as applicable.

 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10210
ACCOUNTING	EFFECTIVE DATE
	11/01/2018
SUBJECT	REVISION DATE
	11/01/2018
Audit Review	PAGE(S)
	Page 2 of 3

- c. Regardless of who performs the audit, audit procedures must meet the definition of an acceptable audit as defined in the MCUA and the Bylaws. The individual performing the audit must be independent as defined in [Section 344\(4\)](#) of the MCUA.

2. Audit Review: The following parts of the audit shall be reviewed:


a. Engagement Letter:

An engagement letter is required by [NCUA Rules and Regulations Part 715.9](#) for all compensated independent auditors. The engagement letter must:

- i. Specify the terms, conditions, and objectives of the engagement;
- ii. Identify the basis of accounting to be used;
- iii. If a Supervisory Committee Audit, include an appendix setting forth the procedures to be performed;
- iv. Specify the rate, or total, compensation to be paid for the audit;
- v. Specify the auditor shall, upon completion of the engagement, deliver to the Supervisory Committee a written report of the audit and notice in writing, either within the report or communicated separately, of any internal control reportable conditions and/or irregularities or illegal acts which come to the auditor's attention during the course of the audit (no notice required if none noted);
- vi. Specify a target date of delivery of the written reports, not to exceed 120 days from date of calendar or fiscal year-end under audit (period covered), unless a waiver is obtained from the supervising NCUA Regional Director;
- vii. Certify that Supervising agencies (OCU and NCUA), or designated representatives of each, will be provided unconditional access to the complete set of original working papers, either at the offices of the credit union or at a mutually agreed upon location, for purposes of inspection; and
- viii. Acknowledge that working papers shall be retained for a minimum of three years from the date of the written audit report.

b. Audit Report:

- i. Review the conclusions rendered by the auditor. At minimum, the audit report must include a statement asserting reasonable conclusion that the credit union's financial statements are accurate.
- ii. Compare the financial statements to the credit union's financial statements to determine if the auditor reclassified any account balances.
- iii. Review the notes to the financial statements to identify any potential areas of concern or in need of further review.

 Office of Credit Unions Policies and Procedures	POLICY NUMBER
	10210
ACCOUNTING	EFFECTIVE DATE
	11/01/2018
SUBJECT	REVISION DATE
	11/01/2018
Audit Review	PAGE(S)
	Page 3 of 3

c. Management Letter:

- i. This letter identifies areas of concern such as internal control weaknesses, which should be remedied.
- ii. May not always be provided

d. Workpapers:

- i. The Supervisory Committee and/or external auditor must prepare and maintain a complete set of work papers supporting the audit. Workpapers must be maintained for three years and be made available to examiners upon request.
- ii. The workpapers may be reviewed either at the credit union or a mutually agreeable location; commonly, workpapers are reviewed at the offices of the auditor.

3. Member Verification of Accounts:

- a. The Supervisory Committee is required to perform, under controlled conditions, all member accounts with records of the credit union at least once every two years.
- b. A statistical sampling procedure may be used in lieu of verifying all member accounts provided it is performed in accordance with generally accepted auditing standards. Records of the accounts verified must be retained until the following verification of members accounts is completed.
- c. The verification of accounts may be performed using either positive or negative verification.
- d. The confirmation notices must be sent out by either the Supervisory Committee or an independent source, without the assistance of credit union staff. Replies to the confirmation notices must be addressed to a location other than the credit union, such as the address of the Supervisory Committee chairperson, auditor, or other independent location.
- e. No official or employee of the credit union, other than a member or alternate member of the supervisory committee, shall participate at any time, in any manner, in the performance of the member account verification.

IV. ATTACHMENTS

- 1. [10210-A Sample Annual Comprehensive Audit Checklist](#)