

Internal and External Auditors Working Together

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Overview

- ▶ Communication during auditing process
- ▶ Assist in the creation of the annual plan
- ▶ Co-sourcing
- ▶ Annual external audit
- ▶ Using IA work in external audit
- ▶ Common audit findings
- ▶ External auditor as a resource

Communication During Audit Process

- ▶ Most important part of the audit,
COMMUNICATION
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- ▶ Planning
- ▶ Client participation schedule
- ▶ Work performed from the office
- ▶ Logistics for on-site visit
- ▶ Meeting times
- ▶ Due dates, corrective action expectations

Creation of Internal Audit Plan

- ▶ EA input for IA's annual plan
 - Past issues, environment, recent accting changes, examiner hot buttons
- ▶ Ensure IA and EA functions don't overlap
- ▶ Communication between IA and EA

CO-Sourcing

- ▶ External Auditor can assist in completing Internal Auditor's annual plan
 - Certain audits IA not comfortable performing
 - Issues arise changing the IA time budget
 - Fraud audits consume a lot of hours
 - Preparation of filing bond claims

Annual External Audit

- ▶ IA used to test certain areas, reduce fee
- ▶ IA used as a liaison, point person for gathering information
- ▶ IA representing Committee, coordinate meeting times, often help in RFP process
- ▶ IA can help build the timeline to ensure due dates are met

What Areas of IA Work Often Used

- ▶ Cash counts, or self branch audits
- ▶ Loan reviews
- ▶ Internal control testing
- ▶ Low risk balance sheet items
 - Prepaids
 - Fixed assets
 - borrowings

Using Internal Auditor's Work

- ▶ Allowed by GAAS
- ▶ Requires EA to review IA function
- ▶ Requires re-testing of IA work
- ▶ Can cut down on audit fees
- ▶ Beware pitfalls, don't shortchange the CU's audit needs
- ▶ IAs have a deep knowledge of CU workings and controls

Common Audit Findings

- ▶ Supervisory override report review
- ▶ File maintenance report review
- ▶ Dormant accounts
- ▶ No mail account verification
- ▶ Annual employee disclosure
- ▶ Employee and official account review
- ▶ SOC-1 report review
- ▶ Poor general ledger acct reconciliation

Supervisory Override Reports

Common Findings

- ▶ No review of supervisory override reports
- ▶ Review of supervisory override report by an employee with override capability
- ▶ Incorrect set up of overrides

File Maintenance Reports

Common Findings

- ▶ No review of file maintenance reports
- ▶ Review of file maintenance report by an employee with ability to perform transactions
- ▶ Lack of useful file maintenance reports

Dormant Accounts Common Findings

- ▶ No review of dormant accounts
- ▶ No review of accounts that lost the dormant account status
- ▶ Employee performing review can perform such transitions
- ▶ No override required for deposits
- ▶ Not escheated to the state timely

No Mail Account Verification

- ▶ No written policy
- ▶ Member not required to sign form authorizing the statement not to be mailed
- ▶ No override required to code an account as no mail
- ▶ No review no-mail account report
- ▶ Employee reviewing no-mail report has the ability to flag an account as no-mail

Annual Employee Disclosure

- ▶ No requirement to have employees fill out an annual disclosure statement
- ▶ Disclosure statements not being updated annually
- ▶ Disclosure statements not being filled out by new employees or volunteers

Sample Disclosure Statement

ANNUAL DISCLOSURE STATEMENT

Credit Union Representative: _____	Date: _____
Account Statement Number: _____	Position at the Credit Union: _____

1. List all accounts that you, your spouse, relative or significant other have with the Credit Union. These accounts include but are not limited to share and share equivalents, credit cards, loans, or any other product which the Credit Union offers:

<u>Member</u>	<u>Account Type</u>	<u>Account Number</u>	<u>Other Items</u>
_____	_____	_____	_____
_____	_____	_____	_____

2. List any loans or accounts that you, your spouse, relative or significant other are a co-signer on, or have pledged any shares, or have guarantee on behalf of another member of the Credit Union:

<u>Member</u>	<u>Account Type</u>	<u>Account Number</u>	<u>Other Items</u>
_____	_____	_____	_____
_____	_____	_____	_____

3. List any vendor and/or outside organizations which have ever offered you, your spouse, relative or significant other a gift, kickback, bribe, commission, referral, or a financial interest in anything (whether accepted or not) as a result of being a representative of the Credit Union:

4. List any vendor and/or outside organization which you have conducted Credit Union business with, that you, your spouse, relative or significant other have had any financial interest (regardless of how small) in the past, currently, and/or _____ are _____ currently _____ contracted _____ with:

5. Please explain any possible independence issues and/or conflict of issues you have in the past, currently, or expect subsequently in the future with the Credit Union: _____

Dishonest or illegal activities on the Credit Union premises or while on Credit Union business will not be condoned and can result in disciplinary action, including dismissal and/or criminal prosecution. Violations can result in serious consequences for the Credit Union, its image, credibility and confidence of its members. Therefore, it is necessary that the Credit Union ensure that there will be no violations. Credit Union representatives should recognize that it is their best interest, as well as the Credit Union's to report any and all information to the appropriate Credit Union personnel.

The following information is true and to the best of my knowledge. If the Credit Union Representative's circumstances change at any time, a new disclosure statement or letter of explanation must be completed in writing. I will inform the Credit Union of any *past, current and subsequent* changes to the above information in writing. I have also read the Credit Union's fraud and ethics policy and I am familiar with all of its provisions and requirements.

C.U. Representative (Signature & Date)

Witness (Signature & Date)

Employee and Official Account Review Common Findings

- ▶ No periodic review of share statements
- ▶ No periodic review of personal credit card statements
- ▶ The review of the statements is not independent and no compensating control is in place

SOC 1 Report Review Common Findings

- ▶ No documentation of SOC 1 reports, addressing “User Considerations” comments
- ▶ Not obtaining SOC 1 reports for all systems

GL Account Reconciliation Common Findings

- ▶ Reconciliations not prepared or not prepared timely
- ▶ Preparer and reviewer not signing off and dating the reconciliation
- ▶ Old outstanding items
- ▶ Large number of outstanding items
- ▶ Unknown items on reconciliation

Troubled Debt Restructurings

Common Findings

- ▶ Lack of understanding how to ID TDR
 - Financial hardship
 - Concession granted
 - Concept of insignificant concession
- ▶ Improper impairment measurement
 - Collateral dependent, FV less costs to sell
 - Discounted cashflow using org. rate
- ▶ Declassification of TRD status

External Auditor a Resource

- ▶ Research GAAP, access to costly tools
- ▶ Provide audit programs, example reports
- ▶ Best practices, what EA sees in practice
- ▶ Just someone to bounce things off

Conclusion

► Questions



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