



WHAT'S IN A RELATIONSHIP: AUDIT AND SUPERVISORY COMMITTEE IN PERFECT HARMONY

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THE STRUCTURE OF A CREDIT UNION

- The Members Elect the Board of Directors
- The Board of Directors appoint the Supervisory Committee members
 - One member may be a board member, not the compensated member or financial officer
- The Supervisory Committee is responsible for the oversight of the internal audit department
 - Section 715.3 of the NCUA regulations states:
 - Internal controls are established and effectively maintained to achieve the credit union's financial reporting objectives, which must be sufficient to satisfy the requirements of the Supervisory Committee audit, verification of members' accounts and its additional responsibilities;

IA REPORTING TO THE SC

Internal audit reports to the Supervisory Committee to maintain independence

- *.....is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.*
- *The chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship.*

IA AND SC

- But....the Supervisory Committee is not in the credit union on a day-to-day basis
- So, who in your credit union does audit report to internally?
 - CEO
 - CFO
 - CRO
 - Who else?
- How does this work for you?

HOW DO YOU MAINTAIN INDEPENDENCE?

- Who is at your meetings?
 - Does management sit through meetings?
- Do you have executive sessions?
- How often does SC talk to IA?
 - Meetings only?
 - Phone-calls / e-mails between meetings?
- Who does the Director / Chief Internal Auditors' review?

ADVANTAGES

- Promotes transparency
 - All audit results are reported to the committee, verifying transparency for the audit division results
- Independence
 - The committee is independent from management of the credit union
- Resource for IA when met with difficulties
 - SC should escalate any audits that have had difficulties in performing or responding
- Others?

PITFALLS

- SC Education level sufficient to perform job?
 - Some members may not have the expertise necessary to adequately understand concerns / findings
 - Understand how to review the annual audit schedule?
 - Understand risk analysis necessary to review the risk assessment performed by audit?
- Management may still insist on audit reporting to them in form
 - Don't understand the need for independence
 - Don't want transparency – worry about what SC is hearing

FREQUENCY OF COMMUNICATION / REPORTING

- Monthly / Quarterly report of audit results
 - Full audit reports / management summary?
 - Statistics on % of completion for annual audit schedule
 - Time analysis of staff
 - Other activities audit may have been involved in
 - What else?
- Meetings – Monthly / Bi-Monthly / Quarterly
- Phone calls when needed

WHAT ELSE?

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