

# Review Session

Susan Landauer, CPA

Forensic Accounting Services Group, LLC

# General..

- ▶ Credit Union Internal Audit Charter
  - ▶ Do you have one?
  - ▶ Does it have the required elements?
    - ▶ The functional reporting relationship
    - ▶ Authorizes IA access to all records, personnel and physical properties relevant to the performance of the audits
    - ▶ Defines the scope of the internal audit activities
    - ▶ Assurance and consulting services must be defined
- ▶ Are you independent / objective?
  - ▶ What is your reporting structure?
- ▶ CPE's

# Internal Audit Standards

- ▶ Attribute - addresses the characteristics of organization and parties performing internal audit activities
  - ▶ Independence, objectivity, due professional care, proficiency, continuing education and quality assurance
- ▶ Performance - describes the nature of internal audit activities and provide criteria against which the performance can be evaluated
  - ▶ Managing audit activities, planning, communications, reporting, nature of work, audit engagement practices

# What are IA roles today?

- **Potential *roles and responsibilities***
  - ▶ Audit (Assurance Services)?
  - ▶ Regulatory Compliance?
  - ▶ Fraud/Investigations?
  - ▶ Enterprise Risk Management?
  - ▶ Consulting?
  - ▶ Physical and IT Security?

# Internal Audit Responsibilities

- ▶ NOT Monitoring
- ▶ But monitor the follow-up of audit recommendations
- ▶ Compliance
- ▶ Training and Education

# Risk

- ▶ Covered from both the Management side (ERM) and IA side (annual audit plan)
- ▶ Management must:
  - ▶ Identify the risk
  - ▶ Measure and assess the risk
  - ▶ Control the risk
  - ▶ Monitor the risk
- ▶ 7 Types of Risk
  - ▶ Credit, Interest Rate, Operations, Compliance, Liquidity, Reputation, and Strategic
- ▶ Types of Internal Controls
  - ▶ Directive, Preventive, Detective, and Corrective

# Internal Audit Process

- Define the Internal Audit Engagement Process
  - Risk Assessment
  - Internal Audit Plan
  - Audit Planning: Objectives, Scope
  - Audit Program
  - Fieldwork
  - Workpapers
  - Reporting

# Internal Audit Risk Assessment

- ▶ Define the credit union's auditable entities
  - ▶ Department, Product, Services, Processes
- ▶ Risk measurement factors
  - ▶ Portfolio, Business Exposure, Organizational Change, IT Environment, Regulatory Environment, Management
- ▶ Inherent Risk, Risk Mitigation, Residual Risk



# Communicating Results

- Communication Standards
- The who, what, why, when, and how?
- Findings versus Comments
- Communications - Report versus Discussion Item?
- Rating Findings and Overall Audit Results

# Regulatory Audits

Required compliance & audits from organizations other than the NCUA:

- ▶ NACHA annual audit
- ▶ BSA/OFAC annual audit
- ▶ ATM Pin & Encryption Security
- ▶ CFPB
- ▶ Other Regulations

# Lending

- ▶ Loans defined
- ▶ Loan Audit Objectives
- ▶ Types of Loans
  - ▶ Consumer
  - ▶ Mortgages
  - ▶ Credit Cards
  - ▶ Member Business Lending
  - ▶ Indirect Lending
  - ▶ Loan Participations
  - ▶ TDRs and Loan Modifications

# Investment Objectives

- ▶ Regulations governing investments
- ▶ Understand permissible investments of CUs
- ▶ Key policies necessary for investments
- ▶ Audit steps

# Investment External Testing

- ▶ External auditors are concerned with material misstatements to the financials
- ▶ Audit Steps:
  - ▶ Tests of controls determine reconciliations are performed and policies are in place
  - ▶ Confirm balances with safekeeper
  - ▶ Test fair market values
  - ▶ Investment yield testing

# Investment Internal Testing

- ▶ Internal auditors should test controls over process of purchasing, recording, and reporting of investments and compliance with regulations
- ▶ Audit Steps:
  - ▶ Policies comply with regulation
  - ▶ Test recording of purchases, maturities and sales
  - ▶ Test the monthly reconciliation preparation and fair market value recording
  - ▶ Test accretion/amortization of premiums/discounts
  - ▶ Review Committee minutes for adequacy of materials
  - ▶ Verify management performs periodic review of safekeepers and brokers

# FRAUD

- ▶ IIA Standards for fraud consideration in the audit cycle
- ▶ Fraud Audits vs. Fraud Investigations
- ▶ Thinking like a fraudster
  - ▶ Internal Frauds
  - ▶ External Frauds

# Branch Audits

- ▶ Branch audits - what should they cover?
- ▶ Audit Steps to complete
- ▶ Other Items for consideration



# Branch Audits

- ▶ Vaults
- ▶ Cash and cash items
- ▶ Security and Alarms
- ▶ Money Orders / Cashier Checks / Teller Checks
- ▶ Share Draft Accounts / Shares / CD's / IRAs
- ▶ Wire Transfers
- ▶ ATMs
- ▶ Other (signature guarantee, safe deposit box, compliance postings, new accounts, transaction documentation, etc.)

# Credit Union Financials

- ▶ Understanding Credit Union Financials
- ▶ Significant Key Ratios
- ▶ Call Reporting

# FEEDBACK

- ▶ What should be covered more in depth?
- ▶ What areas do you think should be less emphasized?
- ▶ What did you like?
- ▶ What did you dislike?
- ▶ Dialogue.....