

Auditing 2

V302

FIFTH EDITION

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Preface

The **Volunteer Achievement Program (VAP)** is a training program for credit union volunteers. The program is divided into six learning tracks—Board of Directors, Credit Committee, Supervisory Committee, Credit Union Services, Credit Union Technology, and Credit Union Leadership.

There are seven levels of recognition in the program:

1. To be eligible for a *basic* VAP certificate and pin, you must successfully complete all six courses (core and required) in the learning track you have

	Core Courses	Required Courses
Board of Directors	V01 History and Philosophy V02 Financial Reports V03 Managing Risk	V100 Board of Directors' Duties and Responsibilities V101 Board Policies V102 Planning
Credit Committee	V01 History and Philosophy V02 Financial Reports V03 Managing Risk	V200 Credit Committee Duties and Responsibilities V201 Loan Granting V202 Collections
Supervisory Committee	V01 History and Philosophy V02 Financial Reports V03 Managing Risk	V300 Supervisory Committee Duties and Responsibilities V301 Auditing 1 V302 Auditing 2
Credit Union Services	V01 History and Philosophy V02 Financial Reports V03 Managing Risk	V600 Introduction to Mortgage Lending V601 Online Policies and Internet Use V602 Offering Credit Union Youth Programs
Credit Union Technology	Core courses are not required to complete the Technology track.	V500 Credit Union Technology Issues V501 Planning for Technology V502 Electronic Fraud and Security
Credit Union Leadership	Core courses are not required to complete the Leadership track.	V700 Strategic Credit Union Leadership V701 Directing Effective Teams V702 Maximizing Board Performance
Optional Courses		
	V403 Marketing V404 Strategic Planning V405 Board/Manager Relations V406 Directors' Liability V407 Bankruptcy V409 Financial Management V410 Credit Union Examinations V411 Board Reports V412 Developing, Writing, and Implementing Policies V413 Marketing to Generations and Target Groups	V414 Recruiting, Orienting, and Retaining Board Members V415 Asset-Liability Management for Directors V416 Understanding Regulations V417 CEO Performance Appraisal and Goal Setting V418 Business Recovery Plans & Policies V419 CEO Compensation V420 Growth Strategies: Pathways to Success V421 Political Involvement V422 CEO & Board Succession Planning V423 Member Business Lending V424 Investment Essentials for Directors

PREFACE

chosen. Recognition is also granted for the *Credit Union Technology* and *Credit Union Leadership* learning tracks. You will receive a special certificate for completing three required courses in each track. Note that core courses are recommended but not required as part of the Technology and Leadership tracks.

2. To be eligible for the *Edward A. Filene Award*, the second level of recognition, you must complete an additional six courses. These can include the required courses in other tracks or the optional courses.
3. To be eligible for the *Friedrich W. Raiffeisen Award*, the third level of recognition, you must complete eighteen courses. These can include the required courses in other tracks or the optional courses.
4. To be eligible for the *Roy F. Bergengren Award*, the fourth level of recognition, you must complete twenty-four courses.
5. To be eligible for the *Alphonse Desjardins Award*, the fifth level of recognition, you must complete thirty courses.
6. To be eligible for the *Louise Herring Award*, the sixth level of recognition, you must complete thirty-six courses.

7. To be eligible for the *Dora Maxwell Award*, the seventh level of recognition, you must complete forty-two courses.

This course is one of the required courses in the Supervisory Committee track.

About These Courses

The VAP courses are not intended to provide legal advice, and we do not guarantee the information is appropriate for all state-chartered credit unions. If you have legal or policy questions, contact your credit union president or your credit union league.

How to Use This Course

If you are sight-impaired and choose to have this course read to you, we suggest that a spouse, partner, friend, or volunteer from your credit union or credit union league assist you. You can also check with your local library regarding reader services available in your community.

If you are participating in a seminar, your instructor will get you started. If you are completing this course through correspondence study, please follow this procedure:

1. Read the course opening objectives to get an idea of what's ahead.
2. Read the text.
3. When you have read the text and completed the activities, take the competency test.

Competency Test Instructions

Each course in the program has a competency test of twenty multiple choice questions. Only one answer per question is correct. To successfully complete the course, you must correctly answer at least sixteen questions. You can refer to the text as you take the test, but the test must be completed individually.

If you are participating in a seminar, your instructor will provide directions. If you are completing this course through correspondence study, please follow this procedure:

1. Locate the test in the final appendix of the text.
2. Find a quiet place where you can work undisturbed and at your own pace.
3. Record your answers on the scannable answer sheet that was mailed to you along with the text. Follow the instructions on this sheet for marking answers.
4. Complete the identification section on the answer sheet and make sure you have marked an answer for each question. Only one answer is correct.
5. Mail the answer sheet to CUNA.
6. You may also take your VAP exam online. Register for online exams at www.cuna.org/training.html. Click on eLearning, then eCourses.

Introduction

In the V301 *Auditing I* module, specific auditing procedures were detailed for certain aspects of a credit union's operations. These areas included cash, traveler's checks and money orders, the trial balance of member share and loan accounts, and the trial balance of the general ledger.

This module presents additional steps that may be required to complete an audit that encompasses other critical aspects of a credit union's operations. These tests and procedures include, but are not limited to,

- verification of member share and loan balances;
- preparation of reconciliations for bank accounts held outside the credit union (bank or corporate credit union);
- confirmation of bank account balances held outside the credit union;
- analysis of investment transactions;
- confirmation of investments;

- loan processing review;
- loan delinquency and allowance for loan losses review;
- review of income and expenses;
- review of internal controls surrounding the preceding activities;
- preparation of the postaudit report.

The following chapters contain hypothetical examples of audit work papers that illustrate the completion of simple auditing tests and procedures.

This course also contains individual internal controls questionnaires that apply to the specific credit union accounts or records discussed in each chapter.

The internal controls questionnaires should be used by the supervisory committee to determine which controls are in place and functioning properly. The absence of any key control procedures should be noted and included in the postaudit report to the board of directors.

INTRODUCTION

Keep in mind that a complete discussion of all possible auditing tests and procedures is beyond the scope of this module. There are many additional procedures you might consider, depending on the size of your credit union and the complexity of its operations. Accordingly, this course provides general ideas in assuming your responsibility and your work. Other resources may include materials available from your external auditor or regulatory examiners. Some of these resources include:

- American Institute of Certified Public Accountants (AICPA) *Auditing Guide for Credit Unions*;
- The Institute of Internal Auditors *Professional Practices Framework*;
- *Supervisory Committee Guide* from NCUA;
- your credit union league;
- appendix B, Resources.

Prior to beginning your study of this course, review the glossary (appendix A). It contains a comprehensive list of credit union auditing and accounting terms.

Effective January 1, 2000, the National Credit Union Administration (NCUA) board revised the audit requirements for credit unions. Specifically, Parts 701.12 and 701.13 of NCUA's *Rules and Regulations* have been removed and replaced by Part 715, *Supervisory Committee Audits and Verifications*. Part 715 prescribes the responsibilities of the supervisory

committee to obtain an annual audit based on the credit union's charter and asset size and the verification of member accounts.

This rule requires credit unions with total assets in excess of \$500 million to obtain a financial statement audit. Credit unions with assets of less than \$500 million may fulfill their audit requirements through performance of any of these four options:

1. *Financial Statement Audit*. An audit of the credit union's financial statements in accordance with generally accepted auditing standards (GAAS) performed by an independent, licensed public accountant. The purpose is to issue an opinion as to whether the credit union's financial statements are fairly presented.
2. *Balance Sheet Audit*. An audit of the credit union's balance sheet (assets, liabilities, and equity) in accordance with GAAS, performed by an independent, licensed public accountant. The purpose is to issue an opinion as to whether the credit union's balance sheet is fairly presented.
3. *Report on Examination of Internal Control Over Call Reporting*. An audit and written report on management's assertions relating to the effectiveness of the internal controls over financial reporting and the preparation of the call report. This audit is performed by an independent, licensed individual.

4. *Audit per* Supervisory Committee Guide. An audit performed by the supervisory committee or qualified individual in accordance with the procedures prescribed in NCUA's *Supervisory Committee Guide*.

The audit requirements for federally insured, state-chartered credit unions are the same, unless superceded by more stringent state regulations.

Part 715 did not change the frequency requirement for the verification of member accounts, which remains at every two years.

Credit unions and their supervisory committees may develop an internal review and audit program based on guidance and practical aids available from their leagues, as well as NCUA. In addition, several audit programs are available from the American Institute of Certified Public Accountants and are currently used by many auditors.

Course Objectives

Upon completion of this course, you will be able to

1. review internal controls for member share and loan balances, bank accounts, investments, loans, revenues, and expenses.
2. prepare and analyze work papers for confirmation of member share and loan balances and for confirmation of cash accounts and investments.
3. prepare and analyze work papers for review of loans and loan losses and for review of income and expenses.
4. identify other audit tests for cash disbursements, including those for expenses and dividends.
5. prepare a postaudit report that will document the committee's procedures, results, and recommendations.