

# **Overseeing the Annual Audit by Outside Parties**

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## Introduction

Welcome to the course on *Overseeing the Annual Audit by Outside Parties*.

Annual audits can be invaluable tools for improving the processes, efficiency and functioning of an organization. While audits are required by federal law, properly preparing for and executing an audit can also provide a maximum benefit for the organization. But there are a lot of things to keep in mind when going through this process, and a lot of details to keep straight. As a volunteer for the credit union, your time is limited, but your job is important. This course is designed to cover the various aspects of the annual audit so that you can have a better handle on managing this process, and to make sure that you are getting the best results for your credit union and your members.

## Objectives

The objectives for this course are to:

- Review all of the elements for the annual audit that are relevant to the Supervisory Committee;
- Define the types of audits available;
- Determine how to develop the request for proposal (RFP) process for an annual audit; and
- Examine how to develop and manage your relationship with the annual auditor.



## Audit Requirements

Depending on the type of charter and the asset size of your credit union, there are different minimum requirements for audits.

Type of Charter	Asset Size	Minimum Audit Required
Federal or State	\$500 million or more	Financial statement audit per GAAS by independent, state-licensed person
State	Less than \$500 million	Supervisory Committee Audit per 715.7
Federal	Less than \$500 million but greater than \$10 million	Supervisory Committee Audit per 715.7
Federal	\$10 million or less	Supervisory Committee Audit per 715.7

- For any federal or state chartered credit union with \$500 million dollars or more in assets, you are required to have an opinion audit, also known as a financial statement audit. This must be conducted according to Generally Accepted Auditing Standards (GAAS), by an independent, state licensed person. This mandate went into place with the introduction of HR 1151.
- State chartered credit unions with less than \$500 million in assets, and federally chartered credit unions with assets between \$10 million and \$500 million may choose to have a financial statement audit or to have a Supervisory Committee audit, per Section 715.7. In some cases the state law in the state where the credit union is principally located may have a more stringent audit or reporting requirement. In those cases the state law will have precedence.
- Federally chartered credit unions with \$10 million or less are also required to have Section 715.7 type audits.

So, in general, for credit unions with assets of \$500 million or more, an opinion financial statement certified audit is required. If a credit union has less than \$500 million, it is required to have a Supervisory Committee audit per Section 715.7 of the NCUA Regulations.

## Financial Statement Audits for Credit Unions Over \$500M

Financial statement audits are required for credit unions with \$500 million dollars or more. Financial statement audits are also known as certified audits or opinion audits. They are conducted by independent CPAs. Their opinions may be either unqualified or qualified.

- **An unqualified opinion** is what you are seeking in this type of audit. It means that the auditor has no reservations or concerns about the financial statement or their conformity with generally accepted accounting principles. This is sometimes called a “clean opinion.”
- **Qualified opinions** occur if there are matters or concerns that are material in nature. Material matters are those that may have a significant negative impact on the reader’s ability to determine the financial condition of the credit union by reading the financial information presented. Here the CPA feels as though they need to qualify the opinion. For instance, the CPA may indicate in the audit report that the information provided was limited in scope. Or the organization being audited has not maintained GAAP accounting principles.