



## **Credit Union Auditor - By E-mail**

**19 September 2018**

**Re: 2018 Financial Year End**

Dear Auditor,

We are writing to all auditors of credit unions in advance of the 30 September 2018 year end process. Attached is a copy of the letter dated 18 September 2018 issued to all credit unions in relation to the 2018 Financial Year End.

### **Systems of Control in Credit Unions**

During 2018, the Central Bank of Ireland (“the Bank”) published a number of reports<sup>1</sup> on certain aspects of credit unions operations – House Loans, IT, Prize Draws and PRISM Supervisory Commentary. These reports highlighted particular weaknesses in credit unions internal systems of control environments and may be of assistance to auditors in preparing for the 2018 audit of credit unions.

The Bank expects credit unions to have in place an effective internal control environment. The board of directors and management of the credit union are responsible for establishing an effective internal control framework and for monitoring the systems and controls on an ongoing basis.

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<sup>1</sup> House Loans In Credit Unions – Thematic Review of Findings- January 2018  
IT Risk in Credit Unions – Thematic Review Findings – January 2018  
Thematic Review of Prize Draws in Credit Unions – March 2018  
PRISM Supervisory Commentary 2018 – March 2018  
<https://www.centralbank.ie/regulation/industry-market-sectors/credit-unions/communications>



## **Statutory Duty Confirmations and Management Letters**

Auditors of credit unions are reminded of the requirements of Section 27B of the Central Bank Act 1997 to make a written report, the Statutory Duty Confirmation (“SDC”), to the Bank within one month of the auditor’s report on the credit union’s financial statements. The SDC is a statement to the Bank that there is no matter, not already reported to the Bank in writing, that has come to the attention of the auditor during the ordinary course of the audit, that give rise to a duty to report to the Bank. Where matters have already been reported to the Bank, such matters should be referred to in the SDC.

Section 122 of the Credit Union Act 1997 the (“1997 Act”) requires that if at any time an auditor of a credit union has reason to believe that any of the prescribed criteria are identified, the auditor shall forthwith report the matter to the Bank in writing, e.g. material defects in the accounting records or in the systems of control.

Auditors of credit unions are also required, pursuant to Section 22 of the Central Bank (Supervision and Enforcement) Act 2013, to provide to the Bank a copy of any report (“the Management Letter”) which they have provided to a credit union within two months of the date of the auditor’s report, together with any responses received from the credit union within one month of receiving the response.

The Bank remains concerned that auditor management letters do not always refer to issues of material concern, particularly in relation to weaknesses in systems of control and related governance issues. Examples of issues which arose during the 2017 audit process include the following:

- Material defects in accounting records and systems of control, e.g. bank accounts not reconciled;
- No differentiation between material and non-material issues in order to assist credit unions in prioritising actions to address the issues; and
- Material issues identified in interim audit management letters not reported in the year end management letters.



As set out under International Standard on Accounting (Ireland) (“ISA (Ireland)”) 265, auditors are required to write to those charged with governance and to management setting out any significant deficiencies in internal control identified during the audit.

### **Credit Union Financial Performance and Going Concern Issues**

Where going concern issues are identified in credit unions, ISA (Ireland) 570 Going Concern requires consideration of going concern basis of accounting. ISA (Ireland) 570 provides an interpretation of the term “going concern”. In the context of going concern assessment ISA 570 requires that auditors perform risk assessment procedures on whether events or conditions exist that may cast significant doubt on the entities ability to continue as a going concern.

### **Loan Provisioning Guidelines**

FRS 102 requires that loans be assessed for impairment at the end of each reporting period. In April 2018 the Bank issued Provisioning Guidelines for Credit Unions<sup>2</sup>.

### **Investments**

The Bank issued a revised investment framework for credit unions in 2018 as detailed in the Credit Union Act 1997 (Regulatory Requirements) (Amended) Regulations 2018. The following EUR denominated classes of investments have been added to the investment framework:

- Supranational bonds;
- Corporate bonds; and
- Investment in Tier 3 Approved Housing bodies through a regulated investment vehicle.

FRS102 brought in changes to investments to distinguish between basic financial instruments and complex financial instruments. The Bank noted that, from a review of previous years audited accounts, inconsistencies arose between classifications of basic and complex financial instruments, which has an impact on investment valuation i.e. fair value versus amortised cost.

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<sup>2</sup> Provisioning Guidelines for Credit Unions, issued in April 2018 <https://www.centralbank.ie/docs/default-source/Regulation/industry-market-sectors/credit-unions/credit-union-handbook/provisioning-guidelines-for-credit-unions.pdf>



Finally, Practice Note 27 – The Audit of Credit Unions<sup>3</sup> (which we understand is in the process of being updated) still provides useful guidance to auditors on a range of issues including duties to report to the Bank, going concern and communicating with those charged with governance.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'David Kielty', written over a horizontal line.

**David Kielty**

**Deputy Registrar of Credit Unions**

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<sup>3</sup> [https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/Practice-Note-27\(I\)-\(Revised\)-The-audit-of-credit.pdf](https://www.frc.org.uk/Our-Work/Publications/Audit-and-Assurance-Team/Practice-Note-27(I)-(Revised)-The-audit-of-credit.pdf)