



**Credit Union Auditor**

**By E-Mail**

30 September 2015

**Re: Auditing of the Annual Accounts of Credit Unions for the year ending  
30 September 2015**

Dear Sir / Madam

The annual external audit is an important source of information relevant to our regulatory process. In making an assessment of the financial condition and performance of each credit union the Central Bank (the “Bank”) rely heavily on the annual audited accounts and the independent opinion expressed by the auditor to the members.

Accordingly we are writing to all auditors of credit unions to outline particular areas for focus in respect of the financial year ending 30 September 2015:

- Loan Provisioning and Attached Savings
- Financial Reporting Standard 102
- International Standards on Auditing 570: Going Concern
- Asset Valuations
- New Requirements commencing on 31 December 2015
- Reporting to the Bank

**1. Loan Provisioning and Attached Savings**

As part of the year-end audit, auditors should take into consideration the level of risk inherent in the full loan book, with particular emphasis on the adequacy of the bad debt provisions.

In relation to the adequacy of the bad debt provision, auditors are reminded of the amendments made to Section 32 of the Credit Unions Act 1997 (“the 1997 Act”) in October 2013 whereby the definition of attached savings and its calculation changed.



Notification of the changes to Section 32 of the 1997 Act was issued to the sector on 3 December 2013<sup>1</sup>. It has been noted that the changes in Section 32 of the 1997 Act have not been reflected in all credit union IT systems and credit unions may be incorrectly reporting attached savings in the Prudential Returns. The auditor should consider the systems of internal control that govern the bad debt provision calculation. Auditors are reminded of their reporting obligations under Section 122 where the auditor has reason to believe that there are imaterial inaccurices or omissions in the course of the audit work from any returns made by the credit union to the Bank.

We expect directors of credit unions to apply a conservative and realistic approach in the measurement of bad debt provisions. Whilst we recognise the responsibilities of directors to prepare the accounts of the credit union, we expect auditors to exercise “*professional scepticism*” when auditing the level of bad debt provisions contained in the annual financial statements and to take into account the skills and expertise of boards and management of the individual credit union.

## **2. Financial Reporting Standard 102**

Adoption of Financial Reporting Standard 102 (the “Standard”) is mandatory for year-ends beginning on or after 1 January 2015. All credit union accounts for year-end 30 September 2016 will be required to be prepared under this Standard with restatement of 2015 comparatives also required at that time.

Auditors should ensure that they are adequately prepared for the transition to this standard in accordance with the relevant timelines. In doing so, auditors should engage with their representative bodies and seek guidance to ensure that they identify the necessary steps and actions required and are prepared for the transition to this Standard.

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<sup>1</sup> [2013-12-03 Prudential Return Clarification – calculation of attached savings](#)



The Registry of Credit Unions intends to engage with the sector stakeholders including the Consultative Committee of Accountancy Bodies – Ireland (‘CCAB-I’) on this matter and will provide further updates to credit unions on regulatory aspects arising.

The Registry of Credit Unions is currently working on upgrading the Online Reporting System (‘ONR’). In relation to Regulatory Returns credit unions are required to continue to report under the current framework until notified by this office of revised reporting requirements.

The Standard can be accessed on the Financial Reporting Council website<sup>2</sup>.

### **3. International Standards on Auditing 570: Going Concern**

Auditors are reminded of one of their objective under ISA 570 is to conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.

In reviewing going concern, the auditor may consider the following areas:

- capital adequacy and regulatory reserve ratios;
- inability to pay a dividend;
- liquidity indicators;
- low loan to asset ratio; and
- a high cost to income ratio

Auditors should be aware that Section 76A of the 1997 Act requires all credit unions to have a strategic plan incorporating three year financial projections.

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<sup>2</sup> [frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/Standards-in-Issue/FRS-102-The-Financial-Reporting-Standard-applicabl.aspx](http://frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/Standards-in-Issue/FRS-102-The-Financial-Reporting-Standard-applicabl.aspx)



#### **4. Asset Valuations**

A particular area of regulatory focus for the Registry of Credit Unions will continue to be on the appropriateness of asset valuations and methodology selected by credit unions to arrive at such valuations.

In accordance with Financial Reporting Standard 11 (Impairment of Fixed Assets and Goodwill) (“FRS 11”) credit unions should carry out a review for impairment of fixed assets if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. Where circumstances indicate that there is an impairment review required and the directors have adopted a “value in use” approach, auditors should consider the appropriateness of the underlying assumptions used in deriving the expected cash flows to ensure that the assumptions are reasonable and supportable. Where a value in use approach has previously been adopted subsequent monitoring of cash flows should be carried out by the credit union in accordance with FRS 11.

The value in use calculation should be supported by realistic assumptions aligned with financial projections derived from achievable and realistic business objectives and business activity levels which are consistent with the credit unions strategic plan.

#### **5. New Requirements commencing on 31 December 2015**

Following the consultation on “Consultation Paper 88- Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act” (“CP88”), the Bank is introducing new regulations for credit unions which will commence on 31 December 2015. New requirements will also be introduced for credit unions in the Credit Union Act 1997 following the commencement of the remaining sections of the 2012 Act.

Further information on the regulations is available in the feedback statement on CP88 on the Central Bank website<sup>3</sup>.

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<sup>3</sup> <https://www.centralbank.ie/docs/default-source/publications/Consultation-Papers/cp88/feedback-statement-on-cp88.pdf?sfvrsn=4>



## 6. Reporting to the Bank

Auditors are reminded of their obligations to report to the Bank to include the following:

- Section 118 of the 1997 Act - where the auditor intends to resign.
- Section 122 of the 1997 Act sets out the auditor's duty to report certain matters to the Bank.
- Section 27B(2)(a) of the Central Bank Act 1997 – annual statutory duty confirmation.
- Section 34 of the Credit Union and Co-Operation with Overseas Regulators Act 2012 amended section 184 of the 1997 Act and specifies that only Part IV (sections 27B, 27G and 27H) of the Central Bank Act 1997 apply to credit unions. For the purposes of the submission of a report that the auditor sends to the credit union (“management letters”) the Bank requires that these reports are submitted in accordance with the procedure set out in the attached notice issued pursuant to section 22 of the Central Bank (Supervision and Enforcement) Act 2013 (the “2013 Act”). These reports must be submitted through the Bank's Online Reporting System within the timelines specified in the notice. Sections 30 and 58 of the 2013 Act apply in respect of information submitted to the Bank by auditors of credit unions in furtherance of their obligations under the attached notice.

Auditors of credit unions should ensure that they are familiar with all legislative reporting requirements to the Bank.

**A circular, dated 1 September 2015 was sent to the chair of each credit union which highlighted the key areas on which the board of directors should focus for the 2015 year-end. This circular, a copy of which is attached to this e-mail, should be considered by auditors in carrying out their audit work.**

Please be advised that other areas that require attention are listed at Appendix 1.

Finally, if you have any queries on the above please contact Martin Johnson in this office on (01) 224 4202 or by e-mail at [martin.johnson@centralbank.ie](mailto:martin.johnson@centralbank.ie).



Yours faithfully,

Anne Marie McKiernan

**Anne Marie McKiernan**  
**Registrar of Credit Union**



## Appendix 1

### The Credit Union Act, 1997 (“the 1997 Act”)

#### Systems of Control

- **Section 109** of the 1997 Act requires credit unions to establish and maintain systems of control.
- **Section 110** of the 1997 Act sets out the accounting principles that apply when determining the amounts to be included in the annual accounts of a credit union.

#### Annual Compliance Statement

Auditors should be aware since 3 March 2014, all credit unions are required to submit an annual compliance statement to the Bank within two months of the end of the financial year of the credit union, i.e., by 30 November. Auditors are not required to express an opinion on a credit unions’ annual compliance statement but they may wish to obtain a copy of that statement for the purposes of their understanding of the credit union’s risk profile.

#### Accounting for Investments and Distribution Policy

Auditors are reminded of the directors’ obligations in preparing the 2015 annual accounts which should take into consideration the *Guidance Note for Credit Unions on Matters Relating to Accounting for Investments and Distribution Policy*<sup>4</sup>.

#### Regulatory Reserve Ratio

Auditors are reminded all credit unions are required to maintain a Regulatory Reserve Ratio<sup>5</sup> of not less than 10 per cent.

#### Correspondence issued to credit unions by the Registry of Credit Unions

As part of the year end audit, auditors should obtain from the credit union a copy of all correspondence issued from this office, including where relevant any regulatory directions/ requirements issued.

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<sup>4</sup> Guidance Note for Credit Unions on Matters Relating to Accounting for Investments and Distribution Policy – April 2009: available at: [www.centralbank.ie](http://www.centralbank.ie) in the Credit Union Handbook chapter on Investments.

<sup>5</sup> Regulatory Reserve Ratio for Credit Unions – August 2009: available at [www.centralbank.ie](http://www.centralbank.ie) in the Credit Union Handbook chapter on Reserves.