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LONG-TERM RELATIONSHIPS ARE ALL ABOUT DEDICATION

Best Practices of Supervisory Committees

Best Practices

- Properties of the Best (What you are)
- Duties and Responsibilities (What you do)
 - Under the Regulations
 - Sarbanes Oxley
- How do we do it ? (getting it done)
- Tools to assist the Supervisory Committee



Attributes/Properties

- Independent Committee Members
 - Objective
 - No conflict of interest or appearance of conflicts
 - Consider courses in business ethics
- Assist the Board with Oversight Responsibilities
 - Unique responsibility/ability to operate and investigate separate of management.
- Interaction with Board and management essential
 - Liaison with Board, management, auditors
 - Second tier management



- Big Picture and Full Scope
 - Noses In- Fingers Out
 - Ask, Ask, Ask
- Committee Composition
 - Financial Expert
 - Other Specialties
- Training and resources
 - Develop a budget which provides for more than the external audit.
 - Receive on going training in training and education in variety of matters, (accounting, internal controls, etc.)



Attributes (cont'd)

- Committee Charter or Policy
- Training ground for Board members
- Succession Plan for Committee
- Annual self evaluation





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Duties and Responsibilities of Supervisory Committees

Part 715 -- Supervisory Committee Audit and Verifications

- The Supervisory Committee is responsible for ensuring that the board of directors and management of the credit union :
 - Meet required financial reporting objectives
 - Establish practices and procedures sufficient to safe guard members' assets



Part 715 -- Mandates

- **Ensure credit union adheres to the measurement and filing of reports under 741.6 (Form 5300 and G.A.A.P.)**
- **Perform or obtain a supervisory committee audit-annually**
- **Verify or cause the verification of members' passbooks and accounts against the records of the credit union - biannually**
- **Act to avoid imposition of sanctions for failure to comply with the requirements above**
- **Investigate member complaints**



Risk and Compliance

- **Controls and Compliance**

- **Establish and maintain effective internal controls**
- **Records are promptly and accurately prepared which reflect operations and their results**
- **The policies and procedures established by the board are properly administered and are sufficient to safe guard against fraud, error, waste, self dealing**
- **Code of conduct, ethics and fraud policy, lending, collection and charge off policies , investment policies, ALM policies, personnel policies, etc**



GETTING IT DONE

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The Audit Committee Matrix

- **Objectives**

- Evaluate performance of outside auditor

- **Steps to Accomplish Objective**

- Discussions with auditor, management, board
- Review of non-audit fees

- **Deliverables**

- Report on meetings and recommend on performance, scope and fees paid
- Report on overall fees paid and scope of non- audit work

- **When to Achieve**

- Annually, 90 days after



Scheduled Regular Meetings

- Recurring meeting dates
 - Monthly, bi-monthly, quarterly
- Establish an agenda for the meetings.
- Keep minutes
 - Each agenda item should be discussed
 - What was discussed and the decisions made
 - Minutes are not meant to be a transcript, of who said what
 - Vote taken, record the motion, the second, the result, no need to record individual votes, unless a member wants something for the record



Executive Sessions

- Used to meet with key members of executive management and others
- Typically only committee members present
 - If meeting with controller, CFO & CEO or anyone outside of the committee should not be present
- Formal minutes not taken of meeting
- Ask open ended questions – create dialog



Sample Agenda

- Review of minutes of previous meeting
- Review of status of audit matrix
 - Special projects
 - Appointment of auditors
- Update of management responses to NCUA and auditor findings
- Policy and procedure review –
 - Review of credit card collection procedures/charge offs
- Executive Session



Appoint an Oversee the External Auditor

- **Decide on the type of engagement**
 - Audit of financial statements in accordance with generally accepted auditing standards
 - Opinion audit
 - Supervisory Examination
 - Agreed upon procedures
 - Minimum procedures – Appendix A
 - Smaller credit unions
 - Additional procedures
 - Member Verification



Selecting the External Auditor

- **Qualifications Vs. Cost**

- # of financial institutions audited and how many are credit unions.
- # of like size/complexity credit unions now being audited by the firm
- # of members of the audit team and # of CPA's on the audit team
- Resumes of key team members (partners & managers)
- List of references of similar credit union, that may be contacted
- Frequency of meetings with auditor and any additional costs



Overseeing the Auditor

- **Meet with the auditors at least twice a year.**
 - **Planning – review the scope, timing, and coordination of the audit.**
 - **Post audit – re-review scope, audit findings**
 - **Q & A for auditors**
- **Approving all non-audit work and related fees prior to commencement.**



What to ask your auditor

- Are there any important accounting areas where our Credit Union's accounting treatment does not strictly adhere to GAAP?
 - Materiality
- How would you describe management's approach to recording sensitive or important accounting estimates, such as the allowance for loan losses? (conservative, realistic, optimistic)
- Has management adequately addressed any significant issues noted in your audit and previous audits
- How does management react to proposed adjustments
 - Does it differ from your other clients
 - What was the cumulative impact of any passed adjustments
- Does management foster a culture and environment that promotes attention to internal controls and compliance.



What to ask your auditor

- Did your firm provide any services other than the audit last year? If so what and how much were you paid.
(the external auditor should not provide additional services without your knowledge)
- How would you rate the performance of the Credit Union's internal audit function
 - Are they sufficiently independent of management
 - Does the internal audit plan focus on the appropriate risk areas of the Credit Union
- Are there any important accounting or regulatory changes that will have an impact on the Credit Union



Overseeing the Internal Auditor

- Review annual audit plan and budget
 - Scope, risk assessment, resources
- Determine the internal auditor has adequate independence from management
- Meet quarterly to discuss projects and findings
- Perform annual evaluation of internal audit process



Reviewing new accounting, auditing and regulatory issues

- **Accounting pronouncements (FASB)**
 - Impact on Credit Union's financial statements
 - Additional resources if any needed to comply.
- **Auditing standards (AICPA, PCOB)**
 - Impact on scope of audit
 - Impact on cost of audit
- **National Credit Union Administration**
- **Consumer Financial Protection Board**
- **Federal Reserve**
- **U.S. Treasury**



Reporting to the Board

- Audit Charter or Matrix
- Minutes of meetings
 - What you did,
 - What you found,
 - What you did with what you found.
- Member complaints



Annual Self Evaluation

- Be Introspective
 - What has our impact been on the organization?
- Comprehensive
 - Evaluate all committee members
- Performance improvement
 - Ask the CEO, CFO and outside auditor for input
- Leadership



Tools/Practice Aids

- **AICPA Audit Committee Tool Kit**
 - www.aicpa.org – click on “ audit committee effectiveness center”
- **National Association of Credit Union Supervisory and Audit Committees (NACUSAC)**
 - Provides training and resources specifically for supervisory committee members.
- **Association of Credit Union Internal Auditors - ACUIA.ORG**



NCUA Supervisory Committee Handbook

- Highlights regulatory responsibilities
- Provides suggested audit steps
- Provides minimum procedures for a supervisory committee examination
- Best suited to smaller institutions.



SUMMARY

- Your supervisory Committee Members, Board of Directors and management need to be thoughtfully aligned on the role and expectations of the Committee
- Craft or update a explicit written charter for the Committee
- You and your Supervisory Committee members should be fully engaged in the important duties entrusted to you.
- Regularly monitor the performance of the Committee

