

*The Complete*  
**TRAINER'S**  
*GUIDE to*

# CREDIT UNION

## Audit/Supervisory Committee Competency Course

Credit Union Solutions Series Number 19

*“The essential requirements of the administrative organs are: reliable character and inclination to the common good. No training in addition to a primary school education is required; but does not mean that such modest level of education ensures good management of a credit union. Higher training is required to establish volunteers’ professional standing.”*

*F.W. Raiffeisen*



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## PREFACE

The Audit/Supervisory Committee is assisting the Board of Directors by overseeing financial reporting responsibilities. The Audit Committee also assumes responsibility for internal controls, audit processes and compliance with laws, regulations and codes of conduct within the credit union.

The members at the annual general meeting (AGM) elect the audit/supervisory committee. Though they serve as volunteers, it is essential that the committee possesses competence in accounting and auditing gained from experience or training or profession. Some countries may have qualifications for the committee, however, their skills should also be tailor made within the unique environment of credit unions.

We have observed that very few committees are not capable of performing the auditing procedures nor do volunteers usually have enough spare time to adequately perform necessary audit steps. For large credit unions, it is important to hire qualified internal audit staff to help the committee perform their duties. However, the committee is still responsible to the AGM in assisting the Board of Directors in fulfilling its oversight responsibilities for (1) the integrity of the credit union's financial statements, (2) compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the credit union's internal audit function and independent auditors.

ACCU developed the Credit Union Business Solution No. 19 – Credit Union Audit/Supervisory Committee Competency Course to provide guidelines and tools for the audit committee effective performance of its duties. The Solution provides practical tool for audit/supervisory committee to perform their duties and responsibilities without losing grip to the original objective of credit union.

It is anticipated that the HRD Workshop will provide constructive feedback to ensure that the Solution serve as response to safety and soundness issues in credit unions in Asia.



**ASSOCIATION OF  
ASIAN CONFEDERATION OF CREDIT UNIONS**

**Trainers Training on  
Credit Union Audit/Supervisory Committee Competency Course**

**GENERAL INFORMATION**

**OBJECTIVES:**

The objective of the training is to introduce a course to the National Federation to train the Audit/Supervisory Committee of credit unions.

Thus, after attending the program, the trainers will be able to:

1. Define the duties and responsibilities of the Audit/Supervisory Committee
2. Design Audit Committee Charter
3. Evaluate the sufficiency of the internal control system of the credit union
4. Adopt tool in evaluating the internal control system
5. Understand the management assertions on the financial statements of credit union
6. Gain skills in developing audit objectives and procedures
7. Adopt tool on social performance audit
8. Assess the efficiency of the Audit/Supervisory Committee in credit unions

**SUBJECT AREAS:**

1. Duties and Responsibilities of the Audit/Supervisory Committee	<ul style="list-style-type: none"> <li>• Audit/Supervisory Charter</li> </ul>
2. Types of Audit	<ul style="list-style-type: none"> <li>• Operation Audit</li> <li>• Financial Audit</li> <li>• Compliance Audit</li> <li>• Social Audit</li> </ul>
3. Reading and Understanding Financial Statements	<ul style="list-style-type: none"> <li>• Statement of Financial Condition (Balance Sheet)</li> <li>• Income Statement (profit and loss)</li> <li>• Statement of Changes in Financial Position</li> <li>• Notes to Financial Statements</li> </ul>
4. Operational Audit	<ul style="list-style-type: none"> <li>• Evaluating the Sufficiency of Internal Control of credit unions</li> </ul>
5. Financial Audit	<ul style="list-style-type: none"> <li>• Understanding the Management Assertions on the Financial Statements</li> <li>• Developing Audit Objectives and Procedures</li> </ul>
6. Social Performance Audit	<ul style="list-style-type: none"> <li>• Social Audit tool</li> </ul>
7. Assessing the Audit/Supervisory Effectiveness	<ul style="list-style-type: none"> <li>• Questionnaire in Assessing the Audit/Supervisory Effectiveness</li> </ul>

**DURATION**

The training is a 16 hour 3-day residential training for the trainers, audit/supervisory committee

**USE**

The training described in this manual will be attended by the training officers, education committees and members of credit unions. The training is appropriate for the front liner or staff in charge of financial counseling to members. The ideal number of participants is 25 to maximum of 30.

## TRAINING APPROACH AND METHOD

The training has adopted a highly active learning approach through the use of participative learning methods and built-in action commitment. Participants will not be trained in a general or passive way. Trainees are working in groups and on their own. The trainer will act more as a 'facilitator' of learning than a lecturer.

Every trainee has some ideas and suggestions from which the others can learn. This material is intended to allow and encourage contributions from such individual insight and experience, so that all will go away having accumulated the knowledge that each brought to the program. Trainees will appreciate the value of teamwork and make a positive contribution when working with others to solve problems and complete tasks.

### What are some Cooperative Learning Approaches?

Several learning approaches used in this training manual are described below.

1. **Jigsaw** - Each group, in a five to six member team, is given information for only one part of the learning activity. However, each trainee needs to know all information. Trainees work cooperatively with different teams. All trainees seek the same information, study it, and decide how best to teach it to other teams. After this is accomplished, each group should be able to complete all the learning activity.
2. **Think-Pair-Share** - This strategy can be used before introducing new concepts. It gives everyone in the class time to access prior knowledge and provides a chance for them to share their ideas with someone. Think-Pair-Share helps trainees organize their knowledge and motivates learning of new topics. There are three steps to Think-Pair-Share with a time limit on each step signaled by the facilitator. (1) Trainees are asked to brainstorm a concept individually and organize their thoughts on paper. (2) Trainees pair up and compile a list of their ideas. (3) Each pair will then share with the entire class until all ideas have been recorded and discussed.
3. **Send-a-Problem** - Trainees are placed in heterogeneous teams of four to six. Each team designs a problem to send around the class. The other teams solve the problem. Since all of the teams send their own problem, there are a series of problems solved in this one activity. Results are shared with the class.
4. **Round Robin** - Trainees are placed in heterogeneous teams of four to six. Each trainee has an opportunity to speak without being interrupted. The discussion moves clockwise around the team; everyone must contribute to the topic. The team may use an item to pass around as a visual aid to determine who has the floor. Round Table is another version. The difference being that a piece of paper is passed around and each member writes instead of speaks about the topic.
5. **Mind Mapping** - Mind Mapping is the process of visually depicting a central concept with symbols, images, colors, keywords, and branches. This is a fast and fun way to take visual notes, foster creativity, stretches trainee's visual thinking skills, make learning contextual and meaningful, and promote active involvement with the learning content. Pairs of trainees may create their own mind map or they may simultaneously add to the team and/or class mind map.

The shared learning is, in fact, almost always more important than the knowledge that you, the facilitator, or the manual itself can contribute. You should treat each trainee as a source of ideas as valuable as the facilitator. The material in this manual is designed to help the facilitator elicit contributions from the trainees on each subject matter. It is important however, that the facilitator is able to process the ideas of the trainees and lead them to the learning activities.

The built-in action commitment at the end of the training will give each trainee the opportunity to make use of the expertise in changing behavior and transferring skills to others. The course also poses a personal challenge to trainee to practice what they have learned in their lives. Once the trainee applied the learning to their personal lives, they will be an effective trainer.

### **ADAPTING THE MATERIAL**

Before using the manual in real training situation, you may want to adapt it to your circumstances. Follow the procedure below.

Read through the material and decide whether or not:

- The program can be run as it is
- Only certain topics or sessions should be used
- New topics and sessions should be added

Your decision will depend on the training needs of your trainees and the means you have at your disposal.

Carefully read through the sessions you have decided to use. Check the subject matter in both the session guides and the handouts.

Modify them to reflect local practices, to include local currencies, terminologies etc. Note that the currency used in the manual is US Dollars but this could be tailored to the country's context. Amounts in the examples can also reflect the local economic standards. Such adaptation will help trainees identify more easily with situations described in the materials and will increase impact and effectiveness of the program.

Further, the manual also uses the term "credit union" referring to cooperative financial institution. This could be modified based on the local situation so as not to mislead the trainees especially the members of credit unions. In Asia, credit unions is equivalent to credit cooperatives, savings and credit cooperatives, thrift and credit cooperatives, savings and credit unions, peoples credit fund, village banks, community based financial institutions etc.

Do not regard this manual as a book with all or the only answer. It is intended as a collection of suggestions and ideas which you must adapt, modify, use or reject as you think fit. ACCU is open for suggestions to improve the manual and recognizes that this initiative is evolving in nature.

## **PREPARING YOURSELF**

The following steps are suggested before conducting the training:

1. Read the session guides carefully; be sure that you understand the content and that you can predict what is intended to happen inside the classroom.
2. Work through the exercises by yourself and be sure you understand them clearly. Do not limit yourself with the session guides; if necessary research from the internet for more information.
3. Note on the material itself as many local examples as you can to illustrate the points raise.
4. Plan the whole session carefully; predict approximately how many minutes each section of the session is likely to take. Make appropriate modifications to fit the time available for you. Do not restrict yourself to the time suggested in the manual.

## **CONDUCTING THE PROGRAM**

The following steps are suggested in conducting the training:

1. Divide the participants into teams of four to six depending on the size of the group. Ideal is four teams of four to six members each.
2. Do not put the trainees in rows so that the only face they can see is your own.
3. Be sure that the session is clearly structured in the trainee's minds. It is like telling a good story – with beginning, middle and end. Let the participants know what is going to happen in this training program.
4. Be flexible; do not follow the material obediently. Be prepared to change the approach, depending on the situation and available resources. Just be cautioned that while you are changing the training approach, make sure that the objective of the program will be achieved.
5. If you fail to draw a particular answer from trainees, it is your fault, not theirs. Persist, asking the same question in different ways, hinting at the response you want. Only make the point yourself as a last resort.
6. Use silence to provoke response if no one answers a question wait 20 to 30 seconds. This gives the trainees time to collect their thoughts – and the courage to speak.
7. Avoid talking too much; trainee discussions should take up some three-quarters of the total time. Ask, listen and guide rather than talk.
8. Never ridicule a trainee's answer or suggestion; it may have some merit and the attempt itself is commendable.
9. If you cannot answer a trainee's question ask another trainee to respond. You are the facilitator, not the source of knowledge.
10. Be dynamic; move around, walk up and down the classroom. Your physical activity helps keep everyone alert.



### **IMPACT OF THE TRAINING**

- National federations will have trainers to integrate technical assistance and training for Audit/Supervisory Committee
- The trainers will have to train at least another 5 trainers
- The national federations will have a training module for Audit/Supervisory Committee

## DAILY SCHEDULE

Day 1		
		Duration in Hours
8:30 – 10:00	Orientation of the Program, introductions, expectation setting	1.00
10:0 – 10:30	Coffee Break	
10:30 – 12:00	The Role of the Audit or Supervisory Committee of the Credit Union - Audit Committee Charter	1.5
12:00 – 13:30	Lunch Break	
13:30 – 15:00	Types of Audit	1.5
15:00 – 15:30	Coffee Break	
15:30 – 17:00	Reading and Understanding the Financial Statements of Credit Unions	1.5
Day 2		
Operation Audit		
8:30 – 10:00	Evaluating the Sufficiency of Internal Control Environment of Credit Unions	1.5
10:00 – 10:30	Coffee Break	
10:30 – 12:00	Continuation: Evaluating the Sufficiency of Internal Control Environment of Credit Unions	1.5
12:00 – 13:30	Lunch	
Financial Audit		
13:30 – 15:00	Understanding the Management Assertions on the Financial Statements of Credit Unions	1.5
15:00 – 15:30	Coffee Break	
15:30 – 17:00	Developing Audit Objectives and Procedures	1.5
Day 3		
Social Performance Audit		
8:30 – 10:00	Social Performance Audit	1.5
10:00 – 10:30	Coffee Break	
10:30 – 12:00	Assessing Audit/Supervisory Committee Effectiveness	1.5
12:00 – 13:30	Lunch	
13:30 – 15:00	Action Plan	1.5
	<b>Total</b>	<b>16</b>

# SESSION GUIDE

## INTRODUCTIONS

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08:30 – 9:00

### Orientation of the Program

#### Objectives:

By the end of the of the session, participants will:

- Feel welcome;
- Know their fellow learners are; and
- Be familiar with the course program and key themes.

#### Session Contents:

- Introductions (organizations sponsoring the training and resource persons)
- Personal goals
- Course purpose and objectives
- Housekeeping rules
- Introduction of props and posters
- Assigning Teams

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### Introductions – 5 minutes

- Have the **FL 1** Welcome showing for the participants as they enter the room. Welcome participants to the course and hope that they enjoy attending the Loan Officers training event.
- Introduce yourself and explain what the Credit Union Federation is or the sponsoring organization and its mission (our mission is to ...). Provide a brief background of yourself to build credibility that the facilitator/s is/are qualified to run the course.
- The course is about competency course for credit union loan officers. Assure the participants that the training is practical, participatory and fun. There will be lots of opportunity to learn together in groups. The whole process is inspiring as participants can internalize the sessions, in particular the issues in managing loans. Assure that the implementation of this training contribute in the effective management of the credit union loan portfolio.

### Personal Goals - 10 minutes

Introduce **FC 2**: Personal Goals Flip Chart with the Goal and arrow cut out picture in the middle.

Ask the participants to write their names and the goals in attending the training. Review the goals

**Course Purpose and Objectives – 10 minutes:**

- Explain the **FC 3** and relate these objectives to the personal goals of the participants:

The objective of the training is to introduce a course to the National Federation to train the Audit/Supervisory Committee of credit unions.

Thus, after attending the program, the trainers will be able to:

1. Define the duties and responsibilities of the Audit/Supervisory Committee
2. Design Audit Committee Charter
3. Evaluate the sufficiency of the internal control system of the credit union
4. Adopt tool in evaluating the internal control system
5. Understand the management assertions on the financial statements of credit union
6. Gain skills in developing audit objectives and procedures
7. Adopt tool on social performance audit
8. Assess the efficiency of the Audit/Supervisory Committee in credit unions

**Housekeeping Rules – 10 minutes:**

Introduce the poster **FL 4**. Note that the rules are also printed on the name blocks on their tables. Key point on rules:

- **Involve** - the course is designed with participatory techniques so it is essential they feel comfortable to share experiences and work together to complete various activities. Assure the participants that the information shared during the training will be held in confidence.
- **Ask questions** – it is important that they ask if they do not understand any aspect of the course or need the facilitator to repeat or further explain any topic. Participants are encouraged to speak their mind in case important things are not well explained or understood. The program is designed to break the barrier between facilitator and learners as well as with their co-learners.

- **Make Mistakes** - it is okay to make mistakes. It is normal and it is one way of learning – we should only need to learn the lessons. Learners should be encouraged to speak without hesitation.
- **Have Fun** - the most important of all. Since the sessions are meant for audience of different background, the training is designed to inspire learners with the use of different methodologies that infuse fun and excitement.

Besides the rules, involve the participants in preparing the housekeeping rules. This can be assigned as Poster **FL 5 – Housekeeping**. Ask participants to contribute. Most likely these are:

- On time, no tardiness
- Switch off Mobile Phones

Participants may add more on the housekeeping and also set penalties to violators.

### **Introduce Poster FL 6 Parking Lot**

There are times that participants may ask out of the topic questions or points that will be discussed in the succeeding topics. Instead of answering them right away, the Parking Lot can be used to post questions that will be dealt with in the later topics or it can be answered towards the end of the session, if time is permitted. If the question is not everybody's concern, the facilitator can also answer the question to the concerned participant after the session or during coffee break.

### **Assigning Teams – 15 minutes**

Assigning of Groups (see the groupings) – group names using the **Team Logo**.

Suitable for: Groups of most sizes, particularly in this training where participants are divided into teams. This should be a good warm up activity.

Each team has a flipchart sheet and colored markers/crayons and have to design a colorful logo to portray the team values and name. Underneath, they have to put a motto. Have lively background music on.

### **Self-Disclosure Introduction – 40 minutes (if group is less than 20)**

#### **Objective:**

To break the ice by forcing people to introduce themselves by means of their drawing ability, rather than their words.

**Materials required:**

8 x 11.5 paper or Letter size or A4 size paper ,pens, pencil

**Procedure:**

Introduce poster **FL 7**. Provide the trainees of a letter size or A4 size paper. Ask them to draw pictures that describe themselves in a creative way. These can be sketches of themselves, their hobbies, jobs, interests, or family. Anything that can describe them is fair game. Ask each trainee to write his or her name at the back of the paper and attach an adjective that not only describes a dominant characteristic, but also starts with the first letter of her or his name (e.g. Serious Sarah, Mathematical Mary, Bicycling Bill, Creative Cathy, Dazzling Daisy etc.)

Collect all the papers in a box. A volunteer is chosen at random to pick out a paper and look at the drawing, not the name side of the paper. The introducer then tells the group as much as possible about the card owner by interpreting the sketch, making any assumptions desired. After each introduction, the person who drew that sketch stands and clarifies, corrects, or more truthfully completes his or her introduction. That person then pulls out another paper and proceeds to introduce that trainee. Continue the process until all persons are introduced.

**Discussion Questions:**

- Why do we stick so closely to ‘just the facts’ in our self introductions – name, job, employer?
- How comfortable did you feel disclosing, through art, other aspects about yourself?
- What were some of the more interesting things discovered?

**Tips:**

If you suspect that team members will be hesitant about interpreting others’ drawings, you can volunteer to be first and provide a richly developed, previously prepared interpretation of a cohort’s drawing (but it’s best to warn the other individual first)

People who do not consider themselves artistic may have reservations about creating a drawing and sharing it with others; so preface the activity with the caution that you do not have to be an artist to do this. Any rough sketch will do.

The time required depends on the number of participants.

- Allow 2-3 minutes for team members to draw their sketches
- Allow 1 minute for each introduction and one minute for the person who was introduced to supplement the information
- Allow 5 minutes for the team to discuss their observations and learning at the conclusion of the exercise.

If the group is more than 30, the trainer may opt not to use the Self-Disclosure, instead the Name Raffle Draw can be used as an ice breaker.

**Name Raffle Draw:**

Have one box containing the cut out names of the trainees including facilitator. Ask the trainees to introduce themselves to as many trainees as they can during breaks. Pick at least 5 names every after break or during sessions when you feel the energy level is going down. The names picked shall be identifying as many trainees as they can. Wrong name identification will be a deduction to the score earned. The most names identified will be given prize. The name raffle draw must be completed at the end of the first day.

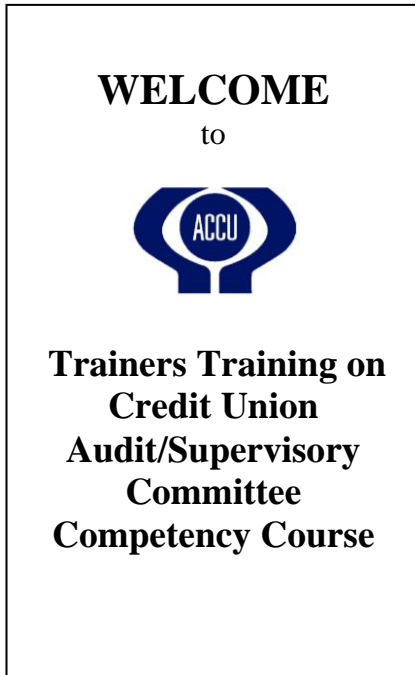
Introduce the Flip Chart 8: **ACTION WALL**

At the end of each session, trainees would have in mind actions they would implement after this training. Ask them to write on sticky notes to remind them during the action planning.

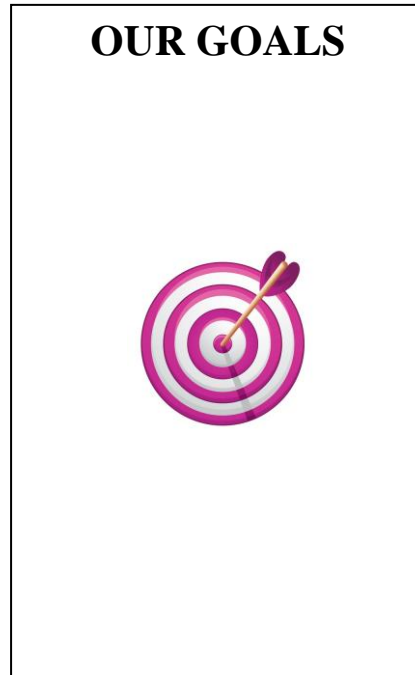


**Sample Posters:**

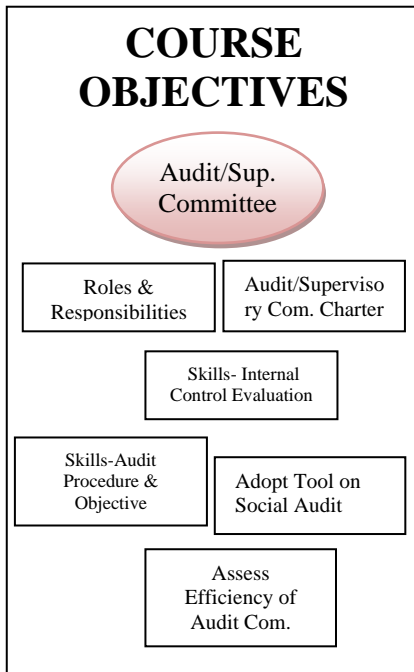
FC 1



FC 2



FC 3





FC 4




FC 5

**HOUSEKEEPING**

 Punctuality


 Switch off  
Mobile  
phones

 Rest  
Rooms  
(give directions)

May also include other housekeeping info.

FC 6

**P**ARKING LOT  
*Post your questions here using sticky notes.*



FC 7

**SELF  
DISCLOSURE**

Describe yourself in a drawing:

- **hobbies**
- **jobs**
- **interests**
- **family**
- Write name
- attach an adjective of your dominant characteristic starting with the first letter of your name (e.g. Serious Sarah, Mathematical Mary, Bicycling Bill, Creative Cathy, Dazzling Daisy etc.)

FC 8

**ACTION WALL**  
*Post the things you want to implement after this training.*

# 1

## Duties & Responsibilities of the Audit/Supervisory Committee

*(1.5 hour session – 90 minutes)*

### LEARNING OUTCOMES

Do:	<ul style="list-style-type: none"><li>• Explain the duties and responsibilities of the audit/supervisory committee</li></ul>
Know:	<ul style="list-style-type: none"><li>• Design the charter for the audit/supervisory committee based on the structure normally discussed in cooperative law or bylaws of the credit union.</li></ul>
Feel:	<ul style="list-style-type: none"><li>• Agree on the need for a clear and specific job description for the audit/supervisory committee to perform their duties and responsibilities effectively.</li></ul>

<b>Topic</b>	<b>Duties and Responsibilities of the Audit/Supervisory Committee</b>
<b>Time Allocation</b>	1.5 hours (90 minutes)
<b>Materials</b>	<ol style="list-style-type: none"> <li>1. Masking Tape</li> <li>2. Flip Charts</li> <li>3. Marking Pens</li> <li>4. Meta cards</li> </ol>
<b>Handouts</b>	Sample Charter and Policy of Audit/Supervisory Committee
<b>Session Guide</b>	<p><b>1. Introduction:</b></p> <p>Introduce the learning outcomes of the session. Inform that at the end of the session, participants will be able to:</p> <p><b>Do:</b></p> <ul style="list-style-type: none"> <li>• Explain the duties and responsibilities of the audit/supervisory committee</li> </ul> <p><b>Know:</b></p> <ul style="list-style-type: none"> <li>• Design the charter for the audit/supervisory committee based on the structure normally discussed in cooperative law or bylaws of the credit union.</li> </ul> <p><b>Feel:</b></p> <ul style="list-style-type: none"> <li>• Agree on the need for a clear and specific job description for the audit/supervisory committee to perform their duties and responsibilities effectively.</li> </ul> <p>2. Set the context of the training by highlighting the following:</p> <ul style="list-style-type: none"> <li>• <b>Mandate of the Committee:</b> The members at the annual general meeting (AGM) elect the audit/supervisory committee. The committee usually serves on a voluntary basis and report to the membership. The committee normally consists of an odd number, not less than three or more than 5 members. The audit/supervisory committee’s principal objectives are to perform, or select qualified individual to perform the annual audit, member account verification, and periodic internal audits of operational areas throughout the year.</li> <li>• Because of the technical nature of the audit/supervisory committee it is imperative that the elected committee members have ‘hands on’ experience in accounting and auditing. Very few committees are capable of performing the auditing procedures nor do volunteers usually have enough spare time to adequately perform the necessary audit steps. It is in the best interest of all credit unions and their members to have a disinterested third party conduct the annual audit at the very least.</li> </ul>

- If the credit union expands its operation, then the audit/supervisory committee should hire staff to perform the internal auditing function. The staff should report to the audit/supervisory committee.
- However, small size credit unions (example less than 1,000 members) cannot afford to maintain internal audit staff, so their only option is to have the audit/supervisory committee perform the auditing functions.
- This training will provide basic skills enabling the committee to monitor the work of the credit union internal audit staff or perform audit function in case the credit union does not have internal audit staff.

**Identification of Audit/Supervisory Committee Duties and Responsibilities**

3. Distribute in each group the duties and responsibilities of Audit/Supervisory Committee written in colored cards of about 8.5 x 3 inches. Printed also in these cards are duties and responsibilities that do not belong to the committee. The facilitator should have one set of cards.
4. Explain to the group that their task is to identify the duties and responsibilities of the Audit/Supervisory Committee.
5. Ask the group to display their output on the flip chart. Ask each group to appoint a delegate who will check the answer of another group.
6. Place the facilitator's cards in a box. Ask one representative of the group to draw one card and explain where the card should be placed i.e. Audit Committee, External Audit, Management
7. The facilitator provides input or clarification. Meanwhile, the groups are checking their answers. The group with most number of correct answers receives a prize.

8. The following is the answer guide:

<b>Audit Committee</b>	<b>External Auditor</b>	<b>Management</b>
<ul style="list-style-type: none"> <li>• Provide oversight of credit union’s financial statements</li> <li>• Provide oversight of credit union’s safety and soundness</li> <li>• Review questionnaires, reports and findings of all examinations of regulatory authorities</li> <li>• Periodically meet with the CEO to review matters affecting the safety &amp; soundness</li> <li>• Make report to members at AGM</li> <li>• Review the scope, personnel qualifications, budget, effectiveness and structure of audit function</li> <li>• Recommend the appointment, compensation and oversee the work of external auditor</li> <li>• Invite members of management, auditors for pertinent information</li> <li>• Meet with management &amp; auditors on issues of concern</li> <li>• Review the CU process and performance in respect to retention and treatment of complaints</li> <li>• Ensure that an annual self-evaluation is completed</li> </ul>	<ul style="list-style-type: none"> <li>• Render an opinion on the fair presentation of the financial statements</li> <li>• Test check the transactions to form an opinion on the financial statements</li> <li>• Attest on the assertion made by the management on the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>• Develop or install procedures</li> <li>• Prepare the accounting records of the credit union</li> <li>• Perform internal control functions</li> <li>• Prepare accounting policy</li> <li>• Prepare Bank Reconciliation</li> <li>• Assist in collecting delinquent loans</li> <li>• Submit financial report to the Board of Directors in their monthly meetings</li> <li>• Attend the monthly meeting of the board</li> <li>• Design the internal control system of the credit union</li> <li>• Select the accounting software for the credit union</li> <li>• assert the reliability of the financial statements</li> </ul>

**Audit/Supervisory Committee Charter:**

9. Distribute the sample Charter of the Audit/Supervisory Committee and the sample Policy for the Audit/Supervisory Committee to the participants.
10. Ask them to read individually in 5 minutes. Compare the sample policy with the policy of their credit union.
11. In the group request them to identify the areas not being observed or performed by the audit/supervisory committee in their respective credit union. Ask them to write it on meta cards and post them on the main flip chart. Summarize the output of the group.
12. Highlight that the charter was designed for a credit union with internal audit staff. However, the training will provide the skills for the audit/supervisory committee enabling them to perform financial and operations audit of the credit union.

Note to facilitator:

The exercise will reveal the duties that are not currently performed by the audit/supervisory committee. It is anticipated that the participants would realize the need to devise a charter and policy for the Audit/Supervisory committee that will serve as basis of the performance of their duties and improving their competency.

13. Conclude by saying that the participant should be able to propose to their Board of Directors the adoption of the Charter and policy for the Audit/Supervisory Committee.
14. Summarize the objectives of the session.

## AUDIT/SUPERVISORY COMMITTEE CHARTER

### Purpose

The purpose of the Audit/Supervisory Committee is to provide oversight with respect to:

1. The adequacy of the Credit Union's processes for managing material risks.
2. The integrity of financial reporting
3. The appointment of the Credit Union's independent auditor
4. The performance of the internal audit function
5. The Credit Union's compliance with legal and regulatory requirements

### Responsibilities

The Audit/Supervisory Committee will:

1. Provide oversight of the integrity of the Credit Union's financial statements, which includes reviews with management and external auditors of significant accounting and reporting issues and understanding their impact on the financial statements, such as:
  - a. Critical management estimates and judgments
  - b. Complex or unusual transactions
  - c. Any significant changes in the Credit Union's selection and application of accounting principles
2. Provide oversight of the Credit Union's safety and soundness by reviewing the effectiveness of the Credit Union's risk management processes and related internal controls, including:
  - a. Control environment and governance processes
  - b. Safeguarding of assets
  - c. Financial reporting
  - d. Compliance with laws and regulations
3. Review questionnaires, reports and findings of all examinations by regulatory authorities and management's responses to such reports.
4. Periodically meet with the Credit Union's Board and review any matters that may have a material impact on the Credit Union's safety and soundness.
5. Make a report to members at the Credit Union's Annual Membership Meeting.
6. Review the overall scope, personnel qualifications, budget resources, activities, effectiveness, and organizational structure of the audit services function, including:
  - a. The review and evaluation of the scope, risk assessment and prioritization of planned audits in the yearly Audit Services' Plan, as well as its relevance to overall Credit Union business objectives and subsequent changes



- b. Reviews of internal audit results, significant corrective actions, and final disposition thereof.
  - c. Participation in the selection of the Chief Audit Executive.
  - d. Ensuring that the Chief Audit Executive has direct access to the Committee and periodically meets in a separate executive session to discuss privately any issues of concern.
7. Recommend to the General Meeting the external auditor and oversee work on the annual audit of the financial statements, which includes:
    - a. Review of adequacy of the audit scope; and
    - b. Review the results of the audit, including any difficulties encountered. This review will include any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management.
  8. The Committee will periodically invite members of management, auditors or others to provide pertinent information as necessary.
  9. The Committee will meet separately, periodically with management and the independent auditors in an executive session to discuss any issues of concern.
  10. Review the Credit Union's process and performance in respect to retention and treatment of complaints received from both internal and external sources, related to internal fraud or irregularities. This includes a process in which employees may submit confidential and anonymous concerns for investigation and correction as required.
  11. Ensure that an annual self assessment evaluation of its activities is completed.
  12. Also have the authority to
    - a. Conduct or authorize investigations into any matter within its scope of responsibility.
    - b. Gain unrestricted access to Credit Union personnel and documentation for the purpose of fulfilling its responsibilities.
    - c. Preview and evaluate the Credit Union's business objectives, strategies and plans.
    - d. Engage the Credit Union's Audit Services department to perform such functions as necessary to meet its responsibilities related to adequacy of internal controls, risk management and governance practice.
    - e. Acquire outside professional services and take corrective actions when deemed appropriate to fulfilling its responsibilities.

### **Committee Member Qualifications**

Committee members, as a group, shall ensure they maintain the qualifications necessary to ensure the Committee's particular fiduciary functions can be effectively executed.

All Committee members shall have substantially all the following competencies:

1. Ability to understand and analyze financial statements with a level of complexity comparable to that of the Credit Union;
2. Understand the application of generally accepted accounting principles with respect to such financial statements, especially with respect to estimates, accruals and reserves;
3. Experience in reviewing and assessing risk management processes and internal controls; and
4. Knowledgeable of all credit union policy and procedures
5. Capable of investigating and resolving any membership complaints or comments made by staff or any other individuals with regards to mismanagement and/or fraud
6. Able to commit enough time to successfully complete all of the job and duties and responsibilities
7. Understand the audit committee functions
8. Able to work part of the team

In addition, the Committee shall, to the extent practical, maintain a minimum of two members who meet at least one of the following qualifications:

- Certified Public Accountant or Chartered Accountant
- Experience as a CEO, CFO, Controller, Principal Accounting Officer or Internal Audit Executive, of an organization with at least the breadth and complexity of the Credit Union.

# 2

## Type of Audits (1.5 hour session – 90 minutes)

### OBJECTIVES

<b>Do:</b>	Describe the four primary types of audit
<b>Know:</b>	Recognize the difference of the four primary types of audit according to its objective, established criteria and available evidence.
<b>Feel:</b>	Appreciate the importance of the audit function for the safety and soundness of the credit union.

<b>Topic</b>	<b>Types of Audit</b>
<b>Time Allocation</b>	1.5 hours or 90 minutes
<b>Materials</b>	<ol style="list-style-type: none"> <li>1. Flip Chart on Life Stages</li> <li>2. Marker Pens</li> <li>3. Sticky notes</li> </ol>
<b>Handouts</b>	<ul style="list-style-type: none"> <li>• Quiz on the Types of Audit</li> </ul>
<b>Session Guide</b>	<ol style="list-style-type: none"> <li>1. <b>Introduction</b> <p>Introduce the learning outcome of the topic saying that</p> <p>“At the end of the session, you as participant will be able to:</p> <p><b>Do:</b></p> <p>Describe the four types of audit</p> <p><b>Know:</b></p> <p>Recognize the difference of the four types of audit according to its objective, established criteria and available evidence.</p> <p><b>Feel:</b></p> <p>Appreciate the importance of the audit function for the safety and soundness of the credit union.</p> </li> <li>2. Explain that the session will provide knowledge on the four types of audit of a credit union. In fact, there are only three primary types of audit, but credit unions need to draw its attention on the fulfillment of its social responsibility. Credit union’s operation has social impact and thus its social performance has to be measured.</li> <li>3. Print the following types of audit on a meta card: <ul style="list-style-type: none"> <li>• Financial statement audit</li> <li>• Operational audit</li> <li>• Compliance audit</li> <li>• Social audit</li> </ul> </li> <li>4. Distribute the Quiz on the Types of Audit</li> <li>5. Instruct the participants to answer the quiz individually for 10 minutes. Then, ask the group to come up with one answer agreed upon by the group members (5 minutes).</li> </ol>

6. After completing the answers, ask them to exchange paper with another group.
7. Facilitate answering the quiz. The facilitator provides inputs for each question.
8. Internal auditors or audit/supervisory committee also perform financial statement audits, operational audits (which are also referred to as performance auditing and **management auditing**), and compliance audits, although their audits have a different scope and reports a different purpose. Seldom social audit is performed, but this solution encourages credit unions to look into its social performance.

**Note to Facilitator:**

A **financial statement audit** (or attest audit) examines financial statements, records, and related operations to ascertain adherence to generally accepted accounting principles, meaning that the audit determines whether credit unions have followed the financial reporting standards given by various sanctioning boards such as the Financial Accounting Standards Board.

An **operational audit** examines an organization's activities in order to assess performances and develop recommendations for improved use of business resources. It is a review of any part of the credit union's operating procedures and methods for the purpose of evaluating efficiency and effectiveness. This can include the evaluation of the management structure, computer operations, loan assessment and collections.

**Compliance audit** has as its objective the determination of whether an organization is following established procedures or rules. In credit unions, there are prescribed policies, contractual agreements, and regulations. Non-compliance on external regulations pose risks to credit unions like non-compliance with the labor laws of the country.

**Social audit** is the process of evaluating a credit union's various operating procedures, code of conduct, and other factors to determine its effect on a society. The goal is to identify what, if any, actions of the credit union have impacted the society in some way. A social audit may be initiated by a credit union that is seeking to improve its cohesiveness or improve its image within the society. If the results are positive, they may be released to the public. For example, if a factory is believed to have a negative impact, the company may have a social audit conducted to identify actions that actually benefit the society.

5. Introduce the next exercise. Explain that the exercise will help them perform the different types of audit. Knowing the objectives of each type, the participants would be able to apply this knowledge in their own credit union.
6. Post the following Flip Chart.

Type of audit	Area of Audit	Information required	Established Criteria	Available Evidence
Financial statement audit				
Operational Audit				
Compliance Audit				
Social Audit				

7. Explain the following columns:
  - Area of audit – need to chose a specific account, activity or process that will be audited
  - Information required refers to the reports that will be verified
  - Establish criteria are the standards or procedure or policies or basis
  - Available evidence – documents to substantiate the verification
8. Ask the group to discuss their answers for 10 minutes. Write them on meta cards. Distribute the handout on the types of audit.
9. Review the answers and provide inputs.
10. Conclude the session by reviewing the objectives of the session.

### Quiz on the Types of Audit

Tick (/) the column for the type of audit for which the item is to be classified:

	Financial Statement Audit	Operational Audit	Compliance Audit	Social Audit
1. The process of evaluating the credit union's various operating procedures, code of conduct, and other factors to determine its effect on a society.				X
2. This audit determines whether the overall financial statements are stated in accordance with specified criteria.	X			
3. The goal is to identify what, if any, actions of the firm have impacted the society in some way.				X
4. Is the review of any part of a credit union's operating procedures and methods for the purpose of evaluating efficiency and effectiveness.		X		
5. An example of this audit is the evaluation of the efficiency and accuracy of the processing of loans to members.		X		
6. A social audit may be initiated by a firm that is seeking to improve its cohesiveness or improve its image within the society.				X
7. The basis of the audit is the financial statements that include Statement of Financial Position, Income Statement, Statement of Changes in Financial Position including accompanying footnotes.	X			
8. The purpose is to determine whether the credit union is following specific procedures, policies and regulations.			X	
9. This audit could include determining whether the accounting personnel are following the procedures prescribed in accounting, reviewing the salaries for compliance with the labor laws, or examining the legal requirements on member loans, and other contractual agreements.			X	

**CREDIT UNION AUDIT/SUPERVISORY COMPETENCY COURSE**

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	<b>Financial Statement Audit</b>	<b>Operational Audit</b>	<b>Compliance Audit</b>	<b>Social Audit</b>
10. These audits are reported only within the organization rather than for public.		X	X	
11. The auditor only attest on the reliability of the financial statements as asserted by the management of the credit union	X			
12. The auditor may evaluate the sufficiency of information used by the Board in making significant financial decisions for the credit union.		X		
13. The committee checked on whether the products and services of the credit union meet the needs of members.				X
14. The committee found out that the credit union does not have or not observing the Statement of Responsible Lending.				X
15. The committee found out the significant discrepancies on the loan ledgers as compared with the amount stated in the Balance Sheet.	X			



**For the Exercise:**

### Quiz on the Types of Audit

Tick (/) the column for the type of audit for which the item is to be classified:

	Financial Statement Audit	Operational Audit	Compliance Audit	Social Audit
1. The process of evaluating the credit union's various operating procedures, code of conduct, and other factors to determine its effect on a society.				
2. This audit determines whether the overall financial statements are stated in accordance with specified criteria.				
3. The goal is to identify what, if any, actions of the firm have impacted the society in some way.				
4. Is the review of any part of a credit union's operating procedures and methods for the purpose of evaluating efficiency and effectiveness.				
5. An example of this audit is the evaluation of the efficiency and accuracy of the processing of loans to members.				
6. A social audit may be initiated by a firm that is seeking to improve its cohesiveness or improve its image within the society.				
7. The basis of the audit is the financial statements that include Statement of Financial Position, Income Statement, Statement of Changes in Financial Position including accompanying footnotes.				
8. The purpose is to determine whether the credit union is following specific procedures, policies and regulations.				
9. This audit could include determining whether the accounting personnel are following the procedures prescribed in accounting, reviewing the salaries for compliance with the labor laws, or examining the legal requirements on member loans, and other contractual agreements.				

	<b>Financial Statement Audit</b>	<b>Operational Audit</b>	<b>Compliance Audit</b>	<b>Social Audit</b>
10. These audits are reported only within the organization rather than for public.				
11. The auditor only attest on the reliability of the financial statements as asserted by the management of the credit union				
12. The auditor may evaluate the sufficiency of information used by the Board in making significant financial decisions for the credit union.				
13. The committee checked on whether the products and services of the credit union meet the needs of members.				
14. The committee found out that the credit union does not have or not observing the Statement of Responsible Lending.				
15. The committee found out the significant discrepancies on the loan ledgers as compared with the amount stated in the Balance Sheet.				

### Answer Guide - Types of Audit

<b>Type of audit</b>	<b>Area of Audit</b>	<b>Information required</b>	<b>Established Criteria</b>	<b>Available Evidence</b>
Financial statement audit	Annual audit of financial statements of X Credit Union	Financial Statements of X Credit Union	International Financial Reporting Standards	Documents, records and outside evidence
Operational Audit	Evaluation of loan processing system for efficiency and effectiveness	Number of loans processed and report of loan disbursed and no. of default cases	Credit union standards on efficiency and effectiveness	Loan Schedule
Compliance Audit	Travel Expenses of Board and Staff	Accounting records on Travel	Policy on the payment of travel expenses	Income Statement
Social Audit	Member retention rate	List of members	Policy on membership	Report on members resignation, Exit interview of members

# 3

## Reading and Understanding the Financial Statements of Credit Unions

*(1.5 hours session – 90 minutes)*

### LEARNING OUTCOMES

Do:	<ul style="list-style-type: none"><li>• Read and interpret financial statements of the credit union</li><li>• Explain the elements of financial statements</li></ul>
Know:	<ul style="list-style-type: none"><li>• Understand the relationships of the financial statements</li><li>• Be familiar with the IFRS as the basis of the financial statements</li></ul>
Feel:	Recognize the need for audit/supervisory committee to acquire skills in reading and interpreting financial statements

**Topic**                      **Reading and Understanding the Financial Statements of Credit Unions**

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**Time Allocation**        1.5 hours (90 minutes)

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**Materials**

1. Flip Chart
2. Marker Pens
3. Meta Cards

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**Handouts**                Sample Pro Forma Balance Sheet of ABC Credit Union

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**Session Guide**        1. **Introduction**

Introduce the learning outcomes of the topic saying that

“At the end of the session, you as a participant will be able to:

**Do:**

- Read and interpret financial statements of the credit union
- Explain the elements of financial statements

**Know:**

- Understand the relationships of the financial statements
- Be familiar with the IFRS as the basis of the financial statements

**Feel:**

Recognize the need for audit/supervisory committee to acquire skills in reading and interpreting financial statements

2. Briefly provide background on the International Financial Reporting Standards (IFRS). Emphasize that the accountancy bodies in respective countries have adopted the IFRS and thus it serves as the basis of financial accounting of private enterprises including credit unions.
3. Explain that the Audit/Supervisory committee should have an appropriate knowledge on accounting regulations to help them perform their duties effectively.

**Note to Facilitator:**

International Financial Reporting Standards known by the older name of International Accounting Standards (IAS) were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On April 1, 2001, the new IASB took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and Standing

Interpretations Committee standards (SICs). The IASB has continued to develop standards calling the new standards IFRS.

**The International Accounting Standards Committee** was founded in June 1973 in London and replaced by the International Accounting Standards Board on April 1, 2001. It was responsible for developing the International Accounting Standards and promoting the use and application of these standards.

The IASC was founded as a result of an agreement between accountancy bodies in 9 countries (Australia, Canada, France, Germany, Japan, Mexico, Nederland, United Kingdom, and USA). The IASC has about 140 member bodies from 104 countries.

4. Give emphasis on the main financial statements: Statement of Financial Position (Balance Sheet) and Income Statement (Profit and Loss).
5. Print the elements of Balance Sheet and Income Statement on cards. Each group should receive one set of: Assets, Liabilities, Equity, Revenues, Expenses and Income.
6. Distribute the cards to the group. Ask them to arrange the elements of financial statements into Balance Sheet and Income Statement on their flip chart.
7. Again distribute the main classification of Assets and Liabilities. Ask them to place it under its respective headings in the Balance Sheet. The cards are:
  - Current assets
  - Non-current assets
  - Current liabilities
  - Non-current liabilities
8. Explain the following:
  - Current assets are cash and other assets expected to be converted to cash or consumed either in a year or in the operating cycle (whichever is longer), without disturbing the normal operations of a business. These assets are continually turned over in the course of a business during normal business activity.
  - Non-current are assets that will be held for than one year and not intended to be disposed off in the near future
  - Current liabilities are reasonably expected to be liquidated within a year. They usually include payables such as wages, accounts, taxes, and accounts payables, unearned revenue when adjusting entries, portions of long-term bonds to be paid this year, short-term obligations (*e.g.* from purchase of equipment).

- Long-term liabilities are reasonably expected not to be liquidated within a year. They usually include issued long-term bonds, notes payables, long-term leases, and pension obligations.
9. Ask the groups to complete the financial statements based on the current operation of the credit unions they represent. Allocate 30 minutes for this exercise.

**Note to Facilitator:**

The following are the elements of financial statements as per IAS 1 article 10. Simplify the terminologies in case there are non-accountant participants.

- The financial position of an enterprise is primarily provided in the Statement of Financial Position. The elements include:
  - Asset: An asset is a resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise.
  - Liability: A liability is a present obligation of the enterprise arising from the past events, the settlement of which is expected to result in an outflow from the enterprise' resources, i.e., assets.
  - Equity: Equity is the residual interest in the assets of the enterprise after deducting all the liabilities under the Historical Cost Accounting model. Equity is also known as owner's equity. Under the units of constant purchasing power model equity is the constant real value of shareholders' equity.
- The financial performance of an enterprise is primarily provided in the Statement of Comprehensive Income (income statement or profit and loss account). The elements of an income statement or the elements that measure the financial performance are as follows:
  - Revenues: increases in economic benefit during an accounting period in the form of inflows or enhancements of assets, or decrease of liabilities that result in increases in equity. However, it does not include the contributions made by the equity participants, i.e., proprietor, partners and shareholders.
  - Expenses: decreases in economic benefits during an accounting period in the form of outflows, or depletions of assets or incurrence of liabilities that result in decreases in equity.

Revenues and expenses are measured in nominal monetary units under the Historical Cost Accounting model and in units of constant purchasing power (inflation-adjusted) under the Units of Constant Purchasing Power model.

- Statement of Changes in Equity
- Statement of Cash Flows
- Notes to the Financial Statements

10. Conclude the session summarizing the learning objectives.



**Sample Pro-forma Balance Sheet of ABC Credit Union.**

As of 31 December 2013

<p><b>ASSETS</b></p> <p>Current Assets</p> <p>Cash and Cash Equivalents</p> <p>Loans Receivable <i>Less : Allowances for Doubtful Loans</i></p> <p>Prepaid Expenses</p> <p>Investment Securities (Held for trading)</p> <p>Other Current Assets</p> <p>Non-Current Assets (Fixed Assets)</p> <p>Property, Plant and Equipment (PPE) <i>Less : Accumulated Depreciation</i></p> <p>Investment Securities (Available for sale/Held-to-maturity)</p> <p>Investments in Federations</p> <p>Intangible Assets (Patent, Copyright, Trademark, etc.) <i>Less : Accumulated Amortization</i></p> <p>Other Non-Current Assets, e.g. Deferred Tax Assets, Lease Receivable</p>	<p><b>LIABILITIES and MEMBERS' EQUITY</b></p> <p><b>LIABILITIES</b></p> <p>Current Liabilities (Creditors: amounts falling due within one year)</p> <p>Accounts Payable</p> <p>Current Income Tax Payable</p> <p>Current portion of Loans Payable</p> <p>Short-term Provisions</p> <p>Other Current Liabilities, e.g. Unearned Revenue, Deposits</p> <p><b>Non-Current Liabilities (Creditors: amounts falling due after more than one year)</b></p> <p>Loans Payable</p> <p>Deferred Tax Liabilities</p> <p>Provisions, e.g. Pension Obligations</p> <p>Other Non-Current Liabilities, e.g. Lease Obligations</p> <p><b>MEMBERS' EQUITY</b></p> <p>Share Capital</p> <p>Institutional Capital (Reserve Fund, Land and Building Fund, Donated Capital)</p> <p>Transitory Capital (Welfare Fund, Education Fund, Member Fund, Social Fund)</p>
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# 4

## Evaluation of the Sufficiency of Internal Control of Credit Unions

*(3 hours session – 180 minutes)*

### LEARNING OUTCOMES

Do:	Evaluate weaknesses on the five components of internal control
Know:	Identify the five components of an internal control structure and discuss their characteristics
Feel:	Realize the need for sufficient internal control systems in the credit union.

<b>Topic</b>	<b>Evaluation of the Sufficiency of Internal Control of Credit Unions</b>
<b>Time Allocation</b>	3 hours or 180 minutes
<b>Materials</b>	<ul style="list-style-type: none"><li>• Flip Chart</li><li>• Marker Pens</li><li>• Meta Cards</li><li>• Masking tapes</li></ul>
<b>Handouts</b>	<ul style="list-style-type: none"><li>• Internal Control Checklist</li></ul>
<b>Session Guide</b>	<ol style="list-style-type: none"><li><b>1. Introduction</b>  Provide participants a preview of what is going to happen on this session:  <b>Do:</b> Evaluate weaknesses on the five components of internal control  <b>Know:</b>  Identify the five components of an internal control structure and discuss their characteristics  <b>Feel:</b>  Realize the need for sufficient internal control systems in the credit union.  2. Explain that the size of the credit union does not have significant effect on the nature of the internal control structure and the specific controls.  3. Inform that it is obviously more difficult to establish adequate separation of duties in small credit union.  4. Emphasize again that it would be unreasonable to expect a small credit union to have internal audit staff. In this case, the credit union will rely with the audit/supervisory committee to perform the internal audit function.  5. Note that in small credit unions, the major control is the knowledge and concern of the pioneer Manager or Board.  6. Explain that the credit union internal control structure includes five categories of policies and procedures that management designs and implements to provide reasonable assurance on the reliability of the financial statements.</li></ol>

7. Prepare the following flip chart:

<b>INTERNAL CONTROL STRUCTURE</b>		
<b>Components</b>	<b>Description of Components</b>	<b>What should be checked?</b>
Control environment	Policies and procedures that reflect the overall attitude of the top management, committees and Board of Directors of the credit union	
Management's risk assessment	Management's identification and analysis of risks relevant to the preparation of financial statements in accordance with the international accounting standards	
Accounting information and communication system	Accounting system and control	
Control activities	Internal control system and procedures	
Monitoring	Management's ongoing and periodic assessment of the effectiveness of the design of internal control structure	Not applicable

8. Introduce the group activity Relay quizzes. The activity may take 30 minutes. The instruction of the game follows:

- Print the following answers on different colored cards.
  - 1) Ethical standards
  - 2) Commitment to competence
  - 3) Vision, mission and core values
  - 4) Organizational structure
  - 5) Comprehensive policies on all areas of operation
  - 6) Adherence to cooperative principles
  - 7) Governance
  - 8) Existence or occurrence
  - 9) Completeness
  - 10) Valuation or allocation
  - 11) Rights and obligations
  - 12) Presentation and disclosure
  - 13) Existence
  - 14) Completeness
  - 15) Accuracy
  - 16) Classification
  - 17) Timing (on reporting)
  - 18) Posting and summation (accounts are tally with the subsidiary ledgers)
  - 19) Adequate separation of duties
  - 20) Proper authorization of transactions and activities
  - 21) Adequate documents and records

- 22) Physical control over assets and records
- 23) Independent checks on performance

- Divide the group in four teams.
  - Each team has to send a runner to get a card. He/she can decide to post it on the flip chart or return to the team, debate and decide on the answer. If the runner posts the card correctly, the team gets 3 points and 1 point with the help of the team. The scoring is correct minus wrong.
  - The winning team will get a prize.
9. Provide input on the Internal Control Structure table.

**Note to Facilitator**

Refer to page 46 for the answer guide.

An internal control structure or system is a combination of the policies and procedures that a credit union implements to ensure that each of its goals is achieved. It ensures that each employee follows directives implemented by the senior management team. It also ensures that every financial statement is accurate. In addition, an internal control structure ensures that the credit union remains compliant with any laws or other legal regulations of the credit union industry.

- **Control Environment:** Also called the internal control environment, referred to value that the senior management team attaches to the importance of the audit and risk management function. Some credit unions, for example, maintain an incredibly lax control environment in which few policies are put into practice and employees are given free reign. The control environment for credit unions must be incredibly formal since they are in financial service industry. Lack of policies and procedures in credit unions will create financial risks.
- **Risk Assessment:** The component of risk assessment is the actions taken by a credit union to determine any situations that may pose legal or financial risk. In analyzing the financial position of the credit union, the management assertions are the means to assess risks.
- **Accounting information and communication:** The accounting system of the credit union must be designed to ensure that the resulting financial statements are reliable and presents fairly the financial position of the credit union at a given time.
- **Internal Control Activities:** The control activities component describes every policy, procedure and best practice a credit union puts into place to minimize risk.
- **Monitoring:** The monitoring component of the internal control structure describes a credit union's practices of self-auditing its risk management systems, ensuring that all employees are compliant with the internal policies. This may be carried out through a few ways. An

internal compliance department may be created specifically to audit the organization.

10. Distribute the Audit Committee Internal Control Assessment Checklist.
11. Inform that the purpose of the exercise is to develop a tool in assessing the internal control structure of the credit union. The checklist is a sample that the participants can work on.
12. Ask them to spend 30 minutes to adopt the tool based on the operation of their credit unions. There is no restriction to add or remove some areas that are not applicable. The most important is for them to take home a tool that can be used for their credit union.
13. After the exercise, every group should present the changes made on the sample checklist. They can use the flip chart.
14. Summarize the topic by reviewing the session objectives.

**INTERNAL CONTROL STRUCTURE**

<b>Components</b>	<b>Description of Components</b>	<b>Measurements</b>
Control environment	Policies and procedures that reflect the overall attitude of the top management, committees and Board of Directors of the credit union	<ul style="list-style-type: none"> <li>• Ethical standards</li> <li>• Commitment to competence</li> <li>• Vision, mission and core values</li> <li>• Organizational structure</li> <li>• Comprehensive policies on all areas of operation</li> <li>• Adherence to cooperative principles</li> <li>• Governance</li> </ul>
Management's risk assessment	Management's identification and analysis of risks relevant to the preparation of financial statements in accordance with the international accounting standards	Management assertions that must be satisfied: <ul style="list-style-type: none"> <li>• Existence or occurrence</li> <li>• Completeness</li> <li>• Valuation or allocation</li> <li>• Rights and obligations</li> <li>• Presentation and disclosure</li> </ul>
Accounting information and communication system	Accounting system and controls	What must be satisfied (management assertions)? <ul style="list-style-type: none"> <li>• Existence</li> <li>• Completeness</li> <li>• Accuracy</li> <li>• Classification</li> <li>• Timing (on reporting)</li> <li>• Posting and summation (accounts are tally with the subsidiary ledgers)</li> </ul>
Control activities	Internal control policies and procedures	<ul style="list-style-type: none"> <li>• Adequate separation of duties</li> <li>• Proper authorization of transactions and activities</li> <li>• Adequate documents and records</li> <li>• Physical control over assets and records</li> <li>• Independent checks on performance</li> </ul>
Monitoring	Management's ongoing and periodic assessment of the effectiveness of the design of internal control structure	Not applicable

**Audit Committee Internal Control Assessment Checklist**

The entire form should be completed quarterly, signed by at least a majority of Committee members and retained with the work papers or included in the report.

The work procedures listed below are minimum procedures to be performed. They should not be construed as restrictive. Circumstances relating to individual engagements or situations encountered may make it necessary or desirable to expand certain procedures, or extend procedures to other areas. Additional procedures performed should be documented as a separate exhibit to this document. Work paper references should be included to provide a cross reference to the applicable area where the work was performed.

All work papers should be retained and available to regulatory examiners.

All internal control questions should be answered "Yes", "No" or "N/A". Any questions which are answered "No" should be explained and followed up by the Audit Committee or Board until appropriate correction has been made. Any questions answered N/A should also be explained.

<b><u>Privacy ACT and Money Laundering COMPLIANCE</u></b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Does the credit union have adequate policies and procedures in place to be in compliance with all Regulations and is the Primary Officer in charge of compliance programs properly identified.			
Is the credit union timely filing Currency Transaction Reports (CTR's) & Suspicious Activity Reports (SAR's) on current forms and reporting to authorities.			
Does the credit union have adequate policies and procedures in place to assure that adequate training in Privacy compliance is being provided to all affected employees and is documentation of such training maintained?			
<b><u>CASH IN CREDIT UNIONS (Required Minimum Procedures)</u></b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Select a sample of tellers and vaults and conduct surprise cash counts. Request that the person responsible for control over each cash fund be present during the counts. Obtain the tellers' signatures after the count acknowledging receipt for the return of cash.			
Compare the totals on the tellers' cash sheets to your counts and reconcile any differences.			
Reconcile the totals of all the teller cash sheets to the general ledger total and account for any differences.			
Obtain the credit union's policy regarding teller cash limits and determine that all tellers are in compliance as of the testing date.			



<b><u>CASH IN CREDIT UNIONS (Internal Control Related Questions)</u></b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Are cash over and short items recorded accurately each day, and are such items reviewed frequently by management?			
Are cash receipts balanced daily and entered as of the day on which they are received?			
Are adequate precautions taken to prevent credit union funds from being commingled with personal funds of personnel?			
Are bank deposits prepared by an employee who is not a teller, and made within the time limits provided in the credit union policies?			
Are adequate safekeeping facilities provided for all cash and other liquid assets in the custody of the credit union?			
Are currency shipments received and counted under dual control?			
Are dual controls established for vault cash?			
Does each teller have bait money?			
Do all tellers have sole access to their own lockable cash drawer, and are all spare keys kept under appropriate control?			
Do all tellers have their own controlled cash drawer in the safe or vault to store cash supply during non-working hours?			
Is each teller's cash verified periodically on a surprise basis by a supervising employee or internal/external auditor?			
Is there appropriate receipting for transfers of funds between cash drawers of employees or tellers?			
Do all tellers stamp cheques as they are received with a restrictive endorsement (i.e. "credit union name", For Deposit Only, account number")?			
Are tellers prohibited from processing their own cheques and processing transactions on their own personal credit union accounts?			
Are the cash supplies assigned to tellers kept at levels in accordance with credit union policy?			
Are mail receipts and night depositories opened and recorded under appropriate internal controls?			
Are maximum limits established for tellers cashing cheques or disbursing share withdrawals without approval?			
Are teller differences required to be reported to management according to credit union policy?			
Are cash drawers counted for tellers who were absent more than one business day?			

<b><u>CASH IN BANKS AND FEDERATIONS</u></b> <b>(Required Minimum Procedures)</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Prepare positive confirmation requests and mail directly to the correspondent banks requesting them to confirm the balances as of the testing date.			
Obtain a copy of the reconciliation for each account as of the testing date. Trace account balances to the general ledger and correspondent bank balance to confirmation received. Perform the following for each reconciliation:			
Test the clerical accuracy of the reconciliation.			
Trace all items on the reconciliation to subsequent clearance by either examining subsequent general ledger entries or bank statements.			
<b><u>CASH IN BANKS AND FEDERATIONS</u></b> <b>(Internal Control Related Questions)</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Is the cash account reconciled promptly each month with the statement received from the credit union's financial institution?			
Are adjusting entries to the account reconciled cleared in a timely manner?			
Are cheques that have been outstanding for a six month period of time transferred to accounts payable, and is a procedure in place to follow-up on such cheques?			
Is the reconciliation reviewed by someone who is not involved in other cash functions?			
Are disbursements made in accordance with policies set forth by the Board of Directors, and are such disbursements properly recorded in the records?			
Has the board approved a current list of the names of officials and employees who are authorized to sign credit union cheques?			
Are adequate measures taken to prevent blank cheques from being signed or countersigned?			
Are withdrawals from inactive share accounts verified by an official other than the employee making the disbursement?			
Is the numerical sequence of cheques being accounted for, and spoiled or voided cheques properly retained and accounted for?			
Is the cash account reconciled promptly each month with the statement received from the credit union's financial institution?			

<b>INVESTMENTS (Required Minimum Procedures)</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Count all securities on hand during surprise audit procedures. Reconcile these securities to the general ledger. Observe that securities owned by the institution are segregated from securities held as collateral for loans.			
Obtain the investment securities subsidiary ledger as of the previous month end and reconcile it to the general ledger.			
Confirm all securities held in safekeeping as of the previous month end with the safekeeping agent. Verify the par value, interest rate and maturity date for each security.			
Select a sample of investment purchases that have occurred during the past year and perform the following procedures:			
a. Verify information such as the security description, purchase price, interest rate, maturity date, and par value to the broker's advices and other information.			
b. Compare each purchase to the institution's policies and procedures, such as, permissible investment, properly approved, reported to the board in a timely manner, etc. and note whether the transaction conforms to those policies and procedures.			
Select a sample of investment sales if applicable that have occurred in the last year. Verify the proceeds of these sales to broker's advices and other information. Recompute gains and losses and trace them to the general ledger entries.			
Trace receipt of income on investments to supporting documentation.			
<b>LOANS (Required Minimum Procedures)</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Obtain and read the credit unions' policies and procedures in the following areas:			
a. Documentation requirements for new loans.			
b. Disbursement of loan proceeds.			
c. Establishment of and compliance with lending limits.			
d. Transferring loans to non-accrual status.			
e. Limits on number of due date extensions and/or loan re-writes allowed. - are the limitations being adhered to?			
f. Indirect lending (if applicable)			
g. Member Business Loans (if applicable)			
H Participation Loans (if applicable)			
Read the Board of Directors' minutes and determine that policies and procedures are reviewed and approved at least annually.			
Select a representative sample of loans originated during the past year. Inspect documentation in loan files and compare that documentation to institution's policies. Loans should be examined for:			
a. Supported by proper applications, notes and other supporting papers?			

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b. Properly screened to prevent over-extension of credit?			
c. Adequately secured by collateral when required?			
d. Granted within State or NCUA requirements and credit union policies?			
e. Official/insider loans made without preferential treatment?			
f. Properly approved/recorded in Credit Committee minutes or loan officer reports?			
g. Proper methods used in determining - Borrowers credit worthiness and ability to repay?			
List exceptions found in this loan review and discuss with management.			
Reconcile the loan trial balance subsidiary to the general ledger. Verify clearance of any reconciling items.			
Select loans from the subsidiary records and recalculate accrued interest due/interest paid. Also inspect payment history for past due status and trace to delinquency report.			
Review transactions with collection agencies, and if necessary, confirm outstanding balances			
<b>ALLOWANCE FOR LOAN LOSSES (Required Minimum Procedures)</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Obtain and review an analysis of all activity in the Allowance for Loan Losses account for the year. Agree loan charge-offs to the Board minutes and agree the PLL expense to the Income statement.			
Read the Board minutes for evidence that the Board is evaluating the adequacy of the ALLL account at least quarterly.			
Obtain and inspect management's most recent evaluation of the allowance. Compare management's methodology in arriving at the allowance amount with written policies and procedures and related regulations and guidelines i.e. Bylaw #6.			
Determine if share and share draft overdrafts are properly considered in the ALLL methodology and calculation.			
<b>ALLOWANCE FOR LOAN LOSSES ( Internal Control Related Questions)</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Are Credit Committee meetings held in accordance with ACT?			
Do loan officers operate within approved limitations?			
Does the Audit/Credit Committee verify a random sample of all newly approved loans?			
Is a complete delinquency report prepared each month and reviewed by the Board of Directors?			
Does approval for the charge-off of all uncollectible loans and amounts appear in the Board minutes?			
Are reports on recoveries of charged-off loans regularly made to the Board?			
Does the credit union continue to attempt to collect charged off loans?			

Are adequate measures in effect to prevent loans from being disbursed by the person approving the loan?			
<b><u>PROPERTY AND EQUIPMENT (Required Minimum Procedures)</u></b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Obtain and reconcile the subsidiary ledger (including accumulated depreciation) to the general ledger as of the examination date.			
Select a sample of fixed assets and recomputed depreciation expense and accumulated depreciation. Physically observe the existence of these assets as well.			
From the date of the prior audit trace approval of fixed asset purchases to the minutes and to approved purchase invoices.			
Verify any sales to supporting documentation. Recomputed the resulting gain or loss or any adjustments due to like kind exchanges.			
Verify lease agreements are properly accounted for in the financial statements.			
<b><u>PREPAID EXPENSES AND OTHER ASSETS (Required Minimum Procedures)</u></b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
Obtain subsidiary ledgers of prepaid expenses and other assets and any deferred charges and reconcile to the general ledger.			
Trace a sample of additions to the subsidiary records to supporting documentation such as insurance policies, purchase agreements or invoices.			
Recalculate monthly amortization amounts and net month end balance and verify that amortization periods are reasonable.			
<b><u>OTHER REAL ESTATE OWNED (OREO) AND OTHER REPOSSESSED ASSETS (Required Minimum Procedures)</u></b>			
Obtain and read the policies and procedures relating to OREO and other foreclosed assets.			
Obtain subsidiary records and reconcile to the general ledger.			
Review OREO property and perform the following:			
a. Inspect legal title to the property and any evidence of liens in the OREO file.			
b. Inspect supporting documentation for the initial recording of the foreclosure, and review accounting for acquisition costs.			
c. Determine that the OREO file contains an appraisal on the property.			
d. Inspect evidence that the institution is attempting to sell the property.			
Obtain a detailed schedule of OREO expenses for the prior year and verify to supporting documentation relating to the OREO property.			
Obtain a detailed listing of OREO sales during the past year and perform the following:			
a. Verify posting of the sale from the subsidiary ledger to the general ledger for propriety.			

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b. Verify the sales price to the appropriate supporting documentation (such as settlement statements or check copy) for accuracy.			
c. Determine that any gain on the sale was accounted for properly.			
d. Examine approval for the sale in the Board minutes.			
<b><u>INCOME AND EXPENSES (Required Minimum Procedures)</u></b>			
Reconcile payroll reports to appropriate general ledger accounts.			
Reconcile dividend posting reports to appropriate general ledger accounts.			
Select a sample of expenditures and trace to approved invoices.			
<b><u>INCOME AND EXPENSES (Internal Control Related Questions)</u></b>			
Are invoices and bills for expenses marked "paid" with the date of payment to prevent being paid more than once?			
<b><u>GENERAL QUESTIONS AND INTERNAL CONTROL ISSUES (Required Minimum Procedures)</u></b>			
Are officials and employees required to take vacations at least annually?			
Are Employees trained to perform each other's duties, and those duties rotated occasionally wherever possible?			
Is the salary scale approved by the Board of Directors?			
Is possession of the combination for safe or vault limited to essential officials or employees?			
Is the combination changed when a person with knowledge of it leaves the credit union?			
Are door locks changed each time a person with access to keys leaves the credit union?			
Are the proper authorizations changed when an employee leaves or is terminated? (i.e., bank authorization cards, wire transfer cards, borrowing authority, etc.)			
Are complete financial statements posted each month where they may be read by the members?			
Have the Board and committees held meetings as required by regulations?			
Minutes of Board, Credit Committee and membership:			
a. Are they prepared promptly in permanent form?			
b. Are they read and approved at the next meeting?			
c. Are they signed by the appropriate officials?			
Have the operations been reviewed to determine that all contingent liabilities are recorded on the books of the credit union?			
Does the blanket surety bond meet the minimum standards required by the credit union?			
Verify with the insurance carrier that insurance is in force. Are coverage's within Board policy?			

Are transactions involving member insurance claims confirmed with the insurance company and the beneficiaries?			
Is the annual examination report, auditors report, and the Audit Committee audit report reviewed and discussed by the Board of Directors promptly after completion and actions taken to correct noted exceptions and violations?			
Do the Board and committees report to the membership at the annual meeting?			
Has the scope of the procedures been expanded to review additional activities? (i.e., share drafts, safe deposit boxes, etc.)			
<b><u>ELECTRONIC DATA PROCESSING (Required Minimum Procedures)</u></b>			
Does the credit union have adequate policies and procedures in place to be in compliance with all IT Security Compliance requirements			
Are records backed up daily?			
Are daily backup records removed to off-site locations?			
Is the physical access to the computer system restricted to authorized persons only?			
Is access to the computer system restricted, so as to prevent entering of unauthorized transactions?			
Are file maintenance and exceptions reports monitored by Audit personnel/Audit Committee on a regular basis?			
Are written contingency operation plans in place to provide protection in event of catastrophic loss of EDP system?			
<b><u>SECURITY (Required Minimum Procedures)</u></b>			
Is a written security program in place?			
Are security devices installed and in operation and procedures followed?			
Are adequate measures in place to minimize exposure to robbery, burglary, and embezzlement?			
Are vital records kept in fire-resistant containers?			
Is the file of members' signature cards properly maintained?			
Are members' mailing addresses kept current?			
Are proper controls in place handling of "Do Not Mail" and "No Forwarding Address" accounts?			
Is a record retention program in effect?			
Are copies of vital records stored off-site as protection against catastrophic loss?			
Is a Records Preservation Log maintained to indicate location of off-site storage of vital records?			
Is a Records Destruction Log maintained and are records disposed of in a proper manner?			

STATEMENT OF THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS:  
(If work performed by the Audit Committee)

The Audit Committee certifies that this report is based on information obtained from the credit union records and through direct observation by us, or by auditors under our supervision, and that to the best of our knowledge and belief, the statements contained herein are accurate.

**(This section must be signed by at least a majority of the members of the Audit Committee.)**

Audit Committee Member Signature

Date Signed

Audit Committee Member Signature

Date Signed

Audit Committee Member Signature

Date Signed



# 5

## Understanding the Management Assertions on the Financial Statements

*(1.5 hours session – 90 minutes)*

### LEARNING OUTCOMES

Do:	Explain the management’s declaration or assertion on the financial statement of the credit union.
Know:	Gain skills in assessing the compliance of the credit union on the management assertions on the financial statements
Feel:	Realize the important role of the audit/supervisory committee in ensuring that the management is fulfilling their assertions on the financial statements.

**Topic**                      **Understanding the Management Assertions on the Financial Statements**

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**Time Allocation**        1.5 hours (90 minutes)

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- Materials**
- Flip Chart
  - Marker Pens
  - Sticky Notes
  - Meta Cards
  - Masking Tape

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**Handouts**                      Management Assertions and Audit Objectives

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**Lesson Guide**

1. Introduction

Introduce the topic by asking each group to write at least one answer on what they want to DO, KNOW and FEEL about the topic. Prepare big text of DO, KNOW and FEEL on the white board. Ask them to post the sticky notes. Synthesize based on the following learning outcomes:

**Do:**

Explain the management’s declaration or assertion on the financial statement of the credit union.

**Know:**

Gain skills in assessing the compliance of the credit union on the management assertions on the financial statements

**Feel:**

Realize the important role of the audit/supervisory committee in ensuring that the management is fulfilling their assertions on the financial statements.

2. Explain that in a financial audit, **management assertions** or **financial statement assertions** is the set of information that the credit union (management) is providing to another party like the public.
2. Inform that most of the time, the Board of Directors are not aware that when they approve the Financial Statements, they are accountable to the public on the declaration they have just made on the financial statements.

- Distribute the cards on Management Assertions. The assertions and the description are printed in separate cards. One set for each group of the following cards.

Existence or occurrence
Completeness
Valuation or allocation
Rights and obligations
Presentation and Disclosure
The management asserts that the assets and liabilities are present at the given date. It is declared that the transactions that are recorded took place at the specified date. In order to test these items of the financial statement, it is not sufficient that only books are consulted which record the assets or the liabilities. There should be proof of the existence of the physical assets or liability. For checking existence help is also sought from outside.
All the transactions that are already given in the financial statement are rightfully included. In order to abide by the completeness <b>assertion</b> , the auditors prove with the help of sufficient evidence that all the recorded transactions deserve to be included. This is further supported with an external document so as to provide evidence regarding the occurrence of the transaction.
The management asserts that the different components of the <b>financial statement</b> have been included in the right proportion. The components are assets, liabilities, expense and revenue. The auditor does this with the help of generally accepted accounting principles.
The management is asserting that the assets that are included in the financial statement are the rights and the liabilities are the obligations of the credit union. In order to ensure this, sometimes special purpose entities are created.
This assertion is to ensure whether the items in the financial statements are classified in the right way. It is important to check that the account balance is calculated as well as disclosed properly.

- Ask the groups to match the management assertions and its description. This will be a group effort for 15 minutes. The answer guide is on page 61.
- Emphasize that by understanding the management assertions, the task of the audit/supervisory committee on financial audit would be very easy. The assertions themselves serve as the objective of the audit.

6. Underscore that financial audit is more of looking back to the original transaction. It is substantiating the result produced by the accounting process. For example, the financial audit shall start from the balance of Cash in the Balance Sheet. They have to prove that the amount is correctly stated by substantiating the balance by evidences. It would require going back to the internal control system or testing transactions.
7. Group Activity: Information Bingo. Ask the participants to identify the management assertions appropriate the three financial statements of the credit union for 10 minutes. The answers shall be written on the empty boxes on the table below.
8. Then, the facilitator draws the answers from a box. There shall be 15 answers. The output of the group will be corrected by a representative from other group. The group garnering highest score shall get a price. The answer guide is on page 62.

(IS) Transactions (Income Statement)	(BS) Account Balances (Balance Sheet)	(NFS) Presentation & Disclosure (Notes to Financial Statements)

9. Provide inputs on the management assertions. Emphasize that these assertions are now the objectives of the financial audit of the audit/supervisory committee.

10. Explain that as internal auditors, these broad management assertions are separated into three categories:

<b>Transactions (Income Statement)</b>	<b>Account Balances (Balance Sheet)</b>	<b>Presentation &amp; Disclosure (Notes to Financial Statements)</b>
<b>Occurrence</b> — the transactions actually took place	<b>Existence</b> — assets, liabilities and equity balances exist	<b>Occurrence</b> — the transactions have occurred
<b>Completeness</b> — all transactions that should have been recorded have been recorded	<b>Completeness</b> — all assets, liabilities and equity balances that should have been recorded have been recorded	<b>Completeness</b> — all disclosures that should have been included in the financial statements have been included
<b>Accuracy</b> — the transactions were recorded at the appropriate amounts	<b>Rights and Obligations</b> — the entity holds or controls the rights to its assets and owes obligations to its liabilities	<b>Rights and Obligations</b> — the transactions pertained to the entity
<b>Authorization</b> — all transactions were properly authorized	<b>Valuation and Allocation</b> — assets, liabilities and equity balances are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.	<b>Accuracy and Valuation</b> — financial and other information is disclosed fairly and at appropriate amounts.
<b>Cutoff</b> — the transactions have been recorded in the correct accounting period		
<b>Classification</b> — the transactions have been recorded in the proper accounts		<b>Classification and Understandability</b> — financial statements are appropriately presented and described, and information in disclosures are clearly expressed.

11. Conclude that the knowledge acquired in this session is very important for the committee to carry out their duties effectively. This will help them critically assess the compliance of the management on the generally accepted accounting standards.

12. Emphasize that it is the Board’s accountability to ensure that the financial statements are fairly presented in accordance with the generally accepted accounting standards.

## Management Assertion

Financial statement assertions are classified into the following five:

1. **Existence or occurrence:** The management asserts that the assets and liabilities are present at the given date. It is declared that the transactions that are recorded took place at the specified date. In order to test these items of the financial statement, it is not sufficient that only books are consulted which record the assets or the liabilities. There should be proof of the existence of the physical assets or liability. For checking existence help is also sought from outside.
2. **Completeness:** All the transactions that are already given in the financial statement are rightfully included. In order to abide by the completeness **assertion**, the auditors prove with the help of sufficient evidence that all the recorded transactions deserve to be included. This is further supported with an external document so as to provide evidence regarding the occurrence of the transaction.
3. **Valuation or allocation:** The management asserts that the different components of the **financial statement** have been included in the right proportion. The components are assets, liabilities, expense and revenue. The auditor does this with the help of generally accepted accounting principles.
4. **Rights and obligations:** The management is asserting that the assets that are included in the financial statement are the rights and the liabilities are the obligations of the credit union. In order to ensure this, sometimes special purpose entities are created.
5. **Presentation and Disclosure:** This assertion is to ensure whether the items in the financial statements are classified in the right way. It is important to check that the account balance is calculated as well as disclosed properly.
6. **Cutoff:** This means that transactions and events have been recorded in the correct accounting period – for example, accrued expenses – incurred but not paid.

## Audit Objectives

Auditors decompose these broad assertions into a detailed set of statements referred to as management assertions, separated into three categories:

1. Transactions (Income Statement):

- Occurrence — the transactions actually took place
- Completeness — all transactions that should have been recorded have been recorded
- Accuracy — the transactions were recorded at the appropriate amounts
- Authorization — all transactions were properly authorized
- Cutoff — the transactions have been recorded in the correct accounting period
- Classification — the transactions have been recorded in the proper accounts

2. Accounts balances (Balance Sheet):

- Existence — assets, liabilities and equity balances exist
- Rights and Obligations — the entity holds or controls the rights to its assets and owes obligations to its liabilities
- Completeness — all assets, liabilities and equity balances that should have been recorded have been recorded
- Valuation and Allocation — assets, liabilities and equity balances are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

3. Presentation and disclosure (Notes to Financial Statements):

- Occurrence — the transactions have occurred
- Rights and Obligations — the transactions pertained to the entity
- Completeness — all disclosures that should have been included in the financial statements have been included
- Classification and Understandability — financial statements are appropriately presented and described, and information in disclosures are clearly expressed.
- Accuracy and Valuation — financial and other information is disclosed fairly and at appropriate amounts.

# 6

## Developing Audit Objectives and Procedures

*(1.5 hours session – 90 minutes)*

### LEARNING OUTCOMES

Do:	Prepare an audit program
Know:	Understand the application of the different types of audit substantive tests
Feel:	Appreciate the importance of understanding the management assertions enabling to carry out the audit committee role effectively.



**Topic**                      **Developing Audit Objectives and Procedures**

**Time Allocation**      1.5 hours (90 minutes)

- Materials**
- Flip Chart
  - Marker Pens
  - Sticky Notes
  - Prizes for one group (it can be chocolates, candies, cookies or pens)

**Handouts**                      Sample Account Balance Audit Program

**Lesson Guide**

**1. Introduction**

Introduce the topic by asking each group to write at least one answer on what they want to DO, KNOW and FEEL about the topic. Prepare big text of DO, KNOW and FEEL on the white board. Ask them to post the sticky notes. Synthesize based on the following learning outcomes:

**Do:**

Prepare an audit program

**Know:**

Understand the application of the different types of audit substantive tests

**Feel:**

Appreciate the importance of understanding the management assertions enabling to carry out the audit committee role effectively.

2. Using the assertions on the financial statements, ask the participants to identify the actions they need to take to substantiate the assertions.
3. In the group, ask them to choose an account example: Cash, salaries, Board meeting expenses etc.

Transactions (Income Statement):

Assertions (Objectives of Audit)	What test has to be applied? (Audit procedure)
Occurrence	
Completeness	
Accuracy	
Authorization	
Cut-off	
Classification	

Accounts balances (Balance Sheet):

Assertions (Objectives of Audit)	What test has to be applied? (Audit procedure)
Existence	
Rights and Obligation	
Completeness	
Valuation and Allocation	

Here are the sample Audit Procedures from AEIOU:

**A – Analytical procedures** - This method involves conducting a study of important ratios and trends and examining unusual fluctuations and items.

**E – Enquiry or Inquiry and confirmation.** The two aspects of this method include searching about the info from a knowledgeable person inside or outside the company, and responding to any inquiry to substantiate information in the accounting records. These responses might provide the auditor with info which is not previously possessed by him or even with corroborative evidence.

**I – Inspection** - This is the most efficient method of obtaining audit evidence. Inspection refers to checking all the documents, records, and physical assets. The reliability of these documents and records depends upon the nature and effectiveness of internal control.

**O – Observation:** Another important method of obtaining audit evidence is observation. This method involves the auditor to look at a process of procedure being executed by others. This method can be exemplified by the auditors’ presence at the clients’ physical stock count.

**U – Recalculation and re-performance:** This method of obtaining evidence involves the examination of arithmetical accuracy of source documents and accounting records. The method might also involve performing individual calculations.

Important to note: Every procedure must state the 1) assertion tested 2) the audit procedure, and 3) the reason for the procedure.

4. Give 15 minutes for the group to work on the assignment.
5. Check the output. Then, distribute the sample audit program for loans receivable. Make comments with reference to the sample audit program.
6. Then, distribute the blank template for an audit program. This will be an individual assignment. Ask each participant to prepare at least one audit program for one account in the Balance Sheet or Income Statement.

7. Allocate 15 minutes for the exercise.
8. After the exercise, select one presenter per group. Other groups shall make comments or ask question.
10. Conclude the session saying that the audit program is not hard and fast rule. It always depends on the size of the credit union and the significance of the amount to be verified.
11. In this session, the participants gained the foundation that would enable them prepare an objective audit program that would reinforce the declaration of the management on the financial statements.
12. Review the objectives of the session.

**Sample: Account Balance Audit Program**

Sample Size	Items to select	Timing	Audit Procedures	Account: Loans Receivable								
				Audit Objectives								
				Detail tie-in	Existence	Completeness	Accuracy	Classification	Cut-off	Valuation & Allocation	Rights	
Foot	Random	Interim	Obtain the loan schedule, trace accounts to the master file, foot schedule and trace the total to the General Ledger to ensure agreement of the GL with the SL.	X								
All	All	Year end	Obtain analysis of the allowance for doubtful loans, test accuracy, examine authorization for charge-off and trace to General Ledger to ensure that loans are presented at Net Realizable value.	X	X	x	X					
100	30 largest & 70 random	Interim	Obtain direct confirmation of loans and perform alternative procedures for non-responses to ensure that loans to members actually exist.		X	x	X	X			X	
NA	NA	Year end	Review loans control account for the period. Investigate unusual accounts like negative balances.		X		X	X			X	X
NA	NA	Year end	Check the loan delinquent accounts and the collection procedures implemented. Study the responses to the collection letters sent to assess the collectability of account balances.								X	
All	All	Year end	Review lists of balance for amounts due from related parties and employees to assess the probability risks that may occur on governance.		X			X				

Prepared by:

Audit Committee Member Signature

Date Signed

Audit Committee Member Signature

Date Signed

Audit Committee Member Signature

Date Signed

**Account Balance Audit Program**

Sample Size	Items to select	Timing	Audit Procedures	Account:								
				Audit Objectives								
				Detail tie-in	Existence	Completeness	Accuracy	Classification	Cut-off	Valuation & Allocation	Rights	

Prepared by:

Audit Committee Member Signature

Date Signed

Audit Committee Member Signature

Date Signed

Audit Committee Member Signature

Date Signed

**Transaction Related Audit Program (Income Statement)**

Sample Size	Items to select	Timing	Audit Procedures	Account:				
				Audit Objectives				
				Occurrence	Completeness	Accuracy	Authorization	Cut - Off

Prepared by:

Audit Committee Member Signature

Date Signed

Audit Committee Member Signature

Date Signed

Audit Committee Member Signature

Date Signed

# 7

## Social Performance Audit

*(1.5 hours session –90 minutes)*

### LEARNING OUTCOMES

Do:	Contextualize the tool for social performance audit of the credit union
Know:	Ability to assess the credit union’s social, economic, and environmental benefits and limitations.
Feel:	Recognize social performance indicators as tool to help credit union check on its fulfillment of the mission.

<b>Topic</b>	<b>Social Performance Audit</b>
<b>Time Allocation</b>	1.5 hours (90 minutes)
<b>Materials</b>	Flip Chart Marker Pens
<b>Handout</b>	Social Performance Checklist
Session Guide	<p>1. Introduction</p> <p>Do: Contextualize the tool for social performance audit of the credit union</p> <p>Know: Ability to assess the credit union’s social, economic, and environmental benefits and limitations.</p> <p>Feel: Recognize social performance indicators as tool to help credit union check on its fulfillment of the mission.</p> <p>2. Inform that the session will introduce them to social performance audit of the credit union.</p> <p>3. Ask each group to write the mission of a credit union.</p> <p>4. Then ask them to underline the social objective contained in the mission statement.</p> <p style="padding-left: 40px;">Mission: To provide quality financial services that <u>improves lives of people.</u></p> <p>5. Explain that the financial services offered by credit unions to members should improve their socioeconomic well being. It is a clear social mission. Thus, the measurement of the impact of credit union services would be the number of members that has improved lives.</p> <p>6. Credit unions are originally conceptualized to help poor and disadvantaged groups and this has not been changed over time. As the International Year of Cooperative suggests, credit unions are recognized on their important role on poverty alleviation. Thus, it is the social responsibility of the credit unions to continue its important role.</p> <p>7. Elicit discussion as to whether credit unions are fulfilling their mission.</p>



8. Cite some examples that many members of credit unions are still having a mindset that credit union is the place to get easy credit. Some members have lost their properties that have been foreclosed by the credit union due to their inability to pay the loan. If credit unions are responsibly lending to their members, this situation should not happen. Mention that loans should only be given to members who demonstrated to work their way up – those who have shown diligence and thrift habit.
9. The social performance audit is very important for credit unions to ensure that they are adhering to its original mission and social responsibility.

Note to Facilitator:

Social auditing is a process that enables an organization to assess and demonstrate its social, economic, and environmental benefits and limitations. It is a way of measuring the extent to which an organization lives up to the shared values and objectives it has committed itself to.

Social auditing provides an assessment of the impact of an organization's non-financial objectives through systematically and regularly monitoring its performance and the views of its stakeholders.

For cooperative organizations, social auditing has particular relevance, because it reinforces the commitment to social improvement which lies at the heart of the cooperative philosophy. Many cooperatives include social objectives in their formal mission statement and undertake specific activities that are intended to be socially beneficial. These initiatives are often reported to members, but seldom is an attempt made to measure results or to assess the social impact of other organizational decisions.

10. Brainstorming: Use the flipchart to brainstorm the indicators to measure the social performance of credit unions. Ask everyone to participate in their group. There will be no wrong answers.
11. Ask them to use sticky notes. Use markers on the sticky notes. Ask each group to identify their output.
12. Introduce the checklist of Social Performance Indicators. Discuss the indicators. Select the same indicators written by the group on the sticky notes. Place the selected sticky notes on one side of the flip chart.

13. Conclude that the sample Social Performance Indicators Checklist can be contextualized according to the nature of operation of the credit union. A standard Social Performance Indicators should be developed by the national federations.
14. Emphasize that the social audit is also a duty of the Audit/Supervisory committee.
15. Recap the objectives of the session.

## SOCIAL PERFORMANCE MANAGEMENT CHECKLIST

	Indicators	Yes	No	N/A
<b>Core Social Performance Indicators (Credit Union, Staff and Members)</b>				
Indicator 1, <b>Mission and Social Goals</b> , looks at				
1.	Has a clear policy on membership to focus on poor people where targeted poverty level is defined (persons living below the poverty line, low income persons, no target market defined, etc.)			
2.	Policy or procedure targets population group such as women, minorities, urban inhabitants, rural inhabitants, youth, etc.			
3.	Supports enterprises such as micro, small, medium, or large			
4.	Development objectives include financial inclusion, education, employment, support for start-ups, growth of existing enterprises, health, etc.			
Indicator 2, <b>Governance of a credit union</b> , looks at				
5.	Documentation of governance framework (manuals, meeting minutes, etc.)			
6.	Composition of board of directors (number of members, number of women, positions filled by government, community leaders, members, or professionals, etc.) and their area of expertise (finance, legal, development, etc.)			
7.	Mechanisms to increase board members commitment to credit union's social mission (regular field visits, separate social performance committee, etc.).			
8.	Internal systems translate an MFI's mission into tangible outputs			
Indicator 3, <b>Range of Products and Services</b> , looks at				
9.	Loans offered build members wealth rather than creating more indebtedness (agricultural, education, micro enterprises, housing)			
10.	Savings services help members manage future expenditures and build wealth (emergency fund saving, housing saving, checking account, fixed term deposit, etc.),			
11.	Offers micro-insurance services (house, life, health, workplace, etc.)			
12.	Uses non-traditional delivery of services to members (self-help groups, service centers, mobile tellers, door to door collections etc.)			
13.	Offer different types of non-financial services (enterprise development services, health care services, educational services, women empowerment services).			
14.	Members are trained on financial literacy to ensure that they are not getting unnecessary loans.			
Indicator 4, <b>Training on Social Performance</b> , looks at				
15.	Directors, top management, loan officers undergo trainings related to social performance			

	Indicators	Yes	No	N/A
16.	Areas of focus in training on Social Performance are social objectives, gender sensitivity, poverty measurement, avoiding over-indebtedness, open communication, responding to member needs, client data privacy, etc.			
<b>Indicator 5, Staff Performance Appraisal and Incentives, looks at</b>				
17.	The staff appraisals/incentives related to social performance management (women’s outreach, geographical outreach, portfolio quality, retention rates, etc.)			
18.	The staff levels to which these appraisals/incentives apply are the top management and loan officers.			
<b>Indicator 6, Market Research on Members, looks at</b>				
19.	Market research is conducted to determine member needs and develop new products (member satisfaction surveys, focus groups, interviews, etc.)			
20.	Market research on members is done once a year.			
<b>Indicator 7, Measuring member retention, looks at</b>				
21.	Member retention rate is _____			
22.	Exit surveys are conducted and results are used in improving services to members.			
<b>Indicator 8, Social Responsibility to Members, looks at</b>				
23.	Conducts member capacity analysis (member indebtedness level, peer guarantees, co-signers, etc.)			
24.	Disclosure of all financial fees, terms and conditions prior to sale (insurance premiums, late fees, minimum balances, linked products, etc.)			
25.	Ensures no communication barriers between loan officers and members (reading aloud terms of loan, using language of client, full understanding of product by staff, etc.)			
26.	Availability of manual about acceptable/unacceptable debt-collection practices and effective member redress mechanisms			
27.	Corporate culture based on ethics.			
<b>Indicator 9, Transparency on Cost of Services to Members, looks at:</b>				
28.	Interest rates charged on declining balance			
29.	(No. of members) Members are also served by MFIs/money lenders (Method of determining this figure through internal auditing, loan proposal stage, annual sample survey, etc.)			
<b>Indicator 10, Social Responsibility to Staff, looks at:</b>				
30.	The human resource policy includes elements on salary scale, pension contribution, insurance, equal pay for both genders, participative decision making, staff union, staff harassment, etc.			
31.	Policies for women (quota system, equal opportunity, maternity/paternity leave, etc.)			
32.	Monitors breakdown of staff levels by numbers and presence of women in each tier.			
33.	Employee satisfaction conducted (appraisals, surveys, exit interviews, etc.) and turnover rates.			

	Indicators	Yes	No	N/A
<b>Indicator 11 and 12, Geographical and Women’s Outreach, looks at:</b>				
34.	Maintains geographical balance on membership - members living in urban, semi-urban and rural areas			
35.	Service points are available in remote areas			
36.	% of female active borrowers and voluntary savers.			
<b>Indicator 13, Member Outreach, looks at:</b>				
37.	Member outreach is spread to different demographics (refer to ACCESS standards)			
<b>Secondary Social Performance Indicators</b>				
<b>Indicator 14, Poverty Assessment, looks at:</b>				
38.	At least 10% of the members belong to people living in poverty.			
39.	Uses methodology to assess the impact of services to poor members (CUMI assessment, Poverty Assessment Tool – PAT, Per Capita Household Income, Housing Index, Food Security Index, etc.).			
<b>Indicator 15, Social Responsibility to Community, looks at:</b>				
40.	Policy on enterprises with negative social value, transparency, work conditions, women leadership, disaster response, child labour, etc.			
<b>Indicator 16, Social Responsibility to Environment, looks at:</b>				
41.	Member Perspective: Has a policy related to environmental social responsibility (environmental impact awareness, trainings on environmental improvement, mitigation of environmental risks, support for alternative energy, etc.)			
42.	Organization’s perspective: has a policy related to environmental social responsibility (minimize use of electricity, paper, fuel and water and recycling).			
<b>Indicator 17, Outreach by Non-Financial Services, looks at:</b>				
43.	Number of members that received special enterprise services, health services, education services and women empowerment services, and any measurement of their effectiveness.			
<b>Indicator 18, Employment, looks at:</b>				
44.	The number of enterprises financed and their employment generation data (number of start-ups, number of self-employed and hired help, amount of full-time and part-time help)			
45.	Designed a tool to gather the above data.			
<b>Indicator 19, Children in School, looks at:</b>				
46.	Schooling attendance of members’ children, daughters versus sons (number of children of primary school age, actual attendance in primary and secondary schools, etc.)			
47.	Designed a tool to gather the above data.			

	Indicators	Yes	No	N/A
<b>Poverty Measurement</b>				
Indicator 20, <b>Members below the Poverty Line at Entry</b> , looks at:				
48.	Number of member below the poverty line at the start and end of reporting period, and the poverty line benchmark used for study (national, less than \$1.5 a day, less than \$2 a day)			
49.	Designed a tool to gather the above data.			
Indicator 21, <b>Members in Poverty after 3 or 5 Years</b> , looks at:				
50.	Number of members that remain below poverty line after 3 or 5 years of service			
51.	Designed poverty tool (poverty line benchmark used) and sample design.			
Indicator 22, <b>Members out of Poverty after 3 or 5 Years</b> , looks at:				
52.	Number of members that are above the poverty line after 3 or 5 years of service (comparison made to determine how many client have crossed the poverty line)			
53.	Designed poverty tool (poverty line benchmark used) and sample design.			

# 8

## Assessing Audit/Supervisory Committee Effectiveness

*(1.5 hours session –90 minutes)*

### LEARNING OUTCOMES

Do:	Carry out an assessment of the audit/supervisory committee effectiveness.
Know:	Gain clarity on the proceedings to be carried out the audit/supervisory committee to fulfill their duties.
Feel:	Realize the need to improve the performance of the Audit/Supervisory committee.

<b>Topic</b>	<b>Assessing the Audit/Supervisory Committee Effectiveness</b>
<b>Time Allocation</b>	1.5 hours (90 minutes)
<b>Materials</b>	Flip Chart Marker Pens
<b>Handout</b>	Questionnaire in Assessing the Audit/Supervisory Committee Effectiveness
<b>Session Guide</b>	<ol style="list-style-type: none"><li>1. Introduction  Do: Carry out an assessment of the audit/supervisory committee effectiveness.  Know: Gain clarity on the proceedings to be carried out the audit/supervisory committee to fulfill their duties.  Feel: Realize the need to improve the performance of the Audit/Supervisory committee.  <ol style="list-style-type: none"><li>2. Explain that the session will check whether the audit/supervisory committee is performing their duties effectively or they are doing what has supposed to be done.</li><li>3. Print the following main headings on the duties of the audit/supervisory committee.<ol style="list-style-type: none"><li>A. Understanding the structure, roles and responsibilities</li><li>B. Understanding the business operations</li><li>C. Understanding the risk management</li><li>D. Understanding financial reporting</li><li>E. Understanding interim financial reporting</li><li>F. Understanding the audit process</li><li>G. Development of communication process</li></ol></li><li>4. Paste them on the wall. It should be around the room.</li><li>5. On separate cards, individually print the implementation process of the main duties of the committee (refer to the questionnaire). Shuffle them and distribute equally to the groups.</li><li>6. The task of the group is to determine the appropriate heading of the implementation process. The group needs to discuss before posting them on the wall.</li></ol></li></ol>



7. Review the answers. Certainly, the group may have posted the cards under the wrong heading. Let them realize the mistakes.
8. It is anticipated that after going through the exercise, the participants would be able to understand the Questionnaire in Assessing the Effectiveness of the Audit/Supervisory Committee.
9. Distribute the questionnaire. Entertain questions should the participants need more clarification and explanation.
10. Ask participants in the same credit union or same country/region to answer the questionnaire. Give them 30 minutes to complete the questionnaire.
11. After the exercise, ask volunteer in every group to share their comments on the tool.
12. Emphasize that the tool is the complete 'to do list' of the audit/supervisory committee. The tool can be contextualized to incorporate the duties that are stipulated in the country regulation or bylaws of the credit union.
13. Recap the objectives of the session.

**Questionnaire for Assessing Audit/Supervisory Committee Effectiveness**

<b>A. Understanding the structure, roles and responsibilities of the audit/supervisory committee</b>	<b>Effective</b>	<b>Needs Improvement</b>	<b>Suggestions for improvement</b>
The responsibilities of the audit/supervisory committee are set forth in an audit/supervisory committee charter as approved by the General Meeting.			
Reviews the charter and suggests changes to the General Meeting.			
The experience and qualifications of the audit/supervisory committee members are compatible with the duties of the committee, including the ability to understand financial reporting and compliance requirements.			
The members of the audit/supervisory committee are independent of management.			
Completes self-evaluation on its performance and recommends changes to the Board.			
Plans an agenda for each meeting that it addresses:			
<ul style="list-style-type: none"> <li>• Matters to be discussed at each meeting during the annual cycle.</li> </ul>			
<ul style="list-style-type: none"> <li>• Communication between the audit/supervisory committee (or chair) and the independent auditors before the release of the financial information.</li> </ul>			
<ul style="list-style-type: none"> <li>• General topics to be discussed each meeting.</li> </ul>			
Meeting agendas are prepared and distributed in advance together with sufficient background information to allow the committee members to prepare for meetings.			
Minutes of the meetings are taken and circulated to members after the meeting.			
Members attend training sessions on accounting, auditing and financial reporting developments and current business and credit union industry issues.			
Members ask tough questions, listen to answers and challenge responses to ensure that they understand the business and financial impact.			

	Effective	Needs Improvement	Suggestions for improvement
Encourages a ‘tone at the top <sup>1</sup> ’ that conveys basic values of ethical integrity as well as legal compliance and strong financial reporting and control.			
Obtains information on leading practices and other developments in the credit union governance and considers ways to improve.			
<b>B. Understanding the business operations</b>			
Understands the organizational structure and revenue drivers of the credit union.			
Discusses their evaluation of the controls over the financial reporting and disclosure process with management, the internal auditors and independent auditors.			
Evaluates whether management exhibits the proper ‘tone at the top’ and fosters a culture and environment that promotes high quality financial reporting, including appropriate attention to internal control issues and compliance with laws and regulations.			
Evaluates management’s procedures for monitoring compliance with the credit unions code of ethics.			
Discusses with the internal auditors their adequacy of the credit union’s regulatory compliance programs.			
Receives the internal auditors’ assessment of the risks of fraud and is alert for risk factors that lead to potential fraudulent financial report.			
Made aware of reports or other communications received from regulators on legal and regulatory matters, that may have material effect on the financial statements, or that may affect related compliance policies, or the financial stability or profitability of the credit union.			

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<sup>1</sup> TONE AT THE TOP refers to how an organization's leadership creates the tone at the top - an ethical (or unethical) atmosphere in the workplace. Management's tone has a trickle-down effect on employees. If top managers uphold ethics and integrity so will employees. But if upper management appears unconcerned with ethics and focuses solely on the bottom line, employees will be more prone to commit fraud and feel that ethical conduct isn't a priority. In short, employees will follow the examples of their bosses.

<b>C. Understanding risk management</b>	<b>Effective</b>	<b>Needs Improvement</b>	<b>Suggestions for improvement</b>
Receives regular updates from management on operating risks and is involved in risk management by being an advocate for the adoption of risk and control system for effective risk management.			
Has discussions with the Chief Information Officer or equivalent to understand the credit union’s technology strategy, information systems and measures taken to protect resources devoted to information technology.			
Have discussions with the senior management team to understand the emerging business risks.			
<b>D. Understanding financial reporting</b>			
Reviews financial statements with senior management and discusses the transparency and clarity of the financial reporting and disclosures with the credit union’s internal and independent auditors.			
Develops an understanding of the business purpose and economic substance of major unusual transactions.			
Evaluates the quality of activity reporting and consider any ‘red flags <sup>2</sup> ’ that may indicate that net assets (net institutional capital) are being managed.			
Discusses the selection, application and disclosure of the credit union’s critical accounting policies with management, the internal auditor and the independent auditor before releasing the annual report.			
Reviews the financial statement disclosure to determine that the information is not inconsistent and that the disclosure provides the reader a concise understanding of the risks being managed.			
Discusses any audit adjustments with management and the auditors, determines why they were not recorded, and evaluates the impact on the financial statements and stakeholders if all differences were recorded.			

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<sup>2</sup> dangers

<b>E. Understanding interim financial reporting</b>	<b>Effective</b>	<b>Needs Improvement</b>	<b>Suggestions for improvement</b>
Provided with material to review prior the release of interim financial reports.			
The committee (or the committee Chairperson) discusses and reviews any interim financial statements with management.			
Reviews with management any significant year-end issues that may impact the financial integrity of interim accounting and reporting practices.			
Understands how an internal audit is conducted and understands the independent audit process.			
Reviews any significant control deficiencies identified by the internal or independent auditors, as well as management's plan and timetable to address those recommendations.			
Reviews the internal audit charter on an annual basis and evaluates it against the current expectations and needs.			
Internal audit function reports to the audit committee			
Reviews the quality, experience and objectivity of the internal auditors.			
Annually reviews the performance of the independent auditor, including the auditor's responsiveness to the audit committee's expectation and recommends to the Board the retention or the independent auditor.			
Discusses audit plans and scopes of internal and independent auditors, the result of their work, any changes in the plans, the extent of control testing to be performed, and the extent of the coordination of their activities to ascertain if the audit coverage is adequate.			
Reviews the independence of the independent auditor and discusses the processes used by the audit firm to monitor the independence of the members of the team.			
Approved and signs the engagement letter for the annual audit and approves the audit fee.			
Has a process to identify and approve non-audit services to be delivered by the independent audit firm (such as management advisory services, tax service, etc.)			

<b>F. Development of a communication process</b>	<b>Effective</b>	<b>Needs Improvement</b>	<b>Suggestions for improvement</b>
Provides a report to the Board of Directors after each committee meeting.			
Meets in an executive session, as circumstances require, with the senior management team members.			
Obtains a written report from management on the effectiveness of internal control over financial reporting, or written representations from management regarding management's responsibility for the integrity of internal control and the financial reporting systems and processes, and management beliefs about the quality of controls, financial reports and compliance with applicable laws and regulations.			
Has executive session with the internal and independent auditors as circumstances require.			
Reviews management's response to audit recommendations and whether follow-up audits indicate that corrective action is timely and effective.			
The independent auditor provides to committee their assessment of the personnel in the credit union, including the number, experience and capabilities of such personnel for the size and complexity of the credit union.			

ACTION PLAN

Goal:

Action Steps	Responsible	Time Frame				Indicators
		20__				
		Q1	Q2	Q3	Q4	

Prepared by:

\_\_\_\_\_ Name and Designation

\_\_\_\_\_ Name and Designation

\_\_\_\_\_ Name and Designation

**Trainers Training on Credit Union Audit/Supervisory Competency Course**

**EVALUATION SHEET**

*Please tick (/) in the appropriate box.*

1. How worthwhile was the training for you

<input type="checkbox"/>	Very Worthwhile	<input type="checkbox"/>	Fairly Worthwhile	<input type="checkbox"/>	Not very worthwhile	<input type="checkbox"/>	A waste of time
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2. How the program was conducted?

<input type="checkbox"/>	Very well	<input type="checkbox"/>	Fairly Well	<input type="checkbox"/>	Poorly	<input type="checkbox"/>	Very poorly
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3. Did the program have additional value in your particular job?

**Yes** \_\_\_\_ **Partly** \_\_\_\_ **No** \_\_\_\_

4. What are the strong points?

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5. What are the weak points?

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6. Training Methodology

**Lecture and discussions**

<input type="checkbox"/>	Too much lecture	<input type="checkbox"/>	Too much discussion	<input type="checkbox"/>	About the right amount of each
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**Visual aids**

<input type="checkbox"/>	Not enough	<input type="checkbox"/>	Too much	<input type="checkbox"/>	Okay
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**Group Dynamics**

<input type="checkbox"/>	Very Useful	<input type="checkbox"/>	Just to enjoy	<input type="checkbox"/>	As a habit
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**Group Activities:**

	Too much group activities		Not enough group activities		About the right amount of group activities
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**Handouts and reading materials**

	Too much handout		Not enough handout		About the right amount of handout
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7. Trainee's participation

	Too much participation by trainees		Too less participation by trainees		Okay
--	------------------------------------	--	------------------------------------	--	------

8. Time Schedule

	Too short		Too Long		Okay
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9. How well did the trainers maintain friendly and helpful manner?

	Excellent		Very Good		Good		Fair		Poor
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10. How well did the trainers keep the session active and interesting?

	Excellent		Very Good		Good		Fair		Poor
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11. How were the training facilities, board and lodging arrangements etc.?

	Excellent		Very Good		Good		Fair		Poor
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12. What were the major benefits you received? (tick as many as you wish)

- Help confirmed some of my ideas
- Presented new ideas and approaches
- Gave me a good change to look objectively at myself and my job
- Acquainted me with problems and solutions from other cooperatives/credit unions
- Other benefits

13. Other comments and suggestions

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## Sample Training Design Format

**Subject :**

**Training Goal/s:** **Goal** is the overall result or the capabilities you hope to attain to by implementing your training plan

**Learning Objectives:** **Learning objectives** is what would you be able to do as a result of the learning activities e.g. exhibit required skills in problem solving and decision making

List of 'action words' suitable for learning objectives:

Agree	Elicit	Recognize
Analyze	Establish	Risk asses
Apply	Evaluate	Share
Carry out	Exercise	Transform
Change	Explore	Transmit
Commit	Generate	Turn
Create	Identify	Use
Demonstrate	Introduce	
Describe	List	
Design	Pace	
Detail	Practice	
Develop	Present	
Discuss	Produce	

**Time Allocation:**

**Materials Required:** Example: white board, board markers, meta cards, colored papers, scissors etc.

**Learning Methods and Activities:** **Learning methods** –what will you do in order to achieve the learning objectives? e.g. complete course in basic supervision, address major problems that involve decision making, delegate to a certain employee for one month

- What are the skills and knowledge you are planning to impart?
- What they will be able to do, know, avoid or stop as a result of using said skill/knowledge in the real world?

**Documentation of evidence of learning:**

- **Documentation or evidence of learning** –evidence produced during your learning activities – these are results that someone can see, hear and feel and smell e.g. course grade and written evaluation of the participant problem solving and decision making

**Post Activity Review:**

- **Evaluation** –assessment and judgment of the written evidence in order to conclude whether the learning objectives were achieved

**Annex:**

**AUDIT/SUPERVISORY COMMITTEE**

**Purpose:**

The purpose of this policy is to ensure the competence and integrity of the audit committee in carrying out its responsibility of safeguarding the interest of the members being their representative in the credit union.

**1. Qualifications**

- 1.1. Should possess sound judgment, a general level of business knowledge and be as independent and impartial as possible.
- 1.2. Should be made up of people with varying backgrounds, financial knowledge, education and technical skills; and
- 1.3. Should have common business sense and the willingness to ask questions for clarification and understanding
- 1.4. Has completed the Continuing Education Course and has signified in writing

**2. Basic Function**

The Audit/Supervisory Committee's basic function is to ensure that credit union's assets are protected and that operation are managed efficiently within the appropriate legislative framework and policies of the credit unions. The Committee also provides a knowledgeable, well-informed communication bridge between the Board of Directors and the auditors.

**3. Roles and Responsibilities of Audit Committee**

- 3.1. Review external audit firms' proposals in order to appoint or to recommend for appointment. In making such recommendations, the Audit/Supervisory Committee shall consider the following points:
  - a. Current needs of the organization;
  - b. Audit firms' credit union knowledge and experience;
  - c. Scope of the audit as outlined in their engagement letter;
  - d. Other Credit Unions' experience with the firm;
  - e. Independence and potential conflict of interest;
  - f. To place some level of reliance on internal/systems auditor; and
  - g. To develop an audit program to complement the internal/systems auditor.
- 3.2. Assess the cost/benefit of audit fee. The assessment should be based on such facts as:
  - a. The experience of the audit staff;
  - b. The amount and quality of work performed;
  - c. A comparison of costs with same-size credit unions;
  - d. What the credit union can do to improve audit efficiencies and reduce cost;
  - e. Is the audit time being efficiently spent in most critical areas; and
  - f. The recommendations and observations made to assist the credit union.

- 3.3. Assess the quality of audit performed. Such an assessment could consider the following:
  - a. The audit staff's knowledge, understanding and experience of a credit union's operation;
  - b. The audit staff's communication skills i.e. open, timely, clear and decisive
  - c. The timeliness of reports;
  - d. The degree of co-operation with board/management/employees/other auditors;
  - e. The disruption of office routines.
  
- 3.4. Review and approve interim or management letter issued by the external auditor. This could include:
  - a. The clarification of issues identified, if any;
  - b. A review of the recommendations;
  - c. Management's response to observations;
  - d. The establishment of an action plan to address unresolved issues and to assign responsibility; and
  - e. The time frame for follow-up or corrective action.
  
- 3.5. Reviews and recommend approval of the year-end financial statement to the board. This could include:
  - a. Reviewing the opinion of the external auditor;
  - b. Reviewing all audited financial statements including accompanying notes to be issued to the membership; and
  - c. Noting and clarifying any significant changes on the financial statement.
  
- 3.6. Meets regularly to:
  - a. Reviews the monthly financial statements;
  - b. Monitors and follow-up activities on previously identified audit initiatives; and
  - c. Reviews internal audit reports (*if credit union has internal audit department*)
  
- 3.7. Reviews and discuss any and all other audit reports i.e. internal, government, and credit union apex. The review could include:
  - a. The need for follow-up;
  - b. The identification of trends;
  - c. The clarification of any outstanding issues; and
  - d. The review of policy to determine if recommendations to the board for change are required.

- 3.8. Meet and discuss audit strategy with the internal auditor (if credit union has internal audit department)
  - a. A review of the audit plan for the following period (quarter/year);
  - b. A discussion of trends identified;
  - c. A review of results to plans; and
  - d. A discussion of specific areas of concern.
- 3.9. Make recommendations to the board on policy issues. Issues could include:
  - a. Trends identified in audit reports; and
  - b. Communication with management.
- 3.10. Report to the board any significant changes in the accounting principles or practices followed by the credit union.

#### **4. Meetings**

- 4.1. The meeting of Audit & Supervisory Committee shall be at least monthly. However, the committee could set meeting other than specified if some issue may require a lot of time that further meeting must be held to complete all the agenda items. Quarterly review meeting will be held. The following are the agenda of the committee in each quarterly review meeting:

##### **First Quarter:**

- a. Review and approve financial statements
- b. Report any changes in accounting policy or procedure
- c. Review Management Letter (year-end)
- d. Review management/auditor co-ordination
- e. Evaluate the quality of the external audit
- f. Assess the reasonableness of the fee
- g. Select/nominate the external auditor

##### **Second Quarter:**

- a. Review internal audit reports
- b. Prepare/review standards of corporate conduct
- c. Review internal control
- d. Review performance/effectiveness of internal audit
- e. Review periodic financial information

**Third Quarter:**

- a. Assess the reasonableness of the fee estimate
- b. Approve the audit scope
- c. Review compliance to corporate conduct e.g. review possible conflicts of interest
- d. Review internal control e.g. any reports from management or auditors on internal controls within the operation
- e. Review periodic financial information e.g. scan financial reports for any significant changes either in amounts or in accounting presentation, such as reclassification of bad debt

**Fourth Quarter:**

- a. Review management letter (interim)
  - b. Review the plans of internal auditor
  - c. Review compliance to corporate conduct
  - d. Review internal audit reports
  - e. Review periodic financial information
- 4.2. The meeting of the Audit & Supervisory Committee shall be chaired by the committee Chairperson and certify the minutes book.
  - 4.3. The meeting minute shall be maintained separately and shall be submitted to the General Meeting;

**5. Reporting**

The committee is responsible to the Membership of the Credit Union. Since the membership meets only once a year, report shall be submitted to the Board of Directors on a regular basis. The report could be a formal document directed to the board or it could simply be a detailed copy of the committee's minutes. The report:

- 5.1. Outlines the committee's plan of action with regards to the resolution of or recommendations on issues identified in audit reports. This may also identify follow-up requirements, future reporting, policy changes or other action required or recommended to the board;
- 5.2. Confirms that the financial statements fairly represent the current position of the organization and that they comply with generally-accepted accounting principles i.e allowances for bad debts reflected on the balance sheets; full disclosure of problem assets; proper valuation and recognition
- 5.3. Explains any major changes in the presentation of the financial statement e.g. change in accounting procedures for the presentation of bad debts or a consolidation of different accounts, etc.
- 5.4. Confirms that the interim and the year-end audits fully disclose the current situation of the organization e.g. was there adequate sampling to confirm the committee's confidence that there are no major discrepancies?

- 5.5. Outlines the committee's view on methods adopted by management in making sensitive accounting estimates e.g. should a loan be written off?
- 5.6. Confirms the adequacy of internal controls to prevent fraud or other illegal activities;
- 5.7. Outlines any disagreements between the auditors and management;
- 5.8. Confirms compliance of the Board, sub-committees and management of the code of conduct;
- 5.9. Provides an evaluation of internal and external auditor's reports;
- 5.10. Comments on the scope of audit work and on the level of external audit fees;
- 5.11. Makes recommendations for the appointment of auditors for the following year; and
- 5.12. Makes a recommendation to approve the financial statements.
- 5.13. Conducts Annual Performance Audit of the General Manager

## **6. Attendance to the Board of Directors Meeting**

- 6.1. The Audit/Supervisory Committee may attend and state their opinion at meetings of the Board of Directors.
- 6.2. When Audit & Supervisory attends a board meeting and states their opinion under the preceding paragraph (a), those ASC present at such meeting shall sign the minutes of the board meeting.

## **7. Sanctions of the Audit & Supervisory Committee**

The committee shall render a report recommending suspension of any member of the Board to the General Assembly with copy furnished to Election Committee and Cooperative Development Authority or Cooperative Department, or Central Bank if the concerned fall into any of the following categories:

- 7.3.1. When he/she has violated the Cooperative Code/Act, Rules, bylaws and policy of the cooperative.
- 7.3.2. When he/she fails to fulfill his/her obligations to the cooperative for a period of six months.
- 7.3.3. When it deems virtually impossible for him/her to perform his/her official duties and functions.

## **8. Reimbursement of Travel Expenses**

The Audit/Supervisory Committee are volunteers of XYZCU and thus shall not receive any remuneration or salary. However, in the course of carrying out their duties and function, reasonable travel expenses shall be reimbursed subject to the policy on payment.