



THE **AUDIT LIBRARY**

Internal Audit, The Supervisory Committee, & External Audit

Differences, similarities, and how
working together benefits the
Credit Union

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- Digital tools & templates for Internal Auditors & Supervisory Committee members
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Today's Agenda



Audit Risk: External vs. Internal Audit



The Financial Statement Audit Cycle



The Audit Opinion



Overcoming Common Pain Points



Real Life Stories & Examples

Auditors Use Different Categories of Risk

AUDIT RISK

= (Inherent Risk x Control Risk) x Detection Risk

**RISK OF
MATERIAL
MISSTATEMENT**

= Inherent Risk x Control Risk

THEREFORE...

AUDIT RISK

= Risk of Material Misstatement x Detection Risk

How Internal Auditors Manage Risks

- Annual Audit Risk Surveys to Leadership
 - Gather, summarize, & analyze results
- Risk Assessment
 - Risk indicators move projects to higher priority
- Risk-Based Audit Plan
 - Risks change... ADAPT!
- Audit Tracking, Reporting, & Follow Up
 - Board and leadership are responsible for risks not addressed

Personal Story - Olivia



How External Auditors Manage Risks

Tests
of Controls

Tests
of Balances

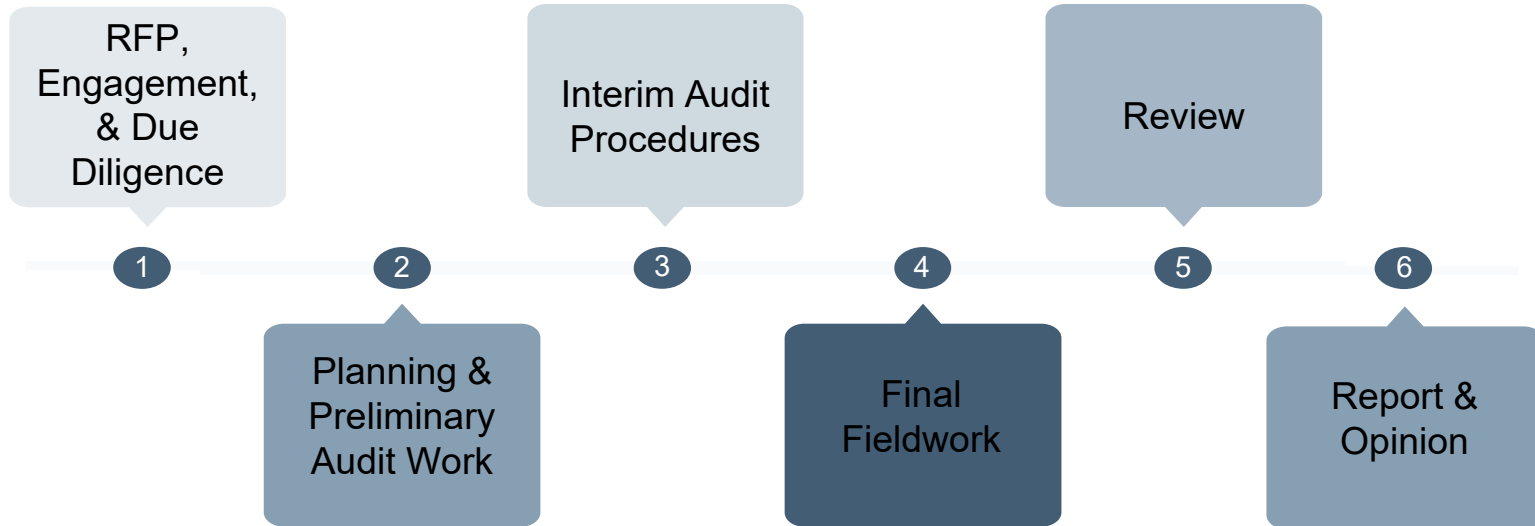
Tests
of Transactions

Analytical
Procedures

Common Pain Point #1

- External Audit Pulls a Sample of 25 Testing Selections
- 2 of 25 failed – i.e. missing signature/initials
- The External Auditors are stressed out and frustrated; they need to pull another larger sample and perform additional testing
- Accounting is frustrated with the External Auditors; there were only 2 exceptions... Why is this such a big deal?
- What is really going on?

The Financial Statement Audit Life Cycle



Internal Audit most involved in phases 1, 2 & 6

Supervisory Committee is most involved in phases 1 & 6

RFP, Engagement, & Due Diligence

Send Proposals
to Firms

Review and
Selection

Firm Due
Diligence &
Acceptance

Sign
Engagement
Letter

Planning & Preliminary Audit Work

- Create Audit Schedule & Plan
- Assign Staff
 - Partner
 - Senior Manager / Manager
 - Senior
 - Staff
- Calculate Materiality
 - Materiality is CONFIDENTIAL!

Common Pain Point #2

- External Audit needs to schedule interim and final fieldwork
- Accounting doesn't want them here during the first week of the month as they will be busy with month -end close
- Accounting doesn't want auditors on site when the Controller is on vacation
- The only other option conflicts with the BSA audit, and your team will be really busy and unable to provide adequate support
- What do you do?

Interim Fieldwork

- Tests of Controls
- Tests of Transactions and Balances
 - “Rolled Forward” at Year-End
- Confirmations or Verifications
 - Loans Receivable
 - Member Shares
- Other Common Interim Procedures
 - Fraud Interviews
 - Create and Update the “Permanent File”

Final Fieldwork

- Year-End Confirmations
 - Cash, Investments, & Borrowings
- Test Period from Interim Date to Audit Date
- Perform Analytical Procedures
- Subsequent Events Testing
 - SURL– Search for Unrecorded Liabilities
 - Legal & Other Contingencies

Common Pain Point #3

- The External Auditors sent year-end confirmations to Bank A, Bank B, and Bank C where your Credit Union has cash accounts
- Bank B never responded to the confirmation
- The External Auditors ask you to find contact information, contact Bank B, obtain the confirmation, and research any exceptions
- You have already exceeded your budget hours assisting the External Auditors
- What do you do?

Review

- Audit Senior or Manager Performs First Review in the Field
- Lead Partner Sign Offs
- Second Partner Review
 - Issues Here... OH NO!!!!

Typically, audit review is quite manageable! Audit Seniors can clear most issues, and the process results in a better product and team development.

Report & Opinion

- Audit Opinion is a 1-2 Page Standard Document
 - Unqualified Opinion – “Clean” Audit
 - Qualified Opinion
 - Going Concern
 - Scope Limitation
- Financial Statements
- Notes to the Financial Statements
- Supervisory Committee Report

A Different Perspective

External Audit

- Green Staff
- High Turnover
- Staff Burnout & Fatigue
- Firms are Juggling Multiple Clients
- Travel

Personal Story – Olivia



A Different Perspective

Management

- Business Doesn't Stop During the Audit!
- Past Difficulties and Resolved Issues Come Back to Life
- Management Knows More than the Auditors... A LOT MORE!

A Different Perspective

Supervisory Committee

- May not have the background or training to understand the audit report
- May not understand their role
- Work and personal life don't stop for your Credit Union

Personal Story - John



Internal Audit: Know Your Role!

External Audit Reports to Supervisory Committee

Management Reports to the CEO/Board

Supervisory Committee Reports to the Membership

Personal Story - John



Internal Audit: Be Your Own Advocate!

- Any Internal Audit Assistance Should be in Writing
- Create a Realistic Budget for External Audit Assistance
- It's Okay:
 - Not to know something
 - To say "No"
 - If External Audit is upset or frustrated
 - If Management does not like the Auditors
 - If the External Auditors find something that you missed

Document	Industry	Category	Description	File	Last Updated
User Guide	General	Administration	READ THIS FIRST! Basic information about the library and the documents for new users	.doc	11-07-19
Employee & Official Expenses Audit Program	General	Audit Programs	Audit program to perform an employee and official expenses audit	.doc	01-22-20
Social Media Audit Program	General	Audit Programs	Audit program to assess company and employee use of social media	.doc	07-17-19
Corporate Culture Audit Program	Credit Union	Audit Programs	Audit program to assess corporate culture; Credit Union specialization	.doc	07-16-19
Corporate Culture Audit Survey Template	Credit Union	Workpaper Templates	Example of a letter and survey template to distribute to employees regarding corporate culture; Credit Union specialization	.doc	07-16-19
BSA, OFAC, & MIP Audit Program	Credit Union	Audit Programs	Audit program to test compliance with BSA, OFAC, and MIP programs	.doc	10-23-19
Vendor Management Audit Program	General	Audit Programs	Audit program to assess vendor management process and controls	.doc	02-17-20
Vendor Management Audit Program	Credit Union	Audit Programs	Audit program to assess vendor management process and controls; Credit Union specialization	.doc	02-17-20
Dormant Accounts & Unclaimed Property Audit Program	Credit Union	Audit Programs	Audit program to assess dormant member accounts and unclaimed property processes and controls	.doc	02-17-20
Fair Lending Compliance Audit Program	Credit Union	Audit Programs	Audit program to complete a comprehensive Fair Lending compliance audit	.doc	04-09-20

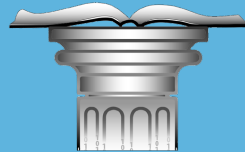
More information!

Take a look at The Audit Library's blog for more information about the relationship between Internal and External Auditors.

Article: [Internal & External Audit: Advice for a Successful Working Relationship](#)

Q & A

Thank You



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