

# Understanding the Audit Report

Prepared by:  
Susan M. Landauer, CPA  
Forensic Accounting Services Group, LLC



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Presented by  
Kevin Smith,  
Center for Professional Development  
Kari Jordahl,  
Instructional Design Consultant

## Introduction

Welcome to the course on *Understanding the Audit Report*.

In this course, you will gain an understanding about the various types of audits and audit reports that credit unions use.

This is a significant aspect of the job of the Supervisory Committee and is mandated for credit unions by the National Credit Union Administration, the NCUA. This type of audit procedure and information has increased in complexity over the years and requires some attention to detail. In order to do your job successfully, you must have a clear understanding of what your audit responsibilities are, the type of audit that is required for your credit union, **and** you must understand the information that follows in the audit reports.

## Objectives

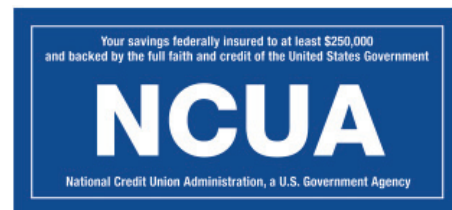
The objectives for this course are to:

- Describe the annual audit responsibilities of the Supervisory Committee, as they are defined by the National Credit Union Administration regulations.
- Identify the four types of annual audits that your Supervisory Committee Members can choose to have performed. You will also be able to determine who can perform each type of audit.
- Review the reports for each of type of audit, to ensure that you understand the information that is presented in each type of report.

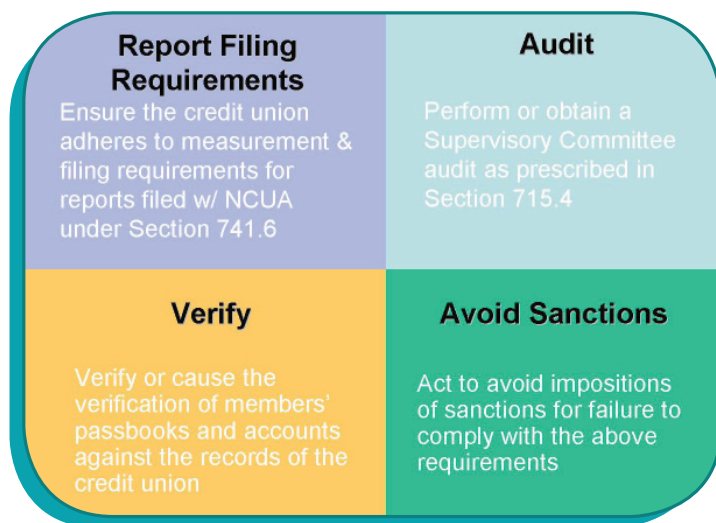
## Annual Audit Responsibilities



The Supervisory Committee is responsible for ensuring that the annual audit is carried out as mandated. The National Credit Union Administration regulations, in Section 715.3, clearly mandate what the responsibilities are for the Supervisory Committee.



The NCUA Supervisory Committees Guide for Federal Credit Unions is available at [www.ncua.gov](http://www.ncua.gov). For your convenience we have included a PDF of that guide in the resources tab of this course. This version is current as of October of 2008. It's a good idea to check the NCUA website for updates or changes and keep an up-to-date copy of these materials.



## Supervisory Committee Mandates

According to the mandates in the regulations, the Supervisory Committee must:

1. Ensure that the credit union adheres to the measurement and filing requirements for reports filed with the NCUA Board, under Section 741.6. This refers to the credit union's call reports that are filed with the NCUA.
2. Perform or obtain a Supervisory Committee audit as described in Section 715.4. There are four options available to the credit union, and you will learn about each one of these options in just a few minutes.
3. Verify or cause the verification of members' passbooks and accounts against the records of the credit union. This is a biannual requirement of the Supervisory Committee. If you choose, though, to have a certified financial statement audit, this mandate is waived, as you are performing confirmation procedures as part of those audit procedures.

4. Act to avoid impositions of sanctions, for failure to comply with these requirements. The NCUA can mandate sanctions onto your credit union if you have failed to comply with the above three requirements.

Let's start with the first mandate of the Supervisory Committee, regarding the requirements for reports filed with NCUA.

### Report Filing Requirements

## Supervisory Committee Mandates: Requirements for Reports Filed with NCUA

Generally accepted accounting principles, or GAAP must be used for call reports that are filed quarterly and semi-annually with the NCUA. This requirement is only for credit unions having assets of ten million dollars or more. "All others" according to the NCUA guide, "may report members' shares consistent with either GAAP (liabilities) or RAP (equity)."

Prior to this mandate of Section 741.6, some credit unions were using a modified cash/accrual system for recording entries. They were not recording things consistently throughout credit unions.