



**Draft Guidance Note**  
**The Audit of Credit Unions**

## **MISSION**

**To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest**

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# THE AUDIT OF CREDIT UNIONS

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## **PREFACE**

This Guidance Note provides guidance to auditors on the application of International Standards on Auditing (Ireland) ('ISAs (Ireland)') adopted by the Irish Auditing and Accounting Supervisory Authority ('IAASA') to the audit of the financial statements of credit unions in the Republic of Ireland. It also contains guidance on special factors to be considered in the application of ISA (Ireland) 250: Section A - Consideration of laws and regulations in an audit of financial statements (Revised July 2017) ('ISA (Ireland) 250A') and ISA (Ireland) 250: Section B - The Auditor's statutory right and duty to report to regulators of public interest entities and regulators of other entities in the financial sector ('ISA (Ireland) 250B') to audits of credit unions.

The Guidance Note is supplementary to, and is intended to be read in conjunction with, ISAs (Ireland), and the application and other explanatory material contained in the ISAs (Ireland) which apply to all audits of Irish entities. This Guidance Note reflects the requirements of ISAs (Ireland) adopted by IAASA at 31 March 2019. For the purposes of the accounting framework, it is assumed in this Guidance Note that FRS 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland is applied in the preparation of credit unions' financial statements.

This Guidance Note sets out the special considerations relating to the audit of credit unions which arise from individual ISAs (Ireland) as listed in the contents. It is not the intention of this Guidance Note to provide step-by-step guidance on the audit of credit unions so where no special considerations arise from a particular ISA (Ireland) no material is included.

The Guidance Note has been prepared in consultation with the Central Bank of Ireland ('the Central Bank') and is based on legislation in effect as at 31 March 2019.

It does not constitute legal advice and should not be construed as legal advice or legal interpretation. Auditors to credit unions must refer directly to the relevant legislation, including any regulation, code or other legal instrument, when ascertaining their statutory obligations. This Guidance Note is not intended to be exhaustive or specify the steps to be taken by auditors to meet their statutory obligations.

## INTRODUCTION

### Definition

1. A “credit union” in the context of this Guidance Note is an industrial and provident society registered by virtue of the Credit Union Act 1997, as amended (‘the CU Act 1997, as amended’). A society which, immediately prior to 1 October 1997, was registered as a credit union under the Industrial and Provident Societies Acts, 1893 to 1978, is deemed to be registered as a credit union under the Act.
2. This Guidance Note addresses the responsibilities and obligations of the auditor concerning:
  - (a) the audit of financial statements in accordance with the requirements of the CU Act 1997, as amended; and
  - (b) the statutory duty to report directly to the Central Bank in certain circumstances.
3. Independent audit plays an important part in safeguarding the integrity of financial reporting by directors of companies and other entities to the investing and business communities, both national and international. Additionally, auditors appointed to report on the financial statements of credit unions in the Republic of Ireland contribute to the regulatory process.
4. Registered auditors are required to comply with the Ethical Standard for Auditors (Ireland) adopted by IAASA and the ISAs (Ireland) when conducting audits. This principle applies in the context of credit unions in the same way as to entities in any sector, but the way in which ISAs (Ireland) are applied needs to be adapted to suit the particular characteristics of the entity audited.

### Legislative and Regulatory Framework

5. The primary legislation in relation to credit unions in Ireland is contained in the CU Act 1997, as amended, and the Credit Union and Co-operation with Overseas Regulators Act 2012 (‘CUCORA 2012’). Credit unions are also subject to certain provisions of the Central Bank Act 1997 (‘the CBA 1997’), as amended by the Central Bank and Financial Services Authority of Ireland Act 2004 (‘the CBFSAI Act 2004’), the Central Bank Reform Act 2010 and the Central Bank (Supervision and Enforcement) Act 2013. In addition many credit unions are subject to the Investment Intermediaries Act 1995 for some sections of their business. Credit unions are also required to comply with the provisions of the Central Bank’s fitness and probity regime<sup>1</sup>.
6. The Central Bank issues the Credit Union Handbook<sup>2</sup> the purpose of which is to assist credit unions by bringing together in one place a number of key legal and regulatory requirements and guidance notes that apply to credit unions, arising from their authorisation as credit unions. Appendix 2 of this Guidance Note sets out a list of legislation and regulations applicable to credit unions in Ireland as at 31 March 2019. This is not intended to be a complete list of applicable legislation and regulations.
7. The Central Bank is responsible for the regulation of all financial services providers, including credit unions, in the Republic of Ireland. In recognition of the unique nature of credit unions, a statutory position of Registrar of Credit Unions was explicitly created within the Central Bank to assume responsibility for the regulation of credit unions. The Central Bank is responsible for the registration, regulation and supervision of credit unions. Under the CU Act 1997, as amended, the functions of the Central Bank are to regulate credit unions with a view to the:

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<sup>1</sup> Pursuant to the Central Bank Reform Act 2010, the Central Bank Reform Act 2010 (Sections 20 and 22 Credit Unions). Regulations 2013 and the Central Bank Reform Act 2010 (Sections 20 and 22 Credit Unions That Are Also Authorised As Retail Intermediates) Regulations 2015.

<sup>2</sup> The Credit Union Handbook is available on the website of the Central Bank [www.centralbank.ie](http://www.centralbank.ie)

- (a) protection by each credit union of the funds of its members; and
  - (b) the maintenance of the financial stability and wellbeing of credit unions generally.
8. Since 2012 the Central Bank has used a systematic risk-based framework for the supervision of all regulated financial services providers including credit unions. This supervisory regime is known as PRISM<sup>3</sup> (Probability Risk and Impact System). Under PRISM, the most significant regulated firms - those with the ability to have the greatest impact on financial stability and the consumer - receive a high level of supervision under structured engagement plans, leading to early interventions to mitigate potential risks. Conversely, those firms which have the lowest potential adverse impact are supervised reactively or through thematic assessments, with the Central Bank taking targeted enforcement action against firms across all impact categories whose poor behaviour risks jeopardising the statutory objectives of the Central Bank including financial stability and consumer protection. Auditors of credit unions will find updates in relation to the supervision of the credit union sector on the Central Bank's website.
9. In May 2011, the Irish government established a Commission on Credit Unions to review the future of the credit union movement in Ireland and make recommendations in relation to the most effective regulatory structure for credit unions taking into account their not for profit mandate, their volunteer ethos and community focus while paying due regard to the need to fully protect depositors' savings and financial stability. The Commission on Credit Unions reported in March 2012 with recommendations to strengthen the regulatory framework including more effective governance and regulatory requirements. Many of the recommendations have been reflected in CUCORA 2012. The Commission also recommended the introduction of a fitness and probity regime<sup>4</sup> for credit unions which was commenced in August 2013.
10. The enactment of CUCORA 2012 introduced significant reform to the credit union sector in Ireland with a focus on four key areas:
- (a) governance;
  - (b) restructuring;
  - (c) stabilisation; and
  - (d) prudential regulation.
11. The detailed governance provisions of CUCORA 2012 clarify the roles and responsibilities of the board and management of credit unions and are discussed in more detail below.
12. The stabilisation provisions of CUCORA 2012 involves the provision of financial and other support to individual credit unions on a stand-alone basis where they are viable but undercapitalised. A credit union seeking stabilisation support must be approved for such by the Central Bank.
13. The Minister for Finance established the Credit Union Fund in December 2012. The purpose of the fund is to provide a source of financial support for the restructuring of credit unions and for the provision of stabilisation support to credit unions. The Minister makes regulations prescribing the rate of the annual stabilisation levy individual credit unions are required to pay to support the Credit Union Fund (currently The Credit Union Fund (Stabilisation) Levy Regulations 2018).

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<sup>3</sup> Further information in relation to the operation of PRISM can be found in the Central Bank's publication "PRISM Explained" available on the Central Bank's website.

<sup>4</sup> In September 2012, the Minister for Finance commenced Part 3 of the Central Bank Reform Act 2010 for credit unions providing the Central Bank with the powers to set out the Regulations and Standards of Fitness and Probity for credit unions.

14. CUCORA 2012 sets out the framework for the prudential requirements that are to apply to credit unions in areas such as reserves, liquidity, lending, savings, investments and borrowing and gives regulation-making powers to the Central Bank in these prudential areas. The Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 set out detailed prudential requirements for credit unions in the aforementioned areas. In addition, Regulation 47 of the Regulations creates the requirement for some additional disclosures to be made in the financial statements of credit unions in relation to the credit union's regulatory reserve requirement, loans to related parties and a time analysis of investment income and investment gains.
15. The Central Bank (Supervision and Enforcement) Act 2013 came into operation on 1st August 2013. This Act enhanced the capacity of the Central Bank to supervise regulated financial services providers and enforce financial services legislation, particularly by:
  - increasing the Central Bank's powers to investigate, seek information, give directions and make regulations;
  - consolidating and augmenting the authorised officer role;
  - providing protection for whistle blowers, including auditors in certain circumstances; and
  - Increasing the level of sanctions it may impose.The provisions of the Central Bank (Supervision and Enforcement) Act 2013 are applicable to credit unions.
16. Credit unions are also subject to the Central Bank and Credit Institutions (Resolution) Act 2011, which provides a resolution regime for credit unions that are failing or are likely to fail. The Central Bank and Credit Institutions (Resolution) Act 2011 provides that:
  - credit unions are required to pay a levy to contribute to the Credit Institutions Resolution Fund, the purpose of which is to provide a source of funding for the resolution of a financially unstable credit unions;
  - the Central Bank may establish a bridge bank, which is a limited company, owned by the Central Bank, created for the purposes of holding assets or liabilities transferred from a distressed credit union. The arrangement is temporary in nature;
  - the Central Bank may apply to the High Court for a transfer order under which it can compel a distressed credit union to transfer its assets and liabilities to another entity.
  - special manager: The Central Bank may apply to the High Court to appoint a special manager to a credit institution. A special manager takes over the management of the business, and runs it in accordance with pre-defined terms. This may include preparation for a transfer, a wind-up, or in some cases, an attempt to restore the institution to viability.
  - appointment of a liquidator in the public interest: the Central Bank can apply to the High Court to appoint a liquidator to a credit institution, albeit such powers existed already for certain financial institutions. The change the Act brings about is to equip the Central Bank to act pre-emptively and seek the order to liquidate for other than financial reasons, where those reasons are in the public interest.
  - recovery plan and a resolution plan: The Central Bank may direct a credit institution to prepare a Recovery Plan and, on the back of that, the Central Bank may prepare a Resolution Plan.
17. The Consumer Protection Code 2012, the Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) Minimum Competency Regulations 2017 ('MCR') and the Minimum Competency Code 2017 ('MCC') currently apply to credit unions authorised as insurance

intermediaries with respect to their insurance intermediary business. The MCC and MCR also apply to credit unions when providing mortgages.

### Features of Credit Unions

18. The CU Act 1997, as amended, outlines the overall aims and operation of credit unions.
19. The basic aims<sup>5</sup> of a credit union are:
  - the promotion of thrift among its members by the accumulation of their savings;
  - the creation of sources of credit for the mutual benefits of its members at a fair and reasonable rate of interest;
  - the use and control of members' savings for their mutual benefit;
  - the training and education of its members in the wise use of money;
  - the education of its members in their economic, social and cultural well-being as members of the community;
  - the improvement of the well-being and spirit of the members' community; and
  - the provision to its members of such additional services as are for their mutual benefit<sup>6</sup>.
20. A credit union operates in accordance with the rules of the credit union which are required, as a condition of the credit union's registration, to be submitted to the Central Bank. The minimum contents of the rules of a credit union are set out in the First Schedule of the CU Act 1997, as amended.
21. Members must have some "common bond" approved by the Central Bank<sup>7</sup>. To become a member of a credit union each individual must hold at least one fully paid up share in the credit union and must qualify under the common bond set out in the credit union's rules. The credit union's rules may specify the actual number of shares required for membership of the credit union but this cannot be more than €10<sup>8</sup>.
22. The "Common Bond" between members of the credit union must be one of those listed below. Members must:
  - follow a particular occupation; or
  - reside in a particular locality; or
  - be employed in a particular locality; or
  - be employed by a particular employer or have retired from employment with a particular employer; or
  - be a member of a bona fide organisation or society which has been formed for purposes other than that of registration as a credit union; or
  - have any other common bond approved by the Central Bank.
23. Credit unions therefore are mutual savings and loan organisations which are not for profit and which operate solely for the benefit of their members. Any surpluses which are not distributed to members by way of dividend, or otherwise, are retained within the organisation for its future

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<sup>5</sup> Section 6(2) of the CU Act 1997, as amended.

<sup>6</sup> Under section 48 of the CU Act 1997, as amended, before such additional services can be provided by a credit union, the Central Bank must make regulations prescribing additional services that appear to the Central Bank to be of mutual benefit to credit union members - see Credit Union Handbook, Chapter 5 "Additional Services".

<sup>7</sup> Section 6(3) of the CU Act 1997, as amended.

<sup>8</sup> Section 17(3) of the CU Act 1997, as amended.



expansion. The members save by investing in the credit union's shares or making deposits. Like any other similar financial organisation, the savings which the credit union takes in, provide a base and fund from which loans are granted to members.

24. Credit unions are obliged to send to the Central Bank a credit union year end return and quarterly prudential returns. The credit union year end return and quarterly prudential returns are not audited or signed by the credit union auditor.
25. Credit unions are also required to prepare annual financial statements and to have their annual financial statements audited<sup>9</sup>.
26. Section 66C of the CU Act 1997, as amended, requires credit unions to submit an annual compliance statement to the Central Bank stating that the credit union has complied with the requirements of Part IV of the CU Act 1997, as amended, and regulations prescribed by that Part. The credit union must submit the annual compliance statement to the Central Bank within two months of the end of the financial year<sup>10</sup> of the credit union. The auditor has no responsibility in relation to this annual compliance statement.

### **The Governance, Management and Operation of Credit Unions**

27. CUCORA 2012 modernised the governance requirements for credit unions and clarified the role of the board of directors, board committees and key compliance, risk and control functions within a credit union as well as creating the requirement for a board oversight committee. The Credit Union Handbook includes detailed guidance in relation to the implementation and operation of the governance requirements of CUCORA 2012.

### **The Responsibility of Directors**

28. The primary responsibility for the conduct of the business of a credit union is vested in the board of directors, who have responsibility for the general control, direction, and management of the credit union, and the management appointed by it. The responsibilities of the board of directors are set out in Part IV of the CU Act 1997, as amended, and include responsibility for setting, implementing and monitoring the credit union's strategic plan, establishing and monitoring the risk management policies and other key policies at the credit union.

### **Board Committees of a Credit Union**

29. The board of directors of a credit union may cause any matter relating to its functions to be performed or carried out on its behalf by a board committee. Board committees which may be established include an audit committee, a risk committee and a remuneration committee.
30. Every board committee of a credit union shall:
  - be comprised entirely of directors<sup>11</sup>, or of a majority of directors, of the credit union;
  - have an appropriate balance and sufficiency of skills and expertise available to it to enable it to carry out matters delegated to it;
  - have clear, written terms of reference; and
  - prepare a written report, at least quarterly, to the board on the committee's activities and deliberations.

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<sup>9</sup> Section 111(4) of the CU Act 1997, as amended.

<sup>10</sup> Section 107 of the CU Act 1997, as amended, provides that the financial year of a credit union shall end on 30 September or such other date as the Central bank may determine.

<sup>11</sup> Section 56A(3) of the CU Act 1997, as amended, states that all members of an audit, risk or remuneration committee shall be directors of the credit union.

31. Every credit union is required<sup>12</sup> to have a nomination committee established by the board. The nomination committee's responsibilities include:
- making recommendations for new appointments to the board;
  - ensuring appropriate induction and ongoing training is available for board members;
  - ensuring the credit union has an appropriate succession plan for the board; and
  - supporting the credit union in the application of standards of fitness and probity and appointment of persons to perform pre-approved functions in accordance with the Central Bank Reform Act 2010.

#### **Other Committees at a Credit Union**

32. The board must also appoint the following committees<sup>13</sup>:
- a credit committee which decides on applications for credit;
  - a credit control committee which seeks to ensure the repayment of loans by members of the credit union in accordance with their loan agreements; and
  - a membership committee which considers applications for membership of the credit union.
33. The credit committee and the credit control committee must each have at least three members and the membership committee can have just a single member. All three committees are required to:
- meet as often as necessary to carry out their functions;
  - submit a written report to the board of directors at each meeting of the board; and
  - comply with any instruction of the board of directors<sup>14</sup>.

#### **The Role of the Board Oversight Committee**

34. CUCORA 2012 introduced the requirement for credit unions to establish a board oversight committee<sup>15</sup> which must consist of three or five elected members who are independent of the credit union.
35. The board oversight committee has the general duty of overseeing the performance by the directors of their functions and so plays an important role in the governance of the credit union. Specifically, the board oversight committee assesses whether the board of directors has operated in accordance with Part IV and Part IVA of the CU Act 1997, as amended; any regulations made for the purpose of those parts; and any other matter prescribed by the Central Bank in respect of which they are to have regard to in relation to the board of directors.
36. The board oversight committee shall have access at all times to the books and documents (including draft documents) of the credit union to enable it to carry out its functions. Members of the board oversight committee are entitled to attend all meetings of the board of directors and all meetings of committees of the credit union. At least one member of the board oversight committee must attend each meeting of the board<sup>16</sup>.

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<sup>12</sup> Section 56B of the CU Act 1997, as amended.

<sup>13</sup> Section 67 of the CU Act 1997, as amended.

<sup>14</sup> Third Schedule of the CU Act 1997, as amended.

<sup>15</sup> Part IVA of the CU Act 1997, as amended.

<sup>16</sup> Section 76O of the CU Act 1997, as amended.

### **Internal Audit**

37. The CU Act 1997, as amended, requires all credit unions to establish an internal audit function<sup>17</sup>. The role of the internal audit function is to provide independent internal oversight and to evaluate and improve the effectiveness of the credit union's risk management, internal controls and governance processes. The internal audit function must be separate from other functions and activities of the credit union. It must be capable of operating independently of management and without undue influence over its activities.
38. The board of the credit union is responsible for reviewing the performance and effectiveness of the internal audit function<sup>18</sup> taking into account relevant professional standards. The board ensures that any issues identified in the board's review are managed and rectified in a timely manner. The board reviews and approves the internal audit charter and the internal audit plan. The internal audit charter documents the activities of the internal audit function and the scope of those activities. The internal audit plan documents the scope and objectives of the internal audit work to be performed and sets out audit priorities and resources required by the internal audit function to implement the plan.
39. The internal audit function reports, at least quarterly, the results of its evaluations and recommendations to the audit committee, if one exists, or, in the absence of an audit committee, to the board of the credit union.
40. The internal audit function should maintain open communications with the external auditor. This should include a clear delineation of responsibilities, plans and procedures for co-operation to ensure effective audit coverage and to minimise duplication of effort<sup>19</sup>. The auditor refers to ISA (Ireland) 610 in relation to the appropriate use of the work of internal auditors.
41. The internal audit function may be an outsourced function in a credit union.

### **The Role of the Credit Union Manager**

42. The manager of a credit union is its chief executive officer having responsibility for the day-to-day management of the credit union and reporting to the board.

### **The Role of the Risk Management Officer**

43. Credit unions are required to have in place a documented risk management system which includes governance arrangements and systems and controls which address the key risks to which the credit union might be exposed<sup>20</sup>. The risk management officer is responsible for identifying, assessing, reporting and monitoring all internal and external risks to which the credit union's risk management system relates including risks to employees, members, reputation and assets.
44. The risk management officer is appointed by the board, has direct access and clear reporting lines to the board and is subject to internal oversight by the internal audit function. The risk management officer must be independent in the exercise of his or her functions. He/she must have the necessary authority and resources to manage the risk management function.

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<sup>17</sup> Section 76K of the CU Act 1997, as amended.

<sup>18</sup> Section 55(8) of the CU Act 1997, as amended.

<sup>19</sup> Credit Union Handbook, Chapter 11 "Internal Audit", paragraph 2.3.

<sup>20</sup> Section 76B of the CU Act 1997, as amended.

### **The Role of the Compliance Officer**

45. Credit unions are required to have in place a documented compliance programme that allows the credit union to evaluate compliance with its legal and regulatory obligations. The board appointed compliance officer is responsible for managing the compliance programme and ensuring that the credit union complies with all statutory and regulatory requirements and monitors such compliance to ensure that no conflicts of interest arise<sup>21</sup>. The compliance officer has direct access and reporting lines to the board of directors and is subject to internal oversight by the internal audit function. The compliance officer must be independent in the exercise of his or her functions. He/she must have the necessary authority and resources to manage the compliance function.

### **Financial Statements**

46. Section 111 of the CU Act 1997, as amended, requires the annual financial statements<sup>22</sup> of a credit union to give a true and fair view of its income and expenditure for the year, and of its state of affairs at the end of the year, and, in addition, to comply with section 110 of the CU Act 1997, as amended, in relation to the amounts included therein.
47. Section 110(1) of the CU Act 1997, as amended, requires that ‘the amounts to be included in the accounts of a credit union in respect of items shown shall be determined in accordance with the following principles:
- (a) the credit union shall be presumed to be carrying on business as a going concern;
  - (b) accounting policies shall be applied consistently from one financial year to the next;
  - (c) the amount of any item in the accounts shall be determined on a prudent basis and in particular:
    - (i) only surpluses realised at the balance sheet date shall be included in the income and expenditure account, and
    - (ii) all liabilities and losses which have arisen or are likely to arise in respect of the financial year to which the accounts relate, or the previous financial year, shall be taken into account, including those liabilities and losses which only become apparent between the balance sheet date and the date on which the accounts are signed in pursuance of section 111;
  - (d) all income and charges relating to the financial year to which the accounts relate shall be taken into account without regard to the date of receipt or payment;
  - (e) in determining the aggregate amount of any item the amount of each individual asset or liability that falls to be taken into account shall be determined separately; and
  - (f) in determining how amounts are presented within items in the income and expenditure account and balance sheet, the directors of a credit union shall have regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice.’
48. Section 110(2) of the CU Act 1997, as amended, states that ‘if it appears to the directors of a credit union that there are special reasons for departing from any of the principles specified in subsection (1), they may so depart, but particulars of the departure, the reasons for it and its effect on the balance sheet and income and expenditure account shall be stated in a note to the accounts, for the financial year concerned, of the credit union.’

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<sup>21</sup> Section 76D of the CU Act 1997, as amended.

<sup>22</sup> Section 111 and certain other sections of the CU Act 1997, as amended, refer to the financial statements as “annual accounts”.

49. Directors exercise their judgment in relation to the development and application of appropriate accounting policies in the financial statements. FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (‘FRS 102’) requires that those accounting policies result in information that is:
- relevant to the economic decision-making needs of users; and
  - reliable, in that the financial statements:
    - represent faithfully the financial position, financial performance and cash flows of the entity;
    - reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
    - are neutral, i.e. free from bias;
    - are prudent; and
    - are complete in all material respects.
50. FRS 102 also requires disclosure of:
- the significant accounting policies used in the preparation of the financial statements comprising of the measurement bases used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements;
  - the judgments that management has made in the process of applying the credit union’s accounting policies and that have the most significant effect on the amounts recognised in the financial statements;
  - the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year;
  - the nature of changes in accounting policies including the amount of the adjustment for each financial statement line item affected; and
  - the nature and effect of any changes in estimates.

### **The Role of External Auditors**

51. The primary objective of an audit of the financial statements of a credit union by an external auditor is to enable the auditor to express an independent opinion on the annual financial statements to the members of the credit union in accordance with the requirements of the CU Act 1997, as amended.
52. The scope of the audit of a credit union’s financial statements is no different from that of the generality of companies in the Republic of Ireland. However, the Oireachtas has, in addition, placed responsibility on auditors to provide reports to the Central Bank if they encounter circumstances that, in their opinion, meet certain criteria set out in statute<sup>23</sup>. The section of this Guidance Note relating to ISA (Ireland) 250B provides guidance in relation to such reports to the Central Bank.

### **The Relationship between the Objectives of the Central Bank and the Objectives of the Auditor**

53. In many respects the Central Bank, as the supervisor of credit unions, and credit union auditors have complementary concerns although the focus of their concerns may be different. These are outlined in the bullet points below:

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<sup>23</sup> The CU Act 1997, as amended, and the CBA 1997.

- the purpose of the Central Bank is to regulate and supervise credit unions with a view to protection by each credit union of the funds of its members and the maintenance of the financial stability and well-being of credit unions generally. The auditor is primarily concerned with reporting to the members, as a body, on the credit union's financial statements;
- the Central Bank monitors the present and future viability of credit unions and may use their financial statements in assessing their condition and performance. The auditor's primary responsibility is to report to members, as a body, the auditor's opinion as to whether the financial statements present a true and fair view, in the course of which the auditor considers the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements and whether there are material uncertainties about the credit union's ability to continue as a going concern in the future that should be disclosed. Refer also to the section of this Guidance Note on ISA (Ireland) 570;
- the Central Bank is concerned that credit unions establish and maintain a sound system of control of the accounting and other records of its business such as to secure the credit union's business. The auditor is concerned with the assessment of internal control to determine the degree of reliance to be placed on the system in planning and performing the work necessary to express an opinion on a credit union's financial statements; and
- the Central Bank must be satisfied that each credit union maintains adequate accounting records to enable the preparation of financial statements that are in accordance with consistent accounting policies and practices. This enables the Central Bank to assess the financial condition of the credit union. The auditor reports whether proper accounting records have been kept and whether the annual financial statements are in agreement with these accounting records. The auditor is concerned with whether adequate and sufficiently reliable records are maintained in order to enable the credit union to prepare financial statements that give a true and fair view of the state of affairs of the credit union and explain its transactions and do not contain material misstatements (section 108 of the CU Act 1997, as amended).

## THE AUDIT OF FINANCIAL STATEMENTS

International Standards on Auditing (Ireland) apply to the conduct of all audits. This includes audits of financial statements of credit unions. The purpose of the following paragraphs is to identify the special considerations arising from the application of certain objectives and requirements in the ISAs (Ireland) (which are indicated by grey shaded boxes below) to the audit of credit unions and to suggest ways in which these can be addressed. This Guidance Note does not contain commentary on all the objectives and requirements included in the ISAs (Ireland) and, therefore, should not be seen as an alternative to reading and applying the relevant ISAs (Ireland) in their entirety. In addition, where no special considerations arise from a particular ISA (Ireland), no material is included.

### ISA (IRELAND) 200: OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING (Updated December 2018)

#### Overall Objectives of the Auditor

In conducting an audit of financial statements, the overall objectives of the auditor are:  
To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and  
To report on the financial statements, and communicate as required by the ISAs (Ireland), in accordance with the auditor's findings. (paragraph 11)

In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, the ISAs (Ireland) require that the auditor disclaim an opinion or withdraw (or resign)<sup>1</sup> from the engagement, where withdrawal is possible under applicable law or regulation. (paragraph 12)

The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. (paragraph 14)

The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.

The auditor shall maintain professional skepticism throughout the audit, recognizing the possibility of a material misstatement due to facts or behaviour indicating irregularities, including fraud, or error, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and of those charged with governance. (paragraph 15)

Footnote 1: In the ISAs (Ireland), only the term "withdrawal" is used

54. The audit of financial statement of credit unions in the Republic of Ireland is undertaken in accordance with ISAs (Ireland). ISA (Ireland) 200 sets out the overall objectives of the independent auditor, which are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to financial fraud or error, enabling the auditor to express an independent opinion on the annual financial statements of credit union in accordance with the requirements of the CU Act 1997, as amended, and report thereon.

55. The ISAs (Ireland) include requirements for auditors to comply with relevant ethical requirements relating to audit engagements.
  
56. Auditors in the Republic of Ireland are subject to ethical requirements from two sources - the Ethical Standards for Auditors (Ireland) ('the Ethical Standard') concerning the integrity, objectivity and independence of the auditor, adopted by IAASA and the ethical pronouncements established by the auditor's relevant recognised accountancy body. A fundamental principal is that practitioners should not accept or preform work which they are not competent to undertake. The Ethical Standard underlines the importance of technical competence, stating that the necessary degree of professional skill demands an understanding of financial reporting and business. Practitioners should not undertake the audit of a credit union unless they are satisfied that they have, or can obtain, the necessary level of competence.



## ISA (IRELAND) 210: AGREEING THE TERMS OF AUDIT ENGAGEMENTS (Updated July 2017)

### Objective

The objective of the auditor is to accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through:

Establishing whether the preconditions for an audit are present; and

Confirming that there is a common understanding between the auditor and management and, where appropriate, those charged with governance of the terms of the audit engagement. (paragraph 3)

The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate. (paragraph 9)

Subject to paragraph 11, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include:

- (a) The objective and scope of the audit of the financial statements;
- (b) The responsibilities of the auditor;
- (c) The responsibilities of management<sup>1</sup>;
- (d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
- (e) Reference to the expected form and content of any reports to be issued by the auditor; and
- (f) A statement that there may be circumstances in which a report may differ from its expected form and content. (paragraph 10)

If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b). (paragraph 11)

Footnote 1: - In Ireland, the engagement letter sets out the responsibilities of those charged with governance.

57. ISA (Ireland) 210 deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes establishing that the preconditions for an audit, responsibility for which rests with management, and where appropriate, those charged with governance, are present. In addition to the requirements under ISA 210 (Ireland), the engagement letter for a credit union normally also refers to:

- the duty of the auditor to report directly to the Central Bank, in its role as supervisor, under section 122 of the CU Act 1997, as amended. Guidance on reporting to the Central Bank is covered in more detail in the section on ISA (Ireland) 250B;
- the duty of the auditor to report directly to the Central Bank under section 27B of the CBA 1997<sup>24</sup> and the related protection for the auditor from liability for any resulting breach of confidentiality under section 27H of the CBA 1997;
- the duty of the auditor to inform the Central Bank of their resignation under section 118(2) of the CU Act 1997, as amended;

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<sup>24</sup> As inserted by section 26 of the CBFSAI Act 2004. Note: Part IV of the CBA 1997 with the exception of sections 27B, 27G and 27H is disapplied to credit unions pursuant to section 184 of the CU Act 1997, as amended. Section 184 of the CU Act 1997 was amended by section 34 of CUCORA 2012.

- the auditor's responsibility in respect of other information published with the financial statements in the annual report – see the section of this Guidance Note on ISA (Ireland) 720;
  - the right of the auditor to access at all reasonable times the books and documents of the credit union, and to require from the officers of the credit union such information and explanations that are within their knowledge or can be procured by them, as he/she thinks necessary for the performance of his/her duty as auditor (section 120(6) of the CU Act 1997, as amended);
  - the right of the auditor, under section 58 of the Central Bank (Supervision and Enforcement) Act 2013, to disclose in good faith, to the Central Bank, information gained in the auditor's capacity as auditor, or the auditor's opinion on such information, which the auditor has reasonable grounds for believing is relevant to the functions of the Central Bank. Section 58 of Central Bank (Supervision and Enforcement) Act 2013 provides that the auditor shall not be taken to have contravened any duty of confidentiality as a result of such a disclosure; and
  - an acknowledgement that, under the Auditor Protocol<sup>25</sup>, the auditor can discuss any issue with the Central Bank that is of relevance to their oversight of the credit union and that this communication will not be determined to be a breach of duty by either party.
58. The engagement letter refers to the statutory obligation to report matters to the Central Bank as above and outlines that such obligations do not involve undertaking additional work to identify reportable matters.
59. The engagement letter may note that a copy of the letter to those charged with governance and, if applicable, of any letter to management in relation to deficiencies in internal control, are required to be sent by the auditor to the Central Bank pursuant to a direction order issued by the Central Bank to the auditor under section 22 of the Central Bank (Supervision and Enforcement) Act 2013.
60. The engagement letter may also refer to the reporting obligation imposed on auditors by other legislation including, but not limited to, section 59 of the Criminal Justice (Theft and Fraud Offences) Act 2001, section 1079 of the Taxes Consolidation Act 1997 and the anti-money laundering and terrorism financing provisions of the Criminal Justice (Money Laundering and Terrorist Financing) Acts 2010 to 2018.

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<sup>25</sup> Protocol between the Central Bank of Ireland and the Auditors of Regulated Financial Service Providers – 'The Auditor Protocol', issued 2011 and revised in 2013.

**ISA (IRELAND) 220: QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS (Updated July 2017)**

Objective

The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that:

- (a) The audit complies with professional standards and applicable legal and regulatory requirements; and
- (b) The auditor's report issued is appropriate in the circumstances. (paragraph 6)

Quality control systems, policies and procedures are the responsibility of the audit firm. Under ISQC (Ireland) 1, the firm has an obligation to establish and maintain a system of quality control to provide it with reasonable assurance that:

- (a) The firm and its personnel comply with the professional standards and applicable legal and regulatory requirements; and
- (b) The reports issued by the firm or engagement partners are appropriate in the circumstances<sup>1</sup>.(paragraph 2)

The engagement partner shall take responsibility for the overall quality on each audit engagement to which that partner is assigned. (paragraph 8)

The engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to:

- (a) Perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and
- (b) Enable an auditor's report that is appropriate in the circumstances to be issued. (paragraph 14)

Footnote 1: ISQC (Ireland) 1: Quality Control for Firms that Perform Audits and Reviews of Financial Statements and other Assurance and Related Services Engagements, paragraph 11.

- 61. The nature of financial services business is one of rapidly changing and evolving markets. Often credit unions and other financial services entities develop new products and practices which require specialised auditing and accounting responses. It is therefore important that the engagement team has an appropriate level of understanding of, and practical experience with, audit engagements of the industry, or of a similar nature and complexity, through appropriate training and participation.
- 62. As well as ensuring that the engagement team has an appropriate level of knowledge of the industry and its corresponding products, the engagement partner also satisfies himself that the members of the engagement team have sufficient knowledge of the regulatory framework within which credit unions operate commensurate with their roles on the engagement.
- 63. Given the public interest nature of credit union audit engagements, audit firms may establish policies and procedures requiring an engagement quality control review for those engagements. Such a review should be undertaken by an individual with sufficient and appropriate technical experience and authority to fulfil that role. In the case of sole practitioners and small firms, a suitably qualified external consultant may perform the role of engagement quality control

reviewer and carry out the review. In such circumstances, appropriate arrangements are made to safeguard client confidentiality.

**ISA (IRELAND) 240: THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS (Updated December 2018)**

Objectives

The objectives of the auditor are:

- (a) To identify and assess the risks of material misstatement of the financial statements due to fraud;
- (b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- (c) To respond appropriately to fraud or suspected fraud identified during the audit. (paragraph 10)

In accordance with ISA (Ireland) 200 (updated December 2018), the auditor shall maintain professional scepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance. (paragraph 12)

When performing risk assessment procedures and related activities to obtain an understanding of the entity and its environment, including the entity's internal control, required by ISA (Ireland) 315<sup>1</sup>, the auditor shall perform the procedures in paragraphs 17–24 [of ISA (Ireland) 240] to obtain information for use in identifying the risks of material misstatement due to fraud. (paragraph 16)

The auditor shall make inquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity. (paragraph 18)

In accordance with ISA (Ireland) 315, the auditor shall identify and assess the risks of material misstatement due to fraud at the financial statement level, and at the assertion level for classes of transactions, account balances and disclosures<sup>2</sup>. (paragraph 25)

When identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on the presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. Paragraph 47 specifies the documentation required where the auditor concludes that the presumption is not applicable in the circumstances of the engagement and, accordingly, has not identified revenue recognition as a risk of material misstatement due to fraud. (paragraph 26)

The auditor shall consider whether other information obtained by the auditor indicates risks of material misstatement due to fraud. (paragraph 23)

The auditor shall evaluate whether analytical procedures that are performed near the end of the audit, when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity, indicate a previously unrecognized risk of material misstatement due to fraud. (paragraph 34)

Footnotes:

1: ISA (Ireland) 315, paragraphs 5-24.

2: ISA (Ireland) 315, paragraph 25.

If the auditor has identified a fraud or has obtained information that indicates that a fraud may exist, the auditor shall communicate these matters, unless prohibited by law or regulation, on a timely basis with the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (paragraph 40)

If the auditor has identified or suspects a fraud, the auditor shall determine whether law, regulation or relevant ethical requirements;

- (a) Require the auditor to report to an appropriate authority outside the entity.
- (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances. (paragraph 43)

The auditor shall include in the audit documentation communications about fraud made to management, those charged with governance, regulators and others. (paragraph 46)

64. Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional, respectively. ISA (Ireland) 240 deals with the auditor's responsibilities relating to fraud in an audit of financial statements.
65. As outlined in paragraph 4 of ISA (Ireland) 240, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the credit union and management. An auditor conducting an audit in accordance with ISAs (Ireland) is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.
66. Credit unions have custody of valuable and fungible assets including money. As a result, they are vulnerable to misappropriation of assets. Accordingly, credit unions should have established formal operating policies and procedures, to minimise the risk of material misstatement due to fraud. For example, frauds relating to most types of transactions can be facilitated by identity theft and so 'customer due diligence' procedures are an important component of the procedures performed by credit unions to mitigate the risk of fraud.
67. Every credit union is required by law<sup>26</sup> to establish and maintain a system of control of its business and records. This would include the appropriate control procedures to minimise the risk of losses to the credit union as a result of fraud. Credit unions are also required to put in place adequate risk management systems<sup>27</sup> and an internal audit function. The establishment of such internal control (including accounting) systems may reduce the likelihood of material misstatements due to fraud. Guidance on the auditor's consideration of internal control is provided in ISA (Ireland) 315.
68. Examples of conditions or events particularly relevant to credit unions which may increase the risk of fraud include:
  - the non-participation in the direction of the credit union on the part of some of the directors or officers leading to a small number of their colleagues dominating the credit union's management;
  - inactive board oversight committee;

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<sup>26</sup> Section 109 of the CU Act 1997, as amended.

<sup>27</sup> Section 76B of the CU Act 1997, as amended.

- inactive or inexperienced internal audit, risk management or compliance functions;
- excessive influence of the manager or a few officers;
- excessive influence on officers of a credit union by their extended family;
- lack of adequate training for directors and other officers of the credit union;
- inadequate segregation of duties between credit union staff;
- failure to document or follow the credit union's standard operating policies and procedures;
- failure to control properly share withdrawals on dormant accounts;
- failure to exercise proper control over cash and bank accounts;
- failure to exercise proper control over car or prize draws;
- failure to exercise proper control over death benefit insurance;
- unusual application of loan interest rates;
- loans granted in circumstances which do not appear to comply with the stated policies and procedures of the credit union;
- failure to reconcile regularly funds received through payroll deductions, particularly where the credit union's membership has an employment common bond;
- failure to prepare on a timely basis bank reconciliations and other control accounts in order to present periodic management accounts to the board of directors;
- funds disbursed, even if with board approval, in circumstances which do not appear to fall within the authorised activities of the credit union;
- issuance of loans to members already failing to meet the repayment schedule of existing loans, or failure to make appropriate bad debts provision in respect of such existing loans; or
- failure to exercise the same controls, both as regards physical safekeeping and reflecting transactions promptly in the credit union's records in relation to savings stamps as would be done in relation to cash balances.

69. The auditor considers reports or information obtained from the credit union's money laundering reporting officer, the internal audit function and the risk and compliance functions as well as any reviews undertaken by third parties and the outcome of the Central Bank's PRISM engagement process.

70. The auditor is aware of his or her statutory duty to report directly to the Central Bank in certain circumstances (see the Section of this Guidance Note relating to ISA (Ireland) 250B). The auditor is also aware of the auditor's duty to report suspected offences of money laundering or terrorist financing to the Garda Síochána and the Revenue Commissioners in accordance the Criminal Justice (Money Laundering and Terrorist Financing) Acts 2010 to 2018. In addition, section 59 of the Criminal Justice (Theft and Fraud Offences) Act 2001 requires an auditor to report to the Garda Síochána instances of suspected theft or fraud that come to their attention in the course of auditing the financial statements of bodies corporate and other entities (see the Section of this Guidance Note relating to ISA (Ireland) 250A). The auditor is also aware of his or her statutory duty to report to the Revenue in certain circumstances in accordance with section 1079 of the Taxes Consolidation Act 1997.

**ISA (IRELAND) 250: SECTION A – CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS (Revised July 2017)**

Objectives

The objectives of the auditor are:

- (a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements;
- (b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and
- (c) To respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit. (paragraph 11)

As part of obtaining an understanding of the entity and its environment in accordance with ISA (Ireland) 315<sup>1</sup>, the auditor shall obtain a general understanding of:

- (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and
- (b) How the entity is complying with that framework. (paragraph 13)

Footnote 1: ISA (Ireland) 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment," paragraph 11.

- 71. The directors of a credit union are responsible for ensuring that the necessary controls are in place to ensure compliance with applicable law and regulations, and to detect and correct any breaches that have occurred, even if they have delegated some of their functions<sup>28</sup> to staff or professional advisors.
- 72. The regulatory framework within which a credit union operates, primarily the CU Act 1997, as amended, does not alter the nature of the auditor's responsibility to consider law and regulations in an audit of financial statements as described by ISA (Ireland) 250A. Appendix 2 of this Guidance Note sets out the legislation and regulations relevant to credit unions. Guidance is also issued by the Central Bank from time to time on specific topics and these are generally included in the Credit Union Handbook.
- 73. The auditor is alert to any indication that a credit union is conducting business outside its objects or the scope of its permission or allowed activities (e.g. the auditor considers whether there are any regulatory directions or regulatory restrictions from the Central Bank in place). Such action may be a serious regulatory breach, which may result in fines, public censure, suspension or withdrawal of a credit union's registration. The auditor compares the current activities of the credit union with the permission granted by the Central Bank and considers as necessary the requirements of ISA (Ireland) 250A and, where appropriate, ISA (Ireland) 250B.

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<sup>28</sup> Section 55 of the CU Act 1997, as amended.



The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements. (paragraph 14)

The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements:

- (a) Inquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and
- (b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities. (paragraph 15)

During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. (paragraph 16)

If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether law, regulation or relevant ethical requirements;

- (a) Require the auditor to report to an appropriate authority outside the entity
- (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate. (paragraph 29)

74. Areas that the auditor's procedures may address include the following:
- the adequacy of procedures for authorisation of transactions;
  - review of any compliance reports prepared for the directors, the audit committee (if there is one), the internal auditor or the compliance officer;
  - review of any regulatory directions or regulatory restrictions issued by the Central Bank;
  - review of the credit union's annual compliance statement prepared and submitted to the Central Bank in accordance with section 66C of the CU Act 1997, as amended; and
  - a review of any other correspondence between the Central Bank and the credit union.
75. Under section 87 of the CU Act 1997, as amended, the Central Bank may exercise its power to direct a credit union to take specified measures. Under section 45 of the Central Bank (Supervision and Enforcement) Act 2013 the Central Bank may give directions to a credit union to take specified actions. The auditor makes enquiries whether the Central Bank has issued any such regulatory directions to the credit union.

### **Money Laundering and Terrorist Financing**

76. The auditor is alert for instances of possible or actual non-compliance with laws and regulations including those that might incur obligations for engagement teams to report to an appropriate authority outside the entity. Anti-money laundering legislation in the Republic of Ireland imposes a duty on the auditor to report suspected money laundering and terrorist financing activity.
77. Laws and regulations relating to money laundering are integral to the legal and regulatory framework within which credit unions conduct their business. By the nature of their business, credit unions are potential targets of those engaged in money laundering activities. The effect of anti-money laundering legislation is to make it an offence to provide assistance to those

involved in money laundering and makes it an offence not to report suspicions of money laundering to the appropriate authorities, usually An Garda Síochána and the Revenue Commissioners.

78. The anti-money laundering legislation in the Republic of Ireland also requires bodies designated for the purposes of that legislation, including credit unions, to meet certain requirements in the following areas:
- the establishment and maintenance of policies, procedures and controls to deter and to recognise and report money laundering and terrorist financing activities;
  - taking reasonable measures to establish the identity of customers (often referred to as “customer due diligence” requirements);
  - retention of customer identification and transaction records for use as evidence in any future investigations into money laundering or terrorist financing; and
  - education and training of staff.

Laws and regulations relating to money laundering and terrorist financing are therefore relevant to credit unions. When auditing the financial statements of a credit union, the auditor obtains a general understanding of how the credit union ensures compliance with anti-money laundering legislation to the extent necessary to assess the risks which might give rise a material misstatement of the financial statements.

79. In addition, the auditor has reporting obligations under the Criminal Justice (Money Laundering and Terrorist Financing) Acts 2010 to 2018 to report knowledge or suspicion of money laundering offences, including those arising from fraud and theft, to An Garda Síochána and the Revenue Commissioners. The auditor is aware that a suspicion of an offence of money laundering or terrorist financing may also give rise to a statutory duty to report directly to the Central Bank or separately to the Garda Síochána under section 59 of the Criminal Justice (Theft and Fraud Offences) Act 2001. In such circumstances, the auditor takes steps to assess the effect on the financial statements and the implications for other aspects of the audit.
80. The auditor is aware of the prohibition on making a disclosure which might prejudice an investigation (‘tipping off’) when discussing money laundering matters with the credit union.
81. Auditors should have regard to any guidance issued in relation to anti-money laundering and terrorist financing activity issued by professional bodies.

### **Tax Compliance**

82. In the course of obtaining evidence sufficient to form an opinion on the credit union’s financial statements, the auditor undertakes procedures in relation to amounts relating to tax included in those statements in order to assess whether they are materially misstated. A credit union may have responsibilities under tax laws (e.g. payroll taxes, dividend withholding retention tax, value added taxes, capital gains taxes, stamp duty laws etc.) to operate various tax deduction and tax collection mechanisms. Whilst an audit of financial statements does not provide specific assurance on compliance by the credit union with all provisions of tax law, non-compliance can result in the risk of imposition of liabilities. The auditor of a credit union therefore:
- makes enquiries of the credit union’s directors, compliance officer and other personnel responsible for compliance with tax law and regulations as to how such duties are discharged and whether they are on notice of any possible instances of non-compliance;
  - reviews correspondence with the Revenue Commissioners; and

- carries out procedures to obtain sufficient appropriate evidence that, in the context of the financial statements as a whole, liabilities, assets and related disclosures are free from material misstatement.
83. If the auditor becomes aware of non-compliance with tax legislation, the auditor considers the implications in the context of 'whistle blowing' responsibilities under section 1079 of the Taxes Consolidation Act 1997.

**ISA (IRELAND) 250: SECTION B – THE AUDITOR’S STATUTORY RIGHT AND DUTY TO REPORT TO REGULATORS OF PUBLIC INTEREST ENTITIES AND REGULATORS OF OTHER ENTITIES IN THE FINANCIAL SECTOR**

Objective

The objective of the auditor of a regulated entity is to bring information of which the auditor has become aware in the ordinary course of performing work undertaken to fulfil the auditor’s audit responsibilities to the attention of the appropriate regulator as soon as practicable when:

- (a) The auditor concludes that it is relevant to the regulator’s functions having regard to such matters as may be specified in statute or any related regulations; and
- (b) In the auditor’s opinion there is reasonable cause to believe it is or may be of material significance to the regulator. (paragraph 8)

**Regulatory Framework**

- 84. ISA (Ireland) 250B deals with the responsibilities of the auditor, of an entity subject to statutory regulation, being required to report direct to a regulator information which comes to the auditor’s attention in the course of work undertaken in the auditor’s capacity as auditor of the regulated entity.
  
- 85. The legal framework within which credit unions operate is set out in Appendix 2 and is primarily comprised of the CU Act 1997, as amended, and the CBA 1997. The CU Act 1997, as amended, assigned the Central Bank the role of monitoring and supervising the operations of credit unions in accordance with the provisions of that Act. Both the CU Act 1997, as amended, and the CBA 1997 place a statutory duty on the auditor of a credit union to report to the Central Bank in specified circumstances. Additionally, section 58 of the Central Bank (Supervision and Enforcement) Act 2013 provides auditors with a right to report to the Central Bank in certain circumstances.
  
- 86. Section 118(2) of the CU Act 1997, as amended, places a duty on an auditor of a credit union to inform the Central Bank of his/her resignation.
  
- 87. Section 122(1) of the CU Act 1997, as amended, places a duty on the auditor to report to the Central Bank in writing, where the auditor<sup>29</sup> “at any time”:
  - (a) “has reason to believe that there exist circumstances which are likely to affect materially the credit union’s ability to fulfil its obligations to its members or meet any of its obligations under this Act;
  - (b) has reason to believe that there are material defects in the accounting records, systems of control of the business and records of the credit union;
  - (c) has reason to believe that there are material inaccuracies in or omissions from any returns made by the credit union to the Central Bank;
  - (d) proposes to qualify any report which he is to provide under this Act;
  - (e) has reason to believe that there are material defects in the system for ensuring the safe custody of all documents of title, deeds and accounting records of the credit union.”

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<sup>29</sup> Section 122(1)(f) of the CU Act 1997, as amended, has not yet been commenced at the date of publication of this Guidance Note. Section 122(1)(f) would require the auditor to report to the Central Bank where he “considers that the board of directors have failed to respond to any recommendations made by him”.

88. The statutory duty to report does not require the auditor to extend the scope of audit work in order to determine whether matters reportable under section 122 of the CU Act 1997, as amended, have arisen.
89. Section 122(2) of the CU Act 1997, as amended, allows the Central Bank to request reports from an auditor of a credit union setting out the auditor's opinion on a credit union's compliance with particular obligations under that Act as specified in the Central Bank's request.
90. Section 122(4) of the CU Act 1997, as amended, imposes a duty on the auditor of a credit union to supply the Central Bank with such information as the Central Bank may specify in relation to the audit of the financial statements of the credit union. In supplying information for this purpose, the Central Bank may require the auditor to act independently of the credit union<sup>30</sup>.
91. Under section 27B of the CBA 1997, the auditor of a credit union is required to provide to the Central Bank an annual confirmation as to whether there are matters to report in addition to and including any reports already submitted under 'prescribed enactments' – these are section 122 and section 118<sup>31</sup> of the CU Act 1997, as amended. Section 27B of the CBA 1997 also requires the auditor to deliver a report to the Central Bank where the credit union has, during that financial year, been required to provide the Central Bank with a compliance statement under section 25 of the CBA 1997, stating whether or not the requirement has been complied with.
92. In addition, the Central Bank (Supervision and Enforcement) Act 2013 gives the Central Bank the power to request information from the auditor of a credit union where the Central Bank decides it is necessary to do so for the purpose of the performance of the Central Bank's functions under financial services legislation relating to the proper and effective regulation of the credit union. The Central Bank has used its power under section 22 of that Act to require the auditor of a credit union to provide to the Central Bank a copy of any report that the auditor sends to the credit union or those concerned with its management in relation to matters that have come to the auditor's attention while performing the audit.

#### **Criteria for Reporting to the Central Bank**

93. The inclusion in this section of guidance on matters which the Central Bank might consider to be material is not intended to imply that these matters will necessarily be identified in the normal audit. However, the auditor ensures that audit staff undertaking work on an engagement as auditor of a credit union are able to recognise situations that may indicate actual or possible breaches of the relevant law and regulation when performing their work and that such matters are reported to the audit engagement partner without delay.

#### **Reporting to the Central Bank in accordance with section 122(1) of the CU Act 1997, as amended**

94. The auditor cannot be expected to be aware of all circumstances which may have led them, had they known of them, to make a report under section 122(1) of the CU Act 1997, as amended. That subsection does not require the auditor to change the scope of the normal audit work, nor the frequency or timing of audit visits, beyond that required to enable the auditor to make a report on the financial statements of the credit union under the CU Act 1997, as amended. However, in circumstances where the auditor identifies that a reportable matter may exist, the auditor carries out such extra work, as he/she considers necessary, to determine whether the

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<sup>30</sup> Section 122(5) of the CU Act 1997, as amended.

<sup>31</sup> Section 118 was added as a prescribed enactment under section 27B of the Central Bank Act by a Central Bank notice in *Iris Oifigiúil* in November 2007.

facts and circumstances cause the auditor to have “reason to believe” that the matter does in fact exist. It should be noted that the auditor’s work does not need to prove that the reportable matter exists.

95. The statutory reporting requirements arising under section 122(1) of the CU Act 1997, as amended, refer to matters which are likely to be “material”, although this word has not been defined in law. In interpreting the matters giving rise to the duty to report, the definition of material significance in ISA (Ireland) 250B may be useful to the auditor. It states that:
- “The term ‘material significance’ requires interpretation in the context of the specific legislation applicable to the regulated entity. A matter or group of matters is normally of material significance to a regulator’s functions when, due either to its nature or its potential financial impact, it is likely of itself to require investigation by the regulator.”
96. “Material” for the purposes of reporting to the Central Bank does not necessarily have the same meaning as “materiality” in the financial statement audit. Whilst a particular event may be trivial in terms of its possible effect on the financial statements of an entity, it may be of a nature or type that is likely to change the perception of the Central Bank. However, in the absence of any other information, where quantitative aspects are under consideration, the factors which are taken into account are similar to those considered in the context of a financial statement audit.
97. Examples of control failures which may not be significant in financial terms but may have a significant effect on the Central Bank’s consideration of whether the credit union was satisfactorily controlled and was behaving properly towards its members could include:
- failure to reconcile bank accounts and share and loan accounts on a regular basis;
  - absence of policies and procedures required by the CU Act 1997, as amended;
  - absence of an effective internal control, risk management or compliance function;
  - absence of a strategic plan including financial projections;
  - failure to prepare management accounts in a timely manner; and
  - absence of a quarterly loan book review<sup>32</sup>.
98. The determination of whether a matter is likely to be material inevitably requires the auditor to exercise judgment. In forming such judgments, the auditor considers not simply the facts of the matter but also their implications. In addition, it is possible that a matter, which is not material in isolation, may become so when other issues are considered.
99. The auditor bases his/her judgment of what is material solely on the auditor’s understanding of the facts of which the auditor is aware without making any assumptions about the information available to the Central Bank regarding an individual credit union.
100. Minor breaches of laws or regulations that, for example, are unlikely to jeopardise the credit union’s assets or amount to misconduct or mismanagement would not normally be of “material significance”. ISA (Ireland) 250B however requires the auditor of the credit union, when reporting on its financial statements, to review information obtained in the course of the audit and to assess whether the cumulative effect is of “material significance” such as to give rise to a duty to report to the regulator. In circumstances where the auditor is uncertain whether there

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<sup>32</sup> Required by “Section 35 Regulatory Requirements for Credit Unions – October 2013”.

may be a requirement to make a report or not, the auditor may consider whether to take legal advice.

101. On completion of his/her investigations, the auditor ensures that the facts and circumstances, and the basis for the auditor's conclusion as to whether these are, or are likely to be, "material" to the Central Bank, are adequately documented such that the reason for the decision to report or not, as the case may be, may be clearly demonstrated should the need to do so arise in the future.

**Circumstances which are likely to materially affect the credit union's ability to fulfil its obligations to its members or meet any of its obligations under the CU Act 1997, as amended (section 122(1)(a))**

102. The auditor of a credit union is required to report to the Central Bank where the auditor has reason to believe that circumstances exist which are likely to materially affect the credit union's ability to fulfil its obligations to members or to meet any of its financial obligations under the CU Act 1997, as amended. The procedures to be followed by the auditor in determining his/her concern (if any) about an entity's ability to continue as a going concern are set out in ISA (Ireland) 570 and additional guidance on matters particular to credit unions is provided in the commentary on ISA (Ireland) 570 in this Guidance Note.

**Material defects in the accounting records, systems of control of the business and records of the credit union (section 122(1)(b))**

103. It is the directors of a credit union who are responsible for ensuring that appropriate financial systems and controls are put in place and proper accounting records are maintained. Weaknesses in systems, controls and records may be identified by the directors themselves, management, the board oversight committee, internal audit, the risk officer, compliance officer or by the external auditor during the course of their work. Where the auditor identifies weaknesses, or becomes aware of the identification of weaknesses by the aforementioned parties, the auditor considers whether there has been a failure in the credit union's procedures for ensuring the effective operation of the systems and controls. This of itself may require a report to the Central Bank.
104. The determination of those matters which require reporting is a matter of judgment for the auditor of each credit union. There may be some weaknesses which will be reportable in the context of one credit union but not for another. The decision to report a matter takes into account, for example:
- the nature and volume of transactions occurring in the area where the weakness has arisen;
  - the seriousness of the risks to which the credit union is exposed as a result of the weakness identified;
  - whether there are compensating systems and controls;
  - whether the weakness occurred for only a short period of time and has been rectified (although rectification does not of itself mean that the matter should not be reported); or
  - whether a weakness which has been identified, though not significant in itself, becomes so when considered in conjunction with other weaknesses.

**Material inaccuracies in or omissions from any returns made by the credit union to the Central Bank (section 122(1)(c))**

105. The examination by the auditor of returns made by a credit union to the Central Bank is outside the scope of an audit of a credit union's financial statements. However, where the auditor becomes aware of a material inaccuracy in or omission from a return they have a reporting responsibility under this section of the CU Act 1997, as amended.
106. However, where the auditor discovers a minor inaccuracy in information provided to the Central Bank, this would not normally give rise to a statutory duty to report unless it:
- is indicative of a general and recurring lack of compliance with the Central Bank's requirements; or
  - otherwise casts doubt on the credit union's compliance with the Central Bank's requirements.
107. If the correction of an omission or inaccuracy in returns of a financial nature to the Central Bank would mean that the credit union is then in breach of certain ratios or limits set by the Central Bank, this would be an indication that the matter may be material to the Central Bank.

**Qualified Audit Report (section 122(1)(d))**

108. The auditor of a credit union is required to make a report to the Central Bank if the auditor proposes to qualify any report which the auditor is to provide under the CU Act 1997, as amended.
109. Where the auditor intends to include an emphasis of matter paragraph in an unqualified audit report, such as referring to a going concern issue, this would not of itself necessitate a report to the Central Bank, as inclusion of that paragraph is not a qualification of the audit opinion. However, in those circumstances the auditor considers whether the matter giving rise to the explanatory paragraph requires a report to the Central Bank under the duty set out in section 122(1)(a) of the CU Act 1997, as amended.

**Material Defects in the System for ensuring Safe Custody of all Documents of Title, Deeds and Accounting Records of the Credit Union (section 122(1)(e))**

110. If in the course of the audit, the auditor becomes aware of material defects in the system for ensuring safe custody of all documents of title, deeds and accounting records of the credit union, the auditor has an obligation to report this to the Central Bank under section 122(1)(e) of the CU Act 1997, as amended.
111. Section 108(9) of the CU Act 1997, as amended, specifies that a credit union "shall take adequate precautions to ensure the safekeeping of the accounting records...". Where the accounting records of the credit union are kept at a place other than the registered office of the credit union, the chair has responsibility for ensuring that a written record of their location is kept.
112. Where the auditor becomes aware, in the course of the audit, of a failure by a credit union to establish and comply with appropriate record retention and retrieval procedures, inclusive of the regular making of "back up" duplicates which are transferred to a secure "offsite" location, this is likely to give rise to a statutory duty to report.



**Reports Requested by the Central Bank in Accordance with Section 122(4) of the CU Act 1997, as amended**

113. Section 122(4) of the CU Act 1997, as amended, empowers the Central Bank to ask the auditor to supply "...such information as it may specify in relation to the audit of the business of the credit union" where the Central Bank considers that the exercise of its functions under the CU Act 1997, as amended, or the protection of the interests of the members of a credit union, so requires. It should be noted that the Central Bank's powers under this subsection are restricted to information relating to "...the audit of the business of the credit union". Furthermore, the protection given to the auditor by section 122(6), when making a report under section 122(4), is restricted to disclosure of information in their capacity as auditor of the credit union and in relation to the audit of the business of the credit union. If the auditor is reporting under section 122(4) in respect of an incomplete audit, the auditor should emphasise that the report has been prepared based on audit work to date and that the audit has not yet concluded.
114. When an auditor receives a request from the Central Bank for information in the context of section 122(4), they should seek to ensure that they are in a position to inform the credit union of this request. A meeting between the auditor and the Central Bank will normally be necessary to clarify the specific information requested.
115. Following the meeting, the auditor will write to the Central Bank confirming the information requested and setting out their responses thereto. In drafting this response the auditor may feel it appropriate to obtain legal advice as to the protection provided to the auditor by section 122(6) of the CU Act 1997, as amended. If deemed appropriate, the auditor may furnish the credit union with a copy of all or part of the written response to the Central Bank, unless the Central Bank requires that the auditor, in supplying such information, is to act "...independently of the credit union."
116. Where the Central Bank requests information about detailed audit procedures in specific areas, any written reply will emphasise that the auditor forms his/her professional opinion on the basis of all the work carried out and all the information and explanations received during the audit, and not just on the basis of one or more results in a specific area. The auditor's written response should also state that the requested information is supplied on a confidential basis in the context of a "Section 122(4) Credit Union Act 1997, as amended, request" and on the understanding it is not divulged to parties other than the Central Bank.

**The Annual Statutory Duty Confirmation to the Central Bank (section 27B of the CBA 1997)**

117. Under section 27B of the CBA 1997, the auditor of a credit union is required to make a report to the Central Bank within one month of the date of the audit report, or such extended period as the Central Bank permits. This report must state whether or not a reportable instance has arisen in the context of section 122 or section 118 of the CU Act 1997, as amended. This report is known as the "statutory duty confirmation".
118. The statutory duty confirmation is sent directly (via the Central Bank's online reporting system) to the Central Bank and is a statement to the Central Bank that there is no matter, not already reported in writing to the Central Bank by the auditor, that has come to the attention of the auditor during the ordinary course of the audit that gives rise to a duty to report to the Central Bank. Where matters have already been reported to the Central Bank, these are referred to in the statutory duty confirmation. The statutory duty confirmation does not in any way replace the auditor's obligations to report under other legislation as and when circumstances giving rise to the duty are identified in the course of audit.

119. The period covered by the statutory duty confirmation commences from the date of issue of the previous statutory duty confirmation or date of appointment, if later. It covers all matters that require the auditor to report to the Central Bank in respect of that period.
120. An illustrative wording for a statutory duty confirmation is included in Appendix 4 of this Guidance Note.

**Central Bank request for copies of certain reports (section 22 of the Central Bank (Supervision and Enforcement) Act 2013)**

121. The Central Bank notifies auditors of credit unions of a request for information pursuant to section 22 of the Central Bank (Supervision and Enforcement) Act 2013 with which the auditor is legally obliged to comply. The notice requires auditors to provide to the Central Bank a copy of any report that the auditor sends to the credit union or to those concerned in its management, on a matter that has come to the auditor's attention while auditing the financial statements of the credit union.
122. The Central Bank has indicated that it would expect to receive under this notice copies of post-audit reports prepared in accordance with ISA (Ireland) 260, "Communication with those charged with governance" and ISA (Ireland) 265, "Communicating deficiencies in internal control to those charged with governance and management" .
123. In many cases, the post-audit report(s) required by ISA (Ireland) 260 and ISA (Ireland) 265 may constitute the only report(s) made on matters arising from the audit. However, the auditor will need to consider the nature of other communications and correspondence with the credit union concerned and consider if they contain matters of a substantive nature, arising from the audit, such that they may be regarded as a report for the purposes of the notice under section 22 of the Central Bank (Supervision and Enforcement) Act 2013. In cases of uncertainty as to whether a particular communication to a credit union constitutes a 'report' for the purposes of this section, the auditor may wish to take legal advice. However, the auditor will need to consider the nature of other communications and correspondence with the credit union concerned and consider if they contain matters of a substantive nature, arising from the audit, such that they may be regarded as a report for the purposes of the notice under section 22 of the Central Bank (Supervision and Enforcement) Act 2013. In cases of uncertainty as to whether a particular communication to a credit union constitutes a 'report' for the purposes of this section, the auditor may wish to take legal advice.
124. The copy of such a report must be provided within the timeframe and in the manner set out in the notice issued by the Central Bank. Where, in relation to a particular financial year of the credit union, there has been no reason for the auditor to send a report to the credit union or to those concerned with its management, the auditor is required to provide confirmation to the Central Bank that this is the case in accordance with the notice issued by the Central Bank.

**Communication by the Central Bank with Credit Union Auditors**

125. The Central Bank will consider informing the auditor of factors which may be relevant to the auditor's functions where there is no prohibition, either in statute or in the common law, relating to confidentiality. Disclosure of such information is to the auditor only; they are not generally free to pass that information to others, including the credit union.

126. Where such a matter has been brought to the attention of the auditor, there may be implications for the conduct of their audit work and they may need to amend their approach accordingly. However, the fact that they may have been informed of a matter by the Central Bank does not, of itself, require the auditor to change the scope of the audit work, nor does it necessarily require the auditor to search actively for evidence in support of the situation communicated by the Central Bank.
127. In determining whether particular circumstances are such as require the auditor to make a report to the Central Bank, the auditor will need to have regard to those matters, if any, which the Central Bank has brought to the auditor’s attention.
128. The Central Bank has indicated that, for the avoidance of doubt, the auditor of a credit union is still required to report a “section 122 matter” which has come to their attention even though this has already been reported to the Central Bank by the credit union itself and has been corrected. Normally such a report by the auditor refers to the earlier report from the credit union, providing the auditor considers that it fully describes the matter concerned.
129. In considering what may be reportable to the Central Bank, the auditor will need to base his/her judgment on information which is available to the auditor in his/her capacity as auditor without any regard to matters of which the Central Bank independently may be aware.
130. The conduct of meetings between the Central Bank and credit union auditors is covered by the Auditor Protocol<sup>33</sup> framework. Further information in relation to exchange of information between the Central Bank and credit union auditors in bilateral and trilateral meetings is set out in Appendix 3.

### Conduct of the Audit

The auditor shall ensure that all staff involved in the audit of a regulated entity have an understanding of:

- (a) The provisions of applicable legislation;
- (b) The regulator’s rules and any guidance issued by the regulator; and
- (c) Any specific requirements which apply to the particular regulated entity, appropriate to their role in the audit and sufficient (in the context of that role) to enable them to identify situations which may give reasonable cause to believe that a matter should be reported to the regulator. (paragraph 11)

131. As a basic minimum which would be expected of all staff involved, this understanding should extend to:
  - the contents of ISA (Ireland) 250B and of this Guidance Note; and
  - the principal requirements of the CU Act 1997, as amended.
132. Further understanding, commensurate with the individual’s role and responsibilities in the audit process, is required of:
  - relevant detailed provisions of the CU Act 1997, as amended;

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<sup>33</sup> The “Protocol between the Central Bank of Ireland and the Auditors of Regulated Financial Services Providers” issued by the Central Bank.

- relevant guidance issued by the Central Bank on the detailed provisions of the CU Act 1997, as amended;
- Ministerial Regulations made under the CU Act 1997, as amended;
- Regulations made by the Central Bank pursuant to its powers under the CU Act 1997, as amended;
- requirements or guidance issued by the Central Bank in relation to the activities and/ or administration of credit unions;
- the Credit Union Handbook;
- the CBA 1997, as amended, as it applies to credit unions;
- the Central Bank (Supervision and Enforcement) Act 2013 as it applies to credit unions;
- the “Auditor Protocol” document; and
- the Central Bank Reform Act 2010 and related regulations as they relate to credit unions.

133. The auditor should ensure that:

- all staff responsible for credit union assignments are aware of the provisions of section 122 of the CU Act 1997, as amended, and the content of this guidance and are able to identify situations in which they might operate; and
- satisfactory procedures exist to ensure that any information, which may be the subject of a regulatory report, obtained by the staff in the course of their work, is passed on to the person responsible without unnecessary delay.

134. An audit firm appointed as auditor of a credit union needs to have in place appropriate procedures to ensure that the audit engagement partner is made aware of any other relationship which exists between any department of the audit firm and the credit union when that relationship could affect the audit firm’s work as the auditor. The auditor of the credit union considers whether the results of other work undertaken by the audit firm for the credit union need to be assessed as part of the audit process. Where, as a result of enquiries in relation to non-audit work, the auditor becomes aware of issues which may be of material significance to the Central Bank, such issues should be considered and if appropriate reported.

### **Discussion with Management**

135. Where the auditor is of the opinion that circumstances have arisen that appear to fall within the scope of section 122(1) of the CU Act 1997, as amended, the auditor should consider discussing those concerns in the first instance with the credit union’s directors, management, internal audit, risk management officer or compliance officer as appropriate to clarify, for the purposes of formulating the report, the extent and nature of the circumstances giving rise to concern, the probable financial impact of those matters, together with any action taken by the credit union to rectify the situation.

136. It may be inappropriate to have such discussions if initial consideration of the particular circumstances by the auditor leads to the conclusion that the auditor no longer can have confidence in the integrity of management.

137. In conducting discussions with management, the auditor should be conscious of the obligation to send the report to the Central Bank in writing without delay. When finalising such a report, the auditor may need to consider obtaining legal advice on its contents and protection provided to them by section 122(6) of the CU Act 1997, as amended.

138. Where the Central Bank requests a specific report or information from the auditor under section 122(2) or 122(4) of the CU Act 1997, as amended, the Central Bank may request that the auditor shall not disclose to the credit union the fact that such a request has been received or any information that may lead the credit union to suspect that such a request has been received.

#### **Statutory Protection of Reports by Auditors**

139. Whilst confidentiality is an implied term of the auditor's contract with a regulated entity, there are provisions in the relevant legislation that state that an auditor does not contravene any duty by his/her compliance with the related statutory obligations to report to the Central Bank.
140. Section 122(6) of the CU Act 1997, as amended, affords protection to the auditor in communications with the Central Bank. The subsection states:  
"No duty to which the auditor of a credit union may be subject shall be regarded as contravened, and no liability to the credit union, its members, creditors or other interested parties shall attach to the auditor, by reason of his compliance with any obligation imposed on him by or under this Section."
141. The auditor is protected in relation to communications with the Central Bank when making a formal report on those matters specified in section 122 of the CU Act 1997, as amended, relating to the credit union's affairs arising out of the audit of the financial statements of the credit union.
142. Section 27H of the CBA 1997 also provides for the immunity of the auditor from liability arising out of compliance with the requirements of Part IV of the CBA 1997, including section 27 of that Act.
143. Auditors providing information in accordance with a notice pursuant to section 22 of the Central Bank (Supervision and Enforcement) Act 2013 are protected from liability by section 58(1) of that Act.
144. The auditor recognises that there are circumstances in which section 122(6) of the CU Act 1997, as amended, or section 27H of the CBA 1997, will not provide protection, for example where the auditor could be held to have acted in bad faith or maliciously in reporting under section 122(1) of the CU Act 1997, as amended, or where the auditor has supplied information following a request from the Central Bank which is outside the scope of section 122(4) of the CU Act 1997, as amended. Section 122(6) of the CU Act 1997, as amended, does not, therefore, provide the auditor with complete immunity from legal action by any parties affected, or subsequently affected, by the auditor's action in reporting to the Central Bank.
145. Section 58(2) of the Central Bank (Supervision and Enforcement) Act 2013 additionally provides protection from legal action for breach of confidentiality for an auditor of a credit union who makes a report, in good faith, to the Central Bank in particular circumstances even though the report may go beyond the auditor's statutory duty to report under section 122 of the CU Act 1997, as amended, or section 27B of the CBA 1997. Section 58(2) of the Central Bank (Supervision and Enforcement) Act 2013 is discussed in further detail below under the heading "The Auditor's Right to Report to the Central Bank".
146. Although the auditor cannot have the benefit of foresight when judging the potential effect on the interests of existing and prospective credit union members, they should satisfy

themselves that the facts and circumstances, and the basis for the auditor's conclusion as to whether these are likely to be "material" to the Central Bank, adequately document their decision, as to whether or not to report and (if reporting) the nature of the report, and that those matters documented would stand up to examination at a future date on the basis of the following considerations:

- what the auditor knew at the time;
- what the auditor could reasonably have been expected to know in the course of the audit;
- what the auditor could reasonably have been expected to conclude; and
- what action the auditor should have taken in the light of the above.

#### **The Auditor's Right to Report to the Central Bank**

147. As set out above, where there is a statutory duty to make a report under the CU Act 1997, as amended, the CBA 1997 or under a notice issued pursuant to section 22 of the Central Bank (Supervision and Enforcement) Act 2013, protection is afforded to the auditor by section 122(6) of the CU Act 1997, as amended, section 27H of the CBA 1997 and section 58(1) of the Central Bank (Supervision and Enforcement) Act 2013 respectively.
148. There may be circumstances where the auditor concludes that a matter does not give rise to a statutory duty to report but nevertheless believes that the matter is relevant to the functions of the Central Bank and so should be reported to the Central Bank. Since 2013, the auditor of a credit union has a right to report information that is relevant to the functions of the Central Bank. Section 58(2) of the Central Bank (Supervision and Enforcement) Act 2013 provides that no duty of confidentiality to which an auditor of a regulated financial service provider is subject shall be contravened by communicating in good faith to the Central Bank information on a matter, or his/her opinion on a matter, of which the auditor has become aware in his/her capacity as auditor of the credit union, and that the auditor reasonably believes is relevant to any functions of the Central Bank.
149. In circumstances where the auditor concludes that a matter does not give rise to a statutory duty to report but nevertheless should be brought to the attention of the Central Bank, in the first instance the auditor advises the directors of the credit union of the auditor's opinion. Where the auditor is unable to obtain, within a reasonable period, adequate evidence that the directors have properly informed the Central Bank of the matter, then the auditor makes a report to the Central Bank as soon as practicable as required by ISA (Ireland) 250B (paragraph 15).
150. The auditor may wish to take legal advice before deciding whether, and in what form, to exercise the right to make a report direct to the Central Bank in order to ensure, for example, that only relevant information is disclosed and that the form and content of the report is such as to secure the protection of section 58(2) of the Central Bank (Supervision and Enforcement) Act 2013.

**ISA (IRELAND) 260: COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE (Updated December 2018)**

Objectives

The objectives of the auditor are:

- (a) To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
- (b) To obtain from those charged with governance information relevant to the audit;
- (c) To provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and
- (d) To promote effective two-way communication between the auditor and those charged with governance. (paragraph 9)

The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate.(paragraph 11)

The auditor shall communicate with those charged with governance the form, timing and expected general content of communications. (paragraph 18)

The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit if, in the auditor's professional judgment, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit. (paragraph 19)

The auditor shall communicate with those charged with governance on a timely basis. (paragraph 21)

- 151. As noted in the Introduction, the board of directors, and sometimes an audit committee, play an important role in the governance of credit unions. In the case of a credit union, the auditor will usually communicate the significant findings from the audit in writing. Section 120 of the CU Act 1997, as amended, requires the auditor to meet with the board of directors and the board oversight committee in relation to the annual financial statements and any matter relating thereto which the auditor considers should be drawn to their attention.
- 152. Where significant findings raised in previous reports to directors or management have not been dealt with effectively, the auditor enquires why appropriate action has not been taken. If the point is still significant, consideration is given to repeating the point in the current report, otherwise there is a risk that the auditor may give the impression that the auditor is satisfied that the weakness has been corrected or is no longer significant.
- 153. As outlined under the section of this Guidance Note providing guidance in relation to ISA (Ireland) 250B, an auditor is obliged, by notice in writing from the Central Bank pursuant to its powers under section 22 of the Central Bank (Supervision and Enforcement) Act 2013, to send copies of any reports provided to the credit union or those concerned with its management on matters that have come to the auditor's attention while auditing the financial statements of the credit union to the Central Bank. Such reports are likely to include copies of reports prepared in accordance with ISA (Ireland) 260.

**ISA (IRELAND) 265: COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT**

Objective

The objective of the auditor is to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions. (paragraph 5)

If the auditor has identified one or more deficiencies in internal control, the auditor shall determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies. (paragraph 8)

The auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis. (paragraph 9)

The auditor shall also communicate to management at an appropriate level of responsibility on a timely basis:

- (a) In writing, significant deficiencies in internal control that the auditor has communicated or intends to communicate to those charged with governance, unless it would be inappropriate to communicate directly to management in the circumstances; and
- (b) Other deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention. (paragraph 10)

154. The auditor's consideration of the system of internal control is undertaken both for the purpose of forming an opinion on the financial statements and so as to meet the statutory reporting requirements. Therefore, in the first instance the auditor's assessment is focused on control activities designed to prevent or detect material misstatements in the financial statements arising from fraud, or other irregularity or error.

155. In addition, the auditor obtains sufficient appropriate evidence that significant deficiencies in internal control have not existed during the year. ISA (Ireland) 265 defines a significant deficiency in internal control as "a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance". A deficiency in internal control exists when:

- (i) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
- (ii) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing."

156. Examples of internal controls, the absence of which might be considered a deficiency in the internal control system, include, but are not limited to:

- bank reconciliations;
- share and loan reconciliations;
- daily cash counts and reconciliations;
- loan book reviews;
- expenditure authorisation;
- IT security; and
- investment reconciliations.



157. There will usually be a clear distinction between those involved in the day-to-day management of a credit union and those charged with the governance and overall management of the credit union. The auditor reports in writing to both management and those charged with governance in relation to significant deficiencies in internal control. Other identified deficiencies in internal control, not considered by the auditor to be significant, are communicated to the management of the credit union on a timely basis.
  
158. As outlined under the section of this Guidance Note providing guidance in relation to ISA (Ireland) 250B, an auditor is obliged, by a notice in writing from the Central Bank pursuant to its powers under section 22 of the Central Bank (Supervision and Enforcement) Act 2013, to send copies of any reports provided to the credit union or those concerned with its management on matters that have come to the auditor's attention while auditing the financial statements of the credit union to the Central Bank. Such reports are likely to include copies of reports prepared in accordance with ISA (Ireland) 265.

## ISA (IRELAND) 300: PLANNING AN AUDIT OF FINANCIAL STATEMENTS

### Objective

The objective of the auditor is to plan the audit so that it will be performed in an effective manner. (paragraph 4)

The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. (paragraph 7)

The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. (paragraph 10)

The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. (paragraph 11)

159. Matters the auditor of a credit union may consider as part of the planning process for the audit of the financial statements include:
- the nature and scope of the credit union's activities;
  - the complexity of the credit union's information systems;
  - the credit union's relationship with the Central Bank;
  - changes in applicable laws, regulations and accounting requirements;
  - financial statement disclosures;
  - the need to involve specialists in the audit;
  - the extent to which controls and procedures are outsourced to a third party provider, including the outsourcing of the internal audit function;
  - issues relating to the auditor's statutory duty to report;
  - the appropriateness of the accounting policies adopted by the credit union;
  - any impairment issues;
  - the risk register of the credit union; and
  - integration issues where the credit union has expanded due to an amalgamation with or transfer of engagement of another credit union during the year.
160. In addition to the guidance set out in the Section on ISA (Ireland) 315 "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment" below, other considerations in relation to planning the audit are:
- the auditor considers the need to involve specialists in the audit, for example IT audit specialists or experts in the valuation of complex investments and loans;
  - the auditor considers the implications of the outsourcing of functions by the credit union and the sources of evidence available to the auditor for transactions undertaken by service organisations in planning their work. This may include the outsourcing of certain functions such as the management of investment funds;
  - issues relating to the auditor's statutory duty to report include the adequacy of the audit team's understanding of the law; and
  - the auditor considers the appropriateness and consistency of the application of the credit union's accounting policies, particularly those applied to valuation of investments and loans.
161. Where an amalgamation or transfer of engagement has taken place during the year, the auditor considers the impact on the audit of the increased geographical spread of the credit union, the possible increased complexity in the credit union's business and the issues that

can arise on integration of IT systems and security, internal policies and procedures, internal controls and accounting systems. The auditor considers the implications for the financial statements of the enlarged credit union and has regard to:

- the appropriateness of the accounting for the amalgamation or transfer of engagement transaction and the related disclosures in the financial statements;
- issues in relation to transfer of opening balances;
- the consistency in accounting policies across the combining credit unions and the accuracy of any amending journals to align accounting policies; and
- the risk of material misstatement of balances in the financial statements as a result of weaknesses in the processes for integration of accounting systems and related controls.

162. When planning the work to be undertaken in respect of a credit union audit, it is important to identify those areas which are key to its operations as reflected in its financial statements. The key areas of credit unions' financial statements would include:

- members' savings;
- loans to members and provisions for impairments;
- income recognition, to include loan interest and investment income;
- cash;
- investments; and
- fixed assets.

163. When considering the key areas it is also important to identify other possible sources of information available to the credit union auditor that may assist in the planning process, including:

- correspondence between the credit union and the Central Bank;
- reports of the board oversight committee;
- reports, where applicable, by industry representative bodies;
- reports of the internal audit function;
- minutes of board, and other relevant committee, meetings;
- the register of directors' interests;
- correspondence between the credit union and its solicitors;
- correspondence between the credit union and its investment advisors;
- reports commissioned by the credit union or by the Central Bank from reporting accountants or other professional advisors;
- the credit union's strategic plan;
- reports of the risk management and compliance officer; and
- the annual compliance statement submitted to the Central Bank.

**ISA (IRELAND) 315: IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT**

Objective

The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement. (paragraph 3)

164. The auditor obtains an understanding of the business activities of the credit union (including the regulatory regime in which the credit union operates) as part of their understanding of the entity and its environment, including the entity's internal control in accordance with ISA (Ireland) 315.

The auditor shall obtain an understanding of the following:

- (a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework.
- (b) The nature of the entity, including:
  - I. its operations;
  - II. its ownership and governance structures;
  - III. the types of investments that the entity is making and plans to make, including investments in special purpose entities; and
  - IV. the way that the entity is structured and how it is financed

to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements. (paragraph 11)

165. When performing procedures to obtain an understanding of the credit union's business activities, matters that the auditor considers include:
- the relevant aspects of the credit union's risk management procedures;
  - the credit union's strategic plan;
  - the complexity of the credit union's information systems and organisational structure;
  - any changes in the market environment;
  - the impact of recent legislation, government initiatives and changes to the Credit Union Handbook;
  - the introduction of new categories of members, or products or marketing and distribution channels;
  - the consistency of products, methods and operations in different departments or locations including any changes arising as a consequence of an amalgamation or transfer of engagement;
  - the legal and operational structure of the credit union;
  - the role and competence of volunteers;
  - the number and location of sub-offices including any additions arising as a consequence of an amalgamation or transfer of engagement;
  - the respective roles and responsibilities attributed to the finance, risk control, compliance and internal audit functions;
  - the recruitment, competence, and experience of management; and
  - management's integration plan for IT, accounting and internal controls where there has been an amalgamation or transfer of engagement during the financial year.

166. In obtaining an understanding of the changes in the control environment arising as a consequence of an amalgamation or transfer of engagement, the auditor considers areas of post re-structuring integration risk which include, but are not limited to, the following areas:
- IT system integration and possible increased IT complexity;
  - consistency of internal policies and procedures;
  - the risks arising from the credit union acquiring a loan book that has been underwritten in a different control environment than the credit union's original loan book;
  - the impact of different control environments of the transferee and transferor; and
  - the impact of different work practices of the transferee and transferor.
167. In obtaining an understanding of the regulatory factors the auditor considers:
- any formal communications between the Central Bank and industry representative bodies and the credit union, including the results of any PRISM or other supervisory visits; and
  - the contents of any publications from the Central Bank and industry representative bodies.

The auditor shall obtain an understanding of....

- (c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry. (paragraph 11)

168. Where there has been an amalgamation or transfer of engagement during the year, the auditor considers whether accounting policies are consistently and appropriately applied across the combining credit unions and whether any accounting adjustments required to harmonise accounting policies are properly reflected in the financial statements.
169. Accounting policies of particular relevance in respect of the financial statements of a credit union may include impairments, classification of assets and liabilities (and thereby their measurement), and revenue and expense recognition. The auditor undertakes procedures to consider whether the policies adopted are in compliance with applicable accounting standards and the CU Act 1997, as amended, and gains an understanding of the procedures, systems and controls applied to maintain compliance with them.

The auditor shall obtain an understanding of....

- (d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement. (paragraph 11)

170. It is important for the auditor to understand the nature and extent of the financial and business risks which are integral to the environment, and how the credit union's systems record and address these risks. Although they may apply to varying degrees, the risks include (but are not limited to):
- capital risk: capital is required to act as a cushion to absorb losses arising from business operations and to allow a credit union to remain balance sheet solvent under challenging conditions. Capital risk arises mainly as a result of the quality or quantity of capital

available, the sensitivity of a credit union's exposures to external shocks, the level of capital planning and the capital management process. Capital risk could potentially impair a credit union's ability to meet its obligations in an adverse situation. Credit unions are required to maintain a minimum regulatory reserve ratio;

- credit risk: credit risk is the risk of financial loss arising from a borrower, issuer, guarantor or counterparty that may fail to meet its obligations in accordance with agreed terms. Credit risk arises anytime credit union funds are extended, committed or otherwise exposed;
- environmental risk: environmental risk encompasses all risks to the credit union stemming from its external operating environment. This includes risks arising from the macro-economy and credit union sector specific risks;
- governance risk: governance covers the overall oversight and control mechanisms which a credit union has in place to ensure that it is soundly and prudently managed. It refers in particular to the processes, structures and information flows which are used to allow the board of directors and management to satisfy themselves that effective control mechanisms are in place to protect all stakeholders;
- insurance risk: inherent insurance risk relates to the reliance by non-insurance firms on insurance contracts to protect against insurance losses e.g. fraud, operation risk, professional indemnity, catastrophe risk etc.;
- liquidity risk: liquidity risk is the risk that a credit union will not be able to fund its current and future expected and unexpected cash outflows as they fall due without incurring significant losses. This may occur even where the credit union is solvent. Examples of liquidity risk include loss of existing funding, new lending or investments and timing mismatches between asset maturities/realisation and liability cash flows;
- market risk: market risk is the risk that the value of an investment will decrease. This risk can arise from fluctuations in values of, or income from, assets or changes in interest rates;
- operational risk: the risk of loss, arising from inadequate or failed internal processes, people and systems or from external events;
- regulatory risk: the risk of public censure, fines (together with related compensation payments) and restriction or withdrawal of authorisation to conduct some or all of the credit union's activities. This could arise from enforcement activity by the Central Bank or the failure by the credit union to comply with a regulatory direction, regulatory restriction or a risk mitigation programme issued by the Central Bank; and
- strategy/business model risk: strategy/business model risk refers to the risk which credit unions face if they cannot compete effectively or operate a viable business model. Strategy/business model risk also includes the inherent risk in the credit union's strategy. Risks in a credit union's strategy may include projections based on unrealistic assumptions, risks arising from transfers of engagements or amalgamations and/or risks arising from taking on significant additional business activities. Strategy/business model risk may also arise from ineffective implementation of strategies.

The auditor shall obtain an understanding of....

(e) The measurement and review of the entity's financial performance. (paragraph 11)

171. The auditor obtains an understanding of the measures used by management to review the credit union's performance. Guidance on key performance measurements is included in the Section on ISA (Ireland) 520 in this Guidance Note.

The auditor shall obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit. (paragraph 12)

When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel. (paragraph 13)

The auditor shall obtain an understanding of the control environment. As part of obtaining this understanding, the auditor shall evaluate whether:

- (a) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior; and
- (b) The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control, and whether those other components are not undermined by deficiencies in the control environment. (paragraph 14)

- 172. Section 53 of the CU Act 1997, as amended, provides that the board of directors of the credit union has responsibility for the general control, direction and management of the credit union.
- 173. Section 109 of the CU Act 1997, as amended, requires a credit union to establish and maintain systems of control and safe custody. The systems of control must be such as to secure that the credit union's business is so conducted and its records so kept that:
  - (a) "the information necessary to enable the officers, the credit union and the auditor to discharge their functions is sufficiently accurate, and is available with sufficient regularity and with sufficient promptness for those purposes; and
  - (b) the information obtained by or furnished to the Bank is sufficiently accurate for the purposes for which it is obtained or furnished and is available as and when required by the Bank."
- 174. The board oversight committee is statutorily charged with the duty of assessing whether the board has operated in accordance with Part IV and Part IVA of the CU Act 1997, as amended, any regulations made for the purposes of Part IV or Part IVA of that Act and any other matter prescribed by the Central Bank.
- 175. The quality of the overall control environment is dependent upon management's attitude towards the operation of controls. A positive attitude may be evidenced by an organisational framework which enables proper segregation of duties and delegation of control functions and which encourages failings to be reported and corrected. Thus, where a lapse in the operation of a control is treated as a matter of concern, the control environment will be stronger and will contribute to effective control systems; whereas a weak control environment will undermine detailed controls, however well designed.
- 176. No internal control system can by itself guarantee effective administration and completeness and accuracy of the credit union's records. However, the attitude, role and actions of the directors are fundamental in shaping the control environment of a credit union. Factors to consider include:

- the amount of time committed by individual directors;
- the skills, experience and qualifications of individual directors and whether the necessary fitness and probity reviews for directors have been carried out through the Central Bank;
- in the case of smaller credit unions, the number of members of the management and any restrictions on division of duties; and
- the frequency and regularity of board/committee meetings.

177. Systems and controls that may be appropriate for a credit union include (but are not limited to) the following:

- clear and appropriate reporting lines which are documented and communicated within the credit union;
- appropriate controls to ensure compliance with laws and regulations supported by an effective compliance function;
- appropriate risk assessment process and an effective risk management function;
- appropriate management information;
- controls to ensure the suitability of staff;
- documented and tested business continuity plans;
- documented business plans and strategies;
- an effective internal audit function; and
- appropriate record-keeping arrangements.

The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them. (paragraph 20)

178. There is a wide variation between different credit unions in terms of size, activity and organisation, so that there can be no standard approach to internal controls and risk. In assessing whether there is a risk of material misstatement, the auditor should consider the impact of any of the factors outlined below where they come to the auditor's attention:

(i) Control Environment

- inadequate segregation of duties;
- weaknesses in "customer due diligence" procedures;
- lack of an effective board oversight committee;
- lack of an effective internal audit function;
- lack of an effective compliance officer;
- lack of an effective risk management officer;
- inadequate definition of management responsibilities and supervision of staff and contractors;
- ineffective personnel practices;
- inadequate communication of information to management;
- inadequate controls over outsourced activities (see the section on ISA (Ireland) 402 of this Guidance Note);
- non-compliance with law or with regulations or guidance issued by the Central Bank;
- products or processes inadequately understood by management; this includes insufficient expertise concerning matters requiring the exercise of significant



judgment or capable of manipulation such as valuations of financial instruments, calculations of value-in-use, or estimates of loan impairments; and

- weaknesses in back office procedures contributing to completeness and accuracy of accounting records.

(ii) Loans:

- inadequate procedures relating to loan approvals;
- lack of proper documentation of the approval process;
- failure to systematically validate security or guarantees given in respect of loans;
- failure to regularly review loan policies and related procedures;
- failure to consistently take into account the borrower's ability to repay the loan in accordance with the agreed terms and conditions;
- presence of single or lump sum repayment loans;
- rescheduling of loans to a member as a means of addressing repayment difficulties encountered in respect of the member's original loan; and
- failure to monitor the loan book on a regular basis to ensure that the specific statutory requirements governing loans in excess of stated amounts, or for longer than stated periods, are not breached.

(iii) Members' savings

- inadequate monitoring procedures relating to dormant accounts;
- failure to monitor savings levels on a regular basis and develop appropriate cash flow forecasts to ensure that the credit union's lending activities are consistent with the investment maturity profile and are not likely to give rise to liquidity concerns;
- an individual member holding more than one savings account;
- payment of appropriate dividend, and where the credit union has allocated its depositors to differing categories, based on amounts deposited, confirmation that the appropriate rate has been paid to each category and the same rate to all members of a particular category; and
- where passbooks are not issued, failure to issue statements to members on a regular basis.

(iv) Distributions

- failure to distinguish correctly between investment income receivable within twelve months and investment income receivable after more than twelve months of the balance sheet date for the purpose of declaring a dividend; and
- desire to declare a dividend in line with members' expectations regardless of income and reserve levels.

(v) Investments

- non-compliance with any regulations or guidance issued by the Central Bank regarding investments;
- lack of an adequate investment policy;
- inadequate procedures relating to making of new investments;
- failure to regularly review policies and related procedures; and
- an inactive investment committee or the absence of an investment committee.

In understanding the entity's control activities, the auditor shall obtain an understanding of how the entity has responded to risks arising from IT. (paragraph 21)

179. The auditor assesses the extent, nature and impact of automation within the credit union and plans and performs work accordingly. In particular, the auditor considers:
- the required level of IT knowledge and skills, which may be extensive and may require the auditor to obtain advice and assistance from staff with specialist skills;
  - the extent of the application of audit software and related audit techniques;
  - general controls relating to the environment within which IT-based systems are developed, maintained and operated;
  - external interfaces susceptible to breaches of security; and
  - risks arising in relation to the integration of transferee and transferor IT systems where there has been an amalgamation or transfer of engagement during the year.

The auditor shall identify and assess the risks of material misstatement at:

- (a) the financial statement level; and
- (b) the assertion level for classes of transactions, account balances, and disclosures, to provide a basis for designing and performing further audit procedures. (paragraph 25)

As part of the risk assessment as described in paragraph 25, the auditor shall determine whether any of the risks identified are, in the auditor's judgment, a significant risk. In exercising this judgment, the auditor shall exclude the effects of identified controls related to the risk. (paragraph 27)

If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk. (paragraph 29)

180. Significant risks are likely to arise in those areas that are subject to significant judgment by management or are complex and are properly understood by comparatively few people in the credit union. The risk of fraud in revenue recognition (unless rebutted) and from management override of controls are considered significant risks on all audit engagements.
181. Examples of other significant risks for credit unions requiring special audit consideration may include:
- loan impairments;
  - the valuation of buildings including value-in-use calculations and related impairments;
  - the valuation of investments and other financial instruments for which valuation techniques are required; and
  - going concern (see the section on ISA (Ireland) 570).
182. Weaknesses in the control environment and in controls such as those described above could increase the risk of fraud.

## ISA (IRELAND) 320: MATERIALITY IN PLANNING AND PERFORMING AN AUDIT

### Objective

The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit. (paragraph 8)

When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (paragraph 10)

The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. (paragraph 11)

183. The auditor exercises professional judgement in determining materiality. Judgments regarding materiality are affected by the auditor's perception of the common financial information needs of users of the credit union's financial statements. A key user-group are the members, but the auditor considers other users relevant to the particular circumstances of the credit union, such as its regulator, the Central Bank of Ireland.
184. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole.
185. The factors affecting the identification of an appropriate benchmark for determining materiality include "items on which the attention of users of the particular entity's financial statements tends to be focused"<sup>34</sup>. As described in the Introduction section of this Guidance Note, credit unions are not for profit organisations. As a consequence a difference between credit unions and many other entities is that the users of a credit union's financial statements tend to be less focused on the surplus or deficit for the financial year. Members of a credit union are likely to be concerned with the security of their funds at the credit union and the viability of the credit union. Similarly the Central Bank, another user of the financial statements of the credit union, is concerned with the stability of the credit union and the funds entrusted to it by members.
186. Bearing the common financial information needs of users in mind, the auditor exercises professional judgement to determine appropriate materiality benchmarks. Consequently the auditor of a credit union may be more likely than an auditor of a more profit-focused entity to determine that balance sheet drivers of materiality are appropriate for the audit of the financial statements. Where balance sheet drivers of materiality are considered

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<sup>34</sup> ISA (Ireland) 320, paragraph A3.

appropriate, relevant benchmarks may include a percentage applied to total assets or to regulatory reserves.

187. ISA (Ireland) 320 indicates that materiality is considered at both the overall financial statement level and, in certain circumstances of the credit union, in relation to one or more particular classes of transactions, account balances or disclosures. This can result in different materiality considerations being applied depending on the item of the financial statements being considered, for example the degree of accuracy expected in the case of certain disclosures (e.g., transactions with the board or management of a credit union may be considered to be material by nature, even if they are not material by size). If there are particular expenditure categories for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level to be applied to these expense categories.

**ISA (IRELAND) 330: THE AUDITOR'S RESPONSES TO ASSESSED RISKS (Revised August 2018)**

**Objective**

The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks. (paragraph 3)

The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls if:

- (a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively (that is, the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or
- (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level. (paragraph 8)

The auditor's substantive procedures shall include the following audit procedures related to the financial statement closing process;

- (a) Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling information in disclosures, whether such information is obtained from within or outside the general and subsidiary ledgers; and
- (b) Examining material journal entries and other adjustments made during the course of preparing the financial statements. (paragraph 20)

The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework. In making this evaluation, the auditor shall consider whether the financial statements are presented in a manner that reflects the appropriate:

- Classification and description of financial information and the underlying transactions, events and conditions; and
- Presentation, structure and content of the financial statements. (paragraph 24)

188. FRS 102 can require extensive narrative disclosures in the financial statements of some credit unions; for example, in relation to the nature and extent of risks arising from financial instruments. In designing and performing procedures to evaluate these disclosures the auditor obtains audit evidence regarding the assertions about presentation and disclosure described in paragraph A124 and A124a of ISA (Ireland) 315.

## ISA (IRELAND) 402: AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANISATION

### Objectives

The objectives of the user auditor, when the user entity uses the services of a service organization, are:

- (a) To obtain an understanding of the nature and significance of the services provided by the service organization and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement; and
- (b) To design and perform audit procedures responsive to those risks. (paragraph 7)

When obtaining an understanding of the user entity in accordance with ISA (Ireland) 315<sup>1</sup>, the user auditor shall obtain an understanding of how a user entity uses the services of a service organization in the user entity's operations, including:

- (a) The nature of the services provided by the service organization and the significance of those services to the user entity, including the effect thereof on the user entity's internal control;
- (b) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organization;
- (c) The degree of interaction between the activities of the service organization and those of the user entity; and
- (d) The nature of the relationship between the user entity and the service organization, including the relevant contractual terms for the activities undertaken by the service organization.
- (e) If the service organisation maintains all or part of a user entity's accounting records, whether those arrangements impact the work the auditor performs to fulfil reporting responsibilities in relation to accounting records that are established in law or regulation. (paragraph 9)

Footnote 1: ISA (Ireland) 315, paragraph 11.

- 189. The auditor gains an understanding of the extent of outsourced functions and their relevance to the financial statements. The credit union is obliged to ensure that the auditor has appropriate access to records, information and explanations from material outsourced operations.
- 190. In common with other industries the outsourcing of functions to third parties is becoming increasingly prevalent with credit unions, albeit to a more limited degree for the smaller credit unions. Some of the more common areas may have a direct relevance to the audit such as IT services, investment management, payroll processing services, the risk management function, the compliance function, internal audit and credit control.
- 191. Whilst a credit union may outsource functions to third parties, the responsibility for these functions remains that of the credit union. The credit union should have appropriate controls in place over these arrangements including:

- risk assessment prior to contracting with the service provider, which includes a proper due diligence and periodic review of the appropriateness of the arrangement;
- appropriate contractual agreements or service level agreements;
- contingency plans should the service provider fail in delivery of services;
- appropriate management information and reporting from the outsourced vendor;
- protection over member information; and
- rights of access for the credit union's internal auditor and the external auditor to the extent that the auditors consider necessary to carry out their respective engagements, including to test the internal controls of the service provider.

192. If the auditor is unable to obtain sufficient appropriate audit evidence concerning outsourced operations, the auditor considers whether it is necessary to report the matter directly to the Central Bank under section 122(1)(b) and/or 122(1)(e) of the CU Act 1997, as amended – see the section of this Guidance Note relating to ISA (Ireland) 250B, and whether this represents a significant deficiency in internal control.

**ISA (IRELAND) 505: EXTERNAL CONFIRMATIONS (Revised August 2018)**

Objective

The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence. (paragraph 5)

The auditor is also required to consider whether external confirmation procedures are to be performed as substantive audit procedures<sup>1</sup>. (paragraph 3)

Footnote 1: ISA (Ireland) 330 (Revised August 2018), paragraph 19.

193. The following types of balances and transactions are worthy of particular consideration:
- members' loans and savings;
  - investments held with investment managers and custodians; and
  - cash at banks.
194. Credit union members' loans and savings typically comprise high volumes of comparatively low value amounts. Members may not maintain independent records of their balances but rather depend on information provided to them by the credit union.
195. The credit union may obtain "certified" lists of investments held by custodians on a regular basis. Because these are sent directly to the credit union, they are not as conclusive as direct audit evidence. Where the auditor seeks direct confirmations from the investment custodians, arrangements should be made for such custodians to mail directly to the auditor a copy of such lists and confirmation of other matters the auditor deems appropriate.
196. Similarly, where the auditor seeks direct confirmations from banks at which the credit union has cash on deposit, the auditor ensures that arrangements are made for those banks to send confirmation of balances held directly to the auditor. Statements sent by banks to the credit union on a routine basis are not as conclusive as direct audit evidence.



## ISA (IRELAND) 520: ANALYTICAL PROCEDURES

### Objectives

The objectives of the auditor are:

- (a) To obtain relevant and reliable audit evidence when using substantive analytical procedures; and
- (b) To design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity. (paragraph 3)

The auditor shall perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion. (ISA (Ireland) 315 paragraph 5)

The risk assessment procedures shall include the following: ...

- (b) Analytical procedures. .... (ISA (Ireland) 315, paragraph 6)

The auditor shall design and perform analytical procedures near the end of the audit that assist the auditor when forming an overall conclusion as to whether the financial statements are consistent with the auditor's understanding of the entity. (paragraph 6)

If analytical procedures performed in accordance with this ISA (Ireland) identify fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount, the auditor shall investigate such differences by:

- (a) Inquiring of management and obtaining appropriate audit evidence relevant to management's responses; and
- (b) Performing other audit procedures as necessary in the circumstances. (paragraph 7)

197. Credit unions are required to submit quarterly prudential returns to the Central Bank which contain a comprehensive range of information and data which may assist the auditor by providing an indication of trends and current ratios. In addition, detailed internal financial information produced for directors and management may provide a valuable source of evidence.
198. Examples of key performance measurements which the auditor may wish to consider in carrying out analytical procedures on a credit union's results and balance sheet are as follows:
  - regulatory reserve ratios;
  - total realised reserve ratio (including surpluses/deficits);
  - annualised return on assets;
  - loan to asset ratio;
  - liquidity;
  - dividends;
  - investment yield;
  - loan interest yield;

- A1 arrears (loans in arrears over 9 weeks) over total loans;
- loan impairments to net loans;
- percentage of loan book written off;
- average loan duration (months);
- savings trends;
- cost to income ratio; and
- lending ratios pursuant to section 35 of the CU Act 1997, as amended.

199. Analytical procedures the auditor may wish to perform include, but are not limited to:

- reviewing total loan interest earned from members' borrowings and comparing with the average monthly outstanding balance for the year taken at the prevailing interest rate;
- comparing the dividends proposed on members' shares with the credit union and testing against the average monthly share balance;
- comparing total payroll costs with previous years and obtaining explanations of variations;
- comparing the financial statements with budgets, forecasts, or management expectations;
- considering whether the financial statements adequately reflect any changes in the scope and nature of the credit union's activities of which the auditor is aware;
- enquiring into unexplained or unexpected features of the financial statements; and
- where industry information is available, for example PEARLS reports, this may be used to benchmark income, resources and expenditure against other credit unions.

200. When performing a review of the financial statements as a whole for consistency with the auditor's knowledge of the credit union's activities and the results of other audit procedures, the auditor considers transactions occurring either side of the year end, including:

- loan repayments which are received shortly before the year end then re-advanced shortly afterwards; material sale and repurchase transactions or other financing or linked transactions. Experience and judgment are required to identify and assess the implications, if any, of these transactions. They may, for example, be indicative of "window dressing" of the balance sheet over the year end date;
- other transactions around the year end, apparently at rates which are significantly off market including those that appear or give rise to significant profits or losses;
- the material rescheduling of loans;
- loans written off; and
- the reclassification of balances and transactions to achieve advantageous income recognition and balance sheet treatment/presentation.

201. Where non-financial information or reports produced from systems or processes outside the financial statements accounting system are used in analytical procedures, the auditor considers the need to perform procedures to obtain audit evidence about the reliability of that information or those reports.

**ISA (IRELAND) 540: AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES (Revised December 2018)**

**Objective**

The objective of the auditor is to obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework. (paragraph 11)

As required by ISA (Ireland) 330 (Revised August 2018)<sup>1</sup>, the auditor's further audit procedures shall be responsive to the assessed risks of material misstatement at the assertion level<sup>2</sup>, considering the reasons for the assessment given to those risks. The auditor's further audit procedures shall include one or more of the following approaches:

- (a) Obtaining audit evidence from events occurring up to the date of the auditor's report (see paragraph 21);
- (b) Testing how management made the accounting estimate (see paragraphs 22-27); or
- (c) Developing an auditor's point estimate or range (see paragraphs 28-29).

The auditor's further audit procedures shall take into account that the higher the assessed risk of material misstatement, the more persuasive the audit evidence needs to be<sup>3</sup>. The auditor shall design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (paragraph 18)

As required by ISA (Ireland) 330 (Revised August 2018)<sup>4</sup>, the auditor shall design and perform tests to obtain sufficient appropriate audit evidence as to the operating effectiveness of the relevant controls, if:

- (a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively, or
- (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

In relation to accounting estimates, the auditor's tests of such controls shall be responsive to the reasons for the assessment given to the risks of material misstatement. In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control<sup>5</sup>. (paragraph 19)

For a significant risk relating to an accounting estimate, the auditor's further audit procedures shall include tests of controls in the current period if the auditor plans to rely on those controls. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details<sup>6</sup>. (paragraph 20)

Footnotes:

<sup>1</sup> ISA (Ireland) 330 (Revised August 2018), paragraphs 6-15 and 18.

<sup>2</sup> ISA (Ireland) 330 (Revised August 2018), paragraphs 6-7 and 21.

<sup>3</sup> ISA (Ireland) 330 (Revised August 2018), paragraph 7(b).

<sup>4</sup> ISA (Ireland) 330 (Revised August 2018), paragraph 8.

<sup>5</sup> ISA (Ireland) 330 (Revised August 2018), paragraph 9.

<sup>6</sup> ISA (Ireland) 330 (Revised August 2018), paragraphs 15 and 21.

When testing how management made the accounting estimate, the auditor's further audit procedures shall include procedures, designed and performed in accordance with paragraphs 23-26, to obtain sufficient appropriate audit evidence regarding the risks of material misstatement relating to:

- (a) The selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate; and
- (b) How management selected the point estimate and developed related disclosures about estimation uncertainty. (paragraph 22)

When the auditor develops a point estimate or range to evaluate management's point estimate and related disclosures about estimation uncertainty, including when required by paragraph 27(b), the auditor's further audit procedures shall include procedures to evaluate whether the methods, assumptions or data used are appropriate in the context of the applicable financial reporting framework. Regardless of whether the auditor uses management's or the auditor's own methods, assumptions or data, these further audit procedures shall be designed and performed to address the matters in paragraphs 23-25. (paragraph 28)

202. This Guidance Note provides guidance to auditors of credit unions on the application of ISA (Ireland) 540 (Revised December 2018). This ISA (Ireland) is effective for audits of financial statements for periods beginning on or after 15 December 2019. Early adoption is permitted but not mandatory. If the auditor chooses not to apply ISA (Ireland) 540 (Revised December 2018) for earlier accounting periods, the auditor is required to comply with the requirements of ISA (Ireland) 540 (which was adopted by IAASA on 31 January 2017), which have not been reproduced here.
203. Accounting estimates are used for valuation purposes in a number of areas; the most common examples in a credit union are loan impairments, the valuation of buildings and impairments of buildings and the valuation of investments not traded on an active market. Such estimates may represent significant risks.
204. While the Central Bank may issue guidance to credit unions in order to calculate loan impairments<sup>35</sup>, the auditor's procedures must address whether the method used to calculate the provision is appropriate and the related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework. Paragraph A2 of ISA (Ireland) 540 (Revised December 2018) states that "A method is a measurement technique used by management to make an accounting estimate in accordance with the required measurement basis".
205. When testing how management made the accounting estimate in respect of loan impairments, the auditor's procedures should address whether the methods, significant assumptions and data used by management in arriving at their estimate of loan impairments are appropriate in the context of the applicable financial reporting framework. In particular, the auditor should evaluate:
  - the application of the method selected;
  - the significant assumptions underpinning the loan impairment model and whether they are consistent with each other and with those used in other accounting estimates, or with related assumptions used in other areas of the credit union's business activities;

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<sup>35</sup> For example, the Central Bank's Provisioning Guidelines for Credit Unions, issued in April 2018.

- management’s judgments and assumptions regarding those loan categories which may have higher credit risk characteristics. Categories of loans which are likely to have higher risk characteristics include, but are not limited to, large loans, certain secured loans such as mortgages, commercial loans, rescheduled loans and lump sum loans. Other categories of loans which may have higher credit risk characteristics include:
  - loans with a repayment frequency which is longer than monthly;
  - loans with temporary arrangements;
  - interest only loans;
  - loans to members in arrears;
  - loans with multiple top-ups; and
  - loans with multiple share to loan transfers;
- the data used in the calculation; and
- whether the judgements made in selecting the model give rise to indicators of management bias.

206. The valuation of financial instruments which are not traded in an active market and so for which valuation techniques are required is an activity that can give rise to significant audit risk. Such valuation techniques may include, but are not limited to, discounted cash flow models or by reference to other instruments that are substantially the same as the financial instrument subject to valuation. Controls that may address the risk of material misstatement in the valuation of financial instruments and substantive testing that the auditor may focus on include:

- controls over the approval of the valuation technique;
- the procedures used by the credit union in applying the valuation model;
- the sourcing and appropriateness of the data and other parameters used in the valuation model;
- the appropriateness and validity of the classification of instruments designated as not being traded in an active market in light of best market practice; and
- the reasonableness of the valuation technique applied to particular financial instruments. The auditor may consider benchmarking the valuation methodologies and assumptions used by management to other entities holding comparable financial instruments. However, the availability and comparability of sufficiently detailed data will need to be considered for each case.

The auditor also considers whether the overall valuation of financial instruments appears reasonable based on the auditor’s knowledge including the valuations used by other entities, market trends and other relevant price indicators.

207. The auditor challenges the assumptions of management in relation to any calculation of value-in-use in respect of credit union buildings. The value-in-use calculation should be supported by realistic assumptions aligned with financial projections derived from achievable and realistic business objectives and business activity levels which are consistent with the credit union’s strategic plan.

208. If the accounting estimates adopted by a credit union indicates a pattern of optimism or pessimism, this may be evidence of management bias. The auditor takes this into consideration when evaluating the audit evidence obtained.

## ISA (IRELAND) 550: RELATED PARTIES

### Objectives

The objectives of the auditor are:

- (a) Irrespective of whether the applicable financial reporting framework establishes related party requirements, to obtain an understanding of related party relationships and transactions sufficient to be able:
  - (i) To recognize fraud risk factors, if any, arising from related party relationships and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud; and
  - (ii) To conclude, based on the audit evidence obtained, whether the financial statements, insofar as they are affected by those relationships and transactions:
    - a. Achieve fair presentation (for fair presentation frameworks); or
    - b. Are not misleading (for compliance frameworks); and
- (b) In addition, where the applicable financial reporting framework establishes related party requirements, to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements in accordance with the framework. (paragraph 9)

In meeting the ISA (Ireland) 315 requirement to identify and assess the risks of material misstatement<sup>1</sup>, the auditor shall identify and assess the risks of material misstatement associated with related party relationships and transactions and determine whether any of those risks are significant risks. In making this determination, the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks. (paragraph 18)

Footnote 1: ISA (Ireland) 315, paragraph 25.

- 209. The principles and procedures set out in ISA (Ireland) 550 apply to the audit of credit unions as for other undertakings. Related party transactions which are likely to arise include savings held by and/or loans to directors or members of the board oversight committee of the credit union.
- 210. Related party transactions are defined in FRS 102, Section 33. Under that section the financial statements should disclose the nature of related party relationships, including those with directors and other key management personnel, as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship(s) on the credit union's financial statements. Items of a similar nature may be disclosed in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements. Close family members of directors and key management personnel are also considered to be related parties. The disclosure of related parties required for the financial statements is not to be confused with the disclosures regarding "connected persons" which are required for prudential returns and are not subject to audit.
- 211. The auditor enquires as to the procedures, required under the rules of the individual credit union, governing the authorisation, recording and monitoring of any related party transactions. The auditor assesses the operation of those procedures during the financial year and considers whether appropriate disclosure has been made in the financial statements.

212. Section 69 of the CU Act 1997, as amended, sets out rules regarding conflicts of interest including a requirement for a credit union to maintain a register of declared conflicts of interest of officers. A review of this register may assist the auditor with the identification of related parties and related party transactions.
213. Regulation 47 of the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 requires that credit unions disclose, in their financial statements, the total amount of loans outstanding to related parties and the loans to such persons as a percentage of the total loans outstanding. The definition of related parties for the purposes of these disclosures differs from that in FRS 102 for the disclosures required under that standard. Related parties are defined in the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 as:
- (a) “a member of the board of directors or the management team of a credit union;
  - (b) a member of the family of a member of the board of directors or the management team of a credit union; or
  - (c) a business in which a member of the board of directors or the management team of a credit union has a significant shareholding.”

## ISA (IRELAND) 560: SUBSEQUENT EVENTS

### Objectives

The objectives of the auditor are:

- (a) To obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework; and
- (b) To respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report. (paragraph 4)

The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. (paragraph 6)

214. Matters specific to credit unions which the auditor may consider in the review of subsequent events include:

- an evaluation of material loans and other receivables identified as being in default or potential default at the year-end to provide additional evidence concerning year end loan impairment provisions;
- the accounting treatment of dividends declared after the year end<sup>36</sup>; and
- a review of correspondence with the Central Bank and enquiries of directors and management to determine whether any significant breaches of laws and regulations or other significant regulatory concerns have come to light since the year end.

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<sup>36</sup> FRS 102 Section 32, paragraph 32.8.



## ISA (IRELAND) 570: GOING CONCERN

### Objectives

The objectives of the auditor are:

- (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;
- (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- (c) To report in accordance with this ISA (Ireland). (paragraph 9)

When performing risk assessment procedures as required by ISA (Ireland) 315<sup>1</sup>, the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and:

- (a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them; or
- (b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern basis of accounting, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. (paragraph 10)

The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (paragraph 11)

Footnote 1: ISA (Ireland) 315, 'Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment', paragraph 5.

If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include:

- (a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
- (b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances.
- (c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future action:
  - (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and
  - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.
- (d) Considering whether any additional facts or information have become available since the date on which management made its assessment.
- (e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans. (paragraph 16)

215. Section 110(1)(a) of the CU Act 1997, as amended, requires that the amounts to be included in the financial statements of a credit union are to be on the basis that the credit union shall be presumed to be carrying on business as a going concern. Under section 122(1) of the CU Act 1997, as amended, where the auditor has reason to believe that there exist circumstances which are likely to affect materially the ability of the credit union to fulfil its obligations to its members, or meet any of its obligations under that Act then the auditor shall report this in writing to the Central Bank without delay. More detailed guidance on the procedures to be followed in such circumstances is set out in the section of this Guidance Note addressing ISA (Ireland) 250B.

216. In reviewing going concern, the auditor may consider the following areas, and others as considered appropriate, in addition to those set out in ISA (Ireland) 570:

- capital adequacy and regulatory reserve ratios – review of management's analysis and rationale for ensuring that the credit union is capable of maintaining adequate financial resources in excess of the minimum;
- key assumptions underlying budgets and/or forecasts – consideration of whether they appear appropriate in the circumstances. Key assumptions will normally include, but are not limited to, lending projections, investment performance, volume of new business and provision levels required;
- liquidity indicators – review of the credit union's liquidity management process for signs of undue deterioration;
- loan to asset ratio;
- inability to pay a dividend;
- yields on investments;

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- trends in lending volumes – a marked decline in new lending volumes during the year or subsequently may indicate going concern difficulties;
- yields on loans to members;
- trends in loan defaults – a significant increase in or excessive exposure to troubled industry sectors may indicate cause for concern;
- frequency of breaches of lending limits;
- cost to income ratio;
- trends in levels of members' savings;
- the strategic plan of the credit union; and
- reputational and other indicators – review of the financial press and other sources of market intelligence for evidence of deteriorating reputation, review of correspondence with the Central Bank.

**ISA (IRELAND) 580: WRITTEN REPRESENTATIONS (Updated December 2018)**

Objectives

The objectives of the auditor are:

To obtain written representations from management and, where appropriate, those charged with governance that they believe that they have fulfilled their responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor;

- (a) To support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representations if determined necessary by the auditor or required by other ISAs (Ireland); and
- (b) To respond appropriately to written representations provided by management and, where appropriate, those charged with governance, or if management or, where appropriate, those charged with governance do not provide the written representations requested by the auditor. (paragraph 6)

The auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned. (paragraph 9)

Other ISAs (Ireland) require the auditor to request written representations. If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, the auditor shall request such other written representations. (paragraph 13)

217. ISA (Ireland) 250A and ISA (Ireland) 550 require the auditor to obtain written confirmation in respect of completeness of disclosure to the auditor of:
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements; and
  - the completeness of information provided regarding the identification of related parties and the adequacy of related party disclosures in the financial statements.
218. In addition to the examples of other representations given in ISA (Ireland) 580, the auditor also considers obtaining confirmation:
- as to the adequacy of provisions for loan impairment (including provisions relating to individual loans if material) and the reasonableness of other accounting estimates (such as investment valuations or adequate provisions for liabilities);
  - that assumptions underlying significant accounting estimates are aligned with financial projections derived from achievable and realistic business objectives and activity levels which are consistent with the credit union strategic plan;
  - that all contingent transactions or commitments have been adequately disclosed and/or included in the balance sheet as appropriate; and
  - that all correspondence with the Central Bank and industry representative bodies has been made available to the auditor.

## ISA (IRELAND) 610: USING THE WORK OF INTERNAL AUDITORS

### Objectives

The objectives of the external auditor, where the entity has an internal audit function and the external auditor expects to use the work of the function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, or to use internal auditors to provide direct assistance, are:

(a) To determine whether the work of the internal audit function or direct assistance from internal auditors can be used, and if so, in which areas and to what extent; and having made that determination:

(b) If using the work of the internal audit function, to determine whether that work is adequate for purposes of the audit. (paragraph 13)

The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (Ireland). For a group audit this prohibition extends to the work of any component auditor which is relied upon by the group auditor, including for overseas components. Accordingly, the requirements and related application material in this ISA (Ireland) relating to direct assistance are not applicable.<sup>1</sup> (paragraph 5-1)

Footnote 1: The non-applicable requirements are those set out in paragraphs 27-35 and 37. The non-applicable application material is that set out in paragraphs A32-A41.

219. ISA (Ireland) 610 deals with the external auditor's responsibilities if using the work of internal auditors. It addresses the external auditor's responsibilities when, based on the external auditor's preliminary understanding of the internal audit function obtained as a result of procedures performed under ISA (Ireland) 315, the external auditor expects to use the work of the internal audit function as part of the audit evidence obtained. Such use of that internal audit work modifies the nature or timing, or reduces the extent, of audit procedures to be performed directly by the external auditor. The internal audit function cannot be used to provide direct assistance to the external auditor. The external auditor retains sole responsibility for the opinion on the financial statements of the credit union. The use of the work of the internal audit function is restricted to procedures that involve limited judgment.
220. CUCORA 2012 introduced the requirement for all credit unions in Ireland to have an internal audit function<sup>37</sup> to provide for independent internal oversight and to evaluate and improve the effectiveness of the credit union's risk management, internal controls and governance processes.
221. While some credit unions have established an in-house internal audit function, there are many credit unions where the internal audit function is outsourced.
222. The external auditor of a credit union might use the work of the internal audit function in relation to areas of low risk involving limited judgments including, but not limited to:
- testing the operating effectiveness of controls;
  - substantive procedures involving limited judgments, such as testing of bank reconciliations;

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<sup>37</sup> Section 76K of the CU Act 1997, as amended.

- observations of cash counts;
- tracing transactions through the information system relevant to financial reporting, such as loan and share transactions; and
- testing of compliance with regulatory requirements.

The auditor does not use the work of the internal auditor in areas where significant judgment is required including:

- assessing the appropriateness of management's estimates of loan impairments, building impairments or valuation of investments;
- evaluating the appropriateness of management's use of the going concern assumption; and
- evaluating significant accounting policies.

**ISA (IRELAND) 700: FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS  
(Updated December 2018)**

Objectives

The objectives of the auditor are:

- (a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
- (b) To express clearly that opinion through a written report. (paragraph 6)

The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework<sup>1,2</sup>. (paragraph 10)

In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account;

- (a) The auditor's conclusion, in accordance with ISA (Ireland) 330, whether sufficient appropriate audit evidence has been obtained<sup>3</sup>;
- (b) The auditor's conclusion, in accordance with ISA (Ireland) 450, whether uncorrected misstatements are material, individually or in aggregate<sup>4</sup>; and
- (c) The evaluations required by paragraph 12-15. (paragraph 11)

Footnotes:

1. ISA (Ireland) 200, paragraph 11.

2. Paragraphs 25-26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

3. ISA (Ireland) 330, The Auditor's Responses to Assessed Risks, paragraph 26.

4. ISA (Ireland) 450, Evaluation of Misstatements Identified during the Audit, paragraph 11.

223. The form and content of the auditor's report on the financial statements of a credit union follows the basic principles and procedures established by ISA (Ireland) 700. An illustrative example of an auditor's report on the financial statements of a credit union is included in Appendix 1 of this Guidance Note.

224. As noted in the Introduction, the auditor is bound by the duties imposed by the CU Act 1997, as amended. These require the auditor, in preparing the auditor's report, to carry out such investigations as will enable the auditor to form an opinion on:

- (a) whether the credit union has kept proper accounting records;
- (b) whether the credit union has maintained a satisfactory system of control over its business and records.

If the auditor is of the opinion that the credit union has failed to comply with any of the requirements of (a) or (b) above then the auditor must state that fact in the auditor's report.

225. If references to inadequate records or systems of internal control under the relevant legislation are included in the auditor's report, consideration is given by the auditor to a qualification on the grounds of limitation of the scope of the work that the auditor was able to perform.

226. If any significant matters of concern have arisen during the audit of a credit union, the auditor considers whether there is a need to report the matter to the Central Bank (see the section on ISA (Ireland) 250B of this Guidance Note).
227. The auditor signs and dates the auditor's report only after the audited financial statements and all the other information which form part of the annual report in which the financial statements are presented have been approved by those charged with governance and the auditor has considered all the necessary available evidence. Further guidance in relation to the auditor's responsibilities in relation to other information is set out in the section of this Guidance Note on ISA (Ireland) 720.



**ISA (IRELAND) 705: MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT**

Objective

The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:

- (a) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatements; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. (paragraph 4)

228. If the auditor of a credit union decides to include a qualification in the auditor's report, written notice of that fact must be given to the Central Bank as required by section 122(1)(d) of the CU Act 1997, as amended. The decision to give written notice of a qualification will be taken only after extensive discussions with directors and management, and when either a problem cannot be resolved or the circumstances indicate that the auditor intends to issue a qualified opinion.
229. The auditor is required to express an opinion on whether the financial statements have been properly prepared in accordance with the CU Act 1997, as amended. If the auditor concludes that the law has not been complied with in relation to the preparation of the financial statements, the auditor issues an adverse opinion together with the substantive reasons (normally provided by means of a cross reference to the notes to the financial statements where the issue is described in detail) and, unless impracticable, a quantification of the possible effect(s) on the financial statements.
230. Where the auditor is uncertain as to whether or not the financial statements have been prepared in accordance with the law, the auditor's report describes the limitation of scope (i.e. the uncertainty regarding the appropriate interpretation of the CU Act 1997, as amended) in the basis for modified audit opinion section of the report and expresses an opinion that 'we were unable to determine whether the financial statements have been properly prepared in accordance with the Credit Union Act 1997, as amended'.

## ISA (IRELAND) 720 – THE AUDITOR’S RESPONSIBILITIES RELATING TO OTHER INFORMATION

### Objectives

The objectives of the auditor, having read the other information, are:

- (a) To consider whether there is a material inconsistency between the other information and the financial statements;
- (b) To consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained in the audit;
- (c) To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated;
- (c) -1 Where required by law or regulation, to form an opinion on whether the information given in the other information is consistent with the financial statements and the auditor’s knowledge obtained in the audit; and
- (d) To report in accordance with this ISA (Ireland). (paragraph 11)

### Definition

Other information – Financial or non-financial information (other than financial statements and the auditor’s report thereon) included in an entity’s annual report. (paragraph 12(c))

If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with the management and, if necessary, perform other procedures to conclude whether:

- (a) A material misstatement of the other information exists;
- (b) A material misstatement of the financial statements exists; or
- (c) The auditor’s understanding of the entity and its environment needs to be updated (paragraph 16)

If the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:

- (a) Agrees to make the correction, the auditor shall determine the correction has been made; or
- (b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made. (paragraph 17)

231. The auditor is not responsible for auditing the additional information. ISA (Ireland) 720 does not require the auditor to undertake additional procedures to corroborate other information in documents containing audited financial statements but rather to read the other information in the context of the knowledge the auditor has obtained during the audit.
232. The auditor does not allow the auditor’s report to be included in documents containing other information if the auditor considers that the additional information is in conflict with the matters covered by the report or has cause to believe it to be misleading. In a situation where the auditor concludes a material misstatement exists which will not be corrected, the auditor shall consider the implications for the auditor’s report and may wish to consider the need to withdraw from the engagement.

233. It is important to ensure that the directors are made aware of the auditor's responsibilities in respect of the other information, as set out in ISA (Ireland) 720, and the extent of those responsibilities is specifically dealt with in the engagement letter.
234. All other information must be read. The auditor's report identifies the other information which has been read for consistency, either by reference to the published annual report as a whole or by separately itemising the reports read by the auditor and published with the auditor's report and the financial statements.
235. The information which may accompany the financial statements of a credit union includes:
- directors' report;
  - board oversight committee report;
  - manager's report;
  - credit committee report;
  - credit control report;
  - membership committee report;
  - nominations committee report; and
  - financial highlights for previous years.
236. The directors may also distribute other documents with the annual report such as newsletters, new rules booklets, statements of member's balances of loans and/or shares in the credit union. The auditor has no responsibility to consider these documents.

## APPENDIX 1 – ILLUSTRATIVE AUDITOR’S REPORT ON FINANCIAL STATEMENTS FOR A CREDIT UNION

### **INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF [CREDIT UNION NAME]**

#### **Report on the audit of the financial statements**

##### ***Opinion***

We have audited the financial statements of [name] (‘the Credit Union’) for the year ended [date], which comprise the [insert names of each statement comprising the financial statements]<sup>38</sup> and notes to the financial statements, including the summary of significant accounting policies<sup>39</sup> set out in note [ ]. The financial reporting framework that has been applied in their preparation is Irish Law and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

In our opinion the financial statements:

- give a true and fair view of the state of the Credit Union’s affairs as at 30 September [20XX] and of its income and expenditure [and cashflows] for the year then ended;
- have been properly prepared in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been properly prepared in accordance with the requirements of the Credit Union Act 1997, as amended.

##### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are [further] described [below] [in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report.] We are independent of the Credit Union in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard for Auditors (Ireland) issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### ***Conclusions relating to going concern***

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate: or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Credit Union’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### ***Other information***

The directors are responsible for the other information. The other information comprises the information included in the [annual report] [other title] other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the

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<sup>38</sup> ISA (Ireland) 700 requires the specific names of the component elements of the financial statements to be given (paragraph 24 (c)). Page numbers are neither sufficient nor required. The terms used to describe the primary financial statements should be the same as those used by the directors.

<sup>39</sup> Required by ISA (Ireland) 700 paragraph 24(d).

financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

***Opinions on other matters prescribed by the Credit Union Act 1997, as amended***

Based solely on the work undertaken in the course of the audit, we report that:

- we have obtained all the information and explanations which we consider necessary for the purposes of our audit;
- in our opinion proper accounting records have been kept by the Credit Union, and
- the financial statements are in agreement with the accounting records.

**Respective responsibilities**

***Responsibilities of directors for the financial statements***

As explained more fully in the directors' responsibilities statement set on page [ ], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Credit Union's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Credit Union or to cease operations, or has no realistic alternative but to do so.

***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Further details relating to our work as auditor is set out in the Scope of Responsibilities Statement contained in the appendix of this report, which is to be read as an integral part of our report.<sup>40</sup>

[Or alternatively to the above:

**Option A** - [A further description of our responsibilities for the audit of the financial statements is located on IAASA's website at: <http://iaasa.ie/Publications/Auditing-standards/International-Standards-on-Auditing-for-use-in-Ire/Description-of-the-auditor-s-responsibilities-for>

**Option B** – [Include the full detail of the appendix to the report within the report here.]]

***The purpose of our audit work and to whom we owe our responsibilities***

Our report is made solely to the Credit Union's members, as a body, in accordance with section 120 of the Credit Union Act 1997, as amended. Our audit work has been undertaken so that we might state to the Credit Union's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Credit Union and the Credit Union's members, as a body, for our audit work, for this report, or for the opinions we have formed.

***Firm Signature***

**Statutory Audit Firm**

[Address]

[Date]

**Appendix to the Independent Auditor's Report**

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<sup>40</sup> Inclusion of the Appendix in full (and without modification) is necessary to meet the requirements of ISA (Ireland) 700.

***Further information regarding the scope of our responsibilities as auditor***

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Credit Union's financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Credit Union's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Credit Union to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation (i.e. gives a true and fair view).

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## APPENDIX 2 – LIST OF LEGISLATION, REGULATION AND GUIDANCE RELEVANT TO CREDIT UNIONS

This appendix lists the legislation and Central Bank guidance applicable to credit unions. It is not an exhaustive list and is not a substitute for reference to the full text of relevant requirements. It reflects legislation in effect at 31 March 2019, which may be subject to change after that date.

### Primary Legislation

- Credit Union Act 1997
- Credit Union and Co-operation with Overseas Regulators Act 2012
- Central Bank and Credit Institutions (Resolution) Act 2011
- Central Bank Act 1942
- Central Bank Act 1997
- Central Bank and Financial Services Authority of Ireland Act 2003
- Central Bank and Financial Services Authority of Ireland Act 2004
- Central Bank Reform Act 2010
- Central Bank (Supervision and Enforcement) Act 2013
- Criminal Justice Act 2013
- Criminal Justice (Money Laundering and Terrorist Financing) Acts 2010 to 2018
- Criminal Justice (Theft and Fraud Offences) Act 2001
- Data Protection Acts 1988 to 2018
- Finance Act 2001 [Sections 33 and 57 of the Finance Act 2001]
- Investment Intermediaries Acts 1995<sup>41</sup>

### Statutory Instruments (CU Act 1997, as amended)

- Credit Union Act 1997 (Commencement) Order 1997 S.I. No. 403/1997
- Credit Union Act 1997 (Commencement) Order 2001 S.I. No. 378/2001
- Credit Union Act 1997 (Exemption from Additional Services Requirements) Regulation 2004 S.I. No. 223/2004
- Credit Union Act 1997 (Alteration of Financial Limits) Regulations 2006 S.I. No. 546/2006
- Credit Union Act 1997 (Exemption from Additional Services Requirements) Regulations 2007 S.I. No. 107/2007
- Credit Union Act 1997 (Exemption from Additional Service Requirements) (Amendment) Regulations 2007 S.I. No. 838/2007
- Central Bank Reform Act 2010 (Procedures Governing the Conduct of Investigations) Regulations 2012 S.I. No. 56/2012
- Central Bank Reform Act 2010 (Application of Part 3 to Credit Unions) Order 2012 S.I. No. 378/2012
- Credit Union and Co-operation with Overseas Regulators Act 2012 (Commencement of Certain Provisions) Order 2013 S.I. No. 280/2013

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<sup>41</sup> This legislation only applies where a credit union also has an additional authorisation under this legislation.

## Irish Auditing & Accounting Supervisory Authority

- Credit Union and Co-operation with Overseas Regulators Act 2012 (Commencement of Certain Provisions) (No.2) Order 2013 S.I. No. 393/2013
- Central Bank Reform Act 2010 (Sections 20 and 22 – Credit Unions) Regulations 2013 S.I. No. 171/2013
- Credit Union and Co-operation with Overseas Regulators Act 2012 (Commencement of Certain Provisions) Order 2014 S.I. No. 99/2014
- Central Bank Reform Act 2010 (Sections 20 and 22 – Credit unions that are also authorised as retail intermediaries) Regulations 2015 S.I. No. 97/2015
- Credit Union and Co-operation with Overseas Regulators Act 2012 (Commencement of Certain Provisions) Order 2015 S.I. No. 584/2015
- Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 S.I. No. 1/2016
- Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2018 S.I. No. 32/2018
- Credit Union Fund (Stabilisation) Levy Regulations 2018 S.I. No. 441/2018
- Central Bank Reform Act 2010 (Sections 20 and 22 – Credit Unions) (Amendment) Regulations 2018 S.I. No. 187 of 2018

### Other Statutory Instruments

- Trustee (Authorised Investments) Order 1998 S.I. No 28/1998
- Trustee (Authorised Investments) Order 1998 (Amendment) Order 2002 S.I. No 595/2002
- Central Bank and Financial Services Authority of Ireland Act 2003 (Commencement of Certain Provisions) Order 2003 S.I. No. 160/2003
- Central Bank and Financial Services Authority of Ireland Act 2003 (Commencement) Order (No.1) 2004 S.I. No. 454/2004
- Central Bank and Financial Services Authority of Ireland Act 2004 (Commencement) Order 2004 S.I. No. 455/2004
- Central Bank and Financial Services Authority of Ireland Act 2004 (Commencement) Order 2004 Order (No. 2) 2004 S.I. No. 760/2004
- European Communities (Consumer Credit Agreements) Regulations 2010 S.I. No. 281/ 2010
- Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2015 S.I. No. 47/2015
- Central Bank (Supervision and Enforcement) Act 2013 (Section 48(1)) Minimum Competency Regulations 2017 S.I. No. 391 of 2017

### Central Bank Requirements

- Fitness and Probity Standards for Credit Unions (Code issued under Section 50 of the Central Bank Reform Act 2010) – 2015
- Section 35 – Regulatory Requirements for Credit Unions – October 2013
- Consumer Protection Code 2012



- Minimum Competency Code 2017

#### Guidance issued by the Central Bank

The Credit Union Handbook – the handbook was developed by the Central Bank in July 2013 and has been amended as appropriate since that date to reflect changes in regulation and legislation. The purpose of the Credit Union Handbook is to assist credit unions by bringing together in one place a number of legal and regulatory requirements and guidance that apply to credit unions, arising from their authorisation as credit unions. Guidance notes for credit unions issued by the Central Bank are generally included in the Credit Union Handbook.

#### Other Guidance

- Guidelines on the Prevention of the Use of the Financial System for the Purpose of Money Laundering and Terrorist Financing – February 2012<sup>42</sup>
- Guidance Notes on Compliance with the Criminal Justice (Money Laundering and Terrorist Financing) Act 2010 Part II Sectoral Guidance Note for Credit Unions – January 2013<sup>42</sup>
- European Banking Authority (EBA) Guidelines on the Security of Internet Payments<sup>43</sup>
- Central Bank report on Anti-money Laundering/Countering the Financing of Terrorism and Financial Sanctions Compliance in the Irish Credit Union Sector – May 2015

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<sup>42</sup> These Guidance Notes are available on the Department of Finance website [www.finance.gov.ie](http://www.finance.gov.ie)

<sup>43</sup> A link to these guidelines has been included in the Operational Risk chapter of the Credit Union Handbook and was circulated to credit unions in May 2015. <https://www.eba.europa.eu/documents/10180/934179/EBA-GL2014-12+%28Guidelines+on+the+security+of+internet+payments%29+Rev1>

### APPENDIX 3 – MEETINGS WITH THE CENTRAL BANK

1. The legal and regulatory framework relating to credit unions and their auditors provides for information sharing, in certain circumstances, between the Central Bank and the auditor of a credit union. For example, under section 122(4) of the CU Act 1997, as amended, the Central Bank may request an auditor of a credit union to provide it with “such information as it may specify in relation to the audit of the business of the credit union.” Also, the Central Bank considers informing the auditor of factors which may be relevant to the auditor’s functions where there is no prohibition, either in statute or in the common law, relating to confidentiality. Information sharing between the Central Bank and the auditor of a credit union is sometimes facilitated through face to face meetings. The “Protocol between the Central Bank of Ireland and the Auditors of Regulated Financial Service Providers” (‘the Auditor Protocol’), issued by the Central Bank in 2013, provides clear parameters for such meetings.
2. The scope of the Auditor Protocol extends to all meetings between the Central Bank and auditor and covers bilateral and trilateral meetings.

*Trilateral meetings* – Trilateral meetings can take place between the Central Bank, the auditor and those charged with governance of the credit union. The Auditor Protocol strongly suggests that the regulated entity is represented in trilateral meetings by the chairperson of the audit committee, if there is an audit committee in place. Where the Central Bank decides to request a trilateral meeting it will usually be at the planning stage of the audit and the meeting should cover all issues that the parties consider may be of interest to the other parties in carrying out their statutory or fiduciary functions.

*Bilateral meetings* – Bilateral meetings may take place between the Central Bank and the auditor of the credit union. The frequency of bilateral meetings will be determined by the impact category of the credit union under the PRISM engagement model.

3. In discussing issues in the course of a bilateral meeting, the auditor considers carefully the nature and extent of information to be provided to the Central Bank taking into account:
  - the auditor’s duty of confidentiality to the credit union concerned and the fact that the credit union itself has primary responsibility for the provision of information required by the Central Bank; and
  - whether the matters concerned fall within the protection available to them in responding to questions from the Central Bank.
4. Meetings between the Central Bank and auditor are covered by a provision in section 58 of the Central Bank (Supervision and Enforcement) Act 2013 relating to the limitation of liability in the reporting of certain matters. If uncertainty exists as to whether particular information may be disclosed to the Central Bank, the auditor may defer discussion of the relevant matter raised in order to consider whether the protection afforded by section 58 of the Central Bank (Supervision and Enforcement) Act 2013 applies and may, if considered appropriate, take legal advice. In general terms, however, auditors who provide information to the Central Bank in response to questions from the Central Bank have effective protection from breach of confidentiality provided that:
  - the information relates to a matter of which the auditor became aware in his or her capacity as auditor of the credit union or is the auditor’s opinion of such a matter; and
  - the auditor is acting in good faith; and

- the auditor has reasonable grounds for believing that the information or opinion is relevant to the functions of the Central Bank.
5. It is expected that bilateral and trilateral meetings under the Auditor Protocol will be attended by the audit engagement partner. Matters communicated by the Central Bank during these meetings may be conveyed by the audit engagement partner and representatives of the audit firm who attended the meeting to other partners and staff who need to know the information in connection with the firm's performance of its duties as auditor without the Central Bank's permission. Information which the auditor receives from the Central Bank in a bilateral meeting remains confidential in the hands of the auditor<sup>44</sup>.

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<sup>44</sup> ISA (Ireland) 250B, paragraph A44.

## APPENDIX 4 – ILLUSTRATIVE WORDING OF A STATUTORY DUTY CONFIRMATION TO THE CENTRAL BANK

Title: Head of Function (relevant supervisory department)  
Registry of Credit Unions  
Central Bank of Ireland  
P.O. Box 559  
Dublin 1

Dear [Sir/Madam]:

### **Statutory Duty Confirmation: Statement by the auditors for [name of Credit Union] to the Central Bank**

The letter and attached schedule constitute a report as required by section 27B of the Central Bank Act 1997 in relation to our statutory duty to report certain matters to the Central Bank, as specified in sections 118 and 122 of the Credit Union Act 1997, as amended. The schedule to this letter lists the reporting periods in which we acted as auditors of [insert name of credit union] and are therefore subject to the statutory duty from [date of signing last statutory duty confirmation or date of appointment if later] to [date of signing current confirmation].<sup>45</sup>

### **Respective responsibilities of directors and auditors**

It is the responsibility of the directors of [name of credit union]:

- to take appropriate steps to provide reasonable assurance that the regulated entity complies with applicable legislation and the requirements of the Central Bank set out in the Credit Union Handbook;
- to establish arrangements designed to detect non-compliance with the Credit Union Handbook and to report any breaches to you; and
- to report to the Central Bank any information which they know or have reasonable cause to believe is of material significance for the Central Bank's supervisory functions.

Our responsibilities are to report to you matters which come to our attention in the course of our work as auditors and are of regulatory concern to you, in accordance with sections 118 and 122 of the Credit Union Act 1997, as amended, and to report on an annual basis to you in relation to whether circumstances indicating such matters have been identified in the course of our work.

### **Basis of statement**

In discharging our statutory duties to report to you we have had regard to matters identified in section 122 of the Credit Union Act 1997, as amended. In doing so we are required to consider matters of which we have become aware in the capacities as auditors listed in the Annex to this letter.

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<sup>45</sup> Where the entity has no subsidiaries or close links with other entities the following sentence may be used: "We acted as auditor of X in the financial year ended [date] and we are therefore subject to the statutory duty from [date of signing last statutory duty confirmation or date of appointment if later] to [date of signing current confirmation]."

**Statement**

[Except as already notified to you on<sup>46</sup> .....], no circumstances have come to our attention, in our capacities described in the schedule attached to this letter, that have given rise to a statutory duty on us to report to you under section 122 of the Credit Union Act 1997, as amended.

Our report is prepared solely for the confidential use of the Central Bank as required by section 27B of the Central Bank Act 1997. It may not be relied upon by [name of credit union] or the Central Bank for any other purpose whatsoever. [Name of audit firm] neither owes nor accepts any duty to any other party and shall not be liable for any loss, damage, or expense of whatsoever nature which is caused by reliance on our report.

Yours faithfully

Dated<sup>47</sup>

**Schedule to Statutory Duty Confirmation: financial institutions to which the firm has acted as appointed auditor**

<b>Capacity</b>	<b>Reporting period</b>	<b>Reference to basis of work</b>
Auditor of [name of financial institution – XYZ Ltd]	Financial year ended	Audit report dated

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<sup>46</sup> Insert list of reports issued and dates of such reports or delete as appropriate.

<sup>47</sup> Where this confirmation letter is being provided for the first time the period covered is from the date of the previous audit report.

**APPENDIX 5 – ABBREVIATIONS**

<b>Abbreviation Used</b>	<b>Description</b>
Auditor Protocol	Protocol between the Central Bank of Ireland and the Auditors of Regulated Financial Service Providers – “The Auditor Protocol”, issued 2011 and revised in 2013
CBA 1997	Central Bank Act 1997
CBFSAI Act 2004	Central Bank and Financial Services Authority of Ireland Act 2004
Central Bank	The Central Bank of Ireland
Credit Union	A “credit union” in the context of this Guidance Note is a society registered as a credit union under the Credit Union Acts 1997–2012, as amended. A society which, prior to 1 October 1997, was registered as a credit union under the Industrial and Provident Societies Acts, 1893 to 1978, is deemed to be registered as a Credit Union under the CU Act 1997, as amended. A credit union is a body corporate with perpetual succession which is known by its registered name.
CU Act 1997, as amended	The Credit Union Act 1997, as amended
CUCORA 2012	The Credit Union and Co-operation with Overseas Regulators Act 2012
Ethical Standard	The Ethical Standard for Auditors (Ireland)
FRC	Financial Reporting Council
FRS 102	The Financial Reporting Standard applicable in the UK and the Republic of Ireland
IAASA	Irish Auditing and Accounting Supervisory Authority
ISA (Ireland)	International Standards on Auditing (Ireland) adopted by IAASA
PRISM	Probability Risk and Impact System – the Central Bank’s supervisory system