

2019

Feedback Paper

Guidance Note on the Audit of Credit
Unions

October 2019

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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1. Summary

In May 2019, IAASA issued a consultation paper to obtain the views of stakeholders with regard to IAASA's proposal to issue a [Guidance Note on the Audit of Credit Unions](#).

The purpose of this feedback paper is to provide details of the responses received and changes made to the Guidance Note as a result of that consultation.

2. Responses Received

IAASA's consultation closed on 14 June 2019. IAASA received 4 responses, as listed below – three from professional accountancy bodies and one from a credit union representative body.

1. ACCA Ireland (ACCA)
2. Chartered Accountants Ireland (CAI)
3. CPA Ireland (CPAI)
4. Irish League of Credit Unions (ILCU)

3. Matters on which IAASA Consulted, Summary of Responses and IAASA Response

No.	Matter on which views were sought
1.	Do you agree with the proposed revisions from PN 27(I) The Audit of Credit Unions in the Republic of Ireland (issued May 2016), as set out in section 3 of the Consultation Paper? If not please explain why.
Summary of Responses	Three respondents were supportive of the draft Guidance Note. One respondent (CAI) did not respond directly to this question and expressed the view that the issuing of a Guidance Note with an immediate effective date may be problematic given that that credit union year ends are fast approaching.
IAASA Response	Guidance Notes are persuasive rather than prescriptive and indicative of good practice. They assist auditors in applying engagement standards to particular circumstances and industries. PN 27(I) The Audit of Credit Unions in the Republic of Ireland (issued May 2016) has been withdrawn by the Financial Reporting Council. In this context, IAASA considers it appropriate to issue guidance to assist auditors when conducting audits of credit unions in Ireland for the year ended 30 September 2019.
2.	Is the included guidance appropriate, in particular that for ISA (Ireland) 320 Materiality in Planning and Performing an Audit ('ISA (Ireland) 320') and ISA (Ireland) 540 Auditing Accounting Estimates and Related Disclosures (Revised December 2018) ('ISA (Ireland) 540')? If you think it should be amended, please explain why and how.
Summary of Responses	Three of the respondents (ACCA, CAI and ILCU) provided comments on various aspects of the draft guidance in relation to both ISA (Ireland) 320 and ISA (Ireland) 540. One respondent (CPAI) welcomed the insertion of the section in respect of ISA (Ireland) 320 and the updating of the guidance to reflect ISA (Ireland) 540.

<p>IAASA Response</p>	<p>Having given detailed consideration to the comments received, IAASA has, revised the guidance in respect of both ISAs. In particular:</p> <ul style="list-style-type: none"> • The guidance on ISA (Ireland) 540 has been amended to make clearer to users that it provides guidance on the application the December 2018 version of that ISA, which is effective for audits of financial statements for periods beginning on or after 15 December 2019. Auditors may continue to apply the previous version of ISA (Ireland) 540 for earlier accounting periods; • The guidance on ISA (Ireland) 540 has been amended to clarify that the auditor’s procedures must address whether the method used to calculate a credit union’s loan impairment provision is appropriate and whether the provision and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework; • The guidance on ISA (Ireland) 540 has been expanded to note that the auditor takes action where he/she concludes that there is a risk of management bias in a credit union’s accounting estimates; and • The guidance on ISA (Ireland) 320 has been amended to highlight that materiality is determined in relation to one or more particular classes of transactions, account balances or disclosures if, in the specific circumstances of the credit union, they are items that could reasonably be expected to influence the economic decisions of the users of the credit union’s financial statements. <p>Areas where the Guidance Note has not been amended relate mainly to comments where IAASA considers that the matter relates to auditor professional judgement, is outside the scope of the Guidance Note and relates to items that are not specific to the audit of credit unions.</p>
<p>3.</p>	<p>Are there any other areas of the ISAs (Ireland) where you believe guidance in relation to the audit of credit unions should be provided in the Guidance Note? If so, please identify which standard(s) and the specific issues for credit union audits that you believe should be addressed in the Guidance Note.</p>
<p>Summary of Responses</p>	<p>One respondent (ACCA) suggested that additional Guidance on ISA (Ireland) 570 Going Concern should be included in the Guidance Note. Another respondent (ICAI) suggested that guidance on Anti-Money Laundering issued by the Consultative Committee of Accountancy Bodies in Ireland should be referenced in the guidance note and disagreed with the removal of the Appendix on the disclosure of information in the public interest. Both of these respondents also provided a number of additional suggestions relation to other aspects of the draft Guidance Note.</p> <p>One respondent (ILCU) stated that the Guidance Note should emphasise that the audit approach, including the determination of materiality, should be based on the risk profile of the credit union.</p> <p>One respondent (CPAI) stated that they had identified no further areas requiring specific guidance.</p>
<p>IAASA Response</p>	<p>As summarised below, all of the suggestions provided by the respondents were considered and, where considered appropriate, reflected in the final version of the Guidance Note.</p> <ul style="list-style-type: none"> • The section on ISA (Ireland) 250: Section A – Consideration Of Laws And Regulations In An Audit Of Financial Statements (Revised July 2017) has been amended to include references to both the Criminal Justice (Money Laundering and Terrorist Financing) Acts 2010 to 2018 and the Anti-Money Laundering Guidance for Members of the Bodies

Affiliated to the Consultative Committee of Accountancy Bodies in Ireland. In addition, a new paragraph on reporting in the public interest by auditors has been inserted.

- The guidance on ISA (Ireland) 505: External Confirmations (Revised August 2018) has been updated to provide additional guidance on the use of external confirmations in relation to credit union members' loans and savings;
- The guidance on ISA 570 has been amended to reflect the auditor's obligation to obtain sufficient appropriate audit evidence regarding and conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the credit union's financial statements and restrictions imposed by the Central Bank are another area that the auditor may consider in this regard.
- Guidance on risk and materiality is provided in the Guidance Note, in particular the section on ISA (Ireland) 315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment.
- The wording of the Guidance Note has been amended to be consistent with the terms and language used in the relevant ISAs.

All responses are provided in full in the Appendix to this Feedback Paper.

Appendix

By e-mail submissions@iaasa.ie


Irish Auditing and Accounting Supervisory Authority,
Willow House
Millennium Park,
Naas
Co Kildare.

Comments from ACCA on the Draft Guidance Note on the Audit of Credit Unions 14 June 2019


ACCA is the global body for professional accountants. We aim to offer business relevant, first choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management. ACCA has 200,000 members and 486,000 students in 180 countries, and works to help them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of 101 offices and centres and 7,291 Approved Employers worldwide, who provide high standards of employee learning and development.

Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence. The expertise of our senior members and in-house technical experts allows ACCA to provide informed opinion on a range of financial, regulatory, public sector and business areas, including: audit; taxation; small business; pensions; education; and corporate governance and corporate social responsibility. See www.accaglobal.com for more information.


Further information about ACCA's comments on the matters discussed here can be requested from


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1. Do you agree with the proposed revisions from PN 27(I) The Audit of Credit Unions in the Republic of Ireland (issued May 2016), as set out in section 3? If not please explain why.

ACCA welcomes the guidance which is timely as auditors will be starting to commence their interim audits in credit unions very shortly. Overall we agree with the proposed revisions, subject to the matters set out below.

2. Is the included guidance appropriate, in particular that for ISA (Ireland) 320 and ISA (Ireland) 540 (Revised December 2018)? If you think it should be amended, please explain why and how.

We agree with the guidance as set out.

However, we feel that the Operational Risk Reserve should be addressed somewhere in the guidance and the discussion under ISA 540 is the most appropriate place to do so. The Operational Risk Reserve is an allocation of retained earnings and while GAAP does not address this accounting issue, the Audit Guidance note should at least guide the auditor in their responsibilities in respect of the mythology for calculating the reserve, its consistency year on year and the disclosures made in the financial statements. We would make the same point about any bad debt reserve, a reserve over and above the bad debt provision and treated as an allocation of retained earnings.

3. Are there any other areas of the ISAs (Ireland) where you believe guidance in relation to the audit of credit unions should be provided in the Guidance Note? If so, please identify which standard(s) and the specific issues for credit union audits that you believe should be addressed in the Guidance Note.

The discussion around ISA 570 is probably the most important part of the document but the guidance in this area is quite sparse. While we accept that ISA 570 itself is quite comprehensive, we would like to see more detail on matters such as the risks in the market place, demographics, and the business model. We would like to see more discussion on liquidity and loan concentration especially as longer term loans are being entered into and there may be insufficient churn on short term loans to support the longer term lending business model. Some guidance around investment concentration risk would also be useful; especially on longer term sovereign bonds. Para 216 should also include some discussion on the operational risk reserve. We would like to see more active language requiring the auditor to seek out evidence rather than just "reviewing going concern".

We have a number of minor suggestions:

- a) In paragraph 57 it would be useful to cross reference to paragraph 117.
- b) Para 60 should include reference to Section 19 of the Criminal Justice Act 2011
- c) It would be very useful in the reporting section to identify what reports are made annually and which are reported as required. A summary prior to paragraph 84 would make the document easier to use.
- d) In paragraph 87 it would be useful to cross reference to paragraph 109.
- e) In paragraph 160 the inclusion of the outsourcing of internal audit would be a useful additional example.

- f) In the discussion on ISA 250 – there should be some mention of non-compliance with the consumer protection code. This is particularly relevant in light of the recent alleged software error where it is alleged that top up loans had incorrect interest charged.
- g) In paragraph 106 the footnote 24 attaching to this section is not as helpful as it might be and could be made more easily understandable. The text of the footnote is reproduced here:

“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.”

- h) Paragraph 170 would be a good opportunity to discuss the operational risk reserve.
- i) The discussion on ISA 505 should be expanded. While we acknowledge that “Members may not maintain independent records of their balances but rather depend on information provided to them by the credit union” the guidance stops there without providing an alternative. The Guidance Note should for example, confirm that while circularisation is not particularly effective at confirming valuation, it can provide useful evidence on existence.
- j) Paragraph 205 could usefully point out that the use of the “Regulation 49” provisioning model is not adequate and refer the reader to the loan provisioning guidance issued by the Regulator. This paragraph might also address some of the IT based bad debt calculation application on the market and the need for the auditor to not just address the inputs to these systems but to understand the internal calculation algorithms used to do the calculations or to develop alternative procedures to satisfy themselves as to the adequacy of the IBNR bad debt provision. Some discussion of IBNR provisions generally at this point would also be useful.
- k) Para 206 should include the appropriate disclosures of the valuation techniques within the financial statements, within the list in that paragraph.
- l) Para 213 could usefully identify that the credit union themselves should have a process for identifying the persons at 213 (a), (b) and (c) and the requirement for the auditor to include this disclosure within scope of their audit along with the standard related party disclosures required by FRS 102.
- m) The discussion on ISA 610 should address loan and deposit circulations and the respective responsibility of internal and external audit.

Kevin Prendergast
Irish Auditing and Accounting Supervisory Authority
Willow House
Millennium Park, Naas
Co Kildare

14 June 2019

Dear Kevin

IAASA Consultation Paper: The Guidance Note on the Audit of Credit Unions

Chartered Accountants Ireland (‘the Institute’) welcomes the publication of the IAASA consultation paper (‘CP’) and the opportunity to comment on the proposed guidance note.

We note that the CP was issued on 16 May with a closing date for comments of 14 June 2019. This is the first guidance note drafted by an IAASA working party and we do not feel that this short period represents a sufficient consultation period for such a significant document. A consultation period of one month is not a sufficient period and it deviates from international norms for carrying out due process. However we have endeavoured to collate comments from a number of members. In particular, the audit of credit unions is not concentrated in a small number of firms and is spread geographically around the country, therefore a longer period would, we feel, be more appropriate if IAASA were seeking input from a wide range of auditors in practice with credit union clients.

Also of concern is the possible publication date/effective date of the Guidance Note (GN). Credit union year ends are fast approaching. Planning and interim audits will shortly be under way. The issue of a GN with an immediate effective date may be problematic.

We have a number of formatting/typographical type comments in addition to the key matters discussed here and we will communicate these separately.

Our principle concerns are set out below:

1. ISA (Ireland) 540 (Revised)

This section of the draft GN is drafted on the basis of the assumed early adoption of the revised standard ISA (Ireland) 540 (Revised December 2018) Auditing Accounting Estimates and Related Disclosures which is effective for audits of financial statements for periods beginning on or after December 15, 2019.

We do not consider that this is very helpful to auditors who will have little or no experience of the application of the revised standard. We note that paragraph 202 does state that early adoption is permitted but not mandatory. In our view, there needs to be greater emphasis on the continued acceptability of “old” ISA (Ireland) 540 and the “not mandatory” message needs to be given more prominence in the GN.

The audit of bad debt provisioning against loans is a significant area for credit union auditors. There is established methodology for provisioning based on Central Banks guidelines but where additional provisions are made, in excess of Section 35¹ provisions, these are subject to a significant amount of management judgement. This additional provisioning is challenging from an auditing perspective and guidance on the application of ISA (Ireland) 540 Revised would be very helpful in this area.

Paragraph 204 refers to the auditor's procedures addressing whether the method used to calculate the provision and the related disclosures in the financial statements are reasonable. ISA (Ireland) 540 also requires that the auditor's procedures address whether the accounting estimates are reasonable and this should be included in paragraph 204.

PN 27(I) (Revised) included some paragraphs on management bias based on ISA (UK and Ireland) 540. ISA (Ireland) 540 (Revised) contains similar paragraphs and we note that the guidance from PN 27(I) (Revised) has not been reproduced.

2. ISA (Ireland) 320

Paragraph 185 refers to the viability of the credit union. This term is inconsistent with the term going concern used in ISA (Ireland) 570.

Paragraph 185/186 discusses balance sheet drivers of materiality in the context of not for profit entities. We note that some of the UK FRC PNs which highlight materiality for not for profit entities or where balance sheet balances tend to be large compared to income statements (namely PN 11 (Revised) *The audit of charities in the United Kingdom*, PN 19² (Revised), *The audit of banks and building societies* and PN 20 (Revised) *The audit of Insurers in the United Kingdom*) do so in the context of when it is used and make mention of materiality based on profit/income. Further discussion of the matter would provide useful guidance for auditors in determining materiality in the context of credit union audits.

Paragraph 187 discusses materiality in the context of how it might be different for particular classes of transactions, account balance or disclosures. The GN refers to "expense categories" for which there might be different materiality levels but does not provide any further guidance or examples of these categories. Further discussion on what is relevant to consider when determining such items would be helpful for the auditor, for example consideration of the risk profile of the credit union would be an important one.

3. Anti-Money Laundering

We note that the recently issued AML guidance is not incorporated into the GN and attach a draft suggestion of how this could be achieved in the section on ISA (Ireland) 250: Section A.

4. ISA(Ireland) 250B

The paragraph regarding disclosure in the public interest in the section on ISA (Ireland) 250B has been removed as has Appendix 5 "Protection for disclosure under common law" (PN 27(I) paragraph 154). We do not believe that this removal was appropriate.

¹ Section 35-Regulatory Requirements for Credit Unions: Central Bank of Ireland

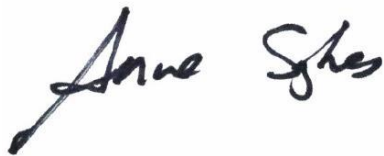
² We note that this is currently under review.

5. Other points

- a. Paragraph 109 refers to an emphasis of matter paragraph where there is a going concern issue. This reference is from a previous version of ISA (UK and Ireland) 706 and is no longer in the Appendix to ISA (Ireland) 706.
- b. Paragraph 50 does not comprehensively reflect the requirements of FRS 102.13 and 102.14.
- c. Paragraph 54 refers to “financial fraud” but ISA (Ireland) 200 refers to “fraud”.
- d. Paragraph 134 reproduces most of paragraph 137 of PN 27(I), the source of this requirement was Appendix 2 of ISA (UK and Ireland) 250 B which has been removed from ISA (Ireland) 250 B.
- e. Paragraph 180 refers to the risk of fraud in revenue recognition. It is not clear why fraud in revenue recognition is *specifically* mentioned in this paragraph. There could be risks of *fraud* but also complexity of transactions, subjectivity in measurement and other factors discussed in the ISA.
- f. Paragraph 187, the last sentence seems to be missing “for example”.
- g. ISA (Ireland) 505, the grey box has an incorrect reference in the body, but the correct reference in the footnote.

We have endeavoured to cover the questions raised by you in our comments above and we would be pleased to discuss with you and/or your colleagues the issues raised above in more detail. Please contact me at anne.sykes@charteredaccountants.ie or on 01-6377313 in this regard.

Regards



Anne Sykes

Secretary Audit and Assurance Committee

Chartered Accountants Ireland

Attached: Anti Money Laundering section: ISA (Ireland) 250: Section A – Consideration of Laws and Regulation in an audit of Financial Statements (Revised July 2017).



**Irish Auditing and Accounting Supervisory Authority,
Millennium Park,
Naas,
Co. Kildare**

14th June 2019

Submitted by email to: submissions@iaasa.ie

Dear Sir/Madam,

Consultation Paper, Proposal to issue a Guidance Note on the Audit of Credit Unions

We refer to the above consultation paper and welcome the opportunity to respond.

Industry specific guidance of this nature for auditors is essential, given the unique aspects and the current challenges for the credit union sector. This sector has experienced substantial legislative changes and considerable consolidation of the market, so guidance such as this is essential.

In particular, we welcome the update of the guidance provided in respect of ISA (Ireland) 540. Given that the critical audit areas of a credit union are often the valuation of buildings, investments and loan impairments this should provide valuable assistance to the auditor.

1. Do you agree with the proposed revisions from PN 27(I) The Audit of Credit Unions in the Republic of Ireland (issued May 2016), as set out in section 3? If not please explain why.

We note and agree with the proposed revisions from PN 27(I) as set out in Section 3.

2. Is the included guidance appropriate, in particular that for ISA (Ireland) 320 and ISA (Ireland) 540 (Revised December 2018)? If you think it should be amended, please explain why and how.

We note and welcome the insertion of the new section for ISA (Ireland) 320 which we consider to be useful.

We also welcome the update of the section in respect of ISA (Ireland) 540.

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3. Are there any other areas of the ISAs (Ireland) where you believe guidance in relation to the audit of credit unions should be provided in the Guidance Note? If so, please identify which standard(s) and the specific issues for credit union audits that you believe should be addressed in the Guidance Note.

We have not identified any further areas that require specific guidance.

We hope you find our comments useful. If you have any queries on any matters, please do not hesitate to contact us.

Yours sincerely,

A handwritten signature in black ink that reads 'Emer Kelly'. The signature is written in a cursive style and is enclosed within a thin black rectangular border.

Emer Kelly
Secretary – Audit Practices Sub Committee



Irish Auditing and Accounting Supervisory Authority
Willow House
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14 June 2019

Dear Sir

Irish League of Credit Unions ("ILCU") Submission in respect of the IAASA Proposal to issue a Guidance Note on the Audit of Credit Unions

The Irish League of Credit Unions ("ILCU") is the largest credit union representative body on the island of Ireland with 249 affiliated credit unions in the Republic of Ireland and a further 92 affiliated credit unions in Northern Ireland. We exist to provide leadership, co-operation, support and development for credit unions.

The ILCU appreciates this opportunity to respond to the consultation paper on the IAASA Proposal to issue a Guidance Note on the Audit of Credit Unions and we have provided feedback below on the specific matters which IAASA have sought views on:

- 1. Do you agree with the proposed revisions from PN 27(I) The Audit of Credit Unions in the Republic of Ireland (Issued May 2016), as set out in section 3? If not please explain why.**

The ILCU welcomes the update of PN 27 to reflect the changes in the legal and regulatory framework for credit unions in Ireland since PN 27 was issued in May 2016 and the clarification that IAASA is now responsible for the Irish auditing framework.

- 2. Is the Included guidance appropriate, in particular that for ISA (Ireland) 320 and ISA (Ireland) 540 (Revised December 2018)? If you think it should be amended, please explain why and how.**

The ILCU has reviewed the proposed amendments in relation to the ISA (Ireland) 320: Materiality in Planning and Performing and Audit. The guidance in respect of the use of materiality benchmarks is useful however, the ILCU considers that total assets is a more

effective benchmark than regulatory reserves as it reflects the magnitude of the credit union according to its asset size. The guidance also refers to the materiality assessment for particular classes of transactions. We consider that elaboration on these types of transactions with examples would be helpful.

The use of percentages being applied to chosen benchmarks in order to determine materiality is mentioned in the Guidance Note. The ILCU considers that some guidance on the percentage ranges used would assist the audit approach.

The ILCU has also reviewed the proposed amendments in relation to the ISA (Ireland) 540: Auditing Accounting Estimates and Related Disclosures (Revised December 2018). The ILCU considers that further practical guidance could be provided in respect of the auditors' assessment of the interaction between the Central Bank's guidance on the calculation of loan impairments and the requirements of the financial reporting framework.

3. Are there any other areas of the ISAs (Ireland) where you believe guidance in relation to the audit of credit unions should be provided in the Guidance Note? If so, please identify which standard(s) and the specific issues for credit union audits that you believe should be addressed in the Guidance Note.

The ILCU believes that a one size fits all approach to the audit of credit unions should be avoided and instead the Guidance Note should emphasise that the audit approach including determination of materiality be based on the risk profile of the relevant credit union.

The ILCU hopes you find these comments useful. If you would like to discuss our response further please contact David Malone in the Irish League of Credit Unions at (01) 6146940 or at dmalone@creditunion.ie.

Yours sincerely,



David Malone
Financial Controller
The Irish League of Credit Unions



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