February 18, 2020

OFFICE OF CREDIT UNIONS
LETTER CU 1-20: NCUA CHANGES TO AUDIT RULES

National Credit Union Administration (NCUA) regulations set minimum requirements for supervisory committee audits and verifications of federally-insured state-chartered credit unions. Any credit union may satisfy those requirements by obtaining an annual financial statement audit by an independent person, but a credit union with less than $500 million in assets may satisfy its audit requirements through specified alternatives under federal law (12 C.F.R. § 715.7) or state law (Wis. Admin. Code § DFI-CU 73.06)—“whichever audit is more stringent.” 12 C.F.R. § 715.6(b).

Until January of this year, state and federal law specified the same three alternatives to a financial statement audit: a balance sheet audit, a report of examination of internal control over call reporting, or an audit performed in accordance with procedures set forth in the NCUA’s Supervisory Committee Guide. Effective January 6, 2020, however, the NCUA modified its regulation to specify a single alternative, as follows:

12 C.F.R. § 715.7 Supervisory Committee audit alternatives to a financial statement audit.

A credit union which is not required to obtain a financial statement audit may fulfill its supervisory committee responsibility by obtaining an Other Supervisory Committee Audit. Such an audit is one that is performed by the supervisory committee, its internal auditor, or any other qualified person (such as a certified public accountant, public accountant, league auditor, credit union auditor consultant, retired financial institutions examiner, etc.) that satisfies the minimum requirements in appendix A of this part. Qualified persons who are not State-licensed cannot provide assurance services under this section.

Because this change deletes previously specified audit alternatives, the Office of Credit Unions believes the new 12 C.F.R. § 715.7 would likely be construed as “more stringent” than DFI-CU 73.06. Therefore, Wisconsin credit unions must comply with the new 12 C.F.R. § 715.7 when seeking to meet their audit responsibilities by means other than a financial statement audit.

1 12 C.F.R. § 715.6; Wis. Admin. Code §§ DFI-CU 73.04, 73.05.
2 Appendix A is entitled “Other Supervisory Committee Audit – Minimum Procedures.”
For state compliance purposes, audits that meet the requirements of 12 C.F.R. § 715.7 will be deemed to satisfy DFI-CU 73.06.

The NCUA also made minor modifications to 12 C.F.R. § 715.9, which governs agreements with compensated auditors. Wis. Admin. Code § DFI-CU 73.08 is the state version of that rule. While the federal rule and the state rule remain consistent in most respects, there are some differences regarding the required content of engagement letters—specifically the scope of the engagement and the target date for delivery of the written report.

To ensure compliance with NCUA regulations, Wisconsin credit unions should follow the engagement-letter requirements for compensated auditors set forth in the new 12 C.F.R. § 715.9. For state compliance purposes, engagement letters that meet the requirements of 12 C.F.R. § 715.9 will be deemed to satisfy DFI-CU 73.08.

For additional information regarding these changes, please read NCUA Regulatory Alert (RA), 20-RA-01, available at https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/other-supervisory-committee-audits.

Sincerely,

Kim Santos
Director
OFFICE OF CREDIT UNIONS

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3 DFI-CU 73.08(4) requires an engagement letter to include a certification that “the audit shall address the complete scope of th[e] engagement,” whereas the new 12 C.F.R. § 715.9 requires a certification that “the audit will address at least the minimum requirements in appendix A of this part.”

4 DFI-CU 73.08(3)(f) requires an engagement letter to set a target date for delivery of the written report “not to exceed 120 days from the date of the calendar or fiscal year-end audit,” whereas the new 12 C.F.R. § 715.9 requires a target date that “will enable the credit union to meet its annual audit requirements in this part,” without setting a maximum number of days.