



The Auditor's Report

NCUA Issues New Supervisory Committee Audit Procedures

In September 2019, the NCUA Board unanimously approved a rule amending Part 715 of agency regulations governing federally insured credit unions' responsibilities to obtain an annual supervisory committee audit. The final Supervisory Committee Audit Guide (referred to as an agreed upon procedures audit below) was published as of January 8, 2020. We agree with NCUA's changes and feel these new procedures will better protect the credit union industry.

As credit unions grow in asset size and complexity, they sometimes prefer the assurances and benefits of a certified audit versus that of a Supervisory Committee Audit (credit unions with asset sizes that meet or exceed \$500 million in assets, are required to have a certified audit). A certified audit is where we, as licensed, insured, and independent CPAs, issue an opinion on the Credit Union's financial statements. Our opinion over the financial statements states whether the financial statements are presented fairly and are materially correct. "Materially correct" means users of the financial statements can rely on the information in the financial statements for various purposes. A certified audit also includes a study and evaluation of internal control in order to determine internal control weaknesses and internal control areas that can be relied upon in the performance of the audit. (This is especially important in the prevention of fraud and other illegal acts.) The certified audit offers the highest level of assurance on the accuracy of the financial statements.

The following chart in part summarizes the benefits and differences between a certified audit and agreed-upon procedures engagement:

Certified Audit	Agreed-upon Procedures Engagement
Financial statements with footnote disclosures issued as part of audit.	N/A – not part of Supervisory Committee Guide Audit.
Opinion issued on financial statements.	N/A – not part of Supervisory Committee Audit.
Graphical analysis issued.	N/A – not part of Supervisory Committee Audit.
Management report issued.	Management report issued.
Verifications and confirmations performed as part of the audit each year.	Verifications required once every two-years in order to comply with the regulatory agencies and may or may not be performed by the audit firm each year.
Professional judgment can be used to change the scope of the audit and review areas more at risk.	NCUA's minimum agreed-upon procedures must be followed. However, additional procedures may be performed if requested for an additional fee.
In-depth review of high-risk areas such as investments and loans.	N/A – not part of Supervisory Committee Guide Audit.
In-depth review of internal controls and detail testing of controls that are to be relied upon as part of the audit.	Limited testing of specific controls.

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FFIEC Changes to Business Continuity – It’s Not Just an I.T. “Thing”

In November 2019, the Federal Financial Institution Examinations Council (FFIEC) published a revised IT Examination Handbook for Business Continuity Management¹ – yes, that’s right; Business Continuity Planning is now Business Continuity Management. Much of the content is similar to the compliance guidelines credit unions have been following since the last publication in 2014, however there has been some expanded guidelines for Business Continuity utilizing a wholistic approach. While it still falls under the auspices of IT to establish, test and maintain a Disaster Recovery Plan (DRP), there needs to be an organization wide Management approach to the Business Continuity Plan.

One of the new key exam areas focuses on Critical Third-Party Service Providers or TSPs. TSP’s could involve facilities (i.e. if the credit union is a lease tenant), core data processing services, IT service providers, website hosting services, cash delivery and more. TSPs are not regulated by FFIEC or NCUA standards for business continuity, but the FFIEC does provide guidance² for service organizations who provide critical services that affect credit union recovery. High emphasis is placed on Core and Transaction Processing or Payments System Providers but any entity who provides services to credit unions that play a key role in that credit union’s operations or recovery need to be identified and included in the Business Continuity Plan. When developing the credit union’s Business Continuity Management policy consider the following:

- **Identify the TSP’s role** (criticality) to the credit union and the severity if the TSP experiences a disruption. If a widespread client outage occurs, where does the credit union fall in the recovery priority order of the TSP?
- **Backup/Recovery** – How often are critical items backed up and where are backups stored? What is the expected Recovery Time Objective (RTO) for each critical item?
- **Alternate Providers** – Are there alternatives in place for providing the same service?
- **Personnel** – Are any TSP (staff) considered “single points of failure?” How will the organization continue with staffing limitations (i.e. a contracted IT professional is suddenly unavailable, regional power or telecommunications failure that disrupts remote employees, widespread flu that impacts a high percentage of that TSP’s staff)?
- **Testing** – Identify types, how often, cooperative (joint) testing, etc. Ensure connectivity, functionality, and volume capacity.
- **Transparency/Reporting** - How often are TSP exercises and disaster recovery failover results provided to credit unions (clients)?

Vendor Management of TSPs is crucial to resilience planning and recovery of operations in a contingency event. Contracts that include Service-Level Agreements should include Business continuity-related provisions such as financial ability to continue contracted services, recovery expectations or response times, review of that provider’s Business Continuity Plan, Testing and results, and considerations for alternate service obligations or provisions for extended recovery delays. Most credit unions would exceed their own defined Maximum Tolerable Downtimes in the event that a TSP critical function were permanently disrupted and the credit union were required to convert to an alternate application. Credit Union management should review TSP vendor remediation action plans and as well as report any test results to the credit union board that affect the credit union’s own recovery.

It’s a three-way street and coordinated efforts for Business Continuity Management between Credit Union Management, IT and the Third-Party Service Provider ensure effective resilience and recovery of credit union operations.

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¹Financial Institution Examinations Council [IT Exam Handbook – Business Continuity Management](#), November 2019 .

²Financial Institution Examinations Council [IT Exam Handbook – Business Continuity Planning sections IV.A.5, VII.I and VII.J.](#)



**CastleGarde is an acknowledged expert provider of credit union information security based assessments and regulatory compliance program services currently providing services to over 300 credit unions nationally and internationally. CastleGarde specializes the area of Information Security policy, technology assessment and the physical aspects addressing the controls, access, management, and safeguarding of member information as defined by NCUA Reg. 748 Appendix A and B. CastleGarde provides information security policy and procedure reviews, external penetration testing as well as onsite vulnerability assessments including physical security reviews to measure the overall effectiveness of your information security controls and related programs. Other services include the performance of General Controls Reviews and a full turnkey offering in Business Continuity Planning.*

ABOUT US

Since 1979, Nearman, Maynard, Vallez, CPAs has provided auditing and consulting services exclusively to credit unions throughout the United States. Our dedication to the credit union industry has given us the unique ability to provide exceptional service at a reasonable price. Our primary objective is to assist our clients in accomplishing their goals through our experience, service, and commitment. If your Supervisory/Audit Committee, Management, or Board of Directors is interested in obtaining information on the subjects in this issue or about our many services, call or email us today.

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“...these new procedures will better protect the credit union industry.”

The cost of a certified audit is higher than that of an agreed-upon procedures engagement. This is because of the additional work and time required to develop the financial statements and footnote disclosures, the additional testing performed, the professional risk assumed, and the assurance placed on the financial statements by giving an opinion that everything is materially correct.

If you have any questions about the new procedures or would like a proposal for a Certified or a Supervisory Committee Audit, please contact us at 800-288-0293.

*Ellen E. Vargo, CPA, CFE, FCPA, Partner
Nearman, Maynard, Vallez, CPAs*



2020 Credit Union Conferences

Nearman, Maynard, Vallez, CPAs will be “out and about” visiting with the credit union community this year. If you plan on attending any of the following conferences, please stop by our booth. We would love to meet you and discuss your credit union’s auditing needs.

- Cornerstone League—April 15-17, 2020—Grapevine, TX
- Michigan Credit Union League—June 3-5, 2020—Grand Rapids, MI
- ACUIA - June 2-5, 2020 - Washington, DC
- Carolinas Credit Union League—June 14-16, 2020—Myrtle Beach, SC
- League of Southeastern Credit Unions - June 17-19, 2020 - Orlando, FL

