**AUDIT REPORT REQUIREMENTS**

**Illinois Credit Union Act Section 305/34 – Duties of the Supervisory Committee:**

*(3) “(A) The supervisory committee of a credit union with assets of $10,000,000 or more shall engage a licensed certified public accountant or licensed certified public account firm to perform an annual external independent audit of the credit union’s financial statements in accordance with generally accepted auditing standards and the financial statements shall be issued in accordance with accounting principles generally accepted in the United States of America.”*

*“(B) The supervisory committee of a credit union with assets of $5,000,000 or more, but less than $10,000,000, shall engage a licensed certified public accountant or licensed certified public accounting firm to perform on an annual basis: (i) an agreed-upon procedures engagement under attestation standards established by the American Institute of Certified Public Accounts to minimally satisfy the supervisory committee internal audit standards set forth in subsection (1); or (ii) an external independent audit of the credit union’s financial statements pursuant to the standards set forth in paragraph (A) of subsection (3).”*

*“(C) The external independent audit report or agreed upon procedures report shall be completed and a copy thereof delivered to the Secretary no later than 120 days after the end of the calendar or fiscal year under audit or fiscal period for which the agreed upon procedures are performed. A credit union or group of credit unions may obtain an extension of the due date upon application to and receipt of written approval from the Secretary.”*

*“(D) If the credit union engages a licensed certified public accountant or licensed certified public accounting firm to perform an annual external independent audit of the credit union’s financial statements pursuant to the standards in paragraph (A) of subsection (3) or an annual agreed upon procedures engagement pursuant to the standards in paragraph (B) in subsection (3), then the annual internal audit requirements of subsection (1) shall be deemed satisfied and met in all respects.”*

Please refer to **Section 305/34** of the Illinois Credit Union Act for the entire section regarding Supervisory Audit Requirement (link below):

<http://www.ilga.gov/legislation/ilcs/ilcs3.asp?ActID=1185&ChapAct=205%26nbsp%3BILCS%26nbsp%3B305%2F&ChapterID=20&ChapterName=FINANCIAL+REGULATION&ActName=Illinois+Credit+Union+Act%2E>

**VERIFICATION OF ACCOUNTS**

***IL CU Act 305/34 (2)*** *The supervisory committee shall make or cause to be made at least once each year a reasonable percentage verification of members' share and loan accounts, consistent with rules promulgated by the Secretary.*

**Section 190.130 of the Rules and Regulations - Verification of Share and Loan Accounts –**

a) The Supervisory Committee must make or cause to be made at least once each year a reasonable percentage verification of members’ share and loan accounts. Except when prior written permission is given by the Division, for good cause shown, the verification results are to be reported in the Supervisory Committee Report filed with the Division. The verification shall be conducted by the Committee, or by a registered public accountant, under the supervision of the Committee.

b)         Verifications Conducted by the Supervisory Committee

1)         The Committee must test 100% of the accounts at least once every two years; however, the Committee may submit a modified program using generally accepted auditing standards for approval by the Division.  When conducting the verification, the Committee must establish the following controls:

A)        The commencement of the verification must be on a surprise basis, including taking possession and control of books and records, or copies thereof, necessary for the audit.

B)        All work is to be done by the Supervisory Committee or its designated agents; all credit union staff, employees and other directors shall not be involved, other than to explain exceptions.

C)        General notice of the verification is to be publicized to the membership in the credit union offices and by other appropriate means.

D)        Separate records of members' share and loan account trial balances are to be maintained by the Committee; the Committee must also maintain a separate list of members that is to be updated from the Board minutes for new and terminated members.

E)        All responses and communications to the verifications by members must be to the Supervisory Committee or its agents.

F)         All records supporting the verification are to be retained by the Supervisory Committee.

2)         Verification requests may be of either the positive kind, which requires a direct reply or attestation by the member as to the correctness or the balances, or the negative kind, which require replies only if the information listed is, in the opinion of the member, incorrect.  Provided however, that the following accounts must be verified using the positive method:

A)        Inactive or dormant accounts – members' accounts that show no member-initiated activity for at least 3 years.

B)        Accounts with recent activity following a period of at least 3 years of dormancy.

C)        Accounts that show unusually large share withdrawals.

D)        Accounts that have delinquent loans.

E)        Share and loan accounts closed or charged off since the last verification was conducted.

F)         Accounts where negative requests are returned due to an inaccurate address.

G)        Any other accounts with unusual or significant activity, or which, in the judgment of the Committee, should be done on a positive basis to verify the integrity of the negative verification requests.

3)         All discrepancies reported should be resolved and, if known, the reason for the error shall be reported to the board, along with the results of the audit.

c)         Verification Conducted by a CPA Firm or Individual Registered with the State of Illinois to Practice as a Public Accountant

1)         When the Supervisory Committee's audit is performed by a CPA or a Registered Public Accountant, either positive or negative verification requests may be used.  The extent and nature of all tests is to be decided jointly by the Committee and the CPA or Registered Public Accountant.

2)         At the conclusion of the audit, a statement must be given that reflects the work performed and the responsibilities accepted by the firm or individual.  This statement shall be signed by the person in charge of the audit, or by the person who accepts responsibility for the firm and shall be attached to the audit report given to the board of directors.

(Source: Amended at 30 Ill. Reg. 12450, effective July 16, 2013)

Additional information on the Verification of Accounts - **Section 190.130** can be found in the IL CU Rules and Regulations, (link below):

<http://www.ilga.gov/commission/jcar/admincode/038/038001900A01300R.html>

Please accept the following as our new recommendations on how the items can and should be submitted.

1. **Cover Letter** – the cover letter MUST have a statement that indicates that all requirements under Section 34 of the Illinois Credit Union Act have been satisfied.
2. **Management Letter** – this should include any internal control deficiencies or audit limitations that exist. This should also specifically state whether any material weaknesses were noted and if so, indicate what the material weaknesses are.
3. **Account Verifications** – include information that account verifications were performed pursuant to Section 190.130 - Verification of Share and Loan Accounts and indicate if a positive or negative method was used and if 100% were verified.

Submission of reports – you may submit the reports via email to FPR.CreditUnion@illinois.gov as a pdf (or similar) type file.

Reports may also be submitted via **Fax:** 217-557-8461

Or hard copy **mailed** to:

IDFPR-Credit Union Section

320 W. Washington, Suite 550

Springfield, IL 62786

If you choose to continue to submit a hard copy, we ask that you **do not bind the report** with anything other than paper clips or removable binder clips. Once we review the reports they are imaged and to do so, they must be unbound. As a reminder, all reports are due to our office no later than 120 days after the end of the calendar or fiscal year under audit or fiscal period for which the agreed upon procedures are performed.

We appreciate the work outside firms do for Illinois credit unions and hope that the procedures we have outlined will assist with the processing of these reports. If you have any questions or need additional information, please do not hesitate to contact our office at (217)782-2834 or FPR.CreditUnion@Illinois.gov