



CREDIT UNION TECHNICAL UPDATE

SPRING 2008

ALEXANDER SLOAN CHARTERED ACCOUNTANTS

FSA NEWSLETTER 7

A summary of the latest newsletter issued by the FSA

The FSA issued its 7th Credit Union newsletter on 19 May 2008. The Newsletter highlights a number of issues that the FSA are focusing upon and which all Credit Unions should be aware of:



- **Late Returns-** The FSA have stated that the number of Credit Unions failing to meet deadlines is unacceptable. They have said that they will view the late submission of Returns as a symptom of inadequate corporate governance.
- **Management Information-** The FSA have started visiting Credit Unions to assess the effectiveness of their arrangements regarding Management Information.
- **Advertising Interest Rates-** Credit Unions must not advertise a specific rate of interest on any accounts. This is because the level of available profits that the Credit Unions can pay as dividends will be unknown until the accounts have been audited. They can give anticipated rates and can indicate what rates have been in the past, but they must also indicate what has happened previously may not happen again. Credit Unions wishing to show anticipated rates should refer to the FSA guidance on this issue.
- **Growth Fund-** The FSA are reviewing the rules within CRED for Credit Unions participating in Growth Fund 1 or 2. The FSA state that any appropriate changes which are deemed necessary will be made before the end of September 2008.
- **Approved Persons-** A number of Credit Unions have not updated the FSA Register of Approved Persons and the FSA is urging all Credit Unions to ensure that this is kept up to date.
- **Change of Forms-** A number of forms have been redesigned including the forms to: register a complete or partial amendment of rules; change the credit union's name; change the registered office and to cancel registration. The previous forms CU(3), CU(5), CU(6), CU(7), CU(9) and CU(12) should no longer be used. New forms can be obtained from the FSA website.

The above is only a brief summary of the issues raised in the FSA newsletter. Credit Unions should therefore review the newsletter itself, a link for which can be found on our Credit Union webpages at www.alexandersloan.co.uk./credit.htm

INTERNAL CONTROLS

CODE OF GOVERNANCE

ABCUL have released a draft of their Code of Governance and Best Practice for Credit Unions. The Code of Governance sets out standards that the Credit Union is expected to comply with for Corporate Governance.

The Code sets out rules over Corporate Governance. Corporate Governance is the set of procedures, customs, policies and rules affecting the way in which a Credit Union is administered and controlled. There are four areas which the Code specifically covers:

- Compliance & Continuity
- Integrity & Accountability
- Skills and Ability
- Structure and the Principles of good Governance

ABCUL's draft Code of Governance sets out two standards:

- Required Standard which all Credit Unions are expected to comply with; and
- Gold Standard which is the standard that ideally ABCUL says that all Credit Unions should aim for.

A Credit Union must comply with 30 tests within the Code to achieve the Required Standard. To meet the Gold Standard, the Credit Union needs to comply with an additional 20 tests as well as all the tests required for the Required Standard.

DETAILED WORK PROGRAMME

As part of our series of looking at the main components of the Internal Audit/ Supervisory process, we look at the third main component- The Detailed Work Programme.

The work programme sets out the detailed tests that the internal auditor will carry out. The credit union's internal audit programme requires to cover more than just checking the bank reconciliations. The areas covered by the Internal Audit programme will depend on the issues identified within the risk assessment. However, you would normally expect a credit union internal audit work programme to cover the following:

- Verification of cash
- Bank reconciliations
- Verification of member passbooks or statements
- Checking of compliance with policies and procedures
- Checking of compliance with credit union legislation and regulations
- Checking minutes and committee reports and assessing regularity and completeness
- Checking loan applications
- Verification of credit union assets and liabilities

The above points are not intended to be a comprehensive list and the actual areas covered will depend on the credit union's activities and risks.

News on the latest CRED updates, FSA guidance on Money Laundering and the progress of the new Credit Union legislation

CU REGULATORY UPDATE

CREDIT UNION LEGISLATION

The Summary of Responses to the Consultation paper "Review of the Cooperative and Credit Union Legislation in Great Britain" has been issued. This summarises respondents' views and the government's response. A link to the document is available on our website.

The government are committed to making changes to allow electronic communication. They are also working with the FSA to change the rules to allow tenants and employees of housing associations within the common bond of established credit unions.

Many of the other areas discussed in the consultation document would require changes in the primary legislation.

The Government plan to publish detailed proposals, including draft implementing legislation and an associated impact assessment.

We are still waiting for further announcements and we will report back on progress in the next issue of the Credit Union Technical Update.

ANTI-MONEY LAUNDERING

The FSA have issued their 6th Newsletter which focuses on Anti-Money Laundering. The Newsletter focuses on the results of their recent visits to Credit Unions on the issue of Money Laundering. The FSA's newsletter highlights a number of actions that all credit unions should be taking with regard to money laundering, including action in the following areas:

- Awareness of JMLSG guidance
- Controls and Monitoring
- Identity Checks
- Documentation
- Training
- Data Security

Links to the FSA's newsletter and examples of both good and bad practice can be found on our website.

The Credit Union's Money Laundering Officers and Supervisory Committees should review these documents and consider the Credit Union's procedures in light of these recommendations..

DISPUTE RESOLUTION

Dispute Resolution: Complaints (Simplification (No 2) and other Amendments) Instrument 2008 was published in March 2007 by the FSA which amends CRED to take into account changes in the Dispute Resolution Sourcebook. Details of the changes are available on the FSA website.



Contact Details:

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ABOUT ALEXANDER SLOAN

We are authorised by The Institute of Chartered Accountants of Scotland to carry on audit work and have offices in Glasgow and Edinburgh.

We provide external audit services for a range of both employment and community based credit unions including four of the largest in the country. In addition we provide internal audit services for 27 not for profit organisations.

We provide a range of services for credit unions including:-

- External Audit
- Internal Audit
- System advice/internal audit for banking services
- Developing internal audit programmes for use by the Supervisory committee
- Training for Board and Committee Members
- Annual Return Completion
- Business Plans



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