

**Interim Guidance for Auditors of Credit Unions in the Republic of  
Ireland  
December 2004**

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## 1. BACKGROUND

The Irish Financial Services Regulatory Authority (IFSRA) was established on 1 May 2003 and is responsible for the regulation of all financial services firms in Ireland.

In 2003 IFSRA took over the role of the Registrar of Credit Unions (the registrar). IFSRA took over the role of the Registrar of Friendly Societies in respect of Credit Unions only.

### Letter to Auditors July 2004

IFSRA issued a letter to all auditors of Irish Credit Unions on the 27th July 2004 entitled "**Guidance Note for the Auditors of Credit Unions**". ("The letter") This letter, (copy in Appendix A), sets out a reminder of the various duties that arise under the Credit Union Act, 1997 ("The 1997 Act"), mainly the duty to report to IFSRA under S 122 of the 1997 Act. The letter issued by IFSRA deals with obligations of auditors including reporting under S 122 and S 33 [IIA, 1995], and other issues.

### New Requirements

In the letter IFSRA have also added new requirements;

- Increased liaison with the Regulator
- the requirement to send a copy of the management letter to IFSRA and
- the requirement to send an 'annual positive statement' to IFSRA.
- the rotation of audit partners

These requirements are discussed below.

## 2. INCREASED LIAISON WITH THE REGULATOR

The letter discusses the role of increased liaison between the auditors of the credit unions and the regulator, IFSRA. IFSRA intends to hold tri-lateral or bi-lateral meetings where appropriate.

In the case of banks these meetings are held regularly and the APB Practice Note PN 19 (I) Banks in the Republic of Ireland issued in February 2002 gives some guidance on how the auditors should prepare for these meetings. It is envisaged that similar guidance will be developed for auditors of Credit Unions, extracts from PN 19 (I) are included below.

The legislation implementing some of the recommendations of the Review Group on Auditing for Financial institutions has been enacted in the Central Bank and Financial Services Authority of Ireland Act 2004. Whilst the format and protocol for such meetings has not yet been finalised, it is anticipated that they will take the form of both:

(a) **trilateral** meetings: periodic meetings will be called by IFSRA, between IFSRA, each Credit Union and its auditors on a case by case basis. It is IFSRA's intention to hold such trilateral meetings in order to discuss audit related matters,

particularly matters such as the Credit Union's control environment, corporate governance procedures Supervisory Committee procedures, and risk profile; and

(b) **bilateral** meetings: IFSRA may also initiate formal meetings with auditors alone in the course of a year. Such meetings will be used by IFSRA for more detailed discussion of matters raised in the course of a trilateral meeting and to seek views of the auditors on matters of concern to IFSRA or to the auditors, to the extent permitted under legislation. When participating in a bilateral meeting, auditors do not, however, make supervisory judgments: such matters are for the decision of IFSRA, having regard to all information at its disposal in relation to the Credit Union concerned, not solely that provided by its auditor.

### **Client Confidentiality**

Following notification of a bilateral meeting, auditors seek advance information from IFSRA as to the matters it intends to discuss. Under current legislation, auditors of Credit Union auditors do not have a statutory right to disclose information to IFSRA (other than information giving rise to a duty to report to IFSRA), but are provided with protection from legal action arising from disclosure of information on a matter related to the audit, when responding to an enquiry by the IFSRA.

Common law precedent in the UK indicates that a degree of protection exists for disclosures of certain matters to an appropriate authority in the public interest. This principle of common law has not been tested in the courts in the Republic of Ireland. However, it is unlikely that auditors in possession of information justifying disclosure in the public interest would be in the position of disclosing that information for the first time in the course of a bilateral meeting.

Provision of information to IFSRA is therefore made primarily under section 122 of the Credit Union Act, 1997 and in the management letter and in discussing issues in the course of a bilateral meeting, auditors consider carefully the nature and extent of information to be provided to IFSRA, taking into account:

- (a) their duty of confidentiality to the Credit Union concerned and the fact that the Credit Union itself has primary responsibility for the provision of information required by the regulator;
- (b) whether the matters concerned fall within the protection available to them in responding to questions from IFSRA; and
- (c) the desirability and benefits of a free exchange of views between the regulator and auditors.

### **Legal advice**

If uncertainty exists as to whether particular information may be disclosed to IFSRA, the auditors may defer discussion of the relevant matter raised in order to consider whether the protection afforded by section 122 or other legal provisions apply and may, if considered appropriate, take legal advice. In general terms, however, auditors who provide information to IFSRA in response to questions from IFSRA have effective protection from breach of confidentiality provided that they:

- (a) report information in relation to IFSRA's query in a balanced manner without selectivity or bias;
- (b) indicate that information is provided under section 122;[ management letters, Annual Positive Statements]

- (c) express any opinions in a neutral and responsible manner, making clear that they are opinions, not facts, and explaining the basis for them.

Auditors arrange for a contemporaneous record of the matters discussed at a tri- or bi-lateral meeting with IFSRA to be made and agree their record subsequently with the representatives of the Credit Union who attended the meeting.

Auditors may not disclose information communicated to them by IFSRA, including that received in bilateral discussions, except with IFSRA's express agreement and, in some cases, that of other parties to which the information relates. IFSRA will inform auditors which parts of the bilateral discussion it permits them to communicate to the Credit Union: if this information is not volunteered at the end of the bilateral meeting, auditors ask IFSRA to do so.

Some information communicated to auditors will relate only to the Credit Union but many matters discussed may relate also to other parties, such as members or employees. In addition, other information may have been received by IFSRA from other regulators or in a capacity other than Credit Union supervisor, in which case there may be other restrictions on disclosure. Therefore, before communicating to the Credit Union any information received during the bilateral meeting, auditors consider carefully:

1. whether they have received IFSRA's express permission to communicate a particular item of information;
2. whether the information relates to parties other than the Credit Union, whose agreement is required prior to communication;
3. whether the information was received by IFSRA in a capacity other than as Credit Union supervisor or from another regulator, in which case permission may be required from the other party concerned.

Auditors can, however, disclose to the Credit Union information, which they have communicated to IFSRA during the bilateral meeting (except where to do so would have the effect of disclosing information communicated by IFSRA). If auditors are in doubt as to whether particular information can be communicated they consider the procedures set out in the paragraph above and may, in particular circumstances, wish to take legal advice.

Matters communicated by IFSRA during a bilateral meeting may be conveyed by representatives of an accounting firm who attended the meeting to other partners and staff who need to know the information in connection with the firm's performance of its duties as auditor without IFSRA's permission.

In addition to formal meetings outlined above, auditors may be involved in meetings with representatives of IFSRA on either a bilateral or trilateral basis. Such meetings include:

- meetings initiated by IFSRA under its power to request information from auditors or to discuss issues of regulatory concern;
- meetings to discuss matters communicated by the auditors under their duty to report to IFSRA.

The normal procedures and confidentiality restrictions apply to these meetings in the same way as to formal tri- and bilateral meetings.

### 3. MANAGEMENT LETTERS

The Review Group on Auditing (RGA) recommended that copies of management letters should be sent to IFSRA. This recommendation was implemented for banks in 2002. Section 27c of the CBFSAI Act 2004 requires that management letters issued by auditors of credit unions are copied to IFSRA at the same time or as soon as practical after the original is provided to the credit union they are sent to the directors of the credit union, - IFSRA requires that the management letters be sent by 31<sup>st</sup> January of the following year.]. This should incorporate the responses to the points raised in the letter i.e. the final management letter.

Extract from CBFSAI Act 2004

Duty of auditor to  
provide Bank with  
copies of certain reports

27C.—(1) If the auditor of a regulated financial service provider provides the financial service provider, or those concerned in its management, with a report on a matter that has come to the auditor's notice while auditing the accounts of the financial service provider or carrying out any other work for the financial service provider of a kind specified by the Bank, the auditor shall provide the Bank with a copy of the report. The copy must be provided at the same time as, or as soon as practicable after, the original is provided to the financial service provider or those concerned in its management.

#### **Auditing Standards**

Statement of Auditing Standards 610 - Communication of audit matters to those charged with governance deals with the scope and content of 'management letters'.

*SAS 610*

*Auditors incorporate in their communication of matters to those charged with governance comments made by management, where those comments will aid the understanding of those charged with governance, and any actions management have indicated that they will take*

#### **Where no management letter is to be issued**

The external auditor should inform IFSRA if it is not their intention to issue a management letter.

#### **Content of management letter**

IFSRA understands that there is no firm definition of "management letters" or their content and that auditing firms may use different terminology and different communication procedures depending on the size and nature of their audit client.

IFSRA requires the external auditor to submit to it copies of all formal communications of matters that the auditor considers material to bring to the attention of the credit union's board.

### **Client confidentiality**

Any communication to directors is confidential information. Thus auditors require the **prior consent** of the directors if they are to provide a copy of a communication to directors to a third party. IFSRA expects to receive copies of management letters direct from the auditors. The auditors therefore obtain the prior consent of the credit union and this may be dealt with in the Engagement Letter. Against this background, credit union auditors may consider it prudent to include in their report to directors or management, as a matter of course, a statement that:

- (a) the report has been prepared for the sole use of the entity;
- (b) it must not be disclosed to another third party, other than IFSRA or the Irish League of Credit Unions or quoted or referred to, without the written consent of the auditors;
- (c) no responsibility is assumed by the auditors to any other person; and
- (d) it does not purport to be a comprehensive record of all matters arising, risks or internal control weaknesses in the entity.

Auditors should remember that a copy of the management letter is also sent to the Irish League of Credit Unions where relevant. (see Irish League of Credit Unions Year End Requirements 2004)

#### **4. AUDITORS' STATEMENT ON THE DUTY TO REPORT.**

IFSRA expects auditors to provide **annual confirmation** that they have complied with their obligations under S122 of the Credit Union Act, 1997.

This does not replace the auditors' duty to report certain matters to IFSRA under S 122 but is an *unqualified assurance* that there is no matter not already reported in writing to IFSRA by the auditor that has come to the attention of the auditor during the course of the audit that has given rise to a duty to report to IFSRA.

Auditors are obliged to report in writing to IFSRA within one month after the date of the auditor's report or within such extended period as IFSRA allows as to whether or not there are any circumstances required to be reported by section 122 CUA, 1997/section 33 IIA, 1995. The report under this section must be in a form publicity notified by IFSRA. We understand this process should be completed in January 2005. Auditors will be notified of the format of the reports by IFSRA . This guidance will be updated at that stage.

#### **Timing**

IFSRA requires a firm to submit to it a 'statutory duty' confirmation in respect of a credit union where it acts as auditors of a ROI credit Union at the same time as sending a copy of the management letter as set out in the Guidance Note for the Auditors of Credit Unions issued by IFSRA on 27<sup>th</sup> July 2004.

Please check the ACCA website and the IFSRA website for updates.

## **5. ROTATION OF AUDIT PARTNER**

“Finally it is recommended that in order to enhance the independence and objectivity of the audit process of credit unions there should be rotation of the audit partner responsible for the audit of the credit union every five years. I recognise the need for a transition period and accordingly I propose that full compliance with this recommendation should be implemented not later than the accounting period ending the 30<sup>th</sup> September 2007.”  
(IFSRA letter July 2004)

In line with the requirement on banks IFSRA now requires that the audit partner on credit union audits changes every 5 years. As this requirement does not come in until 2007 the current audit partner has some time to consider the impact on the practice.

From a practical point of view as the new auditor is to be in place for 2007 ideally the appointment should be made at or shortly after the previous AGM ie y/e 30 September 2006 so that the new auditor is in place and ready to deal with any interim work etc throughout the year.

## **6. ETHICAL CONSIDERATIONS FOR AUDITORS OF CREDIT UNIONS**

Credit unions are public interest entities. Auditors should be aware of the relevant sections of the ACCA Code of Ethics which apply to public interest entities.

Further, for accounting periods commencing on or after the 15th December 2004 the recently issued APB Ethical Standards for Auditors will apply.

Particular issues which the auditors of credit union should be aware of include:  
Partner Rotation  
Independent Partner Review  
Provision of non- audit services and in particular the prohibition on accounts preparation.

It is important that having carefully reviewed the relevant Guidance and Standards that auditors consider their continued involvement with their credit union clients.

**List of Appendices:**

**Appendix A – Letter from IFSRA to Auditors of Credit Unions 27 July 2004**

**Appendix B – Format of Annual Positive Statement – Yet to be finalised**

27<sup>th</sup> July 2004

**Re: Guidance Note for the Auditors of Credit Unions**

Dear Sir / Madam,

At a time when the business of credit unions is growing in complexity and value we are concerned to ensure that auditing standards for the movement are operated to the highest possible level.

The purpose of this letter is to set out the requirements of the Irish Financial Services Regulatory Authority [IFSRA] regarding the auditing of credit unions. These requirements incorporate the recommendations contained in the report of the Review Group on Auditing [RGA] of July 2000, on the relationship between IFSRA and the external auditors of credit unions.

**THE ROLE OF CREDIT UNIONS' EXTERNAL AUDITORS**

Independent audit plays an important part in safeguarding the integrity of financial reports by directors of credit unions. The auditor's opinion helps to establish the credibility of the financial statements of credit unions. External auditors also contribute to the regulatory process. IFSRA relies on the external auditor's reports on the financial statements of credit unions.

Section 114 of the Credit Union Act, 1997 (the Act) states the qualifications necessary to be appointed as a credit union auditor. IFSRA requires auditors and the board of directors to ensure that no conflicts of interests arise which may affect the auditor's statutory independence and objectivity. IFSRA requires auditors to be in compliance with their professional ethical and other guidelines in all aspects of their relationship with a credit union. Auditors should be mindful of the resources and expertise necessary to audit credit unions when accepting assignments.

Section 120 of the Act sets out the obligation on the auditor to report to the members, the format and content of the auditor's report, the right of access by the auditor to the books and documents of the credit union and the right to be heard at the annual general meeting. The primary objective of an audit of the financial statements of a credit union is to enable an independent auditor to express an opinion in accordance with the Act. Section 120 [2] of the Act requires that the auditor, before signing his report, shall meet and report to the directors and the members of the Supervisory Committee on the annual accounts and on any matters relating thereto which he considers should be drawn to their attention. [Note Section 120 [5] of the Credit Union Act, 1997 has not been commenced.]

**DUTY OF AUDITORS TO REPORT DIRECTLY TO IFSRA**

Auditors have a statutory duty to report directly to IFSRA. Section 122 of the credit union Act, 1997 requires auditors to report, in writing, certain matters which they become aware of during the course of the audit, to IFSRA. These are detailed at appendix 1. Some credit unions may also be authorised under the Investment Intermediaries Act, 1995. Section 33 of the Investment Intermediaries Act, 1995 requires auditors to report, in writing, certain matters to IFSRA. These are detailed at

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appendix 2. [Note Section 122 [1] [f] of the Credit Union Act, 1997 has not been commenced.]

**Recommendations of the Report of the Review Group on Auditing.**

The Report of the Review Group on Auditing [RGA] contained certain recommendations regarding increased liaison between IFSRA and the external auditors of financial institutions. IFSRA fully supports these recommendations.

These recommendations include:

- The requirement on the external auditors of a financial institution to provide “an annual positive statement” to IFSRA.
- Increased liaison with the external auditors [bilateral/trilateral meetings].
- The receipt of management letters by IFSRA from the external auditor.

IFSRA now requires that these recommendations, which are detailed in full at appendix 3, be implemented for credit unions commencing with the accounting period ending the 30<sup>th</sup> September 2004.

**Rotation of the Auditor of Credit Unions**

Finally it is recommended that in order to enhance the independence and objectivity of the audit process of credit unions there should be rotation of the audit partner responsible for the audit of the credit union every five years. I recognise the need for a transition period and accordingly I propose that full compliance with this recommendation should be implemented not later than the accounting period ending the 30<sup>th</sup> September 2007.

Should you have any queries in relation to this matter please contact Martin Johnson of this office. [Ph: 4104988, Fax 4104990, e-mail: martin.johnson@ifsra.ie]

Yours sincerely.

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Brendan F Logue  
**REGISTRAR OF CREDIT UNIONS**

c.c. Chairman of the Boards of Credit Unions  
c.c. Chairman of the Supervisory Committees of Credit Unions.

**Appendix 1**

**DUTY OF AUDITORS TO REPORT TO IFSRA**

**CREDIT UNION ACT, 1997 – SECTION 122**

Section 122 of the Credit Union Act, 1997 requires the auditors of credit unions to report to IFSRA on issues as follows:

If at any time the auditor of a credit union -

- (a) Has reason to believe that there exist circumstances which are likely to affect materially the credit union's ability to fulfil its obligations to its members or meet any of its obligations under this Act,
- (b) Has reason to believe that there are material defects in the accounting records, systems of control of the business and records of the credit union,
- (c) Has reason to believe that there are material inaccuracies in or omissions from any returns made by the credit union to the Registrar, [now IFSRA]
- (d) Proposes to qualify any report which he is to provide under this Act,
- (e) Has reason to believe that there are material defects in the system for ensuring the safe custody of all documents of title, deeds and accounting records of the credit union, or
- (f) Considers that the board of directors have failed to respond to any recommendations made by him,

the auditor shall forthwith report the matter to the Registrar [now IFSRA] in writing.

[Note Section 122 [1] [f] of the Credit Union Act, 1997 has not been commenced.]

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**APPENDIX 2**

**DUTY OF AUDITORS TO REPORT TO IFSRA**

***INVESTMENT INTERMEDIARIES ACT, 1995 [THE ACT] – SECTION 33***

*[Note: the expression "supervisory authority" means IFSRA]*

**33** (3) If at any time an auditor of an authorised investment business firm and, in the case of paragraphs (e) and (f) of this subsection, an auditor of an investment business firm—

( a ) has reason to believe that there exist circumstances which are likely to affect to a material degree the ability of the authorised investment business firm to fulfil its obligations to investors or clients or meet any of its financial obligations, or

( b ) has reason to believe there are material defects in the accounting records or systems of control of the business and records, or

( c ) has reason to believe that there are material inaccuracies in, or omissions from, any returns made by an authorised investment business firm to the supervisory authority, or

( d ) proposes to qualify any report or certificate which he is to provide in relation to the financial statements or returns of an authorised investment business firm under the Companies Acts, or under this Act, or

( e ) has reason to believe that there are material defects in the system of any investment business firm for ensuring the safe custody of money or investment instruments of clients or has reason to believe that an investment business firm is not complying with client money requirements or rules or provisions of this Act, or

( f ) has reason to believe that an investment business firm which is a certified person has breached to a material degree the rules relating to the provision of investment business services of any approved professional body by which it is regulated or supervised, or

( g ) decides to resign or not to seek re-election as auditor,

the auditor shall report the matter to the relevant supervisory authority in writing without delay.

(4) The auditor of an investment business firm, if requested to do so by a supervisory authority, shall furnish to the supervisory authority a report stating whether, in the opinion of the auditor and to the best of the knowledge of that auditor, the investment business firm has or has not complied with—

( a ) any condition or requirement set out or imposed under this Act in relation to financial resources, money or investment instruments of clients, accounting records and specified aspects of control systems or any or all of these, or

( b ) any condition or requirement set out in or imposed under this Act,

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and the supervisory authority concerned may specify that such a report be furnished to it in such form as it may specify either on an annual basis or on such other occasion as the supervisory authority may specify or both.

(7) An auditor of an authorised investment business firm shall communicate to a supervisory authority any matters which come to the attention of the auditor and are such as to give the auditor reasonable cause to believe that the matter is or may be of material significance for determining either whether—

( a ) the level of competence of a person is satisfactory having regard to the matters with which they would be concerned in relation to the business of an authorised investment business firm and their probity is such as to render them suitable to carry on the business of an authorised investment business firm; or

( b ) disciplinary action ought to be taken, or a direction given, by reason of the contravention by a person of any provision of this Act or any conditions or requirements, or both, or directions imposed by the supervisory authority under this Act.

( 8 ) ( a ) Where a supervisory authority is of the opinion that the exercise of its functions under this Act or the protection of investors or clients or the interest of the proper and orderly regulation and supervision of investment business firms so requires, the supervisory authority may require the auditor of an investment business firm to supply it with such information as it may specify in relation to the audit of the business of the said investment business firm and the auditor shall comply with the requirement.

( b ) The supervisory authority may specify that, in supplying information for the purposes of this subsection, the auditor shall act independently of an investment business firm.

(9) No duty to which an auditor of an investment business firm may be subject shall be regarded as contravened and no liability to the investment business firm or to the shareholders, creditors, investors, clients or other interested parties of any investment business firm shall attach to the auditor by reason of his compliance with any obligation imposed on him by or under this section.

(10) It shall be the duty of an auditor in preparing an audit or a report under this section to carry out such investigations as will enable him to form an opinion as to whether—

( a ) an authorised investment business firm has kept proper accounting records;

( b ) an authorised investment business firm has maintained satisfactory systems of control of its business and records and systems of inspection and report thereon;

( c ) an authorised investment business firm has complied with rules or requirements relating to money of clients and investment instruments referred to in *section 52* of this Act and with the provisions of sections 52 (3), 52 (5), or 52 (6);

and, where an auditor is of the opinion that an authorised investment business firm has failed to keep proper accounting records or to maintain a satisfactory system of control of its business or records, or has failed to comply with the rules or requirements of this Act referred to in paragraph (c) of this subsection the auditor shall so state in his report.

### **APPENDIX 3**

#### **RECOMMENDATIONS OF THE REVIEW GROUP ON AUDITING [RGA]**

##### **[1] RECOMMENDATION 15.2 OF THE REVIEW GROUP ON AUDITING [RGA] –**

###### ***EXTERNAL AUDITORS' ANNUAL POSITIVE STATEMENT TO IFSRA***

**Recommendation 15.2** requires the external auditors of a credit union to provide “an annual positive statement” to IFSRA. This requirement relates to existing legislation whereby external auditors are required to report to IFSRA in certain specified circumstances. Additionally, IFSRA requires an “annual positive statement” from the external auditor on whether anything has come to their attention that gives rise to a legislative duty to report.

##### **[2] RECOMMENDATION 15.3 OF THE [RGA] –**

###### ***INCREASED LIAISON WITH EXTERNAL AUDITORS [BILATERAL/TRILATERAL MEETINGS]***

IFSRA is of the view that the relationship between a credit union’s external auditors and IFSRA as regulator can be strengthened to mutual advantage. The RGA has stated in recommendation 15.3 that “there should be increased liaison between the Bank [now IFSRA] and the external auditors of financial institutions”.

This recommendation may be facilitated via formal bilateral and trilateral meetings that are comprised as follows:

- Attendees at a bilateral meeting are from IFSRA and the external auditors of the relevant credit union.
- Attendees at a trilateral meeting are from IFSRA, the credit union and its external auditors.

It is IFSRA’s intention to hold trilateral meetings on a case-by-case basis to discuss audit related matters, particularly matters such as the credit union’s control

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environment, corporate governance procedures, the Supervisory Committee's procedures, and the credit union's risk profile.

Bilateral meetings may be used for more detailed discussions of matters raised in the course of a trilateral meeting and to seek the views of auditors on matters of concern to IFSRA or to the auditors.

**[3] RECOMMENDATION 15.6 OF THE [RGA]*****RECEIPT OF MANAGEMENT LETTERS BY IFSRA FROM THE EXTERNAL AUDITOR***

While the scope and content of management letters should be agreed between the external auditors and the directors of credit unions the RGA recommends that management letters should be sent directly to IFSRA by the external auditor, at the same time as they are issued to the credit union. IFSRA would wish that the management letter would incorporate the Credit Union's response to the matters raised by the external auditor. IFSRA requires that the management letter and the credit union response should be sent to IFSRA within four months of the year-end i.e. by 31<sup>st</sup> January of the following year.

In addition to this, the external auditor should inform IFSRA if it is not their intention to issue a management letter. IFSRA understands that there is no firm definition of "management letters" or their content and that auditing firms may use different terminology and different communication procedures depending on the size and nature of their audit client. IFSRA requires the external auditor to submit to it copies of all formal communications of matters that the auditor considers material to bring to the attention of the credit union's board.

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The format for the annual positive statement has yet to be finalised by IFSRA please check ACCA and IFSRA websites regularly for updates.