



## CORPORATE CREDIT UNION GUIDANCE LETTER

No. 2011- 03

DATE: July 26, 2011

SUBJ: Annual Reporting Requirements and Internal Controls Assessments Required Under Section 704.15(a) of the National Credit Union Administration Rules and Regulations

TO: The Corporate Credit Union Addressed

The purpose of this letter is to provide guidance pertaining to the management reporting requirements of Section 704.15(a) (2) as recently revised under Part 704 of the National Credit Union Administration (NCUA) Rules and Regulations. These audit and reporting requirements are effective on and after January 1, 2012. The revisions set forth regulatory requirements for reporting and assessment by corporate credit union (corporate) officials and auditors as to the adequacy and effectiveness of internal controls over the financial reporting processes utilized by the corporate. The content of the regulatory requirements added to Section 704.15 are similar to those required of banks and other U.S. corporations as set forth in certain sections of the Sarbanes-Oxley Act of 2002 (SOX).

Specifically, Section 704.15 has been expanded to facilitate the accuracy and attestation of each corporate's financial reporting process as follows:

- Requires that annual financial statements and regulatory reports reflect all material correcting adjustments as identified by the corporate's Independent Public Accountant (IPA) as necessary for financial reports to conform to Generally Accepted Accounting Principles (GAAP);
- Requires that corporates must prepare a management report, to be signed by either the chief executive officer and either the chief accounting officer or chief financial officer on an annual basis that includes:
  - A statement of management's responsibilities for preparing the corporate's annual financial statements, establishing and maintaining an adequate internal control structure over financial reporting, and for complying with certain laws and regulations as outlined in the Section 704.15(a)(2)(i) of the regulation;
  - An assessment by management of the corporate's compliance with such laws and regulations during the past year pursuant to Section 704.15(a)(2)(ii) of the regulation;
  - An assessment by management of the effectiveness of the corporate's internal control structure and procedures as of the end of the preceding calendar year.

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- Will require, beginning on and after January 1, 2014, that the IPA who audits the corporate's financial statements must examine, attest to, and report separately on the assertion of management concerning the effectiveness of the corporate's internal control structure and procedures over financial reporting.

These revisions to the regulation direct the corporate officials to place adequate internal controls over the financial reporting process as well as define an internal controls framework from which specific financial and operational controls are derived. In addition, the revisions direct corporate officials to annually provide a written statement defining that adopted framework. The regulation further requires an assessment by management of the corporate's internal control structure and procedures. Where the assessment identifies the controls were deficient the annual report should identify those areas where controls were not effective.

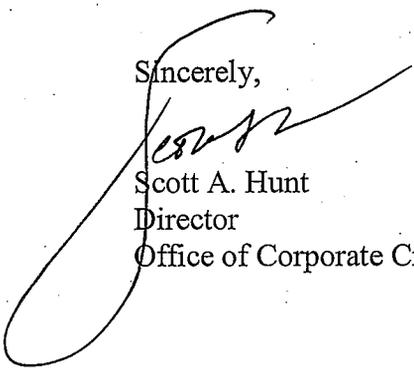
Pursuant to implementation of Section 704.15 of the corporate rule you may find the links below helpful. As our rule mirrors that of the other financial regulators they are provided as guidance and are illustrative but may be subject to change. In addition, Appendix A enclosed with this letter includes illustrative statements intended to assist management in complying with annual reporting requirements.

Link to the FDIC's illustrative management reports (12 C.F.R. Section 363, Appendix B):  
<http://www.fdic.gov/regulations/laws/rules/2000-8500.html#fdic2000appendixbtopart363>

Link to the Interagency (not including NCUA) Policy Statement on the Internal Audit Function and its Outsourcing: <http://occ.gov/news-issuances/bulletins/2003/bulletin-2003-12a.pdf>

I hope that this guidance will be beneficial in conjunction with implementation of the revised regulatory requirements. If you have any questions, please contact this office or your corporate examiner.

Sincerely,



Scott A. Hunt  
Director  
Office of Corporate Credit Unions

OCCU/CJD: cd: js

cc: All State Supervisors

# APPENDIX A

**1. Statement of Management's Responsibilities**

**Management Report**

The management of ABC Corporate Credit Union (the "Corporate") is responsible for preparing the Corporate's annual financial statements in accordance with generally accepted accounting principles; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial reports in accordance with the instructions for the NCUA 5310 – Corporate Credit Union Call Report; and for complying with Federal and, as applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure.

ABC Corporate Credit Union

\_\_\_\_\_ John Doe, Chief Executive Officer

Date: \_\_\_\_\_

\_\_\_\_\_ Jane Doe, Chief Financial Officer

Date: \_\_\_\_\_

**2. Management's Assessment of Compliance With Safety and Soundness Laws and Regulations – No Deficiencies**

**Management Report**

The management of ABC Corporate Credit Union (the "Corporate") has assessed the Corporate's compliance with the Federal, and if applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure during the fiscal year that ended on December 31, 20XX. Based upon its assessment, management has concluded that the Corporate complied with the Federal and, if applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure during the fiscal year that ended on December 31, 20XX.

ABC Corporate Credit Union

\_\_\_\_\_ John Doe, Chief Executive Officer

Date: \_\_\_\_\_

\_\_\_\_\_ Jane Doe, Chief Financial Officer

Date: \_\_\_\_\_

**3. Management's Assessment of Compliance With Safety and Soundness Laws and Regulations – With Deficiencies**

**Management Report**

The management of ABC Corporate Credit Union (the "Corporate") has assessed the Corporate's compliance with the Federal, and if applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure during the fiscal year that ended on December 31, 20XX. Based upon its assessment, management has determined that, because of the instance(s) of noncompliance noted below, the Corporate did not comply with the Federal and, if applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure during the fiscal year that ended on December 31, 20XX.

[Identify and describe the instance or instances of noncompliance with the Federal and, if applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure, including appropriate qualitative and quantitative information to describe the nature, type, and severity of the noncompliance and the dollar amount(s) involved.]

ABC Corporate Credit Union

\_\_\_\_\_ John Doe, Chief Executive Officer

Date: \_\_\_\_\_

\_\_\_\_\_ Jane Doe, Chief Financial Officer

Date: \_\_\_\_\_

#### 4. Management's Assessment of Internal Control Over Financial Reporting

##### Management Report

ABC Corporate Credit Union's (the "Corporate's") internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, *i.e.*, NCUA 5310 – Corporate Credit Union Call Reports. The Corporate's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporate; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Corporate are being made only in accordance with authorizations of management and directors of the Corporate; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Corporate's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management is responsible for establishing and maintaining effective internal control over financial reporting including controls over the preparation of regulatory financial statements. Management assessed the effectiveness of the Corporate's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA 5310 – Corporate Credit Union Call Report, as of December 31, 20XX, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control--Integrated Framework* [Or other recognized internal control framework cited and utilized by the Corporate]. Based upon its assessment, management has concluded that, as of December 31, 20XX, the Corporate's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA 5310 – Corporate Credit Union Call Report, is effective based on the criteria established in *Internal Control--Integrated Framework* [Or other recognized internal control framework cited and utilized by the Corporate].

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA 5310 – Corporate Credit Union Call Report, as of December 31, 20XX, has been audited by [name of auditing firm], an independent public accounting firm, as

stated in their report dated March XX, 20XY.

ABC Corporate Credit Union

\_\_\_\_\_ John Doe, Chief Executive Officer

Date: \_\_\_\_\_

\_\_\_\_\_ Jane Doe, Chief Financial Officer

Date: \_\_\_\_\_

## 5. Management's Assessment of Internal Control Over Financial Reporting – One or More Material Weaknesses

### Management Report

ABC Corporate Credit Union's (the "Corporate") internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, *i.e.*, NCUA 5310 – Corporate Credit Union Call Report. The Corporate's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Institution; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Corporate are being made only in accordance with authorizations of management and directors of the Corporate; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Institution's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management is responsible for establishing and maintaining effective internal control over financial reporting including controls over the preparation of regulatory financial statements. Management assessed the effectiveness of the Corporate's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA 5310 – Corporate Credit Union Call Report, as of December 31, 20XX, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control--Integrated Framework* [Or other recognized internal control framework cited and utilized by the Corporate]. Because of the material weakness (or weaknesses) noted below, management determined that the Corporate's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA 5310 – Corporate Credit Union Call Report, was not effective as of December 31, 20XX.

[Identify and describe the material weakness or weaknesses.]

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the

instructions for the NCUA 5310 – Corporate Credit Union Call Report, as of December 31, 20XX, has been audited by [name of auditing firm], as independent public accounting firm, as stated in their report dated March XX, 20XY.

ABC Corporate Credit Union

\_\_\_\_\_ John Doe, Chief Executive Officer

Date: \_\_\_\_\_

\_\_\_\_\_ Jane Doe, Chief Financial Officer

Date: \_\_\_\_\_

<b>6. Combined Management Report – Assessment of Compliance Safety and Soundness Laws and Regulations and No Material Weaknesses in Internal Control Over Financial Reporting</b>
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## **Management Report**

### *Statement of Management's Responsibilities*

The management of ABC Corporate Credit Union (the "Corporate") is responsible for preparing the Corporate's annual financial statements in accordance with generally accepted accounting principles; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA 5310 – Corporate Credit Union Call Report; and for complying with the Federal laws, if applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure.

### *Management's Assessment of Compliance With Safety and Soundness Laws and Regulations*

The management of the Corporate has assessed the Corporate's compliance with the Federal and, if applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure during the fiscal year that ended on December 31, 20XX. Based upon its assessment, management has concluded that the Corporate complied with the Federal laws and, if applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure during the fiscal year that ended on December 31, 20XX.

### *Management's Assessment of Internal Control Over Financial Reporting*

The Corporate's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, *i.e.*, NCUA 5310 – Corporate Credit Union Call Report. The Corporate's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporate; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Corporate are being made only in accordance with authorizations of management and directors of the Corporate; and (3) provide reasonable assurance regarding

prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Corporate's assets that could have a material effect on the financial statements

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management assessed the effectiveness of the Corporate's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA 5310 – Corporate Credit Union Call Report, as of December 31, 20XX, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework* [Or other recognized internal control framework cited and utilized by the Corporate].

Based upon its assessment, management has concluded that, as of December 31, 20XX, the Corporate's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA 5310 – Corporate Credit Union Call Report, is effective based on the criteria established in *Internal Control - Integrated Framework* [Or other recognized internal control framework cited by and utilized by the Corporate].

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA 5310 – Corporate Credit Union Call Report, as of December 31, 20XX, has been audited by [name of auditing firm], an independent public accounting firm, as stated in their report dated March XX, 20XY.

ABC Corporate Credit Union

\_\_\_\_\_ John Doe, Chief Executive Officer

Date: \_\_\_\_\_

\_\_\_\_\_ Jane Doe, Chief Financial Officer

Date: \_\_\_\_\_