



Supervisory Committee Duties and Responsibilities

December 5, 2002

The members at the annual general meeting (AGM) elect the supervisory committee. The supervisory committee members usually serve on a voluntary basis and report to the membership. The committee normally consists of an odd number, not less than 3 or more than 5 members. The supervisory committee's principal objectives are to perform, or select a qualified individual to perform the annual audit, member account verification, and periodic internal audits of operational areas throughout the year.

Because of the technical nature of the supervisory committee it is imperative that the elected committee members have "hands on" experience in accounting and auditing. Very few committees are capable of performing the auditing procedures nor do volunteers usually have enough spare time to adequately perform the necessary audit steps. This being said, it is in the best interest of all credit unions and their members to have a disinterested third party conduct the annual audit at the very least. If the annual audit is performed by a qualified, outside auditor, then the supervisory committee can perform the account verification and internal audits throughout the year. If sufficient funding is not an issue, then the supervisory committee should hire an individual to perform the member account verification and the internal auditing function. This individual should report directly to the committee.

However, many newly chartered or small credit unions can not afford an external auditor, so their only option is to have the supervisory committee perform all auditing functions. The supervisory committee should only be allowed to perform the audit if operations are simple. That is, the credit union offers only the most basic services. Examples of basic services and simple operations are:

- short-term consumer loans – unsecured, share secured, co-signed,
- ownership share accounts,
- term deposits,
- no cash on site,
- investments made at a local financial institution in demand deposit accounts only, and
- limited or no investment in fixed assets.

If the credit union is going to use the supervisory committee to perform the auditing functions, each member should fully understand their duties and responsibilities. They should receive and review a written job description just as an employee would. The duties and responsibilities should be clearly stated in the job description given to all perspective committee members so that expectations are perfectly clear. The following information should be included in the job description of a supervisory committee member.

Supervisory Committee Job Prerequisites – Supervisory committee members should be:

- Experienced in accounting, finance, and/or auditing;

- Experienced in performing external and internal auditing;
- Capable of reading and interpreting financial statements;
- Able to understand and comply with all laws governing the credit union;
- Knowledgeable of all credit union policy and procedures;
- Capable of investigating and resolving any membership complaints or comments made by staff or any other individuals with regards to mismanagement and/or fraud;
- Able to commit enough time to successfully complete all of the job duties and responsibilities; and
- Able to work as part of a team.

Supervisory Committee Duties and Responsibilities – This duties and responsibilities should be reviewed not only by prospective supervisory committee members, but no less than annually by the entire committee at the meeting immediately following the AGM and the review so noted in the committee minutes.

The duties and responsibilities of the committee include:

- Perform or select an external auditor to perform the annual audit of the financial records and books of the credit union.
- Perform or contract with a qualified individual to perform internal audits monthly of:
 - different operational areas to evaluate the books and records for accuracy,
 - the assets for security, and
 - the procedures for the proper handling and use of funds, and make accounting and procedural recommendations regarding internal controls.

Internal audits should, at a minimum, include the following: physical cash and negotiable item counts, review of investments, bank account reconciliation, random sample and review of outstanding loans and loans granted in the past 6 months, review of loans on the delinquent loan list, compliance with policies and procedures, determination that general ledger accounts balance with their subsidiary ledgers, verification of opened and closed accounts, review of employee savings, shares, and loan accounts, and a review of internal control reports.

- Present all internal audit findings and the annual audit report to the board at their regular monthly meetings. All information should be presented in writing and retained with the board minutes.
- Perform or select an external auditor to perform a 100% verification of the member deposit, share, and loan accounts with the records. A record should be maintained of this verification and the results reported to the board and AGM.
- Follow-up on all recommendations made during the external audits, periodic internal audits, and regulatory exams and ensure they have been implemented.
- Ensure that the credit union complies with the law, regulations, bylaws, AGM resolutions, and established policies.
- Present the annual audit report and the findings at the AGM.
- Remain current on all personal credit obligations with the credit union.
- Receive and investigate any complaint or appeal by members concerning the operations of the credit union.

Upon reading their job duties and responsibilities, each potential supervisory committee member should date and sign that they have read the document. Their signature implies that they will perform the duties and responsibilities to the best of their ability. The signed document should be retained in the perspective committee member's personal file and should be available for review by regulatory authorities.

In addition to reviewing their duties and responsibilities each perspective committee member, prior to the AGM and election, should provide their resume or CV to the nominating committee. This information should be retained in their personal file and made available to the membership prior to the election so that each voting member can cast an informed vote. The background information of most interest to the voting membership includes:

- Professional background;
- Education;
- Prior service on audit or supervisory committees; and
- Any special skills in the areas of finance, accounting, auditing, business, etc.

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