

## The internal audit universe of Irish credit unions - Galileo Galilei, the Chartered Institute of Internal Auditors, and, the importance of perspective

“Measure what can be measured, and make measurable what cannot be measured”

No one ever got fired for choosing IBM, and it is likely to be a safe bet to start an article on the internal audit universe, by quoting Galileo Galilei. Galileo Galilei, the Italian renaissance astronomer, literally redefined the universe itself in 1609 when he debunked the concept that Earth was not at the centre of the universe (a concept referred to as geo-centrism and backed by no less than Aristotle and the Catholic Church) and he suggested that Earth along with other planets, orbit the sun (referred to as helio-centrism, and backed by a lonely Galileo and a few other big names of the time, Copernicus to name but one). This brought Galileo on a collision course with the Catholic Church, a collision that Galileo came out the worse from, being found by the Inquisitors of the time to be “vehemently suspect of heresy”, confined to house arrest, and effectively gagged for the remainder of his brilliant life. As he left the courtroom in 1633, it is said that Galileo muttered “yet it moves”. Galileo’s theories on the universe were ultimately proven to be entirely correct, and the Catholic Church has spent centuries in a state of denial/ apology. In 1992, 359 years later, Pope John Paul II accepted that Galileo was correct. It is therefore with the sword of Damocles hanging over our heads, we decided in Moore to sketch what the audit universe of a modern day Irish credit union might resemble. To use the mutterings of Galileo, we were acutely aware that “it moves”.

Irish credit unions do indeed inhabit a world of black holes and baby universes that move. Irish credit unions are severely under-lent in an ultra-low ultra-long interest rate environment. Irish credit unions have rising asset bases which places a dilution risk dynamic on capital levels. And all of this at a time when the market place is becoming increasingly modular with the emergence of new finance providers (Revolut, Monzo, N26 etc.) who have highly digital centred platforms geared to resonate with the younger “Gen Z/ Millennials” cohort of the market. Beyond this, there are possible new large entrants to the market (“FANGS” e.g. Facebook, Amazon, Netflix and Google) who have the potential to make a significant disruptive impact on the marketplace. And this is set in a broader economic narrative defined by the past decade which has

witnessed the general shrinking of the credit market in all market segments (mortgage market, personal market, etc.).



Finally, this is in turn set in a general environment of heightened and upward trending regulatory demands (be it new credit union legislation and regulation, or wider legislative frameworks such as GDPR, AML, PSD1, PSD2, and the broader spectre of an open banking environment). This is



what we see when we look upwards in the telescope. Be it a geocentric universe, or a heliocentric universe, something is continually spinning.

So where does internal audit fit into all of this? The mission of internal audit (as defined by the Chartered Institute of Internal Auditors, the "CIIA") is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The mission of Moore is to firstly believe in this, and secondly to apply it to Irish credit unions in a manner that adds value, and make us not only relevant, but valuable additions to a forward oriented governance framework. Guided by this, let's define the audit universe. An audit universe is a schedule of auditable areas, generally used to guide audit planning. The CIIA points out<sup>1</sup> that a key advantage of having an audit universe is that it enables the audit activity to be clear about the extent of coverage of key risks and other risk areas each year. It can also provide a degree of rigour around areas not being audited.

This means that for those audit committees and CEOs who value a degree of cyclical assurance, the audit universe could be used to inform this. The important issue is making sure regular or cyclical audit reviews result in auditing the management of significant risks rather than risks that have little or no significance. Although development of an audit universe is optional (it is not mandatory under CIIA standards), the Standards do require the head of internal audit to establish a risk based internal audit plan. Given that credit unions now are risk "enabled" or risk "managed", there is a high likelihood risks will have been identified, assessed and responses chosen at various levels within the credit union. Assuming that risk management is applied effectively and comprehensively, risks recorded within registers become the focus of attention for internal audit planning. In this context, the CIIA emphasise that the risk

universe is, and will remain, the key foundation of any audit universe with limited additional work for internal audit other than identifying the specific auditable processes relevant to the key risks. In this regard, the audit universe should not displace the risk universe. One would hope, and expect for large parts, they are one and the same. In this regard, the development of an audit universe is helpful, but should not detract from the risk sensitivity of any internal audit plan. There is not necessarily a one to one relationship between risks and audits so the risk and audit universes do not need to be the same list exactly. It may be convenient to group several risks into a single audit. The converse may also be the case where for logistical reasons or reporting reasons it may be more convenient to break a risk, particularly a strategic risk, into several audits. It all depends on the structure of the risk universe and the level of detail.

The key point that the CIIA seem to make is that a "rigid" shopping list of auditable areas is not a good thing. Internal audit is above all, risk sensitive, and needs to be dynamic. But, a process to sit back and take stock of auditable areas, in a risk sensitive manner, is a good thing. Guided by this, and, the broader reality that Irish credit unions have a high degree of homogeneity/ likeness, we took stock of our inventory of auditable areas in credit unions where we have work programmes designed with defined control objectives and control expectations. We found this to be a very interesting process. We broke down 57 auditable areas (the universe) into 5 groupings: financial controls, ICT controls, fraud controls, operational controls and governance controls. They are as follows:

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<sup>1</sup> "Audit universe", Chartered Institute of Internal Auditors, 2018

FINANCIAL CONTROLS	
1	Bank Reconciliations
2	Bad Debt Provisioning
3	Capital and Liquidity
4	Investments
5	Suspense and Control Accounts
6	Financial Projections
7	Prize Draws
8	ALM (standard LTL limits)
9	ALM (extended LTL limits)
10	Management Reporting
11	Payroll
12	Travel and Subsistence Expenses
13	Accruals and Prepayments
14	Finance Function
15	Prudential Reporting

  

ICT CONTROLS	
1	IT Governance
2	IT Security
3	IT Business continuity
4	IT Outsourcing
5	IT Change management

  

FRAUD CONTROLS	
1	Fraud Governance
2	Segregation of Duty - application controls
3	Deceased Accounts
4	Dormant Accounts/ Reactivated Accounts
5	Written Off Accounts
6	Cash Procedures and Cash Count

  

OPERATIONAL CONTROLS	
1	Lending (standard)
2	Lending (home loans)
3	Lending (related party)
4	Credit Control
5	Membership
6	Foreign Currency
7	LP/ LS Insurance
8	Savings Stamps/ Cards
9	SEPA Credit Transfers
10	MPCAS

  

GOVERNANCE CONTROLS	
1	Risk
2	Compliance
3	Strategy (content)
4	Strategy (process)
5	AML (standard)
6	AML (CDD focus)
7	GDPR
8	Board (functions)
9	Board (committee structure)
10	Board (procedural provisions)
11	Fitness and Probity
12	Outsourcing
13	Culture
14	Nomination Committee
15	Board Oversight Committee
16	Policy Governance
17	RMP Embeddedness
18	Branch Integration Controls
19	Follow up on Internal Audit Audit Log
20	PSD2 (specified controls review)
21	Project Management

Again, to emphasise, this is not a shopping list. Internal audit is risk sensitive, and each audit committee should first and foremost have their risk register in their hand when they look at their next internal audit plan. But this list of auditable areas may be a useful thing to have in your other hand when you look at the next internal audit plan. It may serve as a useful cross check. We would also emphasise, that this is a “point-in-time” universe. By the time we enter 2020, the list of 57 is likely to have grown.

It is understood that Galileo Galilei dropped two spheres of different mass from the Leaning Tower of Pisa (he was Professor of Mathematics in Pisa at the time) to demonstrate that their time of descent was independent of their mass, and in so doing disproved Aristotle’s theory of gravity which set out that objects fall at a speed proportional to their mass. Galileo was above all, famed for his scientific methods. Einstein later referred to Galileo as the “father of modern science”. In this context, enabling a greater understanding of any universe, audit included, is a worthy endeavour, both on a content level but also as a method. We should all (Board, ARC, CEO, IA, RMO) be the better for it. Let’s hope it is not 359 years until we are proven right.....

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