



## THE YEAR FOR AN OPEN MIND

### MOORE'S SCHEDULE OF AUDITABLE AREAS FOR IRISH CREDIT UNIONS

The Chartered Institute of Internal Auditors ("CIIA") issues an annual report entitled "Hot topics for internal auditors". This gathers information from 10 institutes of internal auditors around Europe. The purpose of the report is to help the internal audit profession prepare its independent risk assessment work, annual planning and audit scoping by sharing insights and learnings. The report is publically available (click [here](#)) and in respect of 2021, the profession called out the following hot topics:

Nº	CIIA - Hot Topics 2021
1	Cybersecurity and data security
2	Regulatory change and compliance
3	Digitalisation, new technology and AI
4	Financial, capital and liquidity risks
5	Human capital and talent management
6	Disasters and crisis response
7	Macroeconomic and geopolitical uncertainty
8	Supply changes, outsourcing and "nth" party risk
9	Communications, management and reputation
10	Corporate governance and reporting
11	Bribery, fraud and other financial crime
12	Climate change and environmental sustainability
13	Corporate culture
14	Health and safety
15	Mergers and acquisitions

As the credit union system approaches the end of FY2021, and peers into FY2022, we decided to take a leaf from the CIIA book and set out what we would consider to be the top 10 hot topics for Irish credit unions from an internal audit perspective looking into 2022. Internal auditing standards require that internal auditors establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. At its core, internal audit is risk-based. It dances to the tune of risk, whatever those risks may be. COVID-19 has shone a bright light on the brittleness of our understanding of the contours of risk. In this regard, looking into 2022, we would encourage maintaining an **open mind**. Upstream themes ought to feature in plans that have not featured before (e.g. Climate Change, Operational Resilience) and existing themes may acquire a special emphasis (e.g. Cyber, Liquidity, AML/CFT, and MPCAS).

Our research is based on materials from the CIIA, materials from the Central Bank of Ireland (e.g. thematic reviews, consultation papers from other regulated industries) and other academic sources (general economic analyses, consultancy firm reports etc.). We would finally emphasise that this document is a general analysis geared to stimulate discussion and dialogue within credit unions, and is not a substitute for a risk assessment for individual credit unions for internal audit planning purposes.

This paper will present a list of 10 top topics, in no particular order, with a brief analysis of why we consider the topic to be "hot". Then we present our audit universe (coined "Galileo's Universe 2022") with a full list of what we view to be the auditable areas in Irish credit unions.

#### 1. Climate Change

The recent IPCC report has focused the world's mind on climate change ("...it is unequivocal that human influence has warmed the atmosphere, ocean and land..."). In addition, a series of extreme weather events that are ongoing at the time of writing this paper have demonstrated the clear and present nature of climate change risk. "Net Zero" is about to become very real in Ireland. In July 2021, the Climate Action and Low Carbon Development (Amendment) Act 2021 was signed into law. The Act provides for the approval of plans by the Government in relation to climate change for the purpose of pursuing the transition to a climate resilient, biodiversity rich and climate neutral economy by no later than the end of the year 2050.

By definition, credit unions are geared to help their members attain their social and economic goals. These goals will undoubtedly be impacted by climate change. This is the starting point for assessing the strategic impact of climate change on credit unions. Look at climate change as being about Irish credit unions supporting Irish people on a journey to a net zero position by 2050, and all that this entails. Finally, it is important to note that the Central Bank of Ireland has recently established a new Climate Change Unit. Governor Makhoul commented that "...our goal is to ensure that climate change is a strategic priority for the financial system, and that the financial system is resilient to the risks posed by climate change and capable of supporting the transition to a lower carbon world...". Climate change ought to feature in all internal audit plans in 2022.

#### 2. Cyber

It does not require a lot of elaboration to justify cyber as a hot topic for credit unions in 2022. Going into COVID-19, cyber risk was already a high risk for most credit unions. COVID-19 then exacerbated and elevated the nature of cyber risk

vulnerabilities, with widespread shifts to online economic activity and homeworking in Ireland. The cyber-attack on the HSE showcased both the devastating impact of a cyber-attack and the insidious mind-set of a modern day cyber-criminal. While cyber may have been on internal audit plans in 2021, it is difficult to see how it cannot feature in 2022. Cyber internal control frameworks are in a state of constant change and ought to be constantly assessed.

### 3. Operational Resilience

In the aftermath of COVID-19, the concept of “operational resilience” is very much in perspective in the financial services industry with a number of European Supervisory Authorities issuing guidance. The Central Bank of Ireland issued a consultation paper in April 2021 on the matter. Operational resilience considers how best can credit unions prepare for, respond to, recover and learn from operational disruption that affects delivery of critical services. This is similar to, but distinct from, risk management. This is also similar to, but distinct from, business continuity planning. Credit unions should build on the resilience it demonstrated during the COVID-19 emergency, and develop operational resilience frameworks. This would be a worthy inclusion on the plan for 2022 and internal audit can assist.

### 4. Diversity and Inclusion

Greater diversity has the potential to improve decision making, improve risk management and reduce risks of groupthink and overconfidence. The Central Bank has repeatedly shone a light on this area and called for improvements in the Irish financial services system. In 2020, the Central Bank issued a thematic report to the Insurance industry and made a number of interesting recommendations and issued risk mitigation programmes. Matters raised included lack of focus on diversity and inclusion in strategies, lack of diversity and inclusion plans with stated stretch measures and implementation targets. A lot can be gleaned from this report which can directly apply to credit unions. This would be a worthy inclusion in the plan for 2022.

### 5. AML/CFT

While AML/CFT is a regular standing feature in internal audit plans, AML/CFT presents a dynamic and ever-shifting landscape. In June 2021 the Central Bank of Ireland issued updated Guidelines, reflecting the transposition of 5ALMD but also reflecting various other regulatory updates along with the EBA Risk Factor Guidelines for 2021. A review of the adaption of credit union AMF/ CFT frameworks to the 2021 Guidelines is undoubtedly “hot” looking into 2022.

### 6. Liquidity

While the Irish credit union system may have generally bemoaned the relatively high levels of liquidity in recent years driven by low loan to asset ratios, liquidity is an area that is (in our view) emerging as an area of risk. COVID-19 led to a significant accumulation of savings, which, with a reopening of the Irish economy, can reasonably be expected to unwind (at least to a certain extent) and this will result in a reduction in savings. At the same time, credit unions are diversifying into new lending markets, which are generally of a longer loan maturity profile (e.g. house loans, business lending). In this regard, liquidity requirements are changing (as long loan books trigger higher requirements) at a time when liquidity levels are likely to change. The confluence of these factors may lead a

credit union to unwittingly breach its regulatory requirements. The controls by which credit unions manage liquidity to meet regulatory requirements are becoming increasingly important looking into 2022.

### 7. Staff Wellbeing

The COVID-19 pandemic has changed people's working lives dramatically over the past year. To protect its workforce, credit unions have had to make rapid changes including reducing operations, changing work practices to ensure social distancing and shifts to large scale working from home. This has led to new work demands and routines, creating the potential for work related stress. Staff wellbeing is an umbrella term to describe the emotional and physical condition of an individual, a group or an organisation. Without healthy staff, operations can become impaired, and credit unions will struggle to retain talent in longer term horizons. How credit unions manage this risk is increasing in relevance, as the economy moves into a re-opening phase.

### 8. Strategy

Irish credit unions remain severely under-lent in an ultra-low ultra-long interest rate environment at a time of extreme economic uncertainty. Margins are compressed. More generally, the market place has become increasingly modular and competitive with the emergence of “neo banks” (e.g. Revolut) who have highly digital centred platforms geared to resonate with the younger cohort of the market. Earlier in 2021, a number of large retail banks made announcements which will further alter the shape of the Irish retail banking marketplace (i.e. Ulster Bank, Bank of Ireland, and KBC). Strategic planning frameworks need to respond to these changes. Strategic risk has featured in most credit unions top risks. It is difficult to see how this can change, and if anything, the risk is now likely to be more pronounced.

### 9. Fraud

It is likely that total assets in the Irish credit union system now exceed €20bn. In this context, fraud will be an ever-present risk for credit unions. The core components of fraud (pressure, opportunity and rationalisation) are now set in a changed operating environment with more online transactions, working from home dynamics and cyber vulnerabilities. Fraud risk assessments must be agile and adaptive to these new vulnerabilities. Fraud governance frameworks also need to be both agile and adaptive, and led in a top down manner.

### 10. SEPA/ MPCAS

COVID-19 has fast-tracked the shift from cash to digital transactions amongst credit union members. This is happening at a time when a large number of credit unions are rolling out MPCAS services. In this regard, internal control frameworks on SEPA and MPCAS are now mainstream controls that ought to be assigned new levels of priority.

### To conclude.....

We hope you have found this paper constructive. We will be in touch with our internal audit clients over the course of August 2021 and September 2021 to agree internal audit plans. Overleaf, you will find the full list of our auditable themes (“Galileo's Universe 2022”).

**Brian Hayes, August 2021**



# GALILEO'S UNIVERSE 2022



FINANCIAL CONTROLS	
FCON-01	Bank Reconciliations
FCON-02	Bad Debt Provisioning
FCON-03.01	Capital management
FCON-03.02	Liquidity management <b>NEW✓</b>
FCON-04	Investments
FCON-05	Suspense, Control and Holding Accounts
FCON-06	Financial Projections
FCON-07	Prize Draws
FCON-08	ALM
FCON-09	Management Reporting
FCON-10	Payroll
FCON-11	Travel and Subsistence Expenses
FCON-12	Accruals and Prepayments
FCON-13	Finance Function
FCON-14	Prudential Reporting
FCON-15	Procurement
FCON-16	Creditors Management
FCON-17	Gifts and Hospitality
FCON-18	Fixed Assets

ICT CONTROLS	
IT-01	ICT Governance
IT-02	ICT Security
IT-03	ICT Business continuity
IT-04	ICT Outsourcing
IT-05	ICT Change management
IT-06	ICT Project Value for Money
IT-07	ICT Cyber Security
IT-08	ICT Social Media Controls

FRAUD CONTROLS	
FR-01	Fraud Governance
FR-02	Segregation of Duty - application controls
FR-03	Deceased Accounts
FR-04	Dormant & Reactivated Accounts
FR-05	Written Off Accounts
FR-06	Cash Procedures and Cash Count
FR-07	SCA Controls Under PSD2

OPERATIONAL CONTROLS	
OPS-01.1	Lending (standard)
OPS-01.2	Lending (home loans)
OPS-01.3	Lending (related party)
OPS-01.4	Lending (Lending Restriction Review)
OPS-01.5	Lending (Categorisation)

OPERATIONAL CONTROLS	
OPS-02	Credit Control
OPS-03	Membership
OPS-04	Foreign Currency
OPS-05	LP/ LS Insurance
OPS-06	Savings Stamps/ Cards
OPS-07	SEPA Credit Transfer
OPS-08.1	MPCAS (Initiation)
OPS-08.2	MPCAS (Fees and charges)
OPS-09	Member Deductions
OPS-10	Educational Grants/ Bursaries
OPS-11	Budget Accounts
OPS-12	Complaints Handling

GOVERNANCE CONTROLS	
GOV-01.1	Risk Management (ISO31000-Process Elements)
GOV-01.2	Risk Management (ISO31000-Key Principles)
GOV-01.3	Risk Management (Governance Framework)
GOV-02	Compliance
GOV-03.1	Strategy (content)
GOV-03.2	Strategy (process)
GOV-04	AML / CFT
GOV-04.1	AML / CFT - CBI Guidelines 2021 <b>NEW✓</b>
GOV-05	GDPR and Data Security
GOV-06.1	Board (functions)
GOV-06.2	Board (committee structure)
GOV-06.3	Board (procedural provisions)
GOV-07	Fitness and Probity
GOV-08	Outsourcing
GOV-09	Culture
GOV-10	Nomination Committee
GOV-11	Board Oversight Committee
GOV-12	Policy Governance
GOV-13	RMP Embeddedness
GOV-13.02	Supervisory Commentary 2020 Embeddedness
GOV-14	Branch Integration Controls
GOV-15	Follow up on Internal Audit Log
GOV-16	PSD2 (specified controls review)
GOV-17	Project Management
GOV-18	Remote Working
GOV-19	Marketing
GOV-20	Corporate Social Responsibility
GOV-21	Climate Change <b>NEW✓</b>
GOV-22	Diversity and Inclusion <b>NEW✓</b>
GOV-23	Operational Resilience <b>NEW✓</b>
GOV-24	Staff Wellbeing <b>NEW✓</b>