



## Case Study – Warning signs of a failing Credit Union

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# Warning Signs of Financial Failure

- Monitoring financial position
- Effective credit control procedures
- Importance of prudent lending
- Fraud risk
- Directors' Duties
- Case Study Discussion
- Conclusion



# Monitoring the Financial Position

- Review monthly management accounts
  - Compare actual trading results to forecast figures
  - Compare actual monthly cash flow statement to forecast statement
- Monthly review of loan book collections
- Monthly review of ageing of debtors/ loan book ledger
- Consider risk of accounting irregularities



# Effective Credit Control Procedures



- Identify overdue debts
- Follow up with members to understand position
- Establish repayment pattern with member
- Take effective action for “history of non payment” of loans



# Importance of Prudent Lending

- Robust checks on affordability
- What is previous history of repayments?
- Consider offer of staged interest rates to reliable members
- Ensure robust credit control procedures enforced
- Daily follow up on loan book debtors arrears
- Identify “problem” debts early





# Fraud Risk

- A single fraud or accounting irregularities can bring down operations



# Fraud Risk – Some Indicators or Common Themes

- Poor or inaccurate production of monthly management accounts
  - Resulting from change of accounting systems
  - Non-recognition of loan arrears and provisions
- Inadequate controls over the third party monitoring of activities
  - Authorisation of payments and monitoring of receipts
- Poor or no controls over credit control
- Approval of loans to members who cannot afford to repay
- Extortionate charges to third party which are not sustainable
- Lack of effective controls and oversight by board as to daily operations

# Directors – Duties, Effect and Insolvency Risk

- Statutory duties
- Senior managers regime
- Risks to directors
- Disqualification of directors
- Risk of regulatory enforcement action







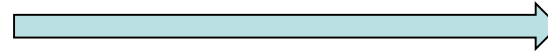
## **Workshop Case Study**

# Workshop Case Study - Overview

## ABC Credit Union Ltd

- Key systems and controls
- What should be the board's role?
- Oversight and apportionment review
- Directors fiduciary, regulatory and statutory duties

Outsourced  
administrative function



**XYZ**  
**Service**  
**Provider**

# Workshop Case Study – Some Suggested Solutions

- Key systems and controls including monitoring activities
  - Delegation limits to conducting affordability checks on loan approvals; all should be approved by Board
  - Incorporate formal reporting by XYZ to Board on debt collections, bad debts and all key performance indicators identified by Board as relevant to operations
  - Review the ageing of the loan book on monthly basis with XYZ and agree steps to be taken
  - Limit access to Bank accounts to “view” mode only
  - All payments from ABC should be approved by the Board/ Director who has authority to sign for expense/outgoing
  - Review monthly management accounts at month end to identify departures from the budget figures
  - Review monthly cash flow statement for the operations at month end
  - How are member complaints dealt with?
- Immediate steps re: Investment Product offering
  - Immediately stop product offering and conduct assessment as to how this arose
  - Inform regulator of action and advise them of the steps you will be taking moving forward

# Conclusion

- Lack of effective financial monitoring of trading operations leave firms “blind” in spotting or anticipating future problems
- Credit unions that lend in an uncontrolled and unstructured manner effectively lead to bad debts which adversely affect the financial position of firm
- Lack of credit controls over loan book recoveries could also result in an adverse effect on the financial position of the credit union and could even be “fatal”
- A single fraud or material accounting irregularity could result in the failure of the firm

