

Internal Audit

Program

RESCINDED

EXAMINATION OBJECTIVES

To determine whether the internal audit function is consistent with the institution's size, complexity of operations, level of growth, investment and operations risk profile, nature and severity of previous examination findings.

Replaced by Comptroller's Handbook – Internal and External Audits

To evaluate the independence, expertise, and competence of internal auditing staff.

To determine the adequacy of the procedures performed by the internal auditors.

To evaluate the internal auditor's identification of areas of risk within the institution and structuring of the overall audit approach to cover these areas of risk.

To determine whether the internal auditor's work and reports are reliable.

To determine if the internal auditor has an effective system for following up on problems and recommendations, and if the institution has taken corrective action for deficiencies noted by the internal auditor.

To determine the overall effectiveness of the internal audit function in strengthening internal controls and in monitoring adherence to controls, procedures, and regulatory requirements by management and employees.

EXAMINATION PROCEDURES

LEVEL I

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1. Evaluate the scope of the internal audit work based on the answers to the PERK Internal Audit Questionnaire, review the internal audit plan, including adjustments to the plan based on any early warning system that detects risks, any prior internal audit report ratings, and the results of previous reviews of the auditor's work. Review minutes of the audit committee. Discuss with regulatory staff assigned the review of the board minutes, possible areas of concern that the internal audit staff should have addressed.

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2. Review the preceding report of examination and internal audit-related exceptions noted and determine whether management has taken appropriate corrective action.

3. Review the Matters Requiring Board Attention and Corrective Actions from the three or four previous ROEs to ensure that the board and management have taken appropriate corrective action where necessary and persistent problems have not recurred.

4. Interview the internal audit staff and observe the operation of the audit function to determine its organizational responsibilities. Be alert to any information indicating lack of independence of the internal audit staff, including whether management places any restrictions on the audit programs or imposes any unreasonable scheduling or budgetary restraints. Determine whether the auditor maintains independence in appearance, and approaches the audit process in an ethical and professional manner.

5. If the institution outsources its internal audit function, review the contract to ensure the arrangement is consistent with interagency guidelines. (Appendix A, Interagency Policy Statement on the Internal Audit Function and its Outsourcing; and Sections 310 and 340.) Consult with the regional accountant for additional guidance.

6. Review the internal audit department for the existence of any operational duties regarding auditors, any family ties with non-audit employees, or any other relationships incompatible with maintaining an independent internal audit function.

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7. Review the audit plan for completeness and for evidence of compliance with proper board or audit committee approval procedures. Ensure the audit committee or the board performs periodic assessments of the internal audit function and takes appropriate action to ensure ongoing reliability and effectiveness.

8. Review the organization chart and the institution's chart of accounts. Note whether the internal auditor considers all existing service corporations, subsidiaries, joint ventures, and significant accounts. Ensure that the internal auditor performed an assessment of risk for each audit area.

9. During the initial review of the internal audit function, review audit manual(s) and associated material to determine whether prescribed procedures are sufficient for accomplishing the audit objectives.

10. Determine whether the institution modifies internal audit programs in a timely manner to keep pace with changes in institution activities, economic environment, technology, and regulations.

11. Review audit reports by internal auditors and determine whether management provided satisfactory responses and adopted any recommended changes. Determine the reason for any recommendations not addressed by management.

12. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level I procedures.

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LEVEL II

13. Determine if the institution has recently changed internal auditing personnel. If so, discuss the reasons for such change with management. Pay particular attention to any disagreements between the prior auditor and the institution regarding matters of accounting principles or practices, financial statement disclosures, internal controls, or auditing procedures and findings. Determine the validity of reasons given for any such changes. Consider contacting an auditor who the association terminated or who resigned.

14. Review a representative sample of audit reports and associated work papers to determine that they are adequate, prepared in accordance with the audit program, in compliance with prescribed procedures, and properly documented. Determine that the auditor tests the reliability of information produced in the institution. Determine who gets the reports. Answer the questions on the Internal Audit Questionnaire to assist in your review of the audit program.

15. Check for progress in correcting any earlier reported areas with significant weakness. Identify the responsible party to make the correction and the time frame.

16. Check the adequacy of information on the audit function available to management and the board of directors or its audit committee.

17. Ensure that your review meets the Objectives of this Handbook Section. State your findings and conclusions, and appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.

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LEVEL III

Consider Level III procedures if after completing both Level I and II procedures you are unable to make firm assessments of the effectiveness of the institution's internal audit function. Be sure to apprise the EIC or FM of the need to perform Level III procedures.

18. If concerns about the auditor's work exist, check the accuracy of selected audit findings by duplicating the procedures of the auditor. For example, on a test basis, review loan files that the auditor reviewed, following the same procedures. If findings differ significantly, review your findings with management and/or the audit committee. Test for evidence of insider abuse, known or suspected defalcations, known or suspected criminal activity, and questionable transactions with affiliates.

19. Determine if the internal audit department's role in automated or manual systems design is adequate. Review uses of the computer and determine if internal audit staff have access to the files for audit purposes.

20. For internal audit personnel hired since the last examination (or for the entire audit staff if not previously examined), review personnel files for information such as: level of education attained, significant work experience, certification as an internal auditor or a public accountant, and membership in professional associations. In a large internal audit department, the initial review should include the department manager and a sample of audit supervisors and staff. Consider adequacy of internal audit staff's qualifications, experience, and knowledge of key areas of operation, particularly if the institution has changed its primary business line or type of lending.

EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

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