BEYOND THE BASICS
3 Perspectives of Internal Auditing

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Agenda

- The Basics
- What Do I Audit?
- Break
- How Do I Audit?
- Lunch
- How Do I Report Results?
- Break
- What is and Is Not Auditing?

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THE BASICS

- Internal Audit Role
- Audit Work
- Post Audit
- Professional Proficiency
- Questions

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The Basics-Internal Audit

- Definition
- Role and Responsibilitie (Audit Charter)
- Relationship -Management and Employees
- Relationship - Board & Supervisory / Audit Committee
- Relationship -- Auditors and Regulators

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The Basics-Internal Audit

❖ *Definition*

Internal Auditing is an **independent, objective** assurance and consulting activity designed to **add value** and **improve operations.** Internal Audit helps the Credit Union accomplish its objectives by bringing a **systematic, disciplined approach** to **evaluate** and **improve** the **effectivesness** of **risk management, control** and **governance processes.**

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The Basics-Internal Audit

❖ *Roles and Responsibilities*

Internal Audit's purpose, authority and responsibility must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards (STD 1000)

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The Basics-Internal Audit

❖ *Relationships*

- With management and employees

- With Board & Supervisory/Audit Committee

- With External Auditors and Regulator

The Basics-Audit Work

- Audit Plan
- Risk Assessment
- Audit Planning: Objectives, Scope
- Audit Program
- Fieldwork
- Workpapers

The Basics-Audit Work

❖ *Audit Plan*

Internal Audit must establish risk-based plans to determine Internal Audit's priorities , consistent with the Credit Union's goals. [STD 2010]

The Basics-Audit Work

▪Risk Assessment

Internal Audit's audit plan must be based on a documented risk assessment, undertaken at least annually [STD 2010.A1]

The Basics-Audit Work

❖ *Audit Planning*

Internal Audit must develop and document a plan for each audit including the audit's objectives, scope, timing and resource allocations [STD 2200]

The Basics-Audit Work

❖ *Audit Program*

Internal Audit must develop and document a an audit program the achieves the audit objectives, and includes procedures for analyzing, evaluating and documenting information.[STD 2240; 2240.A1]

The Basics-Audit Work

❖ *Fieldwork*

Internal Audit must identify, analyze, evaluate and document information to achieve the audit objectives.[STD 2300]

The Basics-Audit Work

❖Workpapers

Internal Audit must document information to support the conclusions and audit results. [STD 2330]

Post-Audit

- Audit Reports

- Follow-Up

- Supervisory/Audit Committee Meetings

Post-Audit

❖*Audit Reports*

Internal Auditors must communicate the results of the audit. [STD 2400]

Post-Audit

❖*Follow-Up*

Internal Auditors must maintain a system to monitor the disposition of audit results. [STD 2500]

Post Audit

❖**Supervisory/Audit Committee Meetings**

Proficiency

- Professional Proficiency

- IIA Standards

- COSO Internal Controls and ERM

- Technology

Proficiency

❖ *Professional Proficiency*

Audits must be performed with efficiency and due professional care [STD 1200]

- o Knowledge
- o Skills
- o Competencies

- o Schools, conferences, seminars, webinars, reading, networking, certifications

Proficiency-Richey

- **Institute of Internal Auditors (IIA)**
  - o www.theiia.org
  - o Definitions of Internal Auditing
  - o Code of Ethics
  - o International Standards for the Professional Practice of Internal Auditing
  - o Practice Advisories
  - o Practice Guides
  - o Position Papers

Proficiency

- **COSO Internal Controls and ERM**
  - o Committee of Sponsoring Organizations of the Treadway Commission
  - o Internal Control – Integrated Framcework
  - o ERM – Integrated Framework
  - o Internal Control
  - definitions
  - 5 components
  - o ERM definitions and components

Proficiency

- **Technology**

  Internal Audit must have sufficient knowledged of
  - o key IT risks and controls
  - o Available technology-based audit techniques [STD 1210.A3]

  In the Credit Union

  In the Audit Department

Questions?

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WHAT DO I AUDIT

- Audit Universe

- Risk Assessment

- Audit Plan

WHAT DO I AUDIT?

❖**Where Do I Start?**
Audit Universe

Pat's Audit Universe

WHAT DO I AUDIT?

Risk Assessment
- WHY
- High, Medium, and Low Risk
- Model 1
  - $$ (balance sheet, income, volume)
  - Change (people, policy, law, systems)?
  - Last audited?
  - Management Interview
  - NCUA Exam Hot Topics

WHAT DO I AUDIT-Richey

- Risk Assessment
  - Compliance Risk
  - Concentration Risk
  - Credit Risk,
  - Interest Rate Risk
  - Transactions Risk
  - Liquidity Risk
  - Operational Risk
  - Reputation Risk
  - Strategic Risk

WHAT DO I AUDIT

- Severity /Impact x Frequency/Likelihood
  - Mortgage Underwriting 107
  - Indirect Underwriting   88
  - VISA Servicing   85
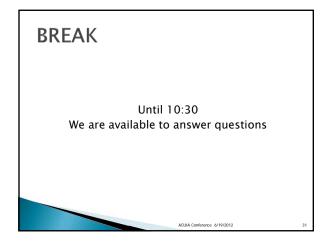
  Mortgage Underwriting
  - Interest Rate Risk   20
  - Compliance Risk   15
  - Credit Risk   15
  - Operational Risk   8

WHAT DO I AUDIT

- Audit Plan
- Audit Calendar
- Other Activities

- Barry
- Pat
- John 2

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BREAK

Until 10:30
We are available to answer questions

HOW DO I AUDIT-AUDIT PROGRAMS

BRANCH AUDITS

LOAN FILE AUDIT

VISA AUDIT

BSA AUDIT

HOW DO I AUDIT-AUDIT PROGRAMS

BRANCH AUDITS

Branch Audits

- 45 Branches
- 4 Geographical Areas Across NYS
- Network Based Approach
- 300 Audit Hours Allocated

Branch Audits

- 1) **Cash**
    - a) Teller Proof
    - b) Vault Proof
    - c) Bait verification
    - d) Cash Box Rotation
    - e) Surprise Counts
    - f) Cash Limits (Branch, Teller, ATM, TCD)
    - g) Cash Differences
    - h) Over/Shorts (Ongoing Monitoring, IA notified if over $1,000.00)

Branch Audits

- 2) **Negotiable Instruments**
    - a) Types
        - 1) Travelers Cheques
        - 2) Money Orders
        - 3) Checks (Starter, Teller, Counter)
        - 4) Gift Cards
        - 5) Miscellaneous (i.e. state quarters)
    - b) Inventory Verification
    - c) Internal log accuracy
    - d) Storage (Day vs. Night)

Branch Audits

3) **Internal Control Assessment (ICQ)**

  a) Evaluate controls over the above

  b) Evaluate against stated procedures

Branch Audits

4) **Bank Secrecy Act Compliance**

  a) Evaluate branch staff knowledge and compliance with BSA/AML Regulations

    1) BSA Quiz

    2) Q & A

Branch Audits

5) **Branch Security Assessment**

  a) Evaluate branch security by observation and questionnaire completion

    1) Branch opening and closing procedures

    2) Surveillance Equipment

    3) Alarm Testing

Branch Audits

6) **Teller Work Review**

  a) Policy and procedure adherence

  b) Fraud

Branch Audits

7) **Confidentiality of Member Data**

  a) Work area review

Branch Audits

8) **ATM**

  a) Balancing

  b) Settlement

  c) Access Controls

  d) Cash Controls

Branch Audits

9) Loans
 a) Activity Trends
   1) Approval/Denial Trends
   2) Loan Concentrations
   3) Loan Payoffs
   4) Quality Control Results

Branch Audits

10) New Account Activity
  a) Membership Eligibility
  b) Documentation Requirements
  c) Member Identification
  d) Trends

Branch Audits

11) Prior Audit Follow-up

HOW DO I AUDIT-AUDIT PROGRAM

BRANCH AUDITS

- 9 Branches; 2 in High Schools
- 230 hours (5% of audit plan)
- Despite risk assessment audited annually
- Cash Counts
  - Do not normally count cash

HOW DO I AUDIT-AUDIT PROGRAM

BRANCH AUDITS

- Pre-Audit Risk Assessment (30% of time)
- Center Opening
- Teller, vault, CDM, ATM, coin machine cash controls
- TC, MO, ATM and gift cards

HOW DO I AUDIT-AUDIT PROGRAM

BRANCH AUDITS

- Night and Express Deposits
- Human Resources – Staffing and Turnover
- Lobby Sign compliance
- Other compliance
- BCP

HOW DO I AUDIT-AUDIT PROGRAM

BRANCH AUDITS

- Image
- Service Standards
- Information Security
- Keys and Combinations
- Robbery Risk
- Audit Report – (45% of time)

HOW DO I AUDIT-AUDIT PROGRAM

LENDING AUDITS

- Consumer Lending
- Indirect Lending
- Real Estate Lending
- Credit Card Lending
- Commercial Lending
- Credit Risk/Risk Pricing

HOW DO I AUDIT

LOAN FILE REVIEW

- 473 page Lending Manual
- Annually, quarterly or monthly?
- Select every Nth loan

HOW DO I AUDIT

LOAN FILE REVIEW
- Loan Approval
- Documentation
- Credit Bureau Reports
- Lien Perfection - Titles
- Recalculate Debt to Income Ratios
- Interest Rate

HOW DO I AUDIT-AUDIT PROGRAM

VISA AUDIT

HOW DO I AUDIT-AUDIT PROGRAM

CREDIT CARD LENDING

- Loan File Review
- Policy Procedure
- Delinquency/Charge-Offs
- Profitability
- Employee Accounts

HOW DO I AUDIT-AUDIT PROGRAM

TIL COMPLIANCE

- Finance Charges and Fees
- Applications and Solicitations
- Account Opening
- Periodic Statements

HOW DO I AUDIT-AUDIT PROGRAM

CREDIT CARD SERVICING

- ERM – 85 (3rd highest Risk)
- Transaction Risk – 20
- Compliance Risk - 12
- Credit Risk – 12
- Operation and Reputation - 9

HOW DO I AUDIT-AUDIT PROGRAM

BSA AUDIT

HOW DO I AUDIT-AUDIT PROGRAM

BSA AUDIT

OFAC AUDIT

CIP AUDIT

Audit Programs based on FFIEC Examiners BSA/ALM Manual

HOW DO I AUDIT-AUDIT PROGRAM

BSA AUDIT

- Risk Assessment
- Compliance Program
- Training
- CDD
- SARS
- CTRs

HOW DO I AUDIT-AUDIT PROGRAM

BSA AUDIT

- Exemptions
- Products and Services
- High Risk Persons and Entities

Audit WIRE TRANSFER BSA, CIP, OFAC compliance in wire transfer audit

HOW DO I AUDIT-AUDIT PROGRAM

OFAC AUDIT

- Risk Assessment
- Foreign Accounts
- No SSN or TIN
- Policy and Procedures
- Responsibilities
- Identifying/Reviewing Trans.

HOW DO I AUDIT-AUDIT PROGRAM

OFAC AUDIT

- OFAC Vendors
- Training
- SDN List
- New Accounts
- Ongoing Monitoring
- Monitoring Transactions.

HOW DO I AUDIT-AUDIT PROGRAM

OFAC AUDIT

- Non-Member Transactions
- Evaluating Matches
- ACH-IAT

HOW DO I AUDIT-AUDIT PROGRAM

CIP AUDIT

- Policy and Procedures
- Risk Assessment and Training
- New Account Operations
- Identification
- Non-US Persons
- ID numbers

HOW DO I AUDIT-AUDIT PROGRAM

CIP AUDIT

- Documentary Methods
- Non-Documentary Methods
- Non-individuals
- Lack of verification
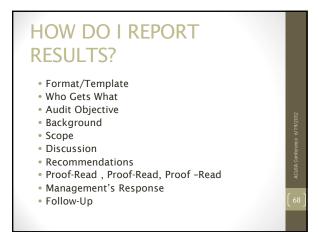- Notice
- Record keeping
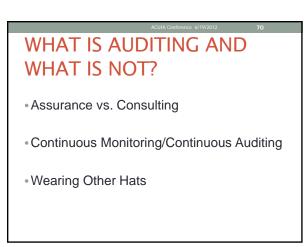- CUSO and 3rd Parties

HOW DO I AUDIT-AUDIT PROGRAMS

QUESTIONS

Lunch 12-1

15 min Q&A After Lunch

HOW DO I REPORT RESULTS?-
•AUDIT REPORTS

- Pat 2
- Barry
- John

HOW DO I REPORT RESULTS?

- Format/Template
- Who Gets What
- Audit Objective
- Background
- Scope
- Discussion
- Recommendations
- Proof-Read , Proof-Read, Proof –Read
- Management's Response
- Follow-Up

HOW DO I REPORT RESULTS?

- •QUESTIONS

- •Break 2:30-3:00
  We are available to answer questions

WHAT IS AUDITING AND WHAT IS NOT?

- Assurance vs. Consulting

- Continuous Monitoring/Continuous Auditing

- Wearing Other Hats

WHAT IS AUDITING AND WHAT IS NOT?

Assurance Services vs. Consulting Services

- Assurance – examination of evidence
  - independent assessment of governance, risk, and control processes

- Consulting – giving advice to improve processes
  - nature and scope of work agreed with mgmt.
  - counseling, facilitating, training
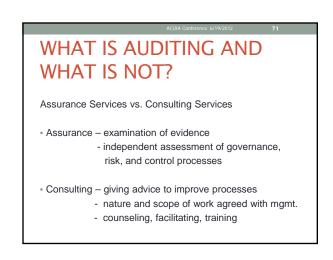
WHAT IS AUDITING AND WHAT IS NOT?

- •Continuous Auditing

- •Continuous Monitoring

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WHAT IS AUDITING AND WHAT IS NOT?

Wearing Other Hats
- Compliance
- Security
- Fraud
- Quality Assurance

WHAT IS AUDITING AND WHAT IS NOT?

- QUESTIONS

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- History
- Executive Office
- Networking
- Forum/Linked In
- Audit Report Magazine

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- Leadership
- Regions and Chapters
- Annual Conference
- Region and Chapter Meetings
- Webinars

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- Website
- Membership Directory
- Audit Guide
- Awards

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