Appendix A: Statutory and Regulatory Requirements

By law, national banks must adhere to certain requirements regarding internal and external auditing functions. These requirements ensure that banks operate in a safe and sound manner, accurately prepare their financial statements, and comply with other banking laws and regulations.

Operational and Managerial Standards

In July 1995, the OCC issued 12 CFR 30, Safety and Soundness Standards, establishing operational and managerial standards for all national banks. Some of these standards are for internal audit systems. According to appendix A to 12 CFR 30, a national bank should have an internal audit system that is appropriate to the size of the bank and the nature and scope of its activities. The appendix states that the audit system should provide for:

- Adequate monitoring of the system of internal controls through an internal auditing function. For a bank whose size, complexity or scope of operations does not warrant a full-scale internal auditing function, a system of independent reviews of key internal controls may be used.
- Independence and objectivity.
- Qualified persons.
- Adequate testing and review of information systems.
- Adequate documentation of tests and findings and any corrective actions.
- Verification and review of management actions to address material weaknesses.
- Review by the bank's audit committee or board of directors of the effectiveness of the internal auditing systems.

Compliance Activities

All banks are required by 12 CFR 21.21 to have a board approved BSA compliance program that provides:

- An internal control system that assures ongoing compliance.
- Independent testing for compliance conducted by bank personnel or outside parties.
- Designation of bank personnel responsible for coordinating and monitoring day-to-day compliance.
- Training for appropriate personnel.

Federal Securities Laws

National banks that register their securities with the OCC are subject to the public and periodic filing and reporting requirements of 12 CFR 11 and 12 CFR 16.20[32] and are subject to the SEC's regulations on financial statement form, content, and other requirements. Bank holding companies that register their securities with the Securities and Exchange Commission (SEC) are also subject to the SEC's regulations on financial statement form, content, and other requirements.

17 CFR 210.2-01, Qualifications of Accountants, addresses the qualifications and independence of independent public accountants (IPAs) engaged to perform services for companies with a class of securities registered pursuant to the Securities Exchange Act of 1934.

17 CFR 210.10-01, Interim Financial Statements, requires that IPAs must review interim financial statements included in a company's quarterly 10-Q reports using procedures in SAS 71, "Interim Financial Information."

17 CFR 229.306, Audit Committee Report, requires disclosures relating to the functioning of corporate audit committees. As part of proxy and information statements for meetings at which directors are to be elected, an audit committee report must be made which states whether the audit committee:

[32] Part 11 banks have the same reporting obligations as those companies with a class of securities registered under the Securities Exchange Act of 1934 (filing of periodic reports such as Form 10K, Form 10Q, proxy materials, Form 8K etc.). 12 CFR Part 16.20 is a similar requirement of a bank offering securities under the Securities Act of 1933, subjecting them to reporting under Section 15(d) of the SEC Act. (filing Form 10K, Form 10Q and Form 8K).

- Reviewed and discussed audited financial statements with management.

- Discussed with the company's IPA the matters required to be discussed by SAS 61, "Communication with Audit Committees."

- Received the written disclosures and the letter from the IPA (as required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees"), and discussed the IPA's independence with the IPA.

- After taking the preceding actions, recommended to the board of directors that the audited financial statements be included in the company's annual report.

Section 306 also requires that the name of each member of the company's audit committee appear below the above disclosures. In the absence of an audit committee, the names of the board committee performing the equivalent functions or the entire board must appear.

17 CFR 240, Section 14a-101, Items 7 and 9, includes the following requirements if a registrant has an audit committee:

- Provide the information required by 17 CFR 229.306.
- State whether the board of directors has adopted a written charter for the audit committee.
- Include a copy of the written charter, if any, as an appendix to the proxy statement at least once every three years.
- Disclose audit committee financial expertise, or why there are no financial experts on the committee.
- Disclose fees paid to the external auditor.
- Disclose the audit committee's pre-approval policies and procedures.

Annual Independent Audit and Reporting Requirements

Following are the specific requirements of 12 CFR 363 (Part 363) on auditing, reporting, and audit committees. The requirements are applicable to all national banks with total assets of $500 million or more.

Reports to Regulators. National banks with $500 million or more in total assets must send the following reports to the FDIC and the appropriate OCC supervisory office:

- An annual report, due within 90 days after the fiscal year-end, consisting of:
  - Financial statements that include:
    - Comparative consolidated financial statements for each of the two most recent fiscal years prepared in accordance with generally accepted accounting principles and audited in accordance with generally accepted auditing standards by an independent public accountant; and
    - An audit report.
  - A management report that contains:
    - A statement of management's responsibilities for financial statements, establishing and maintaining an internal control structure and procedures for financial reporting, and complying with safety and soundness laws concerning loans to insiders and dividend restrictions;
    - Management's assessment of the effectiveness of the bank's internal control structure and procedures for financial reporting as of the end of the fiscal year (internal controls that safeguard assets, such as loan underwriting and documentation standards, must be considered) and the bank's compliance with designated laws and regulations during the most recent fiscal year.
  - A report by the independent public accountant attesting to management's assertions regarding internal control structure and procedures for financial reporting. The attestation is to be made in accordance with generally accepted standards for attestation engagements.

- Management letters and certain reports prepared for the bank, due 15 days after they are received, that include:

  – Audit reports and any qualification to the audit reports;
  – Any management letter; and
  – Any other reports, including attestation reports, from the independent public accountant.
  – A notification of the selection, change, or termination of the bank's independent public accountant, due within 15 days after the event. The report must include a statement of the reasons in sufficient detail for the examiner to evaluate the decision.

Independent public accountants for covered banks must file a report of termination of services, due within 15 days of the event. The report must be filed with the FDIC and the appropriate OCC supervisory office.

Filing Reports. Covered national banks, including covered branches of foreign banks, are required to file **two** copies of each required report at each of **two** locations – the appropriate OCC supervisory office and the appropriate FDIC regional office. Of the OCC's copies, one will be maintained at the supervisory office, and the other will be forwarded to the bank's portfolio manager. The exception to this rule is the independent accountant's peer review report, which is required to be filed only with the FDIC.

Disclosing Reports. Annual reports required by Part 363 are available to anyone, from the bank, upon request. However, the OCC may designate certain information as privileged and confidential; such information may not be available to the public.

The peer review report is also publicly available. The list of clients subject to Part 363, however, is exempt from public disclosure.

Reports to Independent Accountants. Every covered national bank also must provide its independent public accountant with copies of the following reports:

- Its most recent OCC examination report and related correspondence;

- Its most recent Reports of Condition and Income or Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks; and

- Any supervisory memoranda of understanding, written agreements, requests for corrective action, notice of intent to commence an action, record of enforcement action taken, or notice of change in the bank's prompt corrective action capital category during the audit period.

Reports to the FDIC Only. Independent public accountants for covered national banks must file the following reports with the Washington office of the FDIC:

- A peer review report for each covered bank or, if no peer review has been performed, a statement of the accountant's enrollment in a peer review program. This report is due within 15 days of receipt, or prior to commencing any services under Part 363; and

- A list of clients subject to Part 363, due at the accountant's option as a substitute for the peer review report or statement for each client.

Special Reporting Situations. *Consolidated Reporting by Holding Company Subsidiaries* -- A chart at the end of this appendix summarizes the responsibilities of holding company member banks. To simplify, any national bank that is a subsidiary of a holding company may, regardless of its size, file the audited consolidated financial statements of the holding company in place of separate financial statements.

All other report and notice requirements of the rule may be satisfied at the holding company level if:

- The bank has assets of less than $5 billion **or** of $5 billion or more with a composite CAMELS rating of 1 or 2, and

- The holding company provides the bank with comparable services and functions for other required reports and notices by:

  – Preparing reports used by subsidiary national banks to meet Part 363 requirements,

  – Having an audit committee that meets Part 363 requirements appropriate to its largest subsidiary bank, and

– Preparing and submitting reports on internal control and compliance with designated laws based on the activities and operations of all subsidiary banks.

Reporting by Insured U.S. Branches of Foreign Banks -- Under the guidelines, insured branches of foreign banks may satisfy the financial statement requirement by filing:

- Audited balance sheets that also disclose information about financial instruments with off-balance-sheet risk;

- Audited call report schedules RAL and L of form FFIEC 002 (the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks); **or**

- Consolidated financial statements of the parent company, if approved in writing by the OCC's appropriate supervisory office. Since consolidated financial statements do not necessarily provide relevant information about the branch, requests should be considered only in rare and unusual circumstances and any approvals should cover only a specified time period.

Reporting by Merged or Consolidated Institutions -- Insured national banks that had more than $500 million in total assets at the beginning of their fiscal year, but that no longer exist as a separate entity at the end of their fiscal year, have no responsibility under this rule to file reports due after the date they cease to exist.

A covered bank that merged into another institution after the end of the fiscal year but before its annual report and other reports must be filed under this rule should still submit reports to the FDIC and the appropriate OCC supervisory office.

National banks should consult with its OCC supervisory office concerning the statements and reports that would be required under such circumstances.

Audit Committee Requirements. National banks with total assets of $500 million or more must have independent audit committees that meet the following standards:

- The committee must be made up entirely of outside directors of the bank.

- The members must be independent of the management of the bank. The guidelines accompanying the Part 363 rule outline factors that should be considered in determining independence.

  NOTE: Exceptions to the independent audit committee membership requirements may be granted in certain circumstances. Some insider directors may be allowed to serve on the audit committee if the OCC determines that the bank has encountered a hardship in retaining and recruiting competent outside directors. However, in no circumstances may the audit committee be made up of less than a majority of outside directors. Exceptions to the independent membership requirement should be rare and should be approved by the OCC's Office of the Chief Accountant.

- The committee's duties must include reviewing the basis of the reports required under Part 363, with management and the independent public accountant.

For banks with total assets of more than $3 billion, the audit committee also must:

- Include at least two members with banking and related financial management expertise.

- Not include any "large customers" of the banks.

  Any individual or entity (including a controlling person of a company) whose relationship with the bank (credit or otherwise, direct or indirect) is so significant that termination of the relationship would materially and adversely affect the bank's financial condition or results of operations should be considered a "large customer."

- Have access to the committee's own outside counsel.

Special Audit Committee Situations. *Bank Holding Company Subsidiary Banks* – For banks that are subsidiaries of a holding company, the audit committee requirement may be satisfied at the holding company level if:

- The bank has assets of less than $5 billion **or** of $5 billion or more with a CAMELS composite rating of 1 or 2, and

- The holding company provides the bank with comparable services and functions for required other reports and notices by:

  – Preparing reports used by subsidiary banks to meet Part 363 requirements,

  – Having an audit committee that meets Part 363 requirements appropriate to its largest subsidiary bank, and

  – Preparing and submitting reports on internal control and compliance with designated laws based on the activities and operations of all subsidiary banks.

A holding company subsidiary bank must have its own audit committee if the bank has total assets of $5 billion or more and a CAMELS composite rating of 3 or worse.

A holding company subsidiary bank's audit committee may be composed of the same persons as the holding company's audit committee **only** if such persons are:

- Outside directors of the holding company and the bank subsidiary, and
- Independent of management of the holding company and the bank.

Even in such situations, each audit committee must meet and maintain separate minutes of its meetings.

Branches of Foreign Banks – Because branches of foreign banks do not have separate boards of directors, the audit committee requirements do not apply. However, insured branches of foreign banks are encouraged to make a good faith effort to see that duties similar to those described for the audit committee are performed by persons whose experience is generally consistent with the requirements.

Implementation. Every covered national bank was required to have established an audit committee by November 2, 1993. If the bank's audit committee did not meet the independence or other applicable criteria at that

time, the bank had until the next annual stockholders' meeting or July 2, 1994, whichever was earlier, to structure the committee to comply.

Insured national banks that subsequently become subject to Part 363 requirements must form an independent audit committee within four months of the beginning of the first fiscal year in which they are covered. An insured national bank that becomes covered by the large bank requirements by growing to have total assets of more than $3 billion must ensure that its audit committee meets the additional requirements by the next annual meeting of stockholders, or within six months of the beginning of its fiscal year, whichever is earlier.

Independent Accountant Eligibility Requirements. The independent public accountant must satisfy certain requirements to perform an audit or attestation for a covered bank. Specifically, the accountant must:

- Be enrolled in an acceptable peer review program, and

- File the peer review report (or a statement certifying enrollment in a peer review program if no peer review has yet been completed) with the Registration and Disclosure Section of the FDIC Washington office.

The report or statement must be filed within 15 days after the accountant receives notice that the peer review has been accepted by the appropriate practice section or other governing group, or before commencing the audit, whichever is earlier.

The following table illustrates applicability of Part 363 requirements for subsidiary banks of holding companies:

Part 363 Applied to Subsidiary Banks

Insured Depository Institutions–Subsidiaries of Holding Companies with Assets of:	Audit Committee Requirements*	Reporting Requirements
Less than $500 million	None**	None**
$500 million to $3 billion	Committee must consist entirely of independent outside directors and may be satisfied at the holding company level.	Annual report, including: • Audited financial statements, • Audit report, • Management report, and • Independent public accountant's report on the internal controls over financial reporting. Requirement may be satisfied at the holding company level.
$3 billion to $5 billion and $5 billion or more and CAMELS composite rating of 1 or 2.	Committee must: • Consist entirely of independent outside directors, • Include members with banking and related financial management expertise, • Have access to its own outside counsel, and • Not include large customers of the bank. Requirements may be satisfied at the holding company level.	
$5 billion or more and CAMELS composite rating of 3 or worse.	Committee requirements same as above, but must be satisfied at the bank level.	Banks may submit holding company financial statements and audit reports, but all other reports listed above must be at the bank level.

* Exceptions to the independent outside member requirement may be made when the OCC determines the bank has encountered a hardship in retaining or recruiting a sufficient number of competent outside directors. However, the audit committee may not be made up of less than a majority of outside directors.

** However, the banking agencies continue to encourage all institutions, regardless of size, to have annual audits and to establish audit committees made up entirely of outside directors.

NOTE: The appropriate federal banking agency may require a bank with total assets of $9 billion or more to comply with requirements of Part 363 at the bank level if the agency determines that exemptions as noted above, if applied to the bank, would create a significant risk to the deposit insurance fund.

Appendix B: Part 363 Annual Report Worksheet*

Name of Reporting Institution or Holding Company	Charter No.
City and State	Date Received
Name and Address (City, State) of Independent Accountant	Year End
If Holding Company, Names and Addresses of Subsidiary Institution(s) subject to Part 363 (attach list if needed)	Date of Last Peer Review
	Reviewer

ANNUAL REPORT (Check attachments)

☐ Financial Statements and Notes ☐ Audit Report ☐ Management Report

☐ Independent Public Accountant's Attestation on Internal Controls

REVIEWER Complete all sections and the following questions:

Describe any item in the report that may adversely influence the institution's safety and soundness (reference should be made to the discussion in following sections I and II.)

AS A RESULT OF THIS REVIEW, IS ANY FOLLOW-UP ACTION REQUIRED OR CHANGE IN SUPERVISORY STRATEGY WARRANTED?	YES ☐	NO ☐

If yes, attach a memorandum outlining your recommendations.

* A new copy of this worksheet should be prepared each year upon receipt of either the annual report or the Laws and Regulations Attestation Report. Review of any other reports received periodically should be recorded on the "Part 363 Periodic Reports Worksheet".

I. ANNUAL REPORT

AUDIT REPORT

Do the report and financial statements cover a holding company or an individual institution? HC ☐ INST ☐

Has the report been signed and dated? YES ☐ NO ☐

Does it have any explanatory paragraphs in addition to the three paragraphs of the standard auditor's report? YES ☐ NO ☐

If yes, briefly describe the matter(s) covered in these paragraphs.

FINANCIAL STATEMENTS AND NOTES

Compare the information presented in the audited financial statements and the most recent available financial information from call report or examination report. Describe and discuss any differences or changes material to the institution between significant items on the statements and the call or examination report.

Briefly describe any unusual transactions or valuation methods described in the financial statements and accompanying notes that may influence the institution's safety and soundness including, but not limited to, those in the following areas:

Securities	Loans and Leases
Derivatives	Servicing Rights
Other Real Estate	Allowance for Loan and Lease Losses
Related Party Transactions	Taxes
Pensions or Deferred Compensation Plans	Off-Balance-Sheet Activities
Business Combinations/Pushdown Accounting	Nontraditional Activities

MANAGEMENT REPORT

Does the report cover a holding company or an individual institution?	HC ☐	INST ☐
Has the report been signed by both the CEO and the CFO/Chief accounting officer?	YES ☐	NO ☐
Does it state management's responsibilities for:		
Preparing financial statements?	YES ☐	NO ☐
Establishing and maintaining an adequate internal control structure and procedures for financial reporting?	YES ☐	NO ☐
Complying with designated laws and regulations?	YES ☐	NO ☐
Does it assess the:		
Effectiveness of the aforementioned internal controls at the end of the most recent year?	YES ☐	NO ☐
Compliance with the designated laws and regulations during the year?	YES ☐	NO ☐

Briefly describe any instances of ineffectiveness or noncompliance reported by management or apparent deficiencies in reporting.

INDEPENDENT PUBLIC ACCOUNTANT'S ATTESTATION ON INTERNAL CONTROLS

Has the report been signed and dated?	YES ☐	NO ☐
Does it indicate material weaknesses in the internal control structure and procedures for financial reporting?	YES ☐	NO ☐

If so, briefly describe:

Appendix C: Part 363 Periodic Report Worksheet*

Name of Reporting Institution or Holding Company	Charter No.
City and State	Date Received
Name and Address (City, State) of Independent Accountant	Year End
If Holding Company, Names and Addresses of Subsidiary Institution(s) subject to Part 363 (attach list if needed)	Date of Last Peer Review
	Reviewer
REPORT FILED ☐ Change of Accountant Report ☐ Termination of Services Report ☐ Management Letter ☐ Other Report (Describe)	
REVIEWER -- Complete the following sections:	
Describe briefly any item in the report that may adversely influence the institution's safety and soundness.	
AS A RESULT OF THIS REVIEW, IS ANY FOLLOW-UP ACTION REQUIRED OR CHANGE IN SUPERVISORY STRATEGY WARRANTED? YES ☐ NO ☐ If yes, attach a memorandum outlining your recommendations.	

* A separate copy of this worksheet should be completed upon receipt of each periodic report received. The "Annual Report Worksheet" should be used for the annual report.

Appendix D: OCC Acknowledgement of CPA Work Paper Request Letter

When examiners request access to external audit work papers, the external auditor may submit a "work paper access" letter to the examiner or the supervisory office along with a request to acknowledge its receipt. Examiners may use the following template as a written acknowledgement and response if presented with such a letter. They should attach the OCC acknowledgement to the external auditor's original letter and return both to the external auditor. Examiners should also retain a copy of the external auditor's letter and the OCC acknowledgement letter.

_____

[Date]

[Name of firm]

We are in receipt of your letter dated [Insert Date] regarding providing us access to or copies of work papers associated with your [Insert Date of audit] audit of [Insert bank/company name] (see copy attached).

This letter serves as our acknowledgement to confirm receipt of your letter, but does not constitute agreement to any terms specified in your letter that limit our ability to supervise the bank.

We also acknowledge your request for confidential treatment under the Freedom of Information Act or other applicable law. Any request by a third party for disclosure of the information for which you have requested such treatment will be processed pursuant to our regulations governing such requests, which are promulgated at 12 CFR 4.

Office of the Comptroller of the Currency

By: _____ Date: _____

Appendix E: Internal Audit Review Worksheet

This worksheet is designed as a tool to help examiners evaluate the quality of internal audit programs, work papers, and related reporting for individual bank departments, activities, products, or services. If completed, the worksheet should be provided to the lead audit review examiner to facilitate an overall internal audit assessment. Use of the worksheet is not mandatory.

Unit Audited: _____ Date of audit report: _____
Auditor in Charge: _____ Audit Frequency: _____
Audit Rating: _____ Agree w/Rating: ____ Y ____ N
Management Response: ____ Y ____ N Response Adequate: ____Y ____ N
Risk Rating: _____
Examiner's Summary Comment:

Scope		
1. Was the scope of the audit adequate?	____ Yes ____ No	Why or why not:
2. Comment on quality of the planning document.	____ Adequate ____ Inadequate ____ Not Applicable	Why:
3. Is the audit frequency appropriate relative to the level of risk in the area/unit?	____ Yes ____ No	Why or why not:
4. Is any portion of this audit outsourced?	____ All ____ Partial ____ Not Applicable	
a. If so, is the arrangement compliant with OCC 2003-12?	____ Yes ____ No	Why not:
b. If so, is the audit work of sufficient detail to draw appropriate conclusions?	____ Yes ____ No	Why not:

Risk Assessment		
5. Were risk assessment matrices used to describe the risk(s)?	____ Yes ____ No	Why not:
a. If yes, were they sufficient?	____ Yes ____ No	Why not:
6. Was risk assessment used to determine when to audit this area?	____ Yes ____ No	Why not:
7. Was risk assessment used to determine the scope of the audit?	____ Yes ____ No	Why not:
8. Is the risk assessment of this area adequate?	____ Yes ____ No	Why not:
Audit Work/Findings		
9. Were the audit program and procedures sufficient?	____ Yes ____ No	Describe the deficiencies:
10. Were audit procedures performed to ensure compliance with applicable:		
a. Policies	____ Yes ____ No ____ Not Applicable	
b. Procedures?	____ Yes ____ No ____ Not Applicable	
c. Plans?	____ Yes ____ No ____ Not Applicable	
d. Laws/regulations?	____ Yes ____ No ____ Not Applicable	
11. Were internal controls for the area sufficiently detailed?	____ Yes ____ No	

12. Did the audit contain tests of administrative or operational:		
a. Controls?	____Yes ____ No	
b. Policies?	____ Yes ____ No	
c. Procedures?	____ Yes ____ No	
13. Did the audit note the root cause of deficiencies or symptoms of problems?	____ Root Cause ____ Symptom ____ Both ____ Not Applicable	
14. Was a review of pertinent MIS performed as part of the audit?	____ Yes ____ No ____ Not Applicable	Why not:
15. What is the quality of the procedures documentation?	____ High ____ Acceptable ____ Unacceptable	Support:
a. Are audit trails sufficient?	____ Yes ____ No	Why not:
16. How well does the audit describe the risk represented in individual findings or groups of findings?	____ Well ____ Acceptable ____ Unacceptable ____ Not Applicable	Support:
17. If the area/unit is internally rated satisfactory, how well does the audit mitigate the existence of significant findings?	____ Well ____ Acceptable ____ Unacceptable ____ Not Applicable	Support:
18. Were all exceptions or weaknesses in the audit WPs noted in the final audit report?	____ Yes ____ No ____ Not Applicable	Why not:

19. Were the internal auditors, including outsourced vendors, adequately trained and experienced to complete this program?	____ Yes ____ No	How determined:
20. How well does the auditor-in-charge (AIC) support the final audit rating?	____ Well ____ Acceptable ____ Unacceptable ____ Not Applicable	Support
21. Do you agree with the final rating?	____ Yes ____ No ____ Not Applicable	Why not:
Sampling		
22. Did the auditor use statistical sampling?	____ Yes ____ No ____ Not Applicable	
a. Was the population accurately defined and justified by the auditor?	____ Yes ____ No	Why not:
b. Was the selection of the sampling method disclosed?	____ Yes ____ No	Why not:
c. Were the sample selection techniques disclosed?	____ Yes ____ No	Why not:
d. Were sample evaluation and reporting results criteria established?	____ Yes ____ No	Why not:
Audit Reports		
23. Does the audit report articulate the appropriate conclusions, findings, and recommendations?	____ Yes ____ No	Why not:
24. Does the audit report address the root cause of problems and recommend actions to correct problems?	____ Yes ____ No ____ Not Applicable	

25. What level of management was notified of the audit findings?		
a. Is this the appropriate level or person?	____ Yes ____ No	If not, who:
26. Does the AIC or supervisor make effective use of MIS and have periodic contact with area/unit management?	____ Yes ____ No	Why not:
Audit Follow-up		
27. Was there evidence that prior audit issues were properly followed up during the current audit?	____ Yes ____ No ____ Not Applicable	
28. Was management's response to audit findings timely?	____ Yes ____ No	
29. Was management's response to audit findings acceptable?	____ Yes ____ No	Why not:
30. Are corrective action time frames included in management's response?	____ Yes ____ No ____ Not Applicable	
31. How effective and timely are management's plans for addressing deficiencies?	____ Adequate ____ Inadequate ____ Not Applicable	Why inadequate:
32. Are audit exceptions in this area sufficiently detailed on an exception tracking report?	____ Yes ____ No ____ Not Applicable	Why not:
33. Is there sufficient follow-up activity for high-risk areas/units or areas/units adversely rated?	____ Yes ____ No ____ Not Applicable	Why not:

Quality Assurance		
34. Was the audit subject to a Quality Control Review?	____ Yes ____ No ____ Not Applicable	Why not:
Meetings with Auditors		
35. Summarize any discussions with internal auditors or outsourced internal auditor vendors (summary should include but not be limited to: participants, date, subject, conclusions or recommendations, and the participants' receptiveness and responses).		
Overall Conclusion		
36. Did the auditor or audit team involved in the review of this area have the necessary skills, experience, and knowledge required for the review?	_____ Yes _____ No	
37. Was the auditor independent of the area under review?	_____ Yes _____ No	
38. Should the OCC adjust its strategy for this bank/business unit based upon your review of the audit reports, memos, and WPs?	____ Yes ____ No	Why or why not and what adjustments should be made?

39. Provide any other information deemed appropriate.		

Appendix F: Audit Function Questionnaire

This audit function questionnaire (AFQ) is designed as a tool to help examiners evaluate a bank's internal or external audit functions. Its use is not mandatory. Examiners should complete the AFQ only if they determine that the auditors are both competent and independent. Based on the auditors' work and the answers to the specific audit function questions, the examiner can then determine which verification procedures he or she considers necessary to perform.

The following audit function questions are reflective of a simplistic banking environment. Differing banking environments and roles of bank personnel in assessing overall controls and other variables affect the kinds of audit procedures that may be appropriate for a bank. Examiners should refer to individual booklets of the *Comptroller's Handbook* for more detailed audit requirements and worksheets for compliance, complex, or specialty areas or activities. In many cases, for external audits, all of the audit function questions may not be applicable to the type and extent of the audit/review conducted. Review reports, programs and audit work papers to answer the audit function questions. Where appropriate, supporting documentation and pertinent information should be retained or noted under comments.

For the following areas, has the internal auditor (or external auditor if deemed appropriate) within a reasonable audit cycle:

Cash Accounts

1. Counted cash on hand (including confirmation of incoming or outgoing cash shipments)?

2. Determined the propriety of amount and classification for cash items?

3. Confirmed clearings and reviewed all incoming returned items for some period after the date clearings were confirmed?

4. Checked adherence to procedures for maintaining records in accordance with 31 CFR 103.21, 103.22, 103.23, 103.25, 103.27, 103.29, 103.32, 103.33, 103.34, 103.35, 103.36, and 103.37?

5. Checked adherence to the provisions of 31 CFR 103, performing the following for:

   a. Reporting Requirements: Determined coverage requirements that include a review of a teller's work and of forms 4789 and 4790?

   b. Record keeping Activities: Tested the bank's adherence to the in-house record retention schedule? This schedule should meet the requirements of the regulation.

   c. Exemptions: Ascertained that the bank maintains a list of exempt customers?

      – Tested the reasonableness of the exemptions granted?
      – Ascertained that the bank completes and maintains the exemption certification?

   d. Foreign Accounts: Ascertained that the bank has filed Form 90-22.1, declaring interest in a foreign financial account?

   e. Volume of Cash Movements: Reviewed cash control records and traced any apparently large or unusual cash movements to or from a department or branch?

6. Checked adherence to 12 CFR 21.21 in establishing a written Bank Secrecy Act compliance program approved by the board of directors?

Due From Banks

1. Tested bank reconcilement including the Federal Reserve bank?

2. Received cut-off bank statements as of the examination date and an appropriate date subsequent to the examination date for use in testing bank reconcilement?

3. Reviewed all returned items for an appropriate period subsequent to the examination date?

4. Confirmed due from banks--time accounts with the banks holding the deposits?

5. Determined accuracy and completeness of reports FR 2900 and FR 2950 submitted to the Federal Reserve for calculation of required reserve balances?

Investments

1. Tested the appropriateness of classification of held-to-maturity, available-for-sale, and trading securities and confirmed securities balances (including physical count of securities located at the bank, and confirmation of bank ownership and control of securities held in custody outside the bank or in transit)?

2. Determined the book and market value of investment securities?

3. Determined the gain and loss of investment securities sold during the period?

4. Reviewed the accrued interest accounts and tested computation of interest income, including amortization of any premium discount?

5. Checked for compliance with the FFIEC "Supervisory Policy Statement on Investment Securities and End-User Derivatives" (OCC 98-20)?

6. Checked for compliance with the repurchase agreement provision of the Government Securities Act for non-dealer banks (15 USC 78o-5)?

7. Checked for compliance with laws and regulations applicable to those banks engaging in the purchase or sale of securities instruments for their own account or for the account of customers (including furnishing commodity advice to customers)?

Retail Non-Deposit Investment Sales

1. Checked monitoring and resolution of customer complaints?

2. Tested customer accounts for proper disclosures, advertising, and suitability determination?

3. Checked for conflicts of interest?

4. Reviewed the bank's compensation program for retail non-deposit investment product sales?

5. If the bank has a separate compliance program for retail non-deposit investment product sales, did audit review the adequacy of the compliance program?

6. Where the bank offers retail non-deposit investment products through an independent third party vendor, did audit review vendor adherence to the governing agreement?

7. Ascertained that sales activities were in keeping with established policies and procedures, applicable laws and regulations, and the February 15, 1994 interagency statement?

Bank Derivatives

(The level of internal auditor expertise should be consistent with the level of activity and degree of risk assumed by the bank. In some cases, banks may need to outsource audit coverage of derivative activities to ensure that the persons performing the audit work possess sufficient depth and experience.)

1. Assessed the adequacy and reasonableness of information obtained and used in risk management systems (market, credit, liquidity, and operations/systems)?

2. Validated the data integrity of significant market, liquidity, and risk management models?

3. Determined that contract documentation is properly maintained and safeguarded, and ascertained that legal counsel has properly reviewed documents?

4. Confirmed the effectiveness of internal control systems used for derivatives transaction processing and valuation?

5. Checked compliance with laws, rules, regulations, and proper accounting?

6. Ascertained that derivative activities are performed within the guidelines provided by bank policies and procedures?

7. Participated in the new product review process, approving the audit procedures developed for testing any new products or activities?

Mortgage Banking Activities

1. Tested book and fair-market values of mortgage servicing rights (MSR) and servicing fees received (SFR) assigned to pools of loans?

2. Verified accuracy of hedge accounting?

3. Tested the accuracy of tracking systems by verifying that documentation was on hand, or in process of being received, for loans awaiting sales and those being serviced?

   – Followed up on any exceptions outstanding for 120 days or more?

4. Tested servicing rights impairment analyses?

5. Determined the accuracy of financial reporting systems and other management information systems?

6. Checked compliance with established policies and procedures, accounting recognition, and laws, rules and regulations?

Bank Dealer Activities

1. Confirmed securities balances (verification included physical count of securities located at the bank, confirmation of securities held outside the bank or in transit, or testing of internal confirmation and reconciliation process)?

2. Determined the book and market value of trading account securities or tested the internal month-end valuation process?

3. Determined the gain and loss on underwriting and trading account transactions?

4. Reviewed the accrued interest accounts and checked computation of interest income?

5. Confirmed “fails” and “due bills"?

6. Confirmed good faith deposits and cash collateral?

7. Reviewed and tested the bank’s municipal securities dealer department, government securities dealer department, or the bank’s discount broker activity for compliance with applicable laws and regulations (12 USC 24, 15 USC 78o-4, 15 USC 78o-5, and 12 CFR 10 and 12)?

8. Determined that the compliance review is conducted pursuant to comprehensive written audit policies and procedures?

9. Determined that violations or suspected violations of laws, rules, and regulations are referred to the legal counsel for review and that the results of that review are made a part of the audit report to the board or its committee?

Loans

Commercial

1. Confirmed loan balances?

2. Reviewed, or confirmed with outside custodian, notes and other legal documentation including collateral?

3. Tested the pricing of negotiable collateral?

4. Determined that any necessary insurance coverage is adequate and the bank is named as loss payee?

5. Reviewed the accrued interest accounts and tested computation of interest income?

Accounts Receivable Financing

1. Confirmed loan balances?

2. Reviewed, or confirmed with outside custodian, notes and other legal documentation including collateral?

3. Reviewed the accrued interest accounts and checked computation of interest income?

Direct Lease Financing

1. Confirmed leases and related balance sheet accounts?

2. Reviewed leases and other legal documentation?

3. Tested computation of depreciation expense?

4. Tested computation of interest or rent income?

5. Tested computation of gain or loss on property sales and disposals and traced sales proceeds to cash receipts records?

6. Determined that any deferred tax liability or asset is accurately reflected?

7. Reviewed insurance coverage and determined that property damage coverage is adequate in relation to book value and that liability insurance is in effect?

Installment

1. Confirmed loan balances?

2. Reviewed, or confirmed with outside custodian, notes and other legal documentation including collateral?

3. Determined that any necessary insurance coverage is adequate and the bank is named as loss payee?

4. Reviewed unearned discount and any accrued interest balances and tested the computation of interest income?

5. Reviewed sales of repossessed collateral and determined the propriety of the entries made to record the sales?

6. Tested rebate amounts for loans which have been prepaid?

Floor Plan

1. Confirmed loan balances?

2. Reviewed, or confirmed with outside custodian, notes and other legal documentation?

3. Physically inspected collateral?

4. Determined that any necessary insurance coverage is adequate and the bank is named as loss payee?

5. Reviewed the accrued interest accounts and tested computation of interest income?

Credit Card

1. Confirmed loan balances?

2. Tested the computation of interest income?

Home Equity

1. Confirmed loan balances?

2. Reviewed, or confirmed with outside custodian, notes and other legal documentation?

3. Tested computation of interest income?

Check Credit

1. Confirmed loan balances?

2. Examined, or confirmed with outside custodian, notes and other legal documentation?

3. Tested computation of interest (and service fee, if applicable) income?

Real Estate and Real Estate Construction

1. Confirmed loan and escrow account balances?

2. Examined, or confirmed with outside custodian, notes and other legal documentation including collateral?

3. Determined that any necessary insurance coverage is adequate and the bank is named as loss payee?

4. Reviewed the accrued interest accounts and tested computation of interest income?

5. Tested contingency or escrow account balances?

Oil and Gas

1. Confirmed loan balances?

2. Examined, or confirmed with outside custodian, notes and other legal documentation including collateral?

3. Reviewed division transfer orders or pipeline companies that have been instructed to remit directly to the bank?

4. Determined that any necessary insurance coverage is adequate and the bank is named as loss payee?

5. Reviewed the accrued interest accounts and tested computation of interest income?

Allowance For Loan and Lease Losses

1. Confirmed loan balances for loans charged off since their last examination and amounts of debit entries to the reserve account?

2. Examined supporting documentation for loans charged off?

3. Reviewed loan recoveries and agreed amounts to credit entries in the reserve account?

4. Tested the recording of deferred tax credits (charges) if the deduction for loan losses on the bank's tax return was different from that charged to operations?

Bank Premises and Equipment

1. Examined support for additions, sales and disposals?

2. Reviewed property transactions with "bank-affiliated personnel"?

3. Verified property balances?

4. Tested computation of depreciation expense?

5. Tested computation of gain or loss on property sales and disposals and traced sales proceeds to cash receipts records?

6. Determined that any deferred tax liability or asset, evolving from the use of different depreciation methods for book and tax purposes, is properly reflected on the bank's books?

Other Assets

1. Confirmed other asset balances?

2. Examined support for additions and disposals?

3. Tested the computation of any gains or losses on disposals?

4. Tested the bank's computation of any amortization?

5. Reviewed inter-office transactions?

6. Reviewed suspense accounts to determine whether all items included were temporary?

Deposits

Demand and Other Transaction Accounts

1. Confirmed account balances?

2. Tested closed accounts and determined that they were properly closed?

3. Tested account activity in dormant accounts, bank controlled accounts (such as dealers' reserves), employee/officer accounts, and accounts of employees'/officers' business interests?

4. Reviewed overdraft accounts and determined collection potential?

5. Tested computation of service charges and traced postings to appropriate income accounts?

Time Deposit Accounts

1. Confirmed time deposit account balances?

2. Tested closed accounts and determined that they were properly closed?

3. Tested account activity in dormant accounts, bank controlled accounts, employee/officer accounts, and accounts of employees'/officers' business interests?

4. Reviewed the accrued interest accounts and tested computations of interest expense?

5. Accounted for numerical sequence of pre-numbered certificates of deposit?

Official Checks

1. Reconciled account balances and tested control over blank check stocks?

2. Determined the validity and completeness of outstanding checks?

3. Examined documentation supporting paid checks?

4. Tested certified checks to customer's collected funds balances?

Borrowed Funds

1. Confirmed borrowed funds balances?

2. Examined supporting legal documents, disclosures, and collateral custody agreements and determined compliance with applicable laws and regulations?

3. Reviewed minutes of the stockholders' and board of directors' meetings for approval of all borrowing requiring such approval?

4. Verified changes in capital notes outstanding?

5. Reviewed the accrued interest accounts and tested computation of interest expense?

Other Liabilities

1. Confirmed balances of "other liability" accounts (including tests for unrecorded liabilities as of a given date)?

2. Reviewed the operation and use of any "inter-office" account?

3. Reviewed suspense accounts to determine all items cleared on a timely basis?

Capital Accounts and Dividends

Capital Stock

1. If a bank acts as its own transfer agent or registrar, accounted for all stock certificates, (issued and unissued) and reconciled par value of outstanding shares to appropriate general ledger control accounts?

2. If bank has an outside transfer agent or registrar, confirmed shares issued and activity since previous examination?

3. Reviewed capital changes since previous examination?

Dividends

1. Tested the computation of dividends paid or accrued?

2. Reviewed minutes of the board of directors' meetings to determine propriety of dividend payments and accruals?

Consigned Items and Other Non-Ledger Control Accounts

Safe Deposit Boxes

1. Tested rental income?

2. Checked vault entry records for signature(s) of authorized persons?

3. Tested reconcilements of control records?

Safekeeping/Custodial Accounts

1. Examined or confirmed with outside custodian safekeeping/custodial items?

2. Tested completeness of safekeeping/custodial items and records by examining supporting documentation or by confirming with customers?

3. Tested closed safekeeping/custodial accounts?

4. Tested safekeeping/custodial fee income?

Collection Items

1. Tested collection items by examining supporting documentation, subsequent receipt of payments, disbursement to customers of funds collected, or by confirming with customers?

2. Tested collection fee income?

Consigned Items

1. Reconciled physical count of unissued and voided items on hand to memorandum controls?

2. Confirmed with consignor the inventory on hand at the bank?

3. Tested income from sale of consigned items?

Income and Expenses

1. Tested income and expenses by examining supporting documentation for authenticity and proper approval?

2. Tested accruals by either recomputing amounts or examining documents supporting such accruals?

Related Organizations

1. Reviewed and tested the investment in and the transactions with related organizations?

2. Determined that investments, advances, or transactions with affiliates are consistent with covenants of debt or other instruments as approved by the board of directors or bank management?

Information System Services

1. Performed periodic audit procedures for significant IT control functions, including information security, business continuity, project management, and systems development.

2. Performed periodic audit procedures for significant automated applications to determine that workflow is processed accurately and in conformity with operating manuals?

3. Tested adherence authentication and access control requirements within various applications?

4. Verified the adequacy of system logging/audit trails and management monitoring?

5. Controlled or periodically reviewed dormant accounts?

6. Reviewed unposted items?

Payment Systems Risk

1. Tested the bank's self-assessment?

2. Reviewed the reasonableness of any de minimis cap?

3. Ascertained compliance with established bank policy?

Funds Transfer Activities

1. Reviewed the wire transfer function for segregation of duties involving receipt, processing, settlement, accounting, call-back, and reconciling?

2. Tested staff compliance with credit and personnel procedures, operating instructions, and internal controls?

3. Reviewed intraday and overnight overdrafts resulting from fails or intentional extensions of credit?

Asset Management

1. Tested fee income and client reimbursement?

2. Examined asset management client contracts?

3. Checked for compliance with applicable laws, regulations and rulings?

4. Ascertained adherence with established bank policies and procedures?

Private Placements

1. Tested transactions for evaluation of both issuer and investor, including suitability of the investment?

2. Checked for possible conflicts of interest?

3. Tested the reasonableness of fees charged for loans or paid on deposits?

4. Ascertained that activities are in keeping with established bank policy and SEC rules and regulations?

Discount Brokerage Activities

1. Tested transactions for compliance with 12 CFR 12?

2. Reviewed advertising and customer disclosures for accuracy?

3. Tested customer account statements for accuracy?

4. Tested activities for timeliness of processing/transmitting, reliability of accounting records, and for abuses or irregularities?

5. Ascertained compliance with established bank policies and procedures?

Safeguarding Customer Information

1. Determined that the bank has a written information security program, approved by the board or directors or appropriate board committee, that meets the requirements of 12 CFR 30, Appendix B?

2. Tested the program to ascertain that it ensures the security and confidentiality of customer information, protects against anticipated threats or hazards to the security or integrity of such information, and protects against unauthorized access to or use of such information that could result in substantial harm or inconvenience to customers?

3. Reviewed the board's or management's risk assessments of: internal and external threats; the likelihood and potential damage from those threats; and the sufficiency of policies, procedures, customer information systems, and other arrangements in place to control risks?

4. Review documentation related to selection of service providers; written contracts with service providers; and audits, summaries of test results, or other equivalent evaluations of the bank's service providers?

Insurance Activities

1. Check for compliance with applicable laws and regulations and internal policies, procedures, and guidance?

2. Review customer complaints and their resolution?

3. Verify that third-party sales are conducted consistent with governing agreements?

Branches

1. Has the internal or external auditor performed appropriate audit procedures in the branches during a reasonable audit cycle that are at least as comprehensive as those listed in the applicable areas above?

Appendix G: Auditor Independence Worksheet

The following worksheet is designed to help examiners determine whether a bank's external auditor (i.e., CPA) meets AICPA or SEC independence requirements. Examiners may want to share the worksheet with the bank and its external auditor to facilitate discussion of independence. The worksheet reflects the most common independence requirements when a CPA performs a bank's external audit (financial statement audits, control attestations, or other audit services requiring independence). This worksheet is not applicable when CPAs perform outsourced internal audit activities for a bank but do not perform external audit or attestation services for the bank. Use of this worksheet is not mandatory and can be used at the discretion of the EIC. Any independence concerns should be discussed first with the bank and the external auditor. If concerns remain, then discuss with district accountants or the Chief Accountant's office prior to making any recommendations to the bank.

Note: Shaded answer blocks indicate situations that do or may impair the external auditor's independence. Examiners should discuss these situations with the bank's board of directors or its audit committee and the external auditor to reach agreement on appropriate corrective action. Examiners should explain any mitigating circumstances, particularly for small community banks, in the Comments column.

	Yes	No	Comments
CPA PERFORMS EXTERNAL AUDIT			
AICPA Requirements [1]			
During the period of engagement, did the CPA:			Explain any Yes answers.
a. Have or commit to acquire any direct or material indirect financial interest in the bank?			

[1] The full text of AICPA independence requirements can be found on the AICPA's web site at http://www.aicpa.org/about/code/et101.htm.

	Yes	No	Comments
b. Act as trustee of any trust or executor or administrator of any estate that has or committed to acquire any direct or material indirect financial interest in the bank?			
c. Have a joint closely held investment material to the CPA?			
During the period of engagement, did the CPA have any loan to or from the bank, any officer or director of the bank, or any individual owning 10% or more of the bank's equity securities other than the following:			If Yes, explain.
a. Grandfathered loans?			
- Existing as of January 1, 1992			
- Obtained prior to engagement by the bank			
- Obtained from a bank for which independence was not required and subsequently sold to the bank			
- Obtained from the bank prior to becoming a member of the firm			
b. Automobile loans and leases?			
c. Loans fully collateralized by CSV of insurance policy?			
d. Loans fully collateralized by cash deposits at the bank?			
e. Aggregate credit card/cash advance debt of $5,000 or less?			

	Yes	No	Comments
During the period of engagement, did any partner or professional employee of the accounting firm, his or her immediate family, or any group of such persons acting together own more than 5% of the bank's equity securities?			If Yes, explain.
During the period of engagement or period covered by the financial statements, was any partner or professional employee of the accounting firm associated with the bank as:			Explain any Yes answers.
a. Director, officer, employee, or any capacity equivalent to that of a member of bank management?			
b. Promoter, underwriter, or voting trustee?			
c. Trustee for any pension or profit-sharing trust of the bank?			
Does the CPA perform other services for the bank that entail: Examples: bookkeeping, payroll, benefit plan administration, investment advice/management, corporate finance consulting/advice, appraisal, valuation, actuarial, executive or employee search, business risk consulting, and information system design, installation or integration.			Explain any Yes answers.
a. Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of a client or having the authority to do so?			

	Yes	No	Comments
b. Preparing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders)?			
c. Having custody of client assets?			
d. Supervising client employees in the performance of their normal recurring activities?			
e. Determining which recommendations of the member should be implemented			
f. Reporting to the board of directors on behalf of management?			
g. Serving as a client's stock transfer or escrow agent, registrar, general counsel or its equivalent?			
During the period of engagement, did the CPA's firm have any material cooperative arrangements with the bank such as:			
a. Prime/subcontractor arrangements to provide services or products to a third party?			
b. Joint ventures to develop or market products or services?			
c. Arrangements to combine one or more firm services or products with one or more bank services or products and market the package with references to both parties?			

	Yes	No	Comments
d. Arrangements under which the firm acts as distributor or marketer of the bank's products or services, or the bank acts as distributor or marketer of the firm's products or services?			
Does the CPA also perform any or all internal audit services for the bank?			If Yes, answer the following questions.
Does the bank assume responsibility for:			
a. Establishing and maintaining internal control?			If not, who does?
b. Directing and supervising the internal audit function?			If not, who does?
c. Establishing guidelines for management and CPA to follow in carrying out their responsibilities?			If no, why not?
d. Monitoring how well the respective responsibilities of the bank and CPA are met?			If no, why not?
e. Making the decision on whether to implement the CPA's recommendations?			If no, why not?
Does bank management rely on the CPA's work as the primary basis for its control assertion?			If yes, why?
Does the bank monitor internal control processes to assess the quality of control performance over time through:			At least one of the below should be Yes.
a. Ongoing activities?			
b. Separate evaluations?[2]			

[2] CPA can perform separate evaluations of bank's control effectiveness, including separate evaluation of bank's ongoing monitoring activities, as part of the external audit.

	Yes	No	Comments
c. Or a combination of both			
Does the bank, for internal audit:			Explain any No answers.
a. Designate a competent individual or individuals, preferably within senior management, to be responsible for the internal audit function?			
b. Determine the scope, risk, and frequency of internal audit activities, including those performed by the CPA providing outsourced internal audit activities?			
c. Evaluate the findings and results arising from internal audit activities, including those performed by the CPA providing outsourced internal audit activities?			
d. Evaluate the adequacy of audit procedures performed and findings resulting from performance of those procedures by, among other things, obtaining reports from the CPA providing outsourced/co-sourced internal audit activities?			
Does the CPA:			
a. Inform, using an engagement letter, the bank's board of directors or its audit committee of the respective roles of the bank and the CPA with respect to the outsourced internal audit engagement?			If no, why not?

	Yes	No	Comments
b. Perform outsourced/co-sourced internal audit procedures in accordance with terms of the engagement, as stipulated in the engagement letter, and report thereon to the bank?[3]			If no, why not?
c. Direct, review, and supervise day-to-day performance of outsourced/co-sourced internal audit procedures?			If not, who does?
d. Undertake responsibilities required to be performed by the bank individual responsible for the internal audit function?			If Yes, explain.
Does the CPA perform any of the following:			Explain any Yes answers.
a. Ongoing monitoring or control activities that affect transaction execution, ensure that transactions are properly executed, accounted for, or both, and routine activities in connection with bank's operating or production processes equivalent to those of ongoing compliance or quality control functions?			
b. Determining which, if any, recommendations for improving the internal control system should be implemented?			

[3] CPA independence is not impaired if the CPA performs procedures generally considered extensions of its financial statement audit scope, i.e., confirmations or analysis of fluctuations in account balances.

c. Reporting to bank's board of directors or audit committee on behalf of bank management or the individual responsible for the internal audit program?			
d. Authorizing, executing, or consummating transactions or otherwise exercising authority on behalf of bank?			
e. Preparing source documents?			
f. Having custody of assets?			
g. Approving or being responsible for the overall internal audit work plan, including determination of internal audit risk and scope, project priorities, and frequency of performance of audit procedures?			
h. Being connected with bank in any capacity equivalent to a member of bank management or as a bank employee (e.g., listed as employee in bank directories or other bank publications, allowing self to be referred to by title or description as supervising or being in charge of bank's internal audit function, or using bank's letterhead or internal correspondence forms in communications)?			
SEC Requirements [4]			
Are the bank's securities registered with the OCC, or is the bank subject to 12 CFR 363?			If Yes, determine the following.

[4] Applicable for any independent public accountant (IPA) performing external audit work at national banks subject to 12 CFR 363 and national banks whose securities are registered with the OCC, i.e., those subject to the periodic filing and reporting requirements of 12 CFR 11 and 12 CFR 16.20. The full text of the SEC's independence rule can be found at http://www.sec.gov/rules/final/33-8183.htm.

During the audit and engagement period, did the accountant, firm, covered persons of the firm, or immediate family members have any financial interests in the bank such as:			
a. Investments in the bank?			
- Direct investment in stocks, bonds, notes, options, or other securities			
- More than 5% ownership in the bank's equity securities or control of the bank			
- Voting trustee of a trust or executor of an estate having bank securities			
- Material indirect investment in the bank			
- Direct or material indirect investment in an entity where			
> The bank has an investment in an entity material to the bank and significant influence over the entity			
> The entity has an investment in the bank material to the entity and significant influence over the bank			
- Any material investment in an entity over which the bank has significant influence			
- Ability to significantly influence an entity that can significantly influence the bank			
b. Other financial interests such as			
- Loans to or from the bank, its directors or officers, or anyone owning more than 10% of the bank's securities, except for:			

> Automobile loans/leases			
> Loans fully collateralized by CSV of insurance policy			
> Loans fully collateralized by cash deposits at the bank			
> Mortgage loan collateralized by borrower's primary residence and not obtained while a covered person			
- Savings or checking accounts at the bank exceeding FDIC insured coverage?			
- Broker-dealer accounts maintained at the bank?			
- Future commission merchant account maintained at the bank?			
- Credit card balances aggregating $10,000 or less?			
- Insurance products issued by the bank?			
- Financial interest in an entity that is part of an investment company that includes the bank?			
c. Bank financial relationships?			
- Investments by the bank in the firm's stocks, bonds, notes, options, or other securities			
- Bank officers or directors own more than 5% of the firm's equity securities			
- Bank acts as underwriter, broker-dealer, market-maker, promoter, or analyst for securities issued by the firm			
During the audit and engagement period, did the accountant have employment relationships with the bank such as			

a. Current partner, principal, shareholder or professional employee of the firm is employed by the bank or serves as a member of the bank's board of directors?			
b. Close family member of firm's covered persons is in an accounting or financial reporting oversight role at bank, or was in such a role during the period of engagement?			
c. Former partner, principal, shareholder or professional employee of the firm is in an accounting or financial reporting oversight role at bank, or is in such a role and was a member of the audit engagement team during the prior year's audit of the bank?			
d. Former officer, director, or employee of bank is employed by the firm and participated in the audit of the bank's financial statements covering any period for which the employee worked for the bank?			
During the audit and engagement period, did the firm or any covered person in the firm have any direct or material indirect business relationship with the bank or its officers, directors, or substantial shareholders?			
During the audit and engagement period, did the accountant provide any of the following non-audit services to the bank:			

a. Bookkeeping or other services related to the accounting records or financial statements of the bank?			
b. Financial information system design and implementation?			
c. Appraisal or valuation services, fairness opinions, or contribution-in-kind reports?			
d. Actuarial services?			
e. Internal audit outsourcing services?[5]			
f. Management functions, either temporary or permanent?			
g. Human resources?			
h. Broker-dealer, investment advisor, or investment banking services?			
i. Legal services?			
j. Expert services unrelated to the audit?			
During the audit and period of engagement, did the accountant provide any service or product to the bank for a contingent fee or commission, or receive a contingent fee or commission from the bank?			
Has the audit engagement team lead and concurring partners performed audit, review or attest services for the bank or any of its significant subsidiaries for more than five consecutive years?			

[5] "Internal audit services" means only that work related to internal accounting controls, financial systems, financial statements, and matters that impact financial statements. Work on other operational internal audit services not related to the above is not included. The key criteria is whether it is reasonable to conclude that the results of these services will not be subject to audit procedures during an audit of the audit client's financial statements.

Did the bank's audit committee pre-approve all audit, review and attest engagements performed by the auditor?			
Did the bank's audit committee pre-approve non-prohibited non-audit services performed by the auditor?			
Did any partner, principal or shareholder participating on the audit engagement team earn or receive compensation based on the performance of, or procuring of, engagement with the bank to provide any products or services other than audit, review or attest services?			
Did the audit firm, prior to filing the audit report with the OCC/SEC, report:			
a. All critical accounting policies and practices to be used?			
b. All alternative treatments of financial information within GAAP that have been discussed with bank management, including:			
- Ramifications of the use of alternative disclosures and treatments, and			
- The treatment preferred by the audit firm?			
c. Other material written communications between the audit firm and bank management, such as any management letter or schedule of unadjusted differences?			

SUMMARY			
Based on responses to the above questions, does the CPA act or appear to act in a capacity equivalent to that of the bank's management?			If Yes, explain.
Are there any other factors that indicate the CPA does not comply with provisions of the independence standards?			If Yes, explain.

Appendix H: Board/Audit Committee Oversight Worksheet

The following worksheet is designed to help examiners assess the quality and extent of a bank's audit committee (or board, if there is no audit committee) duties and responsibilities and the qualifications of committee members. Examiners may want to use the worksheet, or share it with the bank's board or audit committee, to facilitate as a tool to facilitate general discussions with banks about audit committee (or board, if there is no audit committee) responsibilities. The worksheet can be used for national banks subject to 12 CFR 363 or those with securities registered with the OCC (i.e., subject to the periodic filing and reporting requirements of 12 CFR 11 and 12 CFR 16.20). It can also be used for banks that are not subject to the statutory requirements (i.e., most community banks). However, in doing the latter, examiners need to be cognizant of the bank's size, operations, and risk profile, and temper such discussions accordingly. Use of this worksheet is not mandatory and it can be used at the discretion of the EIC.

Note: A response in a shaded answer block generally indicates an area examiners should discuss with the bank's board of directors or its audit committee and, as appropriate, reach agreement on corrective measures. Examiners should explain any mitigating circumstances, particularly for smaller community banks, in the Comments column.

	Yes	No	N/A	Comments
General Responsibilities				
Does the board of directors or its audit committee:				
a. Review and approve audit strategies, policies, programs (including BSA compliance programs), and organizational structure?				
b. Review and approve selection or termination of external auditors and outsourced internal audit vendors?				

	Yes	No	N/A	Comments
c. Meet regularly with internal and external auditors and outsourced internal audit vendors?				
d. Ensure that internal and external auditors and outsourced internal audit vendors are independent and objective?				
e. Ensure that comprehensive audit coverage is in place to meet risks and demands posed by current and planned activities?				
f. Have significant input into hiring senior internal audit personnel, setting their compensation, and evaluating their performance?				
g. Review and approve annual audit plans and schedules, and any changes thereto, for both internal and external audits?				
h. Retain internal and external auditors and outsourced vendors qualified to audit the activities in which the bank is engaged?				
i. Monitor and track significant control weaknesses and management's progress toward corrective action?				
j. Meet with examiners at least once each supervisory cycle to discuss audit review findings?				

	Yes	No	N/A	Comments
Is the committee responsible for risk management issues? [1] If so, does it:				
a. Communicate risk management concerns to the full board?				
b. Ensure that risk management evaluation functions are independent?				
c. Review risk management reports and information?				
Audit Committee				
Does the bank have an audit committee? (Required for 12 CFR 363 or OCC-registered banks)[2]				
Does the committee maintain minutes and other relevant records of their meetings and decisions? (Required for banks subject to 12 CFR 363)				
Has the committee adopted and the board approved a written charter for the audit committee? (Required for OCC-registered banks)				
If so, does the charter address:				

[1] The bank's board of directors may assign these to another committee or individual designated as responsible for overseeing the bank's overall risk management functions.

[2] National banks whose securities are registered with the OCC and file periodic reports under 12 CFR 11 and 12 CFR 16.20, and national banks subject to 12 CFR 363.

	Yes	No	N/A	Comments
a. The committee's responsibilities and how they carry out those responsibilities (including structure, processes, and membership requirements)?				
b. The committee's review and discussion with IPAs of any relationships or services that may affect the IPA's independence or objectivity? (SEC's revised independence rule require OCC-registered bank audit committees to pre-approve all audit, review, attest, and non-prohibited non-audit services.)				
c. The IPA's accountability to the board and committee, and the board/committee's authority and responsibility to select, evaluate, and (where appropriate) replace the IPA?				
Are committee members independent of management? (Required for 12 CFR 363 and OCC-registered banks)				
Is the committee a. Made up entirely of outside directors (required for 12 CFR 363 and OCC-registered banks) ?				
b. Or a majority of outside directors?				

	Yes	No	N/A	Comments
Does the board of directors annually make a determination of committee member independence? (Required for 12 CFR 363 and OCC-registered banks)				
If so, does the board's determination consider whether members:				
a. Are, or have been, an officer or employee of the bank or its affiliates?				
b. Serve or have served as the bank's or its affiliates' consultant, advisor, promoter, underwriter, legal counsel, or trustee?				
c. Are relatives of a bank's or its affiliates' officers or employees?				
d. Hold or control, or did not hold or control within the preceding year, either directly or indirectly, a financial interest of 10% or more in the bank or its affiliates?				
e. Have outstanding extensions of credit from the bank or its affiliates?				
f. Whether any committee member is a large customer of the bank?				
Are committee members:				
a. Financially literate?				

	Yes	No	N/A	Comments
b. Do they have banking or related financial management expertise? (Required for banks subject to 12 CFR 363 and OCC registered banks)				
Does the committee have access to its own counsel at its own discretion and without prior approval of the board or management? (Required for banks subject to 12 CFR 363 and OCC registered banks)				
Does the committee perform all duties as determined by the board of directors, including reviewing, as applicable, with management and the IPA: (Required for 12 CFR 363 and OCC-registered banks)				
a. The scope of services required by the external audit (i.e., IPA's responsibilities under GAAS)?				
b. The basis of Part 363 required reports? [3]				
c. Significant accounting policies?				
d. Management judgments and accounting estimates?				
e. Audit adjustments and passed or waived adjustments?				

[3] The required reports are: (1) management's report and assertion on internal controls over financial reporting and compliance with designated laws, (2) independent public accountant's audit and report on the bank's financial statements, and (3) independent public accountant's attestation report on management's control assertion.

	Yes	No	N/A	Comments
f. IPA's judgment about the quality of the bank's accounting principles?				
g. Other information in documents containing audited financial statements?				
h. Disagreements between the IPA and management?				
i. Assessments of internal control adequacy and resolution of identified material internal control weaknesses and reportable conditions?				
j. The institution's compliance with laws and regulations?				
k. Consultations with other accountants?				
l. Major issues discussed with management prior to retention of the IPA?				
m. Difficulties encountered in performing the audit?				
Does the committee oversee the internal audit function? (Required for banks subject to 12 CFR 363)				
Does the committee discuss with management the selection and termination of the IPA? (Required for 12 CFR 363 and OCC-registered banks)				

	Yes	No	N/A	Comments
Does the audit committee pre-approve all audit and permitted non-audit services provided by the IPA? (Required for OCC-registered banks)				
Does the committee on an annual basis: (Required for OCC-registered banks)				
a. Receive and review written disclosures from the IPA disclosing all relationships between the IPA and its related entities and the bank and its related entities that, in the IPA's judgment, may reasonably bear on independence?				
b. Review the above letter to ensure that the IPA confirms they are independent of the bank?				
c. Discuss the IPA's independence with the IPA?				
Does the committee recommend to the board of directors that the audited financial statements be included in the bank's annual report? (Required for OCC-registered banks)				
Does the committee review the aggregate fees billed by the IPA for: (Required for OCC-registered banks)				
a. The annual financial statement audit?				

	Yes	No	N/A	Comments
b. Other audit-related services?				
c. Tax services?				
d. All other products and services provided by the IPA for the most recent fiscal year?				
Does the committee review the hours spent on the bank's financial audit by persons other than the IPA's full-time permanent employees? (Required for OCC-registered banks)				

Appendix I: Audit Rating Guidance – Community Banks

Examiners should consider the following key attributes when assessing the quality of a community bank's overall audit program. It is not necessary for the audit program to meet every attribute to be accorded a specific rating of strong, satisfactory, or weak. These key attributes are normally present to distinguish between ratings, but examiners will need to factor in the bank's size, the nature of its activities, and its risk profile to arrive at an overall rating.

Strong

Overall, a **strong** audit program is assigned a high level of respect, credibility, and stature in the organization, which is continually confirmed by management and board attitudes, actions, and support. Audit's role is clearly spelled out and incorporated into overall risk management, new product and service deployment, changes in strategy, and organizational and structural changes. The OCC can fully rely on the work and conclusions of the audit function.

Board/Audit Committee Oversight - The board, or its committee assigned audit oversight responsibility, is proactive in dealing with management and risk management issues in a timely manner. Reports and information submitted to the board or committee are clear and understandable in their discussions of issues, emerging risks, corrective actions, testing, and resolution of outstanding items. The board or committee maintains dialogue with internal and external auditors, regulators, and management and involves all appropriate groups in discussions on new business ventures, the potential risks involved, and planned controls. The board or committee takes an active role in reviewing and approving overall annual audit plans, for both internal audit and the external audit engagement, as well as setting expectations for the roles of both internal and external auditors and evaluating their performance under the plan. The use of external auditors is clearly defined in engagement letters.

Audit Management and Processes - Internal audit management possesses industry expertise and knowledge to match the sophistication and complexity of the bank's risk profile and operations. Audit is independent in executing audit plans and audit programs and discussing issues with the board/audit committee and regulators. Audit scopes and report findings are supported by

work papers. Internal auditors address control deficiencies in a timely manner and perform thorough follow-up testing to ensure that corrective measures are effective. Internal audit plans are completed with minimal carryover or have appropriately supported amendments based on significant changes in the bank's risk profile.

The internal and external audit processes are fully effective. Any outsourced or co-sourced internal audit duties or assignments are effective and appropriately managed by the bank. Audit processes include indicators and descriptions of key risks and controls in place. Management information systems are timely, accurate, complete and reliable.

Responsibilities between audit and other risk management oversight functions are well delineated. If appropriate, risk and frequency models are effectively used, and accurately reflect the risk posed by the bank's activities. Overall audit planning is effective and timely in addressing audit needs for low- and moderate-risk areas. Audit scopes are flexible to the extent of addressing new business lines, products, and activities, and, if appropriate, merger/acquisition situations.

Audit Reporting - Internal audit reports clearly outline the causes of problems and specifically point out management issues when present. There are few differences between bank-assigned audit assessments and examiner assessments for internal controls. Internal audit ratings, if used, are well defined and are fully effective in identifying areas where control weaknesses exist. Work paper documentation effectively supports the findings presented in the reports and the audit ratings assigned.

Internal Audit Staffing - Audit staffing and experience fully complements the level of risk undertaken by the bank. Staff turnover is minimal and vacancies are promptly addressed and have little or no affect on internal audit plans or processes. Recruitment and training processes are effective. The audit staff possesses a high level of knowledge of the areas audited.

Satisfactory

Overall, a **satisfactory** audit program attains an adequate level of respect and stature in the organization and is generally supported by the actions of management and board. Audit's role in overall risk management and its participation in new product and service deployment, changes in strategy,

and organizational and structural changes may be limited, but is conducted effectively.

Board/Audit Committee Oversight - The board or audit committee is effective in their oversight of the audit program. Reports and information presented to the committee provide sufficient information and discussion of significant audit and control issues. The committee holds senior management accountable for issues in their respective business lines. The committee understands the overall audit plans of internal audit and the engagement of external auditors and the respective roles to be performed by both internal and external auditors. The use of external auditors is clearly defined in engagement letters.

Audit Management and Processes - Internal audit management generally possesses the knowledge and experience to ensure adequate internal audit operations appropriate for the bank's size, activities, and risk profile. For small community banks, the lack of internal audit management independence is mitigated by effective internal controls. Internal audits and follow-up are timely, comprehensive, independent, and effective in assessing and monitoring controls. Audit programs, processes, and information systems are generally sound, and complement the control and risk management environment. Audit policies are generally effective, adhered to, and appropriate for the bank's size, complexity, and risk profile. The bank adequately manages outsourced or co-sourced internal audit duties or assignments.

Audit Reporting - Internal audit reports are clear, concise, and accurately reflect reviews of the area and the root causes of issues. Bank assigned internal audit ratings, if used, or assessments are adequately defined. Conclusion or assessment differences with examination findings may exist, but do not compromise the overall audit program. Internal audit work papers and programs support findings and conclusions.

Internal Audit Staffing - Audit staff is generally competent and experienced. The audit staff may have experienced some turnover and vacancies, but not to the extent of compromising internal audit plans and processes. Staff training is adequate.

Weak

Overall, a **weak** audit program is one that is not an integral part of the organization and the OCC cannot rely on the audit function's work or conclusions. The audit program does not have the full support of the board and management. Audit's role is unclear and not utilized in overall risk management, new product and service deployment, changes in strategy, and organizational and structural changes.

Audit Committee - The audit committee (or board if there is no committee) is not effective in their oversight of the audit program. Reports and information submitted to the board or committee are insufficient or not fully understood. The board or committee fails to follow-up on control and risk weaknesses noted by audit or to hold senior management accountable for issues in their respective business lines. The board or committee has a passive role in the overall audit plan or selection of the external audit engagement and is not involved in determining the respective roles of the internal and external auditors. Engagement letters describing the work to be performed by the external auditors are non-existent, incomplete, or not understood.

Audit Management and Processes - Weaknesses exist in internal audit management and processes, such as lack of competence or independence or inadequate scope of review, that are not mitigated by strong internal controls. Audit policies may exist, but need significant enhancements in light of the bank's size, complexity, and risk profile. Audit programs, processes, reports, and information systems are generally ineffective in addressing significant control or risk issues. Outsourced or co-sourced internal audit duties or assignments are ineffective or not appropriately managed by the bank.

Audit Reporting - Internal audit rating or assessment definitions are loosely defined or nonexistent. Audit reports are unclear and do not reflect accurate conclusions or fully identify the root causes of concerns. Significant conclusion or assessment differences exist with examination findings. Internal audit program work papers, in many cases, are insufficient or do not support findings and conclusions.

Internal Audit Staffing - Audit staff is inexperienced or lacks adequate knowledge. The internal audit area is understaffed or suffers from high turnover significantly affecting internal audit plans and processes. Management has failed to maintain the staff levels needed to fully support the internal audit function. Staff training is inadequate.

Appendix J: Audit Rating Guidance – Large/Mid-size Banks

Examiners should consider the following key attributes when assessing the quality of a large or mid-size bank's overall audit program. It is not necessary for the audit program to meet every attribute to be accorded a specific rating of strong, satisfactory, or weak. These key attributes are normally present to distinguish between ratings, but examiners will need to factor in the bank's size, the nature of its activities, and its risk profile to arrive at an overall rating.

Strong

Overall, a **strong** audit program attains the highest level of respect and stature in the organization, which is continually confirmed by management and board attitudes, actions, and support. Audit's role is clearly spelled out and incorporated into overall corporate risk management, new product and service deployment, changes in strategy and tactical plans, and organizational and structural changes. The OCC can fully rely on the work and conclusions of the audit function.

Audit Committee – A formal audit committee charter exists, clearly sets out the committee's responsibilities, reflects current industry and regulatory trends, is reviewed on an annual basis and updated as warranted, and is shared with the board of directors, internal auditors, and external auditors. The audit committee ensures adherence to the spirit and intent of legislative and regulatory requirements. The committee's tone is a positive impact on the organization and its audit and internal control culture. The audit committee is effective in holding management accountable for timely and appropriate responses to audit, control, and risk management issues. Reports to the audit committee are clear in their discussions of both horizontal and business line issues. The committee reviews corrective actions, testing, and resolution of significant issues. Reporting and discussions also include emerging issues and a profile of enterprise-wide risk in the company. Risks are reported across the company for all areas and discussed in an appropriate manner given the significance of risk issues. The committee receives presentations on key businesses and risks; maintains frequent dialogue with regulators; and engages in prospective discussions on new business ventures, the potential risks involved, and planned controls. The committee takes an active role in overseeing internal and external audit functions by meeting

regularly with internal and external auditors and examiners, selecting external auditors and pre-approving audit services to be performed (through clearly defined engagement letters), terminating audit engagements, and reviewing and approving the overall annual audit plans of internal audit and external audit engagements. They also set expectations for the roles of both internal and external auditors, evaluate the auditors' performance under the audit plans, and ensure auditor independence and qualifications to perform the work. The committee has significant input regarding hiring, compensation, and performance evaluation of the internal audit manager.

Audit Management and Processes - Internal audit is highly perceived, respected, and visible throughout the organization. Audit management possesses significant industry expertise and knowledge to match the sophistication and complexity of the bank's risk profile and operations and to challenge management when necessary. Internal audit activities integrate compliance, information technology, accounting, and credit areas when those areas overlap. An audit management and subject matter expert succession plan is in place and if audit management turnover occurs the positive aspects outweigh the negative. Internal audit is independent by virtue of reporting lines to the board and the board's support in executing the audit plan and audit programs. Internal audit is very or highly effective in follow-up actions and ensuring change. Follow-up reviews are completed in a timely manner, and testing for management's corrective actions is thorough. Audit processes and teams have been effective in raising and addressing issues in merger activities. Horizontal and silo risk issues across the corporation are effectively addressed, discussed, and reported in real time to the fullest extent possible through the audit processes, i.e., continuous or traditional audit. Audit plans are completed without any carryover or have appropriately supported amendments based on significant changes in the bank's risk profile.

The internal audit process is fully effective and may include results obtained from traditional and/or continuous audit activities, early warning indicators, management call programs, etc. The audit process effectively utilizes a level and combination of audit tools, as well as a balanced approach of core audit and consulting/special request activities, to meet the annual audit plan. Testing and sampling methods, and associated work papers, fully support conclusions reached. Any internal audit duties or assignments that have been outsourced or co-sourced are effective and appropriately managed. Internal audit processes include key indicators and well-developed descriptions of key

risks and controls in place. Audit takes an active role in helping management's FDICIA control assessment and SEC certification process and maintains documentation supporting management's assertions. Key indicators are being effectively used as an early warning tool for risk management. Management information systems are timely, accurate, complete and reliable. An effective quality assurance process is in place that is well staffed and provides timely feedback (i.e., quarterly) on reporting, ratings, testing, documentation, and audit processes. Results of the quality assurance process are used to effect positive changes to the audit function.

Responsibilities between audit and other risk management oversight functions are well delineated. Audit has identified key systems, critical management reports, laws, and regulations relating to each business line. Risk and frequency models are well defined, accurately reflect the risk, and are consistently applied across business lines. The audit planning horizon is long-term and it effectively addresses overall audit needs for low- and moderate-risk areas in a timely fashion. Joint ventures and minority subsidiary activities are appropriately addressed in the internal and external audit program scopes. Audit scopes are flexible to the extent of adding new business lines and merged activities.

Audit Reporting - Internal audit reports clearly outline the causes of problems and specifically point out management issues when present. There are few differences between bank-assigned internal audit ratings or assessments and examiner assessments for internal controls in the business line audits. Internal audit ratings or assessments are well defined and are fully effective in identifying areas of increased levels of control weaknesses. In addition to the control or summary audit rating, each audit report denotes the risk assessment for the unit, including a description of the rationale for the risk assignation. Internal audit work paper documentation fully supports the findings presented in the reports and the audit ratings assigned.

Internal Audit Staffing - Audit staffing is appropriate relative to the level of risk undertaken by the bank. Staff turnover is minimal and vacancies are promptly addressed and have little or no affect on audit plans or processes. Recruitment and training processes are active and ongoing. The audit function is viewed as management training ground, with audit staff rotating into management ranks. The audit staff includes subject matter experts, who are active in industry related organizations. The staffing plan provides for management succession within the internal audit group.

Satisfactory

Overall, a **satisfactory** audit program attains an adequate level of respect and stature in the organization and is generally supported by the actions of management and board. Audit's role in overall corporate risk management and participation in new product and service deployment, changes in strategy and tactical plans, and organizational and structural changes may be limited, but is conducted in accordance with its assigned responsibilities. The OCC can rely on a majority of the work and conclusions of the audit function.

Audit Committee – A formal audit committee charter exists and is regularly reviewed and shared with appropriate parties; it adequately sets out the committee's responsibilities, although some enhancements may be needed in light of current industry and regulatory trends. The audit committee's actions are generally effective in overseeing the audit program and setting a good audit and control culture. Reports presented to the committee provide sufficient information and discussion of significant audit, control, and risk issues in light of the organization's activities and risk profile. The committee holds senior management accountable for issues in their respective business lines. The committee understands and approves the overall audit plans for both internal audit and the external audit engagement, and they are involved in setting the respective roles of both internal and external auditors.

Audit Management and Processes - Internal audit management is independent and generally possesses the knowledge and experience to ensure adequate internal audit operations appropriate to the bank's activities and risk profile. An audit management and subject expert succession plan has been informally considered. Audits and follow-up are timely, comprehensive, independent, and effective in assessing and monitoring controls and risk. Audit programs, processes, and information systems are generally sound, adequately meet regulatory requirements and guidance, and complement the control and risk management environment. Annual audit plans reflect some carryover or amendments, but these are fully supported and approved by the audit committee. Audit policies are effective, adhered to, and appropriate for the bank's size, complexity, and risk profile. Senior level audit management adequately manages outsourced or co-sourced internal audit duties or assignments. A quality assurance process is in place that conducts annual or semi-annual reviews and uses significant results to improve the audit function.

Audit Reporting - Internal audit reports are clear, concise, and reflect an assigned rating properly based on reviews of the area and the root causes of issues. Internally assigned audit ratings or risk/control assessments are adequately defined. Any differences with examination findings are adequately explained and do not compromise the overall internal audit program. Internal audit program work papers support findings and conclusions.

Internal Audit Staffing - Audit staff is generally competent and experienced. The internal audit staff, as a whole or in certain groups, experiences some turnover and vacancies, but not to the extent of compromising internal audit plans and processes. Staff training and expertise is adequate.

Weak

Overall, a **weak** audit program is one that is not an integral part of the organization. The audit program does not have the full support of or appropriate oversight by the board and management. Audit's role is unclear and not utilized in overall corporate risk management, new product and service deployment, changes in strategy and tactical plans, and organizational and structural changes. Significant internal control weaknesses are not fully identified by the audit function or corrected in a timely manner. The OCC cannot rely on the work and conclusions of the audit function.

Audit Committee – A formal audit committee charter may or may not exist. If one exists, it is not current, does not sufficiently set out the committee's responsibilities, and it has not been shared with the board of directors, internal auditors, or external auditors. The audit committee is complacent, meets infrequently or for short time periods, and its impact on the organization and the audit and control culture is not conducive for effective oversight of the audit program. Reports and information submitted to the committee are insufficient or not fully understood. The committee fails to adequately follow-up on control and risk weaknesses noted by audit or to hold senior management accountable for issues in their respective business lines. The committee has a passive role in overall audit planning or selection and/or oversight of the external audit engagement and is not involved in determining the respective roles of the internal and external auditors. Engagement letters describing the work to be performed by external auditors are non-existent, incomplete, or not understood by the board or audit

committee. The committee has little or no input in the hiring, compensation, or performance evaluation of the internal audit manager.

Audit Management and Processes - Weaknesses exist in internal audit management and processes, such as lack of competence or expertise matching the complexity and risk profile of the organization's operations. Audit management or subject matter expert succession plans are lacking or are ineffective, and audit management turnover is a negative impact on the overall audit process. Independence issues or inadequate scope of reviews are not mitigated by strong internal controls and audit management tends to back off when challenged by senior management. Audit policies exist, but are not current and may need significant enhancements in light of recent industry trends and the bank's size, complexity, and risk profile. Annual audit plans/schedules are not met due to limited resources, poor planning, or an unbalanced approach between core audit activities and special request or consulting activities. Audit programs, processes, reports, and information systems are generally ineffective in addressing significant control or risk issues and supporting conclusions. Audit processes may not reflect effective use of current or appropriate audit tools, and do not meet regulatory requirements and guidance. Risk assessments are ineffective and not reflected in audit planning. Outsourced or co-sourced internal audit duties or assignments are ineffective and have not been appropriately managed by an appropriate level of audit management. A quality assurance process does not exist or is not properly used to enhance the audit function.

Audit Reporting - Bank-assigned internal audit rating or assessment definitions are loosely defined or nonexistent. Internal audit reports are unclear, do not reflect accurate ratings or assessments based on reviews of the area, or do not fully identify the root causes of issues. Significant rating or assessment differences exist with examination findings. Internal audit program work papers, in many cases, are insufficient or do not support findings and conclusions.

Internal Audit Staffing - Audit staff is inexperienced or lacks adequate knowledge and suffers from high turnover/vacancies, which significantly affect internal audit plans and processes. Audit staff levels are significantly smaller than peer. Management has failed to maintain the staff levels and expertise needed to fully support the internal audit program in light of the organization's activities and risk profile. Staff training is inadequate.

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