
Audit Examination Program

Examination Objectives

To determine the level and quality of the audit process. Consider whether:

- qualified personnel perform the audit function;
- the scope of the audit is consistent with the savings association's size, complexity of operations, level of growth and previous examination findings;
- the fiduciary audit committee or other appropriate committee directs the conduct of the audit;
- the results of the audit are reported to the board and management;
- appropriate actions are taken by management as a result of the audit;
- the audit program strengthens internal controls; and
- internal controls are effective in monitoring management and staff's adherence to policies, procedures and applicable law.

Examination Procedures

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Level I

Level I procedures first focus on a review of the examination scoping materials. The next step consists of interviews with trust department personnel to confirm their qualifications and levels of expertise; to determine if the trust department's practices conform to written guidelines; to establish whether any significant changes in personnel, operations or business practices have occurred; or whether new products and/or services have been introduced. If items of concern are uncovered during Level I procedures or if problems are identified during the preexamination monitoring and scoping; the examiner may need to perform certain Level II procedures.

1. Review examination scoping materials related to the audit program. Scoping material should include:
 - Risk profile
 - Relevant PERK documents

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- Previous trust and asset management examination report
- Previous safety and soundness examination report
- Workpapers from the previous examination
- Board of director and audit committee minutes
- Examination reports of subordinate, functionally regulated entities

2. Assess whether an audit committee has been formed and made responsible for directing the conduct of the saving association's trust and asset management activities.

3. Determine if the audit committee members include officers of the savings association or an affiliate or are members of other committees involved with fiduciary activities.

4. Review the board of director and the audit committee minutes. Evaluate the level of control of the trust department audit as well as the audit approval process.

5. Determine if the trust department has been audited according to the approved type of audit program, continuous or annual.

6. Evaluate whether the auditors have sufficient education and experience to audit trust and asset management activities. Assess whether the savings association has recently changed auditing personnel or firms and discuss with management the reasons for the change. Evaluate evidence of any disagreements between the auditor and the savings association regarding matters of fiduciary principles or practices, internal controls or auditing procedures.

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7. Review the operation of the audit department to determine its functional responsibilities and independence. Determine whether:
- the auditor approaches the audit process in an ethical and professional manner.
 - management imposes any restrictions on the audit program or places any budgetary or scheduling restraints on the auditors.
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8. If the audit function is outsourced to a third party, determine that the board or audit committee has reviewed the qualifications of the auditor or approved an audit plan or program. Review the engagement letter to determine if the procedures to be performed are clearly stated.
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9. Review the audit program and schedule and determine its completeness and compliance with §550.440 – 550.480. Consider:
- Whether the internal audit program is modified in a timely manner to keep pace with changes in trust and asset management activities, economic environment, technology and applicable law.
 - Whether the audit program is designated a continuous or annual audit.
 - Whether the internal auditor has experience in auditing all types of trust and asset management activities.
 - Whether the auditor has established the scope based on an assessment of risk. Evaluate the reasonableness of the assessment. Check for evidence that the auditor has investigated areas with the greatest risk of loss and has allocated sufficient coverage time.
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10. Review audit reports and recommendations by the auditors. Determine whether management, the board and/or the audit committee has approved the recommended changes or provided other satisfactory responses. Also, determine that all noted deficiencies and concerns have been addressed.

11. Consider whether the following risk contributors (if applicable) have been addressed:

- Significant risks are consistently and effectively identified, measured, monitored and controlled
 - The expertise and independence of the audit team is considered adequate
 - The quality of the written audit programs, policies and procedures is sufficient
 - Corrective action is immediately implemented and monitored
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The completion of the Level I procedures may provide sufficient information to make a determination that no further examination procedures are necessary. If no determination can be made, proceed to Level II.

Level II

Level II procedures focus on an analysis of trust department documents such as reports and outsourcing contracts. The examiner should complete the appropriate Level II procedures when the completion of Level I procedures does not reveal adequate information on which to base a conclusion that the trust department meets the examination objectives. Neither the Level I nor the Level II procedures include any significant verification procedures.

1. Determine whether the auditors are free from the influence of management, including performance evaluation and control of salaries.

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| 2. | Review the distribution of internal audit reports. | |
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| 3. | Determine if the auditors have reviewed the savings association's policies and procedures to determine if they adequately cover all areas of trust and asset management activities and comply with applicable law. | |
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| 4. | Review and evaluate the educational background and training of auditors. | |
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| 5. | Determine if the external auditors have any relationships with the savings association, its directors, officers, employees or other material involvements that would compromise their independence. | |
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| 6. | Determine if the external auditors have any stock holdings or borrowings with the savings association. | |
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| 7. | Review the external auditor's engagement letter and note any restrictions and/or critical comments. | |
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If the examiner cannot rely on the trust and asset management Level I or Level II procedures, or data contained in department records or internal or external audit reports to form a conclusion; proceed to Level III.

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Level III

Level III procedures include verification procedures that auditors usually perform. Although certain situations may require that Level III procedures be completed, it is not the standard practice of Office of Thrift Supervision (OTS) examination staff to duplicate or substitute for the testing performed by auditors.

1. Evaluate the scope of the auditor's work and review the written audit reports and working papers for adequacy. Determine if the audit reports are adequate, prepared in accordance with the audit program, comply with prescribed procedures and are properly documented. Ensure that the auditor has tested and verified the reliability of information produced in the report.

2. Discuss with management the level of problems and identified risk exposure. Focus on the cause of the problems and subsequent risk that has been created.

3. Encourage management to enhance their audit program or remove the current auditors.

4. Discuss with management the ability of the savings association to commit to specific actions regarding deficiencies.

Examiner's UITRS Rating, Summary, Conclusions and Recommendations:

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References - 410P

Laws

Code of Federal Regulations

12 CFR 550 Trust Powers of Federal Associations (General)

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12 CFR 550.440	Audit of Fiduciary Activities
12 CFR 550.450	Standards that Govern Audit
12 CFR 550.460	Who May Conduct the Audit
12 CFR 550.470	Fiduciary Audit Committee and Restrictions
12 CFR 550.480	Reporting Audit Results
12 CFR 563c.3	Qualifications of Public Accountant

Office of Thrift Supervision Publications

Thrift Activities Handbook Sections 350, 355

Other

Workpaper Attachments - 410P

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Optional Topic Questions

The following list of questions is offered merely as a tool and reference for the examiner and is not a required part of the examination process.

Audit Committee

<ul style="list-style-type: none">▪ Does the entire board of directors or a distinct audit committee have responsibility for directing the conduct of the savings association's trust and asset management activities?
<ul style="list-style-type: none">▪ If there is a distinct audit committee,<ul style="list-style-type: none">• Is the composition of the committee in compliance with 12 CFR §550.470?• Do any active officers of the savings association or an affiliate serve as a member of the committee?• Are a majority of the committee members not members of another board committee delegated power to manage the organization's fiduciary activities?
<ul style="list-style-type: none">▪ Does the auditor report directly to the board or the audit committee?
<ul style="list-style-type: none">▪ Has the audit committee reported in writing to the board the results of the audit, including significant actions taken as a result of the audit?
<ul style="list-style-type: none">▪ Has the audit committee reviewed comments about trust and asset management activities in the most recent OTS report of examination and taken appropriate corrective actions?
<ul style="list-style-type: none">▪ Does the board of directors or audit committee require timely and sufficiently detailed audit reports? Do the audit reports address the auditor's scope for each audit, procedure performed, areas not covered, the justification for the auditor's sample sizes and the basis for each conclusion?

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<ul style="list-style-type: none">▪ Has the audit been conducted, either directly or through others, of the savings association's significant trust and asset management activities at least once each calendar year (if annual audit) or at an interval commensurate with the activity's nature and risk (if continuous audit)?
<ul style="list-style-type: none">▪ Has the board devised a satisfactory written audit program?
<ul style="list-style-type: none">▪ Does the board of directors or the audit committee approve the frequency schedule and scope?
<ul style="list-style-type: none">▪ Is the audit function involved in the design or review of major changes in operational procedures?
<ul style="list-style-type: none">▪ Is the audit scope based on a risk assessment of trust and asset management activities?

Program Section - Accounting and Physical Security Controls

<ul style="list-style-type: none">▪ Does the audit program verify account assets annually, including a confirmation from outside custodians?
<ul style="list-style-type: none">▪ Does the program determine whether assets are safeguarded adequately (including unissued stocks, bonds and trust department checks) through the use of dual control? Are trust department assets kept separate from the savings association's assets?

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<ul style="list-style-type: none"> ▪ Does the audit program verify that a written record of vault asset movements is maintained under joint custody?
<ul style="list-style-type: none"> ▪ Does the audit program determine whether securities pledged under 12 CFR §550.310 & 320 and 12 CFR §550.490 – 550.510 are adequate, properly safeguarded, held separate and earmarked appropriately on book entry systems?
<ul style="list-style-type: none"> ▪ Does the audit program use appropriate sampling techniques and verify prompt ledger control of assets?
<ul style="list-style-type: none"> ▪ Does the audit program verify that cash in trust department accounts is reconciled regularly with demand deposit statement(s)?
<ul style="list-style-type: none"> ▪ Does the audit program verify that internal balancing control procedures are performed appropriately each time ledgers are posted?
<ul style="list-style-type: none"> ▪ Does the audit program verify that all suspense or operating accounts are reconciled at least monthly, contain only appropriate items and are cleared in a timely manner?
<ul style="list-style-type: none"> ▪ Does the audit program verify the proper reconciliation of each of the following to the trust department's general ledger controls at least quarterly: <ul style="list-style-type: none"> • Income cash • Principal cash • Invested income • Invested principal • Each type of investment, such as stocks, bonds, real estate loans and real estate • Investments by issuer
<ul style="list-style-type: none"> ▪ Is the bookkeeping system adequate for the volume and nature of business transacted?
<ul style="list-style-type: none"> ▪ Does the audit program require reconciling or verifying the reconciliation by others of bonds printed to the printer's certificate for each bond trusteeship at least once in each calendar year?
<ul style="list-style-type: none"> ▪ Does the audit program use appropriate sampling techniques to verify the accurate payment of dividends from dividend disbursing agency accounts by reconciling or verifying the savings association's reconciliation?
<ul style="list-style-type: none"> ▪ Does the audit program use appropriate sampling techniques to verify the savings association's reconciliation of bond closing statements of new corporate bond trusteeships to trustee records? Reconcilements should include trustee records of bonds authenticated and issued, proceeds from bond sales and initial funding of related accounts.
<ul style="list-style-type: none"> ▪ Does the audit program use appropriate sampling techniques to verify the accuracy of payments from paying agency accounts by reconciling or verifying the savings association's reconciliation?

Program Section – Activity Control

<ul style="list-style-type: none"> ▪ Do the auditors verify commissions and fees paid to the savings association and check that they are collected systematically and on a timely basis? Do they ensure that they are properly authorized and correctly calculated?
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<ul style="list-style-type: none"> ▪ Do the auditors compare proceeds from the sale(s) of assets to brokers' invoices, purchasers' receipts or other evidence of sales price?
<ul style="list-style-type: none"> ▪ Do the auditors compare payment for purchases of assets to brokers' invoices, seller's receipts or other evidence of purchase price?
<ul style="list-style-type: none"> ▪ Are disbursements verified to ensure that income and principal distributions are reviewed for accuracy, conformity with the governing instrument and received by beneficiaries or other persons in the proper amount and within the specified time period?
<ul style="list-style-type: none"> ▪ Do the auditors compare the income receipts from investments with the amounts received for accuracy?
<ul style="list-style-type: none"> ▪ Do the auditors verify payments for services, such as brokerage fees, real estate management, maintenance charges and similar disbursements with the appropriate bills or invoices?
<ul style="list-style-type: none"> ▪ Do the auditors verify that combined securities transactions result in equitable distributions in the price and commission among accounts?
<ul style="list-style-type: none"> ▪ Do the auditors verify that an independent party with the trader's memo and broker's confirmation reconciles securities transactions by price and commission for each security transaction?
<ul style="list-style-type: none"> ▪ Do the auditors verify that securities transactions are completed within acceptable time limits?
<ul style="list-style-type: none"> ▪ Do the auditors verify that there is no evidence of excessive trading in managed accounts?
<ul style="list-style-type: none"> ▪ Do the auditors verify that investment objectives are appropriate for accounts?
<ul style="list-style-type: none"> ▪ Do the auditors verify that account documentation is appropriately maintained?
<ul style="list-style-type: none"> ▪ Do the auditors verify that account statements are generated and submitted to an individual independent of the trust department at least annually?

Program Section - Compliance

<ul style="list-style-type: none"> ▪ Do the auditors verify that transactions with affiliates are in compliance with written agreements and applicable law? See 12 CFR §563.42(b).
<ul style="list-style-type: none"> ▪ Have the auditors reviewed fiduciary account holdings for compliance with 12 CFR §550.330?
<ul style="list-style-type: none"> ▪ Do the auditors review the investment of discretionary fiduciary accounts in the stock or obligations of directors, officers and employees of the savings association, its holding company or its affiliates without authorization under applicable law?
<ul style="list-style-type: none"> ▪ Do the auditors review for compliance with 12 CFR §550.350 regarding loans of discretionary fiduciary account assets to directors, officers and employees of the savings association or its affiliates?
<ul style="list-style-type: none"> ▪ Do the auditors verify that discretionary accounts are reviewed in accordance with 12 CFR §550.220?
<ul style="list-style-type: none"> ▪ Do the auditors verify that cash receipts for discretionary fiduciary accounts are invested or distributed promptly in compliance with 12 CFR §550.290?
<ul style="list-style-type: none"> ▪ Have the auditors checked for compliance with 12 CFR §563.177 and 12 CFR §563.180 (Bank Secrecy Act and suspicious activity reports)?

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<ul style="list-style-type: none"> ▪ Have the auditors verified that products and services purchased with securities brokerage commissions are within the “safe harbor” provision of Section 28(e) of the Securities Exchange Act of 1934?
<ul style="list-style-type: none"> ▪ Have the auditors reviewed overdrafts to determine the amounts, cause, duration, anticipated date of elimination and adequacy of security, including testing of more than one date? (Note: Overdrafts in ERISA accounts exceeding 3 business days may be a prohibited transaction).
<ul style="list-style-type: none"> ▪ Have the auditors evaluated the allocation of income and principal for compliance with the governing instrument and state law?
<ul style="list-style-type: none"> ▪ Have the auditors tested documents necessary for closing accounts, such as discharges, releases, receipts and accountings?
<ul style="list-style-type: none"> ▪ Have the auditors tested for compliance with state escheat laws?
<ul style="list-style-type: none"> ▪ Have the auditors reviewed employee benefit accounts for compliance with Employee Retirement Income Security Act of 1974 (ERISA)?
<ul style="list-style-type: none"> ▪ Have the auditors determined whether real estate is properly insured, subject to periodic appraisals and inspections, and when appropriate, produces income? Have the auditors tested to ensure that account files are adequately documented?
<ul style="list-style-type: none"> ▪ Have the auditors determined that supporting papers for real estate loans and contracts are appropriate and accurate?

Program Section - Administrative Audits

<ul style="list-style-type: none"> ▪ Have the auditors determined whether the original or an authenticated copy of the governing instrument is on file?
<ul style="list-style-type: none"> ▪ Have the auditors determined if account synoptic and history records are reliable and comprehensive?
<ul style="list-style-type: none"> ▪ Have the auditors determined whether accounts are administered and invested in conformance with management policies, fiduciary principles, governing instruments and applicable law?
<ul style="list-style-type: none"> ▪ Have the auditors verified distributions of income and principal for accuracy and conformity with terms of the governing instrument? Distribution receipts should be in the file.
<ul style="list-style-type: none"> ▪ Have the auditors determined whether written approvals or directions of appropriate parties are obtained promptly?
<ul style="list-style-type: none"> ▪ Have the auditors determined if tax returns are prepared and filed on time with proper remittances?
<ul style="list-style-type: none"> ▪ Have the auditors tested the accuracy of account statements submitted to beneficiaries and others?
<ul style="list-style-type: none"> ▪ Have the auditors determined if board of director minutes, or designated persons and committees, document the review of important matters, such as the acceptance and closing of accounts, investment reviews and discretionary payments of principal or income?
<ul style="list-style-type: none"> ▪ Do the auditors determine if the board or a board-appointed designee reviews, updates and approves policies and procedures on a regular basis?

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- Have the auditors reviewed policies and procedures to determine if they adequately cover all areas of fiduciary activities in which the bank engages and whether they comply with applicable law?

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