

Audit Roundtable

Telephone Seminar for
Bankers and Auditors

Part 2—

**Work Papers and
Audit Committee Reporting**
Thursday, December 13, 2001
11:00 a.m.–12:30 p.m. EST

Contents

Speaker Biographies

John D. Hawke, Jr.
Mark L. O'Dell
Zane D. Blackburn
Wynne E. Baker
Mark Niswonger
Carol H. Larson

Electronic Polling Questions

Part 2—Work Papers and Audit Committee Reporting Presentation

Work Papers and Peer Review
Audit Wrap-Up and Reporting to the Audit Committee

Speaker Biographies

John D. Hawke, Jr.

Comptroller of the Currency



John D. Hawke, Jr. was sworn in as the 28th Comptroller of the Currency on December 8, 1998. After serving for 10 months under a Recess Appointment, he was sworn in for a full five-year term as Comptroller on October 13, 1999.

The Comptroller of the Currency is the Administrator of National Banks. The Office of the Comptroller (OCC) supervises 2,200 federally chartered commercial banks and about 54 federal branches and agencies of foreign banks in the United States comprising more than half of the assets of the commercial banking system. The Comptroller also serves as a Director of the Federal Deposit Insurance Corporation, the Federal Financial Institutions Examination Council, and the Neighborhood Reinvestment Corporation.

Prior to his appointment as Comptroller, Mr. Hawke served for 3½ years as Under Secretary of the Treasury for Domestic Finance. In that capacity he oversaw the development of policy and legislation in the areas of financial institutions, debt management, and capital markets. He also served as Chairman of the Advanced Counterfeit Deterrence Steering Committee and as a member of the board of the Securities Investor Protection Corporation. Before joining Treasury, Mr. Hawke was a Senior Partner at the Washington, D.C., law firm of Arnold & Porter, which he first joined as an associate in 1962. At Arnold & Porter he headed the Financial Institutions practice, and from 1987 to 1995 he served as Chairman of the firm. In 1975 he left the firm to serve as General Counsel to the Board of Governors of the Federal Reserve System, returning in 1978.

Mr. Hawke was graduated from Yale University in 1954 with a B.A. in English. From 1955 to 1957 he served on active duty with the U.S. Air Force. After graduating in 1960 from Columbia University School of Law, where he was Editor-in-Chief of the Columbia Law Review, Mr. Hawke was a law clerk for Judge E. Barrett Prettyman on the United States Court of Appeals for the District of Columbia Circuit. From 1961 to 1962 he served as counsel to the Select Subcommittee on Education in the House of Representatives.

From 1970 to 1987 Mr. Hawke taught courses on federal regulation of banking at the Georgetown University Law Center. He has also taught courses on bank acquisitions and financial regulation and serves as the Chairman of the Board of Advisors of the Morin Center for Banking Law Studies. In 1987 Mr. Hawke served as a member of a Committee of Inquiry appointed by the Chicago Mercantile Exchange to study the role of futures markets in connection with the stock market crash in October of that year.

Mr. Hawke has written extensively on matters relating to the regulation of financial institutions, and is the author of *Commentaries on Banking Regulation*, published in 1985. He was a founding member of the Shadow Financial Regulatory Committee, and served on the committee until joining Treasury in April 1995.

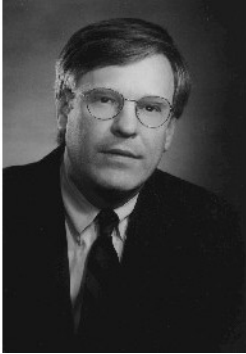
Mr. Hawke is a member of the Cosmos Club, the Economic Club of Washington, and the Exchequer Club of Washington.

Born in New York City on June 26, 1933, Mr. Hawke resides in Washington, D.C. He was married in 1962 to the late Marie R. Hawke and has four adult children, Daniel, Caitlin, Anne, and Patrick, and one grandchild, Spencer Patrick Hawke.

Mark L. O'Dell

Deputy Comptroller

Bank Supervision Policy



Mark L. O'Dell serves as the deputy comptroller for Core Policy in the Washington office of the Office of the Comptroller of the Currency. Mr. O'Dell joined the OCC in 1978 and was commissioned as a national bank examiner in 1983.

Since then, he has held increasingly responsible supervision positions, including field office analyst, multinational bank analyst, a member of the OCC's London multinational examination staff, shared national credit coordinator at Citibank, director for analysis in the OCC's Multinational Banking Division, and director for Bank Technology.

Prior to his current assignment, Mr. O'Dell was the director for Year 2000 Bank Supervision Policy. He assumed his current position as deputy comptroller for Core Policy in January 2000. The Core Policy department is the focal point for the OCC's core policy platforms that govern how the OCC supervises national banks. Mr. O'Dell oversees policies and activities that include the OCC's supervision by risk philosophy and its supporting systems and core examination procedures for large and community banks.

Mr. O'Dell received a B.S. in mathematics and an M.B.A. from Colorado State University. He is also a chartered financial analyst.

Zane D. Blackburn

Chief Accountant

Office of the Chief Accountant



Mr. Blackburn is the chief accountant, Office of the Chief Accountant, Office of the Comptroller of the Currency. He is responsible for policy formulation and deliberations with financial institutions and other agencies on bank accounting issues. He also represents the OCC on the Federal Financial Institutions Examination Council's Reports Task Force. Additionally, he serves as the banking agencies' observer on the American Institute of Certified Public Accountants' Allowance for Loan Losses task force.

Mr. Blackburn began his career with the accounting firm of Ernst & Young. After serving six years with Ernst & Young, he joined the Securities and Exchange Commission (SEC). Upon completing six years with the SEC, two years were spent at the Department of Energy with the Financial Reporting Systems Project. In June 1981, he assumed his current position.

Mr. Blackburn was graduated from the University of Maryland with a B.S. in accounting. He is also a certified public accountant and a member of the American Institute of Certified Public Accountants.

Wynne E. Baker

Chairman, American Institute of Certified Public Accountants

Financial Services Expert Panel



Wynne E. Baker is the member in charge of KraftCPAs financial institution industry group. In addition to traditional audit and accounting services, the group provides compliance and loan reviews, directors' exams, stock valuations, analysis of mergers/acquisitions, and outsourced internal audit, among other services.

He was graduated from Tennessee Technological University in 1971 with a bachelor's degree in accounting. As well as being a certified public accountant, Mr.

Baker earned the chartered bank auditor certificate awarded by the Bank Administration Institute, is a "preferred examiner" under the American Bankers Association Preferred Audit Program, and is a certified financial services auditor awarded

by the National Association of Financial Services Auditors. He has been the recipient of numerous industry awards recognizing his distinguished service.

In addition, Mr. Baker currently serves as the chairman, American Institute of Certified Public Accountants (AICPA) Financial Services Expert Panel, and as chairman, AICPA Bank Regulatory Task Force and AICPA Banking Conference. He also has served in the following additional AICPA organizations: Banking and Savings Institutions Committee, Community Banking Task Force, Savings and Loan Committee, and Council. He also has provided leadership and service in the following organizations: National Association of Financial Services Auditors, Tennessee Technological University College of Business Administration Foundation, Tennessee Society of CPAs, and National Association of Accountants.

He is the author of the AICPA's premier bank course, "Introduction to Bank Accounting and Auditing," and was co-editor of the Handbook of Financial Management for Banks, published by McGraw-Hill and Company. Mr. Baker has assisted clients in buying failed banks from the FDIC and has consulted others who started new banks. He has also served as an expert witness in court cases related to bank failures. With 30 years of experience serving the financial institution industry, Mr. Baker has a national reputation as an authority in this area. He has conducted seminars across the nation and has published numerous articles on financial institution issues.

Mark Niswonger

KPMG LLP



Mark Niswonger is an assurance partner in KPMG's Department of Professional Practice. He joined the Raleigh office in 1984 and has been in the national office since 1999. Mr. Niswonger has extensive experience serving clients in the financial services industry and is the Department of Professional Practice's liaison to the banking industry.

Mr. Niswonger is also an SEC Reviewing Partner and has served numerous public clients during his 17 years with KPMG. He has extensive experience working on complex transaction structures, income taxes, and a wide range of technical accounting matters. He also has served in numerous areas including industry peer reviews, internal quality reviews, national firm instructor, and national training developer.

Mr. Niswonger received his B.S. degree in business administration from the University of North Carolina at Chapel Hill. Mr. Niswonger is a member of the American Institute of Certified Public Accountants and is a graduate of the North Carolina School of Banking Advanced Management Program.

Carol H. Larson

Partner, Deloitte & Touche



Carol Larson is a partner in the firm of Deloitte & Touche LLP and has over 22 years of experience, the majority of which has been focused in the financial services industry. She is the firm's deputy managing partner for Financial Services and National Audit Partner for Banking. She is responsible for directing the accounting and auditing practice relating to the banking industry at the national level. Until recently, she also served as the firm's National Industry Director for Finance Companies, which includes commercial and consumer finance, mortgage banking, and leasing. In this role she was responsible for directing the industry program including product development, eminence building, and resource development and deployment.

Ms. Larson is a frequent speaker at national industry conferences. Her topics typically relate to current accounting, auditing, and regulatory matters affecting financial institutions. Recent engagements include the AICPA National Conference for Banks and Savings Institutions, the Mortgage Bankers Association Annual Convention, the Bank Administration Institute Graduate School of Banking, and the Financial Managers Society National Conference.

From March 1987 through May 1989, Ms. Larson was an accounting fellow with the predecessor agency to the Office of Thrift Supervision. Her responsibilities included participating in the area of policy initiatives, providing accounting support to the FSLIC as well as examiners and supervisory agents, and providing litigation and enforcement support to the legal staff on issues involving GAAP, GAAS, and regulatory accounting practices.

Ms. Larson holds a B.S. in business administration with a major in accounting from Bowling Green State University. She is a certified public accountant licensed to practice in New York, New Jersey, Connecticut, Michigan, Ohio, and Arizona.

Electronic Polling Questions

ELECTRONIC POLLING QUESTIONS

1. How many people are at your listening site? Press:

- 1 for one person,
- 2 for two people,
- 3 for three people,
- 4 for four people,
- 5 for five people,
- 6 for six people,
- 7 for seven people,
- 8 for eight people, or
- 9 for 9 or more people listening at your site.

2. Which of the following categories best describes your company? Press:

- 1 financial institution,
- 2 public accounting firm,
- 3 law firm,
- 4 regulatory agency,
- 5 other

Presentation

Audit Roundtable

**Telephone Seminar for
Bankers and Auditors**

**Part 2—
Work Papers and
Audit Committee Reporting**

December 13, 2001

Presented by AICPA Regulatory Task Force

WORK PAPERS AND PEER REVIEW

KPMG
Mark Niswonger

I. Quality Assurance Programs

Internal Quality Review Programs

- What is the Quality Performance Review Program?
 - The scope of the program, including who carries it out.
 - The materials used, such as questionnaires and checklists, and the quality controls governing these materials.
- How the firm responds to findings in the quality performance review.
- How is the quality performance review improved?

Peer Review

- What are the mechanics of the peer review?
 - Timing
 - Scope
 - Who performs
- What is the authority for the program?
- Which firms participate in the program?
- How are results communicated and what does a firm do with any deficiencies noted?

II. Detail of Supporting Work Papers

- What's required under professional standards
 - Support audit conclusions vs. re-performance standard
- Move to risk-based auditing
- Internal policy on client supporting data
- Audit programs—forms may have changed
- Extent of detailed test work for conclusions
- More reliance placed on client's internal control structure
 - Less substantive test work
 - Year-round collaborative effort with internal audit
- Internal vs. external coverage
 - Self-assessment
 - Reliance on internal audit
 - Work performed by third parties
 - SAS 70

NOTES:

AUDIT WRAP-UP AND REPORTING TO THE AUDIT COMMITTEE

Deloitte & Touche
Carol Larson

- Audit wrap-up entails activities after testing procedures complete
- Evaluate results of tests
- Perform financial statement review
- Perform subsequent events review
- Obtain management representations
- Report to management and the Audit Committee
- Evaluate results of tests
- So-called “proposed adjustments”
 - Quantitative
 - Known misstatements
 - Likely misstatements
 - Materiality
 - Qualitative
 - The effect of misstatements on trends in the financial statements
 - Misstatements affecting widely used ratios, such as loan loss ratios
 - Misstatements affecting compliance with regulatory requirements, debt covenants, etc.
 - Misstatements that offset one another in the aggregate but that are large individually
 - Patterns of misstatements indicating management bias (e.g., all uncorrected misstatements have the effect of increasing income)
 - Misstatements suggest possible fraud?
- Was scope of audit sufficient to support opinion?

- Report to management
- Generally best to make management aware, as soon as practical and at an appropriate level of responsibility, of internal control matters and possible financial statement adjustments
- Communication may be oral or in writing
- Some of these matters may also be reported to the audit committee
- Communications with audit committees
- Governed by statements SASs 61, 89, and 90
 - Auditors' responsibility under generally accepted auditing standards (GAAS)
 - Significant accounting policies
 - Management judgments and accounting estimates
 - Audit adjustments
 - Auditors' judgments about the quality of the entity's accounting principles (SEC engagements)
 - Other information in documents containing audited financial statements
 - Disagreements with management
 - Consultation with other accountants
 - Major issues discussed with management prior to retention
 - Difficulties encountered in performing the audit.
- Communications can be oral or written
- Method and frequency of communication varies by entity—views of audit committee chair, chief accounting officer, director of internal audit, engagement partner

NOTES:
