



Annual & Engagement Risk Assessments

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Introductions



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“Financial Institutions today encounter many risks that can impact their operations, reputation, and financial stability. Effectively managing these risks is crucial for maintaining stability and achieving strategic goals.”¹



LET'S JUMP STRAIGHT TO WHAT YOU WANT TO KNOW:



1

RISK ASSESSMENT
PROCESS

2

DEVELOPING AN
AUDIT PLAN

3

REEVALUATION

RISK ASSESSMENT PROCESS



APPROACH

Gaining an understanding

- Conducting interviews with applicable personnel in each operational area to gain insight on how these areas function and changes they have experienced since the last interview
- Review existing policies and procedures
- Review Board meeting minutes
- Revisit most recent internal audit reports
- Review regulatory examination reports
- Review external audit reports

Based on this understanding, perform a risk assessment for the purpose of designing a risk-based, tailored internal audit plan for the Company.



INHERENT RISK ASSESSMENT

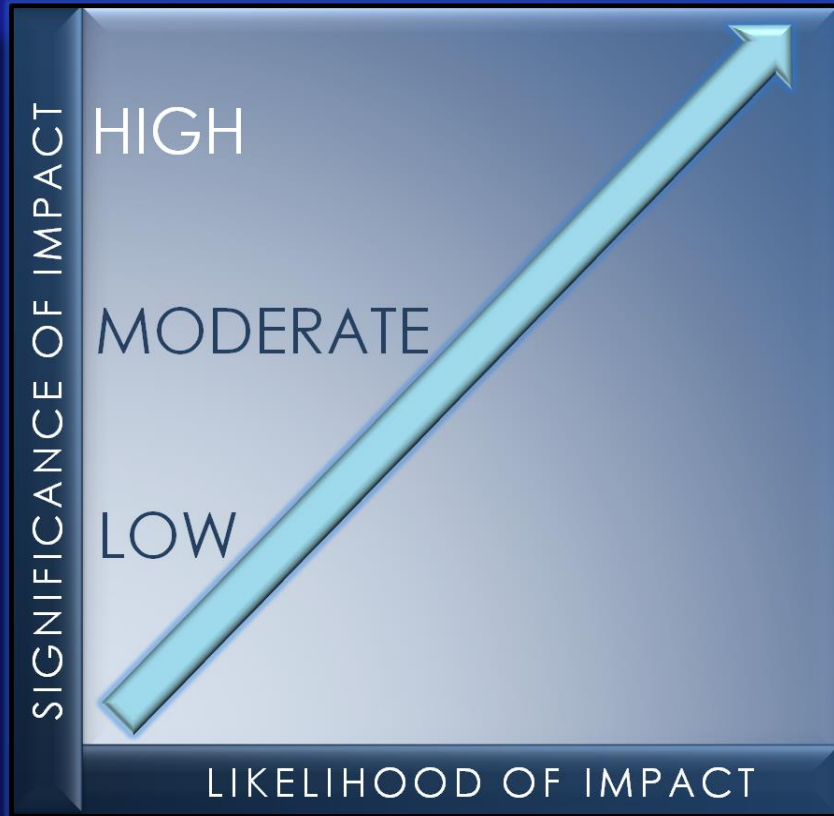
Inherent Risk is defined as the likelihood a risk will materialize absent the control environment. An assessment of Inherent Risk should be performed for each risk category and is made at both the overall area level (e.g., investments) as well as the key process level within that area (e.g., valuation, etc.).

As part of the inherent risk assessment, the potential impact of each risk should be considered, including the impact to the following:

- Members (confidence and/or market share)
- Financial reporting
- Earnings and cash flow
- Internal resources to address the matter

Based on these factors, both the potential likelihood of a risk not being mitigated, and the associated negative impact, should be considered in assigning an Inherent Risk rating to each key process.

INHERENT RISK RATING



HIGH

- An issue materializing is likely
- Significance of impact would likely be high

MODERATE

- An issue materializing is more likely than not
- Significance of impact would likely be moderate

LOW

- An issue materializing is unlikely
- Significance of impact would likely be low

CONTROL RISK ASSESSMENT

Control Risk is defined as the likelihood that the Credit Union's internal controls are not designed to prevent material misstatements in the Credit Union's financial statements or detect an error in operations.

An assessment of Control Risk should be performed for each overall area and is considered a mitigating factor that reduces the likelihood that the aggregate inherent risk will materialize. Factors considered in the evaluation of Control Risk are shown in the graphic to the right.



CONTROL RISK RATINGS

RISK LEVEL	DESCRIPTION
<p>HIGH</p>	<p>New process or controls implemented in the current year</p> <p>Known design deficiencies identified</p> <p>Significant issues still unresolved from previous audits performed</p> <p>Business process remediation efforts are incomplete or not operating effectively</p> <p>Nature of findings in prior audit required management’s immediate attention</p>
<p>MODERATE</p>	<p>Process or controls not routinely utilized but have been effective in the past</p> <p>Issues identified in previous regulatory, external, and internal audits</p> <p>Management's remediation process is adequate</p> <p>Nature of findings in prior audit required management's commitment to correct</p>
<p>LOW</p>	<p>Minor issues identified in recent regulatory, external, and internal audits</p> <p>Management has a sound remediation process in place</p>

RESIDUAL RISK ASSESSMENT

The remaining risk after consideration of the control environment is called the Residual Risk. An assessment of Residual Risk should be performed for each overall area to determine what level of risk mitigation each control process provides the organization, given the relative design and operating effectiveness of the controls, and the soundness of the current control environment.



The effectiveness of the control environment (i.e., how low control risk is) can reduce the likelihood of control breakdowns and the related financial impact.

RESIDUAL RISK RATINGS

RISK LEVEL	DESCRIPTION
HIGH	Risk for area is still deemed high even with consideration of control environment
MODERATE	Risk is deemed moderate with consideration of control environment
LOW	Risk is deemed low with consideration of control environment

DEVELOPING AN AUDIT PLAN



Risk Assessment & Internal Audit Plan

AUDIT AREA	INHERENT RISK	CONTROL RISK	RESIDUAL RISK	2024	2025	2026
FINANCIAL REPORTING	HIGH	MODERATE	HIGH	X	X	X
CALL REPORTING/REGULATORY REPORTING	HIGH	LOW	MODERATE	X		X
ACCOUNTS PAYABLE	LOW	HIGH	MODERATE	X		X
LOAN ORIGINATIONS	HIGH	HIGH	HIGH	X	X	X
LOAN SERVICING/OPERATIONS	HIGH	MODERATE	HIGH	X	X	X
CREDIT ADMINISTRATION	HIGH	MODERATE	HIGH	X	X	X
BRANCH ADMINISTRATION	MODERATE	LOW	LOW		X	
HUMAN RESOURCES	MODERATE	MODERATE	MODERATE		X	
WIRE TRANSFER	HIGH	MODERATE	HIGH	X	X	X
BSA/AML/OFAC	HIGH	HIGH	HIGH	X	X	X
LIQUIDITY AND INTEREST RATE RISK MANAGEMENT	HIGH	LOW	MODERATE	X	X	X

Risk Assessment by Engagement/Audit Area

RISK ASSESSMENT SUMMARY MATRIX									
KEY PROCESS	INHERENT RISK							CONTROL RISK	RESIDUAL RISK
	Financial Risk	Business Risk	Compliance Risk	Fraud Risk	Financial Reporting Risk	Operational Risk	Aggregate Inherent Risk		
UNDERWRITING/APPROVAL	HIGH	HIGH	HIGH	HIGH	MODERATE	HIGH	HIGH	HIGH	HIGH
BOARDING	MODERATE	MODERATE	MODERATE	HIGH	HIGH	HIGH	HIGH	HIGH	HIGH
FUNDING	HIGH	MODERATE	MODERATE	HIGH	MODERATE	HIGH	HIGH	MODERATE	MODERATE
FEE RECOGNITION	MODERATE	MODERATE	MODERATE	MODERATE	MODERATE	MODERATE	MODERATE	MODERATE	LOW
RENEWALS / EXTENSIONS	HIGH	MODERATE	MODERATE	HIGH	HIGH	HIGH	MODERATE	MODERATE	MODERATE
OVERALL ASSESSMENT	HIGH	MODERATE	HIGH	HIGH	MODERATE	HIGH	HIGH	HIGH	HIGH

How to determine Risk Rating Detail?

OVERALL ASSESSMENT



- **Prior internal audit results**
- **Meeting with key stakeholders**
- **Review of meeting minutes**
- **Recent examination results**
- **Review of recent financial statements**



REEVALUATION



CONSIDERATION

Similar to initial risk assessment, what has changed from prior risk assessment process:

- Conducting interviews with applicable personnel in each operational area to gain insight on how these areas function and changes they have experienced since the last interview
- Review existing policies and procedures
- Review Board meeting minutes
- Revisit most recent internal audit reports
- Review regulatory examination reports
- Review external audit reports

Based on this understanding, make changes to risk assessment and determine if a change is necessary to the audit plan for the current cycle





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