

Internal Audit 101

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Agenda

- Speaker Introductions
- Acronyms and Terms
- What is Internal Audit?
- Independence and Objectivity
- Principles and Ethics
- Roles and Responsibilities
- Audit Processes

Meet and Greet

- ▶ Your Presenters
- ▶ You

Rules for the Day

- ▶ Conversational yet informative
- ▶ Participation is encouraged
- ▶ Share your knowledge and experiences
- ▶ Don't make us do all the talking
- ▶ Learn, but most of all

...Have Fun !!!!!

Acronyms

- ▶ ACH - Automated Clearing House
- ▶ ACUIA - Association of Credit Union Internal Auditors
- ▶ AD&D - Accidental Death and Disability (insurance coverage)
- ▶ AFG - Auto Financial Group
- ▶ ALCO - Asset and Liability Committee
- ▶ ALLL - Allowance for Loan & Lease Loss
- ▶ ALM - Asset Liability Management
- ▶ AML - Anti-Money Laundering
- ▶ ATM - Automated Teller Machine
- ▶ BCP - Business Continuity Plan
- ▶ BIA - Business Impact Analysis
- ▶ BPO - Broker Price Opinion
- ▶ BSA - Bank Secrecy Act
- ▶ CDD - Customer Due Diligence
- ▶ CFPB - Consumer Protection Financial Bureau
- ▶ CIP - Customer Identification Program
- ▶ CLA - CliftonLarson Allen (external audit firm)
- ▶ COBIT - Control Objectives for Information and Related Technology
- ▶ COSO - Committee of Sponsoring Organizations
- ▶ CRA - Community Reinvestment Act
- ▶ CRM - Customer Relationship Management
- ▶ CTR - Currency Transaction Report
- ▶ CUMAA - Credit Union Membership Access Act
- ▶ CUNA - Credit Union National Association
- ▶ CUNEB - Credit Union National Extension Bureau
- ▶ CUSO - Credit Union Service Organization (CU subsidiary)

Acronyms

- ▶ DDFP - Direct Dealer Financing Program
- ▶ DFI - Direct Financial Institution
- ▶ DIG - Data & Information Group
- ▶ EFT - Electronic Funds Transfer
- ▶ EPN - Electronic Payments Network
- ▶ ERM - Enterprise Risk Management
- ▶ FFIEC - Federal Financial Institutions Examination Council
- ▶ FRB - Federal Reserve Board
- ▶ FSP - Financial Services Platform (core system processor)
- ▶ GAAP - Generally Accepted Accounting Principles
- ▶ GAAS - Generally Accepted Auditing Standards
- ▶ GAP - Guaranteed Asset Protection
- ▶ GRC - Governance, Risk & Compliance
- ▶ HELOC - Home Equity Lines of Credit
- ▶ HMDA - Home Mortgage Disclosure Act
- ▶ ICQ - Internal Control Questionnaire
- ▶ IDFP - Indirect Dealer Financing Program
- ▶ ISO - International Organization for Standardizations
- ▶ LTV - Loan to Value
- ▶ MBL - Member Business Loans
- ▶ MFA - Multi-Factor Authentication
- ▶ MIS - Management Information Systems
- ▶ MSA - Member Service Advisor
- ▶ MSC - Member Solutions Center
- ▶ MSL - Member Service Leader

Acronyms

- ▶ NACHA - National Automatic Clearing House Association
- ▶ NAFCU - National Association of Federal Credit Unions
- ▶ NCUA - National Credit Union Association
- ▶ NCUSIF - National Credit Union Insurance Fund
- ▶ NOC - Notification of Change
- ▶ NW - Net Worth
- ▶ ODFI - Originating Depository Financial Institution
- ▶ OFAC - Office of Foreign Asset Control
- ▶ OPM - Organizational Performance Management
- ▶ PCA - Prompt Corrective Action
- ▶ QA - Quality Assurance
- ▶ RBNW - Risk Based Net Worth
- ▶ RDC - Remote Deposit Capture
- ▶ RDFI - Receiving Depository Financial Institution
- ▶ RESPA - Real Estate Settlement Procedures Act
- ▶ RFP - Request for Proposal
- ▶ SAFE Act - Secure and Fair Enforcement for Mortgage Licensing Act
- ▶ SAR - Suspicious Activity Report
- ▶ SIA - SEFCU Insurance Agency
- ▶ SMS - SEFCU Mortgage Services
- ▶ TCD - Teller Cash Dispenser
- ▶ TCR - Teller Cash Recycler
- ▶ TDR - Troubled Debt Restructuring (loan classification)
- ▶ TILA - Truth in Lending Act

Glossary of Audit Terms

- ▶ **Audit evidence:** Facts gathered during the audit procedures that provide a reasonable basis for forming an opinion.
- ▶ **Audit risk:** The risk of forming an inappropriate opinion within the audit.
- ▶ **Control risk:** The risk that a credit union's internal controls won't detect or prevent mistakes.
- ▶ **Due professional care:** Taking the time to gather reasonable audit evidence to support your audit conclusions.

Glossary of Terms

- ▶ **Generally accepted accounting principles (GAAP):** Standard U.S. accounting guidelines for reporting financial statement transactions.
- ▶ **Generally accepted auditing standards (GAAS):** Standard U.S. auditing guidelines for planning, conducting, and reporting on audits.
- ▶ **Independence:** Having an arm's-length relationship — meaning no special or close relationship — with the area or individuals being audit.
- ▶ **Inherent risk:** The likelihood of arriving at an inaccurate audit conclusion based on the nature of the credit union's business.

Glossary of Terms

- ▶ **Internal controls:** The operating standards a credit union uses to prevent or uncover mistakes.
- ▶ **Materiality:** The importance placed on an area of reporting or control based on its overall significance.
- ▶ **Objectivity:** The ability to evaluate records with no preconceived notions or prejudices.
- ▶ **Professional skepticism:** Approaching an audit with a questioning mind-set.
- ▶ **Sampling:** Selecting a small but pertinent and representative number of records to represent the entire population of records.

IA Purpose

- Safety and Soundness
- Assist Supervisory/Audit Committee
- Consultant
- Catalyst

Definition-Internal Audit

...is an independent, objective assurance and consulting activity designed to add value and improve operations.

Internal Audit helps the Credit Union accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Standards



Standards

- ▶ International Standards for the Professional Practice of Internal Auditing (Standards)
- ▶ *Standards* are principle-focused and provide a framework for performing and promoting internal auditing. The *Standards* are mandatory requirements consisting of ...

Standards

- ▶ Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable at organizational and individual levels.
- ▶ Interpretations, which clarify terms or concepts within the statements.
- ▶ Glossary terms.

Standards

- ▶ Two Types of Standards:

Attribute and Performance

Attribute Standards

- ▶ Address the characteristics of organizations and individuals performing internal audit activities

Attribute Standards

- ▶ **Examples:**
 - ▶ independence
 - ▶ objectivity
 - ▶ due profession care
 - ▶ proficiency
 - ▶ continuing education
 - ▶ quality assurance

Independence and Objectivity

- Independence

- *...is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.*
- *The chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship.*

Independence and Objectivity

- ***Objective/Objectivity***

...is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made.

Independence and Objectivity

- ▶ Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.
- ▶ If independence or objectivity is impaired in fact or appearance, the details of such must be disclosed to appropriate parties.
- ▶ Examples include:
 - ▶ Personal conflicts of interest
 - ▶ Scope limitations
 - ▶ Restrictions on access to information or personnel
 - ▶ Limited funding for departmental activities

Proficiency and Due Professional Care

- ▶ Auditors must possess knowledge, skills and other competencies
- ▶ Continuing Professional Development
- ▶ Must apply the care and skill expected of a reasonably prudent person
- ▶ Must develop and maintain a quality assurance and improvement program that covers all aspects of the IA activity

Continuing Education

- ▶ The success of an audit department in carrying out its mission depends on having a qualified, well-trained staff.
- ▶ Serves to maintain and enhance the individual auditor's professional proficiency
- ▶ Improves and refines auditor's knowledge and skills in areas applicable to their work

Performance Standards

- ▶ Describe the nature of internal audit activities and provide criteria against which the performance of these services can be evaluated.

Performance Standards

- ▶ **Examples:**
 - ▶ Managing audit activities
 - ▶ Planning
 - ▶ Communications
 - ▶ Reporting
 - ▶ Nature/scope of work
 - ▶ Audit engagement practices
 - ▶ Monitoring (i.e. follow-up)

Charters

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

Internal Audit Charter

- ▶ Defines Internal Audit's authority
- ▶ Should include the definition of internal auditing, the code of ethics and the standards, and be discussed with management
- ▶ Periodically reviewed with senior management and the Board of Directors / Supervisory Committee for approval

Charter

SAMPLES

- ▶ [Sample Audit Charter.docx](#)
- ▶ [C:\Users\jgallagh\Desktop\SEFCU
CHARTER.doc](#)

Supervisory/Audit Committee Charter

- ▶ Main responsibilities:
 - ▶ Perform or obtain a financial statement audit, as prescribed in §715.4
 - ▶ Verify or cause the verification of members' passbooks and accounts against the records of the credit union, as prescribed in §715.8

Committee Charter

- ▶ Ensure that the credit union adheres to the measurement and filing requirements for reports filed with the NCUA Board under §741.6

- ▶ **SAMPLE**
 - ▶ [Supervisory Committee Charter.docx](#)
 - ▶ [C:\Users\jgallagh\Desktop\SC Charter Mar 2018 - Apr 2019.doc](#)

Morning Break

Audit Principles

- **Core Principles**

- Integrity
- Competence
- Objective
- Independent
- Organizationally aligned (strategically, risk, etc.)

Audit Principles Con't

- Appropriately positioned and adequately resourced
- Effectively communicates
- Continuous improvement
- Risk-based assurance
- Proactive
- Insightful
- Future-focused!

Ethics

- Internal Auditors, like many other professionals, should adhere to a strict code of ethics and professional values to include both principles and rules of conduct.

Ethics

- Rules of Conduct
 - Integrity
 - honest, diligent, responsible, ethical, etc.
 - Objectivity
 - Unbiased, truthful and open about material facts, no conflict of interest
 - Confidentiality
 - Protects information received
 - Competency
 - Follows standards, continuing education

Roles and Responsibilities

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

Roles and Responsibilities

- What functions can Internal Audit perform?
- Wearing multiple hats
- Why and How without impacting independence
- Area Responsibilities

Roles and Responsibilities

**AS INTERNAL
AUDITOR, YOUR JOB
SHOULD NOT BE
WHAT MANAGEMENT
TELLS YOU.**

Role Defined

The role of internal audit is to provide independent assurance that the credit union's risk management, governance, and internal control processes are operating effectively.

Roles and Responsibilities

- ▶ Audit (Assurance Services)?
- ▶ Regulatory Compliance?
- ▶ Fraud/Investigations?
- ▶ Enterprise Risk Management?
- ▶ Consulting?
- ▶ Physical and IT Security?
- ▶ Others?

Primary Responsibilities of Internal Audit

- Perform a *risk assessment* and determine the level of risk
- *Audit* the areas of highest risk
- *Understand* state laws and federal regulations
- *Monitor compliance* with laws, regulations, and policies

Primary Responsibilities

- *Collaborate* with individuals at all levels
- *Evaluate* effectiveness and efficiency of operations.
- *Recommend* operating improvements.

Compliance

Internal Audit is responsible for **auditing compliance** program implementation and evaluating program effectiveness.

Training/Education

May provide **training** in certain areas (i.e. training on the audit process; training to expand knowledge on issues identified as part of an audit.)

Investigations

Typically responsible for investigating fraud, irregularities and other accounting related improprieties.

May complete investigations on its own accord, at the request of the Board or Management.

Supports other functional areas in investigating non-HR related hotline complaints.

Enterprise Risk Management (ERM)

- **NOT IA's responsibility!! Internal Audit does NOT:**
 - Set risk appetite
 - Impose risk management processes
 - Make decisions on risk responses
 - Implement risk responses on management's behalf
 - Ensure accountability for risk management
 - Manage assurance of risks

Internal Audit

- Independent with no operational responsibilities.
- Does not own policies.
- Consults on policy and other matters related to governance, risk and control.

Remember...Management is responsible for implementing internal controls.

IA Relationships

- With management and employees
- With Board & Supervisory/Audit Committee
- With External Auditors and State/Federal Regulators

Internal Audit Work

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

Internal Audit Plan

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

Risk Assessment

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

Audit Planning

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

Audit Program

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

Audit Fieldwork

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

Audit Workpapers

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

Audit Workpapers

▶ Include:

- ▶ **A descriptive heading:** It should include the client's name, the workpaper's purpose, and the date.
- ▶ **Indexing:** Like a book, every workpaper has a unique page number showing its place in the audit file.
- ▶ **Cross-referencing:** To improve your efficiency, you want to cross-reference your workpaper to related and supporting workpapers. Doing so eliminates the duplication of work.

Audit Workpapers

- ▶ **Tick marks:** For the sake of brevity, you use tick marks as abbreviations for standard auditing tasks. For example, *V* means that the item you're reviewing *vouched* to the source document. Another tick mark is *F*, which stands for *foot* and means that you confirmed the arithmetic calculations on the workpaper or schedule.
- ▶ **The source of the information:** Be sure to include what documents you examined or who you interviewed to gain evidence about the auditing matter at hand.
- ▶ **A conclusion:** Write a summary of the results of your analysis and your opinion of the validity of the assertion.

Post Audit Work

- Audit Reports
- Follow-Up
- Supervisory/Audit Committee Meetings

Audit Reports

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

Audit Follow-Up

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

Audit Meetings and Communications

Supervisory/Audit Committee Meetings

Frequency of Meetings

Materials Provided

Questions?

Questions?

Questions?