

## How to Use This Manual

As numerous laws and regulations continue to evolve, addressing the current environment and prevent previous mistakes, it has become more critical than ever to ensure that institutions have comprehensive policies and procedures. As Sheila C. Bair, former Chairman of the Federal Deposit Insurance Corporation, observed on February 17, 2011, under the Dodd-Frank Act regulators were given the tools necessary for increasing large non-bank financial institution supervision; limiting individual financial institutions and transactions risks; and enabling the orderly closing and liquidation of large financial institutions and non-bank financial institutions if a failure occurred.

Additionally, the Dodd-Frank Act developed a comprehensive new regulatory and resolution establishment that was intended to protect the people from the severe economic consequences of financial instability. Because of the recognized need for accurate, clear, and high-quality information, as well as the need to minimize the threat of unexpected systemic failure, institutions are expected to have controls in place.

According to Sarbanes-Oxley (SOX) Section 404, an internal control system is required, and simply having accounting policies and procedures does not demonstrate that an internal control system is in place. This requirement is best satisfied when sound, comprehensive accounting procedures exist, which document well-defined accounting processes. Regulators and auditors seek proof and supporting documentation to determine compliance with accounting and regulatory requirements.

As such, regulators have increased their scrutiny of an institution's policies and procedures because they are now seen as critical components of an institution's internal control system. Now, policies and procedures are deemed to be the strategic tools needed to not only meet an institution's goals and objectives, but also to provide a clear understanding to everyone in the institution of their roles, responsibilities, and operation guidelines. Also, a comprehensive action plan for implementing and maintaining policies eliminates common mistakes, and having internal controls prevents the institution (or its employees) from making costly mistakes. As part of the regulators' enhanced scrutiny to ensure compliance is being maintained and all parties are protected, regulators look to see if procedures are in place to ensure consistency in day-to-day operational activities. These procedures provide clarity regarding activities that may be important to the institution, as well as dealing with accountability issues (especially with those that may have serious consequences).

The *Trust Services Audit Manual* has been developed in response to requests by subscribers of two other trust resource manuals published by Sheshunoff Information Services: *Trust Policies and Procedures* and *Trust Department Management Manual*. This manual is a companion product in that it addresses the corporate governance approaches detailed and underscored in the other manuals. Audit recommendations for revisions to trust department policies, procedures, and internal controls parallel samples provided in these other resources.

This manual represents a compilation of current research and hands-on experience. Numerous financial institutions, and their internal trust department policies and procedures to address fiduciary activities, have been reviewed and evaluated by Regulatory Compliance Associates, Inc. (REGCOM) staff. Insights gained through helping institutions develop and implement integrated, detailed policy and procedures for trust regulatory requirements and acceptable account procedures are critical when compiling a manual such as the *Trust Services Audit Manual*. In addition, interaction with various regulators, bankers, and industry experts has provided valuable insights and experiences to also support the writing of this manual. The compilation of past assignments and current efforts results in a handbook of facts, ideas, research, interviews, experiences, and examples.

In an ever-changing banking environment, it is important that the internal trust audit department takes the necessary steps and vision needed to protect and improve the financial institution's trust department. With effective internal trust audit functions, a financial institution can accomplish its business objectives by improving its effectiveness of governance, risk management, and control processes. As risk increases, it is vital that the internal trust audit program evolves and makes the necessary changes to limit exposure.

As referenced in OCC Bulletin OCC 2009-15, in light of economic changes, it is especially important for bank management to consider various factors when making decisions about investment portfolios. First, banks must not base their decisions solely on credit ratings issued by NRSROs. Second, bank management must give as much consideration to the liquidity of investments as to the credit ratings of the investments. And finally, the OCC reminds banks of the need to ensure appropriate and fair valuation processes are established to determine the value of investments and securities.

## **10 Key Objectives**

To maintain an effective internal trust audit department, consider the following key objectives:

1. Improve and evolve by revisiting current standards to ensure new demands are being met. Raise the bar by continually monitoring the trust department's risk profile and incorporating the necessary changes to address any issues.
2. Have clear and concise expectations. The internal audit department's authority, responsibility, and accountability, as well as their function and administrative reporting relationship must be clearly defined.
3. Be proactive and assist the organization with compliance of new regulations by addressing business priorities. Educate management on new internal control reporting requirements beyond the normal scope of internal auditing. Focus on shareholder expectations and risk based auditing.
4. Maintain an open dialogue with management and the internal trust audit department, acting as an advisor while being independent and objective.
5. Have a voice and become a champion of positive change and continual improvement. Make recommendations and facilitate improvements through alignment of objectives across all impacted areas (people, process, and technology).
6. Re-evaluate processes and methods to enhance efficiency. Look for new ways to improve current processes while at the same time manage expenditures in order to contribute positively to the financial institution.
7. Develop and retain the resources required to succeed, through continual education and staff development.
8. Comply with standards as well as be active in the profession at the international and local chapter levels.
9. Periodically review internal trust audit processes. Additionally, have an external quality assessment performed every five years by a qualified independent reviewer to ensure proper standards are in place.
10. Measure internal audit performance by maintaining a process for increasing quality and timeliness while managing costs. These measures should be spelled out and agreed upon with senior management and the audit committee.

By incorporating these ten objectives into an internal trust audit program, a financial institution's trust auditing department will be successful in managing its audits and, ultimately impact the success of the institution. In summary, some of the factors that should be considered when creating or maintaining an internal trust audit include:

- Cost

- Efficiency
- Processes
- Management expectations
- Industry standards
- Technology
- People
- Changes in the trust world or the institution
- Quality management
- The institution's overall audit approach/processes

The trust audit program and related procedures represent a specialized audit focus; there are other specialized audit program focuses that internal auditors must address, such as information technology, sale of retail nondeposit investment products, and insurance products. While it is critical that the trust audit program have specific procedures, internal questions, reporting processes, and tracking of corrective actions, it is important that this specialized audit focus also be a subset of the institution's overall audit program. Through consistent audit approaches, well-founded basic audit objectives, and standard programs and procedures, the board of directors will receive a consistent overview of all audited activities. Therefore, in developing a trust audit program, it is important to build off the basics of a solid total organizational internal audit program. The first three chapters detail the basic audit philosophies and mechanics of a sound internal/external audit program. These basic foundations are the standards under which a trust audit program should function; the remaining chapters build on these basic audit concepts and guidelines in describing a proactive trust audit program.

### **Industry Updates**

On June 15, 2011, two new issuances which impact the Statement on Auditing Standards (SAS) No. 17 went into effect. These issuances were the Statement on Standards for Attestation Engagements (SSAE) No. 16 (titled *Reporting on Controls at a Service Organization*) and the International Standard on Assurance Engagements (ISAE) No. 3402.

U.S. service organizations' reporting guidance is now provided under SSAE No. 16 and not SAS 70. The new SSAE No. 16 was designed to coincide with the compliance requirements of ISAE No 3402. Although most changes from the SAS 70 to the SSAE 16 are minor, some significant changes have been implemented. In regards to service audit reports, the SSAE 16 includes a major adjustment, such as changing the service auditors' opinion regarding the system and suitability of design from a point in time to the report period. Another major adjustment includes the inclusion of a "management assertion" section of the report.

The ISAE No. 3402 provides the ability for service organization control reporting to coincide with the already established global accepted standards and provides its assurance that it meets international standards.

### **CFPB Recodification**

With the implementation of the Consumer Financial Protection Bureau (CFPB), CFR citations are changing. A CFPB recodification conversion chart for consumer finance citations can be found before the title page of this manual. We trust that this conversion chart will be a valuable reference. It is also in electronic form on the CD for *Trust Services Audit Manual*.

## THE COMPANION CD

The CD that supplements this manual is updated each time the manual is updated, providing you with a PDF that makes searching the entire manual by topic a simple, electronic task. In addition, Word files for Checklists are on the CD in “Additional Resources,” along with Exhibits. As Word files, these documents can be adapted to meet the needs of your financial institution. The checklists and exhibits are organized by chapter within their folders. The CD is shipped upon receipt of payment for the manual, and with each update.

## RESOURCES

In developing this manual, a great deal of insight and material was provided through research and review of the following resources:

- *Office of Thrift Supervision.* Various publications, including brochures, issuances, and documents that detail the regulatory requirements and current guidelines pertaining to trust powers and fiduciary account administration.
- *Federal Deposit Insurance Corporation.* Various publications, including brochures, issuances, and documents that detail the regulatory requirements and current guidelines pertaining to trust powers and fiduciary account administration.
- *Office of the Comptroller of the Currency.* Various publications, including brochures, issuances, and documents that detail the regulatory requirements and current guidelines pertaining to trust powers and fiduciary account administration.
- *Board of Governors of the Federal Reserve System.* Various publications, including brochures, issuances, and documents that detail the regulatory requirements and current guidelines pertaining to trust powers and fiduciary account administration.
- *Account Profession Associations.* Various publications, including brochures, issuances, and documents that detail specific audit requirements and current guidelines pertaining to trust powers and fiduciary account administration.

A number of individuals, institutions, organizations, and regulatory agencies contributed valuable insights for this manual, both in materials and interviews. We thank all those who have provided assistance to REGCOM staff in writing this manual.