

HOW TO USE THIS MANUAL

As financial institutions across the country cope with evolving risks and regulations, internal auditors are faced with many related challenges. Even if your institution does not fall under Sarbanes-Oxley or Basel II risk capital requirements, the influence of these governance measures is felt in every regulated institution. In addition, renewed emphasis on fraud detection is coming from both Sarbanes-Oxley and the accounting profession.

This current regulatory climate is forcing management in financial institutions to look closely at their overall corporate governance measures, from responsibilities of the Board of Directors to the review of individual financial transactions. Nothing is immune from scrutiny in today's highly regulated environment.

Internal auditors are doing what they have done well for many years. The difference today is that, in response to the regulatory climate, internal auditors are being called upon to provide assurances that everyone is following acceptable internal controls. In addition, internal auditors are being asked to provide assurance that the financial statements are fairly stated and devoid of significant fraud.

Although these are not new internal auditor responsibilities, the renewed and gathering emphasis on these responsibilities is notable. The new element is that management will now audit the internal auditors. In the past that was always left to the institution's external auditors, who more often than not gave the internal audit function a passing grade. In the future, passing grades will be harder to come by, and management and the board will be checking "under the hood" from time to time to see what auditors are doing. That is the purpose of this manual — to help internal auditors make sure their shops are in order.

In particular, this manual focuses on the basics — namely the reviews of internal controls and the audits of the balance sheet and income statement. Using the detailed programs in this manual makes it easier for the internal auditor to provide management and the board with the types of assurances that the regulators expect.

This manual is organized into two parts. Part I focuses on reviewing internal audit organization, planning, and staffing, in addition to establishing or updating policies and procedures that govern how you conduct audits. Part II provides internal audit procedures broken onto functional areas: Financial Reporting, Funds, Asset/Liability Management, Loans, Operations, Technology, Branch, Insurance and Legal. Samples of internal audit questionnaires (ICQs) show you how to gather information that will form the basis of regulators' analysis.

In Part I, the key areas covered in Chapters I-1 and I-2 include setting standards for performance and quality controls, integrating risk assessments into audits, and establishing an effective system of internal controls. Planning topics in Chapter I-3 include sorting out the various types of audits that may be required, including technology audits and fraud investigations. The staffing Chapter I-4 covers interviewing, hiring, and training topics that are needed to ensure internal audit has qualified personnel to meet the renewed demand on their professional expertise. Chapter I-5 examines risk assessment of Model Risk Management.

In Part II, the internal audit programs and internal control questionnaires are primarily directed at establishing assurances that the institution's financial statements are in order. Although some of the programs touch on compliance, operations, and technology issues, the purpose for those programs is to provide the

auditor with an understanding of the controls surrounding those areas, not to conduct an intensive management or operational audit.

In Part III, the internal audit programs and internal control questionnaires are primarily directed at regulatory compliance. The overall objective with this material is to have the internal audit function review compliance efforts throughout the institution to determine if these efforts will pass regulatory examination procedures. Therefore, the materials in Part III are derived from regulatory examination programs to assist the internal auditor with evaluating examination preparedness.

Consider using the materials in this manual to tune up your audit efforts. In some cases, your audit approach may be unique to your institution. However, the programs in this manual may include procedures that could enhance your audit results and reports to management and the board. In other cases, you may not have had time to audit a particular area for some time and need a new program to jumpstart the effort. The programs in this manual provide a good starting point for developing your own audit programs and internal control reviews.

COMPANION CD

With your payment for *Internal Audit Procedures Handbook*, you will receive the entire handbook on CD. The easily searched PDF simplifies research of specific topics; additional resources, such as sample forms, internal control questionnaires, and worksheets that can be customized, are also found on CD in “Additional Resources.”