



# **Strategies for Small Audit Departments**

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# Strategic Scope of the Small Audit Department

- Developing and Implementing a strong mission statement, audit charter, and audit committee charter
- Improving performance and proficiency
- Implementing a risk management strategy to optimize resources

# Strategic Scope of the Small Audit Department (continued)

- The importance of the audit risk assessment in audit planning
- Small is a relative concept – many advantages
- The benefits of co-sourcing

# Internal Audit Definition

Internal auditing is an independent, objective, assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic disciplines approach to evaluate and improve the effectiveness of risk management, control, and governances process.

# Mission Statement

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# Audit Committee Charter – Exhibit 1

- Purpose -
  - Integrity of Financial Statements
  - Compliance with legal and Regulatory Requirements
  - Independent Auditor's Qualification and Experience
- Authority – Within Scope of Responsibility
- Composition – set number
- Meetings – number of times per year
- Responsibilities – clear and concise

# Audit Committee Charter-cont.

- Internal Control
  - Effectiveness, efficiency of the internal control system
  - Scope of internal and external auditor's review
- Internal Audit
  - Charter, plans, activities, and staffing
  - Significant input into the hiring and evaluation of CAE
- Compliance
- Reporting Responsibilities

# Audit Committee Charter-cont.

- Compliance
  - Review system for monitoring compliance with laws and regulations
  - Review findings finds of external examinations
- Reporting Responsibilities
  - Communication with internal audit, external auditors, and the board of directors
  - Report annually to shareholders status of the audit dept.
- Other Responsibilities

# Audit Charter – Exhibit 2

- Introduction
  - State objectives, authority, and responsibilities
  - CAE, IIA, audit staff, audit committee
- Objective
  - Definition of Internal Auditing
- Authority
  - Derived directly from the board of directors
  - Extension of the audit committee

# Audit Charter – cont.

- Internal Auditor Responsibilities
  - Protect the assets and limit the liabilities
  - Assess the internal control structure
  - Report to the appropriate levels of management
- Relationship with the Rest of the Bank
  - Stay fully apprised of management's objectives
  - Not a part of day-to-day operations
  - Subject to management

# Audit Charter

- Replies to Audit Reports
  - Board requirement
  - Address corrective action
  - Agree, disagree, difference of opinion
  - Process to Respond
  - State the findings – show corrective action if completed
  - Reply to the audit report within 30 days

# Performance and Proficiency

TRY NOT! DO! OR DO NOT! THERE IS NO TRY



# Improving Performance and Proficiency

- Adherence to Audit Standards
  - IIA Professional Practices Framework – PPF
  - The Internal Auditor is always on duty
  - Reliability, Punctuality, Objectivity, honest broker
- Qualifications and Education
  - CFIRS, CSOPS, CIA, CFE, CPA, JD
  - Trust Operations, Trust Officer, Trust Compliance Officer
- Knowledge + Experience = Judgement

# Improving Performance and Proficiency

- Measuring the Audit Process by
  - Internal Performance Indicators
    - Number of auditors to total staff
    - Training dollars spent per auditor
    - Auditors with Professional Credentials
  - Processes
    - Number of assignments undertaken and/or completed
    - Hours spent on planning, field work, report writing and administration
    - Number of recommendations accepted

# Improving Performance and Proficiency

- Measuring the Audit Process by
  - External Evaluations
    - External Assessment – CPA Firm
    - Peer Review – other audit departments
    - Benchmarking – Comparisons of key performance indicators
    - Global Auditing Information Network - GAIN
  - Leveraging Information Technology
    - Automated work papers/ management tools
    - Data sorting software - ACL and excel add ons
    - Other Software – Flowcharting, presentation,

# Improving Performance and Proficiency

- Measuring the Audit Process by
  - Output Performance Indicators
    - Completion of audit plan
    - End time of field work to issuance of report
    - Recommendations successfully implemented
    - Financial impact directly attributed to audit recommendation
  - Qualitative Assessments
    - Quality of Audit Reports
    - Opinion of the audit committee on internal audit department
    - Customer satisfaction interviews or surveys
    - Management and Staff response to the audit process

# Meeting with Management



# Risk Management Strategies that Optimize Audit Resources

- Reference Exhibit 3
- Management's Involvement and Participation is Key
- What are the Hot Buttons for:
  - Audit Committee
  - Board of Directors
  - Senior Management
  - Auditee

# Risk Management Strategies that Optimize Audit Resources

- Identifying Key Internal Resources
  - Trust Risk Assessment – see Exhibit 4
  - Trust Administrative Committee Minutes
  - Trust Investment Committee Minutes
  - Trust Exception Tracking Report – see Exhibit 4.1
- External Key External Resources
  - Previous Regulatory Examination
  - 3<sup>rd</sup> Party Audits

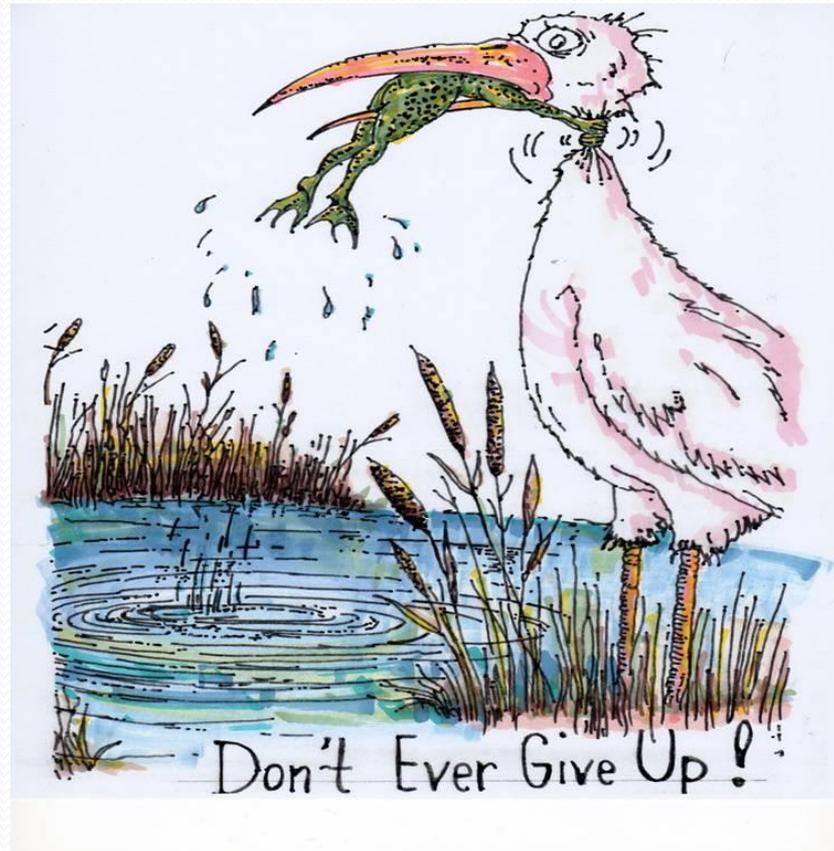
# Risk Management Strategies that Optimize Audit Resources

- Regulatory Requirements
  - 12CFR 9.9 – Audit of Fiduciary Activities
    - Annual Audit
    - Continuous Audit
    - EOY Summary to the Board
- Comptroller’s Handbook
  - Internal and External Audits version 1.0, Dec. 2016
  - Appendix A: Laws, Regulations, and Policy Guidance

# Risk Management Strategies that Optimize Resources

- Regulatory Reports
  - Examination Reports 5 year trend summary
- External Audit Reports
  - External Accountants
  - External Management Reports
- External Compliance Reports

# Don't Ever Give Up



# Audit Risk Assessment and Audit Planning – Exhibits 5,6,and 7

- Management's Involvement and Participation is needed in the assessment process
- The Audit Risk Assessment should flow directly into the audit planning and scheduling process.
  - Monthly, Quarterly, Semi Annually, Annual
  - Include Follow-up Procedures if necessary
  - Prepare a Heat Map to identify High Risk

# Audit Risk Assessment & Audit Planning - Exhibits 8 and 9

- The Audit Calendar should be prepared using the Audit Risk Assessment
- The Audit Risk Assessment should serve as the source document when presenting the audit calendar to the audit committee for approval
- Work papers should contain
  - Source – Purpose – Summary
  - Tie back to Audit Report
- Prepare a Summary of Exceptions

# Advantages of Small Audit Department – A Relative Concept

- Supervision
- Allocation of Resources – Funding
- Leveraging External Entities of Audit Services
- Reporting
- Staffing

# Benefits of Co-Sourcing

- A business arrangement in which work is performed by both internal staff and external contractors.
  - External workers used to handle peak work loads
  - Provide expertise that internal staff do not have
- External Audit performed by Bank CPA Firm
- External Trust Compliance Audits
- External Compliance Investment Reviews - RJFS
- External IT Audits

# Resources

Association of Certified Fraud Examiners – ACFE  
716 West Avenue | Austin, TX 78701-2727  
(800) 245-3321 | [www.acfe.com](http://www.acfe.com)

Comptroller's Handbook M-AUD  
Internal and External Audits | Version 1.0, December 2016

The Institute of Internal Auditors – IIA  
[www.theiia.org](http://www.theiia.org)

# See You on the Audit Trail

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