100 Introduction

100.1 The objective of an audit is to express an opinion about whether the financial statements are fairly presented in conformity with the applicable financial reporting framework that is used by the entity.[1] The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. The auditor plans, conducts, and reports the results of the audit in accordance with generally accepted auditing standards (GAAS).

100.2 *PPC's Guide to Audits of Financial Institutions* shows the auditor how to plan and conduct audits that meet professional standards without unnecessary and unproductive procedures. Auditors who are familiar with *PPC's Guide to Audits of Nonpublic Companies* will see similarities in this *Guide*, which is organized in a similar but not identical fashion. This *Guide* builds on the guidance in *PPC's Guide to Audits of Nonpublic Companies* and tailors much of that guidance to specific financial institution audit situations.

100.3 The *Guide* includes:

- Audit programs that can be easily tailored to address the risks associated with your individual audit engagements.[2]

- A complete, up-to-date set of easy-to-use practice aids.

- Practical, “how-to” text guidance and answers to all your auditing questions.

100.4 While most of the guidance in this *Guide* concerns the audit process, Chapter 16 covers attestation engagements for reporting on internal control, Chapter 17 covers credit union *supervisory committee audits*, and Chapter 18 covers attestation engagements regarding federal student loan programs, trust department agreed-upon procedures engagements, and directors' examinations.

[1] The applicable financial reporting framework is the set of accounting principles used by the entity to prepare its financial statements. This *Guide* assumes that entities are following U.S. generally accepted accounting principles.

[2] Chapter 4 provides a detailed discussion of the audit programs included in this *Guide*.

END OF DOCUMENT -

101 Authoritative Literature

Generally Accepted Accounting Principles

101.1 FASB ASC 105, *Generally Accepted Accounting Principles*, establishes the Financial Accounting Standards Board (FASB) Accounting Standards Codification as the source of generally accepted accounting principles for nongovernmental entities. This *Guide* is updated for changes in accounting standards. *PPC's Guide to Preparing Financial Statements* provides detailed guidance on generally accepted accounting principles.

101.2 New standards issued are in the form of an Accounting Standards Update (ASU), generally composed of background information and basis for conclusions along with the amendments to the Codification. The title of the ASUs are Accounting Standards Update YYYY-XX, where YYYY is the year issued and XX is the sequential number for each ASU, such as 2011-01, 2011-02, etc. All authoritative GAAP issued by the FASB is now issued in this format, regardless of the form in which such guidance may have been issued previously (for example, EITF Abstracts, FASB Staff Positions, FASB Statements, FASB Interpretations, etc.).

101.3 Upon its release, an Accounting Standards Update is not authoritative but is merely a transient document to initiate the FASB's process of amending the Codification. ASUs are available on the Codification website. As the FASB and SEC amend existing Codification paragraphs, both the current paragraph and the updated paragraph reside in the Codification until such time that the new guidance is completely effective. When the newly amended paragraph is fully effective, the outdated guidance is removed from the paragraph, and the amended paragraph remains.

Generally Accepted Auditing Standards

101.4 Auditors of nonpublic entities should conduct their engagements in accordance with GAAS developed by the American Institute of Certified Public Accountants (AICPA). The revised AICPA *Code of Professional Conduct* (the Code) [3] requires members to comply with SASs. The authors recommend that firms have a system in place to ensure staff members are informed about current authoritative literature.

101.5 **Defining Professional Responsibility**

The auditor's degree of responsibility in complying with professional requirements is identified through two categories as follows (AU-C 200.25):

- *Unconditional Requirements.* Unconditional requirements are those that an auditor must follow in all cases if the circumstances apply to the requirement. Auditing standards use the word *must* to indicate an unconditional requirement.

- *Presumptively Mandatory Requirements.* An auditor must comply with a presumptively mandatory requirement in all cases in which such a requirement is relevant except in rare circumstances when the auditor determines it necessary to depart from a relevant requirement. In that case, the auditor should perform alternative procedures to achieve the intent of the requirement (see AU-C 200.26). Auditing standards use the word *should* to indicate a presumptively mandatory requirement.

As discussed in paragraph 701.6, the auditor *must* document the justification for any necessary departure from a presumptively mandatory requirement of GAAS, along with how alternative procedures performed sufficiently achieve the intent of the requirement.

101.6 **Use of the Terms *Must* and *Should***

Throughout this *Guide*, the authors use the terms *must* and *should* in accordance with AU-C 200.25. The authors also use the term *is required* interchangeably with *should*.

101.7 **Form and Structure of the Auditing Standards**

Each auditing standard is divided into the following topics:

- **Introduction.** Includes matters such as the purpose and scope of the guidance, subject matter, effective date, and other introductory material.

- **Objectives.** Establishes objectives that allow the auditor to understand what he or she should achieve under the standards. The auditor uses the objectives to determine whether additional procedures are necessary for their achievement and to evaluate whether sufficient appropriate audit evidence has been obtained.

- **Definitions.** Provides key definitions that are relevant to the standard.

- **Requirements.** States the requirements that the auditor is to follow to achieve the objectives unless the standard is not relevant or the requirement is conditional and the condition does not exist.

- **Application and Other Explanatory Material.** Provides further guidance to the auditor in applying or understanding the requirements. While this material does not in itself impose a requirement, auditors should understand this guidance. How it is applied will depend on professional judgment in the circumstances considering the objectives of the standard. The requirements section references the related application and explanatory material. Also, when appropriate, considerations relating to smaller and less complex entities are included in this section.

101.8 A standard may also contain exhibits or appendices. Appendices to a standard are part of the application and other explanatory material. The purpose and intended use of an appendix is explained in the standard or in the title and introduction of the appendix. Exhibits to standards are interpretive publications. Interpretive publications are not auditing standards and do not contain requirements. Rather, they are recommendations on applying the standards in particular circumstances that are issued under the authority of the Auditing Standards Board. Auditors are required to consider applicable interpretive publications when planning and performing the audit.

101.9 **AU-C Section Organization**

Within the AICPA Professional Standards, the auditing standards use “AU-C” section numbers. The organization of the AU-C sections is as follows:

- Preface.

- Glossary.

- AU-C Section 200-299: General Principles and Responsibilities.

- AU-C Section 300-499: Risk Assessment and Response to Assessed Risks.

- AU-C Section 500-599: Audit Evidence.

- AU-C Section 600-699: Using the Work of Others.

- AU-C Section 700-799: Audit Conclusions and Reporting.

- AU-C Section 800-899: Special Considerations.

- AU-C Section 900-999: Special Considerations in the United States.

- Exhibits and Appendixes.

101.10 **Preface**

AU-C Preface—*Principles Underlying an Audit Conducted in Accordance With Generally Accepted Auditing Standards*, contains the principles underlying an audit conducted in accordance with generally accepted auditing standards (the principles). These principles are not requirements and are not authoritative. They provide a framework that is helpful in understanding and explaining an audit and are organized to provide a structure for the codification of SASs. The structure addresses the purpose of an audit, responsibilities of the auditor, performance of the audit, and reporting.

101.11 **Overall Objectives and Requirements**

AU-C 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards, contains the auditor's overall responsibilities in accordance with GAAS. The overall objectives of the auditor in conducting an audit of financial statements are as follows:

- Obtain reasonable assurance about whether the financial statements are free from material misstatement.

- In accordance with the auditor's findings, (a) report on the financial statements, and (b) make the communications required by GAAS.

101.12 The auditor must be independent of the entity when performing an engagement in accordance with GAAS unless (a) GAAS provides otherwise, or (b) law or regulation requires accepting the engagement and reporting on the financial statements. In addition, the auditor should follow the requirements in Exhibit 1-1 to achieve the objectives in paragraph 101.11. These overall requirements are discussed throughout the *Guide* as appropriate.

Exhibit 1-1

Requirements for Overall Objectives and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards

Requirements	AU-C Reference
Be independent of the entity when performing an engagement in accordance with GAAS unless (1) GAAS provides otherwise, or (2) law or regulation requires accepting the engagement and reporting on the financial statements ("must" statement). If not independent and neither (1) nor (2) apply, do not issue a report under GAAS.	AU-C 200.15
Follow relevant ethical requirements relating to financial statement audit engagements.	AU-C 200.16
Maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement of the financial statements may exist.	AU-C 200.17
Exercise professional judgment in planning and performing the audit.	AU-C 200.18
To obtain reasonable assurance, obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.	AU-C 200.19
Comply with all AU-C sections when the AU-C section is effective and the circumstances addressed by the AU-C section exist.	AU-C 200.20
Understand the entire text of an AU-C section, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.	AU-C 200.21

Do not represent compliance with GAAS in the auditor's report unless the requirements of AU-C 220 and all other relevant AU-C sections have been followed.	AU-C 200.22	
In planning and performing the audit, use the objectives stated in the individual AU-C sections to achieve the overall objectives of the auditor and to: • Determine whether any audit procedures in addition to those required by individual AU-C sections are necessary. • Evaluate whether sufficient appropriate audit evidence has been obtained.	AU-C 200.23	
Subject to AU-C 220.26, comply with each requirement of an AU-C section unless (1) the entire AU-C section is not relevant or (2) the requirement is not relevant because it is conditional and the condition does not exist.	AU-C 200.24	
Identify the auditor's degree of responsibility in complying with professional requirements according to the following categories: [a] • *Unconditional requirements.* Requirements an auditor must follow in all cases if the circumstances apply to the requirement. Auditing standards use the word "must" to indicate an unconditional requirement. • *Presumptively mandatory requirements.* Requirements an auditor must follow in all cases if the circumstances apply to the requirement, except in rare circumstances discussed in AU-C 220.26. Auditing standards use the word "should" to indicate a presumptively mandatory requirement.	AU-C 200.25	
In rare situations, when the auditor determines it is necessary to depart from a	AU-C 200.26	

relevant presumptively mandatory requirement, perform alternative audit procedures to achieve the intent of that requirement. It is expected that departure from a relevant presumptively mandatory requirement will only occur when the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the intent of the requirement.	
In planning and performing the audit, consider applicable interpretive publications.	AU-C 200.27
In applying the auditing guidance included in other auditing publications, use professional judgment and assess the relevance and appropriateness of such guidance.	AU-C 200.28
Evaluate whether not achieving an objective in a relevant AU-C section prevents achievement of the overall objectives of the engagement. If the overall objective of the engagement is not achieved, modify the opinion or withdraw from the engagement (when withdrawal is possible under applicable law or regulation). Document the failure to achieve an objective as a significant finding or issue in accordance with AU-C 230.	AU-C 200.29

Notes:

[a] See discussion of the terms *must* and *should* at paragraph 101.6.

101.13 **Interpretive Publications.**

Interpretive publications are not auditing standards, but rather recommendations on applying the SASs. Interpretive publications include Auditing Interpretations, exhibits to the SASs, AICPA Audit and Accounting Guides, and AICPA Auditing Statements of Position. Auditors should consider applicable interpretive publications. If the auditor does not apply an interpretive publication, the auditor should be prepared to explain how he or she complied with the underlying SAS provisions. The unconditional requirements and presumptively mandatory requirements are not intended to apply to interpretive guidance issued by the AICPA.

101.14 **Other Auditing Publications.**

Other auditing publications have no authoritative status but may help auditors understand and apply the SASs. Other auditing publications include AICPA publications other than SASs and interpretive publications, articles in professional journals, continuing professional education programs, textbooks, guide books, audit programs and checklists, and auditing literature published by state CPA societies and other organizations (for example, PPC guides). If auditors apply the guidance in other auditing publications, they should satisfy themselves that the guidance is both appropriate and relevant. Appropriateness refers to whether the guidance is technically sound. Relevance refers to whether the guidance is applicable to the circumstances of a particular audit engagement. Indicators of appropriateness include the extent to which the publication is recognized as being helpful and the professional qualifications of its author or issuer. There is a presumption that other auditing publications reviewed by the AICPA Audit and Attest Standards staff (such as auditing practice releases and AICPA risk alerts are appropriate.

Statements on Standards for Attestation Engagements (SSAEs)

101.15 **When They Apply**

SSAEs apply whenever the auditor is engaged to issue or does issue an examination, review, or agreed-upon procedures report on subject matter (or an assertion about the subject matter) that is the responsibility of another party. The SSAEs provide for three levels of services: examination, review, and application of agreed-upon procedures. Auditors are required by ET 1.310.001 of the revised *Code of Professional Conduct* to follow the procedure and reporting guidance in SSAEs when they apply.

101.16 **Form and Content**

SSAEs may be issued by any of three AICPA senior technical committees—the Auditing Standards Board, Accounting and Review Services Committee, or Consulting Services Executive Committee. The issuing committee exposes the standards before issuance. When they are issued, the standards are published in the *Journal of Accountancy*. Free-standing copies of the new standard can also be purchased from the AICPA. Each new standard carries an effective date, which is based on the committee's assessment of the lead time practitioners require to implement the standard. The standards are codified in the AT section of Professional Standards.

101.17 As of the date of this *Guide*, the following attestation standards [4] are effective:

- SSAE No. 10, *Attestation Standards: Revision and Recodification*—SSAE No. 10 is organized in the following sections:

•• AT 101—*Attest Engagements*. (This is the umbrella standard that governs all types of attestation engagements.)

•• AT 201—*Agreed-upon Procedures Engagements*.

•• AT 301—*Financial Forecasts and Projections*.

•• AT 401—*Reporting on Pro Forma Financial Information*.

•• AT 601—*Compliance Attestation*.

•• AT 701—*Management's Discussion and Analysis*.

• SSAE No. 11, *Attest Documentation* [5] —SSAE No. 11 was issued in January 2002 and amends the documentation requirements of SSAE No. 10.

• SSAE No. 12, *Amendment to Statement on Standards for Attestation Engagements No. 10*, Attestation Standards: Revision and Recodification [5] —SSAE No. 12 was issued in September 2002 and also amends SSAE No. 10 to clarify the relationship of the SSAEs to quality control standards. The amendment clarifies that although an effective quality control system is conducive to compliance with SSARS, deficiencies in or noncompliance with a firm's quality control system do not, in and of themselves, indicate that an engagement was not performed in accordance with the attestation standards.

• SSAE No. 13 (AT 20), *Defining Professional Requirements in Statements on Standards for Attestation Engagements*. SSAE No.13 defines terms used in the SSAEs to impose professional requirements.

• SSAE No. 14 (AT 50), *SSAE Hierarchy*. This standard identifies the body of attestation literature and clarifies the authority of attestation publications.

• SSAE No. 15 (AT 501), *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*, establishes standards and provides guidance to practitioners performing an examination of a nonissuer's internal control over financial reporting (internal control) that is performed as an integrated audit (an audit of an entity's financial statements and an examination of its internal control).

• SSAE No. 16, *Reporting on Controls at a Service Organization*, provides guidance relating to reporting on the internal controls of a service organization.

• SSAE No. 17, *Reporting on Compiled Prospective Financial Statements When the Accountant's Independence is Impaired*. This SSAE amends SSAE No. 10 (AT 301) and removes the prohibition against disclosing the reasons for an independence impairment in a compilation report on prospective financial statements, just as SSARS No. 19 removed this prohibition in a compilation report on historical financial statements.

101.18 Chapters 16 and 18 of this *Guide* provide guidance on performing certain attestation engagements for financial institutions. Additionally, practice aids for certain attestation engagements are provided in the AFI-SP section of this *Guide*.

Quality Control

101.19 **Statement on Quality Control Standards**

Statement on Quality Control Standard No. 8, *A Firm's System of Quality Control*, establishes standards and provides guidance for a CPA firm's responsibilities for its system of quality control for its accounting and auditing practice. SQCS No. 8 comprehensively addresses the quality control (QC) processes over a firm's accounting and auditing practice. The standard places an unconditional obligation on the firm to establish a QC system designed to provide reasonable assurance that the firm complies with professional standards and legal and regulatory requirements, and that it issues reports that are appropriate in the circumstances. *PPC's Guide to Quality Control* provides guidance and practice aids to assist firms in developing, implementing, and maintaining a system of quality control.

101.20 **Quality Control Auditing Standard**

AU-C 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted*

Auditing Standards, provides requirements and application and other explanatory material to the auditor and engagement partner as they implement each element of quality control during the performance of an audit of financial statements. Thus, for every quality control element discussed in SQCS No. 8, AU-C 220 includes information that conveys how the firm ensures that the requirements of SQCS No. 8 are met in an audit engagement. The responsibility to ensure compliance with AU-C 220 is primarily placed on the audit engagement partner. However, certain requirements are also imposed on the engagement team and, if applicable, engagement quality control reviewer. In meeting the requirements of the quality control auditing standard, the engagement partner is permitted to delegate his or her responsibilities and to rely on the firm's quality control system.

101.21 The objective is for the auditor to implement quality control procedures at the engagement level that provide reasonable assurance that—

- The audit has been performed in accordance with professional standards and meets applicable legal and regulatory requirements.

- In the circumstances, the auditor's report is appropriate.

101.22 The requirements that should be followed to achieve that objective are summarized in Exhibit 1-2.

Exhibit 1-2

Requirements for Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards

Requirements	**AU-C Reference**	***Guide* Reference—Practice Aid**
Leadership Responsibilities for Quality on Audits		
The engagement partner should take responsibility for the overall quality on each assigned audit engagement. The performance of certain procedures may be delegated to other members of the engagement team and the engagement partner may rely on the firm's system of quality control.	AU-C 220.10	AFI-CX-14

Relevant Ethical Requirements		
The engagement partner and other members of the engagement team should remain alert for evidence of noncompliance with relevant ethical requirements by members of the engagement team.	AU-C 220.11	AFI-AP-1
If there is indication that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm as appropriate, should determine that appropriate action has been taken.	AU-C 220.12	AFI-CX-14
To form a conclusion on compliance with independence requirements that apply to the audit engagement, the engagement partner should— • Obtain relevant information from the firm and, when applicable, network firms to identify and evaluate circumstances and relationships that create threats to independence. • Evaluate information that a breach of the firm's independence policies and procedures has occurred and determine whether the situation creates a threat to independence for the audit. • Take appropriate action to eliminate any identified threats or to reduce them to an acceptable level by applying safeguards. Report any inability to resolve the matter promptly to the firm so that it may take appropriate action.	AU-C 220.13	AFI-CX-1.1
Acceptance and Continuance of Client Relationships and Audit Engagements		
The engagement partner should determine that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed and all conclusions reached are appropriate.	AU-C 220.14	AFI-CX-1.1

If the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner should communicate that information promptly to other members of the firm and take the necessary action.	AU-C 220.15	AFI-AP-1
Assignment of Engagement Teams		
The engagement partner should be satisfied that the audit engagement team (including any external specialists) has the appropriate competence and capabilities to (1) perform the audit engagement as required by professional standards and applicable legal and regulatory requirements, and (2) enable the issuance of an auditor's report that is appropriate in the circumstances.	AU-C 220.16	AFI-AP-1 AFI-CX-1.1
Engagement Performance		
The engagement partner should take responsibility for the direction, supervision, and performance of the audit engagement. The engagement partner is charged with ensuring that (1) professional standards and applicable legal and regulatory requirements and the firm's policies and procedures are followed and (2) the auditor's report is appropriate in the circumstances.	AU-C 220.17	AFI-CX-14
The engagement partner should ensure that reviews are being performed in accordance with the firm's review policies and procedures.	AU-C 220.18	AFI-CX-14
Based on the review of audit documentation and discussion with the engagement team, on or before the date of the auditor's report, the engagement partner should be satisfied that sufficient appropriate audit evidence has been gathered to support the conclusions reached and the auditor's report to be issued.	AU-C 220.19	AFI-CX-14

The engagement partner should take responsibility for the engagement team undertaking appropriate consultation on difficult or contentious matters.	AU-C 220.20	AFI-CX-14	
The engagement partner should be satisfied that— • Members of the engagement team have followed consultation policies during the course of the engagement. • The nature and scope of the consultation is agreed upon with the party consulted and the conclusions resulting from such consultations are understood by the party consulted. • The conclusions resulting from such consultations have been implemented.	AU-C 220.20	AFI-CX-14	
For those audit engagements, if any, for which the firm has determined that an engagement quality control review (EQCR) is required, the engagement partner should— • Ascertain that an engagement quality control reviewer has been appointed. • Discuss significant findings or issues that arose during the audit engagement with the engagement quality control reviewer. • Ensure that the auditor's report is not released before the EQCR is completed.	AU-C 220.21	AFI-CX-14	
The engagement quality control reviewer should perform an objective evaluation of the significant judgments made and the conclusions reached in formulating the auditor's report. This evaluation should involve— • Discussing significant findings or issues with the engagement partner. • Reading the financial statements and the proposed report. • Reviewing selected audit	AU-C 220.22	AFI-CX-14	

documentation relating to the significant judgments the engagement team made and the related conclusions it reached. • Evaluating the conclusions reached in formulating the report and considering whether the proposed report is appropriate.		
When differences of opinion occur within the engagement team, with those consulted, or between the engagement partner and the engagement quality control reviewer, the engagement team should follow the firm's policies and procedures for resolving differences of opinion.	AU-C 220.23	AFI-CX-14
Monitoring		
The engagement partner should consider the results of the firm's monitoring process and whether deficiencies noted in that information may affect the audit engagement.	AU-C 220.24	AFI-CX-14
Documentation		
The auditor should document: • Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.	AU-C 220.25	AFI-CX-1.1
• Conclusions on compliance with independence requirements and any relevant discussions with the firm that support these conclusions.	AU-C 220.25	AFI-CX-1.1 AFI-CX-1.2
• Conclusions reached regarding the acceptance and continuance of client relationships and audit engagements.	AU-C 220.25	AFI-CX-1.1
• The nature and scope of, and conclusions resulting from, consultations undertaken during the	AU-C 220.25	AFI-CX-14

engagement.		
The engagement quality control reviewer should document: • That the procedures required by the firm's policies on engagement quality control review have been performed. • The date that the engagement quality control review was completed. • That the reviewer is not aware of any unresolved issues that would cause him or her to believe that the significant judgments made and the conclusions reached were not appropriate.	AU-C 200.26	AFI-CX-14

101.23 **AICPA revised *Code of Professional Conduct***

The AICPA *Code of Professional Conduct* provides guidance and rules that auditors need to comply with in connection with an audit engagement. As noted in AU-C 220.A4, it sets forth the fundamental principles of professional ethics, including objectivity and independence. As noted in paragraph 101.12, the auditor is required to be independent in the audit of the financial statements. AU-C 200.16 also requires auditors to follow ethical requirements that are relevant to the engagement.

101.24 In May 2014, the AICPA issued a revised *Code of Professional Conduct* (revised Code). The revised Code was effective on December 15, 2014, with the exception of the two broad conceptual frameworks, one for members in public practice and one for members in business, that are effective December 15, 2015, with early implementation allowed. The revised Code is divided into three parts that separately apply to members in public practice, members in business, and other members (such as retired and unemployed members), as well as a preface that applies to all members. The revised Code also establishes a new numbering system with the reference preface of “ET.” In addition, the revised Code provides conceptual frameworks that set forth requirements in those situations where the member has identified a threat to compliance with the rules in the revised Code and the relationship or circumstance creating the threat is not covered within the revised Code. See further discussion about the revised Code and the conceptual frameworks in *PPC's Guide to Quality Control*.

101.25 When applicable, this *Guide* provides references to the numbering system within the revised Code. Section 202 provides additional discussion of certain independence considerations in connection with client acceptance and continuance.

[3] In May 2014, the AICPA issued a revised Code. The revised Code was effective on December 15, 2014, with the exception of the two broad conceptual frameworks, one for members in public practice and one for members in business, that have been given an additional one-year delayed effective date. See further discussion of the revised Code beginning at paragraph 101.23.

[4] Section 1600 discusses the comprehensive project to clarify the attestation standards, which is expected to be completed by the end of 2015.

[5] SSAE Nos. 11 and 12 are amendments to SSAE No. 10 and are not separately codified in the AT section of the authoritative standards.

END OF DOCUMENT -

---

102 The PPC Audit Process

102.1 Generally accepted auditing standards require auditors to use information gathered about the entity and its environment (including internal control) to identify and assess the risks of material misstatement at both the overall financial statement and relevant assertion levels, and to determine the nature, timing, and extent of further audit procedures needed to respond to those risks. Further audit procedures are required to be performed to obtain audit evidence to support the auditor's opinion.

102.2 The authors have developed a practical approach to that audit process to address the requirements of authoritative literature and have designed practice aids to assist auditors in meeting those requirements. PPC's audit approach is designed to be flexible and adaptable, allowing auditors to better leverage their knowledge of the client to tailor their audit procedures. The audit approach has been divided into the following broad steps:

1 Perform procedures regarding acceptance/continuance of the client relationship, evaluate compliance with ethical requirements (including independence), and establish an understanding with the client in an engagement letter.

2 Develop a preliminary audit strategy, establish planning materiality, and perform risk assessment procedures to gather information about the entity and its environment that may be relevant in identifying risks of material misstatement of the financial statements.

3 Gather the information to understand and evaluate the design and implementation of the entity's internal control system.

4 Synthesize the information gathered, identify risks (both overall and specific) that could result

in material misstatement of the financial statements, and finalize the overall audit strategy.

5 Assess the risks of material misstatement of the entity's financial statements.

6 Develop and perform appropriate responses (further audit procedures) to the assessed risks of material misstatement of the financial statements considering the overall audit strategy and planning materiality.

7 Evaluate audit findings and evidence.

8 Prepare required reports and communications.

102.3 Although the requirements and guidance may suggest a sequential process, the audit is a continuous process of gathering, updating, and analyzing information about the fairness of presentation of amounts and disclosures in the client's financial statements. Therefore, the audit process is an iterative, nonlinear process, whereby the required procedures may be performed concurrently with other procedures. In addition, risks should be evaluated continuously throughout the audit.

Organization of This *Guide*

102.4 **Chapters**

This *Guide* is organized to explain PPC's audit process.

102.5 **Practice Aids**

By using the following practice aids, auditors can efficiently conduct an audit of a financial institution in accordance with authoritative literature:

• Firm policies (AFI-FP).

• Confirmations and correspondence letters, including those used in an integrated examination (audit) of internal control performed under AT 501 (discussed in section 1602) (AFI-CL).

- Core audit programs, including those used in an integrated examination (audit) of internal control performed under AT 501 (discussed in section 1602) (AFI-AP).

- Checklists and practice aids, including those used in an integrated examination (audit) of internal control performed under AT 501 (discussed in section 1602) (AFI-CX).

- Practice aids for special engagements including internal control examinations for small institutions performed under AT 101 (discussed in section 1603), supervisory committee audits using the NCUA audit requirements for a credit union (discussed in Chapter 17), attestation engagements regarding federal student loan programs (discussed in section 1801), trust department agreed-upon procedures engagements (discussed in section 1802), and directors' examinations (discussed in section 1803) (AFI-SP).

- Initial audit programs (AFI-IA).

102.6 **Electronic Tools**

PPC's *Practice Aids* are Word and Excel versions of all editable practice aids included in this *Guide*. PPC's *SMART Practice Aids* are tools that bring enhanced functionality to PPC's Practice Aid products by automating specific audit processes and generating completed practice aids.

Complying with Professional Standards

102.7 PPC practice aids at the AFI-CX section of this *Guide* assist auditors in complying with professional standards and achieving an efficient workflow. At AFI-CX-0.1, the authors have indicated which practice aids should be completed on each engagement to fulfill specific professional standards. Additionally, the authors have indicated which practice aids generally, by themselves, do not fulfill a specific GAAS requirement and which practice aids assist auditors in situations that do not occur on every audit.

102.8 The auditor may choose to document audit procedures in a memo or in another form rather than using a PPC practice aid. To ensure that the alternative documentation meets the requirements of GAAS, the authors recommend that auditors read the PPC practice aid for an indication of the matters to be considered and documented. As a general rule of thumb, the alternative documentation needs to address the subtitles in the PPC practice aids, thereby indicating how all the major areas for consideration in the practice aid are addressed. Case Study 2 in *PPC's Guide to Audit Risk Assessment* (Appendix B) illustrates the PPC audit process using a combination of completed PPC practice aids and memos that replace certain practice aids.

END OF DOCUMENT -

Checkpoint Contents
Accounting, Audit & Corporate Finance Library
Editorial Materials
Specialized Industries
Audits of Financial Institutions
Chapter 1 Introduction and Industry Overview
103 Industry Overview

103 Industry Overview

What Financial Institutions Are Covered by This *Guide*?

103.1 In a very broad sense, there are many types of financial institutions in the United States. In addition to banks and other depository institutions, many people classify insurance companies, commercial and consumer finance companies, brokerage firms,[6] mortgage bankers and many other types of businesses as financial institutions. However, this *Guide* covers the following three types of financial institutions:

a. Commercial banks.

b. Savings institutions (also referred to as savings and loans or thrift institutions).

c. Credit unions.

103.2 The financial institutions covered by this *Guide* all have one important attribute in common—they accept funds from the public in the form of insured deposits and invest those funds in loans and other investments. Because deposits placed in the financial institutions covered by this *Guide* are federally insured, the institutions are subject to the supervision of federal and/or state regulatory agencies. In addition, most of these institutions routinely hire independent CPAs to perform either audits or agreed-upon procedures engagements on an annual basis.

---

[6] PPC's *Practice Aids for Audits of Broker-dealers* provides practice aids for auditing nonpublic noncarrying broker-dealers.

END OF DOCUMENT -

104 The Business of Financial Institutions—Management of Risks

104.1 As with most commercial businesses, the long-term objective of financial institutions is to maximize profits. This is generally accomplished by maximizing the excess of interest earned over interest paid, which is known as the *net interest margin*. During the process of maximizing the *net interest margin*, financial institutions, like most commercial businesses, incur certain risks. Management's ability to identify and respond to these risks, while still remaining competitive with other institutions, is an integral component of the auditor's assessment of control risk. Expansion into new areas of business, or the acquisition of complex or higher-risk investments, increases the level of risk and may require additional management expertise.

104.2 In addition, when planning and performing audit engagements, auditors need to understand the economic conditions facing the industry in which the client operates. Economic activities relating to factors such as interest rates, availability of credit, consumer confidence, overall economic expansion or contraction, inflation, real estate values, and labor market conditions are likely to have an effect on an entity's financial statements, which has been especially true in the financial institutions industry during the recent economic crisis.

104.3 A 2007 Ernst & Young survey of audit committees across 12 different industries suggests that banks are more proactive than other industries in putting programs in place to effectively manage risk and in investing substantial resources, including time and education, in the programs. When planning an audit of a financial institution, the auditor considers the general and specific risks of the institution and the institution's process of assessing and controlling these risks. This section discusses various risks that are incurred by financial institutions and the factors that the auditor considers when planning an audit of a financial institution.

Credit and Other Asset Quality Risk

104.4 Credit risk is the risk that a borrower will be unable to repay its loan. Credit risk is measured as an institution's total exposure to a borrower and includes loans outstanding, interest and fees receivable, and undrawn commitments to lend. Credit risk can be classified into industry risk and issuer risk. Industry risk occurs when an institution is dependent on the economic climate of an individual industry (such as the oil and gas industry). Issuer risk is the risk of an individual or company being unable to repay its debts. One of the most critical areas of concern in a financial institution engagement is the adequacy of the allowance for credit losses. The auditor's role in assessing the adequacy of this allowance is discussed in detail in sections 805 and 806.

104.5 Other financial assets are subject to the risk of loss because of declining asset quality. For example, loan servicing rights may become impaired when falling interest rates result in high levels of prepayment.

104.6 Another risk related to credit and asset quality for many financial institutions is the management of counterparty credit risk (CCR). CCR is the risk that the counterparty to a transaction may default or deteriorate in creditworthiness before the final settlement of a transaction's cash flows. In June 2011, the federal banking and thrift regulators issued *Interagency Supervisory Guidance on Counterparty Credit Risk Management*, which clarifies supervisory expectations and sound practices for an effective CCR management framework. The guidance is principally intended for institutions with significant derivatives portfolios and generally does not apply to institutions with limited, noncomplex derivative exposures.

Interest Rate Risk

104.7 Interest rate risk occurs when an institution's interest-earning assets and interest-bearing liabilities are not matched according to dates on which interest rates change. Interest rate risk is normally thought of as exposure to interest rate movements that occur when a financial institution borrows funds on a short-term basis and lends at a fixed rate for a longer period of time. For example, if the institution has borrowed money for six months at a fixed rate and lent it for one year, also at a fixed rate, it will need to obtain new funding for the loan after six months. If interest rates rise, the institution will have to increase the rate of interest it pays on borrowings without being able to invest at a higher rate until the existing loan matures. Interest rate risk can also occur when an institution invests in rate-sensitive assets that are funded by long-term, fixed-rate liabilities. If interest rates fall, the institution may be unable to invest in assets that yield high enough interest rates to cover the interest expense on the fixed-rate liabilities. Interest rate risk can be managed by matching the repricing profiles of assets and liabilities.

104.8 FIL-2-2010 on the financial institution management of interest rate risk cautions that economic conditions present significant risk management challenges to depository institutions of all sizes. Institutions need to not lose focus on their management of interest rate risk. For a number of institutions, increased loan losses and sharp declines in the value of certain securities portfolios are placing downward pressure on capital and earnings. In this interest rate environment, taking advantage of a steeply upward-sloping yield curve by funding longer term assets with shorter-term liabilities may pose risks to an institution's capital and earnings in the event short-term interest rates rise. Financial institutions are expected to manage interest rate risk exposures using policies and procedures commensurate with their complexity, business model, risk profile, and scope of operations. FIL-2-2010, which clarifies existing interest rate risk guidance, is available at **www.fdic.gov**. The OCC's *Semiannual Risk Perspective for Fall 2014* issued in December 2014 also notes a continued need to monitor interest rate risk issues because of the prolonged low interest rate environment.

Liquidity Risk

104.9 Liquidity risk is the risk associated with the demand for funds exceeding the supply of funds. If an institution invests in long-term assets and funds them through short-term deposits, there is a risk that the short-term deposits will be withdrawn and the institution will be unable to attract new deposits or convert its long-term assets into cash. Liquidity risk may be increased by overreliance on brokered or jumbo deposits because large amounts of money can be withdrawn in a short period of time. Liquidity risk can be measured as the total receipts due on any one day less the total payments due on that particular day.

104.10 Maturity of borrowings which cannot be met by liquidation of assets may force an institution to pay excessively high interest rates to attract new deposits or to sell long-term investments or loans at a loss. In extreme cases, lack of liquidity may cause an institution to default on its liabilities. When performing an audit of a financial institution, the auditor considers the institution's liquidity position and its ability to meet obligations as they become due. When considering the institution's liquidity position, the auditor considers the following:

- The treatment of demand liabilities. [7]

- Commitments to make funds available on a particular date.

- Other commitments such as lines of credit available to customers. [8]

- Marketable securities and loans held for sale, which may only be realizable at a discount in the event of a forced sale.

- Anticipated prepayments of long-term assets.

- Doubtful assets.

- Standby lines of credit from other financial institutions.

- Additional sources of funds, such as funds obtained through repurchase agreements.

If it appears that it may be necessary for the institution to sell long-term assets to obtain liquidity, the auditor needs to consider management's classification and valuation of the assets and whether such sales will result in losses to the institution.

Asset-liability Management

104.11 As previously discussed, financial institutions incur certain risks in the process of maximizing profits. In order to limit these risks, while still maintaining profits, financial institutions need to control the components contributing to the net interest margin. Managing an institution's risks while maximizing the net interest margin requires planning and anticipation of future economic conditions. The continual comparison and evaluation by management of future payment streams, maturities, interest rates, and risk inherent in an institution's assets and liabilities, considering expected changes in market interest rates, is known as asset-liability management. Asset-liability management is a strategy to promote matching investment alternatives to potential sources of funding in order to maximize the net interest margin, yet still maintain tolerable levels of risk.

104.12 Asset-liability management is often referred to as *position management*, since it is through an analysis of an institution's total position that its risks are identifiable. In other words, an institution considers the credit risk related to the future inflow of funds and the liquidity and interest rate risks related to the future transactions required to cover the gaps in the current portfolio. The difference between the amounts of assets and liabilities that will be repriced during a specific period of time is known as the asset-liability gap for that period. A negative gap exists when an institution has more interest-sensitive liabilities than interest-sensitive assets. A positive gap exists when an institution has interest-sensitive assets that exceed interest-sensitive liabilities. If an institution has a positive gap, earnings will normally increase when interest rates rise. Conversely, if an institution has a negative gap, earnings will normally decrease when interest rates rise.

104.13 There are many strategies that an institution can implement to best manage its asset-liability gap. The following are examples of such strategies:

- Restructuring the existing balance sheet by selling certain loans and investments.

- Shortening the repricing period on new loans and investments.

- Implementing hedging techniques through the use of futures, options, and interest-rate swaps.

Investments in futures, options, and interest-rate swaps are extremely sensitive to market movements and warrant close and specialized attention by both management and the auditor.

Processing Risk

104.14 Because of the large volume of information processed by financial institutions, the dependency on information technology to properly process transactions is a risk to all institutions. Related concerns include an institution's use of a third-party data processor, the increasing use of electronic transfers to accomplish customer account transactions, and the authentication of customers using Internet-based services.[9] Section 303 discusses the effect of a client's information technology system on audit planning.

Fiduciary Risk

104.15 Financial institutions are sometimes entrusted with the custody of financial assets on behalf of customers or other third parties. In some cases, the institution may also act as manager of those assets. Examples of fiduciary activities of small to mid-size institutions include trust departments and loan servicing for others. The risk of loss arises when institutions fail to properly manage the financial assets on behalf of others. Section 1802 discusses trust department operations and related regulatory compliance requirements for trust departments of national banks. Chapter 8 discusses the lending and servicing activities of financial institutions.

---

[7] For an institution with significant amounts of demand deposits, it may be misleading to include such liabilities at their earliest repayment dates. To do so might show a *worst case* position that does not reflect a realistic liquidity position. In some situations, it may be acceptable to include only a portion of demand liabilities at the earliest repayment date.

[8] Considerations similar to those that apply to demand liabilities also apply to commitments under lines of credit.

[9] In October 2013, the Office of the Comptroller of the Currency issued OCC Bulletin 2013-29, “Third-Party Relationships: Risk Management Principles,” which applies to all banks with third-party relationships and provides guidance to national banks and federal savings associations (collectively, banks) for assessing and managing risks associated with third-party relationships. OCC 2013-29 rescinds a previous bulletin, OCC 2001-47, and also OCC Advisory Letter 2000-9. For additional information see **www.occ.gov/news-issuances/bulletins/2013/bulletin-2013-29.html**.

END OF DOCUMENT -

105 Services Provided by CPAs

105.1 There are various services that a CPA might provide to a financial institution. The nature, timing, and extent of the procedures performed will depend primarily on the scope of services requested by the institution. At the onset of an engagement, the auditor reaches an agreement with the institution regarding the nature of services to be provided to the institution. Before agreeing to accept an engagement, the auditor needs to be certain that he or she has adequate training and experience to complete the engagement. If the engagement is one of a specialized nature, the auditor considers whether it is necessary to obtain additional training through seminars or other resources.[10] The auditor also ensures that any applicable independence requirements are met prior to accepting an engagement. (Determining the firm's independence is discussed beginning at paragraph 202.34.) The following paragraphs discuss the types of services that a CPA might provide and the various reports that a practitioner might issue for a financial institution.

Audit Services

105.2 The primary service a CPA will provide to a financial institution is an audit of financial statements in accordance with generally accepted auditing standards (GAAS). In many ways, performing an audit of a financial institution in accordance with GAAS is similar to performing an audit of any business enterprise. However, there are aspects of an audit that are unique to financial institutions. The guidance found throughout this *Guide* will assist the auditor with these aspects.

105.3 As discussed in section 1502, many savings institutions and multi-bank holding companies present consolidating balance sheets and income statements for each majority-owned subsidiary and/or joint venture. In addition, many savings institutions present summary financial statements for *each* joint venture and service corporation. Normally, consolidating and summary financial statements are presented as additional information accompanying the basic financial statements. Section 1508 discusses the auditor's responsibility for this type of additional information.

105.4 **FDICIA Audit Requirements**

FDICIA has imposed several requirements and restrictions on banks and savings institutions. One of the requirements is that FDIC-insured institutions with total assets of $500 million or more must file annual audited financial statements prepared in conformity with generally accepted accounting principles with their regulators. FDICIA also imposes additional requirements for banks and savings institutions with total assets of $1 billion or more as discussed in paragraph 105.11. Paragraphs beginning at 108.3 discuss FDICIA in more detail.

105.5 **Audit Requirements for Credit Unions**

Credit unions with total assets of $500 million or more are required under the Credit Union Membership Access Act of 1998 to have an annual independent audit of the financial statements performed in accordance with generally accepted auditing standards. Credit unions with total assets of greater than $10 million but less than $500 million are required to either obtain a financial statement audit or an approved alternative. Three options are provided for these credit unions to fulfill their supervisory committee audit responsibility. These options are discussed in section 1700.

105.6 For corporate credit unions, the NCUA *Rules and Regulations* (12 CFR 704.15(b)(2)) require the independent public accountant who audits the corporate credit union's financial statements to examine, attest to, and report separately on management's assertion concerning the effectiveness of the corporate credit union's internal control structure and procedures for financial reporting. Statement on Standards for Attestation Engagements (SSAE) No. 15 (AT 501), *Examination of an Entity's Internal Control Over Financial Reporting That is Integrated With an Audit of its Financial Statements*, is the primary source of authoritative literature for auditors who report on a nonpublic institution's internal controls. SSAE No. 15 (AT 501.18) states that the examination of internal control over financial reporting should be integrated with the audit of the financial statements and be planned to accomplish the objectives of both audits simultaneously. Section 1602 of this *Guide* provides guidance on integrated audit engagements.

105.7 **Other Audit Services**

A CPA may be asked to provide other audit services to a financial institution, including services required by certain agencies related to loan originations. For example, the U.S. Department of Housing and Urban Development (HUD) includes in the HUD Inspector General's most recent Handbook 2000-04, *Consolidated Audit Guide for Audits of HUD Programs* (HUD Audit Guide), a requirement for all large supervised lenders (including financial institutions that are FHA-approved lenders) to submit an annual audited financial statement within 90 days of their fiscal year end. Large supervised lenders are defined as lenders that are members of the Federal Reserve System (FRS) or regulated by the FDIC, Office of the Comptroller of Currency (OCC), or National Credit Union Association (NCUA), and have consolidated assets that reach the relevant agency's threshold for requiring the submission of audited financial statements. The audited financial statements must be submitted in accordance with HUD Handbook 4060.1 REV-2 and prepared and audited in accordance with the HUD Inspector General's most recent HUD Audit Guide. Financial statements must be submitted electronically through FHA's Lender Electronic Assessment Portal (LEAP) (formerly Lender Assessment Sub System or LASS). Previously, those requirements only applied to nonsupervised mortgagees. Mortgagee Letter 2009-31, as revised, includes the following requirements:

• A financial statement audit performed under *Government Auditing Standards* resulting in the auditor's opinion on the financial statements that indicates the audit was performed under both AICPA generally accepted auditing standards and *Government Auditing Standards*. [11]

• An opinion on certain supplementary information required by HUD, such as the net worth calculation, the new schedule of loan fees, and the hard copy of the LEAP Financial Data Template (FDT) in relation to the audited financial statements.

• Internal control reports that include an independent auditor's report on internal control over financial reporting based on an audit of the financial statements and an independent auditor's report on internal control over compliance with HUD-assisted programs (either a separate report or combined with the report on internal control over financial reporting).

• A compliance audit performed under the HUD Audit Guide resulting in the auditor opining on compliance with HUD program requirements and related reporting on internal control over compliance.

• A submission by the institution of certain required financial information (including information about the audit) via the FDT into LEAP within 90 days of the institution's fiscal year end. [12]

• A related Agreed-Upon Procedures (AUP) engagement that involves comparing certain information in the hard copy FDT and financial statements to the information submitted electronically into LEAP. The agreed-upon procedures reporting is done electronically through LEAP, although CPAs may also issue a separate hard copy AUP report to their clients as well.

105.8 The HUD Audit Guide exempts small supervised lenders from the requirement to have an annual audit of the financial statements or to submit an audited computation of adjusted net worth. Small supervised lenders are defined as lenders that are members of the FRS or regulated by the FDIC, OCC, or NCUA, and have consolidated assets that do not reach the relevant agency's threshold for requiring the submission of audited financial statements. Small supervised lenders are still required to submit unaudited regulatory reports that align with their fiscal year end in place of the audited financial statements. However, the HUD Audit Guide does not provide an exemption for small supervised lenders regarding the submission of auditor's reports on internal control and compliance with HUD requirements. Mortgagee Letter 2012-29, “Interim Reporting Requirements for Small Supervised Lenders and Mortgagees,” modifies the annual financial reporting requirements for small supervised lenders to eliminate the requirements to submit auditor's reports on internal control and compliance with HUD requirements.

105.9 Detailed information regarding specific regulatory requirements related to loan originations or servicing are beyond the scope of this *Guide*. However, *PPC's Guide to HUD Audits* contains a chapter with selected information on compliance audits of nonsupervised and supervised mortgagees and also contains general guidance on HUD reporting, auditing under *Government Auditing Standards*, compliance auditing, agreed-upon procedures reporting, and submission of information to HUD. The information in that *Guide* may be useful in complying with Mortgagee Letter 2009-31.

105.10 Another example of an audit service provided for a financial institution relates to small business lending activities. The Small Business Jobs Act of 2010 encourage lending to small businesses by providing capital to community banks that have less than $10 billion in assets. Participating community banks are required to calculate and report the amount of qualified small business lending in a supplemental report. The community bank's management is required to certify the accuracy of the information in the supplemental report and to receive and submit within 90 days of each fiscal year end a certification from its external auditors that the processes and controls used to generate the supplemental reports are satisfactory. The AICPA issued Technical Question and Answer Q&A 9110.18, “Small Business Lending Fund Auditor Certification Guidance,” to provide guidance on how an auditor may satisfy the requirement by issuing a report in accordance with AU-C 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements*. Q&A 9110.18 provides an illustration of a report that an auditor may use when nothing has come to the attention of the auditor as a result of the auditor's audit procedures to indicate that the community bank failed to comply with the terms of the Small Business Lending Fund. Guidance on reporting requirements under AU-C 806 is included in *PPC's Guide to Auditor's Reports*.

Additional Requirements for Banks and Savings Institutions with Total Assets of $1 Billion or More

105.11 Under FDICIA, the CPA is required to examine, attest to, and report on management's assertion regarding the institution's internal control and procedures for financial reporting for any bank or savings institution with total assets of $1 billion or more. Statement on Standards for Attestation Engagements (SSAE) No. 15 (AT 501), *Examination of an Entity's Internal Control Over Financial Reporting That is Integrated With an Audit of its Financial Statements*, is the primary source of authoritative literature for auditors who report on a nonpublic institution's internal controls as required by FDICIA. SSAE No. 15 (AT 501.18) states that the examination of internal control over financial reporting should be integrated with the audit of the financial statements and be planned to accomplish the objectives of both audits simultaneously. Section 1602 of this *Guide* provides guidance to the CPA involved in such an integrated audit engagement.

Alternatives to Audits for Banks and Savings Institutions with Total Assets of Less Than $500 Million

105.12 The FDIC, in its Financial Institution Letter FIL-96-99, and the Federal Financial Institutions Examination Council (FFIEC), in its *Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations*, encourage banks and thrifts not subject to the audit requirement in FDICIA to have an annual audit of the institution's financial statements performed by an independent public accountant. If the institution's directors or audit committee decide an annual audit is not appropriate, the policy statement provides the following two alternatives:

a. An audit of the institution's balance sheet.

b. An examination level attestation engagement regarding management's assertion about the effectiveness of the institution's internal control over financial reporting in all or certain schedules of the institution's regulatory reports. (Section 1603 discusses these engagements.) [13]

105.13 If the institution's board of directors or its audit committee selects an audit of the institution's balance sheet based on its assessment of the institution's risk areas and scope of operations during a particular year, the CPA would audit the assets, liabilities, and equity of the institution under generally accepted auditing standards and opine on the fairness of the presentation of the balance sheet. The CPA would not be expected to provide an opinion on the fairness of the presentation of the institution's statement of income, statement of changes in stockholders' equity, or statement of cash flows. Therefore, the CPA would not need to consider presentation or disclosure issues that do not affect the balance sheet. However, the authors believe the CPA needs to apply some audit procedures to statement of income accounts to determine whether these accounts reveal misstatements in the balance sheet. The practice aids in this *Guide* can be tailored for a balance sheet audit.

105.14 If the institution's board of directors or its audit committee selects the examination level attestation engagement, the board or audit committee needs to determine the institution's high risk areas related to financial reporting based on a review and assessment of the institution's activities. Management would then review its internal control over the preparation of the schedules related to these high-risk areas and document this review. Management would provide a written assertion [14] to the CPA about the effectiveness of the institution's internal control over financial reporting in the identified risk areas as of one designated regulatory report date. This assertion describes the criteria on which management based its evaluation of internal control. The CPA would examine management's assertion and provide an appropriate attestation report. Section 1603 provides guidance to the auditor engaged to perform such an engagement.

105.15 If an institution does not have an audit of its financial statements and is subject to a state-required external auditing program (such as, a directors' examination), the institution normally would not be expected to incur the cost of one of the two alternatives in addition to the state-required program. The procedures performed need to include some procedures designed to test the risk areas of the institution, including its lending and investment securities activities. The FDIC encourages institutions to have these procedures performed for all risk areas on an annual basis. However, a small institution may choose to have its external auditing program cover one or two risk areas annually if no significant changes are occurring in the risk areas. All risk areas need to be included in the external auditing program on a rotating basis at least every two or three years. Section 1803 discusses directors' examinations in more detail. Chapter 17 discusses supervisory committee audits of credit unions.

Agreed-upon Procedures Engagement for a Trust Department

105.16 Another service that a practitioner might provide to a financial institution is to perform an agreed-upon procedures engagement for a trust department. The nature of an agreed-upon procedures engagement for a trust department is very similar to a directors' exam. The purpose of a trust department engagement is to perform certain procedures specified by the board of directors or trust committee and to report on the results of those procedures. Section 1802 discusses the types of procedures that are typically performed, and the type of report that is issued, for a bank's trust department.

Student Loan Compliance Examinations

105.17 Another service a CPA may provide to a financial institution is a compliance examination on its student loan activities. Any lender that holds greater than $5 million in Federal Family Education Loan (FFEL) Program loans during its fiscal year is subject to the U.S. Department of Education's annual compliance audit (attestation engagement) and reporting requirements. SSAE No. 10, as amended (AT 601), *Compliance Attestation* provides the guidance needed to perform this type of engagement. Section 1801 discusses student loan compliance examinations in detail. The clarity project for the attestation standards is discussed beginning at paragraph 1600.11.

Other Services

105.18 Other services a CPA might provide to a financial institution include tax and consulting services and various other special-purpose types of reports. For example, auditors of institutions that sell or service mortgage loans are often required to issue special-purpose reports related to these activities. Mortgage-servicing reports are beyond the scope of this *Guide*.

---

[10] The federal banking and thrift regulators have rules that establish procedures under which the regulators can, for good cause, remove, suspend, or bar an accountant or firm from performing audit and attestation services for insured depository institutions with assets of $500 million or more. Under the rules, certain violations of law, negligent conduct, reckless violations of professional standards, or lack of qualifications to perform auditing services are considered good cause. In addition, the rules prohibit an accountant or accounting firm from performing these services if the accountant or firm has

been removed, suspended, or debarred by one of the regulators, or if the U.S. Securities and Exchange Commission or the Public Company Accounting Oversight Board takes certain disciplinary actions against the accountant or firm. The rules also permit immediate suspensions of accountants and firms in limited circumstances. An accountant or firm can even be prohibited from auditing an institution as a result of a wrongdoing unrelated to the provision of audit services or in connection with services provided to a financial institution. The rules can be accessed on the FDIC's website at **www.fdic.gov** (FIL-66-2003).

[11] The HUD Audit Guide in paragraph 7-4, part B, permits, if certain conditions are met, FHA-approved supervised lenders in parent-subsidiary structures (i.e., subsidiaries) to submit (a) the audited consolidated financial statements of a parent company, and (b) consolidating schedules that are subject to the auditing procedures applied to the consolidated statement of the parent and show separately the balance sheet, operating statement, and computation of adjusted net worth of the subsidiary subject to the HUD audit requirements, to meet the audited financial statement requirement.

[12] It is important to note that this time frame could differ from regulatory or other requirements for submission of the institution's financial statements. For example, as discussed at paragraph 108.10, FDICIA regulations allow 120 days after year-end for submission of the annual report.

[13] The policy statement also allows for a small institution to have an attestation engagement regarding the effectiveness of internal control over preparation of the financial statements.

[14] Although the FFIEC policy statement refers to a single assertion, the authors believe management may have a number of assertions related to the institution's internal control over financial reporting in certain schedules of the institution's regulatory reports.

END OF DOCUMENT -

106 High Risk Nature of Financial Institution Audits

106.1 No discussion of financial institution audits would be complete without acknowledging the risks associated with these engagements. When a CPA audits the financial statements of any business, he or she incurs certain risks. However, when a CPA audits the financial statements of a financial institution, the risks associated with the engagement are multiplied simply because of the nature of the industry. The following paragraphs discuss the risks involved in performing financial institution audits and the factors that the auditor needs to consider before agreeing to accept these engagements.

Nature of the Industry

106.2 Banks, savings institutions, and credit unions operate in a highly risky and uncertain environment. Because financial institutions are subject to regulatory supervision, it is possible for a financial institution to fail, or to be placed in receivership, not only because of liquidity problems, but also because of failure to meet minimum regulatory capital requirements.

106.3 There are various factors that can cause a financial institution to fail. However, failures usually result from a combination of intense competitive forces, poor economic conditions, and poor management practices. Although regulatory requirements have become more stringent and current practices have generally improved, previous poor practices have resulted in many problem loans still being carried on the books of financial institutions today.

106.4 One factor that increases the risks associated with financial institutions is the nature of their assets. Loans often comprise the majority of a financial institution's balance sheet. Because the values of these assets are determined using a great deal of estimation and judgment, the level of risk to the auditor is increased. To a great degree, auditors find it necessary to rely on the work of specialists (such as in-house and outside appraisers) to determine the value of loan collateral. Because auditors are often not adequately trained in this area, it can be difficult for some auditors to assess the qualifications and assumptions of these specialists.

106.5 Another factor that increases the risk of financial institution audits is the fact that many institutions have significant concentrations of credit risk. Because financial institutions generally concentrate their lending efforts in their own local area, many of their loans are tied either to the local economy or to borrowers associated with a particular industry (such as the automobile or oil and gas industry). Downturns in these industries, or in the local economy in general, can have a devastating impact on the financial health of an institution.

State of the Economy

106.6 When planning and performing an audit engagement, the auditor needs to understand the economic conditions related to the industry in which the client operates. Economic factors such as interest rates, availability of credit, consumer confidence, overall economic expansion or contraction, inflation, real estate values, and labor market conditions often impact the financial statements of the institution being audited.

106.7 In recent years, the following unparalleled events occurred in the financial markets:

- The failure of a major investment bank.

- Acquisitions of several investment and commercial banks (some of which necessitated assistance from federal agencies).

- The placement into conservatorship of the Federal National Mortgage Association (FNMA or Fannie Mae) and the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac). On September 6, 2008, the Federal Housing Finance Agency (FHFA) placed FNMA and FHLMC into conservatorship. At that time, the U.S. Department of Treasury agreed to assist both FNMA and FHLMC to ensure liquidity and stability to the housing and mortgage markets. Both of the government sponsored enterprises (GSEs) continue to operate under conservatorship. In 2010, the stocks were delisted from the New York Stock Exchange. Both stocks are currently trading on the Over-the-Counter Bulletin Board. On August 17, 2012, the U.S. Department of Treasury modified the terms to the Preferred Stock Purchase Agreements (PSPAs) to require a full sweep of every dollar of profits the GSEs earn going forward, which has prompted several lawsuits by shareholders. While in conservatorship, the GSEs have reported significant profits and during 2014, the GSEs repaid the amounts due to the U.S. Treasury. The FHFA provides a history of the FNMA and FHLMC conservatorships at **www.fhfa.gov** that states keeping FNMA and FHLMC in a government-run conservatorship for a long-term, continued operation is not a sustainable option because each company lacks adequate capital, cannot rebuild its capital base, and operates on a limited line of capital from taxpayers. In 2014, the FHFA released *The 2014 Strategic Plan for the Conservatorship of Fannie Mae and Freddie Mac*. Part of the 2014 Strategic Plan proposes a new framework for a common securitization platform, which would work toward development of a single common security, that would reduce the disparities of the two different mortgage securities issued by FNMA and FHLMC that are not interchangeable. Of the various legislative proposals that have been introduced in Congress, none of them envisions the entities exiting conservatorship in their current corporate form.

• A significant, publicly-registered money market fund declined below the industry standard of $1.00 per share on a market value basis due to a combination of holdings of short-term securities issued by the failed investment bank and major shareholder redemptions.

As a result of these extraordinary events, the condition of the fixed income markets worsened. Corporations and financial institutions typically recognized as creditworthy began experiencing difficulty borrowing money in the financial markets on any more than an overnight basis. Of significant concern to financial institutions was the decline in liquidity faced by the industry.

106.8 The U.S. government took unprecedented actions to prevent worsening economic conditions. In October 2008, the Emergency Economic Stabilization Act of 2008 (EESA) was signed into law and in February 2009, the American Recovery and Reinvestment Act (Recovery Act) was passed. Among other provisions, these laws serve to facilitate the sale of ailing banks and significantly increase the monetary programs available from the Federal Reserve. As stated in section 2 of the EESA bill, it “provide[s] authority and facilities that the Secretary of the Treasury can use to restore liquidity and stability to the financial system of the United States” to ensure the economic well-being of Americans. The federal government developed a website at **www.recovery.gov** to facilitate a transparent process to ensure accountability for the execution of the plan using the billions of dollars included in the package. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law in response to weaknesses in the financial services industry. Those weaknesses were believed to have contributed to the most recent economic recession. The Dodd-Frank Act is discussed beginning at paragraph 108.25.

106.9 **AICPA Risk Alert**

The financial and economic crisis of the last several years may affect the entity's operations, risks, and financial reporting. This in turn may affect the auditor's responsibilities in providing auditing services. The AICPA Audit Risk Alert titled *Financial Institutions Industry Developments: Including Depository and Lending Institutions and Brokers and Dealers in Securities—2014/15* (the Industry Risk Alert) contains information related to economic and industry developments. The Audit Risk Alert can be ordered at **www.cpa2biz.com**.

106.10 **Beige Book**

Eight times a year, the Federal Reserve District issues its *Summary of Commentary on Current Economic Conditions*, commonly referred to as the “Beige Book.” The report summarizes information on current economic conditions gathered by each Federal Reserve Bank by district and sector through reports from bank and branch directors and interviews with key business contacts, economists, market experts, and other sources. As auditors perform their risk assessment, the

Beige Book is a useful resource for understanding the environment in which financial institutions are operating and how current conditions may affect the assessment of the risk of material misstatement of the financial statements. The latest Beige Book report can be obtained at **www.federalreserve.gov/monetarypolicy/beigebook/default.htm**.

106.11 **Other Resources**

Moody's Economy.com, a division of Moody's Analytics, provides a source for analysis, data, forecasts, and information on the United States and world economies at **www.economy.com/default.asp**.

106.12 In addition, accountancy organizations, regulatory bodies, standard setters, and other international organizations have developed guidance, articles, and resources on issues related to the global financial crisis. Appendix 3B includes a listing of financial institution regulatory websites.

Liability to Financial Statement Users

106.13 As with any business enterprise, the audited financial statements of a financial institution may be used by the board of directors, shareholders, and various third parties. These third-party users include regulatory agencies, depositors, and creditors. In addition, many financial institutions and holding companies have stock that is publicly traded.

106.14 Although an auditor's report merely provides assurance that the financial statements are fairly stated in accordance with GAAP, outside users of financial statements and the general public do not always understand what this means. They often view an audit report as providing absolute assurance of the ongoing financial health and stability of an institution. If an institution becomes insolvent or other problems arise (such as management fraud), there is a good chance that these third-party users will look to the auditor to recover their losses. The auditor may be the only party with resources left to recover. If an institution becomes insolvent and the most recent audit report was not modified for a going concern problem, the auditor's ability to defend a negligence claim may be weakened. While it remains unclear to what extent auditors will be held liable to nonclients or third-party users of financial statements, courts have, in many cases, tended to expand auditors' liability to third parties, depending on the severity of an auditor's negligence.

106.15 Before accepting an engagement to audit the financial statements of a bank, savings institution, or credit union, the auditor needs to consider the many risks involved and whether or not he or she has adequate training and experience to complete the engagement. In addition, the auditor assesses the adequacy of the audit fee in comparison to the risks involved. If the auditor has decided not to carry professional liability insurance, he or she may want to reconsider this decision, bearing in mind the risks involved with financial institution audits. If the auditor does carry professional liability insurance, he or she needs to evaluate whether the coverage is adequate. Chapter 3 includes a detailed discussion of engagement risk and the factors that may indicate an increased level of risk. In addition, *PPC's Guide to Managing an Accounting Practice* includes an in-depth discussion of auditor's legal liability.

END OF DOCUMENT -

Checkpoint Contents
Accounting, Audit & Corporate Finance Library
Editorial Materials
Specialized Industries
Audits of Financial Institutions
Chapter 1 Introduction and Industry Overview
107 Regulatory Structure

107 Regulatory Structure

107.1 Financial institutions are subject to governmental supervision and regulation, including periodic examinations by various regulatory agencies. The current federal financial regulatory system for insured depositories is complex, with three agencies responsible for regulation and supervision of commercial banking organizations and savings institutions and a separate agency primarily responsible for credit unions. Exhibit 1-3 illustrates the regulatory agencies that are primarily responsible for the financial institutions discussed in this *Guide*. The following paragraphs discuss each agency in more detail.

Exhibit 1-3

Primary Responsibilities of Federal Regulatory Agencies

Type of Institution	Primary Regulator
Bank Holding Company [a]	Federal Reserve Board
National Bank	Office of Comptroller of the Currency
State Member Bank [b]	Federal Reserve Board
State Nonmember Bank [b]	Federal Deposit Insurance Corporation
Federal Savings and Loan or Savings Bank	Office of Comptroller of the Currency
State Savings and Loan [b]	Federal Deposit Insurance Corporation

Savings and Loan Holding Company [a]	Federal Reserve Board
Federal Credit Union	National Credit Union Administration
State Credit Union [b]	National Credit Union Administration
Corporate Credit Union	National Credit Union Administration

Notes:

[a] May also be subject to Securities and Exchange Commission regulations.

[b] Would also be subject to applicable state banking department supervision and examination.

Office of Comptroller of the Currency (OCC)

107.2 The OCC is a bureau of the Department of Treasury. It is the chartering authority and primary federal supervisor for national banks, federal savings and loans, and savings banks. Besides serving as the chartering authority for national banks, federal savings and loans, and savings banks, the OCC's primary regulatory responsibilities include: (a) evaluating applications for merger where the surviving institution is a national bank, federal savings and loan, or savings bank, (b) enforcing operating regulations in and examining national institutions, and (c) declaring failing national institutions insolvent. The OCC supervises national institutions through four district offices, each headed by a Deputy Comptroller, and various field offices. The OCC's regulatory authority overlaps that of the FRB and the FDIC. Because of the overlap, it is not unusual for the OCC to have regulatory authority for the subsidiary institutions of an institution holding company but not to have authority for the holding company itself.

Federal Reserve System (FRS) and Federal Reserve Board (FRB)

107.3 The FRB supervises the FRS, which serves as a bank for banks and savings and loans. Some of the more important functions of the FRS include:

- Regulating the country's money supply.

- Regulating the reserves of financial institutions within the U.S.

• Providing wire transfers of funds.

• Examining and supervising state-chartered member banks.

• Regulating the activities of bank holding companies, savings and loan holding companies, and nonbanking affiliates.

• Facilitating clearance and collections of checks.

• Acting as fiscal agent, legal depository, and custodian of funds for the U.S. government.

• Collecting and interpreting economic data regarding money, credit, and other related matters.

• Monitoring financial practices of member banks.

107.4 The FRS is divided into 12 districts, each having a Federal Reserve Bank. Each Federal Reserve Bank, in addition to providing the appropriate banking functions listed in the preceding paragraph, supervises bank holding companies within its district. The Federal Reserve Banks also serve a primary supervisory role in the examination of state-chartered member banks. All national banks and federal savings and loans must be members of the FRS. State-chartered banks have the option of being members.

107.5 **Federal Reserve Regulations**

An important part of the FRS is the promulgation of regulations that govern the operations of the banking system. Currently there are 45 regulations in effect or proposed. They are designated by letters of the alphabet ranging from A to YY. CPAs who provide services to financial institutions need to become intimately familiar with many of the regulations and have at least a working knowledge of all of the regulations. A description of each regulation may be obtained from the FRB website at **www.federalreserve.gov/bankinforeg/reglisting.htm**. To obtain the complete regulations, refer to the regulatory information sources listed in Appendix 3A.

Federal Deposit Insurance Corporation (FDIC) [15]

107.6 The FDIC is a government corporation that insures deposits of banks and savings institutions. Insurance limits are set by Congress and have increased over the years to the present limit of $250,000 per account per financial institution. (See further discussion on deposit insurance coverage beginning at paragraph 107.9.) Operations of the FDIC are generally financed by fees, based on deposits, charged to the member banks and savings institutions.

107.7 **Insurance Fund**

Pursuant to the provisions of the Federal Deposit Insurance Reform Act of 2005, the FDIC merged the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) to form the Deposit Insurance Fund (DIF) effective March 31, 2006. Prior to March 31, 2006, the FDIC administered two insurance funds, the BIF and the SAIF. The funds were administered separately, and their resources were not commingled. The BIF generally insured deposits of commercial banks and some savings banks. SAIF primarily insured deposits of savings and loan associations.

107.8 Deposit Insurance Coverage.

The standard maximum deposit insurance amount is currently $250,000 per account per financial institution. More information related to deposit insurance coverage can be found on the FDIC's website at **www.fdic.gov/deposit/**. Depositors and bankers can find additional information regarding the FDIC's deposit insurance coverage in the deposit insurance publications located on the FDIC's website (select “Deposit Insurance” and then “Are My Deposits Insured?”) or by calling the FDIC at 1-877-ASK-FDIC (1-877-275-3342). In addition, the website contains an Electronic Deposit Insurance Estimator, which is an interactive service that allows consumers to quickly and easily check whether their accounts are fully protected.

107.9 **FDIC Examinations**

One of the most important functions of the FDIC is the examination of insured state-chartered banks and state savings and loans that are not members of the FRS. During these examinations, FDIC examiners review the institution's policies and procedures, evaluate its loan and investment portfolios, and look for possible violations of banking regulations. At the conclusion of an examination, the examiners prepare a detailed report of their findings.[16] The report is reviewed with management and the board of directors. If there are any serious deficiencies, the bank generally must prepare and implement a written plan of action to correct the deficiencies and report progress to the examiners.

107.10 **Failed Banks**

Another of the important functions of the FDIC is its role in managing failed banks and savings institutions. Because of its role as deposit insurer, the FDIC obviously has the paramount responsibility to protect the insurance funds discussed beginning at paragraph 107.7. That role is discussed more fully in section 108.

Office of Thrift Supervision (OTS)

107.11 For many years, the OTS had been the primary regulator for savings institutions. The OTS had been a bureau of the Department of Treasury responsible for the examination and supervision of all savings institutions. The FDIC had backup enforcement authority for savings institutions. Thus, the FDIC had been empowered to recommend and order that an enforcement action be initiated against a savings institution, even when the OTS had decided not to initiate such an action. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. (Paragraphs beginning at 108.25 discuss the Dodd-Frank Act.) Title III of the Dodd-Frank Act, “Transfer of Powers to the Comptroller, the FDIC, and the FED,” abolished the OTS and transferred regulatory authority over savings institutions to other regulatory authorities.

107.12 The transfer of responsibilities took place on July 21, 2011. Although the OTS has been abolished, the thrift charter has been maintained. The Dodd-Frank Act provides that all rulings and guidance issued by the OTS remain in effect and shall remain enforceable by the OCC, the FDIC, or the FRB. However, since the date the Dodd-Frank Act was signed into law, certain OTS compliance documents have been rescinded.

Financial Stability Oversight Council (FSOC)

107.13 Section 112 of the Dodd-Frank Act establishes the Financial Stability Oversight Council (the FSOC), whose purpose is to identify risks to the financial stability of the U.S. arising from both financial entities and those outside the financial services marketplace, promote market discipline, and respond to emerging threats to the stability of the U.S. financial system. Among other duties, the FSOC is responsible for the following:

- Monitoring domestic and international financial regulatory proposals and developments, including insurance and accounting issues, making recommendations, and advising Congress on how to enhance the integrity, stability, efficiency and effectiveness, and competitiveness of the U.S. financial markets.

- Reviewing existing or proposed accounting principles, standards, or procedures and make comments, where appropriate, to the SEC or other standard-setting body.

- Reporting and testifying before Congress annually on significant financial market and regulatory developments, including insurance and accounting regulations and standards, along with the assessment of such developments on the stability of the financial system.

107.14 The FSOC consists of ten voting members and five nonvoting members. Voting members include the Treasury secretary (FSOC chairman) and various heads of the banking regulatory agencies, including (among others) the chairmen of the FRB, the FDIC, the OCC, the NCUA, and the SEC.

Consumer Financial Protection Bureau (CFPB)

107.15 The Dodd-Frank Act consolidates most federal regulation of financial services offered to consumers through the establishment of a new Consumer Financial Protection Bureau (CFPB), which is an independent agency housed at the Federal Reserve. The objectives of the CFPB are as follows:

- To ensure that consumers receive clear, accurate information in obtaining mortgages, credit cards, and other financial products. (However, the CFPB does not have authority over products subject to securities or insurance regulations.)

- To provide consumers with a dedicated advocate.

- To protect consumers from hidden fees and deceptive practices.

107.16 The CFPB will also oversee the enforcement of federal laws intended to ensure the fair, equitable, and nondiscriminatory access to credit for individuals.

107.17 The Dodd-Frank Act recognizes that CPAs providing “customary and usual accounting activities” (which include accounting, tax, advisory, or other services that are subject to the regulatory authority of a state board of accountancy) and other services that are “incidental to such customary and usual accounting activities” are already sufficiently regulated and, therefore, are not subject to the CFPB's authority. However, activities that are outside the “customary and usual accounting activities” may be subject to CFPB regulation—thus, CPAs may not have full exemption.

107.18 The CFPB has the authority to examine and enforce regulations for financial institutions with assets of over $10 billion, as well as all mortgage-related businesses. Financial institutions with assets of $10 billion or less will be examined for consumer compliance by the appropriate regulator, as discussed in this section of this *Guide*. The CFPB is also authorized to independently impose regulations for consumer protections governing all financial institutions that offer consumer financial services or products.

National Credit Union Administration (NCUA)

107.19 The NCUA was created by Congress in 1970 to charter, supervise, and regulate federal credit unions. The National Credit Union Share Insurance Fund (NCUSIF), a part of NCUA, insures deposits of all federal and many state-chartered credit unions. As with the FDIC, and OCC, NCUA is charged with supervising and examining member credit unions. NCUA may assess penalties for violations of laws, regulations, written agreements, reporting requirements, and deficiencies in call reports.

107.20 State-chartered credit unions are supervised by the regulatory agency of the chartering state. Most state-chartered credit unions are generally required to obtain NCUSIF share insurance coverage. Those credit unions are subject to a periodic insurance examination by the NCUSIF, which is typically performed jointly with their state supervisory authority. Some credit unions obtain insurance from other sources (i.e., sponsored by a private insurer). Participation in some kind of insurance program is mandatory for most credit unions.

Federal Financial Institutions Examination Council (FFIEC)

107.21 The FFIEC was established on November 10, 1978, by the Federal Financial Institutions Examination Council Act. The purpose of FFIEC is to prescribe uniform principles and standards for the federal examination of financial institutions by the OCC, FDIC, FRB, NCUA, and CFPB. The members of FFIEC include the Comptroller of the Currency, the Chairman of the Board of Directors of the FDIC, a Governor of the Board of Governors of the FRS designated by the Chairman of the Board, the Chairman of the NCUA, and the Director of the CFPB.

Securities and Exchange Commission (SEC)

107.22 Bank and thrift holding companies are subject to SEC registration and reporting provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934, unless a normal exemption is available. Generally, bank and thrift holding companies with 500 or more shareholders and $3 million or more in total assets must file applicable reports with the SEC. Financial statements, schedules, and other financial disclosures included in SEC filings, including annual reports to shareholders, must comply with Regulation S-X (especially Article 9 for bank and thrift holding companies), Regulation S-K, and Guide 3, *Statistical Disclosures for Bank Holding Companies*, among other requirements. Although SEC requirements and rules and regulations are beyond the scope of this *Guide* generally OCC, FRB, and FDIC disclosure regulations are conformed to SEC rules and regulations.

State Regulators

107.23 State banking departments and agencies vary from one state to the next. They normally approve charters for new state banks, savings institutions, and credit unions, approve new branches (where branching is allowed by state law), determine the scope of banking operations within the state, and examine financial institutions. Most states require banks to carry FDIC insurance and thereby become subject to FDIC and applicable FRS rules and regulations. Some states are more permissive in the types of financial institution services that they allow. As a result, financial institutions may prefer state charters to federal charters.

Other Agencies

107.24 Although they are not regulatory agencies, other agencies that have a significant impact on various segments of the financial services industry include:

• *Federal Housing Administration (FHA).* The FHA, a federal agency under the Department of Housing and Urban Development (HUD), was established by the National Housing Act of 1934 to help stabilize the home mortgage market, improve housing construction standards, and encourage housing construction on reasonable terms. The FHA insures eligible mortgage loans at a cost to the lender of 0.5% of the related average principal outstanding, and provides a variety of subsidy programs. The Secretary of HUD establishes interest rates on FHA loans based on market factors.

• *Department of Veterans Affairs (VA).* The VA guarantees conventional home, condominium, and mobile home loans made by private lenders to eligible veterans of the U.S. armed forces. The interest rate on VA-guaranteed, single-family mortgage loans is the same as that on FHA loans set by the Secretary of HUD.

• *Federal National Mortgage Association (FNMA).* [17] FNMA (usually called *Fannie Mae*) provides a secondary market in residential loans by buying, servicing, and selling mortgage loans. This activity is financed with debt issued in its own name. FNMA, owned by private shareholders, is the nation's largest purchaser of residential mortgages. Many financial institutions hold various FNMA securities as investments.

• *Government National Mortgage Association (GNMA).* GNMA (usually called *Ginnie Mae*) is a government agency under HUD. It was created in 1968 to assume certain functions formerly belonging to FNMA and to guarantee securities backed by mortgages insured or guaranteed by the federal government. GNMA pass-through, mortgage-backed securities are its primary product.

• *Federal Home Loan Mortgage Corporation (FHLMC).* [17] FHLMC (usually called *Freddie Mac*) establishes an active secondary market in mortgages and deals only with government supervised lenders and qualifying mortgage companies. Freddie Mac provides funds to lenders by purchasing existing mortgages from the lenders' portfolios. Freddie Mac is financed primarily by sale of guaranteed bond-like and pass-through mortgage certificates.

107.25 Chapter 9 discusses the accounting and auditing considerations related to investments held by financial institutions.

15 On April 25, 2014, the FDIC issued FIL-18-2014 to adopt a final rule that revises the risk-based and leverage capital requirements for FDIC-supervised institutions beginning January 1, 2015, for most institutions. (For institutions that are subject to the advanced internal ratings based approaches, the final rule on the new capital requirements is effective January 1, 2014. Those institutions are generally large, complex international institutions.) Transition periods are provided for several aspects of the rule, including new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions. The final rule was adopted with no substantive changes from a July 2013 interim final rule (FIL-31-2013) that implemented Basel III and certain requirements from the Dodd-Frank Act. The FRB and the OCC also issued the same conforming rules. The FDIC provides a variety of resources regarding regulatory capital, including an interagency community bank guide to the new capital rule, at **www.fdic.gov**. Capital requirements are discussed beginning at paragraph 1301.6.

16 In FIL-41-2012, the FDIC provides a classification system for citing compliance examination violations. Three levels of violations allow for appropriate emphasis between the most significant identified issues and violations of a more technical nature.

17 See paragraph 106.7 for a discussion of FNMA and FHLMC.

END OF DOCUMENT -

108 Laws Affecting Financial Institutions and Their Auditors

108.1 Congress has passed several laws that have had a profound effect on financial institutions and their auditors. These laws greatly expanded the ability of regulators to control financial institutions. This section discusses those expanded powers and their impact on auditors. Five of the most significant of those laws are—

• Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA).

• FDIC Improvement Act of 1991 (FDICIA).

• Credit Union Membership Access Act of 1998 (CUMAA).

• Sarbanes-Oxley Act of 2002.

• Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA)

108.2 Congress passed FIRREA in August 1989. FIRREA restructured the regulatory system as follows:

• The Savings Association Insurance Fund (SAIF) was created under the FDIC. The permanent insurance fund of the FDIC was renamed Bank Insurance Fund (BIF). The resources of SAIF and BIF are not commingled. [18]

• The FDIC's board of directors was expanded from three to five members.

• Regulatory agencies were given the authority to assess civil money penalties of up to $1 million per day against insured depository institutions and “institution-affiliated parties” (including independent auditors) that violate written agreements or conditions imposed by the agency or that engage in unsafe or unsound practices.

• Regulatory agencies were given the authority to assess civil money penalties of up to $1 million per day for filing late, false, or misleading regulatory reports.

• Regulatory capital standards were changed from a percentage of liabilities to a leverage ratio, a tangible-capital requirement, and a risk-based capital requirement based on total assets. (See further discussion of capital requirements in Chapter 13.)

• FIRREA established guidelines and entrance and exit fees for savings institutions electing to change their charter to that of a national bank.

FDIC Improvement Act of 1991 (FDICIA)

108.3 Congress passed the FDIC Improvement Act of 1991 (FDICIA) in December 1991. Many banking laws were changed by FDICIA. Also, FDICIA gave federal banking agencies new supervisory functions and responsibilities. More importantly from the CPA's perspective, FDICIA mandated increased involvement in the regulatory process by outside auditors for banks and savings institutions with assets of $500 million or more.

108.4 **Overview of FDICIA**

FDICIA applies only to banks and savings institutions, and certain of its provisions apply only to institutions of specified sizes. It is divided into five sections:

• *Title I—Safety and Soundness.* Title I contains provisions related to safety and soundness, supervision, accounting, prompt corrective action, least-cost resolution of insolvent institutions, and federal insurance for state-chartered institutions.

• *Title II—Regulatory Improvement.* Title II implements improvements in the regulation of foreign banks, addresses customer and consumer protection issues, promotes community development, increases whistle-blower protections, and addresses changes in Truth in Lending provisions of the Federal Deposit Insurance Act.

• *Title III—Regulatory Improvement.* Title III addresses brokered deposits; establishes a risk-based assessment system for funding the FDIC, BIF, and SAIF; and specifies deposit insurance guidelines for investment contracts, retirement accounts, trust funds, and foreign deposits.

• *Title IV—Miscellaneous Provisions.* Title IV addresses several miscellaneous topics that have little impact on the audit process.

• *Title V—Depository Institution Conversions.* Title V addresses the conversion of depository institutions from state charters to national charters and mergers of depository institutions.

108.5 The two primary changes caused by FDICIA that have had the greatest impact on the independent auditor are:

• FDICIA mandated management reporting and related audit requirements.

• FDICIA mandated prompt corrective action by regulators.

108.6 **FDICIA-mandated Management Reporting and Related Audit Requirements**

Financial institutions report their operations and financial positions to the appropriate regulatory agencies through Call Reports. These reports are governed by detailed instructions issued by the applicable agencies. FDICIA adds another requirement to the reporting process by requiring institutions with total assets of $500 million or more at the beginning of the year to file the following with the regulators:

• Audited financial statements.

• Management report stating management's responsibilities for preparing the institution's annual financial statements, for establishing and maintaining an adequate internal control structure and procedures for financial reporting, and for complying with designated laws and regulations.

In addition, for an institution with total assets of $1 billion or more as of the beginning of its fiscal year, the following items are also filed with the regulators:

• Management's assessment on the effectiveness of internal control over financial reporting. [19] [20]

• Auditor's attestation report regarding management's assessment of internal control over financial reporting. [19] [20]

These requirements are discussed in more detail in section 1602.

108.7 **FDICIA-mandated Prompt Corrective Action by Regulators**

FDICIA establishes capital categories that are the basis for the level of activity and supervision of insured depository institutions. As a financial institution falls lower on the capital scale, the institution faces increasingly stringent requirements for action by the institution and the regulator. Because of the impact on the financial statements in terms of disclosure and the ability of the institution to continue as a going concern, the practitioner needs to be familiar with both the capital categories and the regulatory activity that is mandated when an institution becomes less than *adequately capitalized*. Chapter 13 discusses regulatory capital requirements in more detail.

108.8 **Amendments to Annual Audit and Reporting Requirements**

On July 20, 2009, the final rule amending Part 363 of the FDIC's regulations was published in the Federal Register. Part 363 applies to insured depository institutions with total assets above certain thresholds and requires annual independent audits, assessments of the effectiveness of internal control over financial reporting, and compliance with laws and regulations pertaining to insider loans and dividend restrictions, the establishment of independent audit committees, and related reporting requirements. The asset size threshold for reporting on an institution's internal control is $1 billion and the threshold for the other requirements generally is $500 million.

108.9 The final rule was implemented generally as proposed, but with certain modifications in response to comments received. FIL-33-2009, which is available at **www.fdic.gov**, provides a summary of the final rule and highlights certain amended annual and other reporting requirements.

108.10 Highlights of the 2009 amendments are summarized as follows (unless noted otherwise, the revisions were effective August 6, 2009):

• *Annual Reporting Requirements* —The regulations require disclosure of the internal control framework used to evaluate internal control over financial reporting and disclosure of any identified material weaknesses that have not been remediated prior to the institution's fiscal year end; provide relief from reporting for institutions that merged out of existence before the filing deadline; provide relief from reporting on internal control for institutions acquired during the fiscal year; require management's assessment of compliance with laws and regulations pertaining to insider loans and dividend restrictions to state management's conclusion regarding compliance and to disclose any noncompliance with such laws and regulations; and provide illustrative management reports. Section 1602 provides further discussion of reporting requirements.

• *Compliance by Subsidiaries of Holding Companies* —The regulations revise the criteria for determining whether the audited financial statement and internal control examination requirements of Part 363 may be satisfied at a holding company level. Specifically, it requires the total assets of a holding company's insured depository institution subsidiaries to comprise 75% or more of the holding company's consolidated assets to comply with Part 363 financial statement reporting requirements at the holding company level. This revision is effective for fiscal years ending on or after June 15, 2010. Section 1602 provides further discussion of the requirements for reporting at the holding company level, including the specific requirements for reporting on internal control at the holding company level.

• *Independent Public Accountants* —The regulations clarify the independence standards applicable to public accountants and enhance the enforceability of the compliance with these standards; require certain communications to audit committees; and establish a seven year retention requirement for audit working papers.

• *Financial Reporting* —The regulations include a new guideline to clarify that financial reporting includes both financial statements prepared in accordance with GAAP and those prepared for regulatory purposes. In addition, the regulations clarify that internal control over financial reporting includes controls over the preparation of both GAAP and regulatory financial statements.

• *Filing and Notice Requirements* —The regulations extend the annual report filing deadline for nonpublic institutions from within 90 days to within 120 days after the end of its fiscal year and include a late filing notification requirement.

• *Audit Committees* —The regulations specify the audit committee's duties regarding the independent public accountant, require audit committees to ensure that audit engagement letters do not contain unsafe and unsound limitation of liability provisions, and require boards of directors to apply written criteria for evaluating audit committee members' independence.

These regulations are further discussed where applicable throughout the *Guide*. A complete copy of FIL-33-2009 and the regulations can be obtained at **www.fdic.gov**.

Credit Union Membership Access Act of 1998 (CUMAA)

108.11 CUMAA was signed into law in August 1998 to amend the Federal Credit Union Act. CUMAA is divided into four sections:

• *Title I—Credit Union Membership.* Title I authorizes multiple group chartering for federal credit unions.

• *Title II—Regulation of Credit Unions.* Title II imposes new requirements on federal credit unions regarding financial statements and audits, member business loans, and charter conversions. Chapter 17 of this *Guide* discusses the audit requirements for credit unions.

• *Title III—Capitalization and Net Worth of Credit Unions.* Title III establishes a new system of tiered capital requirements for all insured credit unions (except corporate credit unions) similar to those of insured banks and savings associations. Section 1303 discusses the applicable capital requirements for credit unions.

• *Title IV—Miscellaneous Provisions.* Title IV addresses several miscellaneous provisions with little impact on the audit process.

Sarbanes-Oxley Act of 2002

108.12 The Sarbanes-Oxley Act imposed significant requirements for auditors of public companies. Major provisions of the Act include the following:

• Establishment of a five-member Public Company Accounting Oversight Board (PCAOB) under the supervision of the Securities and Exchange Commission, of which three members must not be and cannot have been CPAs.

• Limitations on the nonaudit services an audit firm may provide to public company audit clients.

• Required retention of audit workpapers for seven years.

• Requirement to report on internal control, perform tests of compliance with SEC rules and regulations, and perform concurring partner reviews.

• Required rotation of lead and reviewing audit partners on public company engagements every five years.

• Increased penalties for certain crimes and increases in the statute of limitations on securities fraud.

• Prohibition against auditing a public company whose CEO, CFO, Controller, or equivalents worked for the audit firm during the preceding year.

108.13 But what has been the impact of Sarbanes-Oxley on auditors of nonpublic companies? Some of the provisions of Sarbanes-Oxley, or similar provisions became requirements through state law or regulatory bodies and, therefore, impact auditors of nonpublic companies. While the Sarbanes-Oxley Act is only applicable to public companies and their accounting firms, Section 209 of the Act directs state regulators to make an independent determination as to whether the standards created by Sarbanes-Oxley shall be applied to small and midsized nonregistered accounting firms.

108.14 Since the passage of the Sarbanes-Oxley Act, a number of states have adopted, or are considering adopting, certain rules similar to those of the Sarbanes-Oxley Act that are applicable for small and midsized nonregistered accounting firms. Much of the state legislative and regulatory activity to date has focused on areas such as the limitation or disclosure of nonaudit services for an audit client, and documentation and retention of audit workpapers. In addition, NASBA amended the UAA Model Rules to include a seven-year record retention requirement. The UAA rules are intended to provide guidance to state boards of accountancy in the form of a single uniform standard. Section 701 discusses documentation and retention requirements. Auditors need to be alert for changes in legislation or regulations in the states in which they operate.

108.15 The Sarbanes-Oxley Act established the PCAOB under the supervision of the SEC to set auditing, quality control, ethics, independence, and other standards relating to the audits of public companies. The PCAOB has the authority to set standards governing the audits of public companies only; the AICPA continues to have the authority to set standards governing the audits of nonpublic companies and has actively developed and issued standards after the establishment of the PCAOB. This *Guide* incorporates guidance contained within AICPA standards. [This *Guide* is not intended to provide compliance with PCAOB auditing or accounting standards. For audits of public companies or audits of nonissuers performed in accordance with PCAOB standards, auditors can consult *PPC's Guide to PCAOB Audits*. To order, call (800) 431-9025 or visit the PPC website at **tax.thomsonreuters.com**.]

108.16 The AICPA continues to monitor state and regulatory activities and working to limit the effects of Sarbanes-Oxley on nonpublic company auditors. Since the state legislative and regulatory environment continues to evolve regarding the adoption of rules similar to those of the Sarbanes-Oxley Act for nonpublic companies, auditors need to be alert for developments in their jurisdictions that may impact their firms or clients. Firms can obtain additional information on activities related to Sarbanes-Oxley on the AICPA's website. Information on legislative, regulatory, or executive branch proposals at the state level is available at **www.aicpa.org/Advocacy/State/Pages/State.aspx** and general information about the Sarbanes-Oxley Act is available at **www.aicpa.org/Advocacy/Issues/Pages/Section404bofSOX.aspx**. For information on activities of the PCAOB, including registration of firms, standards, inspection, and enforcement, visit its website at **www.pcaobus.org**.

108.17 **Independence**

In accordance with Section 36 of the Federal Deposit Insurance Act and Part 363 of the FDIC's regulations, all financial institutions with total assets of $500 million or more must comply with the SEC's auditor independence requirements. As discussed at paragraphs 202.34 and 204.3, financial institutions with total assets of $500 million or more must also comply with the PCAOB's auditor independence requirements. To the extent that any of the rules within any one of these independence standards (AICPA, SEC, and PCAOB) is more or less restrictive than the corresponding rule in the other independence standards, auditors must comply with the most restrictive rule. One provision of Sarbanes-Oxley further defines auditor independence issues by restricting the nonaudit services an audit firm may provide to public company audit clients, including prohibitions against bookkeeping or other services related to the accounting records or financial statements of the client; the internal audit function; the design and implementation of financial information systems; appraisal, valuation, or actuarial services; and management or human resources services. [21] Certain nonaudit services, including most tax services, may continue to be provided, but they must be approved in advance by the client's audit committee. The changes in the SEC's independence requirements as a result of Sarbanes-Oxley affect institutions subject to FDICIA requirements, whether public or not.

108.18 **Requirements for All Entities**

While the majority of the Sarbanes-Oxley Act directly affects only public companies and their auditors, it is important to note that there are two provisions of Sarbanes-Oxley that apply to all corporate entities, including financial institutions of all sizes. First, it is illegal for any corporate entity to punish whistleblowers or retaliate against any employee who reports suspected cases of fraud or abuse. Second, it is a crime to alter, cover up, falsify, or destroy any document that may be relevant to an official investigation.

108.19 **Regulatory Requirements**

The federal banking regulators have issued guidance to insured depository institutions about selected provisions of Sarbanes-Oxley related to corporate governance, audits, and reporting requirements. That guidance (FIL-17-2003) is intended to answer questions about the applicability of those portions of Sarbanes-Oxley to insured depository institutions supervised by the FDIC, based on whether they are public companies or subsidiaries of public companies, nonpublic companies with $1 billion or more in total assets (subject to the reporting requirements of FDICIA), or nonpublic FDIC-supervised banks with less than $500 million in total assets.

108.20 The applicability of Sarbanes-Oxley to institutions with $500 million or more in total assets is discussed in an attachment to the FIL. Another attachment to the FIL presents a detailed summary of selected provisions of Sarbanes-Oxley that the FDIC believes are relevant to FDIC-supervised banks with less than $500 million in total assets that are not public companies. These sound corporate governance practices are not mandatory for smaller, nonpublic institutions; however, the FDIC recommends that each institution consider implementing them to the extent feasible given its size, complexity, and risk profile.

108.21 FIL-17-2003 can be accessed on the FDIC's website at **www.fdic.gov**. Also, the AICPA's website at **www.aicpa.org** includes information related to Sarbanes-Oxley implementation and the PCAOB.

108.22 Future editions of this *Guide* will be updated to incorporate any changes to accounting and auditing standards and the standards-setting process that impact financial institutions.

Credit Union Insurance Stabilization Act

108.23 The Credit Union Insurance Stabilization Act (Stabilization Act) became law on May 20, 2009 and incorporated several provisions of the NCUA's strategy to promote stability in the credit union industry. The Stabilization Act:

- Created a temporary corporate credit union stabilization fund to mitigate stabilization costs.

- Extended the $250,000 insurance ceiling for share and deposit accounts through 2013. [22]

- Provided the NCUSIF the authority to assess premiums over eight years to rebuild the equity ratio in the fund.

- Increased the NCUA regular and emergency borrowing authority levels.

108.24 **NCUA's 2010 Corporate Credit Union Rule**

In addition to the Credit Union Stabilization Act, on September 23, 2010, the NCUA Board took several important actions to resolve ongoing problems with a handful of corporate credit unions (see the discussion beginning at paragraph 904.21 for a discussion of the recent failures of several major corporate credit unions) and to reform the corporate system under a stronger regulatory framework. One of those actions was to finalize major revisions to the NCUA's rule governing corporate credit unions. The final rule establishes a new capital structure, including risk-based capital requirements, to provide corporate credit unions with a stronger capital base. It establishes prompt corrective action (PCA) requirements for corporate credit unions so that the NCUA has the tools it needs to deal with undercapitalized corporate credit unions going forward. It includes new limitations on corporate investments and credit risks, as well as asset-liability management controls, so that high concentrations of the types of investments that caused the corporate crisis will never be permitted again. It provides for greater NCUA oversight and control of corporate Credit Union Service Organization (CUSO) activities to protect against the possibility that systemic risk might migrate from corporate credit unions to their CUSO's. Finally, it amends the existing corporate governance provisions to ensure corporate board members have the necessary background and expertise.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

108.25 On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. Weaknesses in the financial services industry that were believed to have contributed to the recent economic recession resulted in the passage of the Dodd-Frank Act, which represents the biggest change to financial regulation since the Great Depression. The objectives of the Dodd-Frank Act are to (a) lower the systemic risks of the financial system and (b) enhance consumer protections.

108.26 The Dodd-Frank Act contains many provisions that are applicable only to public companies. Discussion of those provisions is beyond the scope of this *Guide*. (*PPC's Guide to PCAOB Audits* contains various discussions on provisions of the Dodd-Frank Act applicable to public companies.) In addition, the Dodd-Frank Act contains various provisions that affect financial institutions. While the Dodd-Frank Act pertains primarily to large, complex financial institutions, smaller institutions will also be affected as they will now operate within a more complex and expansive regulatory framework. Some of the provisions that will affect many financial institutions are as follows:

- Establishes a new Financial Stability Oversight Council.

- Requires orderly liquidation of systemically important, failing financial companies.

- Requires submission of resolution plans (plans for the rapid and orderly shutdown in the event of material financial distress or failure).

• Establishes minimum leverage and risk-based capital requirements.

• Establishes the Consumer Financial Protection Bureau.

• Amends the Sarbanes-Oxley Act to make to make permanent the Section 404(b) requirement for institutions with market capitalizations under $75 million that had temporarily been in effect by order of the SEC. However, the permanent exemption does *not* affect the requirement for a financial institution with $1 billion or more in assets to include an independent public accountant's attestation report concerning the effectiveness of the institution's internal control structure over financial reporting in its Part 363 Annual Report.

• Substantively reforms over-the-counter derivatives regulation.

• Limits reliance on credit rating agencies.

• Establishes new mortgage protections.

• Eliminates the OTS; transfers its functions and employees to other regulatory authorities.

• Changes the FDIC deposit insurance fund and insurance coverage.

• Establishes a framework for a systemic approach to ensuring the stability of the payment, clearing, and settlement systems.

108.27 Some of these and other provisions of the Dodd-Frank Act are further discussed as applicable throughout the *Guide*. A copy of the full Dodd-Frank Act, as signed by the president, is available at **www.gpo.gov/fdsys/pkg/PLAW-111publ203/html/PLAW-111publ203.htm**. In addition, the AICPA has a section of its website dedicated to developments related to the Dodd-Frank Act at **www.aicpa.org** (click on “Advocacy—Federal Issues”). The FDIC also has a section of its website dedicated to financial regulatory reform at **www.fdic.gov/regulations/reform/index.html**.

---

[18] See the discussion beginning at paragraph 107.7 for subsequent developments related to the deposit insurance funds.

[19] As discussed in paragraph 1602.17, when performing a FDICIA engagement, management's assertion on internal control over financial reporting and the auditor's report regarding management's assertion covers both financial statements prepared in accordance with GAAP and those prepared for regulatory reporting purposes.

[20] SSAE No. 15 (AT 501), *Examination of an Entity's Internal Control Over Financial Reporting That is Integrated With an Audit of its Financial Statements*, is the primary source of authoritative literature for auditors who report on a nonpublic institution's internal controls as required by FDICIA. SSAE No. 15 (AT 501.18) states that the examination of internal control over financial reporting should be integrated with the audit of the financial statements and be planned to accomplish the objectives of both audits simultaneously.

[21] The PCAOB has been given the authority to expand the list of prohibited services.

[22] The insurance limit was permanently increased to $250,000 per individual depositor on September 17, 2010.

END OF DOCUMENT -

109 Sources of Regulatory Information

109.1 The laws, regulations, and other guidance published by the regulatory agencies previously discussed are readily available to financial institution auditors. Most of the laws and regulations referred to throughout this *Guide* begin with the designation “12 USC” or “12 CFR.” These designations refer to Title 12 of either the U.S. Code or the Code of Federal Regulations. Copies of laws and regulations are available from various sources such as the following:

a. Many public and university libraries keep up-to-date copies of the U.S. Code, the Code of Federal Regulations and the *Federal Register*. Before investing in a comprehensive service, the auditor may want to check with local libraries to see if copies are available.

b. There are many comprehensive services that contain up-to-date copies of all laws and regulations affecting financial institutions. Appendix 3A lists some of these services.

c. Many of the laws and regulations affecting financial institutions are available on the Internet. Appendix 3B lists some of these websites.

109.2 In addition to the laws and regulations discussed in the preceding paragraph, each regulatory agency also publishes periodic bulletins as new topics arise or as old topics need additional clarification. The OCC, for example, issues a wide range of bulletins covering accounting, operational, and other matters.

109.3 Keeping up with all of the bulletins issued by the various regulatory agencies can be a challenge, especially since several of them are issued each month. Fortunately, there are a number of ways for financial institution auditors to stay current throughout the year. These methods include the following:

a. Subscriptions from the regulatory agencies.

b. Private services, such as the Bureau of National Affair's *BNA's Banking Report*.

c. Trade associations, such as the Financial Managers Society.

These and other sources of regulatory information are described in Appendixes 3A and 3B.

END OF DOCUMENT -