

Beyond the Basics - Trust Audits

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The views expressed in this presentation are based on my professional experience and do not necessarily reflect the views of Wells Fargo & Company.

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Breakout Session: 10:30 - 11:30 am

Beyond the Basics – Trust Audits



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Take internal auditing to the next level! Go beyond the basics, broadening your scope of coverage and advancing your testing approaches. Consider guidance and best practices, in ensuring you have an effective, comprehensive, and improved audit program.

Agenda

Back to Basics (Trust coverage)

- ▶ Ensuring coverage within cycles/horizons and of the full audit universe
- ▶ Audit project management fundamentals to keep your audit commitments on track
- ▶ In-person (onsite) auditing: selecting locations/areas and determining scope

Beyond the Basics (Trust coverage areas)

- ▶ Determining scope of an audit and considering Risk Control Self Assessment (RCSA)
- ▶ Digital capabilities
- ▶ Third party risk management
- ▶ Asset valuation
- ▶ Remediation
- ▶ Fees
- ▶ Tax

Beyond the Basics (audit techniques)

- ▶ Advanced Analytics
- ▶ Frameworks & Guides (IIA, ISACA, etc.)

Back to Basics

Related guidance/law/regulation highlight:

- ▶ 12 CFR 9.9: Audit of fiduciary activities
- ▶ Appendix D to 12 CFR 30: OCC Guidelines for Heightened Standards
- ▶ 12 CFR 9.13: Custody of fiduciary assets

Topics for Discussion:

- ▶ Maintain a complete and current inventory of processes, products, services, and functions, and assess the risks, including emerging risks
- ▶ Continuous audit system: discrete audit of each significant fiduciary activity at an interval commensurate with the nature and risk of that activity.
- ▶ Audit project management fundamentals: objectives, milestones, target completion dates
- ▶ Include in-person auditing in your coverage plan to observe dual control in processing of investment assets, check receipts & disbursements, and to inspect physical security and file records such as for complaints and advertising.

Risk Control Self Assessment (RCSA)

Beyond the Basics (Trust audit coverage)

Related information and guidance/law/regulation highlights:

- ▶ Appendix D to 12 CFR 30: OCC Guidelines for Heightened Standards
- ▶ Deloitte. “Internal Financial Control over Financial Reporting”, ICAI Seminar, November 2015, https://www.wirc-icai.org/images/material/ICAI_Seminar_IFC%20presentation.pdf

Topics for Discussion:

- ▶ RCSA identified and defined risks and controls may be useful for internal auditors in assurance coverage engagements
- ▶ Are control activities well described?: frequency, responsible party, activity, source, action taken (FRASA)
- ▶ Are RCSA risks and controls in the audit universe/plan for coverage?

Digital

Beyond the Basics (Trust audit coverage)

Related information:

- International Organization for Standardization. “ISO 9001 Auditing Practices Group Guidance on: Auditing Digital Processes”, September 2020, https://committee.iso.org/files/live/sites/tc176/files/documents/ISO%209001%20Auditing%20Practices%20Group%20docs/Auditing%20General/APG-Digital_Processes.pdf
- Federal Financial Institutions Examination Council. “Authentication and Access to Financial Institution Services and Systems”, August 2021, <https://www.ffiec.gov/press/PDF/Authentication-and-Access-to-Financial-Institution-Services-and-Systems.pdf>

Topics for Discussion:

- Mobile apps. (for smartphones and tablets): authentication
- Disclosures: clear, conspicuous, and agreed to (option to opt out)?
- Are policies, procedures, and requirements defined? Is conformity to requirements tested?
- System integration testing (SIT) and User acceptance testing (UAT)
- Pre-implementation assessments
- What digital capabilities are offered in Trust services (disbursement requests)?

Third Party Risk Management

Beyond the Basics (Trust audit coverage)

Related guidance/law/regulation highlights:

- OCC Bulletin 2020-10: Third-Party Relationships: Frequently Asked Questions to Supplement OCC Bulletin 2013-29
- OCC Bulletin 2013-29: Third-Party Relationships: Risk Management Guidance

Topics for Discussion:

- Interpretation of the term “business arrangement”
- What are some providers to a Trust? case worker services, fiduciary/trust tax services, asset appraisal services, property managers, etc.
- What are some risks and controls related to Trust service providers?

Asset Valuation

Beyond the Basics (Trust audit coverage)

Related guidance/law/regulation highlights:

- ▶ OCC Handbook: Unique and Hard-to-Value Assets, August 2012
- ▶ OCC Handbook: Asset Management Operations and Controls, January 2011
- ▶ 12 CFR 9.6: Annual Review of Fiduciary Accounts

Topics for Discussion:

- ▶ Vendor pricing files or interface (marketable and non-marketable assets)
- ▶ Valuation frequency and identification/monitoring/measuring (variance analysis)
- ▶ Hard-to-Value Assets
- ▶ Schedule RC-T

Client Remediation

Beyond the Basics (Trust audit coverage)

Related guidance/law/regulation highlights:

- ▶ State Laws - The calculation of damages, including compensation for loss of use of the damage amount, is governed by state law.

Topics for Discussion:

- ▶ How are systemic and isolated errors in Trust accounts identified and addressed?
- ▶ How are complaints and claims by a client or beneficiary for breach of a fiduciary duty received?
- ▶ Detection and resolution of issues inherent to a process or system that caused the negative impact to clients.
- ▶ Tax implications
- ▶ What audit coverage of remediation do you have?

Fees

Beyond the Basics (Trust audit coverage)

Related guidance/law/regulation highlights:

- ▶ 12 CFR 9.15(a) - Fiduciary compensation
- ▶ State Laws - *compensation, disclosure, allocation, etc.*
- ▶ OCC Handbook: Conflicts of Interest

Topics for Discussion:

- ▶ Schedules/standard fee setting
- ▶ Disclosures and changes to fees
- ▶ Deviations (custom, waived, flat rate, discounts, etc.)
- ▶ Fee calculation logic
- ▶ Account deduction and/or invoicing

Tax

Beyond the Basics (Trust audit coverage)

Related guidance/law/regulation highlights:

- ▶ 26 CFR 1.6012-3 Returns by fiduciaries
- ▶ OCC Handbook: Asset Management Operations and Controls, January 2011
- ▶ State fiduciary income tax return filing requirements for applicable trusts vary

Topics for Discussion:

- ▶ Preparation of fiduciary income tax returns
- ▶ Federal and state withholdings
- ▶ Trust Form 1041
- ▶ Estate Form 8971 & 706
- ▶ Tax refunds

Advanced Analytics

Beyond the Basics (audit techniques)

Related information:

- ▶ Institute of Internal Auditors, Global Technology Audit Group. “Continuous Auditing: Coordinating Continuous Auditing and Monitoring to Provide Continuous Assurance”, IIA, January 2019, www.theiia.org/en/content/guidance/recommended/supplemental/gtags/gtag-continuous-auditing/
- ▶ Wolters Kluwer. “5 benefits of data analytics for internal audit”, October 2021, <https://www.wolterskluwer.com/en/expert-insights/5-benefits-of-data-analytics-for-internal-audit>

Topics for Discussion:

- ▶ Analytics software and auditor training
- ▶ Continuous auditing: control assessment & risk assessment
- ▶ Analyzing patterns & identifying anomalies
- ▶ Examine entire dataset (100% populations)
- ▶ Example Optical Character Recognition (OCR) capabilities: trust document reviews

Frameworks & Guides

Beyond the Basics (audit techniques)

Related information:

- ▶ Federal Deposit Insurance Corporation (FDIC). “Trust Examination Manual”, Last updated July 2022, <https://www.fdic.gov/regulations/examinations/trustmanual/>
- ▶ The Institute of Internal Auditors. “International Professional Practices Framework”, IIA, 2017, www.theiia.org/en/standards/international-professional-practices-framework/
- ▶ ISACA. “Information Technology Audit Framework (ITAF)”, ISACA, October 2020, www.isaca.org/why-isaca/about-us/newsroom/press-releases/2020/isaca-updates-it-audit-framework-itaf

Topics for Discussion:

- ▶ **FDIC Trust Examination Manual:** reference on trust concepts, principles, common and statutory law, and regulations
- ▶ **IIA International Professional Practices Framework:** core principles for the professional practice of internal auditing
- ▶ **ISACA Information Technology Audit Framework:** standards and recommended best practices to follow during IT audit and assurance engagements

Key Takeaways

Internal Audit coverage of Trust:

- ▶ Include in-person (onsite) coverage as a portion of your annual audit plans
- ▶ Always keep your audit universe current, updating processes, risks, controls, etc., based on changes in the business and emerging risk
- ▶ Review regulatory reform, common and statutory law updates, and regulatory guidance in planning/scoping trust audit engagements
- ▶ Improve upon scope and test attributes from the prior audit, ensuring most relevant and current audit coverage
- ▶ Adopt analytics to improve audit coverage and productivity
- ▶ Explore frameworks and guides on auditing to improve efficiency and effectiveness in coverage