

# Building an Internal Audit Function From the Ground Up



Presented By:

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- **Barry Lucas** - Internal Auditor, Desco FCU (Ohio)

# Agenda

- Introductions
- What is Internal Audit?
- Where Do I Start?
- Who Should I Interact With?
- What Do I Audit?
- What and How Do I Report?
- With Whom Do I Meet and When?

# Your Presenters

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# What is Internal Audit?

## ▶ *Definition*

Internal Auditing is an **independent, objective** assurance and consulting activity designed to **add value and improve operations.**

Internal Audit helps the Credit Union accomplish its objectives by bringing a **systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.**



# What is Internal Audit?

- Define the roles and responsibilities
  - Audit (Assurance Services)?
  - Compliance?
  - Fraud?
  - Risk Management?
  - Consulting?



# What is Internal Audit?

## ➤ Independent and Objective

- Reporting Lines?



# What is Internal Audit?

## ➤ Authorities

Internal Audit's purpose, authority and responsibility must be formally defined in an *internal audit charter*, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards (STD 1000)

# Where Do I Start?

## ➤ Charter Documents

- Supervisory Committee
- Internal Audit





# Relationships

## ➤ Who does Audit interact with?

- Board of Directors
- Supervisory Committee
- Management
- Staff
- Examiners
- External Auditors



# What Should Be Audited?

## ➤ Audit Universe

The audit universe is the sandbox in which internal auditors play. It represents all things (lines of business, products, services, subsidiaries, third party vendors, and processes) that are considered “auditable” by internal audit.



# What Should Be Audited?

## ➤ Internal Audit Plan

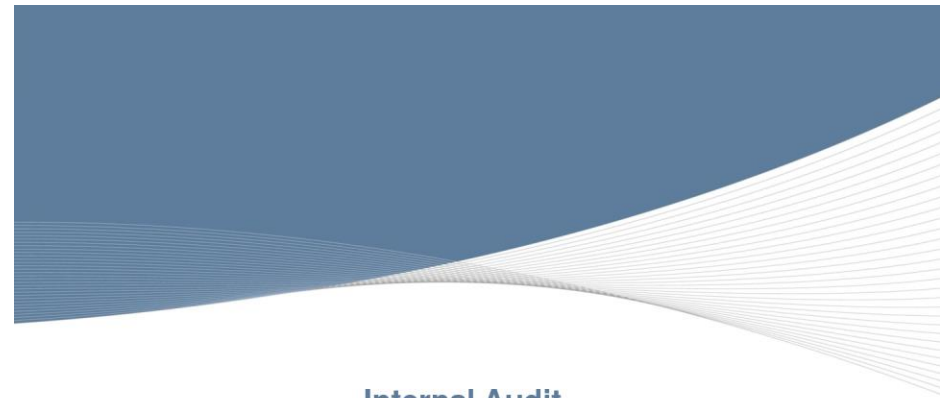
Internal Audit must establish risk-based plans to determine Internal Audit's priorities, consistent with the Credit Union's goals. [STD 2010]



# What Should Be Audited?

## ➤ Internal Audit Plan

Internal Audit must develop and document a plan for each audit including the audit's objectives, scope, timing and resource allocations [STD 2200]



**Internal Audit  
Risk Assessment and Proposed Internal Audit  
Plan**

*(Month, Day), (year)*

# What Should Be Audited?

## ➤ Risk Assessment

Internal Audit's audit plan must be based on a documented risk assessment, undertaken at least annually [STD 2010.A1]



# Audit Reports and Workpapers?

## ➤ *The who, what, when, and how?*

Internal Auditors must communicate the results of the audit. [STD 2400]



# Audit Reports and Workpapers?

- ***Who?***
  - ***Board***
  - ***Supervisory Committee***
  - ***Executive Management***
  - ***Department Management***



# Audit Reports and Workpapers?

## ➤ *What?*

- *Area Overview?*
- *Scope of Work?*
- *Audit Rating?*
- *Audit Findings?*
  - *Risk and Control Deficiencies?*
  - *Operational Inefficiencies?*
  - *Cost Reduction Opportunities?*
  - *Compliance Infractions*
- *Recommendations?*
- *Comments for Discussion?*





# Audit Reports and Workpapers?

## ➤ *When?*

### ➤ *To Management?*

- *Prior to Exit – Draft*
- *Subsequent to Exit – Final*



### ➤ *To Supervisory Committee?*

- *Subsequent to Receipt of Management Response*

### ➤ *To Board of Directors?*

- *Subsequent to Committee Acceptance and/or Approval*

# Audit Reports and Workpapers?

## ➤ *How?*

- *In-person Discussion*
- *Formal Presentations*
- *Written Reports*
  - *Synopsis*
  - *Executive Summary*
  - *Full Report*



# Audit Reports and Workpapers?

## ➤ *Audit Workpapers*

- Audit workpapers are the documents which record all audit evidence obtained during financial statements auditing, internal management auditing, information systems auditing, and investigations. Audit working papers are used to support the audit work done in order to provide assurance that the audit was performed in accordance with the relevant auditing standards.



# Audit Reports and Workpapers?

## ➤ *Audit Workpapers*

➤ *Paper?*

➤ *Paperless?*

		Yes	No	Comments
Step 1.	<b>Advertising – Deposit Products</b>			
Step 1.01	Does the page refer to any type of deposit product? If the answer is "No," proceed to Step 2.			
	Regulation DD - Truth in Savings (12 CFR 230)			
Step 1.02	Is the content of this page accurate and not deceptive or confusing? (12 CFR 230.8(a))			
Step 1.03	Are the terms "free," "no cost," or "fees waived" used? If the answer is "No," then proceed to Step 1.05.			

# Supervisory Committee Meetings

- Frequency?
- Attendees?
- Agenda?



- Food? (just kidding, but important!)



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***The End !!!!***