

# The Ins and Outs: Audits Under FDICIA

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# Objectives

- Overview of Internal Controls over Financial Reporting (ICFR)
- Details of FDICIA (SAS 130)
- Introduction to the 2013 COSO Framework
- Steps to prepare for implementation
- Audit evidence: entity level and process level controls
- Common pitfalls



# What is ICFR?

*A process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with the applicable financial reporting framework.*



# What is an audit of ICFR?

*An audit of the design and operating effectiveness of an entity's ICFR.*



# ICFR

**What is the guiding standard by which we perform our audits of ICFR?**

*Statement on Auditing Standards (SAS) 130 An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of the Financial Statements*

**When is an audit of ICFR required?**

- *Non-public banks with >\$1 billion in assets, under FDICIA (Part 363)*
- *Public banks (unless non-accelerated filer with <\$75 million in public float), under SOX 404(b)*



# SAS 130 - Requirements

- Management acknowledgements
- Risk assessment
- Considerations of fraud risk
- Internal audit function
- Materiality



# SAS 130 – Top-Down Approach

## What is a top-down approach?

- Entity-level controls
- Components of ICFR
- Period-end financial reporting process
- Identifying significant transaction classes, account balances, and disclosures
- Understanding likely sources of misstatement
- Selecting controls to test





# ICFR Reporting

- Identify deficiencies and determine significance to ICFR
- Consider subsequent events
- Evaluate management's report
- Obtain written representations
- Communicate ICFR-Related Matters
- Report on ICFR





# COSO Framework

**What is COSO and why do we reference it so often in audits of ICFR?**

Provides suitable and available criteria against which management may evaluate and report on the effectiveness of the entity's ICFR



# COSO Framework – The Cube



# COSO Framework - Principles

## Control Environment

1. The entity demonstrates a commitment to integrity and ethical values.
2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
4. The entity demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
5. The entity holds individuals accountable for their internal control responsibilities in the pursuit of objectives.



# COSO Framework - Principles

## Risk Assessment

6. The entity specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
7. The entity identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
8. The entity considers the potential for fraud in assessing risks to the achievement of objectives.
9. The entity identifies and assesses changes that could significantly impact the system of internal control.



# COSO Framework - Principles

## Control Activities

10. The entity selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
11. The entity selects and develops general control activities over technology to support the achievement of objectives.
12. The entity deploys control activities through policies that establish what is expected and procedures that put policies into place.



# COSO Framework - Principles

## Information & Communication

13. The entity obtains or generates and uses relevant, quality information to support the functioning of internal control.
14. The entity internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
15. The entity communicates with external parties regarding matters affecting the functioning of internal control.



# COSO Framework - Principles

## Monitoring Activities

16. The entity selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
17. The entity evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.





# How to Prepare

## First Step

- Are your risk assessment, oversight activities, and planned or in-place controls covering the principles for each of the five component areas?

## Vetting Process

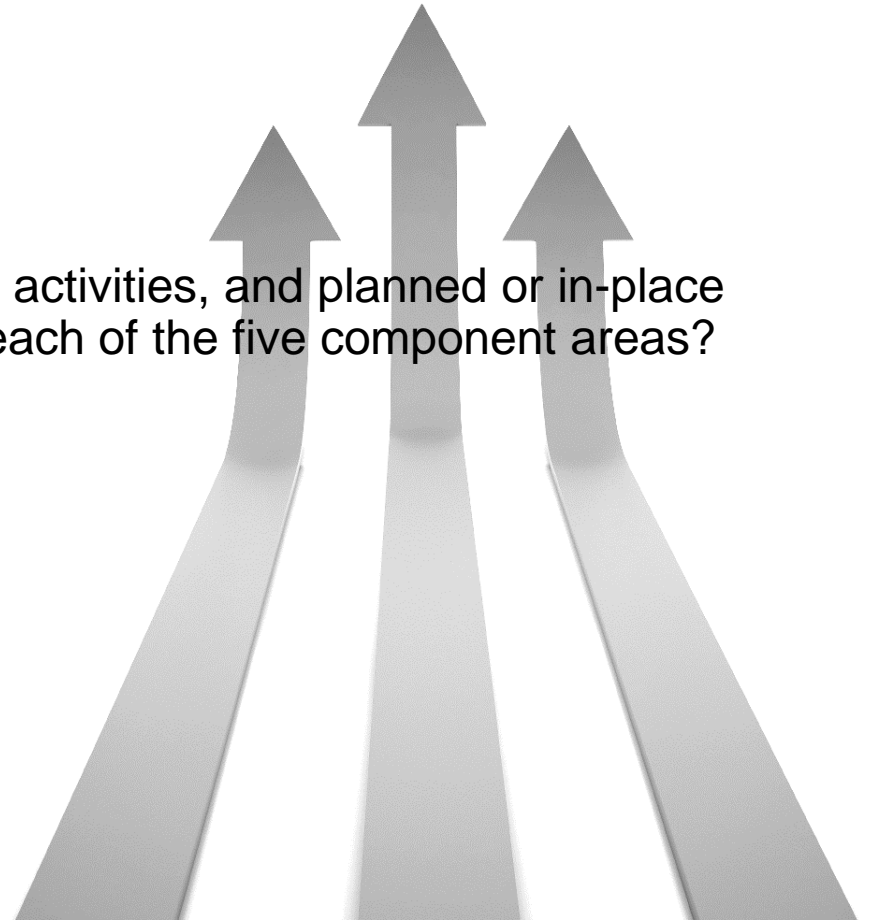
- Risk Assessment
- Fraud Risk Identification

## Meetings and Discussions

- Internally and Externally

## Documentation

## Control Testing



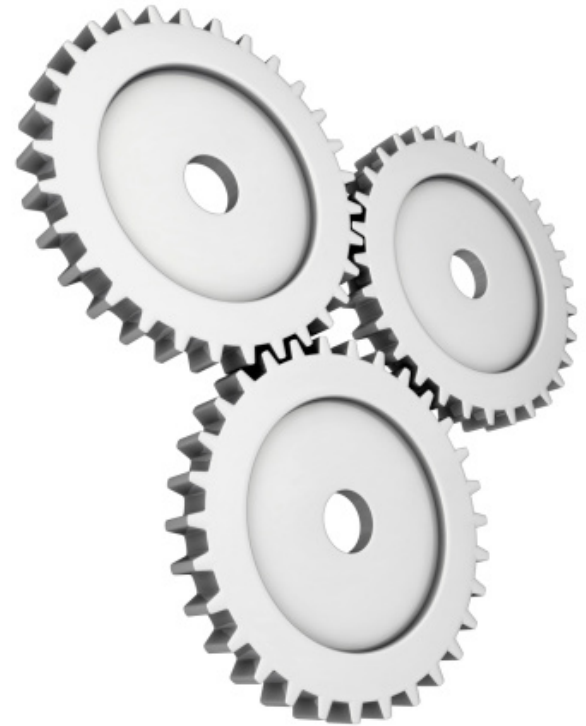
# Audit Evidence: Entity Level Controls

## Control Environment

- Gather policies in place
- Audit Committee and Board involvement
- Hiring and Retaining personnel

## Risk Assessment

- Enterprise Risk Management Policy
- Business Continuity Plan
- Cybersecurity Risk Assessment
- Fraud Risk Assessment



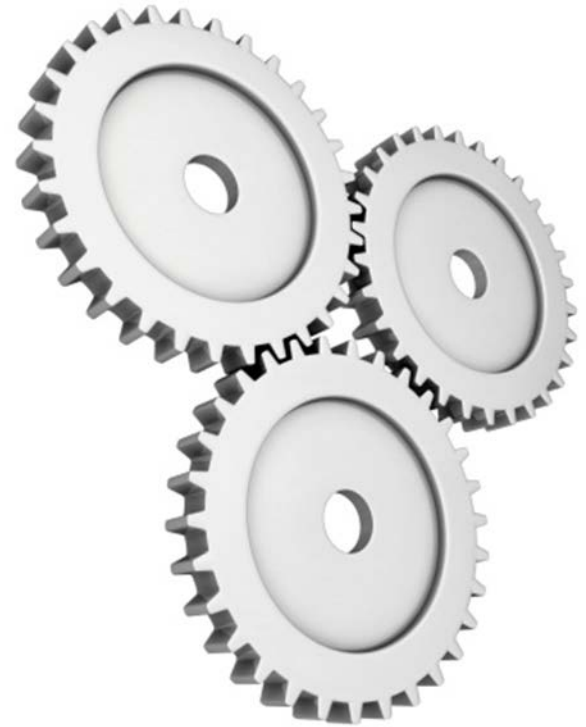
# Audit Evidence: Entity Level Controls

## Information and Communication

- Policy Discussion
- Board Governance Policy
- Committee Charters
  - Member Responsibilities

## Monitoring Activities

- Key Controls
- Control Exception Tracker



# Audit Evidence: Process Level Controls

## Financial Reporting

### Significant Audit Areas

- Investments
- Loans
- Allowance for Loan Losses
- Deposits

### Other Areas

### Information Technology



# ICFR Matrix Headings

Sort

Control  
Group

Control ID

Control  
Description

Owner  
Operational

Owner-  
Development

Frequency

Sampling

To Do Date

Performance  
Evidence

Performance  
Rating

Test  
Procedures

Financial  
Reporting  
Control Risk

Risk Analysis



# Sample Sizes

- Minimizes risk of sampling error
- Frequency of control
- Maintain consistent sample sizes  
Risk levels (high vs. low)



# Sampling Guidance

## LEVEL OF EFFECTIVENESS NEEDED & POPULATION SIZE

Expected # of Deviations	High (5-7% Tolerable Rate)			Moderate (8-10% Tolerable Rate)		
	<100	100-200	>200	<100	100-200	>200
0	30	35	40	20	22	25
1	45	50	60	20	22	25
2	a	a	90	a	a	60

*a - Sampling would not be efficient in this situation because the sample size would comprise a large portion of the total population.*

CONTROL FREQUENCY	SAMPLE SIZE
Quarterly (4)	2
Monthly (12)	2-4
Semimonthly (24)	3-8
Weekly (52)	5-9



# Evaluating Exceptions

## High Risk Audit Area

- Increase sample size
- Isolated Incident
- Common Occurrence
- Documentation Issue
- Control Issue

## Low Risk Audit Area

Potential effect on  
Financial Reporting



## Recommendations

Control Exception Tracker





# Control Exception Tracker

- One Point of Contact for Tracking Exceptions
- Track All Details of Exceptions in One Place

## GENERAL INFORMATION ABOUT THE IDENTIFIED ISSUE

Date or Period	Control Reference	Source	Department	Control Description	Auditable Evidence	Issue Detail
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## ASSESSMENT OF IDENTIFIED ISSUE

Isolated Incident	Control Deficiency	Significant Deficiency	Material Weakness	Assessment Rationale
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# Common Pitfalls

## Missed Documentation

### Entity Level Controls

- Corporate Governance / Tone at the Top
- Risk Assessment of Financial Reporting
- Regulation O
- Board and Audit Committee Self-Assessment
- Hiring Retention Policies

### Financial Reporting Controls

- Review of Financial Statements
- Review of New Accounting Pronouncements
- Review of Allowance for Loan & Lease Loss
- Review of Assumptions and Actuary Report
- Budget to Actual Reviews
- Yield and Cost of Funds Reviews

## Spreadsheet Controls

- Allowance for Loan & Lease Loss
- ICFR Matrix



# Questions?



# Contact Us



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