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The Audit Committee: Help Them Help You

By Sal A. Inserra, CPA

An effective audit committee is a critical component of a financial institution's corporate governance, but such a committee is not the result of an accident. It is formed through a deliberate process that includes appointing qualified individuals, providing adequate resources and offering other appropriate support.

The Right People

Every effective team begins with an effective leader to serve as chairperson. To fill that role for the audit committee, the board must select an independent director who, at a minimum, possesses an understanding of U.S. generally accepted accounting principles and the importance of internal controls. The audit chairperson should have a sense of the pressure points where the institution might be particularly vulnerable to fraud. Often, board members are business owners, managers in other organizations, or educators and will need help to acquire the requisite skill sets to lead or participate on the audit committee.

The Right Resources

With accounting standards, regulatory compliance requirements, and risk factors continuing to change at a rapid pace, boards need to commit time and money to keep the chairperson and the audit committee up to speed. New accounting rules revisit some long-standing techniques in order to establish a more transparent level of reporting. Also, the introduction of the Consumer Financial Protection Bureau (CFPB) added complexity to regulatory compliance, and a bank that runs afoul of the new rules could suffer substantial harm to its reputation. In addition, technology and customer demands for access to services through nontraditional channels add risks never contemplated 10 years ago.

To help the audit committee stay current, the board should provide it access to outside training on these and other relevant areas. Boards also can obtain valuable guidance by monitoring the activities at other banks. Their publicized experiences (for example, in alerts from the Office of the Comptroller of the Currency) can serve as a road map of areas that require regular attention from the audit committee. Audit committee members must be intimately familiar not just with their own bank – but also with the banking industry as a whole.

Contact Information

Sal Inserra is a partner with Crowe Horwath LLP and can be reached at +1 404 442 1608 or sal.inserra@crowehorwath.com.

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The Right Support

Although it is management's responsibility to establish processes and controls to manage risk, it is the audit committee's responsibility to confirm that such processes and controls are established and monitored. The internal audit group, already charged with risk assessment and monitoring, can play an important role in satisfying this responsibility.

As with the audit committee, the success of internal audit hinges on the training and experience of the team members and on the provision of necessary resources. The importance of these elements increases significantly when the bank's management is responsible for reporting on the design and effectiveness of the internal controls over financial reporting, as is required of publicly traded companies, because management must attest that controls are well-designed and operating effectively and is held responsible if its attestation proves false.

Bear in mind that a bank's growth often is not mirrored in changes in internal audit. As a result, issues can go unidentified. Even if new issues are appropriately identified, the review cycles will be prolonged if internal audit has insufficient personnel. When the board looks strategically at the organization, it must align the expansion of the business with the risk mitigation process—including internal audit resources. Even the most capable audit committee will prove ineffective without a well-armed internal audit team.

The board also should recognize that its attitude and that of management toward internal audit frequently contributes to its success (or lack thereof). Leadership should address findings on a timely basis, and the board and audit committee should monitor the responsiveness of corrective action, especially for those issues flagged as higher risk. If management is dismissive of findings, and the audit committee or board is disinterested in follow-up, the value of the internal audit role will erode quickly.

The Right Approach

Board members are elected to oversee the activities of their bank, and the audit committee is an integral part of that oversight. It is in the board's—and the bank's—best interest to provide both the audit committee and internal audit with the training and resources necessary to execute their responsibilities.

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