

CHAPTER 2675
DEPARTMENT OF COMMERCE
LOANS, INVESTMENTS, AND PROCEDURES

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FINANCIAL INSTITUTION AUDIT CONTROL POLICIES

2675.2600 INTERNAL AUDIT CONTROL POLICY.

The board of directors of a bank, trust company, or savings bank shall establish a written internal audit control system. Documentation of internal audit procedures performed and the reports shall be maintained by the bank for inspection by the supervisory examiners and by the external auditors. The scope of coverage and effectiveness of the internal audit control system shall be reviewed for adequacy and approved by the board annually. The board shall consider inclusion of recommendations made by supervisory examiners and external auditors in the internal audit control system.

Statutory Authority: *MS s 45.023; 46.01*

History: *12 SR 623*

2675.2610 ANNUAL AUDIT REPORT.

Subpart 1. **Contents.** The annual audit report made under the direction of the board of directors pursuant to Minnesota Statutes, section 48.10, must include, as a minimum:

A. a review of the adequacy of the internal control system and a test check to determine that control procedures are being followed;

B. a review to determine that policies are in place, are adequate, and are being implemented;

C. confirmation of assets through a sample positive or negative verification and inspection of assets held at the bank;

D. confirmation of deposits through a sample positive or negative verification;

E. a review of all fixed assets, other real estate, and equity accounts since the last audit and recordation of board approval of transactions involving these accounts;

F. a review of income, expense, and related accrual accounts since the last audit;

G. a review of all general ledger accounts to determine their balanced condition, prompt reconciliation and appropriateness of reconciling items, and account makeup;

H. a review of delinquent loans and collection action taking place;

I. a review of the allowance for loan loss account;

J. a review of charge off loans, including loan files and notes;

K. a test check of loan files for documentation and approvals required by loan policy;

L. review of the electronic data processing systems and procedures if applicable;

M. review of significant activity in employee and officer accounts (depository and loan) for propriety and compliance with bank policies and regulations; and

N. review of off balance sheet items including letters of credit.

Subp. 2. **Quarterly progress report.** The board shall include in its meeting agenda, at least quarterly, a review of the progress on the completion of the annual audit report by the individual directing the internal audit.

Subp. 3. **Preparation.** A written report of the annual audit must be prepared and must include the scope of audit including the size of the samplings taken. The report must summarize the findings and make recommendations for improving conditions, where appropriate.

Subp. 4. **Transmittal.** The written report shall be transmitted to the board of directors within 30 days of completion of the annual audit.

Subp. 5. **Board response.** The board shall prepare a written response on the findings and recommendations contained in the report and submit the response, the report, and its findings and recommendations to the Department of Commerce, Division of Financial Examinations, within 60 days of receipt of the audit report.

The board response shall be filed with the annual audit report as part of the bank's permanent records.

Statutory Authority: *MS s 45.023; 46.01*

History: *12 SR 623*

2675.2620 QUALIFICATIONS OF EXAMINING AUTHORITY.

Subpart 1. **Board to specify examining authority.** The board shall have the discretion to determine the method of examination used to meet the requirements of this part provided the examination is accomplished through one of the methods in subparts 2 to 5.

Subp. 2. **Examining committee.** If the requirements of this part are to be accomplished in whole or in part by an examining committee appointed by the board, the annual audit must be completed by qualified directors or their appointees who are in fact reasonably independent. A director or appointee serving as a member of the examining committee will not be considered independent if:

A. the person is closely related to active officers or employees of the bank;

B. the person has outstanding loans with the bank subject to criticism by state or federal supervisory agencies; or

C. the person has other unusual relationships or affiliations with the bank that raise the question of independence.

Subp. 3. **Internal auditor.** If the requirements of this part are to be accomplished in whole or in part by an internal auditor, the examination must be completed by a qualified internal auditor who is in fact reasonably independent. An internal auditor will not be considered independent if:

A. the person is employed or accountable to anyone other than the board of directors, and salary and annual bonus are not set by the board;

B. the person's duties within the bank are not confined entirely to bank auditing;

C. the person has any proprietary interest in any partnership, firm, or corporation which controls the bank, directly or indirectly;

D. the person has outstanding loans subject to criticism by state or federal supervisory agencies;

E. the person is a member of the immediate family of an officer, director, attorney, or employee for the bank; or

F. the person has other unusual relationships or affiliations with the bank that raise the question of independence.

In banks of less than \$40,000,000 in total assets as of the immediately

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preceding calendar year end, where duties of the internal auditor cannot be confined entirely to bank auditing, the internal auditor will be considered reasonably independent only if someone else audits the areas for which the internal auditor has operational responsibilities. The board is responsible for determining that this degree of internal audit dependence is maintained.

Subp. 4. Certified public accountants or licensed public accountants. If the requirements of this part are to be accomplished in whole or in part by a certified public accountant or licensed public accountant, the audit must be completed by a qualified certified public accountant or a qualified licensed public accountant who is in fact independent. A certified public accountant or licensed public accountant will not be considered independent if:

A. The certified public accountant, licensed public accountant, or any member of a firm performing the audit is connected with the bank as an officer, director, attorney, or employee or is a member of the immediate family of an officer, director, bank attorney, or employee.

B. He or she is the beneficial owner, directly or indirectly, of any of the shares of stock of the bank:

C. He or she has any proprietary interest in any partnership, firm, or corporation which controls the banks, directly or indirectly.

D. The bank under examination has outstanding loans to the certified public accountant, licensed public accountant, partners, principals of the firm, or employees of such a firm who are directly involved in the examination, unless the loans are adequately disclosed in the audit report to the board of directors of the bank. Adequate disclosure includes the name of the borrower, the amount of the loan, the security pledged, and the appraisal or market value of the security at the time of the engagement.

E. He or she makes entries or postings on the books of account or performs any other operating functions for the bank, except functions for which prior approval was requested and obtained in writing from the commissioner of commerce.

F. He or she has other unusual relationships or affiliations with the bank that raise the question of independence.

In circumstances where directors, appointees, or the internal auditor are considered not independent or qualified to perform the annual audit, the board should engage a certified public accountant or licensed public accountant.

Subp. 5. Board of directors. If the requirements of this part are to be accomplished by the board of directors as provided in Minnesota Statutes, section 48.10, the board must number at least five and include at a minimum one outside director.

Subp. 6. Audit by outside parties. At least one annual audit every four years must be completed by outside parties as set forth in subpart 4.

Statutory Authority: *MS's 45.023; 46.01*

History: *12 SR 623*