

1 Department of Commerce

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3 Adopted Permanent Rules Relating to Financial Institution Audit

4 Control Policies

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6 Rules as Adopted

7 2675.2600 INTERNAL AUDIT CONTROL POLICY.

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

18 2675.2610 ANNUAL AUDIT REPORT.

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

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

25 B. a review ~~of-board~~ to determine that policies for
26 ~~development-and-a-test-check-to-determine-that-policies~~ are in
27 place, are adequate, and are being followed implemented;

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

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

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

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

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

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

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

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

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

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

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

18 N. review of off-balance sheet items including
19 letters of credit.

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

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

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

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

1 the audit report.

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

4 2675.2620 QUALIFICATIONS OF EXAMINING AUTHORITY.

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

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

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

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

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

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

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

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

35 C. the person has any proprietary interest in any

1 partnership, firm, or corporation which controls the bank,
2 directly or indirectly;

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

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

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

10 In banks of less than \$40,000,000 in total assets as of the
11 immediately preceding calendar year end, where duties of the
12 internal auditor cannot be confined entirely to bank auditing,
13 the internal auditor will be considered reasonably independent
14 only if someone else audits the areas for which the internal
15 auditor has operational responsibilities. The board is
16 responsible for determining that this degree of internal audit
17 dependence is maintained.

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

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

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

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

36 D. The bank under examination has outstanding loans

1 to the certified public accountant, licensed public accountant,
2 partners, principals of the firm, or employees of such a firm
3 who are directly involved in the examination, unless the loans
4 are adequately disclosed in the audit report to the board of
5 directors of the bank. Adequate disclosure includes the name of
6 the borrower, the amount of the loan, the security pledged, and
7 the appraisal or market value of the security at the time of the
8 engagement.

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

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

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

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

25 Subp. 6. **Audit by outside parties.** At least one
26 ~~examination~~ annual audit every four years must be completed by
27 outside parties as set forth in subpart 3 4.