

Regulatory Issues Affecting Internal Audit

IIA Meeting

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Agenda

- Regulatory Reform Update
- Common Regulatory Issues
- Common Internal Audit Weaknesses
- Hot Topics for Internal Audit in 2010
- What Does This Mean for Your Internal Audit Department?
- Questions and Answers



Regulatory Reform Update

Key Players

- Barney Frank, Chairman of the House Financial Services Committee
- Christopher Dodd, Chairman of the Senate Banking Committee
- Timothy Geithner, Secretary of the Treasury
- The current heads of the federal financial services regulators (FRB, OCC, OTS, FDIC, NCUA, SEC, FINRA and CFTC) plus the State banking and insurance regulators
- The current and prospective regulatees: bank and nonbank financial institutions and rating agencies
- Countless trade associations, lobbyists, academics, economists and others with a view on what needs to be done



Regulatory Reform Update

Wall Street Reform and Consumer Protection Act

- Financial Stability Improvement Act
- Corporate and Financial Institution Compensation Fairness Act
- Over-the-Counter Derivatives Markets Act
- Consumer Financial Protection Agency Act
- Capital Markets – Hedge Fund Registration
- Federal Insurance Office



Regulatory Reform Update

The Wall Street Reform and Consumer Protection Act Highlights

- Consumer Protection - Creates the Consumer Financial Protections Agency (CFPA)
- Financial Stability Council – Creates an inter-agency oversight council that will identify and regulate financial firms that jeopardize the entire financial system
- Dissolution Authority and Ending “Too Big to Fail”- Establishes an orderly process for dismantling large, failing financial institutions
- Executive Compensation – Gives shareholders a say on executive compensation
- Investor Protections – Strengthens the SEC’s powers to better protect investors and regulate the nation’s securities markets



Regulatory Reform Update

Highlights of The Wall Street Reform and Consumer Protection Act:

- Derivatives – Regulates the over-the-counter derivatives marketplace
- Mortgage Reform and Anti-Predatory Lending – Establishes “simple” standards for all home loans, institutions must ensure that the borrowers can repay the loans they sold
- Reform of Credit Rating Agencies – Addresses credit rating agencies’ inefficiencies, transparency, and conflicts of interest
- Hedge Fund, Private Equity and Private Pools of Capital Registration – Requires almost all advisers to private pools of capital to register with the SEC
- Office of Insurance – Creates a Federal Insurance Office that will monitor all aspects of the insurance industry



Regulatory Reform Update

Highlights from Senator Dodd's Restoring American Financial Stability Act :

- Consumer Financial Protection Agency
- Ends Too Big to Fail
- Protects Against Systemic Risks
- Single Federal Bank Regulator
- Executive Compensation and Corporate Governance
- Closes Loopholes in Regulation
- Protects Investors
- Enforces Regulations on the books



Regulatory Reform Update

Highlights from Senator Dodd's Restoring American Financial Stability Act :

- Consumer Financial Protection Agency – creates an independent “watchdog” agency to ensure American consumers get clear and accurate information for mortgages, credit cards, and other financial products
- Ends Too Big to Fail – Prevents excessively large or complex financial companies from bringing down the economy
- Protects Against Systemic Risks – Creates an independent agency with a board of regulators to identify and address systemic risks posed by large and complex companies
- Single Federal Bank Regulator – Eliminates the convoluted systems of multiple federal banks regulators to increase accountability



Regulatory Reform Update

Highlights from Senator Dodd's Restoring American Financial Stability Act :

- Executive Compensation and Corporate Governance – Provides shareholders with a say on pay and corporate affairs
- Closes Loopholes in Regulation – Eliminates loopholes that allow risky and abusive practices to go unnoticed and unregulated
- Protects Investors – Provides tough new rules for transparency and accountability from investment advisors, financial brokers and credit rating agencies
- Enforces Regulations on the Books – Strengthens oversight and empowers regulators to aggressively pursue financial fraud, conflicts of interest and manipulation



Regulatory Reform Update

Status of the Wall Street Reform and Consumer Protection Act

- Passed by the House Financial Services Committee on December 2nd
- Scheduled for full House review on December 9th
- Expected House vote on December 11th
- If passed by the House, the bill we go to the Senate for a vote (first quarter of next year)

Status of the Restoring American Financial Stability Act

- Still in draft, not a formal bill yet

Both bills are expected to face tough opposition from Republicans and representatives from the financial services industry



Common Regulatory Issues

Capital Markets Regulatory Issues

- Supervisory Oversight
- Policies and Procedures
- Anti-Money Laundering
- Data Security and Privacy
- Business Communication (*e.g.*, advertisements)
- Business Continuity Planning
- Research Disclosures
- Internal Audit Deficiencies



Common Regulatory Issues

Banking Regulatory Issues

- Governance
- Anti-Money Laundering
- Capital Measurement and Reporting
- Fair Value Requirement Compliance
- Liquidity Management
- Credit Quality and Loan Loss Reserve Adequacy
- Loan Modification
- Mortgage Underwriting and Disclosure
- Internal Audit Deficiencies



Common Internal Audit Weaknesses

- Lack of depth (*e.g.*, scope, sampling)
- Lack of independence (*e.g.*, reporting lines)
- Lack of supporting documentation
- Issue resolution and tracking
- Follow up on prior issues
- Insufficient resources
- Timeliness of audit completion
- Audit Committee oversight
- Reporting criteria (*e.g.*, inclusion of issues)
- Lack of adequate Audit coverage



Hot Topics for Internal Audit in 2010

- Fraud – incorporating fraud risk into your audits
- IT Controls – data security and privacy controls
- Compliance – new regulatory requirements and changes in business objectives
- Risk Management – overall effectiveness, risk assessment activities and timeliness of identification of and response to issues
- Financial Reviews – asset valuation, inventories, liquidity, revenues, etc.
- Intercompany Accounts and Affiliate reviews – reconciliations, transfer pricing, sub-accounts
- Governance – supervisory oversight, policies and procedures
- Compensation – alignment of compensation programs to risk



What Does This Mean for Your Internal Audit Department?

- Implement an enterprise-wide risk management approach to identify/validate specific high risk areas
- Utilize staff efficiently; subject matter experts should be consulted as needed
- More effective training and specialty focus
- Enhance work paper documentation standards
- Increase focus on planning and execution of more detailed reviews



What Does This Mean for Your Internal Audit Department?

- Integration of process and IT audits
- Compliance and Fraud risks should be incorporated into audits
- Increased involvement and transparency with the Audit Committee
- Stay current on regulatory developments and enforcement issues
- Incorporate lessons learned from previous engagements
- Keep open lines of communication with auditees
- Utilize external resources for information gathering and best practices





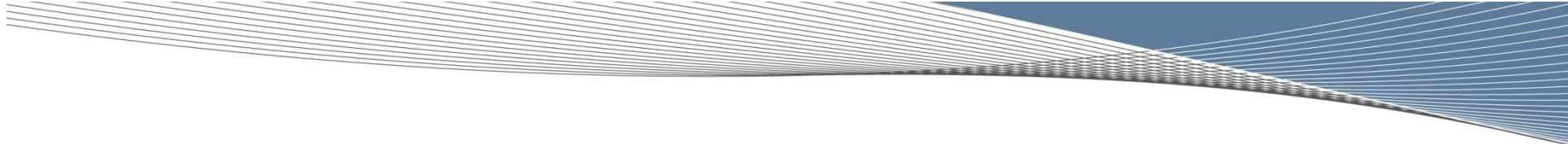
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