

# **Bank Directors Workshop**

## ***Your Bank's Audit Committee***

*Hosted By:*

***National Association of Corporate Directors***

***American Association of Bank Directors***

***April 8, 2008***

***Fort Lauderdale, Florida***

## **Bank Audit Committee**

### *Panel Members*

#### ***Charles J Thayer***

***Chairman: American Association of Bank Directors***

***Charles is Chairman of Chartwell Capital Ltd. He serves as a board member of Louisville Community Development Bank and NACD Florida. He previously served as a board member of Republic Bancshares of Florida, BB&T Bank (Florida), CogenAmerica and Sunbeam Corporation. Prior to organizing Chartwell Capital in 1990 he served as Executive Vice President-Finance of PNC Financial Services(NYSE) and CFO of Citizens Fidelity Bank (NASDAQ).***

#### ***Chris N Trattou***

***Financial Services Audit Partner: KPMG's New York Office***

***Chris has over 25 years of KPMG audit, accounting and transaction experience at major global banks, broker-dealers and community banks. Chris also served a two year assignment at KPMG's National SEC office in NYC.***

#### ***Lauren Ware***

***Assistant Vice President in Community and Regional Bank Supervision:  
Federal Reserve Bank of Richmond***

***Lauren is the officer in charge of the Financial and Supervisory Skills unit and serves as a subject matter expert for market and liquidity risks as they affect community and regional banks. Lauren is a Chartered Financial Analyst and a Certified Fraud Examiner.***

# ***The Bank Audit Committee***

## ***Introduction***

***A Tough Job Any Day – Getting Tougher Every Day***

***Most Members Are Neither CPA's or Bankers***

***The Audit Committee is a Key Part of Your Board's  
Enterprise-Wide Risk Management Policy***

***Primary Objective is Financial & Compliance Oversight***

***> Problem Prevention <***

***When Things Go Wrong the Focus is on the Audit Committee***

***> Problem Oversight <***

## Your Audit Committee - Problem Prevention

- **Committee Charter – It's Your Personal Job Description**
  - ✓ *Describe Your Board Oversight (Not Management) Responsibilities.*
  - ✓ *The Board Sets Policy – Audit Insures Compliance.*
  - ✓ *Document Compliance with Your Charter.*
  - ✓ *Ask Questions!*
- **Management**
  - ✓ *Installs Appropriate Controls For Day-to-Day Activities.*
- **Committee Relationships**
  - ✓ *Chief Executive Officer*
  - ✓ *Finance & Accounting – Your CFO*
  - ✓ *External Audit – Your CPA Firm*
  - ✓ *Internal Audit – In House or Outsource?*
  - ✓ *Loan Review – In House or Outsource?*
  - ✓ *IT/Operations – Your Senior IT/Operations Officer*
  - ✓ *Regulatory Compliance – In House or Outsource?*
- **Executive Sessions**
  - ✓ *Insure Independence of All Information – Trust but Verify!*
  - ✓ *Regular Private Sessions with CFO, CPA, Internal Audit, Loan Review, Operations Officer and Compliance*
  - ✓ *Listen to Your Regulators!*

## **Your Audit Committee - Problem Oversight**

***When Things Go Wrong  
Your Committee's Work Will Multiply!***

- **Bank Regulators – Committee Chair is Frequently the Primary Contact**
  - ✓ *Problem May Result in MOU or C&D Order.*
  - ✓ *C&D Orders Posted on FDIC website.*
- **Bank Legal Counsel (*Director Liability*)**
  - ✓ *Legal Compliance Becomes High Priority*
- **CPA Firm (Shareholder Reports)**
  - ✓ *Financial Statements are Difficult to Finalize – Call Reports & SEC*
  - ✓ *Director Signatures on Call Reports! CEO & CFO on SEC Reports.*
- **Management & Outside Advisors (Problem Resolution)**
  - ✓ *Loan Review & Workout Programs*
  - ✓ *Investment Analysis & Workout Programs*
  - ✓ *Operations Review – Corrective Action for IT/Operational Problems*
  - ✓ *Compliance Review – Corrective Action for CRA, BSA, HMDA, Etc.*
  - ✓ *Special Consultants – “Management Plan”*

## Potential Audit Committee Issues

- **Liquidity**
  - ✓ *Bank Level: Assets, Deposits, Borrowings – Know What You Own & Owe*
  - ✓ *Holding Company Level: Debt Service Requirements & Bank Dividends?*
- **Credit & Loan Review**
  - ✓ *Independent Credit Review? Get the Facts Before Your Next Exam.*
  - ✓ *Not Just the Loan Portfolio – Investments, BOLI, Other Assets?*
- **Loan Loss Reserve Adequacy**
  - ✓ *History is Not a Good Indication of Future Credit Losses*
- **Accounting Principles (Education & Compliance)**
  - ✓ *Fair Value Accounting – Increasing Importance*
  - ✓ *Hedge Accounting – Very Complex*
- **Financial Statement Accuracy**
  - ✓ *CPAs are Subject to the Public Company Accounting Oversight Board*
- **Capital Adequacy**
  - ✓ *Bank Level: Regulatory Requirements*
  - ✓ *Holding Company: Regulatory & Debt Service Requirements*

## **When Problem's Develop**

**Major Problems Are More Than an Audit Committee Issue**

**Your Bank's Biggest Risk is the Significant Amount of Time & Resources the Board & Management Must Devote to "Bad Bank" Problems**

- *Potential Credit & Operating Losses*
- *Increased Regulatory Reporting Burden*
- *Potential Restrictions on Asset Growth*
- *Potential Restrictions on Funding*
- *Potential Requirement for New Capital*
- *Increased Accounting Expense*
- *Increased Consulting Fees*
- *Increased Legal Expense*

**Assign Specific People to the "Bad Bank" – You Need to Fix the Problems**

*> However <*

**Don't Ignore the "Good Bank" – "Majority" of Your Business**

**Make Certain Management Assigns Some of Your Best People to the "Good Bank"**

**Focus on Maintaining Day-to-Day Quality Customer Service!**

***Next***

**Chris will update you on developing accounting issues and your relationship with your bank's CPA firm.**

***Then***

**Lauren will discuss developing regulatory concerns.**

**Following Their Presentations**

**We will be Happy to Answer Your Questions.**

***Thank You!***