

Internal Audit Coverage of Capital Planning

Matthew Frame - Federal Reserve Bank of Philadelphia

Federal Reserve Stress Test Modeling Symposium

October 5, 2017



The views expressed in this presentation are the authors and do not necessarily represent those of The Federal Reserve System or The Federal Reserve Bank of Philadelphia

Background

- SR 15-18 and SR 15-19 established specific expectations for internal audit coverage of capital planning
- Comprehensive internal audit coverage is integral to ensuring a sound internal control framework supporting capital planning
- Heightened focus on internal audit during annual CCAR exercise, HCR program, and other horizontal reviews
- Recent reviews have highlighted supervisory expectations are achievable; however, challenges remain

Supervisory Expectations

- SR 15-18 and SR 15-19 set expectations for the internal audit function, audit plan development, and briefings to management and the board
 - Broader internal audit expectations defined in SR 13-1 should serve as the basis to achieve compliance with SR 15-18 and SR 15-19
- SR 15-19 expectations are tailored and not as detailed or explicit
- Key internal audit expectations for all firms:
 - Evaluate the adequacy of capital planning process and assess the comprehensiveness and effectiveness of risk management and internal controls supporting that process
 - Identify all auditable processes related to capital planning and develop of an audit plan
 - Periodically review all aspects of the internal control framework supporting the capital planning process
 - Review the manner in which deficiencies are identified, tracked, and remediated
 - On an annual basis, report to senior management and the board on the capital planning process to inform recommendations and decisions on the capital plan

Challenges and Observations

- Audit Strategy
- Audit Planning
- Quality of Audit Work
- Audit Reporting
- Policies & Procedures