

ASSESSING THE RISK MANAGEMENT PROGRAM'S EFFECTIVENESS

ASKING CANDID QUESTIONS OF BANK MANAGEMENT

Here are a few examples of questions you might ask bank management about risk management issues:

- The reasons for any pattern in policy exceptions
- Why verbal reports to the board include more, less, or different information than what is in the board packet,
- If the bank uses any types of models, ask whether the models have been validated. If so, when and by whom? And how were they validated?
- If the bank outsources any activities, how does management verify that the vendor is complying with laws and regulations? How does management verify that the vendor is protecting customer information?

For more information, please refer to OCC's guide for directors, "Detecting Red Flags in Board Reports."

CLEANING UP BOARD REPORTS

The reports management provides the board should help directors do the following:

- Evaluate the amount of risk the bank is taking
- Identify and track key performance measures and trends
- Identify any anomalies in the bank's performance
- Determine if management is complying with the board's risk limits
- Assess the adequacy of the bank's risk management processes.

EVALUATING THE QUALITY OF AUDIT AND INTERNAL CONTROL

Perform a self-assessment of the audit committee (or full board, if no audit committee).

Tools available for self-assessment:

- OCC's *Internal and External Audits Handbook*, Appendix H: "Board/Audit Committee Oversight Worksheet"
- Most of the large accounting firms also have self-assessment tools – check their websites
- Industry associations might also be a good resource

Implement an audit continuing education program so you'll have the knowledge you need to fulfill your audit oversight responsibilities, which include:

- Reviewing and approving audit strategies and schedules
- Hiring and firing external auditors
- Making sure the auditors are qualified to audit the bank's specific activities
- Making sure management corrects any problems identified by the auditors

For a more complete list of your responsibilities regarding oversight of audit, please refer to these OCC publications:

- *Internal and External Audits Handbook*
- *The Director's Book*

Reacquaint yourselves with the bank's internal control function.

To evaluate the effectiveness of internal controls, ask yourselves these questions:

- How often does the board receive reports on internal control reviews? Who provides these reports to the board – auditors or bank management? The IC reviews are contained in the audit reports, and should be reported to you by the auditor, not by management.
- How quickly does management correct internal control exceptions?
- What information does the board receive about the internal risk assessment process? Is it adequate?
- Is there a system for testing compliance with conduct or ethics policies?

For a more complete list of issues to consider when evaluating internal controls, please refer to the OCC's *Internal Controls Handbook* and the pamphlet, "Internal Controls – A Guide for Directors."

The board should meet periodically with the audit and internal control staff.

The key things you want to talk with them about are:

- The results of their reviews – to get an overall picture of the control environment
- Any exceptions, and management's response – pay particular attention to any internal control exceptions noted
- Any disagreements the auditors had with bank management about exceptions they noted
- Accounts that don't reconcile
- Any changes in the audit schedule, or any programs areas for which reviews were cancelled or postponed

For additional information on issues to discuss with the audit and internal control staff, please refer to these OCC publications:

- *Internal and External Audits Handbook*
- *Internal Controls Handbook*
- *The Director's Book*

Please note: If you would like printed copies of these documents, you may order them on-line at <http://www.occ.treas.gov/>