



HOW I WORK...

HOUSTON MOORE



The Importance of a Risk-Based Audit Plan

Gone are the days of pulling together an internal audit plan by basing your decision on a rotational schedule, auditable areas that had the most exceptions in the previous year, or what areas may fit into your budget.

No matter the size of your institution, your internal audit plan needs a risk-based approach that evaluates your financial institution's current and future operations—while considering current industry risks and developments. Examiners expect an internal audit plan to include a risk-based approach on how you determined your coverage. Exams are including language as to whether a risk-based plan has been developed with reasonable frequency and depth as well as whether the audit plan has been completed as planned.

WHAT DOES A RISK-BASED APPROACH ENTAIL?

A risk-based audit approach links the institution's overall risk management framework to its internal audit plan, allowing internal audit to provide assurance the risk management processes are effectively managing risks in relation to the institution's risk appetite.

Using this approach to your internal audit plan provides five key benefits:

1. It creates a process to identify and address the greatest risks.
2. It gives your bank the ability to track organizational risks and vulnerabilities in a changing environment and allows auditors to respond more quickly.

Continued on page 2

Houston Moore is Internal Auditor and Security Officer as well as an ICBA Certified Community Bank Internal Auditor and Certified Community Bank Compliance Officer at The Citizens National Bank in Meridian, Miss. In June 2022, he successfully completed ICBA's Risk Management Institute and earned the Certified Community Bank Risk Management Specialist (CCBRMS) designation.

Q. Tell us a bit about your background. How did you get here?

A. After graduating from Mississippi State University in 2002, I attended the Officer Trainee Program at Citizens National Bank and worked in Credit Administration as a Credit Analyst. I was in this role

Continued on page 2 »

« **The Importance of a Risk-Based Audit Plan** continued from page 1

3. It permits internal audit to add more value to the organization by focusing efforts in risk areas that affect the organization.
4. It creates a consistent manner to communicate and evaluate risks starting at the board level and through to the process owners.
5. It assists personnel in better understanding the risks to business operations.

WHERE DO WE BEGIN?

The best way to get started is to identify the risk universe and then map the risks to your auditable units. Auditable units are parts of the institution exposed to significant risks, including projects, IT systems, business functions and departments, business processes and sub-processes, and assets.

A common mistake is identifying only balance sheet accounts as auditable units; this does not provide a comprehensive view of all business processes. When determining auditable units, consider these questions:

- » Does the auditable unit contribute to organizational goals?
- » Will the auditable area change based on future goals or system changes, etc.?
- » Is the auditable unit large enough to have a noticeable impact on the organization?
- » Is the importance of the auditable unit enough to justify the cost of the control?



ONCE ALL AUDITABLE UNITS HAVE BEEN DETERMINED, IDENTIFY AND ANALYZE RISK

Assessments typically analyze the risks inherent in each auditable unit, mitigating control processes and any residual risks to the institution. As the risks are assessed, it is important those performing the assessment have an in-depth understanding of the auditable unit. Discussions with your board, management, and key process owners provides insight into issues and risks they may have experienced or acknowledge exist in the industry. In addition to these discussions, incorporate questionnaires, prior audit and examination results, and industry hot topics. Additionally, consider the following:

- » Exposure analysis from the perspective of the primary assets of the institutions, such as physical, financial, human, and intangible
- » Environmental analysis from the perspective of changes to external environments and the effects on management processes and controls

Continued on page 3

« **Houston Moore**
continued from page 1

for five years before taking a job as a Mortgage Auditor with the Mississippi Department of Banking. I worked as a Mortgage Auditor for five years, gaining a wealth of audit knowledge.

In 2011, I returned to Citizens National Bank as an officer within the Internal Audit department. There, I worked my way to becoming the Internal Auditor/Security Officer and Department Head.

Q. Describe how you construct your day for optimal productivity.

A. I like to meet with my team each day first thing in the morning. These morning meetings update me on where everyone is on their tasks, what their goals are for that day, and if they are stuck on something that may need my assistance. I try to schedule my day to address the items that carry the most risk first and then work on the things I do daily.

Q. How do you keep track of what you have to do?

A. The number one tool I use to track what I have to do is my Audits Scheduled Tracking Log. The tracking log organizes audits by quarter and then by type, Branch, Internal, Compliance, or External. The log has all the tracking information listed and allows me to always view staff assignment progress and what stage of the audit process each audit is in. I also have a

Continued on page 3 »

« The Importance of a Risk-Based Audit Plan continued from page 2

- » How an auditable unit and related controls, could be defeated by fraud, collusion, or a natural disaster

Having these criteria top of mind as you assess risk provides a well-rounded perspective to the assessment. Often each auditable unit is measured by impact and likelihood; however, there are several methodologies that can be used including:

- » **Impact**—If fraud or misstatement occurs, what is the impact to the institution? Consider the impact of financial, reputational, regulatory, operational, credit, and liquidity risks.
- » **Likelihood or probability**—What is the probability of fraud or misstatement? Consider whether controls are weak or non-existent, processes are complex or manual, turnover is significant, and which processes or programs were recently updated.

A score methodology, most often using a rating scale of high, medium, or low, should be established with criteria for each rating. Often this criterion can be quantitatively assessed; however, it is just as important to incorporate the qualitative factors. Qualitative assessment is more of an art than a science and each institution may have a different outlook on how this is applied. Then, calculate an overall score, which leads to a total risk rating for each auditable area.



The assessment results will drive the frequency and often intensity of the audit coverage. There are no hard-set rules regarding how often your organization should perform an internal audit. Below are frequencies that are typically used within the industry:

- » **High risk:** annually
- » **Moderate risk:** every 12–24 months
- » **Low risk:** every 24–36 months

Although there may be changes throughout the year as you revisit the risk assessment, assigning a frequency allows your institution to assess your internal and external needs and formulate an audit calendar.

FINAL REMINDERS

Consider some key reminders as you implement or enhance your risk-based audit plan:

- » **Use a model you understand**—Too often a model can be too complex or complicated. It is critical that management, and even more importantly the users, can understand the inputs and the outcomes.

Continued on page 4

« Houston Moore continued from page 2

whiteboard in my office that I use to track the status of staff assignments.

Q. Take us through a typical workday.

A. I like to meet with my staff to discuss audits, ask questions, and see where each one is at with their assignments every morning. The rest of my day is usually consumed with meetings, reviewing audits and audit workpapers, fielding emails, and working with external auditors.

Q. What tools, software, or resources are you unable to live without?

A. I use the internal audit workpapers daily and compliance audit workpapers from ICBA. The workpapers are easy to follow and cover all aspects of the audit. The bank also uses Verafin for fraud-related issues. This software has been able to catch fraud-related things that a person may have not caught.

Q. Can you share a problem or challenge you are working on trying to solve?

A. I had an issue at the end of 2021 with outdated audit workpapers. I took time to research various companies that had workpapers related to auditing. While going through this process everyone had a different approach that was not geared toward community banks but large banks instead. After I completed my review of several different companies, it was an

Continued on page 4 »

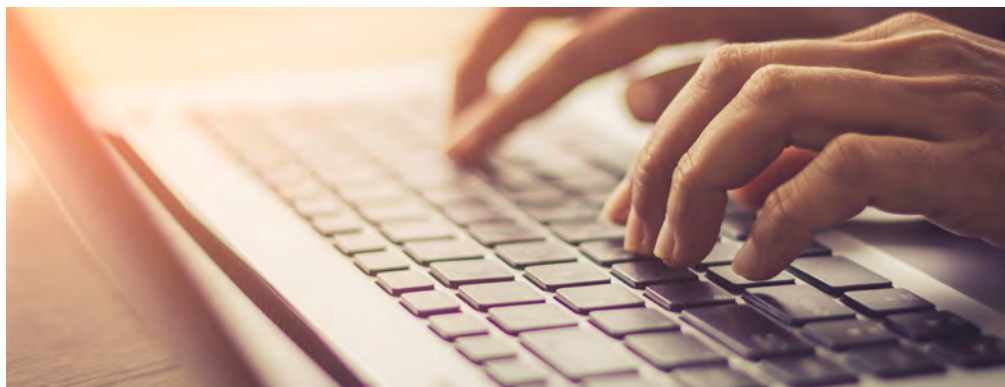
« **The Importance of a Risk-Based Audit Plan** continued from page 3

- » **Engage all stakeholders**—To obtain an accurate assessment of each area, include all those involved in the process and continue to engage with relevant stakeholders. Do not forget to engage the board early and often.
- » **Remember this is a working document**—The goal of this approach is for it to be a real-time view of the institution's risk—update it as you identify changes internally and externally.

By Brittany Stern, Mackenzie Rooney, and Erica Carlson

For more information on internal audit plans, contact Brittany Stern at brittany.stern@CLAconnect.com or 410-308-8153, Mackenzie Rooney at mackenzie.rooney@CLAconnect.com or 612-397-3280, or Erica Carlson at erica.carlson@CLAconnect.com or 309-495-6909.

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« **Houston Moore**
continued from page 3

easy choice to settle on ICBA's Audit Work Papers because they are perfect for a community bank.

Q. What is the best advice you have for other people in your role?

A. The best advice I have is to always stay up to date with changes to regulations, industry standards, and current risks in banking. It is always better to be aware of what is going on, and what other banks are seeing so you can make any changes that might be necessary to lower the bank's loss risk.

Q. What are you currently reading?

A. I am currently reading a book called *The Utter Relief of Holiness (How God's Goodness Frees Us from Everything That Plagues Us)* by John Eldridge.

Q. Who are the people who help you get things done?

A. I am lucky to have a wonderful staff of five that are willing to do whatever is necessary to get the job done. They each have their strengths and weaknesses. So, as a manager, knowing these two things makes it easy to know what and to whom to delegate certain things.

Q. How does your bank use training to find solutions for succession planning?

A. To solve succession planning, the bank makes it a requirement that all audit staff obtain certification through either ICBA or another source.

Continued on page 5 »



The Dog Days of Summer Are Here, but the Real Estate Market Is Cooling

The dog days of summer are here. Hot, humid, hazy, and lazy. Growing up we had black labs for pets. They were always pretty active, always happy to see us and eager to play, except for this time of year. This is when you would find our dogs lazing under anything that would provide shade and never far from a water bowl. With a black coat of fur hugging them, I never blamed them for taking this time off. Hopefully, you can find some time to loll in the sun and enjoy the summer weather.

I want to discuss some real estate market information that has come to my attention in the last month. Of course, the rise in interest rates has dampened the housing market. New starts are down, new permits are down, and existing houses are now on the market just a little bit longer than earlier this year. In a number of markets sellers are dropping their list prices. That has not happened since 2019. There is no sign that this new trend will be changing. While housing values have not declined, we could see that occurring later this year.

While rental rates are at all-time highs, the increase in the past two years in single family housing prices have raised monthly house payments even higher. For many, renting continues to be more financially attractive until prices come down. I want to be clear; this is not because rental payments are low, they are not. In June the average monthly rental was at \$1,876. That has increased 12% in the past year. That alone is stressing many middle-to-low-income families. However, the average monthly cost of owning a home is now \$2,437, stressing even those with good

Continued on page 6

« **Houston Moore**
continued from page 4

These certifications require continuing education. So, my staff are constantly growing their knowledge of banking and internal audit function.

Q. What is your favorite thing about the Annual Current Issues Certification Conference?

A. The thing I enjoyed most about the Annual Current Issues Certification Conference was the wide range of topics that the conference covered. Having different topic areas each day ensures that there is something for everyone to learn throughout the week.

Q. How has your designation affected your career or role at the Bank?

A. My designations give the bank confidence that I understand the standards and regulations of banking and trust me with ensuring the bank complies in both areas. They have also given me the required tools to do my job effectively and efficiently. The continuing education requirements allow me to continue to grow my knowledge of fraud and internal audit-related areas, ensuring I understand all the latest risk trends in banking.

FAST FACTS

Bank Name: The Citizens
National Bank of Meridian

Headquartered:
Meridian, Mississippi

Locations: 27

Bank Asset Size: \$1.7 Billion

Website: www.yourcnb.com

« **The Dog Days of Summer Are Here, but the Real Estate Market Is Cooling**
continued from page 5

incomes. To qualify for the average cost, your income now has to be between \$88,000 and \$102,000. Even in the tight labor market where job openings are still high, that is a tough nut to crack for many families. The U.S. median household income, according to the St. Louis Federal Reserve, is \$67,000. That leaves those looking to own a home to have to be in the top income levels, well above average.

In the U.K., there has been a recent change in the residential real estate market. When businesses began shutting down and remote work became popular, companies shed office space. While many companies that are office related are now saying it is safe to come back to the office, many workers are balking, looking for a way to avoid the commute, among other detractors of having to go to the office. The reaction in England is not to fire or threaten workers, but rather modify office space into residential space. If workers desire, they can either rent or purchase residential units in the buildings where they work. As the need for office space is declining, this is a great way for workers to move closer to their work. We will see how this works out long term as well as whether it catches on in the U.S.

Inflation in certain select areas is ebbing, but prices remain very high. With the trade agreement in Europe signed we can expect some relief in the food prices. Both soybeans and corn are down significantly in price due to opening supply from the Ukraine. Oil continues to abate as demand has softened and supply levels are steady.

The offset here is that manufacturing supply chains continue to be stressed. China still has production issues due to COVID. A California truckers strike over the state law defining gig workers briefly shut down the Port of Oakland. If that strike spreads, the ports in California could be negatively impacted with product piling up with no place to go. Lastly, Europe. Germany, as with the rest of the region, has experienced hot temperatures as well as a lingering drought over the last two years. The Rhine River in Germany is now at levels where barges cannot pass through. A normal level is 210cm. The river near Kaub and Dusseldorf is now at 70cm. Beneath 40cm all river traffic will halt. As rail and roads are less prevalent in Europe than the U.S., river traffic is the key transit path for manufacturing and other goods. Since barges are unable to navigate the rivers in some areas, product cannot get to the seaports to be sent to the U.S. and the rest of the world. These issues, along with some others, will continue to keep prices high and supply short on some products.

This coming week we will get a first feel for how manufacturing in the U.S. is doing as three Federal Reserve Banks will be releasing the July data. The early indicators do not look promising.

By Brad Stevens, Stevens Risk Management LLC



Brad Stevens of Stevens Risk Management LLC, uses his experience and real-world credit examples to bring a unique and interesting perspective to the credit training world.

See him at these upcoming Community Banker University seminars and institutes:

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Commercial Lending Institute
Aug. 21–26
Bloomington, MN

Commercial Real Estate Lending Seminar
Nov. 9
Livestreamed

Analyzing Your Bank's Financial Statement Seminar
Nov. 16
Livestreamed



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Bank Security Institute	Aug. 29–31	Bloomington, Minn.
Consumer Lending Institute	Sept. 11–14	Bloomington, Minn.
Audit Institute	Sept. 18–23	Bloomington, Minn.
Credit Analyst Institute	Oct. 2–5	Bloomington, Minn.
Compliance Institute	Oct. 2–7	Dallas, Texas
IT Institute	Oct. 16–20	Bloomington, Minn.
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