

February 9, 2018

TO ALL BANKS, BANK AND TRUST COMPANIES, SAVINGS BANKS; AND TRUST COMPANIES:

The purpose of this letter is to update and clarify the acceptable means to comply with the annual audit requirements of section 1407 of the Banking Code of 1965 (the "Banking Code")¹. The annual audit requirements cover the financial records and internal controls of an institution *including* trust activities. This guidance rescinds and replaces any previous guidance issued by the Department. As a general matter, Section 1407 of the Banking Code states:

(a) Annual audit--Except as provided in subsection (c) of this section, the board of directors or trustees shall at least once each year have made, by certified public accountants selected by the institution and satisfactory to the department, an audit of the books and affairs of the institution including such matters as may be required by the department and including, in the case of a bank and trust company, a savings bank or a trust company, accounts held in a fiduciary or other representative capacity. The department may by regulation establish minimum standards for audits and reports under this subsection (a).

(b) Audit report--A report of the audit made under subsection (a) of this section shall be signed by the certified public accountants who make it and filed with the department and a signed copy of the report shall be submitted to the board and kept in the files of the institution.

(c) Internal auditors--In the case of an institution which has a system of internal audit control approved by the department, no audit under subsection (a) of this section shall be required and in lieu of the report required by subsection (b), the auditor or comptroller of the institution shall submit to the board an annual summary report of the same matters as those required under subsection (a) of this section. Such report shall set forth the degree of compliance with the approved audit system and shall express the opinion of the auditor or comptroller as to the adequacy of the internal controls. The report shall be kept in the files of the institution and a copy shall be filed with the department.

To satisfy the annual audit requirements of Section 1407 of the Banking Code, an institution must have an audit acceptable to the Department completed at least once each year and must submit to

¹ 7 P.S. § 1407


the Board and Department annual report of that audit. Annual audits must include a review of internal controls and include, in the case of a trust company or a banking institution with trust powers, the accounts held in a fiduciary capacity. The Department will accept the following audit programs and reports.

- (1) An audit performed and audit report signed and issued by a certified public accountant (“CPA”) that states the CPA has audited the records and internal controls of the institution, including trust activities when applicable, in accordance with auditing standards generally accepted in the United States²
- (2) An audit performed and audit report signed and issued by a CPA of the banking activities that is coupled with an “agreed upon procedures” engagement of the trust activities. The engagement letter between the institution and the CPA must confirm the “agreed upon procedures” for the trust activities and must include a review of internal controls and meet the fiduciary audit requirements outlined in the attached audit guidelines³
- (3) Subject to prior written Department approval, an audit program and report of an internal audit control system that meets the audit guidelines attached

Please note that any internal audit program previously approved by the Department must receive new approval to ensure compliance with the attached guidance and avoid a possible violation of Section 1407.

This letter should clarify the Department’s expectations and requirements relating to annual audits of banking and trust activities. Should you need additional information or clarification, please contact Patty Kukol at 717-783-2374 or pkukol@pa.gov

Sincerely,



Wendy S. Spicher
Deputy Secretary for Depository Institutions

Attachment

² Section 1407 (d) of the Banking Code states “Audits and reports shall be deemed to satisfy the requirements of this section to the extent the audits and reports conform to accounting standards and principals applicable pursuant to 12 U S C § 1831n to reports or statements required to be filed with Federal banking agencies ” 7 P S §1407 (d)

³ Section 1407 (a) states in part “ The department may by regulation establish minimum standards for audits and reports under this subsection (a) ”