

---

## **Guidelines for Trust Audits**

---

The objective of these guidelines is to assist the board of directors, trust management and auditors in establishing the appropriate scope and extent of audit procedures that would provide conformance with K.A.R. 17-23-5. An effective, comprehensive, audit program is essential to ensure proper monitoring of fiduciary risk.

### **AUDITOR QUALIFICATIONS**

Every trust auditor shall possess proper education and training to evaluate trust administrative and operational functions.

### **AUDITOR INDEPENDENCE**

The independence of the auditors, whether internal or external, should not be compromised. Auditors shall report to the board of directors, enabling the audit function to be independent of trust management. Internal auditors shall not include individuals currently employed in the bank's trust department or trust company's operational staff. External and internal auditors shall not have any conflicts of interest, or direct or indirect material financial interest in the bank or trust company.

### **SCOPE OF AUDIT**

Areas to be covered in the scope of the audit shall be approved by the board of directors using an analysis of the risks associated with fiduciary products and services provided by each individual financial institution. Such analysis should consider the effectiveness of management, policies, procedures, information systems, controls, and other relevant factors.

### **AUDIT REPORT**

The audit report shall be communicated to the board of directors. The report shall:

- 1) identify the scope of the trust audit;
- 2) describe the agreed-upon procedures performed;
- 3) identify the number, type and dollar volume of accounts examined;
- 4) indicate the results of the audit procedures performed with any exceptions noted; and
- 5) report on department internal control weaknesses identified, as the tests and procedures of the audit are completed.

External and internal auditors shall retain a documented record of their work to substantiate procedures followed, tests performed, information obtained, and conclusions reached in the audit report.

### **SAMPLING AND VERIFICATION**

Using appropriate sampling techniques, the auditor should perform detailed tests on selected transactions and/or accounts in all major account types, including but not limited to personal trusts, estates, agencies, corporate trusts, collective investment funds, pension, and profit sharing trusts and individual retirement accounts.

**AUDIT PROCEDURES**

The following items provide a list of audit procedures to be considered in determining the scope of the audit to be performed. The uniqueness of each trust department or company should be taken into consideration when determining whether procedures should be performed. It is not contemplated that the audit procedures described below will be applied to all accounts or transactions, but rather to selected accounts and transactions on a test basis. Items marked with an (\*) asterisk indicate those functions to be performed on a quarterly basis when the audit is completed internally. All other functions may be performed annually.

Accounting and Physical Security Controls

Verification of 33% of the account assets, including a confirmation from holders of assets retained outside the bank or trust company.

Determine that assets are adequately safeguarded and held separately from the assets of the bank or trust company.\*

Determine that a written vault record of assets under joint custody is maintained.\*

Test that joint custody safekeeping receipts exist for securities pledged to the trust department of a bank.\*

Test that there is prompt ledger control of assets received as original and subsequent deposits of assets, including stock splits and dividends.

Verify that department, company and fiduciary cash accounts are reconciled to demand deposit statements.\*

Test that disbursements are supported by appropriate source documents.\*

Verify that periodic and timely reconciliations are performed of the department's statement of condition, if appropriate, and the trust account subsidiary ledgers.\*

Test that suspense or operating accounts are reconciled at least monthly, contain only appropriate items, and are cleared without delay.\*

Test the outstanding bonds for bond trusteeships by reconciliation or the verification of such reconciliation by others, at least once each calendar year.

Test the reconciliation of bond closing statements of new corporate trusteeships to trustee records. Reconciliation should include trustee records of bonds authenticated and issued, proceeds from bond sales, and initial related accounts.

Test payments from paying agency or dividend disbursing accounts by reconciling or verifying the bank or trust company's reconciliation.

---

## **Guidelines for Trust Audits**

---

### Account Activity Controls

Test commissions and fees paid to the institution.

Test proceeds or payment from sales and purchases of assets to brokers' invoices, purchasers' receipts, or other evidence of sale and purchase prices.

Test accuracy of amounts and receipt of income from investments.\*

Test payments for services, such as brokerage fees, real estate management fees, maintenance charges, and other similar disbursements to source documents.

Test to determine that securities transactions are completed in a timely manner and that written trade security confirmations or broker advices are received.\*

### Operational Compliance

Test that cash receipts are promptly invested or distributed in compliance with the governing document and applicable law.

Test to determine that real estate is insured, is subject to periodic appraisals and inspections that are documented, that property taxes are paid and that real estate loan documentation is sufficient.

Test account transactions for accuracy to source documents.\*

Inquire and observe whether dual control over fiduciary assets and accounts is exercised.\*

Review closed accounts to ascertain that documentation such as discharges, releases, receipts and accountings are obtained.

### Administrative Compliance

Test to determine that original or certified copies of the governing instrument are on file.

Determine that a procedure is in place to create synoptic and account records, and test that such records are maintained and updated periodically.\*

Determine the existence of an annual audit of any bank or trust company collective investment fund, if applicable.

Test that tax returns are prepared and filed by the appropriate filing dates.

Review the department's or company's policies for avoiding and clearing, overdrafts and test selected transactions for compliance therewith.\*

---

<b>Guidelines for Trust Audits</b>	
------------------------------------	--

---

Review account statements submitted to beneficiaries or other parties and test to ensure such are consistent with the department's or company's account records.\*

Determine if the minutes of the board of directors or designated persons and committees document the review of the acceptance and closing of accounts, review and disposition of investments, and discretionary payments of principal or income.\*

Test that written approvals or directions from co-fiduciaries are obtained for account discretionary decisions.