

Introduction

Financial statements such as the balance sheet, income statement, and cash flow statement and related footnotes provide important information about an entity's financial condition and performance. Financial statements contain information used by various stakeholders, including supervisors, investors, counterparties, market participants, and oversight authorities, to evaluate and monitor the regulated entity's goals, outcomes, and compliance with established policies, procedures, accounting standards, and regulatory requirements. Transparency of the entities is a key objective and accurate financial statements are the means to reflect business and economic activities. This examination module has applicability in the examinations of the Enterprises (Fannie Mae and Freddie Mac), and the Federal Home Loan Banks (FHLBanks) and of the Office of Finance (OF) in so far as the OF is responsible for issuing the combined financial statements for the FHLBanks.

Financial statement users need reliable information to evaluate the regulated entity's financial condition and performance and to make economic decisions. In addition to the proper presentation of financial data, also of key importance is the information presented in disclosure statements regarding the regulated entity's risk profile, including on-and off-balance-sheet items, capital adequacy, the capacity to withstand short-term problems, and the ability to generate additional capital. Users may also need information to understand the special characteristics of the regulated entity's operations, such as its access to liquidity and the relative degree of risk involved in various aspects of its business.

A regulated entity's board of directors and senior management have the ultimate responsibility for the design, implementation, and monitoring of the regulated entity's risk management and internal controls over financial reporting. Specific controls should be established to ensure:

- 1) Financial and operational information is timely and reliable;
- 2) Errors and irregularities are detected and corrected in a timely manner;
- 3) Compliance with Generally Accepted Accounting Principles (GAAP), the regulated entity's policies and procedures, and applicable laws and regulations; and
- 4) Economical and efficient use of resources.

A regulated entity's accounting/finance function is responsible for compiling and distributing financial information to management and the board of directors. This function is also responsible for generating required quarterly and annual financial reports to be publicly issued, reporting to the OF for the Federal Home Loan Bank System's (FHLBank System) combined reporting purposes (FHLBanks only), and for reporting financial and risk information to regulators. Each regulated entity's internal controls

governing financial reporting should ensure that its financial information possesses the following characteristics:

- 1) *Relevance* – To be relevant, information should be presented timely in order to be of use in decision-making, and should be helpful to decision-makers in evaluating past, present, and future events or in confirming or correcting past assessments.
- 2) *Reliability* – Information should be free from material errors and bias. The key aspects of reliability are accurate representation, priority of substance over form, neutrality, and completeness.
- 3) *Understandability* – Information should be easily comprehensible for users with reasonable knowledge of business, economics, and accounting.

Both the internal and external audit functions of a regulated entity play key roles in the adherence to financial reporting controls. External auditors are primarily concerned with the regulated entity's ability to record, process, summarize, and report financial data consistent with disclosures in the financial statements.

Internal auditors are also concerned with controls over the effectiveness, economy, and efficiency of management decision-making processes that may not relate to a financial statement audit but which nevertheless affect a regulated entity's financial reporting. In this sense, the responsibility of the internal audit function extends beyond that of the external audit function with respect to the reliability and integrity of a regulated entity's financial information. See the examination module on Internal and External Audit for additional information.

Regulatory Environment

The primary rules, regulations, and guidance of the Federal Housing Finance Agency (FHFA) pertaining to financial reporting operations at the regulated entities are set forth below. The examiner should ensure that the application of such authorities to a regulated entity has been considered by the regulated entity and its legal counsel. [The examiner should assess whether the regulated entity has an effective process in place for ensuring that its financial reporting practices conform to applicable law and standards.]

- 1) *FHFA's Examination Guidance: Examination for Accounting Practices dated October 27, 2009*, sets forth guidance relevant to audit committees, internal audit functions, financial statements, and external audit functions.

2) *Rules and Regulations of the Federal Housing Finance Agency which include the following parts and sections relevant to financial reporting operations of the regulated entities:*

12 CFR Part 1235 - Record Retention for Regulated Entities and Office of Finance establishes minimum requirements for a record retention program, which are intended to further prudent management as well as to ensure that complete and accurate records are readily accessible to FHFA.

12 CFR Part 1236 – Specifically, Prudential Management and Operations Standards (PMOS), Standard 10—Maintenance of Adequate Records requires that regulated entities maintain financial records in compliance with GAAP, FHFA guidelines, and applicable laws and regulations; ensure that assets are safeguarded and financial and operational information is timely and reliable; have a records management plan consistent with laws and corporate policies, including accounting policies, as well as personnel that are appropriately trained and competent to oversee and implement the records management plan; conduct a review and approval of the records management plan and records retention schedule for all types of records by the board of directors at least once every two years; ensure that reporting errors or irregularities are detected and corrected in a timely manner; and comply with all applicable laws, regulations, and supervisory guidance (e.g., advisory bulletins) governing the maintenance of adequate records.

3) *Rules and Regulations of the FHFA (Parts 1273 and 1274) and its predecessor, the Federal Housing Finance Board (12 CFR Part 917), which include the following parts and sections relevant to financial reporting operations of the FHLBanks:*

12 CFR Part 917, Powers and Responsibilities of the FHLBanks Boards of Directors and Senior Management

12 CFR 917.2, *General authorities and duties of FHLBank boards of directors*, includes a provision that each FHLBank director shall have the ability to understand an FHLBank's balance sheet and income statement and ask substantive questions of management and the internal and external auditors.

12 CFR 917.3, *Risk management*, requires that each FHLBank's board of directors have a risk management policy that addresses the FHLBank's exposure to credit risk, market risk, liquidity risk and operations risk.

12 CFR 917.6, *Internal control system*, requires that each FHLBank shall establish and maintain an effective internal control system which, for example, directs senior management to address concerns expressed by internal auditors, external auditors and

regulatory examiners regarding weaknesses in the internal control system.

12 CFR 917.7, *Audit committees*, addresses the powers, duties, composition, and responsibilities of the audit committees. These responsibilities should be detailed in a charter and approved by the board of directors. The duties of each FHLBank's audit committee include overseeing the internal audit and external audit functions and in that connection reviewing and approving the internal auditor's work plan and approving the external auditor's annual engagement letter. The audit committee also has the duty to assess the performance of the internal auditor and external auditor.

12 CFR Part 1273 – Office of Finance

12 CFR 1273.3 (b) addresses the preparation of combined financial statements.

12 CFR 1273.4 (c) states that FHFA shall determine whether a combined FHLBank System annual or quarterly financial report complies with the standards of part 1273.

12 CFR 1273.6 (b) states the requirements of combined financial reports.

12 CFR 1273.8 (a) (3) requires that each director of the OF board of directors have the ability to ask substantive questions of management and the internal and external auditors about the combined financial statements of the FHLBank System and the operations and financial statements of the OF.

12 CFR 1273.9 addresses the responsibilities of the OF Audit Committee, including overseeing the internal audit activities, employing the services of an independent, external auditor, reviewing the external auditor's opinion on the financial statements, ensuring that senior management is maintaining an adequate internal control system within OF, and providing an independent direct channel of communication between OF's board and the internal and external auditors.

12 CFR Part 1274 – Financial Statements of the FHLBanks

12 CFR 1274.1 defines an Audit and an Audit Report.

12 CFR 1274.2 (a) requires each FHLBank, the OF and the Finance Corporation of the Federal Home Loan Bank System (FICO) to obtain annually an independent audit and audit report on its financial statement.

12 CFR 1274.2 (b) requires the OF audit committee to obtain an audit and audit report on the combined annual financial statements for the FHLBank System.

12 CFR 1274.2 (c) requires that all audits must be conducted in accordance with generally accepted auditing standards and in accordance with the current government auditing standards of the Office of the Comptroller General of the United States (i.e., the U.S. Government Accountability Office).

12 CFR 1274.2 (d) requires that an independent, external auditor must meet at least twice a year with the audit committee of each FHLBank, the audit committee of OF, and the FICO Directorate.

12 CFR 1274.2 (e) requires that examiners shall have unrestricted access to all auditors' workpapers and to the auditors to address substantive accounting issues that may arise during the course of any audit.

12 CFR 1274.3 addresses requirements to provide financial and other information to the OF.

4) *Advisory Bulletins of the Federal Housing Finance Board that provide supervisory guidance relating to financial reporting operations are the following:*

Advisory Bulletin 06-03, dated July 18, 2006, which provides guidance on disclosure in Securities and Exchange Commission (SEC) filings of unpublished information as defined in Part 911 of the Finance Board Rules and Regulations.

5) *Resolutions of the Federal Housing Finance Board, which include the following:*

Resolution 2005-14, dated July 13, 2005, Data Reporting Requirements: Call Report System, underscores the importance of filing accurate and timely Call Reports. The resolution references Call Report instructions that require an FHLBank to amend any previously filed Call Reports within three business days after making any adjustments to its monthly or quarterly financial statements that would cause an adjustment to a previously filed Call Report.

6) *Financial Accounting Standards Board (FASB) Codification* is the single source of authoritative U.S. GAAP principles governing the preparation of financial reports and is officially recognized as authoritative by the SEC and the American Institute of Certified Public Accountants (AICPA). Effective July 1, 2009, changes to the source of authoritative U.S. GAAP, the *FASB Accounting Standards Codification*, are communicated through an Accounting Standards Update (ASU or Update). Updates are published for all authoritative U.S. GAAP promulgated by the FASB, regardless of the form in which such guidance may have been issued prior to release of the FASB Codification (e.g., FASB Statements, EITF [Emerging Issues Task Force] Abstracts, FASB Staff Positions, etc.). Updates also will be issued for amendments

to the SEC content in the FASB Codification as well as for editorial changes.

An Update is a transmittal document that (1) summarizes the key provisions of the project that led to the Update, (2) details the specific amendments to the FASB Codification, and (3) explains the basis for the Board's decisions. Although ASUs update the FASB Codification, the FASB does not consider Updates as authoritative in their own right.

Prior to the release of the FASB Codification as the single source of authoritative U.S. GAAP, the FASB amended pre-Codification standards and issued them in an "as amended" form. Now, the FASB will only amend the FASB Codification.

- 7) ***The Securities and Exchange Commission*** (SEC) is the primary regulator of the United States securities markets and requires public companies to disclose financial and other information to the public and enforces the securities laws. Applicable parts of the Securities Exchange Act of 1934 (the Exchange Act), and SEC rules and regulations include the following:
- a) Securities Exchange Act, Section 10A (g) *Prohibited Activities*;
 - b) SEC Rule 10A-3 *Standards Relating to Listed Company Audit Committees*;
 - c) SEC Regulation S-X (17 CFR Part 210), Rule 2-01, *Qualifications and Reports of Accountants*; and
 - d) SEC Regulation S-K (17 CFR Part 229), Section 229.303 (Item 303), *Management's Discussion and Analysis of Financial Condition and Results of Operations*. This includes a discussion of liquidity, capital, off-balance sheet arrangements, and a tabular disclosure of contractual obligations.
 - e) SEC Exchange Act Rules 13a-14 and 15d-14 require, among other things, an issuer's principal executive officer and the principal financial officer to certify in each quarterly and annual report that: (1) he or she has reviewed the report and the report does not contain any untrue statement of a material fact or omit to state a material fact; (2) the certifying officer(s) are responsible for maintaining disclosure controls and procedures, have designed such controls and procedures and evaluated their effectiveness, and have presented in the report their conclusions about the effectiveness of the controls and procedures; and (3) the certifying officers have disclosed to the issuer's auditors and audit committee of the board of directors all significant deficiencies in the design or operation of internal controls and material weaknesses in internal controls and any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls.

- 8) ***Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley)*** and regulations of the SEC thereunder. The statute establishes, among other things, standards for public corporate boards, management and public accounting firms. See Pub. L. No. 107-204, 116 Stat. 745. Sarbanes-Oxley also covers issues such as auditor independence, corporate governance, internal control assessment, and enhanced financial disclosures. See e.g., Pub. L. No. 107-204, titles I-IV, 116 Stat. 745.
- 9) ***Public Company Accounting Oversight Board (PCAOB)***. Among other things, the PCAOB, established by Sarbanes-Oxley, sets public company auditing and quality control standards, and reviews the adequacy of public company audits. See Pub. L. 107-204, title I, 116 Stat. 745. See also, e.g., PCAOB standards, guidance and related issuances available at <http://pcaobus.org/STANDARDS/Pages/default.aspx>.

Issues Specific to the FHLBanks

An FHLBank's accounting/finance function is responsible for ensuring that the institution's activities are accurately recorded in its financial statements and disclosed in its financial reports. This includes proper application of complex accounting standards and financial disclosure requirements, and accounting treatments applicable to new products and services. FHLBanks are SEC registrants and file quarterly and annual statements. The OF is not itself an SEC registrant.

The OF prepares quarterly and annual combined financial statements on behalf of the FHLBank System using financial information provided by each of the FHLBanks. FHFA regulations require FHLBanks to provide to the OF all the necessary information to prepare the combined financial reports. The financial statements are combined, not consolidated, as there is no holding company in the FHLBank System.

An FHLBank's accounting/finance function is also responsible for timely and accurately filing monthly and quarterly call reports with the FHFA. In accordance with the FHFA's Call Report System (CRSnet) requirements, monthly Call Reports, with the exception of the Capital Compliance and the Negative Pledged Assets schedules, are due on the 15th calendar day of the month following the month-end for which the information is being reported. The Capital Compliance and the Negative Pledged Assets schedules are due 15 business days following the month-end for which the information is being reported. Quarterly Call Reports are due on the 20th calendar day of the month following the month-end for which the information is being reported. To the extent that an FHLBank makes adjustments to previously issued financial statements, it is required to file appropriate Call Report amendments within three business days.

Each Call Report, including any amended Call Report, must be submitted by a senior officer, or by an FHLBank employee to whom authority has been delegated by a senior

officer. The act of submitting a Call Report is deemed as an attestation by the senior officer that the report is true and correct to the best of his or her knowledge and belief. The authority to submit Call Reports may only be granted by the FHFA.

Issues Specific to the Enterprises

The Enterprises, SEC registrants, are subject to financial reporting guidance applicable to public companies. While the Enterprises are in conservatorship, FHFA as Conservator reviews financial statements before they are filed with the SEC. The Enterprises file quarterly and annual financial statements earlier than the FHLBanks because they are “accelerated filers.” During the conservatorships, Enterprise financial statements also drive whether and how much money is requested from the U.S. Treasury in exchange for preferred stock under the Treasury Preferred Stock Purchase Agreement. The FHFA’s Office of the Chief Accountant (OCA) supports the FHFA Examiners-in-Charge in assessing the Enterprises’ accounting policies and disclosures for critical accounting estimates in their public filings.

Each Enterprise must submit a report to the FHFA every month detailing its minimum capital requirement. In addition, each Enterprise is responsible for timely and accurately filing monthly and quarterly Call Reports with the FHFA. The timeframe for filing monthly Call Reports is the same as the requirement noted above for the FHLBanks. The quarterly Call Reports, however, must be submitted no later than 41 calendar days after the end of each reporting quarter or on the day after the Enterprise’s filing of its quarterly report with the SEC.

The Fannie Mae and Freddie Mac accounting/finance departments have primary responsibility for the financial reporting at the Enterprises, which involves complex calculations and judgments. Enterprise operations, such as mortgage modification programs and management and disposal of foreclosed real property, regularly generate issues for resolution in the application of accounting policy.

Examination Guidance

The workprogram for the Financial Reporting examination module is detailed below. If this module is included in the examination scope, the examiner must perform worksteps sufficient in coverage to document the basis for conclusions on the quantity of risk and quality of risk management pertaining to this area. Transaction testing is mandatory and the examiner must document sufficient worksteps from Section 4, *Testing*, to support the findings and conclusions from this examination module.

In determining the extent of review and testing to be conducted in completing each examination, the examiner should take into account any applicable FHFA off-site monitoring or analysis reports, such as analyses of the quality and effectiveness of corporate governance practices, financial condition and performance, economic and housing industry conditions, internal controls, and audit coverage relating to the institution's financial reporting activities.

NOTE: Text in (*italics*) referenced in a workstep represents illustrative guidance that serves as suggestions for specific inquiry.

1. Scope of Examination Work Performed

- 1) Review past reports of examination for outstanding issues or previous problems related to financial reporting.
- 2) Review FHFA off-site monitoring or analysis reports, and workpapers produced as part of on-going monitoring, related to financial reporting.
- 3) Assess the status of outstanding Matters Requiring Attention pertaining to financial reporting.
- 4) Review internal audit reports for outstanding issues relating to financial reporting.
- 5) Review minutes of meetings of the board of directors and relevant board and management committees for any issues regarding financial reporting.

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- 6) Evaluate any significant systems, process, or guidance changes that have been implemented since the last examination or are being considered that may affect the regulated entity's risk profile and financial reporting operations.
 - 7) Determine if the regulated entity's financial statements have been filed in a timely and accurate manner. *(Have there been instances requiring restatement?)*

Summarize the work performed in the examination of the financial reporting area. To the extent there were modifications to the originally planned scope based on concerns identified during the examination, document those changes and the reasons for such changes.

2. Description of Risks

- 1) Review the institution's internal assessment of potential risk to determine whether the inventory of accounting and reporting processes is comprehensive, whether inherent risks and internal controls are sufficiently identified and evaluated, and whether residual risks are reasonably quantified. *(To the extent that residual risks are unacceptably high, has management committed to timely remediation that will reasonably mitigate and reduce the risk exposure? What is the current status of those mitigation efforts?)*
- 2) Evaluate the effectiveness of the evaluations conducted pursuant to Sarbanes-Oxley that identify the key risks and controls pertaining to financial reporting and evaluate potential fraud, and procedures implemented to periodically attest to the adequacy of the control environment.

3. Risk Management

Organizational Structure

- 1) Identify the key personnel and their primary duties, responsibilities, and technical expertise to determine if resources are effectively deployed.
- 2) Evaluate the staffing and skill level, segregation of duties, and cross-training of personnel to determine if resources are sufficient.

- 3) Evaluate coordination between departments such as risk management, information technology, treasury and cash management, and accounting to determine if the regulated entity's payment transactions are processed in an efficient and effective manner.

Policy and Procedure Development

- 1) Determine if accounting policies and procedures cover the application of relevant accounting standards. These policies and procedures should include detailed descriptions of the regulated entity's methodologies.
- 2) Evaluate the regulated entity's Risk Management Policy and procedures for assessing inherent and residual risks in financial reporting operations.

Internal/External Audit

- 1) Evaluate and conclude on the adequacy of audit scope and testing performed by internal auditors.
 - a) Ensure that the review of internal audit informs the work on internal controls over financial reporting. Assess whether audit plans provide adequate coverage of accounting operations. Review relevant completed internal audit work to determine if the testing performed fairly captures the accounting risks posed by more complex activities.
 - b) Determine whether the internal Auditor and staff have the knowledge and expertise to audit areas that pose high financial reporting risks. If not, do they out-source or co-source such auditing work and is such work adequately reviewed?
- 2) Evaluate and conclude on the adequacy of the scope and testing performed by external auditors.
 - a) External auditors determine its scope and testing based on the materiality of current activities to the regulated entity's financial reporting. Consequently, the external auditor may not review certain activities that are presently infrequent or immaterial, but that are emerging as significant. Review scope to determine if activities not reviewed by the external auditor are appropriate.
 - b) Review external auditor's most recent management letter to determine the nature and severity of findings and recommendations therein.
 - c) Determine if OCA has reviewed the external audit. If OCA has reviewed, identify if any issues arose from their review of the external auditors' workpapers that may require follow-up.

- d) Meet with the external auditors to discuss their audits and gain insight into the focus of their reviews.
- 3) Evaluate and conclude on the adequacy of the scope and testing performed by outside consultants.
- a) The regulated entities frequently engage outside consultants to test key processes that are complex and for which internal staffing lack the needed expertise. Examiners should review the work performed, to ensure that key risks, processes, and controls are sufficiently tested. In addition, the examiner should review the regulated entity's process of reviewing and accepting the consultants' work.

Information Technology

- 1) Identify and assess the automated and manual systems and applicable controls for processing payment transactions, including:
 - a) Authorized users;
 - b) Vendor technical support and access to the automated wire system;
 - c) Use of spreadsheets or other user developed applications;
 - d) Business continuity and recovery; and
 - e) Exception tracking, escalation, and reporting.
- 2) Conclude on the adequacy of internal controls in this area.
- 3) Review the flow of financial information and how activities are captured and recorded in the accounting system. Review controls implemented by financial reporting operations to verify that the terms of financial instruments are accurately recorded in accounting systems.
- 4) Assess and conclude on the capabilities of the main (General Ledger) accounting system and its reliance on other supplemental systems for accruals, valuation, and other accounting input for different financial instruments. Consider the following:
 - a) Determine whether these systems capture sufficient data and can perform calculations needed to comply with current financial accounting standards.
 - b) Assess how well the systems interface with each other and to what extent manual intervention is required. If manual processes are needed, review the controls over those processes to determine their effectiveness in detecting and correcting errors.
 - c) Assess the extent to which the regulated entity relies on user-developed applications. Assess the process implemented to inventory and control these applications.

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- 5) Assess and conclude on the regulated entity's plans for financial reporting continuity and financial data recovery. (*What type of accounting systems will be relied upon during disaster recovery?*) Evaluate the adequacy of periodic testing of these systems. Consult with the examiner responsible for completing the Business Continuity Planning workprogram.

Compliance

- 1) Select samples of certain transactions and assess compliance with relevant accounting standards, such as GAAP and SEC requirements. Consult with OCA, as necessary.
- 2) Assess and conclude on compliance with Call Reporting requirements. In assessing the adequacy of the call reporting process, the examiner should consider performing the following:
 - a) Determine if there were any revocations or rejections since the last examination by accessing the CRSnet and reviewing a history of CRSnet filings.
 - b) Obtain and review source documents for account balances selected. The source documents should include the source from which the account balances are derived. Source information usually comes from various sub-ledger systems of the regulated entity.
 - c) Review and analyze the controls surrounding reconciliations between the sub-ledger systems and the general ledger. Assess the adequacy of segregation of duties and the establishment of a review/approval/reporting process for general ledger balances.

4. Testing

- 1) Select a sample of month-ends, including a month near the examination as-of date, since the last examination. Obtain the regulated entity's general ledger trial balances for the months selected. Select a sample of account balances included on the trial balance and reconcile the account balances to CRSnet schedules for the months selected.
- 2) Coordinate the review of sub-ledger balances with examiners reviewing other areas of the regulated entity.
- 3) Determine whether other examining personnel have uncovered any misstatement of assets, liabilities, income, or expenses during their supervisory activities.

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- 4) Determine if the regulated entity detects and corrects reporting errors or irregularities in a timely manner.

5. Conclusions

- 1) Summarize conclusions for all examination work performed, including work performed by other FHFA staff as it relates to the regulated entity's financial reporting function. Develop a memorandum articulating the risks to the institution resulting from the financial reporting practices and the regulated entity's management of those risks. The memorandum should clearly and articulately describe the basis of conclusions reached and summarize the analysis completed. Within the memorandum, discuss the types of risk the regulated entity is exposed to (e.g., market, credit, operational); the level of risk exposure; the direction of risk (stable, decreasing, increasing); and the quality of risk management practices (strong, adequate, weak). A memorandum must be prepared irrespective of whether the examiner's assessment is positive or negative.
- 2) Conclude on the responsiveness to previous examination findings. Evaluate the adequacy of the regulated entity's response to previous examination findings and concerns.
- 3) Develop findings and prepare findings memorandums, as appropriate. Based on examination work performed, develop findings communicating concerns identified during the examination. Findings should identify the most significant risks to the institution and the potential effect to the regulated entity resulting from the concerns identified. Such documents should describe a remediation plan specifying the appropriate corrective action to address examination concerns and establish a reasonable deadline for the regulated entity to remediate the finding. Communicate preliminary findings to the EIC. Discuss findings with regulated entity personnel to ensure the findings are free of factual errors or misrepresentations in the analysis.
- 4) Develop a list of follow-up items to evaluate during the next annual examination. In addition to findings developed in the steps above, include concerns noted during the examination that do not rise to the level of a finding. Potential concerns include issues the regulated entity is in the process of addressing, but require follow-up work to ensure actions are completed appropriately. In addition, potential concerns should include anticipated changes to the institution's practices or anticipated external changes that could affect the institution's future management of financial reporting practices.

Workprogram

1. Scope of Examination Work Performed

Workpapers must document the examination activities undertaken to evaluate potential risks in financial reporting.

2. Description of Risks

- Identify areas of concern related to financial reporting
- Assess current risks and trends in the risk to the organization emanating from financial reporting
- Evaluate changes within the organization or industry affecting risk
- Evaluate the entity's own risk-identification practices and conclude on their adequacy

3. Risk Management

- Assess and conclude on the adequacy of the organization's risk identification process
- Assess and conclude on the overall adequacy of internal controls, including an evaluation of:
 - The regulated entity's organizational structure
 - Policy and procedure development for financial reporting
 - Appropriateness of risk metrics established for financial reporting
 - Reporting by management and the board
- Assess and conclude on the internal and external audit of risks
- Assess and conclude on the adequacy of information technology and controls related to financial reporting
- Assess and conclude on the adequacy of the organization's efforts to ensure:
 - Compliance with laws, regulations and other supervisory guidance
 - Compliance with the organization's policies and procedures

4. Testing

- Complete testing, as appropriate, to assess adherence with examination standards

5. Conclusions

- Summarize conclusions for all exam work performed related to financial reporting
 - Conclude on the level of risk to the organization
 - Include an assessment of the adequacy of an organization's monitoring of risk and establishment of internal controls to mitigate risk
- Conclude on responsiveness to examination findings from previous examinations
- Develop examination findings as appropriate
- Identify areas requiring follow-up examination activities or monitoring