



***Federal Housing Finance Board  
Office of Supervision***

---

*Date:* April 8, 2002  
*To:* Federal Home Loan Bank Presidents and Directors of Internal Audit  
*From:* Gwen R. Grogan, Acting Deputy Director  
Office of Supervision  
*Subject:* Risk Assessment – Internal Auditor Independence

*Background:* 12 C.F.R. § 917.3(c) requires senior management of each Federal Home Loan Bank (FHLBank) to perform, at least annually, a risk assessment of their institution. The risk assessment is to be in written form and reviewed by the Bank’s board of directors.

The Office of Supervision is reviewing the FHLBanks’ risk assessments as a part of each examination. As a part of the examination review process, examiners are reviewing the process by which these risk assessments are developed by each FHLBank. Some recent reviews have revealed that the internal audit function, and more specifically, the Director of Internal Audit, has taken a leadership role in the development of the senior management risk assessment.

*Guidance:* Management and the board of directors are responsible for the FHLBank’s risk management and control processes. However, internal auditors acting in a consulting role can assist the FHLBank in identifying, evaluating, and implementing risk management methodologies and controls to address those risks.<sup>1</sup>

Nevertheless, to maintain the independence of the audit function and avoid an “ownership of risk” role, internal auditors’ responsibilities should not include managing and coordinating the annual risk assessment of the FHLBank. Rather, Internal Audit should be performing its own risk evaluation of the Bank’s operations and activities as well as audit the risk management process as a part of the internal audit plan. Included in Internal Audit’s review should be an appraisal of the adequacy of the FHLBank’s risk assessment and the sufficiency of senior management’s understanding of risks inherent in the Bank’s operations. The charters for the internal auditors and audit committee should document the role of each in the risk assessment process.

---

<sup>1</sup> Practice Advisory 2001-3: Internal Audit’s Role in the Risk Management Process.