

A group of business professionals in a meeting, smiling and looking at laptops. The background is a blurred office environment with large windows.

Guide to FDICIA readiness

What crossing the next asset
threshold means to banks

WIPFLI

Is your bank approaching \$500 million or \$1 billion in asset size? Or does your forecasting indicate you will in the next two or three years?

If yes, it's time to start planning for your bank to be FDICIA compliant.

Some financial institutions are caught off guard by rapid growth. Others may underestimate the time involved. Either way, the rush to compliance can be grueling and costly.

It can be challenging to keep track of internal controls during the day-to-day rush but not starting now could result in poor audit performance with potential fines and administrative action.

Meeting FDICIA compliance requirements is no small undertaking. As you near the transition threshold, make sure your bank is prepared for the next step with our FDICIA guide. We'll cover the basics and the top four elements to focus on.



FDICIA 101

The FDIC passed the FDIC Improvement Act of 1991 to strengthen the banking environment after the savings and loan crisis of the '80s and '90s. The passing of FDICIA sought to improve the supervision and regulation of FDIC-insured institutions, as well as protect the Bank Insurance Fund through early detection and intervention of troubled institutions. FDICIA has different requirements of financial institutions based upon asset size.

FDICIA reporting requirements follow a tiered system based on your total assets as of the beginning of your fiscal year.

FDICIA requirements	> \$500 million	> \$1 billion
Audited comparative financial statements	Yes	Yes
Auditor independence	Yes	Yes
Management statement of responsibilities	Yes	Yes
Assessment of internal control over financial reporting	No	Yes
Independent auditor report on effectiveness of internal control structures	No	Yes
Audit committee composition	Majority independent	Completely independent

Top FDICIA compliance requirements for institutions with more than \$1 billion in assets



Management statement of responsibility

CEOs and CFOs are responsible for the accuracy, documentation and submission of financial reports and internal control reports to the FDIC.



Internal controls

Management acknowledges responsibility for maintaining sufficient internal controls over financial reporting.



Ongoing compliance

Institutions must provide documented evidence of FDICIA compliance, with ongoing monitoring and continuous improvement.

Segregation of duties for institutions with more than \$1 billion in assets

Management: Responsible for filing the annual report, as well as designing, implementing and maintaining a solid internal control structure and procedures for the reporting process.

- Can be outsourced, with management oversight.
- Identify key controls over financial reporting.
- Determine controls are operating effectively.
- Make final management assertion.

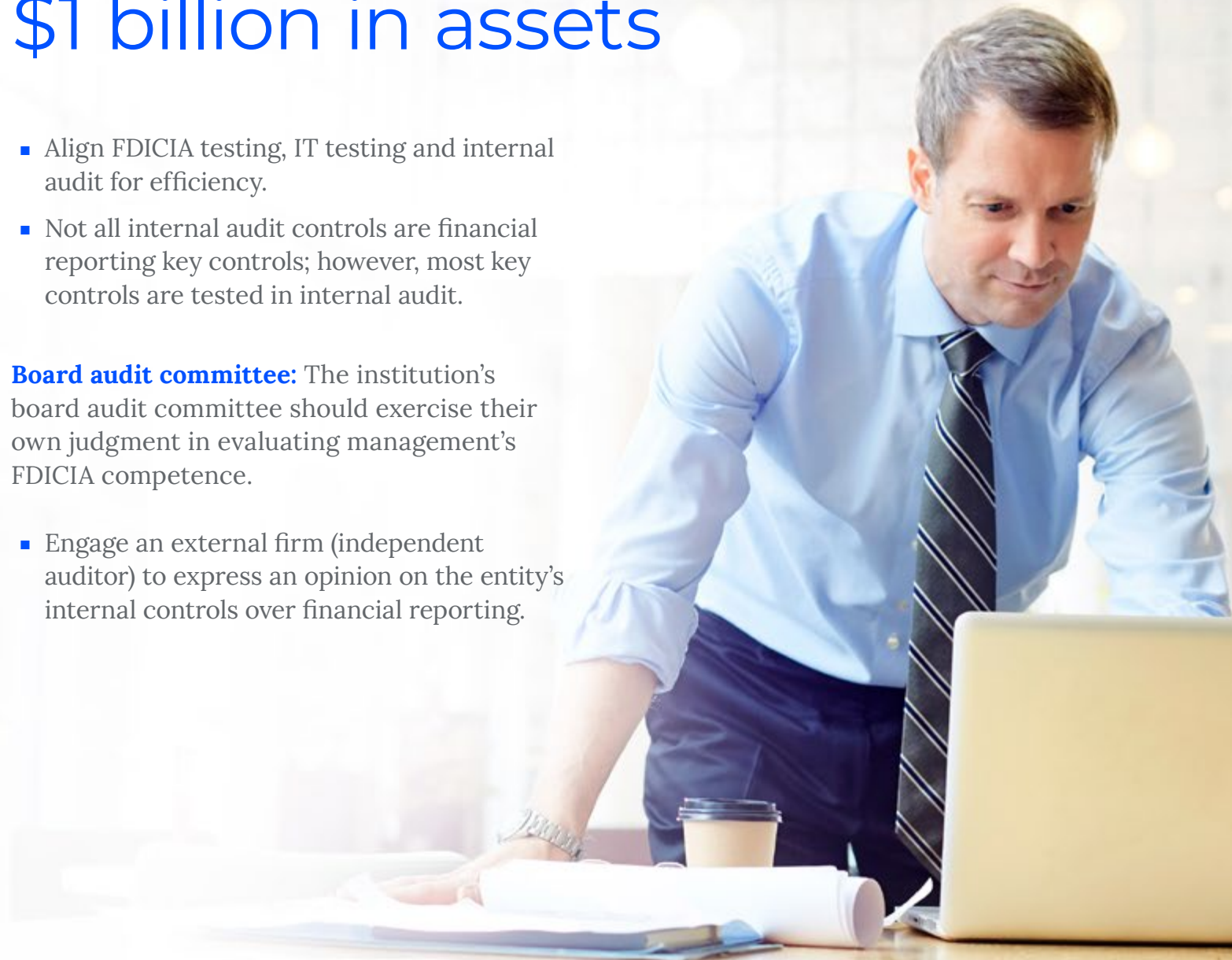
Internal audit: Complete a risk assessment and then develop an audit plan and program for each key control. Internal audit should coordinate or perform all testing and report findings to management, the board and the audit committee.

- Can be outsourced, with management oversight.

- Align FDICIA testing, IT testing and internal audit for efficiency.
- Not all internal audit controls are financial reporting key controls; however, most key controls are tested in internal audit.

Board audit committee: The institution's board audit committee should exercise their own judgment in evaluating management's FDICIA competence.

- Engage an external firm (independent auditor) to express an opinion on the entity's internal controls over financial reporting.



Getting started on your readiness plan

Now that you know the basics of FDICIA, it's time to get started on your readiness plan.

Compliance is not something that can be turned on like a switch. The earlier you build compliance into your forecasts and strategic plans, the better.

The ideal timeframe from initial FDICIA assessment to remediations of initial control deficiencies identified and then subsequent implementation is 18 to 24 months.

In addition to planning for when you'll begin your readiness strategy, also determine how you'll implement the plan. Consider whether you'll rely on in house resources, co-sourcing (joint effort with consultant) or a fully outsourced process.

For many bank employees, this will be the only time they go through FDICIA readiness in their career, leaving them unsure of how to chart a course forward.

That means more banks are turning to experienced consultants, who have been through it before and can help identify controls and coordinate with independent external auditors.

Some benefits of outsourcing include:

- Independent, fresh view of your controls and processes.
- Deep and up-to-date understanding of compliance nuances.
- Cost savings since consultants have specialized knowledge and experience.
- Less duplication due to experience with best procedures.



Secure an independent financial statement auditor

Once your institution crosses the \$500 million asset threshold, you will need an independent audit of your comparative financial statements.

Your financial statement auditor must be an independent public accountant that will comply with SEC independence standards. Essentially, there can be no potential conflicts of interest in which the auditor represents your institution or is otherwise in a position to audit their own work.

Under SEC standards, your independent financial statement auditor cannot perform nonattest services like these:

- Preparing the financial statements
- Appraisal or valuation services
- Internal audit services
- Tax services to any individual who oversees financial reporting for your institution

It's a good idea to engage an independent auditor a year before you cross the \$500 million asset threshold. This will allow your auditor to perform a comparative audit without needing to re-audit the year prior.



Establish your audit committee

Covered institutions are required to maintain an audit committee that operates independently of its board of directors.

The audit committee is responsible for appointing and overseeing the independent public accountant, reviewing FDICIA reports and ensuring management is responding appropriately.

FDICIA requires institutions with more than \$500 million in assets to have an audit committee that is made up mostly of outside directors. “Outside” is defined as people who are not employees or officers of the institution or its affiliates.

Once an institution crosses the \$1 billion asset threshold, that audit committee must be made up entirely of outside directors. “Outside directors” are defined as people who are not currently or in the past 12 months have been an officer or employee of the bank or any of its affiliates.

In smaller communities, banks may need time to recruit and vet those directors to ensure they have no affiliation. You also will need to budget for appropriate retainers and fees.



\$500 million
mostly independent



\$1 billion
entirely independent

Create your internal FDICIA team

Your implementation team needs a leader or consultant with FDICIA compliance experience to drive the process forward.

Other essential stakeholders include key process owners, executive leadership, your audit committee, internal audit team and your external financial statement auditor. It's important to ensure everyone understands FDICIA requirements and their role in compliance.

Your internal team should also start communicating early with your external financial statement auditor, who can review and respond to issues before quarterly compliance testing starts.



Internal controls over financial reporting (ICFR)

What is an internal control?

A procedure or policy established by management to reduce risk and prevent or detect errors and fraud.

For institutions with \$1 billion or more in total assets, FDICIA requirements become more extensive. At this stage, the organization is required to implement adequate internal controls over financial reporting (ICFR).

Your team will conduct walkthroughs of each significant business process identified within the FDICIA risk assessment to get a complete understanding of the transaction process and any related controls. They should look for critical steps that ensure financial information is recorded accurately and use that to build your key control inventory.

A community bank, for example, will typically have anywhere from 80 to 120 key controls, which include both operational and IT-related controls.

To make walkthroughs productive:

- **Coordinate with auditor:** Share your controls with your external financial statement auditor to ensure buy-in since they will be attesting to the effectiveness of the internal controls over financial reporting.
- **Evaluate, remediate:** Evaluate your controls for effectiveness, and redesign as needed. Control deficiencies will occur. Planning ahead gives you time to remediate during your readiness assessment period.
- **Create control documentation:** Set defined standards and build consistent documentation so you can leave a clear audit trail as you move through to testing.

Evidence of operating effectiveness

Once you've completed your walkthroughs and initial identification of key controls over financial reporting, you'll need to collect your support to evidence that these controls are operating effectively.

Banks often have processes that have been performed the same way by the same staff for years that no one has documented the processes or assessed their effectiveness.

For banks with assets greater than \$1 billion, the level of documentation is elevated surrounding each key control.

It's not unusual to find control gaps within the readiness phase of FDICIA compliance, and process owners will need add more documentation to the controls they are responsible for.

Your FDICIA compliance team should proactively create and review this documentation before and during your walkthroughs. It will save you time in the end and cut down on invested resources in remediation.

For example, if a process owner prepares a reconciliation and passes the reconciliation on to another individual to review and both the preparer and reviewer do not sign and date the reconciliation as evidence, this will be required going forward to adhere to FDICIA documentation standards.

If you've been proactive, this final step should be ensuring your documented evidence is preserved.

Get FDICIA-ready with Wipfli

Implementing an audit-ready FDICIA compliance program is a complex undertaking. For most institutions crossing a new FDICIA threshold, these requirements will be outside management's routine experience. Our specialists can guide your institution through this critical transition.

Benefits of using Wipfli's FDICIA readiness and compliance services:

- Substantive, independent viewpoint on your existing controls
- Process clarity and project management
- Speed to readiness with an established control framework and documentation
- Experienced, right-size approach avoids over- or under-testing
- Enhanced confidence and buy-in from senior leadership and board
- Effective coordination with your external financial statement auditor

A readiness program is critical to successful FDICIA compliance, but the learning curve is steep. We can do the heavy lifting in the run-up to and through the continuous compliance requirements of FDICIA.

For more information and support, see the FDICIA compliance resources at wipfli.com/FDICIA.

Perspective changes everything.

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