

This is a form of supervision which is thorough and at the same time flexible, and is far superior to anything that could be achieved through legislative action.

INTERNAL AUDITING

The Association for Bank Audit, Control & Operation, of which most banks are members, sets forth in a statement of principles of internal auditing that "a major obligation of a bank's board of directors is the establishment of proper internal controls to protect its customers, stockholders, directors and staff."

Internal auditing has as its basic purpose the prevention and detection of loss. The auditor's responsibility flows directly to the management to whom he makes regular reports. Significant in the audit program set forth by the association for pension and profit sharing trust functions are the following:

- (1) Verification of authority for action taken under the trust instrument.
- (2) Compliance with applicable statutes and regulations.
- (3) Determination that assets are adequately safeguarded and properly presented in financial reports.
- (4) Determination that liabilities are completely disclosed and any pending litigation affecting trust accounts reviewed.
- (5) Audit of trust income, expenses and acquisitions and disposal of assets.
- (6) Evaluation of insurance coverage of trust assets.

In many banks the bylaws requires that the auditor appear personally before the board of directors or its examination committee to report on the major findings of the auditing program. This would include any violation of trust statutes and regulations.

States may require examination by internal auditors accountable to the board of directors. As an illustration, in New York, section 122 of the banking law requires an annual examination of the bank by the board of directors and section 123 requires that a report be made to the board of directors of the bank after completion of the examination and a copy filed with the superintendent of banks within 10 days after such meeting. Monetary penalties are levied against the banks for each day's delay in filing reports of examination. The superintendent may also require the banks to employ independent auditors. As a further protection to trust funds, many banks engage completely independent outside auditing firms to review and supplement the work of the internal auditor.

COMPTROLLER OF THE CURRENCY

Regulation 9 issued by the Comptroller of the Currency enumerates in considerable detail the fiduciary powers of national banks and collective investment funds. The responsibility for the proper exercise of fiduciary powers is placed in the board of directors of the bank. All matters relating thereto, including the determination of policies, the investment and disposition of property held in a fiduciary responsibility, and the direction and review of the actions of all officers and employees in the exercise of its fiduciary duties are the responsibility of the board.