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DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

BUREAU OF BANKS, TRUST COMPANIES AND SAVINGS INSTITUTIONS

FIDUCIARY ACTIVITIES

ANNUAL AUDIT OF ILLINOIS TRUST COMPANIES

Background – Annual Audit Required

Section 9-6 of the Corporate Fiduciary Act [205 ILCS 620/9-6] requires Illinois trust companies to have an annual audit performed by an independent licensed public accountant within generally accepted audit principles and standards.

Policy Statement

This policy statement provides guidance for the annual audits of trust companies.

Scope of Audit

For calendar year 2003 and thereafter, the scope of the annual audit of a trust company required by Section 9-6 of the Corporate Fiduciary Act shall at a minimum include the following procedures:

a) Supervisory Review

- 1) Determine the significant functions of the trust company.
- 2) Review the trust company's written policies to determine sufficient guidelines are established to meet fiduciary responsibilities and to comply with applicable laws.
- 3) Determine if board policies are implemented and followed.
- 4) Ascertain the qualifications of the staff and the members of the board of directors, giving consideration to the nature of the fiduciary responsibilities accepted.

b) Accounting and Physical Control

- 1) Verify account assets. Include a confirmation from holders of assets retained outside the trust company.
- 2) Determine that the trust assets are adequately safeguarded, and held separate from other assets of the trust company.

- 3) Conduct an inventory of all assets held for safe keeping at the trust company and reconcile that to the list of account holders.
- 4) Verify that fiduciary cash accounts are regularly and appropriately reconciled to demand deposit or money market account statements.
- 5) Verify that internal balancing control procedures are performed each time account ledgers are posted.
- 6) Verify that suspense or operating accounts are reconciled at least monthly, contain only appropriate items, and are cleared in a timely manner.

c) Activity Control

- 1) Verify fees paid to the trust company.
- 2) Verify payment for purchases of assets to brokers' invoices, sellers' receipts, or other evidence of purchase price.
- 3) Verify accuracy of amounts and receipt of income from investments.

d) Compliance

- 1) Verify that transactions between fiduciary accounts and directors, officers, or employees of the trust company, its holding company, or other related entity do not constitute self-dealing. In general, self-dealing is considered to exist when the trust company uses or obtains property held in a fiduciary capacity for the trust company's own benefit, or for the benefit of an officer, director, employee, or affiliate of the trust company.
- 2) Review fiduciary account holdings of the following items in light of self-dealing issues:
 - i) Stock, obligations, repurchase agreements, or deposit accounts with the trust company, its affiliates, or other related organizations in which there exists an interest that might affect the best judgment of the trust company, and
 - ii) Obligations of directors, officers, and employees of the institution, its holding company or affiliates, or other entities with whom there exists a connection that might affect the exercise of the best judgment of the trust company.
- 3) Verify that all accounts for which the trust company has investment responsibilities are reviewed by the board of directors or a committee thereof.
- 4) Verify that cash receipts are promptly invested or distributed.
- 5) Verify and review the annual audit of each collective investment fund.

e) Administrative Review

- 1) Complete administrative reviews of all major account types. An acceptable administrative review would perform the following practices:
 - i) Determine that the original or authenticated copy of the governing instrument is on file;
 - ii) Determine that synoptic and historical records are current, reliable, and comprehensive;
 - iii) Determine that accounts are administered and invested in conformance with management policies, governing instruments, laws, regulations and sound fiduciary principles;
 - iv) Determine that the minutes of the board of directors and committee meetings document the review of trust company activities. Significant practices for the boards' review include the acceptance of new accounts, the closing of accounts, and the review of discretionary payments of principal or income; and
 - v) Test the accuracy of account statements submitted to beneficiaries.

Use of Consolidated Audit

A consolidated audit may be used to satisfy the annual audit requirement provided the consolidated audit includes a review of the trust activities of the trust company in accordance with the scope set forth above.

Filing of Audit with the Department

Pursuant to Section 9-6 of the Corporate Fiduciary Act, a trust company must file with the Department of Financial and Professional Regulation, Division of Banking a copy of the audit report and any written summary within 45 days after receipt of the audit report or written summary. Such audit reports and written summaries shall be delivered to the Department at the following address:

Department of Financial and Professional Regulation
Division of Banking
Fiduciary Activities Section
320 West Washington
Springfield, Illinois 62786

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