



Operationalizing your bank

Internal audit

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Center for
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About the series

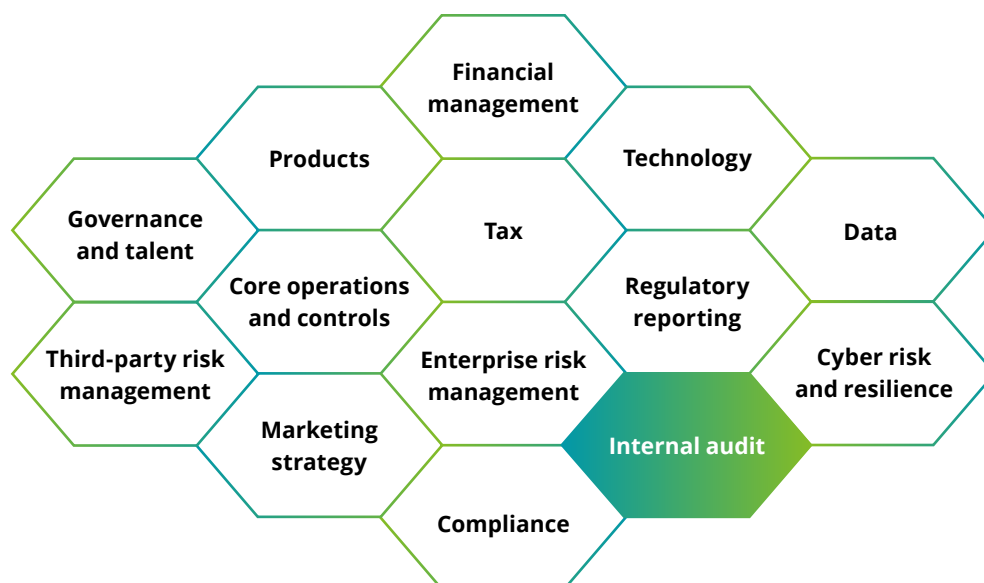
This perspective is part of Deloitte's *Operationalizing your bank* series. This series is designed for applicants that have received conditional approval, are progressing toward final approval, or are focused on preparing for bank launch.

In this edition, we focus on internal audit (IA), which is the function that provides independent, risk-based assurance over the bank's processes and controls and reports its findings directly to the Audit Committee. Establishing a credible IA function is a foundational element of the bank's operating model, providing the basis for demonstrating effective challenge and sound risk management to examiners.

Regulators expect new banks to demonstrate that their IA function is independent, adequately resourced, and equipped with a risk-based methodology capable of providing credible assurance over the bank's most critical processes and controls. Banks that cannot evidence a well-governed IA function, a documented audit methodology, and sufficient staffing and technology capabilities during their earliest examinations risk findings that raise questions about the bank's overall control environment and its readiness to operate in a safe and sound manner.

Other editions of this series focus on the remaining foundational areas listed in Figure 1.

Figure 1: Series topics



The term "bank" is used broadly throughout this series to cover considerations across common bank charter structures, including national banks, state member/nonmember banks, national trust banks, and industrial loan companies. Foreign banking organizations, US branches, and bank holding companies have a number of other nuanced and unique considerations. While this series aims to address broadly applicable operationalization considerations, organizations should evaluate this guidance within the context of their business strategy, targeted charter type, and general circumstances, as institution-specific requirements may warrant additional considerations beyond what is outlined in this series.

Operationalizing internal audit

As a bank prepares to launch, it should establish an IA function that meets regulatory expectations for independence, competency, and coverage from Day 1. The head of IA is responsible for managing the IA function and reporting functionally to the Audit Committee. It is critical for the bank's IA function to be structured, staffed, and equipped to enable credible, risk-based assurance over the bank's most critical processes and controls from the outset.

Core insights

- 1 Governance and independence are the foundation:** Examiners generally view IA's organizational independence as a threshold prerequisite for relying on its work. Audit Committee oversight, a board-approved charter, direct functional reporting by the head of IA, unrestricted access, and clear authority over scope and communications are principal evidence of that independence. Policies and escalation protocols also need to protect IA from management influence, including when findings involve a parent or affiliate. The operating model for IA may evolve during the de novo stage, for example where parent or affiliate services are provided to the bank. However, its governance design should preserve its independence.
- 2 Documented methodology supports consistent, risk-based assurance:** A formal IA methodology gives examiners a basis for evaluating whether audits are planned, executed, reviewed, and reported consistently and whether findings are tracked through remediation. The methodology typically addresses risk assessment, audit planning, fieldwork, workpapers, issue ratings, reporting, quality review, and remediation tracking, with the Institute of Internal Auditors' standards serving as the recognized framework. Parent IA methodology may be leveraged where applicable. However, the bank's IA methodology should clearly delineate bank-level from parent-level audit processes, including planning responsibilities and escalation protocols for cross-entity findings.
- 3 Coverage begins with a complete audit universe:** A complete, well-documented audit universe that inventories processes, products, legal entities, systems, and regulatory obligations across the enterprise helps provide the IA function's foundation. A formal risk assessment evaluates inherent risk and regulatory sensitivity across the bank, including services provided by third parties, to prioritize audit coverage and shape the audit plan. This is especially important for de novo banks, where inherent risk may be elevated before controls are fully established; therefore, regulators may expect this assessment to be refreshed more frequently during the initial years of operation. The resulting Audit Committee-approved plan should cover all auditable entities over a multi-year cycle, with more frequent audits for higher-risk areas.
- 4 Staffing expectations extend beyond headcount:** Examiners assess whether IA's collective capacity and competence are proportionate to the bank's size, complexity, risk profile, products, and approved audit plan. For a newly chartered bank, banking-specific audit experience is particularly important, even when resources are supplied by a parent or affiliate. In-house capabilities may be supplemented with third-party resources to address domain areas such as credit risk, Bank Secrecy Act/anti-money laundering (BSA/AML), information technology (IT), regulatory compliance, and, where applicable, fiduciary audit requirements. Regardless of the sourcing model, IA must retain sufficient authority and oversight to protect independence and objective judgment.
- 5 Technology can enable scalable audit coverage:** An effective IA technology environment supports controlled, complete, and examination-ready records throughout the audit lifecycle. Reliable tools and access controls are needed for planning, scheduling, workpapers, quality review, issue tracking, evidence retention, remediation status, and Audit Committee reporting. Newly chartered banks may leverage existing tools, such as collaboration and document management platforms, before graduating to purpose-built audit management platforms as the function matures. Data analytics, automated testing, and continuous monitoring can further broaden risk coverage and help IA focus limited resources on higher-risk activity.

Actions for launch readiness

- 1 Define governance and reporting lines:** Before audit work begins, the bank should appoint a qualified head of IA and formalize a direct functional reporting line to the Audit Committee. A board-approved IA charter or policy should define purpose, authority, scope, access rights, and reporting responsibilities. The policy should establish documented paths for escalating audits, issues, and reports that cross entity lines, as well as parent-level issues affecting the bank and bank-level issues with broader enterprise implications.
- 2 Develop and approve the IA methodology:** De novo banks should implement a methodology that covers risk assessment, planning, fieldwork, workpapers, quality review, issue ratings, reporting, audit rotation, and remediation tracking. If a parent or affiliate approach is leveraged and adopted, the bank should tailor it, as appropriate, to its own products, services, operating model, risk profile, regulatory obligations, governance, and materiality considerations. The methodology should also establish how audits are conducted and issues are logged, assigned, monitored, and closed. Templates, procedures, and decision rights need to be sufficiently detailed for staff to execute audits consistently from the first review.
- 3 Build and validate the audit universe and risk assessment:** A complete audit universe should be established by mapping the bank's charter, product set, regulatory obligations, parent/affiliate and third-party arrangements, and key internal processes. A bank-wide risk assessment should leverage this audit universe to assign inherent risk ratings and establish the priority order for the first-year audit plan and preliminary multi-year audit rotation. The IA risk assessment and plan should be updated at least quarterly, with Audit Committee review confirming that higher-risk areas receive more frequent coverage.
- 4 Build the staffing model around coverage needs:** Start with a skills-to-audit-universe assessment, rather than a generic headcount target, to identify gaps in banking experience and specialized domains. The results should inform which capabilities remain in-house and where co-sourcing is appropriate, including IT/cyber, model risk, or BSA/AML. For each co-source provider, scope, deliverables, and oversight responsibilities should be explicit. Management and the Audit Committee should be able to see that the operating model for the IA function will have sufficient capacity and competence to execute the approved plan without compromising IA's independence.
- 5 Create an examination-ready technology and data environment:** The selected platform and repository should support the full audit lifecycle, with controlled access, version history, evidence retention, issue tracking, quality review, and Audit Committee reporting to support examination-ready audit documentation from Day 1. Where the bank relies on a parent or affiliate system for IA technology, independent access rights should allow bank-specific data to be viewed and extracted separately from other entity data. Priority data sources should be connected to targeted analytics for automated testing, exception identification, and continuous monitoring. Clear accountability among technology owners, data governance stakeholders, and co-source providers can help protect data integrity and sustain the environment.
- 6 Define IA's role in operational readiness as a precursor to bank launch:** IA will need to define its role as an independent pre-launch assessment to the bank's overall readiness. Prior to launch, IA should assess whether governance structures, risk management processes, and key controls across the bank are designed and functioning as intended. This assessment could draw on the audit universe and risk assessment to confirm that critical processes have been tested and that issues identified during pre-opening activities have been tracked and resolved or appropriately escalated. Coordinating this work with compliance, risk management, and other control functions helps avoid duplication while giving the Audit Committee a consolidated view of operational readiness.

Where to go from here

For newly chartered banks, the IA function should have core Day 1 capabilities and a clear operating model in place. Banks should prioritize finalizing IA governance, methodology, audit universe, staffing model, technology capabilities, and a risk-based audit plan to support credible assurance, regulatory readiness, and sustainable growth. Banks that can demonstrate independent, effective challenge, and assurance capabilities before opening are better positioned to build regulatory credibility and trust in their ability to operate in a safe and sound manner.



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