

Arizona Department of Financial Institutions



SUBSTANTIVE POLICY STATEMENT

Section: Trust Companies
Subject: Audit Requirements

August 1, 2012
Policy Statement # TC-2

Confusion apparently exists regarding what elements must be included in the audit of trust companies. In accordance with A.R.S. § 6-859(B) & (C), a trust company must submit to the Department financial statements audited by a certified public accountant in accordance with generally accepted auditing standards within one-hundred and twenty days after the end of the company's fiscal year. The purpose of A.R.S. § 6-859(B) & (C) is to ensure that a trust company meets the minimum solvency requirements of A.R.S. § 6-856, conducts its fiduciary business in accordance with the requirements of law, and maintains internal controls that protect the interests of its trust clients. The statute outlines three distinct requirements, which are to be satisfied in a single report.

Section 6-859(B) requires that the audit report include an analysis of the trust company's "corporate records and trust business." This section spells out the first two of the statute's three requirements. The first, arising from analysis of "corporate records," entails a review of such things as summary financial statements, including but not limited to balance sheet and income statement reports. The second, stemming from the need to review "trust business," demands a review of records detailing the fulfillment of fiduciary responsibilities in ways consistent with the interests of trust clients and with safe and sound business practices.

According to Section 6-859(C), the audit also must include as its third element an examination of the company's "internal control structure over the financial reporting and accounting of the trust business" and any "reportable conditions of the trust company's internal control structure." In addition, Section A.R.S. § 6-859(C) defines "reportable conditions" as significant deficiencies in the design of the company's internal controls that would adversely affect its ability to conduct its fiduciary business in a safe and sound manner.

A.R.S. § 6-859(B) allows a trust company to submit the audit report of its parent company to satisfy the audit requirement. In order to satisfy that requirement, the audit report of a trust company's parent company must expressly address the three requirements of A.R.S. § 6-859(B) & (C) as discussed above.

Questions regarding this policy statement should be directed to our Financial Institutions Division at (602) 771-2800.