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The Impact of Off-site Internal Auditing on Risk Control: A Case Study of a Bank in Taiwan

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Abstract

Since the outbreak of the COVID-19 pandemic in early 2020, domestic banks in Taiwan have replaced on-site audits of their overseas branches with off-site audits for a period of three years. In response to this situation, the Financial Supervisory Commission (FSC) of Taiwan has also acknowledged and approved the use of off-site auditing methods under such exceptional circumstances.

This study conducts in-depth interviews with senior executives and experienced internal audit supervisors of domestic banks to explore whether off-site auditing can effectively fulfill the internal control functions traditionally expected of on-site audits. Furthermore, the study seeks to identify necessary improvements to ensure that off-site audits can meet the internal auditing standards set by regulatory authorities.

In addition to a comprehensive literature review, the study includes interviews with senior management and audit leaders from domestic banks. The interview data were organized into eight major themes, and insights were gathered from eight participants. The key research findings are as follows:

1. Off-site audits are generally less effective in risk control compared to on-site audits.
2. During the COVID-19 pandemic, off-site audits were still able to meet the regulatory requirements for risk control.
3. The implementation of off-site audits in overseas branches is not supported.
4. Off-site audits face greater challenges in terms of information security and internal control management.
5. Overall, the evaluation of off-site audits remains suboptimal.

Keywords: Off-site Audit, On-site Audit, Internal Control, Risk Control

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1. Introduction

1.1 Research Background

According to Taiwan's "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" (hereinafter referred to as the "Implementation Rules"), financial institutions—including financial holding companies and the banking industry—are required to establish an independent internal control system. Among the various components of internal control, internal auditing is considered the most critical. Institutions must establish dedicated audit units to examine whether their business activities comply with relevant laws and regulations, and whether employees engage in any illegal conduct such as self-dealing or malfeasance. This represents a system-oriented audit framework.

Traditionally, internal audit systems in the financial industry have focused on verifying regulatory compliance in business operations, identifying operational deficiencies, uncovering employee fraud, preventing money laundering, and combating the financing of terrorism.

As the highest regulatory authority over the financial sector, the Financial Supervisory Commission (FSC) of Taiwan initiated the implementation of a risk-based internal auditing system in 2017 across financial holding companies and the banking industry. The FSC also mandated the establishment of a first-line defense mechanism within internal control systems. Banks are required to develop effective internal audit plans by reviewing business strategies and objectives, identifying and assessing risks, and formulating annual audit plans based on the risk assessment results. The scope, frequency, and scale of audits for various business units are determined according to the risk level, with a primary focus on key business areas, to effectively fulfill the objectives of internal control.

According to Article 15 of the Implementation Rules, internal audit units in banks are required to conduct at least one general audit and one special audit each year for domestic business, financial, asset custody, and IT units. Other management units must be subject to at least one special audit annually. Furthermore, all operations centers, foreign business units, and overseas subsidiaries must undergo at least one general audit per year. For overseas representative offices, the audit approach may be substituted with report-based reviews or flexible adjustments in the frequency of on-site audits.

At the end of 2019, the first confirmed case of coronavirus disease 2019 (COVID-19) emerged in Wuhan, Hubei Province, People's Republic of China, triggering a global pandemic that lasted for at least three years and became one of the most severe public health crises in modern history.

On April 30, 2020, the FSC issued official correspondence (Document No. 1090600129), stating: "To ensure that financial institutions maintain effective internal control during the COVID-19 pandemic, in response to emergency measures such as remote work or work-from-home arrangements, internal audit units should include in their audit focus the implementation of internal control procedures and information security protections at remote and home-based work locations." In addition, if it is not feasible to conduct on-site audits of overseas branches (or subsidiaries) in accordance with the approved annual audit plan due to pandemic-related restrictions, the internal audit unit may adjust the audit schedule within the year. If on-site inspections remain unfeasible due to prolonged pandemic conditions, the audits may be conducted through off-site methods, such as document reviews and data transfers.

In summary, from 2020 through the end of 2022, Taiwan's financial holding companies and banking institutions replaced their annual on-site audits of overseas branches with general off-site audits. During the peak of the pandemic, even audits of domestic branches were conducted off-site. As the audit items and personnel remained unchanged, the key question arises as to whether the off-site audits implemented by the banking sector can effectively perform the containment and monitoring functions of risk control and thereby achieve the intended objectives of internal control. This has become an important subject for investigation.

1.2 Research Objectives

The primary objective of this study is to examine the effectiveness of internal audit mechanisms adopted by financial holding companies and the banking industry in Taiwan when confronted with unexpected external factors, such as the impact of the COVID-19 pandemic. Specifically, this research focuses on the shift from traditional on-site audits—mandated by law to be conducted annually for overseas branches—to the alternative approach of off-site audits. The study aims to assess whether internal audit units and personnel in financial conglomerates and banks can effectively implement a risk-based internal auditing system through off-site audit mechanisms, thereby achieving risk control and enhancing operational efficiency. Additionally, this research explores the challenges associated with transitioning between on-site and off-site audits and proposes recommendations for improvement to ensure compliance with the regulations established by the Financial Supervisory Commission (FSC) of Taiwan.

Given the relatively limited research on off-site audits—particularly within the regulatory framework of the FSC, which generally requires on-site audits and permits off-site audits only under special circumstances—it becomes even more critical to evaluate the effectiveness of off-site audit practices. The implementation of off-site audits presents a significant challenge for internal audit units and personnel, serving as a test for evaluating the advantages and limitations of different audit approaches.

This study adopts Taiwan Bank (T Bank) as a case study, investigating the off-site audit practices employed by its overseas branches in the United States from 2020 to 2022. The research seeks to compare the differences between off-site and on-site audits in terms of internal audit operations and to examine their relationship with risk management effectiveness. The specific objectives of this study are as follows:Explore potential issues arising from off-site audits.

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(2) Compare the differences between on-site and off-site audits.

(3) Identify audit items within financial holding companies and banking industries that can be replaced by off-site audits, achieving equivalent risk management effectiveness compared to on-site audits.

2. Literature Review

Taiwan's financial holding companies and banking industry operate under a financial charter system, with the Financial Supervisory Commission (FSC) serving as the highest regulatory authority. Therefore, in order to comply with domestic financial regulatory requirements and maintain risks within a controllable range, it is particularly important to establish a rigorous internal audit and control system.

This chapter is divided into three sections: Section 2.1 explores the current status of internal auditing in Taiwan's financial holding companies and banking industry; Section 2.2 analyzes relevant literature on internal control; Section 2.3 reviews literature related to regulatory compliance.

2.1 The Current Situation of Internal Auditing in Taiwan's Financial Holding Companies and Banking Industries

The internal control and audit system for financial holding companies and banks in Taiwan was established on March 29, 2010, by FSC and has undergone seven revisions until 2021. According to Article 5, the internal control system for banks should encompass five elements: control environment, risk assessment, control operations, information and communication, and monitoring operations. Article 10 mandates the establishment of an independent internal audit unit subordinate to the board of directors for financial holding companies and banks, conducting audits and reporting audit activities to the board of directors or the audit committee at least semi-annually. Article 15 stipulates that the internal audit unit of a bank should conduct at least one routine audit and one special audit annually for domestic business, finance, asset custody, and information units. Additionally, routine audits should be conducted annually for various operational centers, foreign business units, and foreign branches.

In summary, based on the regulations outlined in the Implementation Rules for Internal Control and Audit Systems of Financial Holding Companies and Banks, domestic banks are required to adhere to these regulations. They must conduct at least one routine and one special audit annually for domestic business units, with routine audits conducted for foreign business units or foreign branches. However, due to the global spread of the COVID-19 pandemic starting in 2020, the implementation of varying entry and exit control measures by different countries made it challenging to conduct routine on-site audits for foreign business units each year. In response, the FSC Banking Bureau adjusted the audit operations of financial institutions. Domestic business units were allowed to adjust the form of audits, ensuring effective internal control, the functioning of internal audits, and prioritizing the safety of audit personnel. For foreign business units, the audit process shifted to non-site audits.

Over the past three years (2020-2022), T Bank transformed the audit process for its eight overseas business units (branches in the United States, Australia, China, Hong Kong, Japan, etc.) into off-site audits. This study focuses on two branches in the United States (Los Angeles and New York) due to the strict regulatory compliance in the U.S. and the significant contribution to revenue. Most domestic business units primarily undergo on-site audits, with the exception of implementing off-site audits in the midst of the severe COVID-19 situation in 2021. According to the FSC's announcement on June 12, 2023, financial institutions should resume normal operations in response to the downgrade of COVID-19 to a Category 4 infectious disease, allowing internal audit operations to return to the prescribed procedures.

2.2 Internal Control

Discussing internal control, it is necessary to observe its development from the perspective of the United States. The term "internal control" first appeared in the field of accounting and auditing in the United States in the 1920s. In the 1970s and 1980s, the importance of internal control gained recognition after the Watergate scandal, leading authorities and the public to acknowledge its significance. Additionally, corporate accounting scandals became increasingly severe from the 1980s onwards, giving rise to more societal issues. In response, five associations, including the American Institute of Certified Public Accountants, the Institute of Management Accountants, Financial Executives Institutes, The Institute of Internal Auditors, and the American Accounting Association, jointly established the Treadway Commission. Later in 1987, they sponsored the creation of the Committee of Sponsoring Organizations, commonly known as the COSO Committee. This committee primarily focuses on researching internal control-related issues, with an emphasis on accounting and auditing processes, investigating fraudulent activities in financial statements, and seeking potential solutions.

The COSO Committee released the "Internal Control-Integrated Framework" report in 1992, outlining three objectives and five key components of internal control. The three objectives of internal control are: (1) reliable financial reporting, (2) effective and efficient operations, and (3) compliance with laws and regulations. The five key components include: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information & Communication, and (5) Monitoring. This framework forms a triangular structure known as the COSO Pyramid.

This study extensively reviews internal control literature. Huang (2001) identifies poorly designed internal control systems, management's ethical lapses, and ineffective internal audit functions as contributing factors to recurrent financial events. Recommendations include personnel appointments, heightened penalties for senior management, robust internal control systems, increased transparency through information disclosure, reinforcement of deposit insurance systems, and enhanced qualifications of audit personnel. Hsu (2013) reveals a negative association between internal control deficiencies and operational performance, as firms penalized

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by FSC for such deficiencies exhibit poorer operational performance. Hsieh (2013) emphasizes the importance of strengthening internal control and audit systems, as well as improving employee integrity and implementing effective job rotation to reduce the frequency of fraudulent incidents. Chang (2018) exams internal audit systems versus traditional audit systems in the banking industry under a risk-oriented approach aims to determine the most effective utilization of audit resources for comprehensive risk management and optimal fraud prevention. Hsiao (2018) highlights a perceptual gap between banking internal control statements and FSC-imposed penalties, indicating that even banks with effective internal control statements may face penalties due to internal control deficiencies. Huang (2019) concludes that better internal control quality leads to higher operational performance in banks. Chang (2021) suggest that legal compliance is less effective in reducing cost inefficiency, while active improvement in internal control positively influences operational efficiency, particularly in financial holding company subsidiaries compared to independent banks.

Based on the findings from the literature, it is evident that internal control systems play a crucial role in the banking industry. Whether it is related to operational performance, corporate governance, the number of regulatory penalties, fraudulent incidents, or the effectiveness of internal audits, there is a significant impact. Therefore, the design of internal control systems tailored for the banking sector is paramount. Creating such systems to reduce the probability of adverse events, enhance corporate governance, internal audit effectiveness, and overall operational performance is a pressing issue for financial holding companies and banks

2.3 Regulatory Compliance

Taiwan promulgated the " Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries " on March 29, 2010. Chapter 3, Section 4 (Legal Compliance System) stipulates that financial holding companies and the banking industry should establish an The compliance unit, which is subordinate to the general manager, is responsible for the planning, management and implementation of the compliance system, and assigns a senior manager to be responsible for the compliance affairs of the head office. It reports to the board of directors and supervisors or the audit committee at least every six months, and reports on compliance with laws and regulations. Matters were reported to the board of directors; since then, financial holding companies and the banking industry have increasingly paid attention to legal compliance.

The collective insights from studies on legal compliance within internal control systems in the banking sector contribute to a comprehensive understanding of key factors and recommendations. Shih (2011) compares the internal control systems of Taiwanese securities firms and banks, exploring the relationships between case discussions, internal audits, legal compliance, risk management, and proposing directions for regulatory authorities' future reviews. Wu (2013) delves into the establishment of a real-time whistleblowing system, designed with incentives to enhance the effectiveness of legal compliance. Recognizing the lack of protective mechanisms for whistleblowers in Taiwan, the study suggests legislative measures to

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safeguard internal personnel, encouraging reporting and thereby fortifying the legal compliance system in the banking industry. Shen (2017) introduces international perspectives on the framework and operation of internal control systems, emphasizing the core elements of legal compliance and internal audit systems to ensure effectiveness. Reflecting on recent events of internal control failures in domestic banks, the study prompts a critical reflection on the internal control mechanisms in Taiwan. Chen (2018) analyzes administrative penalty cases in the banking industry and the literature on legal compliance risk management. The results categorize violation types and internal control operations in the banking sector, constructing a legal compliance risk management mechanism. This mechanism serves as a tool for banks to strengthen their management and facilitates the FSC in advocating legal compliance through timely reporting and alerts. Chai (2022) identifies the intrinsic and extrinsic motivations for banks to adopt legal compliance technology, showcases its application in six financial scenarios, presents successful cases, and explores the critical success factors in its implementation. The results suggest that banks should thoroughly understand their inefficiencies before introducing legal compliance technology, prioritize technology with high information security standards to alleviate concerns, and crisis in the legal compliance process.

In summary, legal compliance emerges as an indispensable element within the banking sector. To address increasingly stringent financial regulatory frameworks, effectively harnessing the internal audit function becomes crucial. This is to ensure that financial holding companies and banks can achieve compliance with legal regulations within a controllable risk mechanism. Effectively meeting the requirements of legal norms is a pressing challenge that all banks are actively confronting.

3. Research Design and Methodology

The structure of this study is organized as follows: Section 3.1 outlines the scope of the research, defining the boundaries and focal topics of this study; Section 3.2 describes the research methodology employed. Section 3.3 introduces the interview participants, providing basic information about the individuals involved in the interviews. Finally, Section 3.4 presents the interview outline, detailing the key themes and guiding questions used during the interview process.

3.1 Research Scope

Given the wide variety of internal control types, and the differences in control methods, objectives, and effectiveness across industries, it is not feasible to conduct an in-depth discussion on every aspect. Therefore, the scope of this study is limited to two overseas branches of T Bank located in the United States. Utilizing a case-based expert interview approach, this study conducts in-depth interviews with senior and mid-to-senior level managers of T Bank to investigate whether, under the influence of external factors, off-site audits can effectively fulfill the internal risk control function at overseas branches. Furthermore, the study explores the differences between off-site and on-site audits, and examines whether certain audit items could be substituted with off-site audit methods while achieving comparable internal control outcomes.

3.2 Methodology

This section aims to present the research framework of this study, which adopts a qualitative research methodology. The research is conducted in two stages: a literature review followed by in-depth interviews. The content of each stage is described as follows:

(1) Literature Review:

Relevant academic literature from both domestic and international sources, public information from regulatory authorities, and publications from the Institute of Internal Auditors of the Republic of China were collected. The information was integrated to explore key factors influencing risk control and the potential challenges under the fundamental dimensions of internal control and regulatory compliance.

(2) In-Depth Interviews:

After defining the research objectives, expert interviews were conducted with audit supervisors and senior team leaders from the internal audit unit of T Bank. The aim is to analyze the off-site audit mechanism from the perspective of senior management and to evaluate whether banks can fulfill the annual audit requirements for overseas branches using off-site audit approaches, while still complying with the internal control and risk management standards set by the Financial Supervisory Commission (FSC). The study also explores whether any obstacles or difficulties arise in this process, to facilitate future evaluation and improvement.

The in-depth interview process began with the formulation of a structured interview guide based on the research objectives, systematically arranging the interview questions. Through face-to-face discussions, interviewees were invited to compare and share their experiences regarding off-site and on-site audits. Their practical insights were used to substantiate and deepen the study’s thematic exploration, serving as a foundation for subsequent analysis and argumentation.

Prior to conducting the interviews, the interview questions were provided to the participants in advance for review. Upon their confirmation, a suitable time was scheduled for the face-to-face interviews. The interviews generally followed the pre-designed set of questions; however, if participants raised issues not initially included, follow-up questions were asked accordingly to ensure the conversation remained relevant and comprehensive.

Additionally, the interaction with interviewees offered further insights into their perspectives on the issues addressed in this study, along with supplementary suggestions. These perspectives contribute to a broader and more comprehensive analysis, supporting the conclusions of this research and serving as a reference for future studies. Moreover, the findings may offer practical

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recommendations for T Bank as well as for other financial holding companies and banks in the industry.

1.3 Interview Objectives

T Bank is currently a publicly listed commercial bank in Taiwan. It was established on July 1, 1976, originally founded as a cooperative organization in line with government policy, and was restructured into a privately-owned bank in 1998. The bank maintains a positive and stable credit rating outlook. As of November 2022, it employed approximately 6,000 personnel. In addition to operating 125 domestic branches, T Bank also maintains eight overseas branches, located in Los Angeles, Hong Kong, Sydney, Shanghai, Brisbane, New York, Wuhan, and Tokyo.

This study employs expert in-depth interviews to extract valuable research insights from the responses of interviewees. These insights are aligned with the study's theoretical foundation and contribute to enhancing the depth and value of the research findings. The main interviewees of this study are the following:

(1) Chief Auditor.
(2) Head of the Audit Division.
(3) Assistant Head of the Audit Division.
(4) Assistant Manager of the Audit Division, Department of Overseas Offices.
(5) There are four senior auditors in charge of the Audit Division.

3.3 Interview Outlines

Based on the research objectives and an extensive review of relevant literature, this study aims to approach the topic from both managerial and practical perspectives. The interview content and themes are carefully planned, targeting in-depth interviews with audit supervisors, senior management personnel, and experienced audit team leaders at T Bank.

A structured interview guide will be adopted throughout the interview process, with the outline presented in a bullet-point format in advance. However, since the interviews are not designed to be entirely open-ended, the actual interview questions and their sequence may be adjusted in response to the interaction and feedback from the interviewees.

Moreover, due to constraints related to real-time questioning, limited interview personnel, and time arrangements, it may be difficult to obtain complete responses to extended or follow-up questions. Therefore, the interview guide developed for this study focuses on the following eight major themes as the primary areas of exploration:

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(1) Differences between off-site inspection and on-site inspection.

(2) Off-site inspection of risk control effectiveness.

(3) Off-site inspection of risk control compliance.

(4) The feasibility of comprehensive off-site inspections.

(5) Restricted items for off-site inspection.

(6) Evaluations other than on-site inspections.

(7) Items suitable and unsuitable for off-site inspection.

(8) Off-site inspections that can be improved and adjusted.

4. Results and Analysis

The interview outline developed for this study is divided into eight major themes: differences in assessment methods, risk control, regulatory requirements, implementation of assessment approaches, constrained items, evaluation effectiveness, changes in assessment methods, and adjustments to assessment items.

In addition, in-depth interviews were conducted with several senior executives, overseas branch audit supervisors, and senior audit managers of T Bank. The content was systematically organized and the findings consolidated. Section 4.1 presents a summary of the interviews, while Section 4.2 provides an analysis of the interview results.

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4.1 Interview Summary

(1) What's the differences between off-site auditing and on-site auditing?

Table 1 Interview Summary- Differences between off-site and on-site inspection.

Interviewee	Summary
A (Chief Auditor)	Mainly about some aspects of off-site auditing that cannot be observed; there's no way to completely confirm if they align with the actual situation.
B (Head of Audit Division)	Through on-site auditing, we can get a first-hand look at how the branch operations are being carried out. It allows for a more comprehensive understanding of the work situation since we can interact face-to-face.
C (Assistant Head of Audit Division)	In cost perspective, off-site auditing can help banks save a lot on travel expenses.
D (Assistant Manager of Audit Division)	Overall, on-site auditing allows for a greater depth and breadth of engagement, while off-site auditing is limited to reviewing written documents.
E (Senior Auditor In-Charge)	On-site auditing allows for smoother face-to-face communication with branch colleagues and doesn't disrupt the audit schedule.
F (Senior Auditor In-Charge)	Off-site auditing, in response to the time difference in the U.S. branches, can only passively wait for branch responses, making the audit schedule more prolonged.
G (Senior Auditor In-Charge)	Off-site auditing may have blind spots in terms of perspectives, and it's relatively challenging to assess the authenticity of the data.
H (Senior Auditor In-Charge)	Some audit items in off-site auditing cannot be inspected as they are not physically present, limiting the effectiveness compared to on-site auditing.

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(2) How effective do you believe the risk management is in off-site auditing?

Table 2 Interview Summary- Off-site inspection of risk control effectiveness.

Interviewee	Summary
A (Chief Auditor)	Off-site auditing, due to limitations on certain items, can achieve approximately 70% of the risk management capabilities compared to on-site auditing.
B (Head of Audit Division)	Off-site auditing, due to limitations on certain items, can achieve approximately 70% of the risk management capabilities compared to on-site auditing
C (Assistant Head of Audit Division)	Overall, in terms of risk management, the effectiveness of Off-site auditing may be about 20% to 30% less than that of on-site auditing.
D (Assistant Manager of Audit Division)	Off-site auditing focuses on data review and cannot achieve the same level of effectiveness in risk management as on-site auditing.
E (Senior Auditor In-Charge)	In terms of risk management, the effectiveness is approximately only half of on-site auditing because many items cannot be thoroughly examined.
F (Senior Auditor In-Charge)	Off-site auditing is less effective, as many data points cannot be verified for accuracy, and there is a possibility of dealing with corrected data.
G (Senior Auditor In-Charge)	Risk management presents certain challenges as it is not possible to witness the actual situation firsthand. The effectiveness is approximately only around 50%.
H (Senior Auditor In-Charge)	The risk management cannot be effectively carried out because the obtained data may not truly reflect the actual operational situation of the branch.

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(3) Do you think off-site auditing for risk management aligns with regulatory standards?

Table 3 Interview Summary-Off-site inspection of risk control compliance.

Interviewee	Summary
A (Chief Auditor)	Due to the limitations of the auditing method, achieving regulatory standards in terms of risk management may be more challenging.
B (Head of Audit Division)	During the COVID-19 period, the risk management of off-site auditing still manages to meet regulatory standards.
C (Assistant Head of Audit Division)	During the COVID-19 period, off-site auditing, in terms of risk management, can still meet the relevant regulations set by the FSC.
D (Assistant Manager of Audit Division)	Given the inability to conduct on-site audits currently, the risk management in place should still comply with the regulations set by the FSC.
E (Senior Auditor In-Charge)	Over the past three years, the risk management through off-site auditing has been relatively compliant.
F (Senior Auditor In-Charge)	There is a slight deficiency in risk management on off-site auditing. Further scrutiny is required to determine compliance with the regulations of the FSC.
G (Senior Auditor In-Charge)	Given the post-2023 pandemic situation, it seems unlikely that adopting off-site auditing alone will meet the FSC for risk management.
H (Senior Auditor In-Charge)	In terms of the FSC's regulations on off-site auditing for overseas branches during the COVID-19 period, we should still be relatively compliant.

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(4) Are you in favor of implementing off-site auditing comprehensively in overseas branches?

Table 4 Interview Summary- The feasibility of comprehensive off-site inspections.

Interviewee	Summary
A (Chief Auditor)	I don't agree because it's less comprehensive in examining the daily operations and legal compliance of overseas branches.
B (Head of Audit Division)	I don't quite agree, as off-site auditing is limited in terms of audit items, and it may not accurately reflect the actual operational situation of the branch.
C (Assistant Head of Audit Division)	I agree; it can save costs and allow for a more feasible arrangement of audit personnel's annual travel schedules to meet the requirements of the annual plan.
D (Assistant Manager of Audit Division)	Disagree; it is less effective in conducting audits and gaining a comprehensive view of the operations of overseas branches.
E (Senior Auditor In-Charge)	Disagree; some audit items cannot be accurately represented, and there is a limitation in gaining in-depth insights into the operational situation.
F (Senior Auditor In-Charge)	Disagree; off-site auditing cannot achieve a deeper understanding of the staff's familiarity and proficiency in business through interactive communication.
G (Senior Auditor In-Charge)	Disagree; off-site auditing is more prone to the opportunity for correcting audit data, making it less effective in risk management.
H (Senior Auditor In-Charge)	Disagree; if overseas branches undergo only one general audit per year, adopting off-site auditing comprehensively may not capture the compliance situation with legal regulations effectively.

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(5) In your opinion, are there any challenges or limitations in adopting off-site auditing?

Table 5 Interview Summary- Restricted items for off-site inspection.

Interviewee	Summary
A (Chief Auditor)	Off-site auditing may be less effective in managing and controlling the safety and information security aspects of overseas branch facilities.
B (Head of Audit Division)	In off-site auditing, if overseas branches intend to conceal information, auditors may not be able to detect these risks.
C (Assistant Head of Audit Division)	In terms of facility monitoring and safety management, off-site auditing cannot provide understanding or conduct relevant audits.
D (Assistant Manager of Audit Division)	Due to the time difference in the U.S. branches, off-site auditing may result in delayed handling of audit-related needs or issues.
E (Senior Auditor In-Charge)	The business aspect of information security audits is challenging to grasp through off-site auditing.
F (Senior Auditor In-Charge)	Auditing operations cannot be conducted face-to-face, and communication must rely on email and communication software, affecting timeliness and convenience.
G (Senior Auditor In-Charge)	In terms of internal control audits, off-site auditing may be less effective in controlling and may hinder the functionality of audits.
H (Senior Auditor In-Charge)	Regarding regulatory compliance and anti-money laundering, off-site auditing may not be able to capture instances of violations against regulatory standards.

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(6) How do you evaluate the effectiveness of off-site auditing?

Table 6 Interview Summary- Evaluations other than on-site inspections.

Interviewee	Summary
A (Chief Auditor)	In the past few years, adopting off-site auditing in response to the pandemic has limited many audit items, rendering it ineffective. Therefore, it is not very suitable.
B (Head of Audit Division)	The grasp and depth of off-site auditing have declined, resulting in limited effectiveness and benefits.
C (Assistant Head of Audit Division)	In terms of audit costs, off-site auditing can save a considerable amount of expenses. For the bank, the effectiveness in this regard is relatively good.
D (Assistant Manager of Audit Division)	Off-site auditing restricts many audit tasks, leading to a discount in audit quality and effectiveness. I believe the effectiveness is not too good.
E (Senior Auditor In-Charge)	The audit reports produced through off-site auditing may present differences from the actual situation, and the results are less effective compared to on-site auditing.
F (Senior Auditor In-Charge)	The preparation work for off-site auditing is not necessarily less than on-site auditing, but it increases more communication time, resulting in an overall lower cost-effectiveness.
G (Senior Auditor In-Charge)	Off-site auditing's inability to inspect items or provide necessary data creates challenges in the audit process. It may also impact other audit tasks, preventing deeper audits to discover risks or issues.
H (Senior Auditor In-Charge)	Off-site auditing consumes more time for overseas branches, coupled with the impact of time differences, making the audit more challenging. I do not recommend its adoption.

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(7)Which audit areas do you think are suitable or unsuitable for off-site auditing?

Table 7 Interview Summary- Items suitable and unsuitable for off-site inspection.

Interviewee	Summary
A (Chief Auditor)	Items suitable for off-site auditing are primarily those with computer-generated data and relevant audit data that cannot be changed afterward.
B (Head of Audit Division)	Regularly produced data such as video surveillance records and information reports can be used for off-site auditing to replace on-site audit items.
C (Assistant Head of Audit Division)	Audit items that are less relevant to risks, such as monthly fixed output reports (balance sheets and income statements), can reduce the personnel, days, and hours required for auditing.
D (Assistant Manager of Audit Division)	Audit items requiring personnel communication and information obtained through interviews are not suitable for off-site auditing.
E (Senior Auditor In-Charge)	Daily accounting and reporting operations can be audited using off-site auditing.
F (Senior Auditor In-Charge)	Riskier transactions such as transaction monitoring and remittances are less distinguishable in off-site auditing and are not recommended.
G (Senior Auditor In-Charge)	Information and cybersecurity audits involve considerations such as account control and firewall settings, making off-site auditing inappropriate.
H (Senior Auditor In-Charge)	Audits of credit disbursements and approval documents, including settings, should be done on-site, which seems more appropriate.

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(8) What recommendations do you have for adjusting the current audit planning under the existing risk management?

Table 8 Interview Summary- Off-site inspections that can be improved and adjusted.

Interviewee	Summary
A (Chief Auditor)	Reduce routine accounting report audits and increase audits with higher risk to enhance fraud prevention.
B (Head of Audit Division)	Reduce the number of sample audits to strengthen the depth of each audit category.
C (Assistant Head of Audit Division)	Consider outsourcing audits to external auditors for overseas branches, adjust the audit items of the headquarters audit unit to complement each other.
D (Assistant Manager of Audit Division)	Suggest reducing audits of headquarters reporting and focusing on reviewing items in local reports of overseas branches.
E (Senior Auditor In-Charge)	Strengthen information security audits and conduct cybersecurity threat tests to prevent cyberattacks.
F (Senior Auditor In-Charge)	Consider reducing the sampling volume of joint loans at overseas branches and switch to sampling self-loan cases with higher risk.
G (Senior Auditor In-Charge)	During audits, include incident simulation audit items to avoid panic and inability to respond promptly in case of emergencies.
H (Senior Auditor In-Charge)	Moderately reduce the breadth of audits, deepen audit depth, thoroughly understand the actual operation of branches, and avoid opportunities for fraud.

Regarding the audit operations for overseas branches, some adjustments can be made to the current risk control measures. These include reducing routine report audits, decreasing the number of sampling samples, outsourcing local internal audits, enhancing information security and incident simulation items, appropriately adjusting the depth and breadth of audits, and strengthening audits for categories with higher risk. The goal is to fulfill the functions of internal audits in the off-site audit approach while complying with the same regulations set by the FSC.

4.2 Analysis of the interview results

Summarizing the interview content regarding the eight main topics and interviewees, the comprehensive integration is as follows:

(1) Audit Method: Off-site audits and on-site audits differ not only in methodology but also in

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the specific audit items. In the case of T Bank's overseas branches in the United States, off-site audits are restricted by time differences and the inability to conduct face-to-face audits. They rely on data provided by the branches, making it challenging to achieve the same level of effectiveness in audit depth, breadth, and understanding of actual branch operations compared to on-site audits.

(2) Risk Management: Off-site audits are limited in various audit items, preventing confirmation similar to on-site audits. Most interviewees believe that the risk management effectiveness of off-site audits is around 50% to 70% of on-site audits, indicating a relative insufficiency.

(3) Regulatory Compliance: In response to the COVID-19 pandemic, the FSC issued directives in 2020, allowing overseas branches to opt for off-site audits instead of on-site audits when affected by the pandemic. T Bank's off-site audits in its overseas branches from 2020 to 2022 align with regulatory requirements. However, it should be noted that relying solely on written reviews might not cover all on-site audit items adequately.

(4) Implementation of Audit Method: Most interviewees do not endorse the comprehensive adoption of off-site audits in overseas branches. The primary reason is the limitations of off-site audits, especially in online audit items, hindering the accurate representation of actual operations and increasing the likelihood of data falsification or fraud in risk management.

(5) Restricted Audit Items: Off-site audits in T Bank's overseas branches, particularly in the U.S., are limited by time differences and certain audit items like building safety, internal control, and information security management, which cannot be effectively controlled through off-site audits, limiting the full utilization of internal audit mechanisms and functions.

(6) Evaluation of Off-site audit: The overall evaluation of off-site audits is unfavorable. Except for one interviewee who acknowledges the cost-effectiveness, the majority express dissatisfaction with the effectiveness and benefits of off-site audits, indicating a preference against their adoption.

(7) Adjustable Audit Items: Items suitable for off-site audits include those with electronic records, regularly produced reports, routine daily operations, and video surveillance. On the other hand, items requiring personnel communication, such as transaction monitoring, remittances, information security, and credit approval, are recommended to be minimized in off-site audits.

(8) Suggested Adjustments to Audit Items: Recommendations include reducing routine accounting report audits, enhancing audit depth, engaging external auditors for strengthened audits, conducting incident simulations and cybersecurity threat tests, and adjusting the depth and breadth of audits to gain a better understanding of actual branch operations.

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5. Conclusions and Discussions

5.1 Conclusions

Due to the rapid global spread of COVID-19 since 2020, Taiwan financial institutions have faced challenges in conducting routine on-site audits for their overseas branches, offices, and subsidiaries over the past three years. Consequently, under the guidance of the FSC, off-site auditing has been allowed as a substitute for on-site audits. This study aims to explore the issues arising from off-site auditing based on the actual audit situations of T Bank's overseas branch in the United States, with the goal of assessing the suitability and feasibility of off-site auditing.

This study initially gathered relevant literature and conducted interviews with top executives and senior leaders from T Bank. Eight major themes were identified, and interviews were conducted with eight key participants. The content was then systematically analyzed to derive the following key research conclusions:

(1) Off-site auditing is less effective in risk management compared to on-site audits.

(2) Off-site auditing's risk management remains compliant with regulatory standards during the COVID-19 pandemic.

(3) There is a lack of support for the comprehensive adoption of Off-site auditing for overseas branch audits.

(4) Off-site auditing poses challenges in information security and internal control management

(5) The overall evaluation of off-site auditing is considered less favorable.

5.2 Suggestions

Based on the comprehensive analysis and evaluation of the study conclusions above, the following recommendations are proposed:

(1) Adjustment of Audit Items: Given the constraints of overseas branch audits, such as time zone differences, it is recommended to tailor audit items by reducing routine operational audits and incorporating relevant information security topics. This adjustment should aim to enhance the depth and breadth of remote auditing, improving its effectiveness in risk management.

(2) Engage Local Audit Firms: Delegate internal auditing responsibilities to qualified local accounting firms or consultants in overseas branches. These external entities can conduct additional audits on branch operations, supplementing routine inspections performed by the head office audit unit. This approach not only enhances business scrutiny but also communicates the importance placed on internal auditing and controls, particularly in areas like anti-money laundering and counter-terrorism financing.

(3) Hybrid Audit Approach: Consider adopting a hybrid audit approach that combines both on-site and off-site auditing. With the easing of the COVID-19 pandemic in 2023, expedite the return to traditional on-site audits for overseas branches. Alternatively, employ a method

where half of the audits are conducted off-site and the other half on-site. This strategy can effectively address various aspects of overseas branch operations and business expansion, meeting compliance standards while ensuring the achievement of risk management effectiveness.

5.3 Research Limitations

While this study provides valuable insights into T Bank's off-site audit practices in its overseas branches, there are several limitations:

(1) Sample Limitations: The interview sample only includes high-level internal audit executives at T Bank, lacking opinions from other departments and frontline staff.

(2) Timeframe Constraints: The study's timeframe is limited to the pandemic period from 2020 to 2022, and future off-site audits may exhibit different performances under varying conditions.

(3) Culture Differences: Cultural influences on off-site audits are not deeply explored, and such differences may impact the implementation of off-site audits in overseas branches.

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