



NEWS RELEASE

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FDIC PROPOSES POLICY STATEMENT ENCOURAGING INDEPENDENT OUTSIDE AUDITS OF BANKS

The Board of Directors of the Federal Deposit Insurance Corporation today proposed a new policy encouraging state nonmember banks to obtain independent external audits.

"The FDIC believes a strong internal auditing program combined with an annual external audit will substantially lessen the risk that a bank will not detect potentially serious internal problems in its control systems or operations," FDIC Chairman L. William Seidman said. "The large number of unaudited banks experiencing financial difficulties because of fraud, insider abuse and mismanagement indicates an independent external audit could benefit a sizable number of institutions."

The proposed policy statement suggests:

- o A bank's board of directors should consider an annual external audit by a certified public accounting firm as part of the cost of operating the institution in a safe and sound manner;
- o Banks should engage an independent CPA firm to conduct an audit of their financial statements annually regardless of the nature of their internal auditing procedures;
- o A copy of external audit reports prepared for banks should be sent by the banks to appropriate FDIC regional offices;
- o The board or audit committee of a bank that does not already employ an independent CPA firm should analyze annually the bank's need for an external audit and record its deliberations;

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- o When a bank decides an outside audit by an independent CPA firm is unnecessary, a more limited "review" of financial statements and controls should be considered; and
- o Regional offices should be notified when a bank decides to change its outside auditor.

Under the proposed policy, applicants for deposit insurance coverage after the effective date of the policy statement will be expected to obtain an external audit annually for at least the first three years after deposit insurance coverage is granted. The proposed policy statement also notes that an annual audit by an outside CPA firm will be a condition of future enforcement actions under certain circumstances.

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