



NEWS RELEASE

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FDIC ISSUES POLICY STATEMENT URGING BANKS TO OBTAIN ANNUAL INDEPENDENT EXTERNAL AUDIT

The Board of Directors of the Federal Deposit Insurance Corporation today adopted a new policy statement that strongly encourages all state nonmember banks to adopt an annual independent external auditing program. The final policy statement, proposed by the agency on April 13, 1988, also suggests that all state nonmember banks establish an audit committee composed entirely of outside directors.

In issuing the policy statement, the FDIC noted that a strong internal auditing function, combined with an annual external auditing program performed by an independent auditor, substantially lessens the risk that potentially serious problems in a bank will go undetected. The FDIC Board stated: "The large number of financial institutions experiencing financial difficulties as a result of fraud, insider abuse and mismanagement in recent years has made an external auditing program even more important."

Under the new policy statement, the FDIC:

- o recommends that annual external auditing programs be performed by either independent public accountants or other qualified independent parties;
- o notes that although an external audit is not mandatory, a bank with an annual independent audit of its financial statements would generally be considered to have a satisfactory external auditing program;

(more)

- o suggests that banks send copies of external auditors' reports to the appropriate FDIC regional office as soon as possible after receipt of the report; and
- o reiterates its expectation for newly insured banks to obtain an outside audit for at least the first three years after deposit insurance is granted.

Additionally, if a bank's audit committee or board of directors decides not to have an independent public accountant perform an annual audit of the bank's financial statements, the reasons for the committee's or board's decision to use one of the acceptable alternatives or to have no external auditing program should be documented in its minutes.

In response to comments, the FDIC's new policy statement now includes an appendix containing definitions of terms used in the statement. The full text of the new policy statement is attached.

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