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SHARING INFORMATION WILL STRENGTHEN FINANCIAL SYSTEM, FDIC CHAIRMAN TELLS ACCOUNTING-AUDITING SYMPOSIUM

Independent bank auditors and bank regulators such as the Federal Deposit Insurance Corporation will produce benefits for bank management and the entire financial system by the sharing of auditing and examination information, FDIC Chairman L. William Seidman today told practitioners attending the West Michigan Accounting and Auditing Symposium.

"Although bank auditors and bank examiners both share the common goal of a strong financial system, their roles in the past have differed," Seidman commented. "These traditional roles are now blurring," he added, noting that the courts, investment analysts, the public and supervisory agencies increasingly expect independent auditors to help bank managers keep their institutions free of fraud and abusive insider activity.

The FDIC Chairman urged the group, which met in Grand Rapids, to watch for fraud and insider abuse when conducting bank audits, and he provided the auditors with a sampling of a new fraud and insider abuse "red flag" system now being developed by the FDIC's examination staff.

An independent bank audit "should provide assurance to the board of directors that they are well informed about the condition of the bank, that the management is complying with their policies, and that internal controls are strong," Seidman said.

"All told, fraud and insider abuse contributed to over 40 percent of bank failures between 1980 and 1983," Seidman said. He stressed that good communications between regulators and independent CPAs can improve the performance of both groups. He noted, "I have suggested that when CPAs resign

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from an audit engagement because they have discovered insider abuse or fraud and the management does not take appropriate action, that it would be desirable for the CPA to inform the appropriate regulator." He emphasized that, "I have not suggested that there be any communication of this nature until the CPA is no longer engaged by the client, except with the permission of the client."

He concluded by saying that "the courts, the Congress and the people expect us as auditors, whether for the government or the private sector, to be looking for fraud and insider abuse. We should make it a high priority part of each examination. We may not always find these abuses, because clever people are good at hiding them, but we should always try to search them out."

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