



Internal Audits

FIL-133-97  
December 22, 1997

TO: CHIEF EXECUTIVE OFFICER  
SUBJECT: *Interagency Policy Statement on the Internal Audit Function and Its Outsourcing*

The four federal banking agencies have adopted the attached interagency policy statement on the internal audit function of insured depository institutions, bank holding companies, and the U.S. operations of foreign banking organizations.

The four agencies have increasingly emphasized the importance of sound risk-management processes and strong internal controls in evaluating the safety and soundness of depository institutions and holding companies. The internal audit function plays an important role in assessing and contributing to the ongoing effectiveness of the internal control system. Under the Interagency Guidelines Establishing Standards for Safety and Soundness in Appendix A to Part 364 of the FDIC's regulations, each institution should have an internal audit function that is appropriate to its size and the nature and scope of its activities.

Accordingly, the policy statement provides guidance and sound practices for institutions to follow in order to effectively manage the internal audit function, whether this function is performed by an institution's own employees or by outside experts under an "outsourcing" arrangement. Outsourcing occurs when an institution engages an independent public accounting firm or other outside professionals to perform work traditionally done by internal auditors. The policy statement provides guidance on how outsourcing arrangements may affect an examiner's internal control assessment. It also discusses the effect these arrangements may have on the independence of an external auditor who also is providing internal audit services to an institution. Finally, the statement provides guidance to examiners on their reviews of internal audit functions and related matters.

Please share this information with the appropriate personnel in your institution. For further information, please contact Doris L. Marsh, Examination Specialist in the Division of Supervision, at (202) 898-8905.

Nicholas J. Ketcha Jr.  
Director

Attachments: see below, two attachments ([Attachment 1](#), Attachment 2 is not available in electronic format)

Distribution: FDIC-Supervised Banks (Commercial and Savings)