FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

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FDIC ISSUES POLICY STATEMENT PROVIDING GUIDANCE ON EXTERNAL AUDITING PROCEDURES

The Board of Directors of the Federal Deposit Insurance Corporation has adopted a new policy statement recommending minimum procedures for annual external auditing programs of FDIC-supervised banks. The FDIC is taking the step because it considers objective, outside views of a bank's operations to be an important part of the agency's programs that encourage safe and sound business practices.

The new guidance is in addition to an FDIC policy statement that became effective December 28, 1988, which strongly urges banks to have an annual audit by an "independent public accountant" but also identifies alternatives that may be acceptable. The new policy statement adopted by the FDIC Board on January 16 provides guidance on specific auditing procedures, especially for banks that forgo an annual audit of their financial statements by an independent public accountant.

In issuing the new policy statement, FDIC Chairman L. William Seidman said: "The FDIC strongly recommends that each bank we supervise have an annual audit performed by an independent public accountant in accordance with generally accepted auditing standards. However, a bank may choose, for specific reasons, to use some other form of independent external auditing program. Our new policy statement is intended to encourage certain procedures that we believe are key to a solid auditing program, especially for addressing high risk areas of the bank."

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Chairman Seidman also noted that FDIC examiners review the adequacy of a bank's internal and external auditing programs. The FDIC supervises approximately 8,000 state-chartered banks across the nation.

The policy statement provides guidance on specific auditing procedures to address the following areas common to all banks that may prove to be high-risk: loans; the allowance for loan losses; securities investments; transactions involving bank officers, directors and other "insiders"; and internal controls.

The new policy statement will become effective when it is published in the Federal Register. It states that each bank should review the risks inherent in its particular business to determine if additional procedures are needed to cover other high-risk activities. Subsidiaries of audited bank holding companies are not expected to have separate external auditing procedures performed but may need additional review if a subsidiary's activities involve "unusual risks" not addressed by the consolidated audit.

The FDIC policy statement also suggests the minimum information, including minimum sample sizes, that independent auditors should include in their report. The guidance also reiterates a request that each bank furnish its FDIC Regional Office with a copy of reports received from the external auditors.

The text of the new policy statement on minimum auditing procedures is available from the FDIC's Office of Corporate Communications, 550 17th Street, N.W., Washington, D.C. 20429.

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