Recision of a Policy Statement Regarding Independent External Auditing Programs of State Nonmember Banks, and Adoption of the Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations

AGENCY: Federal Deposit Insurance Corporation (FDIC or Corporation).

ACTION: Recision of a Policy Statement and Adoption of an Interagency Policy Statement.

SUMMARY: In an effort to provide consistent guidance for banks and savings associations regardless of their primary federal supervisor, the FDIC is rescinding its Statement of Policy Regarding Independent External Auditing Programs of State Nonmember Banks (Current Policy Statement) and concurrently adopting the Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations (Interagency Policy Statement). Both policy statements encourage institutions to adopt an annual external auditing program, preferably an audit by an independent public accountant, and to establish an audit committee composed entirely of outside directors, where practicable. In addition, the Interagency Policy Statement includes two alternatives to an audit by an independent public accountant for institutions not subject to the audit requirement in section 36 of the Federal Deposit Insurance Act (FDI Act). The alternatives consist of (1) An attestation report on internal control over specified schedules of the institution’s regulatory reports or (2) A report on the institution’s balance sheet. Both must be performed by an independent public accountant.

The Interagency Policy Statement also includes guidance regarding the responsibilities of boards of directors, audit committees, and senior management with respect to external auditing programs; the attributes and types of external auditing programs; and the review of external auditing programs by examiners.

DATES: The Current Policy Statement is rescinded and the Interagency Policy Statement is effective for fiscal years beginning on or after January 1, 2000.

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SUPPLEMENTARY INFORMATION:

I. Background

The FDIC first adopted guidance on external auditing programs in its Policy Statement Regarding Independent External Auditing Programs of State Nonmember Banks in 1988 (53 FR 47781, November 28, 1988). In 1996, the FDIC reviewed the Current Policy Statement pursuant to section 303(a) of the Riegle Community Development and Regulatory Improvement Act of 1994 and adopted several amendments to eliminate inconsistencies and outdated requirements (61 FR 32438, June 24, 1996).

The Federal Financial Institutions Examination Council (FFIEC), on behalf of the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS), collectively referred to as the “banking agencies” or the “agencies,” have each provided guidance on external audits to their supervised institutions, but a uniform policy did not exist. Under the auspices of the FFIEC, the agencies sought public comment on a proposed policy statement on External Auditing Programs of Banks and Savings Associations in February 1998 (63 FR 7796, February 17, 1998). The FFIEC received approximately 120 letters commenting on the proposed policy statement, and it revised the policy statement after considering the comments. On August 19, 1999, the FFIEC approved the Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations (Policy Statement) (64 FR 52319, September 28, 1999) and recommended that the banking agencies adopt it.

II. Recision of the Current Policy Statement and Adoption of the Interagency Policy Statement

In order to minimize burden on institutions and holding companies and in the spirit of section 303 of the Riegle Community Development and Regulatory Improvement Act of 1994, the banking agencies seek to provide consistent and uniform guidance for supervised institutions. The banking agencies believe that an independent external audit provides reasonable assurance that an institution’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP). Accordingly, the banking agencies recommend that every institution have an external auditing program.

To provide explicit guidance to institutions regarding these programs, the FFIEC approved a uniform Interagency Policy Statement on August 19, 1999. The FFIEC recommended to the banking agencies that they individually adopt the policy. Thus, the FDIC must replace its Current Policy Statement with the Interagency Policy Statement in order to achieve uniformity in this area.

III. Comparison of the Current and Interagency Policy Statements

For the most part, both the Current Policy Statement and the Interagency Policy Statement provide similar guidance. Both encourage each institution to have an annual audit of its financial statements performed by an independent public accountant. The Interagency Policy Statement also describes two alternatives to an audit that an institution may elect to have performed annually in order to have an acceptable external auditing program. These alternatives, which must be performed by an independent public accountant, are an attestation on internal control over financial reporting on certain schedules of the Reports of Condition and Income (Call Report) and an audit of the institution’s balance sheet. The Interagency Policy Statement further indicates that for a smaller institution with less complex operations, the attestation on internal control may be less costly than an audit of its financial statements or its balance sheet and provide more useful information to management. Neither policy precludes the use of agreed-upon procedures/state-required examinations as an external auditing program.

Both policy statements include sections discussing their applicability to institutions that are part of a holding company, newly chartered institutions, and institutions presenting supervisory concern. In addition, both policies recommend that each institution have an audit committee consisting entirely of outside directors, unless impracticable.

The National Credit Union Administration (NCUA), also a member of the FFIEC, is not adopting the policy.
the Federal Deposit Insurance Act (FDI Act), as implemented by 12 CFR part 363. Thus, both policy statements are directed toward institutions below that threshold that are not otherwise subject to audit requirements.

The two policies differ in the extent of guidance provided rather than the content of the guidance. Accordingly, the Interagency Policy Statement includes some guidance regarding independent external auditing programs that is lacking in the Current Policy Statement. For example, it discusses the responsibilities of boards of directors, audit committees, and senior management in more detail than the Current Policy Statement. It also describes the attributes and types of external auditing programs available and includes a short description of each. Guidance on what examiners will be evaluating in their review of external auditing programs is also included in the Interagency Policy Statement. This policy statement also recommends that examiners have access to the auditor’s workpapers concerning the auditing engagement.

The following table shows the number and section title of each of the paragraphs in the Current Policy Statement and the section title of the corresponding provision in the Interagency Policy Statement:

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The Interagency Policy Statement instructs institutions to provide copies of reports pertaining to the external auditing program, including any management letters, to the agencies and any state authority in accordance with their appropriate supervisory office’s guidance. The FDIC requests that each state nonmember bank furnish a copy of any reports by the independent public accountant pertaining to the bank’s external auditing program (regardless of the scope) to the appropriate FDIC regional office as soon as possible after the report is received by the bank. In addition, the FDIC requests each bank to promptly notify the appropriate FDIC regional office when any independent public accountant is initially engaged to perform external auditing work and when a change in, or termination of, its independent public accountant occurs.

IV. Paperwork Reduction Act

In accordance with the Paperwork Reduction Act of 1995 (PRA), the FDIC may not conduct or sponsor, and the respondent is not required to respond to, an information collection that does not display a currently valid Office of Management and Budget (OMB) control number. The FDIC submitted to OMB a request for approval of the information collection requested by this policy statement (64 FR 55926, October 15, 1999).

V. Rescission and Adoption of Policy Statements

For the reasons set forth in the preamble, the Board of Directors of the FDIC hereby rescinds the FDIC’s Policy Statement Regarding Independent External Auditing Programs of State Nonmember Banks and adopts the Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations.

The text of the Interagency Policy Statement follows:

Interagency Policy Statement On External Auditing Programs of Banks and Savings Associations

Introduction

The board of directors and senior managers of a banking institution or savings association (institution) are responsible for ensuring that the institution operates in a safe and sound manner. To achieve this goal and meet the safety and soundness guidelines implementing section 39 of the Federal Deposit Insurance Act (FDI Act) (12 U.S.C. 1831p-1),1 the institution should maintain effective systems and internal control 2 to produce reliable and accurate financial reports. Accurate financial reporting is essential to an institution’s safety and soundness for numerous reasons. First, accurate financial information enables management to effectively manage the institution’s risks and make sound business decisions. In addition, institutions are required by law 3 to provide accurate and timely financial reports (e.g., Reports of Condition and Income [Call Reports] and Thrift Financial Reports) to their appropriate regulatory agency. These reports serve an important role in the agencies’ 4 risk-focused supervision programs by contributing to their pre-examination planning, off-site monitoring programs, and assessments of an institution’s capital adequacy and financial strength. Further, reliable financial reports are necessary for the institution to raise capital. They provide data to stockholders, depositors and other

1 See 12 CFR part 30 for national banks; 12 CFR part 364 for state nonmember banks; 12 CFR part 208 for state member banks; and 12 CFR part 510 for savings associations.

2 Terms defined in appendix A are italicized the first time they appear in this policy statement.
funds providers, borrowers, and potential investors on the company’s financial position and results of operations. Such information is critical to effective market discipline of the institution.

To help ensure accurate and reliable financial reporting, the agencies recommend that the board of directors of each institution establish and maintain an external auditing program. An external auditing program should be an important component of an institution’s overall risk management process. For example, an external auditing program complements the internal auditing function of an institution by providing management and the board of directors with an independent and objective view of the reliability of the institution’s financial statements and the adequacy of its financial reporting internal controls. Additionally, an effective external auditing program contributes to the efficiency of the agencies’ risk-focused examination process. By considering the significant risk areas of an institution, an effective external auditing program may reduce the examination time the agencies spend in such areas. Moreover, it can improve the safety and soundness of an institution substantially and lessen the risk the institution poses to the insurance funds administered by the FDIC.

This policy statement outlines the characteristics of an effective external auditing program and provides examples of how an institution can use an external auditor to help ensure the reliability of its financial reports. It also provides guidance on how an examiner may assess an institution’s external auditing program. In addition, this policy statement provides specific guidance on external auditing programs for institutions that are holding company subsidiaries, newly insured institutions, and institutions presenting supervisory concerns.

The adoption of a financial statement audit or other specified type of external auditing program is generally only required in specific circumstances. For example, insured depository institutions covered by section 36 of the FDI Act (12 U.S.C. 1831m), as implemented by part 363 of the FDIC’s regulations (12 CFR part 363), are required to have an external audit and an audit committee. Therefore, this policy statement is directed toward banks and savings associations which are exempt from part 363. Institutions with less than $500 million in total assets at the beginning of their fiscal year or are not otherwise subject to audit requirements by order, agreement, statute, or agency regulations.

**Overview of External Auditing Programs**

**Responsibilities of the Board of Directors**

The board of directors of an institution is responsible for determining how to best obtain reasonable assurance that the institution’s financial statements and regulatory reports are reliably prepared. In this regard, the board is also responsible for ensuring that its external auditing program is appropriate for the institution and adequately addresses the financial reporting aspects of the significant risk areas and any other areas of concern of the institution’s business.

To help ensure the adequacy of its internal and external auditing programs, the agencies encourage the board of directors of each institution that is not otherwise required to do so to establish an audit committee consisting entirely of outside directors. However, if this is impracticable, the board should organize the audit committee so that outside directors constitute a majority of the membership.

**Audit Committee**

The audit committee or board of directors is responsible for identifying at least annually the risk areas of the institution’s activities and assessing the extent of external auditing involvement needed over each area. The audit committee or board is then responsible for determining what type of external auditing program will best meet the institution’s needs (refer to the descriptions under “Types of External Auditing Programs”).

When evaluating the institution’s external auditing needs, the board or audit committee should consider the size of the institution and the nature, scope, and complexity of its operations. It should also consider the potential benefits of an audit of the institution’s financial statements or an examination of the institution’s internal control structure over financial reporting, or both. In addition, the board or audit committee may determine that additional or specific external auditing procedures are warranted for a particular year or several years to cover areas of particularly high risk or special concern. The reasons supporting these decisions should be recorded in the committee’s or board’s minutes.

If, in its annual consideration of the institution’s external auditing program, the board or audit committee determines, after considering its inherent limitations, that an agreed-upon procedures/state-required examination is sufficient, they should also consider whether an independent public accountant should perform the work. When an independent public accountant performs auditing and attestation services, the accountant must conduct his or her work under, and may be held accountable for departures from, professional standards. Furthermore, when the external auditing program includes an audit of the financial statements, the board or audit committee obtains an opinion from the independent public accountant stating whether the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles (GAAP). When the external auditing program includes an examination of the internal control structure over financial reporting, the board or audit committee obtains an opinion from the independent public accountant stating whether the financial reporting process is subject to any material weaknesses.

Both the staff performing an internal audit function and the independent public accountant or other external auditor should have unrestricted access to the board or audit committee without the need for any prior management knowledge or approval. Other duties of an audit committee may include reviewing the independence of the external auditor annually, consulting with management, seeking an opinion on an accounting issue, and overseeing the quarterly regulatory reporting process. The audit committee should report its findings periodically to the full board of directors.

**External Auditing Programs**

**Basic Attributes**

External auditing programs should provide the board of directors with information about the institution’s financial reporting risk areas, e.g., the institution’s internal control over financial reporting, the accuracy of its recording of transactions, and the completeness of its financial reports prepared in accordance with GAAP.

The board or audit committee of each institution at least annually should review the risk inherent in its particular activities to determine the scope of its external auditing program. For most institutions, the lending and
investment securities activities present the most significant risks that affect financial reporting. Thus, external auditing programs should include specific procedures designed to test at least annually the risks associated with the loan and investment portfolios. This includes testing of internal control over financial reporting, such as management’s process to determine the adequacy of the allowance for loan and lease losses and whether this process is based on a comprehensive, adequately documented, and consistently applied analysis of the institution’s loan and lease portfolio.

An institution or its subsidiaries may have other significant financial reporting risk areas such as material real estate investments, insurance underwriting or sales activities, securities broker-dealer or similar activities (including securities underwriting and investment advisory services), loan servicing activities, or fiduciary activities. The external auditing program should address these and other activities the board or audit committee determines present significant financial reporting risks to the institution.

Types of External Auditing Programs

The agencies consider an annual audit of an institution’s financial statements performed by an independent public accountant to be the preferred type of external auditing program. The agencies also consider an annual examination of the effectiveness of the internal control structure over financial reporting or an audit of an institution’s balance sheet, both performed by an independent public accountant, to be acceptable alternative external auditing programs. However, the agencies recognize that some institutions only have agreed-upon procedures/state-required examinations performed annually as their external auditing program. Regardless of the option chosen, the board or audit committee should agree in advance with the external auditor on the objectives and scope of the external auditing program.

Financial Statement Audit by an Independent Public Accountant. The agencies encourage all institutions to have an external audit performed in accordance with generally accepted auditing standards (GAAS). The audit’s scope should be sufficient to enable the auditor to express an opinion on the institution’s financial statements taken as a whole. A financial statement audit provides assurance about the fair presentation of an institution’s financial statements. In addition, an audit may provide recommendations for management in carrying out its control responsibilities. For example, an audit may provide management with guidance on establishing or improving accounting and operating policies and recommendations on internal control (including internal auditing programs) necessary to ensure the fair presentation of the financial statements.

Reporting by an Independent Public Accountant on an Institution’s Internal Control Structure Over Financial Reporting. Another external auditing program is an independent public accountant’s examination and report on management’s assertion on the effectiveness of the institution’s internal control over financial reporting. For a smaller institution with less complex operations, this type of engagement is likely to be less costly than an audit of its financial statements or its balance sheet. It would specifically provide recommendations for improving internal control, including suggestions for compensating controls, to mitigate the risks due to staffing and resource limitations.

Such an attestation engagement may be performed for all internal controls relating to the preparation of annual financial statements or specified schedules of the institution’s regulatory reports. This type of engagement is performed under generally accepted standards for attestation engagements (GASAE).? Note: For banks and savings associations, the lending, investment securities, trading, and off-balance sheet schedules consist of:

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<td>Off-Balance Sheet Items</td>
<td>RC-L</td>
<td>SI, CMR.</td>
</tr>
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</table>

Balance Sheet Audit Performed by an Independent Public Accountant. With this program, the institution engages an independent public accountant to examine and report only on the balance sheet. As with the audit of the financial statements, this audit is performed in accordance with GAAS. The cost of a balance sheet audit is likely to be less than a financial statement audit. However, under this type of program, the accountant does not examine or report on the fairness of the presentation of the institution’s income statement, statement of changes in equity capital, or statement of cash flows.

Agreed-Upon Procedures/State-Required Examinations. Some state-chartered depository institutions are required by state statute or regulation to have specified procedures performed annually by their directors or independent persons. The bylaws of many national banks also require that some specified procedures be performed annually by directors or others, including internal or independent persons. Depending upon the scope of the engagement, the cost of agreed-upon procedures or state-required examination may be less than the cost of an audit. However, under this type of program, the independent auditor does

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6 Since the lending and investment securities activities generally present the most significant risks that affect an institution’s financial reporting, management’s assertion and the accountant’s attestation generally should cover those regulatory report schedules. If the institution has trading or off-balance sheet activities that present material financial reporting risks, the board or audit committee should ensure that the regulatory report schedules for those activities also are covered by management’s assertion and the accountant’s attestation. (See Note.) However, the schedules listed in the Note are not intended to address all possible risks in an institution.  
7 An attestation engagement is not an audit. It is performed under different professional standards than an audit of an institution’s financial statements or its balance sheet.

8 When performed by an independent public accountant, “specified procedures” and “agreed-upon procedures” engagements are performed under standards, which are different professional standards than those used for an audit of an institution’s financial statements or its balance sheet.
not report on the fairness of the
institutions financial statements or
attest to the effectiveness of the internal
control structure over financial
reporting. The findings or results of the
procedures are usually presented to the
board or the audit committee so that
they may draw their own conclusions
about the quality of the financial
reporting or the sufficiency of internal
control.

When choosing this type of external
auditing program, the board or audit
committee is responsible for
determining whether these procedures
meet the external auditing needs of the
institutions, considering its size and the
nature, scope, and complexity of its business activities. For example, if an
institutions external auditing program
consists solely of confirmations of
deposits and loans, the board or
committee should consider expanding
the scope of the auditing work
performed to include additional
procedures to test the institution's high
risk areas. Moreover, a financial
statement audit, an examination of the
effectiveness of the internal control
structure over financial reporting, and a
balance sheet audit may be accepted in
some states and for national banks in
lieu of agreed-upon procedures/state-
required examinations.

Other Considerations

Timing. The preferable time to
schedule the performance of an external
auditing program is as of an institution's
dates fiscal year-end. However, a quarter-end
date that coincides with a regulatory
report date provides similar benefits.
Such an approach allows the institution
to incorporate the results of the external
auditing program into its regulatory
reports and, if appropriate, amend the regulatory reports.

External Auditing Staff. The agencies
encourage an institution to engage an
independent public accountant to
perform its external auditing program.
An independent public accountant
provides a nationally recognized
standard of knowledge and objectivity
by performing engagements under
GAAS or GASE. The firm or
independent person selected to conduct
an external auditing program and the
staff carrying out the work should have
experience with financial institution
accounting and auditing or similar
expertise and should be knowledgeable
about relevant laws and regulations.

Special Situations

Holding Company Subsidiaries

When an institution is owned by
another entity (such as a holding
company), it may be appropriate to
address the scope of its external audit
program in terms of the institution's
relationship to the consolidated group.
In such cases, if the group's
consolidated financial statements for the
same year are audited, the agencies
generally would not expect the
subsidiary of a holding company to
obtain a separate audit of its financial
statements. Nevertheless, the board of
directors or audit committee of the
subsidiary may determine that its
activities involve significant risks to the
subsidiary that are not within the
procedural scope of the audit of the
financial statements of the consolidated
ty. For example, the risks arising
from the subsidiary's activities may be
inmaterial to the financial statements of
the consolidated entity, but material to
the subsidiary. Under such
circumstances, the audit committee or
board of the subsidiary should consider
strengthening the internal audit
coverage of those activities or
implementing an appropriate alternative
electronic auditing program.

Newly Insured Institutions

Under the FDIC Statement of Policy
on Applications for Deposit Insurance,
applicants for deposit insurance
coverage are expected to commit the
depositary institution to obtain annual
audits by an independent public
accountant once it begins operations as
an insured institution and for a limited
period thereafter.

Institutions Presenting Supervisory
Concerns

As previously noted, an external
auditing program complements the
agencies' supervisory process and the
institutions internal auditing program
by identifying or further clarifying
issues of potential concern or exposure.
An external auditing program also can
greatly assist management in taking
corrective action, particularly when
weaknesses are detected in internal
control or management information
systems affecting financial reporting.
The agencies may require a financial
institutions presenting safety and
soundness concerns to engage an
independent public accountant or other
independent external auditor to perform
external auditing services. If
Supervisory concerns may include:

- Inadequate internal control,
including the internal auditing program;
- A board of directors generally
uninformed about internal control;
- Evidence of insider abuse;
- Known or suspected defalcations;
- Known or suspected criminal
activity;
- Probable director liability for losses;
- The need for direct verification of
loans or deposits;
- Questionable transactions with
affiliates; or
- The need for improvements in the
external auditing program.

The agencies may also require that the
institutions provide its appropriate
supervisory office with a copy of any
reports, including management letters,
issued by the independent public
accountant or other external auditor.
They also may require the institution to
notify the supervisory office prior to any
meeting with the independent public
accountant or other external auditor at
which auditing findings are to be
presented.

Examiner Guidance

Review of the External Auditing
Program

The review of an institution's external
auditing program is a normal part of the
agencies' examination procedures. An
examiner's evaluation of, and any
recommendations for improvements in,
an institution's external auditing
program will consider the institution's
size; the nature, scope, and complexity
of its business activities; its risk profile;
any actions taken or planned by it to
minimize or eliminate identified
weaknesses; the extent of its internal
audit program; and any compensating
controls in place. Examiners will
exercise judgment and discretion in
evaluating the adequacy of an
institutions external auditing program.
Specifically, examiners will consider
the policies, processes, and personnel
surrounding an institution's external
auditing program in determining
whether:

- The board of directors or its audit
committee adequately reviews and
approves external auditing program
policies at least annually.
- The external auditing program is
conducted by an independent public
accountant or other independent auditor
and is appropriate for the institution.
- The engagement letter covering
external auditing activities is adequate.
- The report prepared by the auditor
on the results of the external auditing
program adequately explains the
auditors findings.
- The external auditor maintains
appropriate independence regarding
relationships with the institution under
relevant professional standards.
• The board of directors performs due diligence on the relevant experience and competence of the independent auditor and staff carrying out the work (whether or not an independent public accountant is engaged).
• The board or audit committee minutes reflect approval and monitoring of the external auditing program and schedule, including board or committee reviews of audit reports with management and timely action on audit findings and recommendations.

Access to Reports
Management should provide the independent public accountant or other auditor with access to all examination reports and written communication between the institution and the agencies or state bank supervisor since the last external auditing activity. Management also should provide the accountant with access to any supervisory memoranda of understanding, written agreements, administrative orders, reports of action initiated or ongoing by a federal or state banking agency under section 8 of the FDI Act (or a similar state law), and proposed or ordered assessments of civil money penalties against the institution or an institution-related party, as well as any associated correspondence. The auditor must maintain the confidentiality of examination reports and other confidential supervisory information.

In addition, the independent public accountant or other auditor of an institution should agree in the engagement letter to grant examiners access to all the accountant’s or auditor's workpapers and other material pertaining to the institution prepared in the course of performing the completed external auditing program.

Institutions should provide reports issued by the independent public accountant or other auditor pertaining to the external auditing program, including any management letters, to the agencies and any state authority in accordance with their appropriate supervisory office’s guidance.

Significant developments regarding the external auditing program should be communicated promptly to the appropriate supervisory office. Examples of those developments include the hiring of an independent public accountant or other third party to perform external auditing work and a change in, or termination of, an independent public accountant or other external auditor.

Appendix A — Definitions

A. Agencies: The agencies are the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS).

B. Appropriate supervisory office. The regional or district office of the institution's primary federal banking agency responsible for supervising the institution or, in the case of an institution that is part of a group of related insured institutions, the regional or district office of the institution's federal banking agency responsible for monitoring the group. If the institution is a subsidiary of a holding company, the term “appropriate supervisory office” also includes the federal banking agency responsible for supervising the holding company. In addition, if the institution is state-chartered, the term “appropriate supervisory office” includes the appropriate state bank or savings association regulatory authority.

C. Audit. An examination of the financial statements, accounting records, and other supporting evidence of an institution performed by an independent certified or licensed public accountant in accordance with generally accepted auditing standards (GAAS) and of sufficient scope to enable the independent public accountant to express an opinion on the financial statements as to their presentation in accordance with generally accepted accounting principles (GAAP).

D. Audit committee. A committee of the board of directors whose members should, to the extent possible, be knowledgeable about accounting and auditing. The committee should be responsible for reviewing and approving the institution’s internal and external auditing programs or recommending adoption of these programs to the full board.

E. Balance sheet audit. An examination of an institution’s balance sheet and any accompanying footnotes performed and reported on by an independent public accountant in accordance with GAAS and of sufficient scope to enable the independent public accountant to express an opinion on the fairness of the balance sheet presentation in accordance with GAAP.

F. Engagement letter. A letter from an independent public accountant to the board of directors or audit committee of an institution that usually addresses the purpose and scope of the external auditing work to be performed, period of time to be covered by the auditing work, reports expected to be rendered, and any limitations placed on the scope of the auditing work.

Examination of the Internal Control Structure over Financial Reporting. See Reporting by an Independent Public Accountant on an Institution’s Internal Control Structure Over Financial Reporting. The performance of procedures to test and evaluate high risk areas of an institution’s business by an independent auditor, who may or may not be a public accountant, sufficient for the auditor to be able to express an opinion on the financial statements or to report on the results of the procedures performed.

G. Financial statement audit by an independent public accountant. See Audit.

H. Financial statements. The statements of financial position (balance sheet), income, cash flows, and changes in equity together with related notes.

I. Independent public accountant. An accountant who is independent of the institution and licensed to practice, and holds himself or herself out, as a public accountant, and who is in good standing under the laws of the state or other political subdivision of the United States in which the home office of the institution is located. The independent public accountant should comply with the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct and any related guidance adopted by the Independence Standards Board and the agencies. No certified public accountant or public accountant will be recognized as independent who is not independent both in fact and in appearance.

Internal auditing. An independent assessment function established within an institution to examine and evaluate its system of internal control and the efficiency with which the various divisions or departments of the institution are carrying out their assigned tasks. The objective of internal auditing is to assist the management and directors of the institution in the effective discharge of their responsibilities. To this end, internal auditing furnishes management with analyses, evaluations, recommendations, counsel, and information concerning the activities reviewed.

Outside directors. Members of an institution’s board of directors who are not officers, employees, or principal stockholders of the institution, its subsidiaries, or its affiliates, and who do not have any material business dealings with the institution, its subsidiaries, or its affiliates.

Regulatory reports. These reports are the Reports of Condition and Income (Call Reports) for banks, Thrift Financial Reports (TFRs) for savings associations, Federal Reserve (FR) Y reports for bank holding companies, and the H-11 Annual Report for thrift holding companies.

Reporting by an independent public accountant on an institution’s internal control structure over financial reporting.
Under this engagement, management evaluates and documents its review of the effectiveness of the institution’s internal control over financial reporting in the identified risk areas as of a specific report date. Management prepares a written assertion, which specifies the criteria on which management based its evaluation about the effectiveness of the institution’s internal control over financial reporting in the identified risk areas and states management’s opinion on the effectiveness of internal control over this specified financial reporting. The independent public accountant is engaged to perform tests on the internal control over the specified financial reporting in order to attest to management’s assertion. If the accountant concurs with management’s assertion, even if the assertion discloses one or more instances of material internal control weakness, the accountant would provide a report attesting to management’s assertion.

Risk areas. Those particular activities of an institution that expose it to greater potential losses if problems exist and go undetected. The areas with the highest financial reporting risk in most institutions generally are their lending and investment securities activities.

Specified procedures. Procedures agreed-upon by the institution and the auditor to test its activities in certain areas. The auditor reports findings and test results, but does not express an opinion on controls or balances.

If performed by an independent public accountant, these procedures should be performed under generally accepted standards for attest engagement (GASAE).

By order of the Board of Directors.

Dated at Washington, DC this 15th day of October, 1999.

Federal Deposit Insurance Corporation.

Robert E. Feldman, Executive Secretary.

[FR Doc. 99–27588 Filed 10–21–99; 8:45 am]

BILLING CODE 6714–01–P

FEDERAL RESERVE SYSTEM

Sunshine Act Meeting

AGENCY HOLDING THE MEETING: Board of Governors of the Federal Reserve System.

TIME AND DATE: 10 a.m., Wednesday, October 27, 1999.


STATUS: Closed.

MATTERS TO BE CONSIDERED:

1. Personnel actions (appointments, promotions, assignments, reassignments, and salary actions) involving individual Federal Reserve System employees.

2. Any matters carried forward from a previously announced meeting.

CONTACT PERSON FOR MORE INFORMATION:

Lynn S. Fox, Assistant to the Board; 202–452–3204.

SUPPLEMENTARY INFORMATION: You may call 202–452–3206 beginning at approximately 5 p.m. two business days before the meeting for a recorded announcement of bank and bank holding company applications scheduled for the meeting; or you may contact the Board’s Web site at http://www.federalreserve.gov for an electronic announcement that not only lists applications, but also indicates procedural and other information about the meeting.

Dated: October 20, 1999.

Robert Dev. Frierson,
Associate Secretary of the Board.

[FR Doc. 99–27735 Filed 10–20–99; 11:52 am]

BILLING CODE 6210–01–P

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Agency for Toxic Substances and Disease Registry

Research Agenda Subcommittee of the Board of Scientific Counselors, Agency for Toxic Substances and Disease Registry: Meeting

In accordance with section 10(a)(2) of the Federal Advisory Committee Act (Pub. L. 92–463), the Agency for Toxic Substances and Disease Registry (ATSDR) announces the following subcommittee meeting.

Name: Research Agenda Subcommittee of the Board of Scientific Counselors.

Time and Date: 8:30 a.m.–4:10 p.m., November 3, 1999.

Place: Radisson Inn Hotel, 2061 North Druid Hills Road, Atlanta, Georgia 30329, telephone 404/321–4174.

Status: Open to the public, limited by the available space. The meeting room accommodates approximately 60 people.

Purpose: This subcommittee will meet to obtain individual advice and comments regarding the formation of ATSDR’s Five-Year Environmental Public Health Research Agenda from scientific and public health partners and community and tribal constituencies.

Matters To Be Discussed: Agenda items will include an overview of ATSDR’s Research Program; discussions on exposure assessment; evaluation and surveillance of health effects; evaluation of chemical mixtures; health promotion and intervention; children, minorities, and other special populations; and special issues concerning tribes and communities which will help to identify research needs.

Written comments are welcome and should be received by the contact person listed below prior to the opening of the meeting.

Agenda items are subject to change as priorities dictate.

Contact Person for More Information:

Robert F. Spengler, Sc.D., Executive Secretary, BSC, ATSDR, M/S E–28, 1600 Clifton Road, NE, Atlanta, Georgia 30333, telephone 404/639–0708.

The Director, Management Analysis and Services Office, has been delegated the authority to sign Federal Register notices pertaining to announcements of meetings and other committee management activities, for both the Centers for Disease Control and Prevention and the Agency for Toxic Substances and Disease Registry.


Carolyn J. Russell,
Director, Management Analysis and Services Office, Centers for Disease Control and Prevention.

[FR Doc. 99–27720 Filed 10–20–99; 12:00 pm]

BILLING CODE 4163–70–P

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Centers for Disease Control and Prevention

National Center for Health Statistics (NCHS), Data Policy and Standards Staff, Announces the Following Meeting

NAME: ICD–9–CM Coordination and Maintenance Committee meeting.

TIME AND DATE: 9 a.m.–4 p.m., November 12, 1999.

PLACE: The Health Care Financing Administration (HCFA), Auditorium, 7500 Security Boulevard, Baltimore, Maryland. In the interest of security, persons without a government I.D. will need to show a photo I.D. and sign-in at the security desk upon entering the building.

STATUS: Open to the public, limited only by the space available. The auditorium will accommodate 500 people.

PURPOSE: The ICD–9–CM Coordination and Maintenance (C&M) Committee will hold its final meeting of the 1999 cycle on Friday, November 12, 1999. The C&M meeting is a public forum for the presentation of proposed modifications to the International Classification of Diseases, Ninth-Revision, Clinical Modification.

MATTERS TO BE DISCUSSED: Agenda items include:

- The presentation of proposed modifications for the 1999 clinical modification cycle.
- Discussion of the committee's recommendations for future modifications.
- Review of data collection and reporting methodologies.
- Consideration of public comments and feedback.

Written comments are welcome and should be received by the contact person listed below prior to the opening of the meeting.

Agenda items are subject to change as priorities dictate.

Contact Person for More Information:

Robert F. Spengler, Sc.D., Executive Secretary, BSC, ATSDR, M/S E–28, 1600 Clifton Road, NE, Atlanta, Georgia 30333, telephone 404/639–0708.

The Director, Management Analysis and Services Office, has been delegated the authority to sign Federal Register notices pertaining to announcements of meetings and other committee management activities, for both the Centers for Disease Control and Prevention and the Agency for Toxic Substances and Disease Registry.


Carolyn J. Russell,
Director, Management Analysis and Services Office, Centers for Disease Control and Prevention.

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BILLING CODE 4163–70–P