

DATE: May 2, 2003

SUBJECT: Amended Interagency Guidance on the Internal Audit Function and its outsourcing

HIGHLIGHTS: The Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision have issued an amended policy statement, Internal Audit Function and its Outsourcing. The amended policy statement supersedes the interagency policy statement on this subject that was issued December 22, 1997 (SR letter 97-35). The amendments to the 1997 policy statement provide more guidance to institutions seeking to enhance the independence and effectiveness of their internal audit function.

The 1997 policy statement was amended to bring supervisory policy regarding the external auditor in concordance with the prohibition on internal audit outsourcing imposed by the Sarbanes-Oxley Act of 2002 and pertinent regulations of the U.S. Securities and Exchange Commission. The FDIC guidelines implementing Section 36 of the Federal Deposit Insurance Act refer to SEC auditor independence regulations for the purpose of meeting Section 36's audit requirements. As a result, banking organizations subject to Section 36 -- essentially those with \$500 million or more in assets -- should comply with the Sarbanes-Oxley Act prohibition on internal audit outsourcing to their external auditor. Institutions that are neither subject to Section 36 nor SEC registrants are encouraged in the amended policy statement not to use their external auditor to perform internal audit services.

DOCUMENT LOCATION: The Amended Policy Statement is attached to SR Letter 03-5, located at <http://fedweb.frb.gov/fedweb/bsr/srltrs/SR0305.htm>

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