FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-13-2006
February 9, 2006

EXTERNAL AUDIT ENGAGEMENT LETTERS
Unsafe and Unsound Use of Limitation of Liability Provisions

Summary: The federal financial institution regulatory agencies have issued the attached final interagency advisory on the unsafe and unsound use of limitation of liability provisions in external audit engagement letters.

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Chief Financial Officer
Board of Directors
Audit Committee

Related Topics:
. Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations
. Section 36 of the Federal Deposit Insurance Act
. Part 363 of the FDIC's Regulations

Attachment:
Final "Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters"

Contact:
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Note:
FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2006/index.html.

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Highlights:

- The attached final interagency advisory informs financial institutions' boards of directors, audit committees, and management that they should not execute agreements that incorporate unsafe and unsound external auditor limitation of liability provisions with respect to engagements for financial statement audits, audits of internal control over financial reporting, and attestations on management's assessment of internal control over financial reporting (audit or audits).

- The final advisory applies to all audits of financial institutions, regardless of the size of the financial institution, whether the financial institution is public or not, and whether the audits are required or voluntary.

- Limitation of liability provisions may weaken an external auditor's objectivity, impartiality and performance and, thus, reduce the regulatory agencies' ability to rely on the external audit.

- Limitation of liability provisions may not be consistent with the auditor independence standards of the U.S. Securities and Exchange Commission, the Public Company Accounting Oversight Board, and the American Institute of Certified Public Accountants.

- The inclusion of limitation of liability provisions in external audit engagement letters and other agreements that are inconsistent with the final advisory will generally be considered an unsafe and unsound practice.