



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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Comptroller Hawke Applauds SEC Effort To Enhance Auditor Independence

WASHINGTON -- Comptroller of the Currency John D. Hawke, Jr. applauded the Securities and Exchange Commission today for proposing rules aimed at enhancing auditor independence, citing in particular a provision stating that an auditing firm that provides both internal and external audits would not be considered to satisfy the requisite independence requirements.

In testimony for a hearing conducted by the SEC, Mr. Hawke said the audit function is essential to bank safety and soundness and added that there is a significant relationship between the quality of audit services and the resources the OCC devotes to an examination.

“Where we do not have a high degree of confidence in the quality of the bank’s internal audit function, we must devote more of our own resources to compliance examinations and our examiners will perform more direct testing and verification than they might otherwise do,” Mr. Hawke said.

The Comptroller said the OCC has seen a growing number of national banks outsource some or all of their internal auditing functions to outside firms. Bank managers and directors must understand that these arrangements do not relieve them of their responsibilities for establishing, maintaining, and operating effective and independent audit programs, he said.

“Management and the board cannot allow such outsourcing arrangements to compromise the integrity or independence of either the bank’s internal or external audit functions,” he added.

The Comptroller said the possibility for inherent conflicts and impairment of auditor independence and audit integrity is greatest when a bank outsources its internal audit function to the same firm that performs the bank’s external financial audit. Such arrangements introduce a number of risks, including questions about the independence of the external auditor, both in fact and appearance.

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“These arrangements eliminate the normal checks and balances that can be expected to operate where the internal and external audit functions are performed independently,” Mr. Hawke said.

“In addition, the combination of these functions deprives bank management and the board of having an independent review and assessment of the internal audit function performed by the entity that is likely to be best situated to do so -- the bank’s external auditor.”

The banking agencies, including the OCC, do not impose a blanket prohibition preventing banks from outsourcing internal audit work to the same firm that provides the external audit because all of the agencies follow the rules and standards established by the SEC and the American Institute of Certified Public Accountants.

However, Mr. Hawke noted, the OCC discourages this practice and has imposed a number of safeguards and quality controls to address this concern. Guidance was provided in a joint interagency policy statement issued with the other banking agencies and in the OCC’s handbook on Internal and External Audits. The OCC also issued an advisory letter to national banks last week reminding them of the importance of audit and internal controls.

External audits are required for all banks with more than \$500 million in assets, and the OCC encourages smaller institutions to obtain an outside audit from an independent public accountant. Many smaller institutions do obtain independent external audits even though they are not required, which raises a potential concern with the SEC rule, Mr. Hawke said.

“I would be concerned if a rigid application of a rule against outsourcing internal audit caused some smaller institutions to elect to forego independent opinion audits, in order to be able to continue outsourcing internal audit functions to the same firm they had been using for external opinion audits,” he said.

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The OCC charters, regulates and examines approximately 2,400 national banks and 58 federal branches of foreign banks in the U.S., accounting for more than 57 percent of the nation’s banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.