

Handbook: Thrift Activities  
Subjects: Independent Audit  
Oversight by the Board of Directors

Sections: 350  
310  
RB 32-1

August 16, 1995

# RESCINDED

## Independent Audits of Thrift Institutions

**Summary:** In November 1994, the Office of Thrift Supervision (OTS) revised its regulation with respect to annual independent audits. Pursuant to OTS Regulation 12 CFR Section 562.4, a savings association, savings association holding company, or affiliate may be required to obtain an independent audit or agreed-upon procedures performed by an independent public accountant. This bulletin provides guidance on independent audits or agreed-upon procedures obtained in compliance with the regulation or on a voluntary basis and also describes when the independent audit requirement may be waived. This bulletin transmits revised Thrift Activities Handbook Section 350, which should replace the existing handbook section. In addition, this bulletin rescinds all outstanding Public Accounting (PA) and Internal Audit (IA) bulletins.

**For Further Information Contact:** Your local Regional Office, or the Accounting Policy Division of OTS at (202) 906-5699 or (202) 906-5645.

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### Policy

#### A. General

The board of directors and the audit committee are responsible for overseeing management's activities, and for implementing an effective audit program. It is management's responsibility to establish and maintain an effective system of internal control and an effective audit program that ensure financial statements fairly report the savings association's financial condition and are prepared in accordance with regulatory reporting requirements.

Savings associations with assets of \$500 million or more are required to obtain an independent audit pursuant to Section 112 of the Federal Deposit Insurance Corporation Improvement Act of 1991 and the Federal Deposit Insurance Corporation's (FDIC) implementing Regulation 12 CFR Part 363. The required reports should be filed with the FDIC and OTS (appropriate Regional OTS Office) in accordance with the FDIC Regulation Part 363 and FDIC guidelines at Appendix A to Part 363.

An independent audit is also required for a savings association holding company when, as of the beginning of its fiscal year, it controls savings association subsidiary (ies) that have aggregate consolidated assets of \$500 million or more. Finally, an independent audit is also required for any savings association that receives a composite CAMEL rating of 3, 4, or 5 under the uniform financial institutions' rating system.

OTS encourages all savings associations to obtain an annual independent audit. While some entities are not required to obtain an independent audit, OTS nonetheless encourages use of an effective audit program that includes an independent audit, procedures agreed-upon by the board of directors and performed by an independent public accountant, an internal audit function, an EDP audit function, a third-party review of an EDP service bureau, or some combination.

### Independent Audits

#### B. Savings Associations That Receive a Composite CAMEL Rating of 3, 4, or 5

A savings association that receives a composite CAMEL rating of 3, 4, or 5 as of its most recent safety and soundness examination is required to obtain an independent audit of its financial statements.

### 1. Required Reports

In addition to the audited financial statements the savings association must submit:

- any report(s) from the independent public accountant that makes reference to the independent audit (i.e., management letter);
- any other OTS-requested supplemental information, or schedules.

The audited consolidated financial statements of the savings association holding company will be accepted in lieu of separate audited financial statements of the savings association.

### 2. Filing Requirements

A savings association with less than \$500 million in assets, that is required by OTS to obtain an independent audit, shall forward three copies of the required reports to the Regional Director or designee within 90 days of the fiscal year-end or within 15 days of receipt, whichever is earlier.

When a savings association with a composite CAMEL rating of 3, 4, or 5 has assets of \$500 million or more, it will instead file with the FDIC and OTS the required savings association or, the consolidated savings

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association holding company reports pursuant to FDIC Regulation Part 363 and FDIC guidelines at Appendix A to Part 363.

*C. Waiver of the Independent Audit Requirement for Savings Associations That Receive a Composite CAMEL Rating of 3, 4, or 5*

## 1. Written Request for Waiver of Independent Audit Requirement

OTS may permit a savings association to dispense with an independent audit, if OTS determines that an audit is not the most effective means to address the safety and soundness concerns that caused the composite CAMEL rating of 3, 4, or 5. The waiver provision does not apply to independent audits required pursuant to public securities filing requirements, or Section 112 of the FDIC Improvement Act of 1991 and the FDIC implementing Regulation 12 CFR Part 363. The savings association must make a written request for a waiver to the OTS Regional Director or designee. The written request must:

- indicate the basis for the composite CAMEL rating of 3, 4, or 5 and the specific reasons why the savings association believes an independent audit would not address the source of the safety and soundness concerns in the most effective manner; and
- as an alternative to an independent audit, propose specific agreed-upon procedures and describe how they can be designed to address the source of the safety and soundness concerns identified by the examination; or
- indicate the reasons why no alternative to an independent audit is considered necessary.

OTS will be responsive given a timely request for an audit waiver

from the savings association.

## 2. Safety and Soundness Considerations for Granting Waiver Requests

OTS may grant a savings association's request for a waiver of the independent audit requirement if the CAMEL rating of 3, 4, or 5 is due to safety and soundness concerns that would not be addressed by an independent audit in the most effective manner.

Safety and soundness concerns may include areas of supervisory judgment that are not readily reduced to objective criteria that can be audited in an effective manner. Safety and soundness concerns may represent areas in which examiners have specialized knowledge and expertise; or they represent areas that would not normally be included in the scope of an independent audit. Under such circumstances it may be more effective to rely on timely examiner judgments or obtain agreed-upon procedures that are designed to specifically address the OTS safety and soundness concerns.

While recognizing the limits of an independent audit, there are circumstances when an independent audit is warranted because of pervasive safety and soundness concerns. Generally, an audit waiver will not be granted based solely on cost considerations when an audit is considered the most effective means to address the safety and soundness concerns identified in the examination report.

## *D. Savings Association Holding Companies with \$500 Million or More of Total Assets*

### 1. Filing Requirements

A savings association holding company is required by OTS to obtain an independent audit when the total assets of the consolidated savings association subsidiary(ies) are \$500

million or more. The holding company should comply with the reporting requirements at Item 21, "Financial Statements" in the H-(b)11 Annual Report.

## 2. Modification or Waiver of the Independent Audit Requirement for a Savings Association Holding Company

OTS may grant a savings association holding company's request for a modification or waiver of the independent audit requirement under the following circumstances:

- the savings association holding company is engaged in very limited activities other than control of subsidiary savings association (s) and the subsidiary savings association's separate independent audited financial statements are submitted;
- the accounting basis of the holding company makes consolidated financial statements or an independent audit impracticable; or
- the independent audit would represent an unusual and unreasonable regulatory burden.

The savings association holding company must make a written request for a waiver to the OTS Regional Director or designee. The request must describe the circumstances that the savings association holding company believes warrant the proposed modification or waiver.

## *E. Notification by OTS of Independent Audit Requirement*

The OTS Regional Director will provide written notification to a savings association or savings association holding company when it is required to engage the services of a qualified independent public accountant to perform an independent audit and the entity is not oth-

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erwise required to obtain an independent audit because of its CAMEL rating or size.

## *F. Voluntary Independent Audits*

Savings associations and savings association holding companies that voluntarily obtain an independent audit of the financial statements are not required to file any reports or notices with the OTS. The examiners will request a copy of the most recent reports during the periodic safety and soundness examination.

## **Agreed-Upon Procedures**

### *G. Agreed-Upon Procedures Required for Safety and Soundness Purposes*

A savings association, savings association holding company, or affiliate ("entity(ies)") may be required to obtain the services of an independent public accountant to perform agreed-upon procedures whenever such procedures constitute an effective means of addressing and correcting safety and soundness concerns.

#### 1. Notification by the OTS

The OTS Regional Director or designee will provide written notification to the entity when it is required to engage the services of a qualified independent public accountant to perform agreed-upon procedures.

#### 2. Required Procedures and Reports

When the OTS determines that agreed-upon procedures are a more effective means to address the safety and soundness concerns, the OTS will identify the specified elements, account, items of the financial statements or other matters to be addressed. The procedures and reporting must be performed in accordance with Generally Accepted Standards for Attestation

Engagements (GASAE) or Generally Accepted Auditing Standards (GAAS), as appropriate. OTS may either provide such procedures directly or develop procedures in consultation with the independent public accountant.

#### 3. Filing Requirements

An entity that is required to obtain agreed-upon procedures shall forward three copies of the agreed-upon procedures report to the Regional Director or designee within 30 days of receipt of the report. A copy of the signed engagement letter shall be forwarded to the Regional Director or designee before the independent accountant conducts field work.

### *H. Voluntary Agreed-Upon Procedures*

Savings associations and savings association holding companies that voluntarily obtain agreed-upon procedures are not required to file any reports or notices with the OTS. The examiners will request a copy of the most recent reports during the periodic safety and soundness examination.

## **Other**

### *I. Qualification Requirements for Independent Public Accountants*

An independent audit or an agreed-upon procedures report that is required by the OTS must be performed by an independent public accountant who meets the minimum requirements provided in the OTS rules. To maintain independence from management, the independent public accountant reports to the outside directors of the board and is hired and terminated by the outside directors of the board. OTS will question the independence and objectivity of the independent public accountant when management appears to be the client.

The OTS will evaluate compliance with the qualification requirements, including the peer review requirement, during the periodic examination. There is no requirement to file peer review reports with OTS.

### *J. De Novo Savings Associations*

An independent audit may be required as a condition of approval for De Novo savings associations. In such cases, the conditions of approval will describe the reporting and filing requirements.

### *K. Trust Activities*

Institutions that have been granted permission to exercise trust powers should refer to OTS Regulation 12 CFR Section 550.7, and to the OTS Trust Activities Regulatory Handbook for the requirements for reporting trust activities.

## **Rescission Of Public Accounting And Internal Audit Bulletins**

OTS has determined that the guidance contained in the Public Accounting (PA) and Internal Audit (IA) Bulletins are no longer applicable and are obsolete as a result of FDIC Regulation Part 363, OTS Regulation Section 562.4, Auditing Standards issued by the AICPA and the issuance of this thrift bulletin. Therefore, as of December 23, 1994, the following PA and IA Bulletins are rescinded:

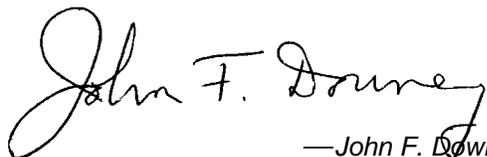
- Bulletin IA-5, Audits of Insured Institutions, Service Corporations and Joint Ventures by Internal Auditors;
- Bulletin PA-7a, Audits of Insured Institutions, Service Corporations and Joint Ventures by Independent Public Accountants;
- Bulletin PA-7-1a, FHLBB Standards for Audits of Insured Institutions Using Electronic Data Processing;

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- Bulletin PA-7a-1, Supplemental Requirements for Audits of Institutions Receiving Capital Assistance Under Net Worth Certificate Act;
- Bulletin PA-7a-2, Acceptable Opinions of Independent Public Accountants on Insured Institutions' Financial Statements: Guidelines and Examples;
- Bulletin PA-7a-4, Change in Accountants: FHLBB Procedural Requirements; and
- Bulletin PA-7a-5, Requests for Extension of Time to File Audit Reports.

Attachments



—John F. Downey  
Director of Supervision  
Office of Thrift Supervision

## **Introduction**

*The board of directors and the audit committee are responsible for overseeing management's activities, and for implementing an effective audit program. It is management's responsibility to establish and maintain an effective system of internal control and an effective audit program that ensure financial statements fairly report the savings association's financial condition and are prepared in accordance with regulatory reporting requirements.*

*Savings associations with assets of \$500 million or more are required to obtain an independent audit pursuant to Section 112 of the Federal Deposit Insurance Corporation Improvement Act of 1991 and the Federal Deposit Insurance Corporation's (FDIC) implementing Regulation 12 CFR Part 363. The required reports should be filed with the FDIC and OTS (appropriate Regional OTS Office) in accordance with the FDIC Regulation Part 363 and FDIC guidelines at Appendix A to Part 363.*

*An independent audit is also required for a savings association holding company when, as of the beginning of its fiscal year, it controls savings association subsidiary(ies) that have aggregate consolidated assets of \$500 million or more. Finally, an independent audit is also required for any savings association that receives a composite CAMEL rating of 3, 4, or 5 under the uniform financial institutions' rating system.*

The FDIC audit and internal control reporting requirements are outlined in Appendix B. In addition to the independent audit, the FDIC requires a management report on internal controls (management internal control report), an accountant's attestation report on management's assessment of the effectiveness of the internal control structure (accountant's attestation report), and an accountant's agreed-upon procedures report on designated safety and soundness laws and regulations (accountant's agreed-upon procedures report). These audit-related reports are subject to the same review requirements as the audited financial statements.

*OTS encourages all savings associations to obtain an annual independent audit. While some entities are not required to obtain an independent audit, OTS*

*nonetheless encourages use of an effective audit program that includes an independent audit, procedures agreed-upon by the board of directors and performed by an independent public accountant, an internal audit function, an EDP audit function, a third-party review of an EDP service bureau, or some combination.*

This Section of the Handbook generally describes the standards for independent audits and assists regulatory personnel in determining how audits can be used to supplement the regulatory process.

## **Independent Audits**

### **Savings Associations That Receive a Composite CAMEL Rating of 3, 4, or 5**

*A savings association that receives a composite CAMEL rating of 3, 4, or 5 as of its most recent safety and soundness examination is required to obtain an independent audit of its financial statements.*

### **Required Reports**

*In addition to the audited financial statements the savings association must submit:*

- *any report(s) from the independent public accountant that makes reference to the independent audit (i.e., management letter);*
- *any other OTS-requested supplemental information, or schedules.*

*The audited consolidated financial statements of the savings association holding company will be accepted in lieu of separate audited financial statements of the savings association.*

### **Filing Requirements**

*A savings association with less than \$500 million in assets, that is required by OTS to obtain an independent audit, shall forward three copies of the required reports to the regional director or designee within 90 days of the fiscal year-end or within 15 days of receipt, whichever is earlier.*

*When a savings association with a composite CAMEL rating of 3, 4, or 5 has assets of \$500 million or more, it will instead file with the FDIC and OTS the required savings association or, the consolidated savings association holding company reports pursuant to FDIC Regulation Part 363 and FDIC guidelines at Appendix A to Part 363.*

*Waiver of the Independent Audit Requirement for Savings Associations That Receive a Composite CAMEL Rating of 3, 4, or 5*

**Written Request for Waiver of Independent Audit Requirement**

*OTS may permit a savings association to dispense with an independent audit, if OTS determines that an audit is not the most effective means to address the safety and soundness concerns that caused the composite CAMEL rating of 3, 4, or 5. The waiver provision does not apply to independent audits required pursuant to public securities filing requirements, or Section 112 of the FDIC Improvement Act of 1991 and the FDIC implementing Regulation 12 CFR Part 363. The savings association must make a written request for a waiver to the OTS regional director or designee. The written request must:*

- indicate the basis for the composite CAMEL rating of 3, 4, or 5 and the specific reasons why the savings association believes an independent audit would not address the source of the safety and soundness concerns in the most effective manner; and*
- as an alternative to an independent audit, propose specific agreed-upon procedures and describe how they can be designed to address the source of the safety and soundness concerns identified by the examination; or*
- indicate the reasons why no alternative to an independent audit is considered necessary.*

*OTS will be responsive given a timely request for an audit waiver from the savings association.*

**Safety and Soundness Considerations for Granting Waiver Requests**

*OTS may grant a savings association's request for a waiver of the independent audit requirement if the CAMEL rating of 3, 4, or 5 is due to safety and soundness concerns that would not be addressed by an independent audit in the most effective manner.*

*Safety and soundness concerns may include areas of supervisory judgment that are not readily reduced to objective criteria that can be audited in an effective manner. Safety and soundness concerns may represent areas in which examiners have specialized knowledge and expertise; or they represent areas that would not normally be included in the scope of an independent audit. Under such circumstances it may be more effective to rely on timely examiner judgments or obtain agreed-upon procedures that are designed to specifically address the OTS safety and soundness concerns. Examples of such can include the following circumstances:*

- supervisory judgments regarding the adequacy of capital levels;*
- deficient credit underwriting policies and loan documentation that management is correcting;*
- low level of earnings or poor quality of earnings whose source has been investigated in a recent examination and management is correcting; or*
- supervisory judgments regarding liquidity, interest-rate risk, and other safety and soundness or compliance matters.*

*While recognizing the limits of an independent audit, there are circumstances when an independent audit is warranted because of pervasive safety and soundness concerns including, but not limited to the following:*

- identified or suspected insider abuses;*
- identified or suspected defalcation;*
- identified or suspected criminal activity;*

- *identified weakness in the internal audit function or the internal control structure and procedures for financial reporting; or*
- *lack of confidence in the board of directors or management with regard to integrity, ethical values, competence, operating philosophy and overall corporate governance exercised by the board.*

*Generally, an audit waiver will not be granted based solely on cost considerations when an audit is considered the most effective means to address the safety and soundness concerns identified in the examination report.*

*Savings Association Holding Companies with \$500 Million or More of Total Assets*

#### Filing Requirements

*A savings association holding company is required by OTS to obtain an independent audit when the total assets of the consolidated savings association subsidiary(ies) are \$500 million or more. The holding company should comply with the reporting requirements at Item 21, "Financial Statements" in the H-(b)11 Annual Report.*

#### Modification or Waiver of the Independent Audit Requirement for a Savings Association Holding Company

*OTS may grant a savings association holding company's request for a modification or waiver of the independent audit requirement under the following circumstances:*

- *the savings association holding company is engaged in very limited activities other than control of subsidiary savings association(s) and the subsidiary savings association's separate independent audited financial statements are submitted;*
- *the accounting basis of the holding company makes consolidated financial statements or an independent audit impracticable; or*

- *the independent audit would represent an unusual and unreasonable regulatory burden.*

*The savings association holding company must make a written request for a waiver to the OTS regional director or designee. The request must describe the circumstances that the savings association holding company believes warrant the proposed modification or waiver.*

#### Notification by OTS of Independent Audit Requirement

*The OTS regional director will provide written notification to a savings association or savings association holding company when it is required to engage the services of a qualified independent public accountant to perform an independent audit and the entity is not otherwise required to obtain an independent audit because of its CAMEL rating or size.*

#### Voluntary Independent Audits

*Savings associations and savings association holding companies that voluntarily obtain an independent audit of the financial statements are not required to file any reports or notices with the OTS. The examiners will request a copy of the most recent reports during the periodic safety and soundness examination.*

#### Agreed-Upon Procedures

##### Agreed-Upon Procedures Required for Safety and Soundness Purposes

*A savings association, savings association holding company, or affiliate ("entity(ies)") may be required to obtain the services of an independent public accountant to perform agreed-upon procedures with respect to certain aspects of its operations and operations at outside servicers or its adherence to specified laws, regulations, policies and accounting principles, whenever such procedures constitute an effective means of addressing and correcting safety and soundness concerns. When requiring an entity to obtain agreed-upon proce-*

dures, the OTS will consider certain conditions, including the following:

- the specified element, account, items of the financial statements, outside servicer, or other matters representing a supervisory concern will not be addressed in the examination process, or the agreed-upon procedures could supplement the examination process;
- an independent audit is not the most effective means to address the specified element, account, items of the financial statements or other matters of supervisory concern;
- where an independent audit has been performed, the examiner determines that an audit does not adequately address the supervisory concerns, based on a review of the workpapers or third-party review report on an outside servicer, prepared by the independent public accountant; or
- objective criteria exist for reasonably measuring compliance with specified laws, regulations, and policies.

#### Notification by the OTS

The OTS regional director or designee will provide written notification to the entity when it is required to engage the services of a qualified independent public accountant to perform agreed-upon procedures.

#### Required Procedures and Reports

When the OTS determines that agreed-upon procedures are a more effective means to address the safety and soundness concerns, the OTS will identify the specified elements, account, items of the financial statements or other matters to be addressed. The procedures and reporting must be performed in accordance with Generally Accepted Standards for Attestation Engagements (GASAE) or Generally Accepted Auditing Standards (GAAS), as appropriate. OTS may either provide such procedures directly or develop procedures in consultation with the independent public accountant.

#### Filing Requirements

An entity that is required to obtain agreed-upon procedures shall forward three copies of the agreed-upon procedures report to the regional director or designee within 30 days of receipt of the report. A copy of the signed engagement letter shall be forwarded to the regional director or designee before the independent accountant conducts field work.

#### Voluntary Agreed-Upon Procedures

Savings associations and savings association holding companies that voluntarily obtain agreed-upon procedures are not required to file any reports or notices with the OTS. The examiners will request a copy of the most recent reports during the periodic safety and soundness examination.

#### Other

#### Qualification Requirements for Independent Public Accountants

To maintain independence from management, the independent public accountant reports to the outside directors of the board and is hired and terminated by the outside directors of the board. OTS will question the independence and objectivity of the independent public accountant when management appears to be the client or when the independent public accountant appears to be an advocate for management.

**Required Independent Audit or Required Agreed-Upon-Procedures:** An independent audit or an agreed-upon procedures report that is required by the OTS must be performed by an independent public accountant who meets the minimum requirements at OTS Regulation 562.4(d)(1), (2), (3), and (4). The minimum requirements are as follows:

- is registered or licensed to practice as a public accountant, and 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 entity is located;

- *agrees in the engagement letter to provide copies to the OTS of any workpapers, policies, and procedures relating to services performed pursuant to OTS Regulation 562.4;*
- *is in compliance with the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct, and meets the independence requirements and interpretations of the Securities and Exchange Commission (SEC) and its staff; and*
- *has received or will be enrolled in a peer review that meets guidelines acceptable to OTS. The following peer review guidelines are acceptable:*
  - *the external peer review should be generally consistent with AICPA standards;*
  - *the external peer review should be conducted: (1) by an organization independent of the accountant or firm being reviewed, and (2) at least as frequently as is consistent with the AICPA standards;*
  - *the external peer review should include, if available, at least one audit of an insured depository institution or consolidated depository institution holding company. The peer review report and working papers are to be made available to the OTS upon request; and*
  - *corrective action required under any qualified peer review report should be taken on a timely basis.*

***Voluntary Independent Audit or Voluntary Agreed-Upon-Procedures:*** Any voluntary independent audit or voluntary agreed-upon procedures shall be conducted by an independent public accountant who meets the minimum requirements described above, except for the peer review requirements. The peer review requirements do not apply to voluntary independent audits or voluntary agreed-upon procedures.

#### ***De Novo Savings Associations***

***An independent audit may be required as a condition of approval for De Novo savings associations. In such cases, the conditions of approval will describe the reporting and filing requirements.***

#### ***Trust Activities***

***Institutions that have been granted permission to exercise trust powers should refer to OTS Regulation 12 CFR Section 550.7, and to the OTS Trust Activities Regulatory Handbook for the requirements for reporting trust activities.***

#### ***Public Accounting and Internal Audit Bulletins Have Been Rescinded***

***OTS determined that the guidance contained in the Public Accounting (PA) and Internal Audit (IA) Bulletins was no longer applicable and obsolete as a result of FDIC Regulation Part 363, OTS Regulation Section 562.4, and Auditing Standards issued by the AICPA. As of December 23, 1994, the following PA and IA Bulletins were rescinded:***

- ***Bulletin IA-5, Audits of Insured Institutions, Service Corporations and Joint Ventures by Internal Auditors;***
- ***Bulletin PA-7a, Audits of Insured Institutions, Service Corporations and Joint Ventures by Independent Public Accountants;***
- ***Bulletin PA-7-1a, FHLBB Standards for Audits of Insured Institutions Using Electronic Data Processing;***
- ***Bulletin PA-7a-1, Supplemental Requirements for Audits of Institutions Receiving Capital Assistance Under Net Worth Certificate Act;***
- ***Bulletin PA-7a-2, Acceptable Opinions of Independent Public Accountants on Insured Institutions' Financial Statements: Guidelines and Examples;***
- ***Bulletin PA-7a-4, Change in Accountants: FHLBB Procedural Requirements; and***

- ***Bulletin PA-7a-5, Requests for Extension of Time to File Audit Reports.***

**Standards for Audits**

The American Institute of Certified Public Accountants' (AICPA) Code of Professional Ethics for CPAs requires that audits be performed according to generally accepted auditing standards (GAAS). GAAS, as distinct from accounting standards, are concerned not only with the auditor's professional qualifications, but also with the judgment the auditor exercises in the performance of an audit and with the quality of the audit procedures. GAAS are grouped into three categories: general standards, standards of field work, and standards of reporting.

The general standards require that the audit be performed by a person or persons having adequate technical training and proficiency, that independence in mental attitude be maintained, and that due professional care be exercised in the performance of the audit and the preparation of the report.

Field work standards include requirements that:

- The work be adequately planned;
- Assistants, if any, be properly supervised;
- A proper study and evaluation of existing internal controls be made for determining audit scope and audit procedures, including the extent of testing; and
- Sufficient evidence be obtained to formulate an opinion regarding the financial statements under audit.

Reporting standards require that the CPA state whether the financial statements are presented in accordance with generally accepted accounting principles (GAAP). The application of GAAP in audited financial statements and reports must achieve the fundamental objectives of financial accounting; that is, to provide reliable financial information about economic resources and obligations of a business enterprise. The application of GAAP in these reports should also incorporate the needs and expectations of the OTS. When there is unacceptable diversity in GAAP practice, the OTS will establish the accounting instructions that should be applied in audited financial statements. In addition, the informative disclosures in the financial statements must follow

GAAP, or the CPA must state otherwise in the report.

**Independence of Public Accountant**

There are circumstances where the examiner may decide to test the independence of the CPA through reviews of loan listings, contracts, stockholder listings, and other appropriate measures. Concerns about independence should be referred to the regional accountant. The regional accountant should communicate to the Chief Accountant, OTS-Washington, DC the names of auditors or audit firms that have executed deficient audits or lacked independence. Such information will be forwarded to the other regional accountants.

**Limitations of Audits and Audited Financial Statements**

Although auditing standards are designed to require the use of due care and professional skepticism, a properly designed and executed audit does not guarantee that all misstatements of amounts or omissions of disclosures in the financial statements have been detected. Moreover, a properly designed and executed audit does not guarantee that the auditor addressed OTS safety and soundness considerations. Examination personnel should be cognizant of these and other limits inherent to an audit. The following examples illustrate some common limitations of audits:

- The auditor is not responsible for deciding whether an institution operates wisely. An unqualified audit report means that the transactions and balances are reported in accordance with GAAP. It does not mean that the transactions made business sense, that the associated risks are managed in a safe and sound manner, or that the balances can be recovered upon disposition or liquidation.
- The auditor attempts to understand financial reporting internal controls. The auditor can substitute other audit procedures when financial reporting internal controls are weak or nonexistent. The auditor's report that the financial statements present fairly the financial position means that, given evidence and current environment, reported assets can be recovered in the normal course of business. It does not mean that underwriting standards, operating strategy, loan monitoring systems, and workout procedures are

adequate to mitigate losses if the environment changes.

- GAAP uses historical cost as the basis of presentation. Historical cost assumes that the entity is a going concern. The going concern concept allows certain fair value losses to be deferred because management believes the cost basis can be recovered during the remaining life of the asset. The quality of management and how it manages risk are not considered in determining historical cost and its recoverability. Liquidation or fair value accounting is the rare exception, even when an institution is not deemed to be viable.
- GAAP financial statements offer only limited disclosures of risks and uncertainties and the other safety and soundness factors on which the institution's viability depends.
- Under GAAP, loss reserves are provided for "probable losses" and for losses currently inherent (imminent) in the portfolio. GAAP does not consider losses that are "more likely than not" or "reasonably possible," or "likely" to occur in future periods.

### Regulatory Concerns

The independent audited financial statements, the management internal control report, the independent accountant's attestation report, the accountant's agreed-upon procedures report and the independent accountant's management letter are part of the supervisory process for monitoring savings associations. The annual audit process, **when required by OTS or the FDIC**, should be used to assist in the financial analysis of associations to identify areas of supervisory concern or accounting complexity and to detect trends and information not otherwise revealed in the monitoring of associations. The OTS strategy for accomplishing these objectives is to insist that, **when required by OTS or the FDIC**, the audit be completed on a timely basis, review the reports generated by the audit for supervisory considerations, and use the audit work papers and the auditor to satisfy selected examination objectives.

The regional office is responsible for determining that each association files **the required audit report on a timely basis**. The required audit report should be date stamped upon receipt. Each regional office

should update the Profile Data System (PDS) by providing the name of the auditor, the date of the auditor's report in the audited financial statements (date below the auditor's signature), and the type of auditor report.

**When an audit is required by OTS or the FDIC, OTS** policy requires savings associations to submit copies of the report of audit, report on internal control, and any other audit-related reports to the regional office. One complete set should be maintained in the supervisory files (supervisory file copy) attached to the completed Audit-Related Report found in this Handbook Section. Another set (examination file copy) should be provided to the examiners with a copy of the appropriate checklists.

**When audits are required by OTS or the FDIC** examination managers are responsible for the review and timely follow-up of the various audit reports and correspondence. Audit reports, financial statements, reports on internal control and other audit-related reports should be reviewed within 90 days of receipt. Any items of supervisory interest should be added to the supervisory concerns, objectives, and strategies section of the regulatory plan. Based on this review, the examination manager should work out the timing and nature of any required follow-up as indicated on the checklist. The activity agenda section of the regulatory plan should be updated to reflect any planned actions resulting from the review. The regional accountant should be consulted when the follow-up includes issues about GAAP, GAAS, or enforcement matters.

A report of audit disclaiming an opinion on the audited financial statements will generally be rejected as unsatisfactory unless the reason for the disclaimer is beyond the control of the association or has been approved by the regional accountant.

Chapter 18 of the AICPA Audit and Accounting Guide, Audits of Savings Institutions (August 31, 1991), and AICPA Statement of Auditing Standards No. 58 describe the standard types of audit reports. Copies of these materials are maintained by the regional accountant.

### Review of Audit Work Papers

The independent auditor is in all likelihood the only other outside party to examine the records of the association. The auditor performs procedures that

evaluate the reliability of financial statement assertions. As a result, the auditor is the only party to evaluate certain assertions included in the Thrift Financial Report (TFR).

Examination personnel should use the annual audit to supplement the examination process whenever possible. Examination personnel are encouraged to review the audit work papers when planning examinations. The review is intended to help determine the scope of the examination, identify areas where examination procedures can be supplemented by audit work, identify audit work that can be relied on for certain financial statement assertions, and identify high-risk areas that require expanded procedures. Examiners may rely on the audit work findings in low-risk areas. In such cases, examiners should request that the auditor provide copies of the key work papers. In high-risk areas, examiners should use the audit evidence to plan and supplement examination procedures. Examiners should also consider exercising the OTS's authority to direct auditors to perform specific or additional audit procedures. In such cases, the regional accountant should be consulted.

Auditors are generally very cooperative, as they are interested in assessing the effect of examination concerns on the financial statements. The review of audit work papers and the discussion of significant items and complex transactions with the auditors can help the examiner determine whether the regulatory reporting is safe and sound.

The following instances are examples of cases where a review of the audit work papers and conversations with auditors could assist examiners in performing examinations.

- An association has asset quality problems and reserves are deemed by the auditor to be adequate. The audit work papers document management's valuation estimates and indicate the audit procedures performed to test those estimates. After the review, the examiner would understand management's approach and the exposure areas.
- An association has aggressive accounting practices. The audit work papers would document management's reasons for the aggressive practices. After the review, the examiner would understand management's rationale and could assess whether a less aggressive accounting practice would be more appropriate from a safety and soundness standpoint.
- An association has serious internal control problems. The full extent of the problems should be discussed with the auditor to determine where the scope of the examination should be expanded.
- An association has mortgage servicing assets. The audit work papers would document the assumptions and methodologies used to value the servicing. If the findings are acceptable for safety and soundness reasons, the examiner could rely on the audit work.

In each of the above examples, a review of the audit work papers and a discussion with the auditor would likely improve the examiner's understanding of the differences in judgment or fact that might require examination adjustments to the TFR. They also illustrate how the examiner can focus scarce examination resources on problem areas by using some of the evidence gathered by the auditor.

After reviewing the auditor's work papers, the regulator may decide to do some or all of the following: (1) reduce the scope of the examination in certain areas based on the extent, scope, and findings of the audit; (2) expand the examination scope in certain high-risk areas based on the audit work; (3) expand the scope in certain areas based on the auditor's findings that disclose matters of supervisory concern; and (4) refer regulatory reporting issues to the regional accountant.

If there are questions or concerns about the application of GAAP or GAAS, the regional accountant should be consulted. When examiners identify material adjustments to the TFR or significant conflicts of interest, such matters should be referred to the regional accountant for a review of the audit. If a review identifies GAAP or GAAS deficiencies, the audit work papers should be subpoenaed before any enforcement action is initiated. The regional accountant, or contracted experts, should review the subpoenaed work papers and provide written findings to the regional director. The regional director, regional accountant, and regional enforcement should determine the appropriate enforcement action.

Regional operations will communicate to each region the number of audits that should be reviewed

by the regional accountant each year for GAAP and GAAS compliance.

**Communications with Auditors**

When conducting an audit of the financial statements of a savings association the independent auditor can consider, in accordance with GAAS, the regulatory authorities as a source of competent evidential matter. Accordingly, the independent auditor may review communications from, and make inquiries of, the regulatory authorities. Savings associations and their auditors are encouraged to confer with the OTS when they consider it appropriate. Such contacts can include meetings with examiners when planning audits; attending examination planning, interim, and exit conferences with association management and examiners; and attending other meetings between association management or the board of directors (or a committee thereof) and examination personnel when they consider it appropriate.

Examination personnel should provide associations with advance notice of the starting and completion dates of examinations so management can coordinate the audit field work with the examination. Management should inform auditors in advance of scheduled examinations and meetings.

When requested by the association and the auditor, the examination manager may communicate examination findings prior to the completion of the examination. The examination manager is encouraged to comply with such requests in order to foster better communications and to improve the quality of financial reports. Examiners are also encouraged to communicate with auditors in the field after notifying the examination manager. The examiner should communicate to the auditor all supervisory concerns and information except those involving confidential enforcement actions such as imminent conservatorships or receiverships. As a general guideline, interim examination findings should be communicated whenever:

- The examination process has resulted in substantiated findings that would have a significant effect on the financial information reported by the association; and
- The association is about to report quarterly or annual financial information to the OTS or other

outside parties, such as shareholders or the general public.

Obviously, under such circumstances, prompt communication is important. Material examination adjustments made shortly after a financial statement is issued can cause significant public disclosure and securities problems.

The regional office should make examination work papers available to independent auditors upon request. If the report of examination (ROE) has not been issued, copies of work papers provided to the independent auditor should be stamped "DRAFT." To obtain access to work papers, the independent auditor must make the request in writing to the examination manager. Requests may be declined for good cause but such denials should be unusual. For example: (1) if the specific work papers requested contain confidential litigation matters, such as criminal referrals; or (2) if litigation against the auditor is pending or contemplated.

Finally, to obtain access to work papers, the auditor must sign a statement of consent to the following prohibition notice:

**Prohibition of Disclosure or Release**

The report of examination, regulatory correspondence, and examination work papers are the property of the OTS. OTS documents are made available to the independent audit firm for its confidential use relating to its audit of the savings association engaging the audit firm. Under no circumstances shall the audit firm nor any of its employees disclose or make these documents, nor any portion of them, public in any manner.

If a subpoena or any legal process is received calling for the production of any OTS documents held by the auditor, the regional director should be notified immediately. The attorney at whose instance the process was issued, and, if necessary, the court that issued the process should be advised of the above prohibition and referred to § 510.5 of the OTS regulations.

**Information Required to be Made Available to Outside Auditors**

Section 931 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)

requires depository associations that are insured by the Federal Deposit Insurance Corporation (FDIC) and that have engaged the services of an independent auditor to audit the association within the past two years to transmit to the auditor a copy of the most recent report of condition—i.e., OTS Thrift Financial Report made by such association—and a copy of the most recent ROE received by the association.

In addition, savings associations must provide the independent auditor with:

- A copy of any supervisory agreement or memorandum of understanding or written agreement between a federal or state banking agency and the association that is in effect during the period covered by the audit; and
- A report of any formal action taken by a federal or state banking agency during such period, or any civil money penalty assessed with respect to the association or any association-affiliated party.

Regulatory personnel should ascertain if the association is in compliance with the requirements of Section 931 of FIRREA (12 USC § 1817(a)) and report instances of noncompliance to the regional accountant.

### Changes in Auditors

***The FDIC requires the board of directors to provide a notice of termination or engagement of the independent public accountant (see 12 CFR 363.2 and 363.4). The FDIC requires the independent public accountants to provide a notice of termination (see CFR 363.3(c)). The OTS has no separate requirements for reporting changes in auditors.***

### FDIC Regulation 12 CFR Part 363 Audit Requirements

Effective for fiscal years beginning after December 31, 1992, audits of all savings associations with assets of \$500 million or more, as determined at the beginning of any fiscal year, must comply with the provisions of FDIC Regulation 12 CFR Part 363, Annual Independent Audits and Reporting Requirements.

Under the FDIC regulation, the management, board of directors, and independent accountants of these institutions are required to comply with the following requirements:

#### Management

- Prepare a statement declaring its responsibility for the annual financial statements, for establishing and maintaining an adequate internal control structure and procedures for financial reporting, and for complying with federal laws and regulations relating to loans to insiders and dividend restrictions,
- Assess the effectiveness of the internal control structure and procedures for financial reporting as of the end of the fiscal year, and
- Assess the effectiveness of the internal control structure and procedures for compliance with federal laws and regulations governing loans to insiders and dividend restrictions.

#### Board of Directors

- Establish an audit committee consisting of outside directors who are independent of management, and
- Determine the duties of the audit committee that should, at a minimum, include reviewing the the audit reports with management and the independent accountant, discussing the selection and termination of the independent accountant, and overseeing the internal audit function.

#### Independent Accountant

- Attest to whether management's assertion about the effectiveness of the internal control structure over financial reporting is fairly stated,
- Perform and report the results of agreed-upon procedures designed to determine the institution's compliance with federal laws and regulations relating to loans to insiders and dividend restrictions, and
- Participate in a peer review program that is acceptable to the FDIC.

Appendix B shows the specific provisions of FDIC Regulation 12 CFR Part 363 and related current OTS audit requirements.

Although the requirements of the FDIC regulation differ from the current OTS requirement, the reports and other information obtained pursuant to the FDIC regulation should be used to assist in the financial analysis of associations, to identify areas of supervisory concern or accounting complexity, and to detect trends and information not otherwise revealed in the monitoring process. These reports should receive the same level and type of review as those submitted pursuant to OTS audit requirements, as discussed previously in this Section.

### Examination Objectives

To determine what effect audit procedures, findings, and recommendations have on the scope of the planned examination.

To evaluate the extent to which the examiner can rely on the audit work to limit or supplement the examination scope.

To communicate with auditors to obtain a better understanding of high risk or complex activities of the association.

To be satisfied that the auditor met regulatory requirements in the preparation and presentation of the audit report.

To determine if the association has taken corrective action on deficiencies noted by the auditors.

***To determine that the auditor's client is the board of directors and not management.***

### Monitoring and Examination Procedures

#### Level I

*Supervisory Monitoring Procedures (Examination managers)*

1. Obtain copies of the audit report, report on system of internal control (report on internal control), engagement letter, audited financial statements, Securities and Exchange Commission (SEC) filings, and any other audit-related reports as they are

received by the regional office. (Also obtain a copy of all comments pertaining to any supervisory or compliance reviews performed by the regional accountant.)

2. Read the reports for supervisory issues (at a minimum, verify that the regulatory capital figures in the footnotes to the audited financial statements agree with the TFR for the same period).

a. Complete the Audit-Related Report checklist for audit-related reports.

3. Determine whether any identified supervisory concerns require immediate follow-up. If not, use the checklists to document needed follow-up by examination personnel.

4. Determine whether any supervisory concerns have subsequently been reported in the association's Thrift Financial Report or the examination.

5. Update the PDS and the regulatory plan for any identified supervisory concerns.

#### *Examination Planning Procedures*

6. Obtain the examination file copy of the Audit-Related Report checklist prepared since the last examination.

a. Review the checklist for any documented supervisory concerns.

b. Schedule field examination follow-up on documented supervisory concerns.

7. Make inquiries of association management and the external auditor to determine whether the external auditor has been engaged to perform special reviews of specific departments or areas of the association since the previous examination that were not supplied to OTS.

a. Obtain copies of the reports and discuss any supervisory concerns with the auditor and management.

b. Complete the Audit-Related Report checklist.

c. Update the regulatory plan for any identified supervisory concerns and required examination follow-up.

8. Determine whether the audit can be used to supplement the examination procedures.

a. Review the audit work papers to identify areas where examination procedures can be supplemented by audit work.

b. Identify audit work that can be relied on to limit examination procedures.

c. Consider the auditor's competence, integrity, and knowledge of regulatory matters (consult the regional accountant).

d. Consider having the auditor perform specific procedures. (This request should coincide with the auditor's normal annual audit work whenever possible.)

#### *Examination Field Procedures*

9. Perform recommended follow-up for all items as indicated in the regulatory plan and the Audit-Related Report checklist.

10. Discuss with the external auditor matters of supervisory concern and material transactions that required complex analysis.

11. Make inquiries of association management and the external auditor about adjustments made to the associations accounts as a result of the most recent audit.

a. Obtain a schedule of the adjustments.

b. Review the adjustments to identify entries that indicate poor accounting records or controls.

c. Review the adjustments to ascertain whether the affected areas have received appropriate attention from association management and to determine whether they were reported on the TFR in the appropriate period. **DO NOT REQUIRE RESTATEMENT OF THE TFR UNLESS THE ERROR IS MATERIAL.**

12. Review Level II procedures and perform those necessary to test, support, and present examination conclusions derived from performing Level I procedures.

#### **Level II**

#### *Examination Field Procedures*

13. If a review of the audit work papers is planned, arrange for the auditor to make the work papers available at the association's office. (Alternatively, the accountant may request that the work papers be reviewed in his office.)

a. Gather evidence on identified matters as necessary to substantiate stated examination objectives.

b. Prepare a list of work papers to be copied, if needed.

c. Submit the list to the auditor and obtain a firm commitment on the delivery date, if needed.

d. Modify the examination scope as considered necessary.

e. If there are questions or concerns about the application of generally accepted accounting principles or generally accepted auditing standards based on the work paper review, consult the regional accountant.

14. Assess the CPA's independence and competence.

a. Make inquiries of the appropriate association officials concerning their knowledge of any improper relationship (stockholder, significant unsecured borrower, officer, or director) or business affiliations with the CPA.

b. Obtain and review loan listings, contracts, and stockholder listings to substantiate representations of independence, if circumstances warrant.

c. Determine that the audit committee of the board of directors verified that the audit engagement staff were independent and competent to audit the association.

***d. Determine that the outside directors on the audit committee monitor the relationship between the auditor and management. The auditor works for the board of directors, not management. The auditor should not be an advocate for management.***

**References****Code of Federal Regulations (12 CFR)***Subchapter C: Regulations for Federal Associations*

§ 550.7            Audit of Trust Department  
 § 552.6-4        Fiscal Year, Annual Audit  
 § 552-            Model Bylaws for Stock  
 Appendix        Associations  
                     Article VIII, Fiscal Year - Annual  
                     Audits

*Subchapter D: Regulations Applicable to All Savings Associations*

§ 563.170(a)    Examinations and Audits  
 § 563.180        Criminal Referrals and Other  
                     Reports or Statements  
 § 563c            Accounting Requirements  
 § 563c.3         Qualification of Public Accountant  
 § 571.2           Statements of Policy: Audits of Sav-  
                     ings Associations

**United States Code (12 USC)**

§ 1817(a)        Report to Independent Auditor

**Public Accounting Bulletins**

*Rescinded effective December 23, 1994.*

**American Institute of Certified Public Accountants***Statement on Auditing Standards*

No. 53            The Auditor's Responsibility to  
                     Detect and Report Errors and Irreg-  
                     ularities  
 No. 54            Illegal Acts by Clients  
 No. 58            Reports on Audited Financial State-  
                     ments  
 No. 60            Communication of Internal Control  
                     Structure Related Matters Noted in  
                     an Audit  
 No. 69            The Meaning of Present Fairly in  
                     Conformity With Generally  
                     Accepted Accounting Principles in  
                     the Independent Auditor's Report  
 No. 70            Reports on the Processing of Trans-  
                     actions by Service Organizations

*Statement on Standards for Attestation Engagements*

No. 2            Reporting on an Entity's Internal  
                     Control Structure Over Financial  
                     Reporting  
 No. 3            Compliance Attestation

# Appendix A: Audit-Related Report Checklist When Required by OTS or FDIC

Association		Docket #
Year End	Type of Report(s)	
Audit Firm	Office	

*Instructions:* The examination manager is responsible for the review of all audit-related reports that are required to be filed by 12 CFR 562.4 and FDIC Part 363. Audit-related reports include report of audit, audited financial statements, reports on internal control, the management report on internal control, the accountant’s attestation report, the accountant’s agreed-upon procedures report on safety and soundness laws and regulations, and special agreed-upon procedures reports. Use this checklist to describe information of a supervisory nature and to communicate any supervisory follow-up to examiners. One or more checklists may be used for each annual audit. If immediate follow-up is not necessary, place this checklist in the examination file for follow-up by examiners in the next examination. This checklist must be completed within 90 days of receipt of the audit-related report. This checklist does not have to be completed for reports filed with OTS on a voluntary basis. Completed checklists should be filed in the supervisory file. *Document all responses on this checklist with attachments as needed.*

1. Assemble the most recent report of examination, thrift financial report, other regulatory reports, audited financial statements, and other audit-related reports.
2. Scan the report under review and note items of supervisory interest, i.e., new line items or footnotes in audited financial statements that indicate a new type of transaction or exposure area for the association; material weaknesses reported in the system of internal control, etc.
3. Review the other documents assembled under item 1 above and note the extent of any OTS knowledge of the supervisory items identified in item 2 above.
4. Document required follow-up for items of supervisory concern.
5. Ensure that the profile data system (PDS) and the regulatory plan have been updated to reflect key audit information and any safety and soundness concerns.
6. Attach this questionnaire to the supervisory file copy and examination file copy of the audit report under review.

Reviewed by	Date
Follow-up completed by	Date
Examination Manager Approval	Date

Comparison of OTS and FDIC Annual Independent Audit Requirements

	<u>OTS 12 CFR 562.4</u>	<u>FDIC 12 CFR Part 363</u>
Scope	<p><i>The OTS requires an independent audit for safety and soundness purposes if a savings association has received a composite rating of 3, 4, or 5 on the CAMEL financial institution's rating scale.</i> [12 CFR 562.4(a) and (b)(1)]</p> <p><i>The Director may waive the independent audit requirement for a savings association if he determines that an audit would not address safety and soundness issues that caused the examination rating.</i> [12 CFR 562.4(c)(2)]</p> <p><i>The OTS requires an independent audit for a savings and loan holding company that controls savings association subsidiary(ies) with aggregate consolidated assets of \$500 million or more.</i> [12 CFR 562.4(b)(2)]</p> <p><i>A savings association holding company may request a modification or waiver of the independent audit requirement.</i> [Handbook - Section 350; paragraph heading 'Savings Association Holding Companies with \$500 Million or More of Total Assets; Modification or Waiver of the Independent Audit Requirement']</p> <p><i>The audited consolidated financial statements of the savings association holding company will be accepted in lieu of separate audited financial statements of the savings association.</i> [Handbook - Section 350; paragraph heading 'Independent Audits']</p>	<p>Insured depository institutions, including savings associations, with total assets of \$500 million or more at the beginning of each fiscal year after December 31, 1992 [12 CFR 363.1(a)]</p> <p>Audited financial statement (AFS) requirement may be satisfied by audited financial statements of the consolidated holding company. All other requirements of part 363 may be satisfied at the holding company level if certain conditions are met [12 CFR 363.1(b)]</p>
Auditing Standard	<p>Generally accepted auditing standards (GAAS).</p>	<p>Generally accepted auditing standards (GAAS) and the standards of section 37 of the Federal Deposit Insurance Act (FDI Act). [12 CFR 363.3(a)]</p>
Qualifications for Auditors	<p><i>Certified public accountant (CPA) who is independent by AICPA and SEC standards and is enrolled in an FDIC-approved peer review program. CPA agrees in the engagement letter to provide OTS with access to and copies of any workpapers, policies, and procedures relating to the services performed.</i> [12 CFR 562.4(d)(1), (2), (3), and (4)]</p> <p><i>For voluntary audits the CPA does not have to be enrolled in a peer review program.</i> [12 CFR 562.4(e)]</p>	<p>Certified public accountant who is independent by AICPA and SEC standards and is enrolled in an FDIC approved peer review program. [12 CFR 363 Appendix (13), (14), and (15)]</p>

<p>Filing and Notice Requirements  a) Savings Associations</p>	<p><b><u>OTS 12 CFR 562.4</u></b></p> <p><i>A savings association that is required to obtain an independent audit for safety and soundness reasons should submit two copies to the Regional Director of the following: the audited financial statements, any reports from the CPA that make reference to the independent audit, any other OTS-requested supplemental information, or schedules. The required reports shall be forwarded to the Regional Director within 90 days of the fiscal year-end or within 15 days of receipt, whichever is earlier.</i></p> <p><i>When a savings association has assets of \$500 million or more, it will instead file with the FDIC and OTS the reports required pursuant to FDIC Regulation Part 363 and FDIC guidelines at Appendix A to Part 363. [Handbook - Section 350; paragraph heading 'Independent Audits']</i></p> <p><i>A savings association holding company should comply with the reporting requirements at Item 21, "Financial Statements" in the H-(b)21 Annual Report. [Handbook - Section 350; paragraph heading 'Savings Association Holding Companies with \$500 Million or More of Total Assets']</i></p> <p><i>Institutions that obtain voluntary audits are not required to file any reports or notices with the OTS.</i></p>	<p><b><u>FDIC 12 CFR Part 363</u></b></p> <p>When an audit is required the FDIC requires the following report 5:  AFS prepared in accordance with generally accepted accounting principles (GAAP).  Audit Opinion on AFS.  Management Report:  (1) Statement of responsibility,  (2) Assessment of effectiveness of the internal control structure over financial reporting, and  (3) Assessment of compliance with designated safety and soundness laws and regulations.</p> <p>Accountant's attestation report on management's assessment of effectiveness of internal control structure.  Accountant's agreed-upon procedures report on designated safety and soundness laws and regulations.  Any management letter, qualification, or other report(s) issued by the accountant relating to services provided pursuant to 12 CFR Part 363.</p>
<p><b>Audit Waivers</b></p>	<p><i>The savings association may make a written request for a waiver from the OTS safety and soundness audit requirement. OTS will waive the audit requirement if it determines that an audit is not the most effective means to address safety and soundness concerns that caused the composite CAMEL rating of 3, 4, or 5. [Handbook - Section 350; paragraph heading 'Written Request for Waiver of Independent Audit Agreement']</i></p> <p><i>A savings association holding company may request a modification or waiver of the independent audit requirement. [Handbook - Section 350; paragraph heading 'Savings Association Holding Companies with \$500 Million or More of Total Assets; Modification or Waiver of the Independent Audit Requirement']</i></p>	<p>No similar provision</p>

b) Auditors	<p><b><u>OTS 12 CFR 562.4</u></b></p> <p><i>No requirement to provide notice of change in auditors (the FDIC has a notice requirement for institutions with \$500 million or more in assets).</i></p> <p><i>Make the peer review report available to examiner during examination, do not forward to OTS. [Handbook - Section 350; paragraph heading "Other; Qualification Requirements for Independent Public Accountants"]</i></p>	<p><b><u>FDIC 12 CFR Part 363</u></b></p> <p>Notice of engagement or termination of accountant. [12 CFR 363.2, 363.4]</p> <p>Notice of termination of accountant. Peer Review Report. [12 CFR 363.3(c) and Statute]</p>
Audit Committee Requirements	None	<p>Must consist of members of the board who are independent of management<sup>2</sup>.</p> <p>Institutions with assets of \$3 billion or more must have access to outside counsel and include members with banking and financial management expertise who are not large customers of the institution. [12 CFR 363 Appendix (28) and (29)]</p>
Documentation and Other Considerations for Audit Work Papers	<p><i>The CPA agrees in the engagement letter (do not forward engagement letter to OTS) to provide OTS with access to and copies of any workpapers, policies, and procedures relating to services performed. [12 CFR 562.4(d)(2)]</i></p>	<p>Copies of any work papers, policies, and procedures relating to services performed under 12 CFR 363 must be provided upon request. [12 CFR 363 Appendix (13)]</p> <p>Peer review work papers must be retained for 120 days after a peer review report is filed with FDIC. [12 CFR 363 Appendix (15)(c)]</p>

<sup>2</sup> Members of the holding company's audit committee may serve as the audit committee of any subsidiary institution if they are otherwise independent of management of the subsidiary.  
[12 CFR 363 Appendix (31)]