TO: CHIEF EXECUTIVE OFFICER

SUBJECT: External Auditing Programs of State Nonmember Banks

On October 1, 1998, the FDIC's Division of Supervision issued to its examination staff the attached memorandum on external auditing programs of state nonmembers banks.

The memorandum addresses questions raised by bank managers and independent public accountants about the types of external auditing programs that the FDIC currently considers acceptable. Numerous questions were raised following the rescission of the FDIC's "Statement of Policy Providing Guidance on External Auditing Procedures for State Nonmember Banks" on December 31, 1997, and the subsequent publication of the Federal Financial Institutions Examination Council's proposed "Policy Statement on External Auditing Programs of Banks and Savings Associations." (See FIL-4-98: Inactive Financial Institution Letters: dated January 9, 1998, and FIL-16-98: Inactive Financial Institution Letters: dated February 18, 1998.) The attached guidance is appropriate for all FDIC-supervised banks with less than $500 million in total assets that are not subject to the audit requirements of Part 363 of the FDIC's regulations.

Any questions should be directed to the Regional Accountant in your FDIC Division of Supervision regional office.

Nicholas J. Ketcha Jr.
Director

Attachment: Memorandum

Distribution: FDIC-Supervised Banks (under $500 million in total assets)

NOTE: Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 801 17th Street, NW, Room 100, Washington, DC 20434 (800-276-6003 or (703) 562-2200).