

**Shadow Financial
Regulatory Committee**

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Statement of the Shadow Financial Regulatory Committee
on the
Proposed FDIC Policy Statements
Encouraging Independent Outside Audits of Banks

May 16, 1988

The FDIC's recently announced policy of encouraging nonmember banks to obtain independent external audits should help reduce bank failures due to fraud, insider abuse, and gross mismanagement. The Committee supports the policy and offers two suggestions to enhance its effectiveness. We suggest that the auditors report to a committee of independent (non-management) bank directors and to the FDIC. The FDIC also should make its examiners' reports available to the external auditors.

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