SR 13-01 Supplemental Policy Statement on the Internal Audit Function and its Outsourcing

Attention: Chief Executive Officer of Each Tenth District State Member Bank, Bank Holding Company, and Savings and Loan Holding Company with More Than $10 Billion in Total Consolidated Assets

In Brief: The Board of Governors of the Federal Reserve System has issued SR 13-01, guidance that supplements the supervisory expectations established under SR 03-05 - Amended Interagency Guidance on the Internal Audit Function and its Outsourcing. This additional guidance applies to supervised institutions with greater than $10 billion in total consolidated assets, including state member banks, domestic bank and savings and loan holding companies, and U.S. operations of foreign banking organizations.

Highlights: The Supplemental Policy Statement provides institutions with guidance that reflects the evolution of the internal audit profession since the issuance of the 2003 Interagency Policy Statement. It also explains changes over the past several years in banking regulations related to auditor independence and limitations placed on the external auditor. SR 13-01 augments the 2003 guidance, which remains in effect.

In summary, the supplemental guidance addresses:

- **Enhanced Internal Audit Practices** – discusses the enhancements that an institution should incorporate into its internal audit function to address lessons learned from the recent financial crisis.
- **Internal Audit Function** – addresses the characteristics, governance, and operational effectiveness of an institution’s internal audit function.
- **Internal Audit Outsourcing Arrangements** – covers the responsibilities of an institution’s board of directors and senior management to provide appropriate oversight of internal audit outsourcing arrangements.
- **Independence Guidance for the Independent Public Accountant** – addresses certain changes to Section 36 of the Federal Deposit Insurance Act enacted since the issuance of the 2003 interagency guidance. Further, the supplemental guidance discusses the restrictions on the services of an institution’s external auditor.
• **Examination Guidance** – discusses the supervisory assessment of an institution’s internal audit function and the ability of examiners to rely on work performed by internal audit.

**Attachment:** SR 13-01: Supplemental Policy Statement on the Internal Audit Function and Its Outsourcing

**Contact:** Questions regarding the guidance may be directed to your Central Point of Contact or to Paul Oseland at (405) 270-8632 or (800) 333-1030, extension 2708632.

**Internet:** A copy of the SR Letter is available on the Federal Reserve Board of Governors’ web site at: [http://www.federalreserve.gov/bankinfo/letters/sr1301.htm](http://www.federalreserve.gov/bankinfo/letters/sr1301.htm)