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March 3, 2006

Ms. Mary Rupp  
Secretary of the Board  
National Credit Union Administration  
Office of Examination and Insurance

I am writing this letter to comment on the request by the NCUA on whether and how to modify the Supervisory Committee audit rules to obtain an "attestation on internal controls" in connection with the annual audits; to identify and impose assessment and attestation standards for such engagements; to impose minimum qualifications for Supervisory Committee members; and to identify and impose a standard for the independence required of state-licensed compensated auditors.

Before I comment on the 22 questions for which the NCUA is requesting input, I would like to make the following general comments for your consideration:

- Credit Unions are currently held to a high level of scrutiny given the abundance of regulations that must be complied with, frequent examinations by regulators, quarterly financial reporting, and voting structure in place for the members.
- The cost to comply with these new proposed requirements would be high, especially as it relates to the attestation on internal controls. Based on recent surveys and other articles pertaining to complying with Section 404 of the Sarbanes Oxley Act of 2002 (SOX), applicable companies expect high additional costs and significant staff time to be incurred.
- Ever since SOX was issued, the requirements related to certification of the internal controls (Section 404) for public companies continues to be delayed. The initial deadline for the large accelerated filers has been pushed back to mid 2006. There is also talk by the Security Exchange Commission (SEC) to exempt 80% of public companies from having auditors to certify internal controls. Section 404 is one of the most important aspects of SOX and if the SEC and its reporting companies cannot get it done, it will take credit unions and regulators a lot of time and money to reasonably complete the attestation process.
- The FDIC Improvement Act (FDICIA) was recently amended to only require applicable financial institutions exceeding \$1 billion to comply. Previous threshold was set at \$500 million. If not already considered, I would recommend that NCUA consider applying the attestation requirements at the \$1 billion as well. Not only does FDICIA cover numerous governance items, but it would also make for consistencies for financial institutions and their applicable examining agencies.

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- What problems or issues have arose in the last several years that warrant this possible change in credit union governance? SOX was put into place immediately after Enron, Worldcom, and Sunbeam financial reporting incidents. Had all the requirements of SOX been in place prior to these aforementioned scandals, these scandals in public companies might not have occurred; however, the credit union movement has a much better record in this regard. Prior to implementing any major changes, NCUA should revisit NCUA Letter #03-FCU-07 which dealt with many SOX governance issues and NCUA items for consideration.

Comments related to the 22 items for which you are seeking input:

1. Should part 715 require, in addition to a financial statement audit, an “attestation on internal controls” over financial reporting above a certain minimum asset threshold? **No, I do not think that it is necessary to have an attestation on internal controls to supplement a financial statement audit. A properly completed audit would be sufficient. A better alternative for an attestation would be for credit unions to have an independent and thorough internal audit program, preferably by an internal department of the credit union that report to the supervisory committee.**
2. What minimum asset size threshold would be appropriate for requiring, in addition to a financial statement audit, an “attestation on internal controls” over financial reporting? **If necessary, this limit should be set at \$1 billion in assets. This is comparable to the current FDICIA requirements, but it would only apply to approximately 100 credit unions and the cost/benefit to the industry would be huge to only apply to a few of the credit unions.**
3. Should this threshold be the same for natural person credit unions and corporate credit unions? **Yes.**
4. Should management’s assessments of the effectiveness of internal controls and the attestation by its internal auditors cover all financial reporting or should it be more narrowly framed to cover only certain types of financial reporting? **Should only apply to financial statement audits and call reporting. This is the only reporting that is available and used by external sources.**
5. Should the same auditor be permitted to perform both the financial statement audit and the “attestation on internal controls” over financial reporting? **Yes. It only makes sense that the auditors who will be giving an opinion on the financial reporting also be required to complete the attestation. In today’s environment, it is becoming more difficult and costly for external auditors to rely on other external auditors work.**
6. If the “attestation on internal controls” were required, should it be required annually or less frequently? **Less frequently than annually, unless there is significant changes or issues at the credit union (i.e. change in management, identified problems). Every three years would be sufficient.**

7. If the “attestation on internal controls” were required, when should the requirement become effective? **It is difficult to state an exact year as requested. The requirement should be a minimum of three years after all requirements and NCUA issues have been addressed. In addition, the NCUA attestation requirement should not be completed until the SEC finalizes the requirements for public companies. We are currently seeing continuing delays for SOX and it would not be acceptable in the credit union industry if continuing delays and extensions are experienced.**
8. If credit unions were required to obtain an “attestation on internal controls”, should part 715 require that those attestations adhere to PCAOB’s AS 2 that applies to public companies, or to the AICPA’s revised AT 501 standard that applies to non-public companies? **AICPA standards. Credit unions are not public companies and should not be expected to operate under SEC rules.**
9. Should NCUA mandate COSO’s Internal Control – Integrated Framework as the standard that must be followed or should each credit union have the option to choose its own standard? **I think that the standard for internal control attestation should be consistent for all applicable credit union; however, NCUA and applicable credit unions should research the available alternatives and agree on the appropriate standards to follow.**
10. Should supervisory committee members of credit unions above a certain minimum asset size threshold be required to have a minimum level of experience or expertise in credit unions, banking or other financial matters? If so, what criteria should they be required to meet and what should the minimum asset size threshold be? **Supervisory committee members at all credit unions should have a minimum level of experience and expertise in financial matters which should vary based on the credit unions complexity. All supervisory committee members should be required to complete required manuals and self tests developed by NCUA. The experience and expertise requirements should be balances with the fact that these are volunteers and have heavier fiduciary liability by nature; therefore, don’t want to make it impossible to find candidates.**
11. Should supervisory committee members above a certain minimum asset size threshold be required to have access to their own outside counsel? If so, what minimum asset size threshold? **Supervisory Committee members do not need access to their “own” legal counsel, but they should have access to legal counsel if necessary. The asset size threshold should be \$0, as all supervisory committee members, no matter asset size, should have this.**
12. Should supervisory committee members above a certain minimum asset size threshold be prohibited from being associated with any large customer of credit unions other than the sponsor? If so, what minimum asset size threshold? **No. Controls should prevent self-dealing and given the current make up of credit unions, committee member have less individual economic influence.**
13. If any of the qualifications addressed in questions 10, 11, and 12 were required of supervisory committee members, would credit unions have difficulty in recruiting and retaining competent individuals to serve in sufficient numbers? If so, describe the obstacles associated with each qualification? **I do not think so, as long as the credit**

**unions and the regulators give these supervisory committee members (or prospective members) the necessary tools.**

Should a state-licensed, compensated auditor who performs a financial statement audit and/or "internal control attestation" be required to meet just the AICPA's independence standards, or should they be required to also meet SEC's independence requirements and interpretations? If not both, why not? **Just AICPA. See #8 above.**

Is there value in retaining the "balance sheet audit" in existing part 715.7 as an audit option for credit unions with less than \$500 million in assets? **No, the balance sheet only audit is a thing of the past. If an audit is contemplated, a full financial statement audit should be obtained as you cannot realistically get adequate comfort when excluding a major part of the financial statements. Call report information should be tabulated to determine current usage of this option.**

Is there value in retaining the "Supervisory Guide audit" in existing part 715.7 as an audit option for credit unions with less than \$500 million in assets? **Yes, but this option should only be available to smaller credit unions (say less than \$20 millions in assets). Call report information should be tabulated to determine current usage of this option and asset size of credit unions using this option.**

Should part 715 require credit unions that obtain a financial statement audit and/or an "attestation on internal controls" to forward a copy of the auditor's report to NCUA? If so, how soon after the credit union receives it? **No, there should not be a requirement to forward a copy to the NCUA (or state regulators). This should be part of the examination procedures for examiners to review this information during the regular fieldwork examination process.**

Should part 715 require credit union to provide NCUA with a copy of any management letter, qualification, or other report issued by its external auditors? If so, how soon after the credit union receives it? **No, there should not be a requirement to forward a copy to the NCUA (or state regulators). This should be part of the examination procedures for examiners to review this information during the regular fieldwork examination process.**

If credit unions were required to forward external auditor's reports to NCUA, should part 715 require the auditor to review those reports with the supervisory committee before forwarding? **Even if not required to forward copies to the NCUA (or state regulators), it should be a requirement that the supervisory committee review and discuss all required reporting with external auditors, no matter the asset size. If required to submit reports to the regulators, then the supervisory committee should complete this review and discussion prior to forwarding.**

Existing part 715 requires a credit union's engagement letter to prescribe a target date of 120 days after the audit period-end for delivery of the audit report. Should this period be extended or shortened? What sanctions should be imposed for violations? **Target date of 120 days is appropriate. Sanctions should be on a case by case basis.**

Should part 715 require credit unions to notify NCUA in writing when they enter into an engagement with an auditor, and/or when an engagement ceases by reason of the

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union be required to include reasons? Definitely no to the notification pertaining to entering into an engagement with an auditor. For the other part of this question, this should be part of the examination procedures for examiners to review during the regular fieldwork examination process.

22. Should supervisory committee members be prohibited by regulation from executing engagement letters that contain language limiting various forms of auditor liability to the credit union? Should supervisory committees be prohibited from waiving the auditor's punitive damages liability? Yes. Which I believe this prohibition has already been put into place.

Thank you for the opportunity to respond to these very important issues. If you would like to discuss any portions of this letter, please contact me at 314-657-9220 or at [rkampwerth@abecu.org](mailto:rkampwerth@abecu.org).

Sincerely,



Ronald Kampwerth, CPA

VP, Internal Audit

Anheuser-Busch Employees' Credit Union