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March 23, 2006

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Ms. Rupp:

This letter is our Credit Union's reply requesting public comment on proposed changes regarding Supervisory Committee Audits, as put out by the NCUA Board on February 16, 2006.

1. We believe Section 715 should require, in addition to a financial statement audit, an "attestation on internal controls" over financial reporting for credit unions above a certain minimum asset size threshold. We believe this is primarily an internal control question. Currently, banks are required to obtain an "attestation on internal controls" if they have more than \$1 billion in assets. We believe credit unions should be subject to the same audit controls of like sized banks, not more or less. Many people will probably argue that credit unions should be exempt from this requirement because they are not "public" companies. This argument does have some merit, but the "attestation" requirement is more than just a financial reporting internal control, it is now considered a basic internal control for large financial institutions. Some will argue that large credit unions have never had a loss. Historically, this may be true, but the purpose of this rule change is to help prevent future losses. Five years ago, the management of WorldCom and Enron could have said the same thing. A large loss to a billion dollar credit union would cause much harm to the credit union movement.
2. We believe the threshold requiring an "attestation on internal controls" should be the same for all financial institutions, which is currently \$1 billion in assets for banks. Banks and credit unions have their differences, but we are all financial institutions that depend to a large degree in the trust of their depositors and shareholders.
3. We also believe corporate credit unions should have the same threshold as natural person credit unions. A large loss to a corporate credit union has the potential for causing a ripple effect that could cause severe harm to many natural person credit unions. It would be hard to think of one good reason to have separate thresholds.
4. We believe management's assessments of the effectiveness of internal controls and the attestation by its external auditor's should at least cover regulatory reports, which for credit unions would be the call report.

5. We believe the same auditor should be permitted to perform both the financial statement audit as well as the “attestation on internal controls” engagement. We believe it would be inefficient to have two different auditing firms engaged to perform these tasks. Requiring different auditing firms would undoubtedly increase the overall cost to have both engagements performed.
6. We believe an “attestation on internal controls” should not be required more than once a year. We believe the frequency of a financial statement audit should be the same as an “attestation on internal controls.”
7. We believe credit unions should be given two years to prepare for their first “attestation on internal controls.” Hence, this should be required for fiscal years beginning after December 15, 2008.
8. We believe that credit union should only have to comply with PCAOB’s AS 2 standard, as it applies to public companies. If this standard is good enough for public companies, we see no reason to force credit union to follow the extra testing as required by AICPA revised AT 501 standard as it applies to non-public companies. We frankly do not understand why a non-public company should have greater testing requirements than a public company.
9. We believe that NCUA should adopt a standard to follow for all credit union to follow when establishing, maintaining and assessing the effectiveness of the internal control structure and procedures, whether that is COSO’s Internal Control – Integrated Framework, or some other standard.
10. Again, if the FDIC requires audit committee members to have banking or related financial management expertise, we believe Supervisory Committee members of all credit unions above \$3 billion in assets should also be subject to the same minimum requirements.
11. Again, if the FDIC requires audit committee members to have access to their own counsel, then Supervisory Committee members of credit unions above \$3 billion in assets should also be required to have access to their own outside counsel.
12. Again, if the FDIC prohibits audit committee members from being associated with any large customer of the bank it represents, Supervisory Committee members of credit unions above \$3 billion in assets should be prohibited from being associated with any large member of the credit union, other than it sponsor.
13. We do not believe for a second that large credit unions would have difficulty in recruiting and retaining competent individuals to serve as Supervisory Committee members.
14. We believe that it is sufficient for State-licensed, compensated auditors who perform a financial statement audit and/or “internal control attestations” only be required to meet the AICPA “independence” standards, and do not think it is necessary for them to also meet the SEC’s “independence” requirements and interpretations. We believe the AICPA requirements are sufficient.
15. We do believe there is value in retaining the “balance sheet audit” in existing Section 715.7(a) as an audit option for credit unions with less than \$500 million in assets.

- 16. We also believe there is still value in retaining the “Supervisory Committee Guide audit” in existing Section 715.7 (c) as an audit option for credit unions with less than \$500 million in assets.
- 17. We have no objection to having Section 715 amended to require credit unions that obtain a financial statement audit and/or “attestation on internal controls” to forward a copy of the auditor’s report to NCUA. We believe credit unions should be given 120 days after the audit date to send the final audit report to NCUA.
- 18. We have no objection to having Section 715 amended to required credit unions to provide NCUA with a copy of any management letter, qualification, or other report issued by its external auditor in connection with services provided to the credit union. We also believe credit unions should be given 120 days after it receives it to send it to NCUA.
- 19. As a practical matter, we believe all audit reports and management letters should be reviewed with the Supervisory Committee before they are sent to NCUA.
- 20. We believe audit reports should be delivered within 120 days of the audit period-end. If a credit union fails to include the target delivery date within its engagement letter, it would be subject to normal regulatory sanctions, up to and including cease and desist orders and monetary fines. We believe these should be stepped up depending on the frequency of the violations.
- 21. We do not see a reason to notify NCUA every time a auditor is engaged, but we do believe that NCUA should be notified when an engagement ceases by reason of the auditor’s dismissal or resignation. This notification should include the reasons for the dismissal or resignation.
- 22. Credit unions should absolutely be prohibited by regulation from executing engagement letters that contain language limiting various form of auditor liability to the credit union. The Supervisory Committees should also be prohibited from waiving the auditor’s punitive damages liability.

In general, we believe audit requirements for financial institutions above a certain threshold should be the same, whether the financial institution is a credit union, bank, or thrift.

We hope this comment letter is helpful to NCUA as it works its way toward amending 12 C.F.R. parts 704, 715 and 741. Please feel free to contact us for further comment.

Sincerely,



Ian P. Smith
President & CEO



James G. Johnson
Executive Vice President & COO



Marvin D. Oneson
Chief Financial Officer