

March 31, 2006

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

RE: Comments on ANPR concerning Part 715, Supervisory Committee Audits

To whom it may concern:

On behalf of the Supervisory Committee of Direct Federal Credit Union in Needham Massachusetts, I am responding to NCUA's request for comments on the proposed modification of Rule 715, Supervisory Committee Audits.

Question 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 size threshold? Explain why or why not.

Response. No. We presently have an annual audit of our financial statements performed by independent auditors, and have implemented an annual internal audit program that focuses primarily on operational and financial internal controls. In addition, we receive regular examinations by NCUA. All external and internal audit reports are reviewed with the Supervisory Committee, and discussed at the board of director meetings. We feel that adding a further type of audit requirement would be an undue burden on our credit union.

Question 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, given the additional burden on management and its external auditor? Explain the reasons for the threshold you favor.

Response: If an internal control attestation were required, we feel a minimum asset size of \$5 billion would be appropriate because the risk to the NCUSIF would be most significant at that level. The additional incremental out of pocket costs to implement an internal control attestation would create an undue financial burden on credit unions below that asset level.

Question 3. Should the minimum asset size threshold for requiring an “attestation on internal controls” over financial reporting be the same for natural person credit unions and corporate credit unions? Explain why.

Response: Yes, if required, both natural person credit unions and corporate credit unions should comply.

Question 4. Should management’s assessments of the effectiveness of internal controls and the attestation by its external auditor cover all financial reporting, (i.e., financial statements prepared in accordance with GAAP and those prepared for regulatory reporting purposes), or should it be more narrowly framed to cover only certain types of financial reporting? If so, which types?

Response: It should apply to all financial reporting since it would be difficult to differentiate between the various types.

Question 5. Should the same auditor be permitted to perform both the financial statement audit and the “attestation on internal controls” over financial reporting, or should a credit union be allowed to engage one auditor to perform the financial statement audit and another to perform the “attestation on internal controls?” Explain the reasons for your answer.

Response: Yes, we believe the same auditor should be permitted to perform both the financial statement audit and internal control attestation. As part of the financial statement audit, substantive internal control testing is already performed. By allowing the financial statement auditor to also perform the attestation, we believe economies of scale would be achieved, plus it would help alleviate the annoyance factor to management that may occur by having an additional group of auditors on site.

Question 6. If an “attestation on internal controls” were required of credit unions, should it be required annually or less frequently? Why?

Response: Given our current strong internal control environment, we would favor a cyclical attestation calling for 20% coverage per year, so that over a 5-year period, all internal controls would be attested to. In the alternative, we would support a complete attestation every 5 years.

Question 7. If an “attestation on internal controls” were required of credit unions, when should the requirement become effective (i.e., in the fiscal period beginning after December 15 of what year)?

Response: Since it may take several years for credit unions to gear up for attestations, we recommend the requirement become effective in 2010.

Question 8. If credit unions were required to obtain an “attestation on internal controls,” should part 715 require that those attestations, whether for a natural person or corporate credit union, adhere to the PCAOB’s AS 2 standard that applies to public companies, or to the AICPA’s revised AT 501 standard that applies to non-public companies? Please explain your preference.

Response: Since credit unions are non-public, non-profit institutions we feel the AICPA’s standard that applies to non-public companies should be used.

Question 9. Should NCUA mandate COSO’s *Internal Control – Integrated Framework* as the standard all credit union management must follow when establishing, maintaining and assessing the effectiveness of the internal control structure and procedures, or should each credit union have the option to choose its own standard?

Response: Based on our understanding of COSO’s Internal Control – Integrated Framework standard, it appears to be a logical option.

Question 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 union, banking or other financial matters? If so what criteria should they be required to meet and what should the minimum asset size threshold be?

Response: Yes. We believe that members of Supervisory Committees of credit unions greater than \$100 million in assets should possess the following qualifications:

- A degreed individual with an accounting or finance background and,
- Be independent of the management of the credit union

Question 11. Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be required to have access to their own outside counsel? If so, at what minimum asset size threshold?

Response: No Response. Do not understand the context of the question.

Question 12. Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be prohibited from being associated with any large customer of the credit union other than its sponsor? If so, at what minimum asset size threshold?

Response: No Response. N/A.

Question 13. If any of the qualifications addressed in questions 10, 11 and 12 above 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.

Response: No.

Question 14. 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?

Response: Yes. Credit unions should only be required to meet the AICPA’s independence standards since they are not publicly held corporations subject to SEC regulations.

Question 15. Is there value in retaining the “balance sheet audit” in existing §715.7(a) as an audit option for credit unions with less than \$500 million in assets?

Question 16. Is there value in retaining the “*Supervisory Committee Guide* audit” in existing §715.7(c) as an audit option for credit unions with less than \$500 million in assets?

Response: Questions 15 and 16 are not applicable to us, therefore no response.

Question 17. Should part 715 require credit unions that obtain a financial statement audit and/or an “attestation on internal controls” (whether as required or voluntarily) to forward a copy of the auditor’s report to NCUA? If so, how soon after the audit period end? If not, why not?

Response: No. Currently, all audit reports (external, internal, management letter comments, etc.) are made available to the NCUA during their regular examination of credit unions. We see no reason to change this practice.

Question 18. Should part 715 require 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? If so, how soon after the credit union receives it? If not, why not?

Response: Same as response to question 17.

Question 19: If credit unions were required to forward external auditors' reports to NCUA, should part 715 require the auditor to review those reports with the Supervisory Committee before forwarding them to NCUA?

Response: Yes. We feel that the auditor should review any external audit reports with the Supervisory Committee. This has been our practice for several years.

Question 20. 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 against a credit union that fails to include the target delivery date within its engagement letter?

Response: Yes. We feel the current time period of 120 days is sufficient. Also, we do not feel any sanctions should be imposed for failure to include target delivery dates in audit engagement letters.

Question 21. 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 auditor's dismissal or resignation? If so in cases of dismissal or resignation, should the credit union be required to include reasons for the dismissal or resignation?

Response: No. We believe the hiring or termination of auditors should be totally within the purview of the Supervisory Committee's responsibilities, and for NCUA to be involved would not be productive. As to the second part of the question, the NCUA's examination procedures could be expanded to require credit unions to state reasons for dismissal or resignation of auditors, if applicable.

Question 22. NCUA recently joined in the final *Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters*, 71 FR 6847 (Feb. 9, 2006). Should credit union Supervisory Committees 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?

Response: The response to both parts of the question is yes.

On behalf of Direct Federal Credit Union's Supervisory Committee, we thank NCUA for the opportunity to provide our comments on the proposed audit rule changes. Should you have any questions, please do not to hesitate to contact me.

Very Truly Yours,

Joseph E. Williams
Chairman
Direct Federal Credit Union
Supervisory Committee

C.C. Edward M. Safran
Chairman of the Board of Directors
Direct Federal Credit Union