YOUNG, SHERON

From: _Regulatory Comments

Sent: Wednesday, April 19, 2006 9:56 AM

To: YOUNG, SHERON

Subject: FW: Comments on Part 715 ANPR, Supervisory Committee Audits

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Regulatory Comments
Subject: Comments on Part 715 ANPR, Supervisory Committee Audits

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

Dear Ms. Rupp:

Our comments on Part 715 ANPR are below. The Supervisory Committee wants to emphasize that it fully embraces the concepts of good corporate governance and transparency.

Question 1. Should Part 715 require, in addition to a financial statement audit, an ³attestation on internal controls² over financial reporting above a certain minimum asset size threshold? Explain why or why not.

Part 715 should not require an attestation on internal controls. The costs of documenting and testing internal controls would far exceed the benefit. Credit Unions have external audits, NCUA audits, and internal audit functions whose review includes the internal control structure. Requiring such attestations would be redundant.

In addition, the Final Report of the Advisory Committee on Smaller Public Companies to the U.S. Securities and Exchange Commission recommends, in part:
· Establishing a scaled system of regulation,
· Providing relief from the requirements of Section 404 of the Sarbanes-Oxley Act to companies with less than $125 million in annual revenues,
· Expanding corporate governance controls to include adherence to standards relating to audit committees in conformity with Rule 10A-3 of the 1934 Exchange Act and
· Adoption of a code of ethics within the meaning of Item 406 of Regulation S-K.
This report also recommends that management should be required to report on any known material weaknesses and the AICPA¹s ³Communications of Internal Control Related Matters Noted in an Audit², if adopted, would strengthen this disclosure requirement and provide some external auditor involvement over the financial reporting process.

We believe that adoption of these report recommendations directly affect internal control at credit unions and provide the necessary level of governance and transparency equal to that of an attestation of internal controls while keeping in mind the cost/benefit ratio.

Question 2. What minimum asset size threshold would be appropriate for requiring, in addition to a financial statement audit, an [3]attestation on internal controls[2] over financial reporting, given the additional burden on management and its external auditor?

The minimum asset size should be $5 billion. A credit union of this size should be able to produce income to support the increased cost without negatively affecting the distribution of funds to members.

Question 3. Should the minimum asset size threshold for requiring an [3]attestation on internal controls[2] over financial reporting be the same for natural person credit unions and corporate credit unions? Explain why.

We do not believe the attestation is necessary; however, if required, the asset threshold should be the same for both natural person and corporate credit unions.

Question 4. Should management[1]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 purposes), or should it be more narrowly framed to cover only certain types of financial reporting? If so, which types?

All external financial reporting should be subject to management[1]s assessment of the effectiveness of internal controls. Exempting specific types of financial reports could result in decreased emphasis in those areas and could lead to potential problems that may not be recognized until a major problem occurs.

Question 5. Should the same auditor be permitted to perform both the financial statement audit and the [3]attestation on internal controls[2] 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 [3]attestation on internal controls?[2] Explain the reasons for your answer.

We do not believe the attestation is necessary; however, in either case, we believe a decision regarding how and by whom the audit is performed should be made by the Supervisory Committee and approved by the credit union[1]s Board of Directors.

Question 6. If an [3]attestation on internal controls[2] were required of credit unions, should it be required annually or less frequently? Why?

Part 715 should not require an attestation on internal controls. The costs of documenting and testing internal controls would far exceed the benefit. Credit Unions have external audits, NCUA audits and internal audit functions whose review includes the internal control structure.

Question 7. If an [3]attestation on internal controls[2] were required of credit unions, when should the requirement become effective (i.e. in the fiscal period beginning after December 15 of what year)? We do not believe the attestation is necessary. However, if it is required, implementation should be no earlier than 2008.

Question 8. If credit unions were required to obtain an [3]attestation of internal controls,[2] should part 715 require that those attestations, whether for a natural person or corporate credit union, adhere to the PCAOB[1]s AS 2 standard that applies to public companies, or to the AICPA[1]s revised AT 501 standard that applies to non-public companies? Please explain your preference.

If credit unions are required to obtain an attestation, we prefer the AICPA[1]s AT 501 standard for non-public companies. Credit unions are [3]not-for-profit[2] and volunteers provide guidance through the Board of Directors with oversight by the Supervisory Committee. Using AT501 also gives responsibility for assessing the effectiveness to the related entity, namely the AICPA.

Question 9. Should NCUA mandate COSO[1]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?

Regulatory standard setters and others have recognized COSO[1]s Internal Control-Integrated Framework as a comprehensive framework for evaluating overall internal control over financial reporting. We recommend that this framework be the standard for assessing the effectiveness of the internal control structure.

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?

We believe a credit unions[1] board of directors should establish the minimum level of experience or expertise required for supervisory committee members.

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?

We do not believe that Supervisory Committee members should be required to have access to their own outside counsel.

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?

Members of the Supervisory Committee should maintain independence in fact and appearance. They should follow the same guidelines that Board Members follow regarding [3]self dealing.[2]

Question 13. If any of the qualifications addressed in question 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.

It is a Board of Director's responsibility to appoint only qualified members to the Supervisory Committee.

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?

Both. We encourage the highest degree of independence.

Question 15. Is there 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?

No. There are better alternatives to the balance sheet audit. An opinion audit or a Supervisory Committee audit provides better assessment of the credit union's financial condition and internal controls.

Question 16. Is there value in retaining the "Supervisory Committee Guide audit" in existing Section 715.7 (c) as an audit option for credit unions with less then $500 million in assets?

We defer to credit unions within this asset range to comment.

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?

No, the results of these audits will be available for NCUA examiner review during their on-site audit.

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?

No, the results of these audits will be available for NCUA examiner review during their on-site audit.

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?

We do not believe these reports should be forwarded to the NCUA; however, we do believe all external audit reports shall be reviewed with the Board of Directors and the Supervisory Committee.

Question 20. Existing part 715 requires a credit union¹s 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?

Existing part 715 requirements are adequate.

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 auditor¹s 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?

Notifications to the NCUA should not be required.

Question 22. NCUA recently joined 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 auditor¹s punitive damages liability?

Supervisory Committees should be prohibited from executing engagement letters allowing limitation of liability or waiver of punitive damages.

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