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April 20, 2006

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

Re: Comments on Notice of Proposed Rule Making on Supervisory Committee Audits

Dear Ms. Rupp:

We are writing on behalf of Truliant Federal Credit Union in response to NCUA's Advance Notice of Proposed Rulemaking on whether and how to modify its Supervisory Committee audit rules.

We will begin with some general comments about the impetus behind the ANPR and the unique circumstances for credit unions that should be kept in mind before implementing changes to regulations affecting credit union financial reporting. The portions of the Sarbanes-Oxley Act requiring attestation on internal controls was specifically crafted to apply to publicly traded companies due to several significant public company failures. We must keep in mind that credit unions and publicly traded companies are very different organizations and require different regulations. While most publicly traded companies are not subject to regulatory examinations, credit unions are; while publicly traded companies are encouraged to meet financial market expectations, credit unions are accountable to their membership; while publicly traded companies are expected to enrich their stockholders, credit unions are expected to provide better products and services to its members.

The remainder of our comments are organized in the form of answers to questions on the four discrete issues outlined by NCUA and restated below.

(1) Issue: Whether to require credit unions to obtain an “attestation on internal controls” in connection with their annual audits (questions 1 through 7 below).

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.

Comment: Part 715 should not require an attestation on internal controls over financial reporting for any credit union. The burden of providing such attestation outweighs the benefit derived. Benefits of such attestations accrue to NCUA. Based on other reporting such as regulatory examinations, call reporting and audited financial statements, the incremental benefit of an attestation on internal controls is negligible.

Recent history of publicly traded companies has indicated that they have experienced significant internal upfront and ongoing costs as well as significant, incremental external auditor costs associated with complying with the Sarbanes-Oxley Act.

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.

Comment: As stated in the comment to question 1 above, there should be no requirements for attestation for credit unions. NCUA receives assurances on the quality of internal controls from NCUA examiner reviews and Supervisory Committee requirements including audited financial statements.

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.

Comment: Please see the comments to the above questions.

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?

Comment: If some form of attestation is required, it should be limited to regulatory reporting. Testing, other due diligence activities and other requirements of external auditors in opining on audited financial statements are adequate. NCUA will experience minimal benefit for the attestation on internal controls for regulatory reporting. Any benefit needs to be associated with incremental costs. Again, the incremental costs include infrastructure to document and test controls as well as external auditor attestation costs.

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.

Comment: If some form of attestation is required, the same external auditor should be permitted to perform both the financial statement audit and the attestation of internal controls over financial reporting. These functions are intertwined and inseparable. Additionally, there is no inherent conflict of interest in performing both types of work. Lastly, if separate external auditors were required to perform each function, costs would be greater than if one external auditor could do both due to coordination, communication and other factors.

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

Comment: If some form of attestation is required for the financial statement audit, it should be performed yearly for the reasons given in the comment to question 5 above. Given that attestation is required for regulatory reporting, it should be performed every three years given there are no significant changes in controls (e.g. financial reporting process changes, significant accounting/finance personnel changes, etc.). More frequent attestation for regulatory reporting is not needed as auditors review controls as part of their yearly financial statement audits.

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)?

Comment: If some form of attestation is required, the effective date should be approximately three years after the requirement is established. Such a period is needed to adjust staffing for internal audit departments, document internal controls, test internal controls, resolve any findings and arrange for external auditor attestation.

(2) Issue: What standards should govern the assessment and attestation components of such an engagement (questions 8 and 9 below)?

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.

Comment: If some form of attestation is required, the auditor should adhere to AICPA’s revised AT 501. PCAOB’s AS2 was authored for the Sarbanes-Oxley Act. This act was

enacted in response to financial reporting weaknesses at publicly traded companies. Influences on management for publicly traded company financial reporting are very different than for credit union financial reporting. Credit unions are not publicly traded companies and should not be subject to the same requirements.

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?

Comment: The COSO model addresses the total internal control environment for an organization. These internal controls are categorized into the effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations. Because of the breadth of the COSO model, we encourage NCUA to develop a different standard for credit unions to use. NCUA's standard could leverage the portion of the COSO model pertaining to the reliability of financial reporting.

(3) Issue: What qualifications should be required as prerequisites to serve on a Supervisory Committee (questions 10 through 13 below)?

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?

Comment: At a minimum, all Supervisory Committee members should be financially literate regardless of the size of the credit union. Financial literacy can be defined "as the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by a credit union's financial statements."

Specifically, asset size should not prescribe the minimum level of experience in credit union, banking or other financial matters for Supervisory Committee members. Other more significant factors should impact the desired minimum level of experience of Supervisory Committee members. These factors include, but are not limited to, the number and complexity of products and services a credit union offers and the complexity of transactions the credit union enters into.

The Board of Directors should be required to make a good faith effort in appointing Supervisory Committee members based on the credit union's risk profile.

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?

Comment: Supervisory Committee members should have the ability to have access to any resources deemed necessary, within reason, to fulfill their duties regardless of the asset size of the credit union. Resources include, but are not limited to, outside counsel, fraud investigators, forensic accountants and auditors.

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?

Comment: Supervisory Committee members should be independent in appearance and fact. Given this, such members should not be associated with any party that could materially and adversely impact the credit union regardless of the credit union's asset size. These parties include, but are not limited to members, vendors and third-party service providers.

Questions 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.

Comment: While audit committee members are generally compensated, credit union volunteers are not. Recruiting and retaining any volunteer can be difficult. If specific minimum experience levels (and other requirements) concerning Supervisory Committee members are regulated, recruiting and retaining Supervisory Committee members would become more burdensome and possibly unachievable. A Supervisory Committee with reasonable requirements for financial literacy is better than no Supervisory Committee.

- (4) Issue: What standard should dictate the degree of independence required of State-licensed, compensated auditors (question 14 below)? The NCUA Board also seeks input on several miscellaneous issues involving audit options for credit unions having less than \$500 million in assets, requirements for delivery and regulatory access to audit reports, and the terms and conditions in engagement letters, including limitations on auditor liability (questions 15 through 22 below).**

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?

Comment: As SEC requirements and interpretations exist to regulate publicly traded companies and credit unions are not publicly traded companies, the AICPA standards are the only standards that should apply.

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?

Comment: This is not applicable to Truliant Federal Credit Union.

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?

Comment: This is not applicable to Truliant Federal Credit Union.

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?

Comment: Auditor’s reports on financial statements and attestation of internal controls (if required) should be made available to NCUA upon request. Automatic forwarding adds unnecessary paper handling costs to the credit union and NCUA.

Exceptions may be made for qualified opinions by auditors. NCUA may want to consider a requirement to have credit unions with qualified opinions forward those opinions to NCUA within 30 days after receiving them from auditors.

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?

Comment: See the comment to question 17 above for qualified opinions. Any other auditor report should be available to NCUA upon request for the reasons stated above.

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?

Comment: All auditor reports should be reviewed with the Supervisory Committee as part of the auditor’s finalization process. As a matter of regulation, the auditor should review reports with the Supervisory Committee before forwarding them to NCUA. NCUA should consider requiring a management response to qualified auditor opinions.

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?

Comment: Extending the target date of 120 days after the audit period-end will allow more flexibility for credit unions. This flexibility can result in lower audit fees and more time to resolve any issues that may arise during the audit work.

No formal sanctions should be imposed against a credit union that fails to include the target delivery date within its engagement letter. NCUA could include this as part of its field examinations.

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?

Comment: Notification of NCUA should not be required for the engagement with an auditor. The benefit of such reporting is unclear. We support notification of NCUA when an engagement ceases by reason of the auditor's dismissal or resignation. Auditor's may be dismissed or resign for any number of reasons that are unrelated to differences in opinion with management, but greater transparency in this area enhances safety and soundness for all credit unions.

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?

Comment: Supervisory Committees should be prohibited by regulation from executing engagement letters that contain language limiting auditor liability for financial statement audits. Such limitations may negatively impact due diligence and objectivity that are essential components of auditor's expected level of service.

Supervisory Committees should not be able to waive the auditor's punitive damages liability. Any cost savings in auditor fees do not outweigh the ability to hold auditors accountable for negligence or other such egregious behavior.

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To summarize, Truliant Federal Credit Union supports efforts toward accountability and transparency. NCUA should be commended in its effort to examine Supervisory Committee responsibilities. Leveraging regulation from preexisting requirements for other regulated industries can have its benefits; however, care should be taken to ensure those preexisting requirements for other industries apply to credit unions.

We appreciate the efforts made by NCUA thus far in the rulemaking process and hope that the comments provided from Truliant and other credit unions will further enhance the process. Please call us at (336) 659-1955 if you have any questions.

Sincerely,



Marcus B. Schaefer
President/CEO
Truliant Federal Credit Union



Ben C. Sutton
Chairman of the Supervisory Committee
Truliant Federal Credit Union