



April 24, 2006

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

Subject: Advance Notice of Proposed Rulemaking on the Supervisory Committee Audit Rules

Dear Ms. Rupp:

We have reviewed the subject matter, and we respectfully offer our comments for NCUA consideration. In general, it is our belief that the proposed rule is inappropriate and unnecessary. Existing regulations in Part 715 have proven sufficient to provide the driving force behind the demands on credit union leadership and Supervisory Committees to improve their corporate governance practices, including accurate and transparent financial statement and regulatory reporting. In addition, compliance with the current Part 715 continues to be effectively monitored by NCUA and provides reasonable assurance that internal controls over financial reporting for credit unions are appropriate.

Attached are our comments in response to NCUA's Advance Notice of Proposed Rulemaking on the Supervisory Committee Audit Rules. We thank you for the opportunity to provide these comments.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Egger".

Robert P. Egger
Supervisory Committee Chairman

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.

An "attestation on internal controls" over financial reporting is not necessary or appropriate for credit unions given the limited nature and complexity of credit unions relative to other types of financial institutions and public companies. We think a credit union's compliance with existing regulatory requirements in Part 715 provides adequate assurance that financial statement and regulatory reporting remain accurate and transparent.

We believe that an internal auditor's and external auditor's current review and tests of significant internal controls over financial reporting performed on a regular basis is sufficient to provide adequate coverage and controls over a credit union's inherent financial reporting risk. Although existing external opinion audits do not include an "attestation on internal controls" over financial reporting, these opinion audits and associated engagement letters do require the auditors to report to management and the Supervisory Committee internal controls concerns identified during the audit. Again, given the limited nature and complexity of credit unions relative to other types of financial institutions and public companies, we believe these responsibilities and resulting reports have proven to be sufficient and effective for credit unions.

Together with these current checks and balances, we also believe the NCUA currently utilizes appropriate and sufficient examination procedures to ensure credit unions' financial statements and regulatory reporting is truthful and transparent. This is evidenced by the soundness of the National Credit Union Share Insurance Fund and the negligible historical losses related to malfeasance in financial statement and regulatory reporting.

Additionally, new requirements for an "attestation on internal controls" will significantly increase credit unions' expenses, including those expenses associated with the documentation of internal controls and the external auditor attestation. Most public companies have experienced increased costs related to the SEC's current attestation requirements, and the burdensome costs have been documented extensively in recent press releases and accounting industry literature. Many of these companies have also indicated the benefits of these costs have not been made apparent. In addition, due to the prohibitive costs associated with these attestations as performed by external firms, public companies have redirected valuable internal audit resources to the task of specifically documenting existing controls for financial reporting to support the external auditor's attestations. This has resulted in a trade-off of internal audit resources that will continue to leave significant gaps in the internal audits of operations, information technology, and regulatory compliance well into the future.

We think an ongoing corporate governance structure that includes effective oversight and a genuine partnership among senior management, the board of directors, the supervisory committee, the internal auditors, the external auditors and NCUA is more important than additional attestation requirements. We believe meeting existing Part 715 requirements together with an effective corporate governance structure maintains transparency in financial statement and regulatory reporting and ethics in the marketplace.

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.

As indicated, we do not believe extending this requirement to credit unions is appropriate. Should NCUA require the attestation, then the minimum asset size threshold should not be lower than \$1 billion, consistent with the threshold for banks and thrift institutions. We see no reason why the threshold for credit unions should be more burdensome.

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.

If the attestation is required, then the minimum asset size threshold should be the same for both natural person and corporate credit unions. As both types of institutions are insured, we do not see an apparent reason why there should be a difference.

Question 4. Should management's assessments of the effectiveness of internal controls and the attestation by its external auditor cover 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?

Management's assessments of the effectiveness of internal controls and the attestation by the external auditor should cover financial statements prepared in accordance with GAAP and those prepared for regulatory reporting purposes. Each of these types of reports has similar financial data and the assessment and attestation of each type should promote consistent presentations.

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.

Consistent with the need to find the best practices and prices for these services, credit unions should be permitted to decide whether to engage one or more auditors to perform both the financial statement audit and the attestation on internal controls over financial reporting.

Allowing a single auditor to perform both the financial statement audit and the attestation should not diminish the validity of either engagement and might reduce the costs associated with the attestation.

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

If an attestation on internal controls were required of credit unions, less frequent attestations would be sufficient given the reduced risk of the credit union environment and the related costs. Any benefits would be obtained from the initial attestation, and barring significant changes to the credit union's internal control environment, less frequent attestations would prove more effective and less costly.

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)?

If attestations on internal controls were required of credit unions, then credit unions should have at least 24 months from the date any final rule change is published until the beginning of the fiscal period for which the attestation is required to comply. This is consistent with the time the SEC allowed regulated entities to comply with the attestation requirements under the Sarbanes-Oxley Act and allows credit unions sufficient time to prepare for implementation of the new requirements.

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 A T 501 standard that applies to non-public companies? Please explain your preference.

If credit unions were required to obtain an attestation on internal controls, credit unions should be required to comply with the AICPA's standard, as credit unions more closely resemble non-public companies.

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?

A specific model of internal control should not be mandated, but an acceptable model should be clearly identified by NCUA. As an alternative, NCUA should also consider developing its own standard model that is appropriate for credit unions and should release a draft of this standard model for public comment.

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 that some, but not all, Supervisory Committee members for credit unions with \$3 billion or more in assets should be required to have some level of business experience or expertise in credit union, banking, or other financial matters. Other Committee members who may not possess the stipulated business experience or expertise can still bring a wealth of diverse knowledge and other experience that sufficiently contributes to the Committee's effectiveness. Ultimately, we think the credit union Boards of Directors should be allowed to determine the appropriate level of experience or expertise required.

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?

Supervisory Committee members of credit unions should not be required to have access to their own outside counsel; however, Supervisory Committee members should have the option to obtain access to outside counsel should they so choose, regardless of the credit union's asset size.

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?

We do not think any credit union Supervisory Committee members should have conflicts of interest with credit union operations, including member and third party vendor relationships.

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.

Requirements stipulated in Questions 10 and 11 might have a negative impact on credit unions, particularly credit unions with less than \$1 billion in assets, in recruiting and retaining competent individuals to serve on their Supervisory Committees. We do not think the requirements in Question 12 would negatively affect credit union Committee member recruitment and retention.

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?

State-licensed, compensated auditors performing financial statement audits or internal control attestations should only be required to meet the AICPA's independence standards. The SEC's independence standards apply to public companies. Consequently, we do not believe these standards are appropriate or necessary to require for credit union auditors.

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?

Credit unions with less than \$1 billion in assets should be permitted to perform "balance sheet audits," given their limited size and complexity. Additional audit requirements for these credit unions may impose additional and unnecessary costs that may prove burdensome.

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?

NCUA should retain the "Supervisory Committee Guide Audit" in existing part 715 as an option for credit unions with less than \$500 million in assets. We think this is a reasonable and appropriate option for those credit unions.

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?

NCUA should review the financial statement audit and attestation, if required, in conjunction with the credit union's regularly scheduled examination. We believe such a process would ensure efficiency for both the credit union and the NCUA examiners.

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?

NCUA should review management letters, qualifications, and other reports issued by the credit union's external auditor in conjunction with the credit union's regularly scheduled examination. Such a process would be efficient for both the credit union and the NCUA examiners.

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?

Supervisory Committees should review all audit reports. This practice is indicative of an appropriately managed credit union. Accordingly, the Supervisory Committee should be made aware of the NCUA's request and have the option to discuss the report with the external auditors, but the auditor should not be explicitly required by regulation to review those reports again with the Supervisory Committee before forwarding them to NCUA.

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?

The target of 120 days in existing Part 715 is a sufficient amount of time under normal circumstances. Reasonable sanctions should only be considered if the extension is not justified by legitimate extenuating circumstances that could possibly cause a delay.

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?

Part 715 should not require credit unions to notify NCUA when they enter into an engagement with an auditor. However, the NCUA should be notified when the independent auditor resigns or is dismissed before the term of the engagement ends. The notification to NCUA should include the reasons for the dismissal or resignation.

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?

We think it is appropriate to prohibit by regulation Supervisory Committees from executing engagement letters that contain the limitations of auditor liability outlined in the final *Interagency Advisory*. However, Supervisory Committees should have the option to waive the auditors' punitive damages liability if deemed warranted, but we would support requiring those credit unions to disclose annually the nature of such arrangements in their financial reports.