



April 24, 2006

Sent via email to [regcomments@ncua.gov](mailto:regcomments@ncua.gov)

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

Re: Comments on Part 715 ANPR, Supervisory Committee Audits

Dear Ms. Rupp:

Thank you for the opportunity to comment on the Advance Notice of Proposed Rulemaking ("ANRP") seeking comment on whether and how to modify the Supervisory Committee regulation to require credit unions to obtain an "attestation on internal controls" in connection with their annual audits; to identify and impose assessment and attestation standards for such engagements; to impose minimum qualifications for Supervisory Committee members; and to identify and impose a standard for the independence required of State-licensed, compensated auditors.

## **A. Internal Control Assessment and Attestation**

*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.*

We do not believe that Part 715 should require an attestation on internal controls over financial reporting. First, we believe that it is important to understand that establishing and maintaining internal control over financial reporting is a requirement that already exists. Everyday, as business processes change, as personnel turnover, as technology advances, credit unions are required to ensure that they have controls in place over their financial reporting process. Requiring an attestation does not increase a credit union's responsibility to ensure that it has adequate controls. Given that credit unions are already highly regulated by the NCUA, requiring this attestation would require duplicative efforts by management, external auditors and the NCUA. Not only is the duplicative effort costly in and of itself, but also the costs to perform this type of attestation are significant and will require increased costs in everything from external audit and consulting fees to new software. Additionally, the "attestation on internal controls" over financial reporting is narrowly focused on this one aspect of the credit union. While controls over financial reporting are important, credit unions face greater risks associated with the other aspects of running their business (i.e. interest rate, credit, market, operational risks, etc.). Using a risk-based approach, we believe that credit union resources would be more effectively utilized assessing and mitigating risks in these other areas and not the financial reporting process.

2. *What minimum asset size threshold would be appropriate for requiring, in addition to 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.*

We do not believe that an attestation on internal controls should be required for any credit union, regardless of size for the reasons stated previously. If the purpose of requiring the attestation is to reduce the risks of the National Credit Union Share Insurance Fund (NCUSIF), then it might make sense to set a threshold that would capture a certain percentage of total deposits insured.

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?*

We do not believe that an attestation on internal controls should be required for any natural person credit union or corporate credit union. Again, if the purpose of requiring the "attestation on internal controls" is to reduce the risks of the NCUSIF then the threshold should be set at a level that would capture a certain percentage of total deposits insured regardless of whether they are deposits of a natural person credit union or a corporate credit union.

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?*

We do not believe that an attestation on internal controls should be required for any aspect of the financial reporting process. However, if the purpose of requiring the attestation is to reduce the risks of the NCUSIF and the Board's primary tool for monitoring the credit unions for which it insures is regulatory reporting, then management's assessments and the attestation should only cover regulatory reporting.

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.*

If an "attestation on internal controls" over financial reporting were imposed by the NCUA, we believe that credit unions should be allowed to use the same auditor or engage different auditors depending on their individual circumstance. Since Sarbanes-Oxley was passed, it has become increasingly difficult for credit unions to find qualified independent auditors at a reasonable price. Therefore, we believe credit unions should be given maximum flexibility to hire auditors that best meet their needs. In some instances, using the same auditor may provide efficiencies that would be cost effective for the credit union. In other instances, a credit union may be better served by hiring two different auditors.

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

If an attestation on internal controls were required of credit unions, we believe that it should **not** be required annually. As with any internal control we must weigh the costs versus the benefits. We believe that the costs of this attestation outweigh the benefits.

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)?*

We suggest that credit unions be given at least 24 to 36 months after the effective date of any such regulation requiring an attestation of internal control.

## **B. Standards Governing Internal Control Assessments and Attestations**

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.*

If credit unions were required to obtain an attestation on internal controls we believe that it should adhere to AICPA's revised AT 501 standard that applies to non-public companies. It would not be reasonable to require credit unions to adhere to public company standards, when they are non-public entities.

9. *Should NCUA mandate COSO's Internal Controls – 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?*

No, NCUA should not mandate COSO's Internal Controls – 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. Credit unions vary widely in size and complexity; therefore, we believe that credit unions should have the option to choose a standard that best meets their individual needs. Additionally, since Sarbanes-Oxley was passed many organizations, including COSO, have embarked on initiatives to provide guidance on internal controls, particularly in the area of financial reporting. If the NCUA were to mandate COSO's Internal Controls – Integrated Framework as the standard, credit unions may not benefit from this yet to be published guidance.

## **C. Qualifications of Supervisory Committee Members**

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?*

While a minimum level of experience or expertise in credit union, banking or other financial matters may be useful for a committee member to have in carrying out their duties, we do not believe that this should be a requirement. Because Supervisory Committee members must be appointed from among the members of the credit union, it may be impossible for a credit union to be compliant with such a requirement. Further, because the committee members must be volunteers, even if a member had such experience, with the current demand for such experience, it may be impossible for a credit union to attract such a person to serve on the committee.

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

Yes, we believe that credit unions should provide appropriate funding, as determined by the Board of Directors, to any outside counsel employed by the Supervisory Committee.

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?*

Given that customers of a credit union are its members and the Supervisory Committee must be made up of members of the credit union, we are not sure how this requirement could be applied to credit unions. Having said that, we believe that Supervisory Committee members must be free from conflicts of interest. A code of ethics and appropriate Board governance should be able to address conflicts of interest.

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.*

As described in number 10 above, we believe that it may be impossible for some credit unions to recruit and retain individuals with a minimum level of experience or expertise in credit union, banking or other financial matters.

## **D. Independence of State- Licensed, Compensated Auditors**

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?*

We believe that the auditor should only be required to meet the AICPA's independence standards. With the increased demands on accountants due to the requirements of Sarbanes-Oxley, it is becoming increasingly difficult for credit unions to hire and retain qualified auditors. Requiring credit unions to hire auditors that meet both independence requirements is potentially yet another hurdle in hiring the auditors. Therefore, we believe that credit unions should be given maximum flexibility to hire qualified auditors that meet the independence standards of the AICPA.

## **E. Audit Options, Reports and Engagements**

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?*

This is not an option for corporate credit unions; however, we believe that if natural person credit unions with less than \$500 million in assets are utilizing this option and are finding value in it then it should be retained.

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?*

This is not an option for corporate credit unions; however, we believe that if natural person credit unions with less than \$500 million in assets are utilizing this option and are finding value in it then it should be retained.

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?*

If the requirement to forward copies of auditor's reports to the NCUA is put in place without a corresponding process for the NCUA to review the reports and respond to them in some way then this seems to be an unnecessary requirement. The NCUA is of course provided copies of such reports during their examination of a credit union. Therefore, barring any process of the NCUA to review the auditor reports prior to the regular exam, it does not seem necessary to require credit unions to forward copies of auditor's reports to the NCUA prior to the exam.

18. *Should part 715 require credit unions to provide NCUA with a copy of any management letter, qualifications, or other report issued by its external auditor in connections with services provided to the credit union? If so, how soon after the credit union receives it? If not, why not?*

Similar to number 17 above, if the requirement to forward these reports to the NCUA is put in place without a corresponding process for the NCUA to review the reports and respond to them in some way then this seems to be an unnecessary requirement. The NCUA is of course provided copies of such reports during their examination of a credit union. Therefore, barring any process of the NCUA to review the auditor reports prior to the regular exam, it does not seem necessary to require credit unions to forward copies of auditor's reports to the NCUA prior to the exam.

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?*

If credit unions were required to forward external auditors' reports to NCUA, we do not believe that 715 should require the auditor to review the reports with the Supervisory Committee before the credit union forwards the reports to the NCUA. Often times the reports have no issues and it would be overly burdensome to require the Committee to meet to discuss the reports prior to them being forwarded to the NCUA, particularly if the credit union is up against a deadline to file them with the NCUA.

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 a target delivery date within its engagement letter?*

With the consolidation of accounting firms and the increased workload due to Sarbanes-Oxley, finding qualified auditors has become increasingly difficult for credit unions. Requiring delivery of the audit report within 120 days after the audit period-end requires auditors of credit unions with December 31<sup>st</sup> year ends to complete the audit during the busiest part of their year. This not only contributes to the difficulty credit unions have in hiring qualified auditors, it may make the audit more expensive to have it completed during this busy time. If the period were extended it would potentially give credit unions the flexibility to move their audit out of this busy time period. This may help credit unions control the cost of their audits. Further by extending the requirement, it may give credit unions the needed flexibility to attract qualified auditors that may otherwise be too busy to complete the audit within the current 120 days.

We believe that there should not be any sanctions imposed against a credit union that fails to include a target delivery date within its engagement letter. If there were a requirement to file the audit report by a particular date with an interested party, then sanctions might make sense to enforce such a requirement.

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?*

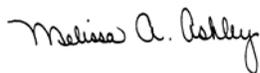
We believe that it reasonable for the NCUA to require credit unions to notify them in writing when an engagement with an auditor ceases. In the case of dismissal or resignation, we also believe that it is reasonable for the NCUA to require credit unions to include the reasons for the dismissal or resignation.

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 believe that the recent Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters Prohibiting Supervisory Committees has given financial institutions leverage in their ability to have the language limiting various forms of auditor liability removed from engagement letters and we commend the NCUA in joining other regulatory agencies in this effort. Because the advisory applies to all financial institutions, it gives credit unions the needed leverage without putting us at any disadvantage relative to other financial institutions. Our concern with prohibiting, by regulation, this language in engagement letters is that in the future should the requirements of other financial institutions change our requirements may not. This could put credit unions at a disadvantage relative to other financial institutions. While we would also appreciate having leverage in our dealings with auditors to remove any language waiving the auditor's punitive damages liability, we are concerned that credit unions may be at a disadvantage relative to other financial institutions if our requirements were different.

Thank you again for the opportunity to comment on this advanced notice of proposed rulemaking.

Sincerely,



Melissa A. Ashley  
VP/CFO

cc: Corporate One Board of Directors  
Corporate One Supervisory Committee  
Lee C. Butke, President/CEO Corporate One