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April 24, 2006

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

Re: Advance Notice of Proposed Rulemaking on Supervisory Committee Audit Rules

Dear Ms. Rupp,

The Georgia Credit Union League (GCUL) appreciates the opportunity to comment on the NCUA's advance notice of proposed rulemaking on the rules for Supervisory Committee Audits. GCUL is the state trade association and one member of the network of state leagues that make up the Credit Union National Association (CUNA). GCUL serves approximately 190 credit unions that have over 1.7 million members. This letter reflects the views of our Regulatory Response Committee, which has been appointed by the GCUL Board to provide input into proposed regulations such as this.

Background:

In 1999, NCUA comprehensively overhauled its Supervisory Committee audit rules to conform to the Credit Union Membership Access Act (CUMAA) amendments. Amended part 715 follows CUMAA in requiring credit unions having assets of \$500 million or more to annually obtain a financial statement audit. However, part 715 gives those having less than \$500 million in assets a choice among several audit options: (1) a financial statement audit; (2) a "balance sheet audit"; (3) a "report on examination of internal controls over Call Reporting"; and (4) an audit as prescribed by NCUA's *Supervisory Committee Guide*. None of these audit options requires an additional "attestation on internal controls" of the scope prescribed for other federally-insured financial institutions.

Through this Advance Notice of Proposed Rulemaking, the NCUA Board seeks public comment in the form of answers to questions on four discrete issues: (A) Whether to require credit unions to obtain an "attestation on internal controls" in connection with their annual audits (questions 1 through 7 below); (B) What standards should govern the

assessment and attestation components of such an engagement (questions 8 and 9 below); (C) What qualifications should be required as prerequisites to serve on a Supervisory Committee (questions 10 through 13 below); and (D) 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). Our responses to the questions are detailed below.

QUESTIONS REGARDING THE ADVANCE NOTICE OF PROPOSED RULEMAKING

Internal Control Assessment and Attestation

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?

GCUL Response: No. Because of the limitation on permissible activities, high degree of regulation and numerous audits already conducted, Part 715 should not require an attestation on internal controls. However, should NCUA implement a similar provision to that of the FDIC, the asset threshold should be no less than \$1 billion dollars.

Question 2: What minimum 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?

GCUL Response: As noted above, if implemented, the threshold should be no higher than that of the banking requirements.

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

GCUL Response: Natural person credit unions and corporate credit unions should be treated the same. Although corporate credit unions offer varying services from natural person credit unions, if implemented, we believe all credit unions should be treated the same.

Question 4: Should management’s assessments of the effectiveness of internal controls and the attestation by its external auditor cover all financial reporting -- financial statements prepared in accordance with generally accepted accounting principles (GAAP) and those prepared for regulatory reporting purposes -- or should it be more narrowly framed to cover only certain types of financial reporting?

GCUL Response: If implemented, we believe the “attestation on internal controls” should be required for only regulatory call reporting. To require the same for all areas would be cost prohibitive.

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 in one auditor to perform the financial statement audit and another to perform the “attestation on internal controls?”

GCUL Response: We believe the same auditor should be permitted to perform both functions if the attestation of internal controls were implemented. Requiring a different auditor to perform this function would not only duplicate efforts, but would also increase expenses dramatically.

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

GCUL Response: If implemented, we believe this requirement should occur no more frequently than every 2-3 years. Factors affecting the need for such audit vary based on the complexity of the credit union and the cost of adhering to this requirement would be substantial.

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

GCUL Response: In order to prepare proper internal policies and procedures for implementation, we believe the effective date should be at least 24 months after adoption by NCUA.

Standards Governing Internal Control Assessments and Attestations

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 Public Company Accounting Oversight Board’s (PCAOB’s) AS2 standard that applies to public companies, or to the AICPA’s revised AT 501 standard that applies to non-public companies?

GCUL Response: Since the PCAOB’s AS2 standard applies to public companies and, because of its complexity, is much more expensive, we believe the AICPA’s revised AT 501 standard that applies to non-public companies should apply.

Question 9: Should NCUA mandate the Committee of Sponsoring Organizations of the Treadway Commission’s (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?

GCUL Response: If the NCUA requires management to document the nature and effectiveness of internal controls and third-party attestation engagements of management's assertions, then the NCUA should consider only COSO's (Committee of Sponsoring Organizations of the Treadway Commission) Internal Control – Integrated Framework as a standard that all credit unions greater than \$1 billion in assets must follow. By having all CU's over \$1 billion using only the COSO standard will provide continuity and consistency to measure and evaluate various financial institutions.

Qualifications of Supervisory Committee Members

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 no, why not? If yes, what criteria should they be required to meet? What should the minimum asset size threshold be?

GCUL Response: For credit unions with assets over \$3 billion, there could be a requirement for the Supervisory Committee to have a minimum level of experience or expertise in credit union, banking or other financial matters since the FDIC has a similar threshold. However, recruitment of volunteers to meet this requirement can be a challenge for many credit unions. Therefore, if the credit union can prove a hardship in recruiting and retaining members who have a minimum level of experience, this requirement should be waived by the NCUA. The banking environment has the luxury of paying committee members and credit unions must find unpaid individuals to serve as voluntary officials. Additionally, qualified Supervisory Committee membership is difficult to recruit under current regulations and would be even more difficult with these added regulations.

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 no, why not? If yes, at what minimum size threshold should the Supervisory Committee members have that right?

GCUL Response: Supervisory Committee members of any credit union should be permitted to have access to outside counsel as they deem necessary to conduct the activities within their charge. However, such authority (and related expenditures) should be subject to Board review, approval and reporting.

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 no, why not? If yes, at what minimum asset size threshold should the prohibition kick in?

GCUL Response: Existing regulations and rules already provide substantial protections. As noted above, finding suitable volunteers to serve in this capacity can be a challenge for many credit unions. Additionally, single sponsor credit unions only have one company from which they can draw supervisory committee candidates. Therefore, we do not believe this prohibition is warranted.

Question 13: If any of the potential qualifications mentioned in the questions above were required of Supervisory Committee members, would credit unions have difficulty in recruiting and retaining competent individuals to serve in sufficient numbers?

GCUL Response: See previous answer.

Independence of State-Licensed, Compensated Auditors

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?

GCUL Response: Financial statement opinion audits and/or “internal control attestation” required by NCUA regulations should only be performed by a State-licensed compensated auditor who meets the AICPA’s “independence” standards. We see no benefit to a State-licensed, compensated auditor also meeting the SEC’s standards for “independence”. The SEC’s requirements are much more complex and are more appropriate for publicly traded companies.

Audit Options, Reports and Engagements (Miscellaneous Issues)

Question 15: Is there value in retaining the “balance sheet” audit in Section 715.7(a) of NCUA’s rules as an audit option for credit unions with less than \$500 million in assets?

GCUL Response: Yes. The option of retaining the balance sheet audit is desirable, and may meet the compliance needs of certain credit unions.

Question 16: Is there value in retaining the “Supervisory Committee Guide audit” in Section 715.7(c) of NCUA’s rules as an audit option for credit unions with less than \$500 million in assets?

GCUL Response: The “Supervisory Committee Guide” audit is an important option for credit unions under \$500 million in assets. This is the only option that does not require a CPA to perform the audit. Without this option, an undue financial burden will be placed on many credit unions. The higher costs could force some credit unions into a merger situation. If the Supervisory Committee audit option were not available to credit unions, non-CPAs would no longer be able to offer to do the annual audit for credit unions. CPAs could then charge a higher amount to do the audit for these credit unions because there

would be no competition offering a competing and typically more economical fee. The higher fees would create a financial burden for these smaller credit unions. The elimination of the Supervisory Committee audit option would also put an undo burden on credit unions with assets less than \$10 million. The vast majority of credit unions with assets less than \$10 million utilize the Supervisory Committee audit as their annual audit option and rely heavily upon League audit programs and other non-CPA's to provide these annual services.

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?

GCUL Response: No. This information is available to NCUA through the examination process.

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?

GCUL Response: No. This information is also available to NCUA through the examination process.

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?

GCUL Response: The external auditors' reports should not be required to be forwarded to NCUA (see #17 and 18 above). Direct communications between the Supervisory Committee and external auditors is certainly an industry standard at this time and changing NCUA regulations will provide no further benefit.

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?

GCUL Response: The increasing complexity of the credit union business environment makes the delivery of audit reports within the prescribed target date of 120 days increasingly difficult. Sometimes an audit requires additional time for investigation or confirmation of a significant item. Sometimes the audit firm is hired after the audit-period end date (for example: an audit firm receives a December 31, 2005 engagement letter on February 25, 2006). Auditors face a great deal of difficulty within the current regulations to do the preparation, scheduling, performance of the audit and perform the proper review and deliver the audit report within the 120 day deadline. In order to satisfactorily

complete all of the required elements of the audit process we suggest the target delivery date for audit reports should be 180 days after the audit-period end. The current NCUA regulations require the target delivery date be included in the engagement letter with any external auditor. The NCUA should address any problems at individual credit unions through the annual regulatory examination process (i.e., Document of Resolution, when appropriate).

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?

GCUL Response: We do not believe this is necessary. The Supervisory Committee is responsible for the engagement or dismissal of the external auditor. The actions of the Supervisory Committee are typically reviewed during the NCUA's examination process.

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?

GCUL Response: Limiting auditor liability and prohibiting punitive damages weakens the overall audit function. We agree that Supervisory Committees should be prohibited from engaging with auditors under engagement letters that do so.

Thank you for the opportunity to comment on the advanced notice of proposed rulemaking on the rules for Supervisory Committee Audits. If you have questions about our comments, please contact Cynthia Connelly or me at (770) 476-9625.

Respectfully submitted,



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