YOUNG, SHERON

From: _Regulatory Comments
Sent: Tuesday, April 04, 2006 7:30 AM
To: YOUNG, SHERON
Subject: FW: SAFE Credit Union Supervisory Comments on Part 715 ANPR

From: Macell Millard [mailto:macell.millard@sbcglobal.net]
Sent: Monday, April 03, 2006 4:02 PM
To: _Regulatory Comments
Cc: Earl Hendricks; Freda Morris; Gus Pass; John Quattrin; Mike Dacunzo; Mr. Earl Hendricks
Subject: SAFE Credit Union Supervisory Comments on Part 715 ANPR

SAFE Credit Union

Sent Via E-Mail: regcomments@ncua.gov

National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Dear Sirs:

Re: SAFE Credit Union Comments on Part 715 ANPR, Supervisory Committee Audits

SAFE Credit Union is pleased to provide the following comments to NCUA's Advance Notice of Proposed Rulemaking:

Question No. 1

SAFE Credit Union is a strong believer in financial reporting transparency. It believes that having an attestation on internal controls is important to its members and for SAFE's continued growth in attracting new members. Strong financial transparency provides assurance to SAFE's members that it is committed to sound financial practices. All credit unions should provide their members with financial reporting transparency. However, SAFE realizes that there is a cost to having internal controls attested to by both the credit union's management and auditors. It currently believes that asset size is valid criterion for obtaining an audited attestation of internal control. However, smaller credit unions could have an attestation standard requirement that does not have to be audited. The NCUA should also remember that many other regulated industries have attestation requirements that do not require an audit but are signed under the penalty of perjury.

Question No. 2

A $500 million dollar asset threshold probably from a cost/benefit relationship is reasonable for providing an audited attestation of internal control. However, one of our concerns is that many credit unions are now community-based and no longer either corporate sponsored or have members with a sponsored common bond. Community- based entities regardless of size probably should be held to higher standards due to the wide diversity of membership from within the community. This higher standard may include having a non-audited attestation of internal control signed by management. The reason for this comment is that potential checks and balances within a corporate/sponsored common bond credit union might not exist as strongly in a dispersed member community-based credit union. Financial solvency along with management integrity is extremely important to community-based credit union membership who have in many cases entrusted much of their life savings in their financial relationship with the credit union.

Question No. 3

SAFE believes that if a minimum size threshold is set for attestation on internal controls the requirements should be consistent for all credit unions within the NCUA designated category. SAFE feels that the $500 million asset size is appropriate.

Question No. 4

Management's assessment of the effectiveness of internal control and both their and the auditor's attestation should only be on the GAAP financial statements. Any regulatory reporting statements or other comprehensive basis of accounting statements being provided could have a reconciliation of those statements to the GAAP statements.

Question No. 5

The same auditor engaged to perform the financial statement audit should also be permitted to perform the attestation on internal controls. First, it makes sense from a cost viewpoint that only one audit firm need be engaged in both activities. Second, it squarely places responsibility on the audit firm engaged to properly review the system of internal control and place reliance upon it while doing the financial statement audit. If you bifurcate the responsibility, it would be difficult to engage a firm to provide a cost effective attestation service reducing the benefit to the Credit Union.

Question No. 6

The audited attestation on internal control should be required triennially. SAFE was told the estimated cost for the audited attestation of internal controls would equal our current annual external audit fee. For the intervening years that are not audited, management (CEO and CFO) should file an unaudited attestation on internal control stating that no material changes to the system of internal control have been made during that fiscal year.

Question No. 7

We feel that the effective date of the requirement of attesting to internal control should be no sooner than for fiscal years beginning after December 15th two years following the effective date of the new rules. . This is a cost issue in the implementation of the documentation of the internal controls currently in place. Firms competent to do work in the internal control documentation area are in high demand and thus are able to bill at maximum rates for their work. SAFE's management is working with its internal audit department to develop its own material on documenting its internal control structure. This effective date allows credit unions to adequately prepare for an audited attestation of its internal controls from both a timing and cost standpoint. SAFE views any earlier implementation date as a potentially adverse cost issue that would be borne by its members.

Question No. 8

Credit unions if required to obtain an attestation on internal control should be allowed to come under either of the standards. The PCAOB and AICPA revised AT501 standard will pretty much be the same. If only PCAOB standards were adopted, then it would presume that a qualified PACOB audit firm is available to provide a credit union with the audit services required. Not all CPA firms are or will be accredited with the PACOB. You would be potentially reducing the number of quality audit firms

qualified to perform credit union audits and thus will be increasing the cost of audit work for all credit unions.
The NCUA should also review the new standards being proposed by the SEC that would affect the PCAOB standards on smaller companies.

Question No. 9

The PCAOB and new AICPA proposed internal control standards adopt the COSO framework as the standard for documenting internal control structure and procedures. It should be adopted by the NCUA as the standard to be used. This will promote consistency in reporting on internal controls across the credit union industry.

Question No. 10

The current guide to Supervisory Committee Guide for Federal Credit Unions contains comments on the qualifications for members of the Supervisory Committee. Those guidelines might be enhanced to require at least one member of a credit union Supervisory Committee to be a "financial expert." Financial expert would be defined as a person who:

- Understands generally accepted accounting principles (GAAP) and financial statements
- Is able to assess the general application of GAAP in connection with the accounting for estimates, accruals and reserves;
- Has experience in preparing, auditing, analyzing, or evaluating financial statements of a breadth and complexity comparable to that of SAFE's financial statements, or has experie actively supervising one or more persons engaged in such activities;
- Understands internal controls and procedures for financial accounting; and
- Understands Supervisory Committee functions.

A person can acquire such attributes through one or more means, including education and experience as, or experience actively supervising, a public accountant, auditor, controller, principal accounting officer, or principal financial officer.

SAFE also believes that its Supervisory Committee should have a wide variety of experience as many non-financially related matters come before it for review.

Question No. 11

In general, the corporate general counsel, if employed by the credit union, or the legal firm that provides day-to-day service should be made available to the Supervisory Committee.

Question No. 12

All Supervisory Committee members should be free of conflicts of interest. Disclosure is the key issue involved. A committee member could be associated with a large credit union customer and be void of conflicts. SAFE thinks that it is more important that disclosure occurs and as long as no direct material benefit accrues to any member of the Supervisory Committee then the association is not inappropriate.

Question No. 13

Yes, from our experience at SAFE Credit Union finding Supervisory Committee members who have both rudimentary business skills and financial expertise and are willing to accept the responsibility to serve on the Supervisory Committee has not been easy. The NCUA should recognize the limitations that it might be placing on credit unions for the recruitment of Supervisory Committee members if the proposed qualifications are too onerous.

Question No. 14

The state licensed compensated auditor should only be required to meet either the PCAOB or AICPA independence standards. Extending the requirement to SEC standards that apply to publicly traded companies again poses the problem of imposing a limitation on certain state licensed persons from performing an audit. This could have a negative competition issue on what firms perform credit union audits thus increasing cost of audits to credit unions and its members.

Question No. 15

If financial transparency is the goal to be achieved, balance sheet audits should not be retained. If an audit is done by Generally Accepted Auditing Standards and uses Generally Accepted Accounting Principles under both PCAOB and AICPA standards, the financial statements should include a balance sheet, statement of income, statement of cash flows, and a statement of changes in member's equity. There are other levels of services below an audit that a smaller credit union should be allowed under AICPA standards such as a review or compilation.

Question No. 16

No, the audit standard in the Supervisory Committee Guide should require the performance of the work by licensed independent auditor.

Question No. 17

Yes, the annual audited statements along with the attestation of internal controls should be forwarded to the NCUA by the end of the fourth month after the close of the credit union's fiscal year.

Question No. 18

No, many of the other items provided by auditors are privileged communications. If the NCUA received any type of an audit and attestation opinion that was qualified by the independent auditor then certainly the NCUA should have the ability to follow up with the credit union requesting corrective action be taken.

Question No. 19

Yes, a credit union that has an audit done should have the requirement that the independent auditing firm meet with the Supervisory Committee prior to the release of the audited financial statements.

Question No. 20

Yes, a 120-day delivery date is reasonable. A monetary penalty should be levied against a credit union if the requirement is not met.

Question No. 21

No requirement should be placed on credit unions to report audit engagements or changes in audit firms. This again is trying to place public company SEC regulations on credit unions.

Question No. 22

This is a cost/benefit issue on audit services. If a requirement is placed on Supervisory Committees not to engage auditors that seek to limit their liability or punitive damages it could raise audit fees for a credit union. However, a Supervisory Committee also has a responsibility to its credit union members to insure that the engaged audit firm properly discharges its duty. Larger audit firms in the last few years have been working hard at limiting their liabilities in audit failures and have tried to place limitation clauses in engagement letters. SAFE believes regulatory guidance prohibiting credit unions above the minimum asset threshold from executing engagement letters that contain language limiting various forms of auditor liability is prudent. However, given the requirement for credit unions beyond the minimum asset threshold be required to engage only those firms adhering to PCOAB and AICPA standards, the issue of inappropriate limitation of liability clauses in engagement letters should be relatively immaterial.

SAFE Credit Union appreciates the NCUA request for information on these issues and hopes it finds these responses helpful in their deliberations.

Sincerely,

Freda Morris
Chairwoman, Audit Supervisory Committee
SAFE Credit Union