

**71 FR 9278**  
**Supervisory Committee Audits**  
**Advanced Notice of Proposed Rulemaking**

**Florida Credit Union's public comment to the proposed rule making is as follows:**

- 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.**

I do not believe that credit unions should be required to engage in an attestation of internal controls due to the large cost associated with such an engagement along with the required staffing to manage such a project on a daily basis. Additionally there is no justification to peruse such a program when you look at the failure rate of credit unions and losses to the NCSHIF. The Enron and MCI World Com scandals created the initiative for Sarbanes Oxley and the potential regulation NCUA is asking for input on here. NCUA needs to do a careful comparison on our industry to the world these very large companies live in. NCUA and state regulators along with the credit unions themselves have done an excellent job with strong internal controls and avoiding problems. The first thing a regulatory examiner asks for during an exam is the work papers from the last audit. They in effect audit the audit. Additionally State and Federal regulators have extensive regulations in place to prevent conflicts of interest and ensure credit unions function in an appropriate manner. These regulations govern all activities including board and management conduct. Simply put our industry has functioned very effectively from an internal control standpoint and we do not see how Enron or MCI could have failed under the credit union system. Politically I believe credit union regulators can use their track record, regulatory structure, and extensive internal control requirements to defend not implementing such a regulation. It is also important to remember that the savings and loan crisis of the early 80s was the financial institution industry version of Enron. Many laws and measures were put in place such as the bank bribery act and regulatory process to prevent future problems. Most importantly they worked!

- 2) What minimum asset size threshold would be appropriate for requiring, in addition to a financial statement audit, an "attestation of internal controls" over financial reporting, given the additional burden on management and its external auditor? Explain the reasons for the threshold you favor.**

I believe the threshold should be at least at the \$1 billion asset size that is currently being utilized at FDIC insured institutions. This is necessary for

the cost and sophistication necessary to audit and management necessary to run a program with this type of monitoring.

- 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.**

I believe they should be the same. Both are non-public, non stock based co-op's that are member owned. The corporate credit unions have a much more concentrated risk profile than natural person credit unions.

- 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 purposes), or should it be more narrowly framed to cover only certain types of reporting? If so, which types?**

I believe it should be more narrowly framed to cover only certain types of reporting for regulatory purposes only. We are unaware of any losses NCUA has faced that justify internal control reviews. It is our understanding most NCUA losses over the past 10 years or so were at smaller credit unions that did not even have CPA audits. NCUA needs to use its loss experience to justify the focus although loss ratios to the NCSHIF have been so low that it might be difficult to do so. Credit Unions are struggling in the market place. NCUA needs to be very careful with putting something like this in place because it creates an even greater focus on success from the auditors perspective verses business perspective. Internal controls are important but they have a negative impact on an organizations ability to offer convient services at a competitive cost. We need good internal controls but no more than necessary. This proposal has the potential to have auditors defining good business practices at a very detailed level in credit unions. Their focus will be on controls and not on being successful in the market place.

- 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.**

It should be allowed to have the same auditor for the attestation and the financial statement audit. The reason being is that a lot of internal control testing is incorporated in the financial statement audit that would be a natural procession into the attestation of internal controls.

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

I believe it should not be required annually due to the cost and amount of time required for the process. I would think every 3 to 5 years would be more appropriate.

- 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)?**

2008. Due to the time required to start a program as in depth as this would require.

- 8) **If credit unions were required to obtain an “attestation on internal controls,” should part 715 require the 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.**

AICPA’s revised AT 501 standard would be preferred. Since this standard is set for non-public companies it would be more appropriate for the co-op credit union focus.

- 9) **Should NCUA mandate CUSO’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.**

I believe that credit unions will need the option to choose their own standard due to different products and services inherent to each institution and risks accepted and mitigated at each institution. CUSO’s are different businesses.

- 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 be required to meet and what should the minimum asset size threshold be?**

These board member positions are voluntary and to attain a board member that would meet the above criteria as voluntary would be extremely difficult. So I do not recommend this change. You could however mandate the skill set of those doing the audit work. An example would be

where our credit Union uses its CPA firm to do quarterly internal audit work at the direction of the board audit committee.

**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?**

If the credit union has retained outside counsel, then I would believe they should have access to those attorneys. I do not believe they would need additional outside counsel.

**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?**

I do not believe the Supervisory Committee members should be prohibited from being associated with the credit union's largest sponsor. Single sponsor or SEG credit unions would have a hard time complying with this. Additionally there is no financial conflict of interest present that would require such an arrangement.

**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.**

It would be very difficult recruiting a board member with credit union/banking background on a voluntary basis. These individuals are generally very busy and require compensation for their time.

**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?**

For Credit Unions it should be just the AICPA's independence standards due to the nature of the credit unions and not the SEC's requirement due to the fact that there are no stock sales.

Credit unions are not regulated by the SEC and do not need to be.

**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?**

I believe all credit unions even ones with less than \$500 million should be required to engage in a CPA annual financial statement audits.

**16) Is there value in retaining the “Supervisory Committee Guide audit in existing 715.7c as an audit option for credit unions with less than \$500 million in assets?**

I do not believe this is an option any more. I believe they need full financial statement audits even below the \$500 million mark.

**17) Should part 715 require credit unions that obtain a financial statement audit and/or an “attestation on internal controls” (where as required or voluntary) to forward a copy of the auditor’s report to NCUA? If so, how soon after the audit period-end? If not, why not?**

A copy should be forwarded to NCUA after a period of 4 months for reports to be finalized.

**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?**

Related to an opinion audit we believe a copy should be forwarded to NCUA or state regulators. However many credit unions use CPA firms as their ongoing internal auditors on a frequent basis. These reviews as well as other operational reviews are operational in nature and should only be reviewed by regulators during the examination process.

**19) If credit unions were required to forward external auditor’s reports to NCUA, should part 715 require the auditor to review those reports with the Supervisory Committee before forwarding them to NCUA?**

They should to ensure the Supervisory Committee and staff is all in agreement with the reports prior to the submission to the regulator.

**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 120 day period seems appropriate. Sanctions are not necessary. Regulators should handle problems on a case by case basis and not create a punitive system for all the sins of a few.

**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?**

I believe this may limit the ability for credit union's to change auditors due to the reporting requirements. NCUA only needs to define a standard for who is qualified to do CU audit work so credit unions can ensure their auditors meet the standard. If it is dismissing an auditor for inappropriate behavior, I would think that reporting should be required. If it is dismissing an auditor due to changing auditors periodically, then no reporting should be necessary.

**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, 71FR 6847. 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 waving auditors punitive damages liability?**

I believe these contracts should be reviewed and discussed with an attorney. I do not believe regulation would be required. NCUA could cause audit costs to go through the roof with such a regulation. Auditors would feel compelled to audit most transactions with such a requirement. Again, NCUA's loss experience clearly does not justify such a requirement.

