YOUNG, SHERON

From: _Regulatory Comments
Sent: Monday, April 24, 2006 9:59 AM
To: YOUNG, SHERON
Subject: FW: VACU Comments on Part 715 ANPR, Supervisory Committee Audits

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From: Beverley Rutherford [mailto:beverley.rutherford@vacu.org]
Sent: Friday, April 21, 2006 5:28 PM
To: _Regulatory Comments
Cc: Lori McClain; Bob Warren
Subject: VACU Comments on Part 715 ANPR, Supervisory Committee Audits

Thank you for the opportunity to comment regarding Supervisory Committee Audit Rules. I am responding on behalf of a state chartered credit union located in Virginia. Our comments are as follows:

Question 1
We do not believe an "attestation on internal controls" above a certain minimum size should be required. With credit unions' not-for-profit cooperative structure, there is little risk or incentive to manipulate financial results. The additional cost of the internal controls assessment, documentation and attestation engagement would be extremely burdensome to credit unions.

Question 2
If the rule is enacted to obtain such attestation, we believe a $10 billion dollar minimum threshold should apply. The cost of developing internal control documentation and obtaining attestation is disproportionately burdensome to smaller credit unions.

In addition, the most significant risk to the insurance fund would be larger credit unions, so the attestation of internal controls may be prudent for that higher amount.

Question 3
We believe the minimum size asset threshold for requiring an attestation of internal controls should be the same for both natural person and corporate credit unions. However, we do see where the attestation of internal controls actually seems more appropriate for corporate credit unions rather than natural person credit unions. A large portion of corporate credit union deposits are uninsured and many smaller credit unions have a large portion of their assets on deposit with one corporate credit union.

Question 4
We believe management's assessments of the effectiveness of internal controls and the attestation by its external auditor should be more narrowly framed to cover only regulatory reporting, specifically the Call Report. We believe this would be sufficient.

Question 5
In our opinion, the same auditor should be permitted to perform both the financial statement audit and the attestation on internal controls. However, if they wish to, credit unions should have the flexibility to opt to utilize different firms.

Question 6
In our opinion, if the option for attestation on internal controls was annually or less frequently, we would support

the longer period. We would also urge NCUA to consider an even longer period, such as every five years. Internal controls typically don't change drastically, unless implementing new regulatory requirements or products/services. Regular external financial statement audits should address these annually.

Question 7
If the attestation on internal controls was required of credit unions, we believe it should become effective in the fiscal period beginning after December 15 of 2008 (first year end 12/31/09).

Question 8
We believe the stronger, more complex standards of the AS2 should not be required for not for profits and industries that are already regulated such as credit unions; therefore, we prefer AICPA's revised AT501 standard.

Question 9
For consistency purposes, we believe NCUA should mandate the COSO standard.

Question 10
We support Supervisory Committee members of credit unions with a minimum of $1 billion in assets having to meet minimum level of experience requirements. These requirements should include a working knowledge of accounting/banking, and/or recent business experience. They also should be independent of management, board, or other committees.

Question 11
We do not believe Supervisory Committee members above a certain asset size should be required to have access to their own counsel. They should have a right to their own counsel, but it should not be a requirement.

Question 12
We do not believe Supervisory Committee members of credit unions above a certain size should be prohibited from being associated with any large customer of the credit union other than its sponsor. Credit union members (including Supervisory Committee members) are owners. Therefore, they have a vested interest in ensuring controls are in place and audits performed as required, regardless of association with major customer/members.

Question 13
Depending upon the field of membership, we believe that it may be difficult to find competent individuals who meet all the requirements if any of the potential qualifications mentioned in the above questions were required of Supervisory Committee members.

Question 14
We do not believe auditors who perform a financial statement audit and/or internal control attestation should be required to also meet the SEC's independence requirements and interpretations. The SEC requirements are excessive (audit partner rotation, employment restrictions, etc.) given the cooperative nature of credit unions. The SEC rules are designed to protect securities investors.

Questions 15 & 16
We agree that there is value in retaining the "balance sheet" audit in Section 715.7(a) of NCUA's rules for credit unions with less than $500 million in assets. This option should be available for smaller credit unions who may not be able to afford a full-scope audit by a licensed firm. For these same reasons we believe there is value in retaining the "Supervisory Committee Guide audit" in Section 715.7(c) of NCUA's rules for credit unions with less than $500 million in assets.

Questions 17 & 18
We believe it would be burdensome to require credit unions that obtain a financial statement audit and/or an attestation of internal controls to forward a copy of the report to NCUA. The examiner should review a copy during the periodic examination; credit unions should also indicate on the Call Report the most recent audit report date, and NCUA could always do a random sample request. This same option of the examiner reviewing copies of management letters and other reports issued by its external audits should be reviewed during the periodic examination rather than the requirement to send copies to NCUA.

Question 19
Should credit unions be required to forward external auditors' reports to NCUA, we support the Supervisory Committee reviewing those reports prior to sending them to NCUA. The Supervisory Committee should require the external auditor to review reports with them as part of their engagement.

Question 20
We do not believe the target date of 120 days after the audit period-end for delivery of the audit report should be changed as we feel 120 days is reasonable.

Question 21
We believe it would be burdensome for credit unions to have 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. Audit firm engagement status can be reviewed during the routine examination.

Question 22
We believe Supervisory Committees should be prohibited by regulation from executing engagement letters that contain language limiting various forms of auditor liability to the credit union. If it's not a regulation, audit firms are more likely to try and limit their liability. Supervisory Committees should not be prohibited from waiving the auditor's punitive damages liability as there may be situations where the Supervisory Committee has to waive the punitive damages liability in order to engage a firm to perform the audit.

Again, we thank NCUA for the opportunity to express our comments on the proposal. Please feel free to contact me if you have any questions about our comments.

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