

April 24, 2006

VIA e-mail: regcomments@ncua.gov

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

RE: 12 C.F.R. Parts 704, 715 and 741; *Supervisory Committee Audits*

Dear Ms. Rupp:

WesCorp appreciates the opportunity to comment on NCUA's Advance Notice of Proposed Rulemaking on Supervisory Committee Audits. WesCorp has a national field of membership and serves 1,061 credit unions in 41 states, offering balance sheet solutions and payment systems services. As a way of background to address this Advanced Notice of Proposed Rulemaking (ANPR), we offer the following information. WesCorp was the first corporate credit union to establish an internal audit function. The audit department staff is five in number, and reports to the Supervisory Committee. We also have engaged external auditors since 1985 to validate our financials - currently, we use KPMG. WesCorp's Supervisory Committee consists of four individuals - two of whom are CEOs, representing a cross-section of our membership. Further, WesCorp has voluntarily complied with portions of the Sarbanes-Oxley ("SOX") Act - specifically, sections 102, 201, 203, 206, 301, 302, 303, 401, 406 and 407.

NCUA specifically requests comment on four issues:

- (A) Whether to require credit unions to obtain an "attestation on internal controls" in their annual audits;
- (B) What standards should govern the assessment and attestation components of such an engagement;
- (C) What qualifications should be required as prerequisites to serve on a Supervisory Committee; and
- (D) What standard should dictate the degree of independence required of state-licensed, compensated auditors.

While we recognize that NCUA has requested commenters to specifically address the questions in the ANPR, WesCorp is compelled to comment comprehensively on the issues raised by these questions.

Internal Control Assessment and Attestation

WesCorp strongly opposes requiring credit unions and corporate credit unions (corporates) of *any* asset size to obtain an attestation on internal controls. The intent of requiring an attestation for public companies is to foster transparency, and thus, increase public confidence. With that intent in mind, WesCorp does not see how requiring an attestation on credit union and corporate internal controls over financial reporting offers any public benefit. In fact, it would seem that the only beneficiaries of such a requirement would be the accounting firms necessarily engaged.

Credit unions and corporates, by virtue of their structure, operate on thin margins. To that end, this ANPR is suggesting a burdensome regulation, that will require credit unions and corporates to cut into their profitability to comply – profits that could be better used to provide value to members. At WesCorp, for example, it has been conservatively estimated that this would more than double our current audit fee. It will also reduce the coverage and effectiveness of Internal Audit. WesCorp suggests that there is no cost-benefit justification to requiring an attestation.

WesCorp is not aware of any significant problem in the credit union system for which a compulsory attestation of internal controls is a remedy. Further, if NCUA pursues making this a regulatory requirement, it is unclear to WesCorp that if there were a finding during an attestation, whether that finding would be made “public,” as in the case with public companies. And, there are likely to be costs associated with any such findings – which will also pose a burden to the credit union/corporate.

In WesCorp’s experience with using a tier one auditing firm; since the enactment of SOX we have seen these firms structuring all their year-end financial audit work to align with Section 404 of SOX. While WesCorp has chosen to voluntarily comply with the “essence” of SOX, credit unions are not required to comply with SOX, thus credit union audits don’t match the firms’ audit “template.”

NCUA also requests feedback on whether the same external auditor used by the credit union should do the attestation on internal controls. It is our belief that the auditing firms uniformly have clauses in their contracts that prevent them from such an engagement, which may cause the appearance of the lack of independence. In addition, we have experienced that some of the requirement for the regimen and discipline of an attestation of internal controls audit has “bled into” the standard financial audit we receive from our outside auditor.

Standards Governing Internal Control Assessments and Attestations

Because WesCorp does not support – and, in fact, strongly opposes requiring an attestation of internal controls on credit unions/corporates – we have no further comment to offer for this section on attestation standards.

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 so, what criteria should they be required to meet and what should the minimum asset size threshold be?

While WesCorp has independently chosen to voluntarily comply with section 407 of SOX; in general, WesCorp does not support requiring Supervisory Committee Members to have a minimum level of experience or expertise in a financial institution – no matter the asset size of the credit union. WesCorp believes that imposing such a requirement would lead to an eventual evaporation of the volunteer status of this position, as credit unions could become forced to pay for such expertise.

- *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 so, at what minimum asset size threshold?*

WesCorp does not see a need for Supervisory Committee Members of a credit union to have required access to their own outside counsel, regardless of asset-size of the credit union. The Supervisory Committee is independent from the Board. If a situation occurred that created such a faction between the Board and the Supervisory Committee, WesCorp would support involving the regulator as the next step, as opposed to the Supervisory Committee obtaining outside counsel. Furthermore, it is unclear how obtaining outside counsel would amicably help to resolve, as opposed to inflame such a situation. Further, the cost of the outside counsel would need to be borne by the credit union after authority by the Board, creating an awkward situation.

- *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 so, at what minimum asset size threshold?*

This question is unclear to WesCorp. Clarification on what the following terms mean: “being associated with,” as well as “large customer,” and “other than its sponsor” would be helpful in answering this question. If the question is referring to a conflict of interest – obligations already exist for this – if there is a conflict of interest then the member recuses him or herself.

- *Question #13: If any of the qualifications addressed in questions 10, 11 and 12 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.*

Yes, WesCorp believes that credit unions would have difficulty in recruiting volunteers to serve on their Supervisory Committees if they had to meet the qualifications addressed in the previous questions. As mentioned before, WesCorp believes credit unions may be forced to pay for such “qualified” individuals. WesCorp further believes that this would

be unduly burdensome to small credit unions. WesCorp respectfully suggests that NCUA look at rules regarding term limits instead, as a possible means to address the issue.

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? If both, why not?*

This does not appear to be an issue with WesCorp. However, WesCorp believes that SEC requirements would be onerous for small credit unions.

Miscellaneous Issues

- Question # 15: *Is their value in retaining the “balance sheet audit” in existing section 715.7 (a) as an audit option for credit unions with less than \$500 million in assets?*

Yes, WesCorp believes there is value in retaining the “balance sheet audit” as an option.

- Question # 16: *Is their value in retaining the “Supervisory Committee Guide audit” in existing section 715.7 (c) as an audit option for credit unions with less than \$500 million in assets?*

Yes, WesCorp believes there is value in retaining the “Supervisory Committee Guide audit” as an option. It would seem, that for small credit unions in particular, that more options provide a variety of alternatives.

- Question #17: *Should part 715 require credit unions that obtain a financial statement 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?*

WesCorp does not believe it should be a requirement for credit unions to forward their auditor’s report to NCUA. In WesCorp’s experience, NCUA examiners already ask for this when they begin an examination. In addition, the NCUA reviews the work papers of our external year-end audit.

- 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?*

WesCorp believes it should not be required for credit unions to provide NCUA with a copy of any letter, report, etc. issued by the external auditor. Again, in WesCorp’s experience, this already occurs, so it should not be a requirement.

- Question #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?*

WesCorp does not believe it should be required for auditors to review their reports with the Supervisory Committee before forwarding them to NCUA. In our experience, this already occurs, as well.

- 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 with its engagement letter?*

WesCorp supports current regulation.

- 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?*

WesCorp does not support requiring by regulation credit unions to notify NCUA in writing when they enter into an engagement with an auditor and when the engagement ceases. This is already required by the firm.

- 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?*

WesCorp does not support prohibiting by regulation Supervisory Committees from executing engagement letters that contain language limiting various forms of auditor liability to the credit unions; nor should Supervisory Committees be prohibited from waiving the auditor's punitive damages liability. While WesCorp understands that NCUA does not want credit unions to accept engagements with limited liability, it creates an issue for the credit union if the regulator prohibits credit unions from signing a contract with such a clause if the marketplace doesn't accept that. The rule must be in tune with the marketplace.

Again, WesCorp appreciates the opportunity to comment on NCUA's Advance Notice of Proposed Rulemaking on Supervisory Committee Audits.

Sincerely,

Bob Siravo

Bob Siravo
President/CEO