

April 4, 2019

Gerald Poliquin, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Comment on Proposed Rule Supervisory Committee Audits and Verifications

A. Removal of Balance Sheet Audit and Report of Examination of Internal Controls over Call Reporting

We support removing the Balance Sheet Audit and Examination of Internal Controls over Call Reporting from the audit options under section 717.7. As noted, these two options under section 717.7 are rarely utilized and in our opinion, do not provide adequate audit coverage for any size credit union.

B. Change to Remove Reference to NCUA's Supervisory Committee Guide

We support the change to remove the reference to the NCUA's Supervisory Committee Guide in section 717.7 and replace those procedures with minimum procedures in new Appendix A to part 715. In our opinion, the current minimum procedures defined by the Supervisory Committee Guide, are lacking in several areas. Specifically, the current procedures do not fully address the areas of fixed assets, prepaid assets, accrued liabilities, other real estate owned, repossessed assets, and the income statement in general. These areas and others would be better addressed with the revised procedures.

We believe it's critical the new procedures in Appendix A can be performed as an agreed upon procedure (AUP) engagement by a certified public accountant (CPA) in accordance with Generally Accepted Auditing Standards. Those standards require that when performing an AUP engagement a CPA perform procedures specifically identified by the client. Audits conducted under AUP engagements require the auditor to provide only factual findings on set procedures. The CPA cannot determine the number of items to test, offer opinions, conclusions, or assurances in the final report. The report simply presents the results of the agreed upon procedures performed as established in the engagement letter.

A related observation is the lack of uniformity of AUP audits in the credit union industry. Having provided audits of credit unions for 40 years, we have seen AUP reports performed by other auditors that do not meet the minimum standards established by the NCUA. While it's the responsibility of a credit union's supervisory/audit committee to ensure the procedures agreed to meet the minimum NCUA standards, the reality is there is inconsistency in practice. Perhaps an emphasis on Examiners reviewing AUP reports to ensure the procedures performed meet NCUA minimum standards and an educational outreach to credit unions to ensure engagement letters meet the minimum procedures would help with reporting consistency and audit coverage.

C. Elimination of the 120 Target Date for Delivery of Written Report

We do not support revising the current 120-day rule in section 715.9. It has been our experience the 120-day rule can be a valuable tool to ensure uniformity in getting audit reports out timely. In situations in which a credit union is unable to adhere to the rule, it brings attention to the NCUA that an issue exists. This rule helps to ensure reports are issued timely and provides a consistent guideline throughout the industry.

Sincerely,



Chris Vallez, CPA, Partner
Nearman, Maynard, Vallez CPAs