

April 25, 2019

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: Comments on Supervisory Committee Audits and Verifications Rulemaking;
RIN 3133–AE91

Dear Mr. Poliquin:

On behalf of the 2.2 million credit union members we represent, the Heartland Credit Union Association (HCUA) appreciates the opportunity to comment on the National Credit Union Administration's (NCUA) proposed rulemaking regarding supervisory committee audits and verifications, found in Part 715 of NCUA's regulations. Specifically, the NCUA is proposing to amend its regulations governing the responsibilities of a federally insured credit union to obtain an annual supervisory committee audit of the credit union.

Section 715.7 outlines the alternatives a credit union may elect to utilize in lieu of obtaining a financial statement audit to fulfill its supervisory committee responsibilities. One such option is to conduct an audit per the Supervisory Committee Guide, which is published by the NCUA. Under the proposal, the option to conduct an audit per the Supervisory Committee Guide would be replaced with the option to conduct the audit to meet certain minimum requirements, which would be incorporated into a proposed new Appendix A to Part 715. The minimum procedures outlined in Appendix A reflect common industry practices for testing accounts and controls over financial institution financial statements.

HCUA agrees with the NCUA that providing a targeted list of minimum procedures to be included in an audit would clarify and simplify the audit process. Credit unions would benefit from only needing to refer to the single page Appendix A, rather than NCUA's Supervisory Committee Guide.

Proposed Appendix A would require the supervisory committee (or internal auditor) to perform and document several areas of review. While the five areas outlined in proposed Appendix A appear relevant, necessary, and reasonable on paper, credit unions and the NCUA may determine some refinements are appropriate. Thus, since Appendix A is more concise than the Supervisory Committee Guide, we encourage NCUA to monitor supervisory committee audits following adoption of these changes to ensure the audits capture information of value to the agency, and implement any subsequent changes that may be necessary.

In the proposed rulemaking, NCUA is requesting comment on other areas of review that should be included in Appendix A and provides several examples. Regarding the specific examples, HCUA strongly believe should not be included is pay and benefits to employees and board members. We believe such information would exceed the scope of the supervisory committee audit and we oppose its inclusion in Appendix A.

If NCUA adopts the proposed changes to Part 715, we urge it to issue reference material on how to conduct procedures that would meet the minimum requirements of Appendix A. We appreciate NCUA's comments in the proposal that such reference material could be used by supervisory committees to develop agreed upon procedures, or that supervisory committees could elect to incorporate other agreed upon procedures if the testing resulted in the minimum requirements being met. We believe this will provide credit unions with appropriate flexibility in how they meet the minimum requirements of Appendix A.

HCUA supports the proposed change to Section 715.9 addressing engagement letters a credit union may use to hire an outside auditor to perform these duties. The current regulation requires that an engagement letter specify a target date of delivery of written reports "not to exceed 120 days from the date of calendar or fiscal year-end under audit (period covered)." The proposal would replace the 120-day time frame with language that provides greater flexibility. Specifically, the proposed new standard would only require a credit union to specify in the engagement letter a target delivery date that enables the credit union to timely meet its annual audit requirements as provided in § 715.4.

As always, we appreciate the opportunity to review this issue. We will be happy to respond to any questions regarding these comments.

Sincerely,

A handwritten signature in black ink that reads "Bradley D. Douglas". The signature is written in a cursive style with a large, prominent "B" and "D".

Brad Douglas
President/CEO