

**Supporting Statement for Paperwork Reduction Act Submission
Proposal to Renew the Following Collection of Information
3133-0059
Part 715, NCUA Rules and Regulations, Supervisory Committee
Audits and Verifications**

1. Explain the circumstances that make the collection of information necessary. Identify any legal or administrative requirements that necessitate the collection. Attach a copy of the appropriate section of each statute and regulation mandating or authorizing the collection of information.

This request is for a “recordkeeping requirement”. §715, 12 C.F.R. §715 sets forth the supervisory committee’s responsibility in meeting the audit and verification requirements of Section 115 of the Federal Credit Union Act, 12 U.S.C. §1761d. A supervisory committee audit is required at least once every calendar year covering the period since the last audit. Also, a bi-annual verification of members’ accounts is required.

The Credit Union Membership Access Act of 1998 (CUMAA) amended certain audit and financial reporting requirements of the Federal Credit Union Act (FCUA). Final amendments to the FCUA specify the minimum annual audit a credit union is required to obtain according to its charter type and asset size, the licensing authority required of persons performing certain audits, the auditing principles which apply to certain audits, and the accounting principles which must be followed in reports filed with the NCUA Board.

2. Indicate how, by who, and for what purpose the information is to be used. Except for a new collection, indicate the actual use the agency has made of the information received from the current collection.

The information is collected by the credit union’s supervisory committee or its designated representative, through a supervisory committee audit which is required at least once every calendar year covering the period since the last audit. The information is used by both the credit union and the NCUA to ensure through audit testing that the credit union’s assets, liabilities, equity, income, and expenses exist, are properly valued, controlled and meet ownership, disclosure and classification requirements of sound financial reporting. A written report on the audit must be made to the board of directors and, if requested, NCUA. Working papers must be maintained and made available to NCUA. Independence requirements must be met; standards governing verifications - 100 percent verification or statistical sampling - are set forth. §741.2 makes these requirements applicable to federally insured state-chartered credit unions.

Audits can be preventative and contribute substantially to the safety and soundness of the credit union system. Audits have been used by the agency as a third party attestation of the fair presentation of financial statements in all material respect; as “value-added” in the detection of errors and irregularities; and as a means of identifying internal control reportable conditions in advance of the occurrence of material misstatement or errors and irregularities.

3. Describe whether, and to what extent, the collection of information involves the use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g., permitting electronic submission of responses, and the basis for the decision for adopting this means of collection. Also describe any consideration of using information technology to reduce burden.

The actual collection of information under this requirement are the engagement letter, the working papers, and the audit report(s). In recent years, this information has migrated to scanned, automated, electronic, mechanical or other technological collection means. Generally the engagement letter, the working papers and the audit report(s) are generated initially in electronic form and printed in hardcopy paper form. The form of subsequent storage and retention is a decision of the credit union. Certainly a credit union could choose to store the information through any reasonable means which would permit NCUA examination, e.g., optical scanning, microfiche, Microsoft, Adobe, etc. Credit unions are not precluded from using information technology to collect this information.

4. Describe efforts to identify duplication. Show specifically why any similar information already available cannot be used or modified for use for the purposes described in Item 2 above.

Section 115 of the FCU Act requires audit and verification for all FCUs. §715 are implementing regulations for FCUs and federally-insured state credit unions required to comply by insurance agreement and part 741 of NCUA regulations. Other NCUA efforts to collect similar information, e.g., through the Call Report and through the examination process, do not include the independent tests of controls and substantive testing on which to ensure sound financial reporting.

5. If the collection of information impacts small business or other small entities (Item 5 of OMB Ford 83-1) describe any methods used to minimize burden.

The majority of requirements are not applicable to smaller credit unions. If the supervisory committee or an uncompensated designated representative will be performing the supervisory committee audit, many of the provisions of this part are less complex. These exemptions were added to minimize the burden on small credit unions.

6. Describe the consequence to Federal program or policy activities if the collection is not conducted or is conducted less frequently, as well as any technical or legal obstacles to reducing burden.

Statute requires an annual audit and a report to the members at the annual meeting. Accordingly, less frequent recordkeeping is not possible without legislation. Nevertheless, we believe that an audit less frequently would carry with it disadvantageous, additional risk to the credit union members and to the National Credit Union Share Insurance Fund which insures members' deposits in credit unions.

7. Explain any special circumstances that would cause an information collection to be conducted in a manner:

- *requiring respondents to report information to the agency more often than quarterly;*
- *requiring respondents to prepare a written response to a collection of information in fewer than 30 days after receipt of it;*
- *requiring respondents to submit more than an original and two copies of any document;*
- *requiring respondents to retain records, other than health, medical, government contract, grant-in-aid, or tax records for more than three years;*
- *in connection with a statistical survey, that is not designed to produce valid and reliable results that can be generalized to the universe of study;*
- *requiring the use of a statistical data classification that has not been reviewed and approved by OMB;*
- *that includes a pledge of confidentiality that is not supported by authority established in statute or regulation, that is not supported by disclosure and data security policies that are consistent with the pledge, or which*

unnecessarily impedes sharing of data with other agencies for compatible confidential use; or

- *requiring respondents to submit proprietary trade secret, or other confidential information unless the agency can demonstrate that it has instituted procedures to protect the information's confidentiality to the extent permitted by law.*

None -- The collection is conducted within the guidelines.

8. If applicable, provide a copy and identify the date and page number of publication in the Federal Register of the agency's notice, required by 5 CFR 1320.8(d), soliciting comments on the information collection prior to submission to OMB. Summarize public comments received in response to that notice and describe actions taken by the agency in response to these comments. Specifically address comments received on cost and hour burden.

Describe efforts to consult with persons outside the agency to obtain their views on the availability of data, frequency of collection, the clarity of instructions and recordkeeping, disclosure, or reporting format (if any), and on the data elements to be recorded, disclosed, or reported.

Consultation with representatives of those from whom information is to be obtained or those who must compile records should occur at least once every 3 years - even if the collection of information activity is the same as in prior periods. There may be circumstances that may preclude consultation in a specific situation. These circumstances should be explained.

Notice of the proposed information collection was published with a 60-day comment period in the Federal Register on August 12, 2013 (78 FR 48913). NCUA did not receive any comments regarding the collection.

9. Explain any decision to provide any payment or gift to respondents, other than remuneration of contractors or grantees.

No such decision.

10. Describe any assurance of confidentiality provided to respondents and the basis for the assurance in statute, regulation, or agency policy.

Some of the information the supervisory committee or its designated representative may gain in the course of its audit, may contain some information of a confidential nature, e.g., transactions of a member. The bylaws, Article XIX, Section 2 require credit union officials to hold such transactions in confidence. NCUA, too, is bound to ensure the confidentiality of information obtained by the supervisory committee in the normal course of an audit or verification.

11. Provide additional justification for any questions of a sensitive nature, such as sexual behavior and attitudes, religious beliefs, and other matters that are commonly considered private. This justification should include the reasons why the agency considers the questions necessary, the specific uses to be made of the information, the explanation to be given to persons from whom the information is requested, and any steps to be taken to obtain their consent.

No questions of a sensitive nature.

12. Provide estimates of the hour burden of the collection of information. The statement should:

- *Indicate the number of respondents, frequency of response, annual hour burden, and an explanation of how the burden was estimated. Unless directed to do so, agencies should not conduct special surveys to obtain information on which to base hour burden estimates. Consultation with a sample (fewer than 10) of potential respondents is desirable. If the hour burden on respondents is expected to vary widely because of differences in activity, size, or complexity, show the range of estimated hour burden, and explain the reasons for the variance. Generally, **estimates should not include burden hours for customary and usual business practices.***
- *If this request for approval covers more than one form, provide separate hour burden estimates for each form and aggregate the hour burdens in Item 13 of OMB Form 83-I.*
- *Provide estimates of annualized cost to respondents for the hour burdens for collections of information, identifying and using appropriate wage rate categories. **The cost of contracting hour or paying outside parties for information collection activities should not be included here.** Instead, this cost should be included in Item 14.*

The obtaining of an annual audit by a financial institution is a customary and usual business practice. Nonetheless, we provide the following annual hour burden estimates:

| Three Data Collection Burdens | Number of Respondents | Hours per Response | Frequency of Response | Annual Hour Burden |
|---|------------------------------|---------------------------|------------------------------|---------------------------|
| | (a) | (b) | (c) | (a) x (b) |
| Supervisory Committee Audit | | | | |
| <i>Performed by State-Licensed Person</i> | | | | |
| <i>Financial Statement Audit</i> | 2,441 | 1.5 | Once annually | 3,662 |
| <i>Balance Sheet Only Audit</i> | 203 | 1.5 | Once annually | 305 |
| <i>Internal Control Attestation</i> | 76 | 1.5 | Once annually | 114 |
| <i>Agreed Upon Procedures</i> | 1,318 | 2.0 | Once annually | 2,636 |
| <i>Performed by Non-Licensed Person</i> | | | | |
| <i>Compensated External Person*</i> | 2,256 | 2.0 | Once annually | 4,512 |
| <i>Supervisory Committee Volunteer</i> | 553 | 20 | Once annually | 11,060 |
| Engagement Letter | 6,294 | 1.0 | Once annually | 6,294 |
| Working Papers | 6,847 | .25 | Once annually | 1,712 |
| Totals | 19,988 | | | 30,295 |

*- Not Licensed, or if licensed, not acting within their license (e.g., league employee).

a. NCUA Insured Institutions obtaining supervisory committee audits by licensed persons.

Number of Respondents: 4,038
Annual Responses: 4,038
Annual Burden Hours: 6,717

b. NCUA Insured Institutions obtaining supervisory committee audits by compensated, unlicensed persons.

Number of Respondents: 2,256
Annual Responses: 2,256
Annual Burden Hours: 4,512

c. NCUA Insured Institutions obtaining supervisory committee audits by volunteers.

Number of Respondents: 553
Annual Responses: 553
Annual Burden Hours: 11,060

d. NCUA Insured Institutions entering into engagement letters with compensated auditors.

Number of Respondents: 6,294
Annual Responses: 6,294
Annual Burden Hours: 6,294

e. NCUA Insured Institutions documenting their supervisory committee audits with work papers.

Number of Respondents: 6,847

Annual Responses: 6,847

Annual Burden Hours: 1,712

Total number of respondents: 6,847

Total annual responses: 19,988

Total annual burden hours: 30,295

13. Provide an estimate of the total annual cost burden to respondents or recordkeepers resulting from the collection of information. (Do not include the cost of any hour burden shown in Items 12 and 14).

- *The cost estimate should be split into two components: (1) a total capital and start-up cost component (annualized over its expected useful life); and (b) a total operation and maintenance and purchase of services component. The estimates should take into account costs associated with generating, maintaining, and disclosing or providing the information. Include descriptions of methods used to estimate major cost factors including system and technology acquisition, expected useful life of capital equipment, the discount rate(s), and the time period over which costs will be incurred. Capital and start-up costs include, among other items, preparations for collecting information such as purchasing computers and software; monitoring, sampling, drilling and testing equipment, and record storage facilities.*
- *If cost estimates are expected to vary widely, agencies should present ranges of cost burdens and explain the reasons for the variance. The cost of purchasing or contracting out information collection services should be a part of this cost burden estimate. In developing cost burden estimates, agencies may consult with a sample of respondents (fewer than 10), utilize the 60-day pre-OMB submission public comment process and use existing economic or regulatory impact analysis associated with the rulemaking containing the information collection, as appropriate.*

Generally, estimates should not include purchases of equipment or services, or portions thereof, made: (1) prior to October 1, 1995, (2) to achieve regulatory compliance with requirements not associated with the information collection, (3) for reasons other than to provide information or to keep records for the government, or (4) as part of customary and usual business or private practices.

No cost. The completion of audits and the related contracting through engagement letters and the preparation of working papers in support of an audit is a customary and usual business practice for a financial institution, therefore, we have not included cost burden estimates for the work paper requirements.

14. Provide estimates of annualized cost to the Federal government. Also, provide a description of the method used to estimate cost, which should include quantification of hours, operational expenses (such as equipment, overhead, printing, and support staff), and any other expense that would not have been incurred without this collection of information. Agencies also may aggregate cost estimates from Items 12, 13, and 14 in a single table.

No costs.

15. Explain the reasons for any program changes or adjustments.

This is a request for reinstatement of a previously approved collection.

16. For collections of information whose results will be published, outline plans for tabulation, and any publication. Address any complex analytical techniques that will be used. Provide the time schedule for the entire project, including beginning and ending dates of the collection of information, completion of report, publication dates, and other actions.

No plans for publication.

17. If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons that display would be inappropriate.

Not seeking approval to not display the expiration date for OMB approval of the information collection.