

May 25, 2005

FFIEC  
Program Coordinator  
3501 Fairfax Drive, Room 3086  
Arlington, VA 22226

Re: Limitation of Liability Provisions in  
Audit Engagement Letters

Dear Madam/Sir:

Navy Federal Credit Union provides the following comments in response to the proposed advisory on the unsafe and unsound use of limitation of liability provisions and certain alternative dispute resolution provisions in external audit engagement letters. Navy Federal is the nation's largest natural person credit union with over \$24 billion in assets and 2.5 million members.

Navy Federal generally supports the proposed advisory. We agree that an external auditor should be independent and objective during the evaluation of any financial institution. When a financial institution executes an agreement that limits the external auditor's liability, the external auditor's objectivity, impartiality, and performance may be weakened or compromised and the usefulness of the external audit for safety and soundness purposes may be diminished. Further, an auditor should follow the standards established by the American Institute of Certified Public Accountants, the Public Company Accounting Oversight Board, or the Securities and Exchange Commission and be free to express any concerns discovered in an external audit engagement. The three general categories of limitation of liability provisions and the examples of limitation of liability provisions in Appendix A adequately describe the kinds of provisions in engagement letters that could be detrimental to financial institutions.

We encourage the Federal Financial Institutions Examination Council (FFIEC) to apply the advisory to all future engagement letters for external audits. However, it may be inappropriate for parties to attempt to nullify an existing agreement. For example, if an existing limitation of liability provision has an identified cost savings that is negotiated between the external auditor and its client, and the cost savings is acknowledged in the engagement letter, we believe the financial institution should be permitted to retain the current provision. A financial institution may be better served to eliminate the limitation on an auditor's liability in an agreement next year, rather than modify the current year's agreement. Navy Federal urges the FFIEC to allow financial institutions to renegotiate or retain their current agreements. We

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believe this flexibility will allow financial institutions appropriate time to amend their contract provisions.

The application of this advisory will likely cause audit fees to increase significantly because the potential financial liability for external audit firms will increase. While higher fees may discourage some optional audits, we believe the proposed advisory will result in higher quality audits and benefit the entire financial community.

Navy Federal appreciates the opportunity to provide comments to the FFIEC in response to its proposed advisory regarding the limitation of liability provisions in external audit engagement letters.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Cole", with a long horizontal stroke extending to the right.

Brady M. Cole  
Acting President/CEO

BMC/dw