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June 13, 2005

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

RE: Request for Comment: Advisory on Limitation of Liability in Audit Engagement Letters 05-EA-09

To Whom It May Concern:

I would like to take this opportunity to comment on the above referenced proposal concerning Limitation of Liability in Audit Engagement Letters.

As written the advisory correctly applies to all financial institutions. The advisory should apply only to audits required by law, regulation, or order.

The issuance of the advisory may have an effect on the credit union's ability to negotiate the terms of audit agreements. Audit firms will look at risk/reward trade-off for performing audits and this could in their minds increase the risk and lessen their interest.

The advisory on the Limitation of Liability Provisions could result in an increase in audit fees. This may discourage credit unions that voluntarily obtain an outside audit from doing so in the future. Which could result in fewer audit firms being willing to provide external audit services to financial institutions.

The descriptions of the provisions limiting liability sufficiently are clearly described and are a good set of examples, but there may be others we're not aware of.

A valid business reason for financial institutions to agree to any limitation of liability provision depends on nature of the auditing firm and whether enough other clients willing to take similar position, so that audit firms will be open to the changes.

The recommendation that a financial institution attempt to nullify an agreement that it has entered into already if it includes a limitation on the auditor's liability could expose credit to other risks. Risks to the credit union that would need to be weighed carefully are: breach of contract, loss of fees incurred already, possible reputation risk, etc. Perhaps the advisory should recommend consideration and possible effects to consider in whether to do this, rather than just an outright recommendation to do so.

We appreciate the opportunity to comment and request your consideration of these comments.

Sincerely,

Karen Ellis  
Security/Compliance Officer

