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February 5, 2004

Mr. Thomas Ray
Deputy Chief Auditor
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 008: An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements

Dear Mr. Ray,

The American Bankers Association (ABA) is pleased to have this opportunity to comment on the proposed auditing standard issued by the Public Company Accounting Oversight Board (PCAOB), "An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements" (the proposal). ABA brings together all categories of banking institutions to best represent the interests of the rapidly changing industry. Its membership – which includes community, regional, and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes ABA the largest banking trade association in the country.

We wish to supplement to our letter of December 10, 2003 with this letter. Although we recognize that the comment period has ended, we have learned some additional important information that we hope the PCAOB will consider prior to issuing final rules.

As you know, banks have been required to prepare management reports on internal controls and auditors have been required to attest to management's assertions for many years under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). Some banks have purchased computer software that is in a question and answer (Q&A) format to identify and evaluate controls. Our concern is that the proposal is being read by accounting firms as no longer permitting the Q&A format. To provide a specific example, a banking institution (\$2.5 billion in total assets) that uses a Q&A format has been told by its accounting firm that the bank must convert from the Q&A to either a flowchart or narrative. The bids that the bank is receiving for such conversion are between \$200,000 and \$300,000. Our hope is that this is not the intent of the PCAOB and that you will clarify this in your final rules.

The proposal requires that auditors perform certain procedures in order to evaluate management's assessment process. It requires auditors to determine whether management's documentation provides reasonable support for its assessment, including an evaluation of whether certain information is included in the entity's documentation (a list is provided at paragraph 43 of the proposal).

The proposal also states that documentation might take many forms, and that no one form of documentation is required:

Paragraph 44: "Documentation might take many forms of presentation and can include a variety of information, including policy manuals, process models, flowcharts, job descriptions, documents and forms. No one form of documentation is required, and the extent of documentation will vary depending on the size, nature, and complexity of the company."

We are curious as to whether the PCAOB believes that Q&A formats must be replaced by narratives or flowcharts. If controls can appropriately be identified and evaluated with a Q&A format, should the Q&A be acceptable? If the PCAOB intends to use narratives and flowcharts rather than the Q&A, is there sufficient additional benefit to justify the cost of converting from the Q&A to narratives or flowcharts? Although the proposal does not currently appear to intentionally preclude the use of the Q&A, is it possible that list in paragraph 43 and the walkthroughs in paragraph 79 effectively eliminate the use of the Q&A format?

The SEC final rules relating to Section 404 of the Sarbanes-Oxley Act of 2002 are not significantly different from the FDICIA requirements. However, the PCAOB rules seem to establish new rules not only for accounting firms, but also for the companies they audit by requiring documentation that reaches well beyond the existing requirements. We are not suggesting that additional documentation may not be needed; instead, our hope is that if the PCAOB's final rules result in new rules for banking institutions, the PCAOB will carefully consider the impact of such rules, including costs versus benefits.

Again, we would appreciate your consideration of these points prior to issuing a final rule if at all possible. If you would like to discuss this letter in more detail, please contact me at 202-663-5318.

Sincerely,

Donna Fisher