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September 29, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006

Re: Rulemaking Docket Matter No. 34
Concept Release on Possible Revisions to PCAOB Standards Related to Reports on
Audited Financial Statements

Dear Ladies and Gentlemen:

The Independent Community Bankers of America (ICBA)¹ appreciates the opportunity to comment on the concept release on possible revisions to Public Company Accounting Oversight Board (PCAOB) standards related to reports on audited financial statements. This concept release establishes alternatives to the current auditor reporting model with the goal of improving auditor communication to stakeholders by increasing the transparency of the current model and its importance for users. The release includes four alternatives that would supplement the current auditor's report to increase investor communication by the auditor without changing their role in the audit. The main impact of the implementation of the alternatives provided on reporting companies would be the increased use of auditor guidance to accompany currently issued opinions associated with audits of the financial statements and an expansion of the scope of the audit and the associated audit procedures.

Background

The current auditor's report represents a pass or fail model that discusses whether or not an organization fairly presents its financial statements in accordance with generally

¹ The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.

With nearly 5,000 members, representing more than 20,000 locations nationwide and employing nearly 300,000 Americans, ICBA members hold \$1 trillion in assets, \$800 billion in deposits, and \$700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

accepted accounting principles (GAAP). In order to provide increased transparency into the audit and to move beyond the pass or fail opinion of presentation, the PCAOB has introduced the following four alternatives in the concept release:

- Auditor's discussion and analysis
- Required and expanded use of emphasis paragraphs
- Auditor assurance on other information outside the financial statements
- Clarification of language in the auditor's report

Auditor's Discussion and Analysis. This supplement to the auditor's report would be used by the auditor to discuss significant items associated with the audit. The goal of the auditor's discussion and analysis would be to give the reader an understanding of the auditor's opinion over the financial statements. Items covered here could include audit risks, procedures and results, and the auditor's views on management judgments and estimates. The discussion could also include areas where the auditor believes management could have used different disclosures or accounting practices.

Required and Expanded Use of Emphasis Paragraphs. Currently emphasis paragraphs can be added to the auditor's report at the discretion of the auditor to bring emphasis to a specific matter regarding the presentation of the financial statements. Under the concept release emphasis paragraphs would be used to highlight the most significant matters in the financial statements with the location of their disclosure. Further use of emphasis paragraphs could be required for materially large management estimates and measurement uncertainty.

Increased Auditor Assurance. The auditor's assurance could be broadened to include information outside the financial statements supplied by management including the management's discussion and analysis and non-GAAP financial measures. Expansion of auditor assurance to include information outside the financial statements would be used to provide increased confidence for stakeholders in the supplemental information provided by management.

Clarification of Language in the Standard Auditor's Report. This proposal involves expanding the explanation of what the audit is meant to represent and which responsibilities are with the auditor. Topics for inclusion here could include explanations for reasonable assurance, auditor's responsibility for fraud, auditor independence, and the auditor's responsibility for financial statement disclosures.

Impact on Community Banks

Of the four alternatives discussed in the concept release, ICBA supports the clarification of language in the standard auditor's report. Expanding the auditor's report to cover a discussion by the auditor of what the audit represents and the responsibilities of the auditor helps to further educate the users of the financial statements on the purpose and

scope of the audit and the expectations of the auditor. Specific focus should be placed on the fact that management is fully responsible for the preparation of the financial statements and that the auditor expresses an opinion based on the findings of the audit. Additionally, the importance of the independence of the auditor and the requirement to comply with applicable independence requirements should be highlighted.

ICBA cautions against implementing any of the remaining proposed alternatives in the concept release without due consideration to the costs involved and their economic impact on smaller reporting companies including financial institutions. The introduction of the auditor's discussion and analysis, required use of emphasis paragraphs, and an increase in auditor assurance would almost certainly increase the costs of the audit substantially for these smaller reporting companies as it would require additional time and effort on the part of the auditor as well as the hiring and training of new personnel to complete the required procedures. Additionally, the auditor would face increased legal liability, with new incremental costs that would be passed on directly to the audit client in the form of higher fees. Implementation of the alternatives proposed would not result in any added benefits to financial statement users that are worth the increased costs of the audit since any need for increased disclosures could be fully integrated by the management of the reporting company. The role of management includes providing the disclosures necessary to inform the user of the financial statements of all relevant circumstances surrounding the company's performance and risks. Replacing the role of management with the independent auditor does not properly serve the needs of investors since they serve two different roles.

ICBA believes that the role of the independent auditor should remain limited only to the scope of the audit and its underlying assurance procedures. Expanding the role of the independent auditor is costly for the company, requires more time and resources for the auditor, and provides no incremental benefit to the stakeholder. Rather than increase the audit burden on reporting companies with no clear benefits, the PCAOB should focus its attention on keeping the auditor independent of the management of the organization to ensure that the role of the auditor retains its independent nature.

ICBA appreciates the opportunity to comment on this proposal. If you have any questions or would like additional information, please do not hesitate to contact me at (202) 659-8111 or james.kendrick@icba.org.

Sincerely,

/s/

James Kendrick
Vice President, Accounting & Capital Policy