



December 1, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Via website submission: comments@pcaobus.org

RE: PCAOB Rulemaking Docket Matter No. 34 – *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards*

To Whom It May Concern:

Northrim BanCorp, Inc. (“Northrim”) appreciates the opportunity to comment on the *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards* (“Concept Release”). Northrim is a community bank headquartered in Anchorage, Alaska.

The Concept Release seeks comments on potential changes to the auditor’s reporting model based on concerns of investors and other financial statement users. The changes being considered include: (1) a required Auditor’s Discussion and Analysis (“AD&A”) to be included with an auditor’s report, (2) required and expanded use of emphasis paragraphs within the current format of the auditor’s report, (3) auditor assurance on other information outside the financial statements (for example, information within Management’s Discussion and Analysis (“MD&A”), non-GAAP information presented, and information within earnings releases), and (4) clarifying language within the current auditor’s report that explains what the audit represents and the related auditor responsibilities.

Northrim believes that auditor reporting should not be expanded as proposed in the Concept Release. Instead, the audit expectation gap should be narrowed. We understand that external audits are important to many users of financial statements in effective decision-making related to the allocation of capital. Capital is efficiently allocated by those who have sufficient knowledge of the related reporting entities and their business models. However, we believe that increasing the quality of financial reporting is far more important than expanding the role of the external auditor. Investors are best served by direct communication from companies themselves.

We disagree with the idea that the value derived from expanding auditor procedures to include an AD&A or to provide auditor assurance on other information outside the financial statements will exceed the massive costs that would be required to perform the procedures. Such

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approaches will only lead to more user confusion between the different reports issued by the auditors and management and will likely increase the already-existing “expectation gap” of what audit assurance actually provides to the investor. For example, discussion of audit “close calls” may actually cause the financial statement user to question the quality of the audit work and why the amounts actually recorded should be relied upon. The focus of the audited financial statements should be on the reporting entity, not the auditor.

Underlying the Concept Release is the notion that auditors often have significant information regarding how a company’s financial statements were prepared that might be useful to investors and other financial statement users. Northrim believes that this information from the auditor, at best, will only confirm what is already disclosed in footnotes to the financial statements or the MD&A. Over time, investors may become frustrated with the auditors’ language, which is likely to be carefully-crafted and self-protecting. This could eventually render most of the additional reporting as irrelevant. At worst, such reporting, especially since it relates to highly judgmental areas, could result in uncertainty among users that is unwarranted.

Within the Concept Release, it was pointed out by some that the recent financial crisis is an example of how expanded auditor reporting might be useful in assessing the quality of the financial statements. Discussions of off-balance sheet contingencies and of the sensitivity of loan loss estimates were specifically cited. In outreach done by the American Bankers Association to various banking analysts, they found none that list the auditor report as a significant issue, nor did they know of other analysts (buy-side or sell-side analysts) who did. While we understand that there are those who believe that the related disclosures within the notes to the financial statements or within the MD&A were insufficient prior to the financial crisis, those are issues that should be addressed by the Financial Accounting Standards Board. We question how expanded auditor reporting, especially that contemplated within an AD&A or by expanding procedures over the MD&A, would have adequately addressed such concerns. The judgmental nature of the valuation of loan loss estimates, contingencies, and fair values, is central to the commercial banking business. This is why detailed disclosure of those key areas of estimates and management judgment is normally included within the first notes to the financial statements, as well as within the risk sections of the MD&A.

Financial statements of any company include judgments and estimates at a specific point in time. No matter what kind of emphasis is put on this fact, volatility in the markets (especially the volatility experienced in the last four years) will often greatly reduce the relevance of these estimates by the time the report is issued. Further, bank financial performance (and thus bank equity prices) is often influenced by factors that cannot be adequately reflected in financial statements. Liquidity management and the business impact of regulation, which are commonly addressed in quarterly filings, are among examples. These types of disclosures would be impractical to audit. Attempting to provide additional investor comfort and focus in the financial statements through increased auditor communication will likely only add to the confusion over what those statements mean to future bank performance.

Instead, Northrim believes that the PCAOB should consider solely how the auditor report can be revised to reduce the expectation gap. We do not believe that the expansion and requirement of the use of emphasis paragraphs would be beneficial to users of financial statements. As bank

audited financial statements often include scores of pages of footnote disclosures, the emphasis paragraphs could also turn the auditor report into one of similar length, thereby diluting the emphasis objective.

As was experienced during the implementation of the Sarbanes-Oxley Act, expansion of audit rules and processes can result in significant concerns about costs versus benefits. We realize that this is outside the purview of the PCAOB, but we believe that the expenses of implementing the Concept Release would be better spent, and investors would be better served, by reducing the complexity of financial reporting or clarifying the risks reporting companies face, rather than significantly expanding the role of the external auditor.

Thank you for your attention to these matters and for considering our views.

Sincerely,

A handwritten signature in black ink, appearing to read "Latosha Dickinson", written over a horizontal line.

Latosha Dickinson, CPA
Vice President, Controller of Financial Reporting
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