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December 13, 2011

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

Re: Rulemaking Docket Matter No. 37
Concept Release on Auditor Independence and Audit Firm Rotation

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 auditor independence, objectivity, and professionalism. This concept release proposes changes to the current auditor independence framework by introducing mandatory audit firm rotation with the intention of encouraging a new, unbiased review of the company's financial statements. Under mandatory audit firm rotation, the PCAOB believes the risk of the failure of an audit would be reduced as professionalism, skepticism and objectivity would be favored over the risks that the auditor, who is paid directly by the engagement client, is exposed to pressures by management to achieve a desired outcome. The PCAOB is also considering whether mandatory audit firm rotation is most appropriate for all companies or only the largest companies, a decision that will impact the increase in fees for audit clients associated with implementing any rule changes.

Background

The concept release discusses the PCAOB notation of identified audit failures, where the auditor is unable to obtain assurance that the financial statements are not materially misstated, in its inspections of accounting firms. The PCAOB believes the failure of an

[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.

audit damages the role of the auditor in his or her attempt to provide an objective opinion on the condition of the financial statements. The PCAOB states that the biggest impact of the failure of an audit is borne by stakeholders, who rely on an auditor opinion that does not fully contain the evidence needed to support the conclusions reached. Due to its concern about failed audits, the PCAOB is increasing its scrutiny of auditor independence, objectivity, and professional skepticism. Alternative approaches are being explored, debated, and proposed by PCAOB to ensure that auditors remain focused on the objectives of the audit throughout the engagement.

Various approaches are being researched to improve the framework of auditor independence. Included in the field of alternatives is a possible requirement for mandatory auditor rotation. The goal of mandatory auditor rotation is to change the dynamic of the relationship between the auditor and the audit client to shift focus from establishing a long-term relationship with the potential for undue influence by management of the audit client to maintaining an independent role with a fresh perspective while fulfilling the obligations associated with the scope of services provided. Proponents of mandatory auditor rotation argue that its introduction assists in ensuring the objectivity of the auditor while preventing exposure to pressure by the management of the audit client to achieve a specific outcome. Allowing for the establishment of the fresh look approach of auditor scrutiny, proponents say, would ensure that auditors independently seek the presentation of financial statements that comply with generally accepted accounting principles (GAAP).

Opponents of mandatory auditor rotation do not believe that the increased costs associated with its implementation will ever be overshadowed by the associated incremental benefits. A great deal of company-specific knowledge is at risk of being lost with mandatory auditor rotation followed by a learning curve that presents real implementation challenges for the next engagement team to tackle. Use of mandatory auditor rotation, critics proclaim, would increase the risk of fraudulent activities in the early years of a new client relationship as unseasoned engagement teams work to identify proper fraud detection techniques specific to the client’s business activities or industry. Additionally, short-term relationships with auditors are viewed by opponents as encouraging audit clients to introduce bias into the auditor selection process as those auditors who are likely to provide the most favorable outcome for the client will certainly be favored.

Impact on Community Banks

ICBA opposes the implementation of mandatory auditor rotation by the PCAOB for companies with total assets of $10 billion or less, which is a threshold that would exclude community banks. Any incremental benefits that would be obtained by imposing mandatory auditor rotation on community banks would be overwhelmingly dwarfed by the increased costs associated with locating a new independent auditor that would be willing to provide assurance services for a reasonable fee in the early years of the client relationship. ICBA agrees with the PCAOB that a fresh review of the financial

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statements by an independent auditor can add value to the quality of the opinion rendered. However, auditor creditability in the early years of the audit relationship would be diminished as the auditor time spent on new engagements would be dominated by bringing key firm personnel up to speed with the business framework of the client, the community banking model, and the associated accounting, audit, and regulatory standards that customarily accompany the engagement.

Mandatory auditor rotation requires successor audit firms to invest considerable resources in becoming familiar with the bank and the customer community. More attention is focused on understanding the business model, operations, control infrastructure, and personnel, which results in less attention and focus on the underlying risks of a failed audit. This lack of focus diminishes the quality of the audit work and exposes the auditor to vulnerability in reaching adequate skepticism and objectivity. Contrast this with the long-term audit relationship, where relying on the past knowledge and experience of the engagement partner and other key audit personnel allows the auditor to focus his or her resources on pinpointing those key areas of the financial statements that deserve the most objective scrutiny and attention.

Community banks are located in the communities they serve. Many are located in rural areas and other small markets where the choice of available audit firms with the resources capable of providing the required assurance services is quite limited. Requiring community banks to expand the choice of available qualified firms by going out of market for those services would raise audit fees substantially as auditors would have to cope with the logistics of being onsite at the institution that is considerable distance from the firm's traditional client base region. Additionally, providing quality assurance services for financial institutions requires the addition of qualified personnel with the expertise to understand the current community banking accounting model and its focus on highly tailored loan and deposit products that are community specific.

ICBA notes that many of the concerns voiced about the risks associated with long-term auditor relationships with audit clients are already minimized through the mandatory rotation of engagement and review partners. Through the periodic introduction of a new engagement partner, the benefits provided through a review of the financial statements by a fresh set of eyes are realized as a new, independent, objective party provides fresh scrutiny and a new perspective. Additionally, other key audit personnel and resources are maintained to minimize the loss of key firm knowledge, eliminate the risks of imposing a steep learning curve, and other disruptions to providing a quality audit without a substantial increase in costs.

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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