MONARCH BANK

DEC 20 2011

December 14, 2011

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

Re: PCAOB Release No. 2011-006; PCAOB Rulemaking Docket Matter No. 37 – Concept Release on Auditor Independence and Audit Firm Rotation

Ladies and Gentlemen:

I am writing to comment on the PCAOB's Concept Release on Auditor Independence and Audit Firm Rotation (the "Concept Release") on behalf of the Monarch Bank, based in Chesapeake, Virginia. As a small bank with asset size of approximately $860 million, we are opposed to a mandatory audit firm rotation rule because it will increase related costs and administrative burdens while reducing the effectiveness of audits.

While the goal of mandatory auditor rotation is to increase auditor independence, there are numerous measures already in existence that when adhered to achieve that goal. Substantial regulations are currently in place to ensure auditor independence, such as mandatory audit partner rotation, required auditor selection and supervision by audit committees consisting of independent directors, and limits to non-audit fees audit firms receive from the companies they audit. Many of these requirements were adopted in response to the dramatic audit failures involving Enron, WorldCom and others that contributed to an economic recession. The most recent economic downturn has not been attributed to significant audit failures, thereby suggesting that existing regulations are providing adequate independence and audit quality.

Audit firms, like banks, have a limited number of resources and often chose to specialize in a specific area to provide the highest level of service in that specialty to their clients. The quality of an audit is as dependent on the auditor's knowledge of the subject company and the company's industry as it is on the auditor's independence. Practical experience and formal studies have shown that audit quality suffers in the first few years of an audit engagement because the new auditor is not familiar with the company. Ultimately, the decline in audit quality will be accompanied by a dramatic increase in audit related costs and administrative burdens associated with gaining the familiarity necessary to audit a company.

The banking industry is a specialized industry that requires specialized knowledge of a complex array of accounting principles, laws and regulations that are specific to the industry, which limits the number of qualified audit firms. Many community banks reside in rural communities which can further limit the number of qualified bank auditors. Forcing banks to frequently engage new auditors from a limited field of qualified auditors will dramatically undermine audit quality in the banking industry. Banks will be forced to spend more time and money evaluating and selecting new audit firms. Bank employees will spend more time, and banks will incur additional audit fees, as they educate new auditors about the bank and the banking industry.

The focus of the Concept Release is well intentioned, but misdirected. Attention should be directed at auditors who do not fulfill their professional obligations. Mandatory rotations would punish banks by slowing down, and increasing the cost of, the audit process. Banks and their investors should not be punished for an auditor's failure to maintain independence and professional skepticism. Similarly, a bank should not be forced to change audit firms if it is receiving high quality audit services. There are better ways to promote independence while retaining efficiency. For instance, the bank's audit committee of independent directors should retain the discretion to determine how often to reassess the bank's auditors and solicit proposals from other audit firms and ultimately whether or not to retain the incumbent firm if that is the most effective and efficient solution. Such a process would encourage competition and allow a bank to optimize quality while keeping down costs.

For the above reasons, Monarch is opposed to mandatory audit firm rotation. The resulting costs and decrease in efficiency and quality will hurt investors more than it protects them. In addition, existing regulations sufficiently promote auditor independence and high quality audits. Thank you for your attention to these matters and for considering our views.

Best regards,

Lynette P. Harris
Chief Financial Officer