



June 3, 2005

FFEIC
Program Coordinator
3501 Fairfax Drive Room 3086
Arlington, Va. 22226

Re: Audit Engagement Letter

Gentlemen,

Pursuant to the request for public comments on the proposed Interagency Advisory on Unsafe and Unsound Use of Limited Liability Provisions in External Engagement Letters I am submitting my comments on this matter.

First of all the independence of the external auditor is established not by the engagement letter or any dispute resolution criteria but by the standards of the AICPA, SEC and PCAOB. Arbitrary agency standards that prohibit reasonable cost economies in an engagement arrangements between the financial institution and the external auditing firm is not an unsafe and unsound practice and the proposal attempts to disguise behind the question of auditor independence the agency desire to strip what typically are standard business practices of the parties seeking to address dispute resolutions and damages. These arrangements are not to restrict the professional conduct of the parties but to keep the perceived burdensome cost of potential litigation outside of the contract cost. I view this move as a simple desire by the various banking regulators to expand their options and the banking industry as a whole will face every increasing auditing cost that in the last three years has far exceeded the underlying inflation.

I question if there is evidence of any relationship between auditor conduct and the engagement letter. If evidence is present, it should be published to support this proposal.

Second point. What justification is there to require this requirement when an audit is not required by law, regulation or consent order. In many cases financial institution elect to conduct external audits within the scope of their risk management and this proposal will increase cost and be a disincentive to the financial institution to continue external audits when not required by an underlying regulation. A clear violation of the "law of unintended consequences".

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Third point. First of all the question of asking if the proposal would impact the financial institution to negotiate an engagement letter has only one answer and that is YES it will, for no less than another option is taken off the table by this proposal.

Fourth. Increased fees are the only outcome of this proposal and I would expect the quality of the audit will not improve anywhere in relation to the increased cost. Cutting to the chase, the degree of cost increase is anyone's guess, but there is plenty of evidence that when something is mandated, the cost go up, in some cases many multiple of the fees prior to the issuance of the regulation requiring the particular documentation or activity. In many cases, the perceived benefits are vastly overwhelmed by the financial burdens imposed by regulation.

The advisory suggesting 2005 engagement letter than have already been negotiated is particularly disturbing, for it places the financial institution in a most uncomfortable position. Either, the liability limitations are removed from the engagement letter what whatever cost or face regulatory sanctions. Since the standards would be universal, seeking another auditing firm would likely produce nothing beneficial to the financial institution.

In conclusion, arrangements in an engagement letter between the financial institution and the external auditing firm neither colors, impedes, or creates an atmosphere that would bring into question the independence of the auditor, nor measurably improve the work product and only will be (a) a disincentive to conduct external audits if it is optional for any one particular financial institution and I would expect our auditing cost to double, if not immediately at first, but as the auditing firms observe financial institution face of being required to have an external audit conducted in accordance with regulatory guidelines, the fees or cost will skyrocket and for very little purpose. Certainly the latest Supreme Court ruling in the Arthur Anderson case clearly demonstrates the difficulty of hauling in an auditing form alleging damages for perceived failure to conduct themselves professionally under the standards then established.

Sincerely,

Joe C. Steiner
President

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