215

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February 21, 2007

Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: File Number S7-24-06

Ladies and Gentlemen:

In December 2006, the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) issued proposals with the intent of reducing the costs of compliance with Section 404 of the Sarbanes-Oxley Act of 2002 (SOX). On December 19, 2006, the PCAOB issued its 131-page proposal for a new standard on auditing internal controls over financial reporting that would supersede its Auditing Standard No. 2 (AS No. 2). Additionally, on December 20, 2006, the SEC issued its 71-page interpretive guidance for management regarding management's evaluations of internal control over financial reporting (ICFR). This ICFR guidance, which describes a "top-down, risk-based" approach that will assist companies of all sizes to complete their annual evaluation in an effective and efficient manner is intended to provide relief to smaller companies by offering a flexible and scalable approach to these issues. In proposing the new AS No. 2, the PCAOB intends to eliminate unnecessary audit requirements and provide direction on how to scale the audit for "smaller and less complex" companies, a concept not featured in the SEC's proposal. In making these proposals, the PCAOB and SEC intend to respond to the high costs of implementing SOX Section 404. I am President and Chief Executive Officer of Citizens South Banking Corporation, a one-bank holding company with approximately 1,700 registered stockholders. Here are some of my observations and suggestions regarding both the proposed guidance from the SEC and the proposed AS No. 2 from the PCAOB.

I believe that everyone would concede that, despite the new guidance, the amount of work needed by companies and their external auditors to assess controls has resulted in higher costs derived from greater effort than was originally expected. But, may I

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respectfully suggest that we welcome and appreciate the SEC and the PCAOB proposals that should enable companies to utilize the top-down, risk-based approach to evaluating ICFR. I would also suggest that companies in certain highly regulated industries, such as financial institutions, are already subject to an additional layer of evaluations of controls in the form of safety and soundness examinations by Federal and state banking regulatory authorities. This additional layer of evaluations of ICFR, that are performed by skilled persons well informed on the complexities of the financial industry, should be included in helping to define effective control and determine when effective control has been attained.

In conclusion, I have one additional observation. The SEC guidance needs to clarify that the Internal Control – Integrated Framework created by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) does not specifically define effective control. The COSO framework lists things to consider, but it does not quantify what should be in place in such a way as to provide a definition of effective internal control. Continued progress should be made towards quantifying the requirements. The guidance explicitly calls for assessing two things: (a) the design of the control system, and (b) the operating effectiveness of controls within the control system. Operating effectiveness is considered on a control-by-control basis and focuses on whether the control is being carried out as originally designed. While these assessments form a part of any evaluation, there are other approaches that can be used.

Thank you for this opportunity to comment.

Very truly yours,

CITIZENS SOUTH BANKING CORPORATION

Kim S. Price
President and Chief Executive Officer