

February 10, 2025

Committee on Financial Institutions and Insurance

RE: Kansas Bankers Association Amendment to SB139

The Kansas Society of CPAs has heard the following concerns from members regarding the KBA amendment to SB139:

- Concern that the Bank(s) would be losing the financial expertise over the procedures performed by another party that is not a CPA. Directors' Examination procedures primarily revolve around balances found on the general ledger, along with accounting transactions performed during the period of examination. Often, the engaged CPA will be asked by client Banks to review the appropriateness of transactions and balances in accordance with Generally Accepted Accounting Principles and/or the application of new accounting standards, such as ASC 326 – CECL, for example. These services would best be provided by CPAs in public practice.
- CPAs are held to a set of professional standards promulgated by the AICPA. These standards are followed by CPAs in public practice consistently and governed by professional bodies like the KSCPA to ensure adherence to those standards. We are unclear what standards these other parties would be held to, and these standards may not be comparable to the standards within the CPA profession.
- The proposed language in SB139 (specifically parts A—F) outlines independence requirements that other parties would be held to in order to perform the work. There are concerns that attorneys or attorneys within an association that may be affiliated with Kansas banks, may not uphold this independence requirement.

Kansas Bankers Association

Proposed Amendment to K.S.A. 9-1116

9-1116. Meetings of board; examination of records, funds and securities; minutes. (a) The board of directors shall hold at least four regular meetings each year, at least one of which shall be held during each calendar quarter. Minutes shall be made of each directors' meeting of a bank or trust company and shall show any action taken by the directors.

(b) In addition to other actions the board may take, the board shall take the following actions and note the same in the minutes:

- (1) Election of all officers, showing their titles and salaries;
- (2) approval of all regular employee compensation;
- (3) prior approval of all bonuses to elected officers and employees, if provided;
- (4) approval of all loans, including overdrafts. The board may establish a committee with authority to approve loans. The board shall approve a report from the committee summarizing all loans made since the board's last meeting;
- (5) review and approval of the directors' examination or audit required under K.S.A. 9-1116, and amendments thereto;
- (6) annual approval of all bank policies;
- (7) review of all state and federal regulatory examination reports received since the board's last meeting;
- (8) annual approval of fidelity bond and bank casualty insurance;
- (9) approval of bank income and expenses and securities transactions;
- (10) review and ratification of any committee reports; and
- (11) approval of dividends and a review that the dividends are in compliance with K.S.A. 9-910, and amendments thereto.

(c) In addition, the board of directors or an auditor selected by the board shall make a thorough examination of the books, records, funds and securities held by the bank or trust company at each of the quarterly meetings and the result of such examination shall be recorded in detail. If the board selects an auditor, the auditor's findings shall be reported directly to the board. In lieu of the required four quarterly examinations, the board of directors may accept one annual audit by a **person approved by the commissioner. Such person shall be a certified public accountant, ~~or an independent auditor who is approved by the commissioner, or persons who have demonstrated a~~**

capacity to perform said examination and whose proficiency has been certified by a national recognized certification authority and who:

(A) are not connected with the bank or trust company as an officer, director or employee, or as a member of the immediate family of an officer, director, attorney or employee of the bank or trust company,

(B) are not beneficial owners, directly or indirectly, of any of the shares of stock of the bank or trust company,

(C) have no proprietary interest in any partnership, corporation, firm or other entity that controls the bank or trust company, directly or indirectly,

(D) do not have any outstanding loans to themselves, their partners, their firms or their families, unless such loans are adequately disclosed in the report to the board of directors, disclosing the name of the borrower, the amount, security pledged and appraisal or market value of the security,

(E) do not make entries or postings on the books of the bank, or perform any other operational functions for the bank, except such functions for which prior approval was requested and obtained in writing from the Commissioner, and except a correspondent bank whose operational functions are subject to supervision by the bank regulatory agencies, and

(F) specifically specify in the report that he/she has met the test of independence as stated above and that he/she is in fact independent. Where a bank or trust company is part of a consolidated company audit done by certified public accountants meeting the criteria of Subsection 2 (A) through (E) of this Section, the internal audit staff of the parent company shall also be acceptable.