



December 1, 2003

To: The Managing Partners of SEC Practice Section Member Firms

**Re: Establishment of the Center for Public Company Audit Firms and Wind-down/Transfer of SECPS Activities**

Over the past several months, the SECPS Executive Committee has been working with AICPA leadership to develop a new framework to support firms that audit or are interested in auditing public companies. Restructuring the SEC Practice Section (“SECPS” or “Practice Section”) is necessary because the Public Company Accounting Oversight Board (“PCAOB”), which by law is required to inspect, discipline and set standards for auditors of SEC issuers, has assumed certain responsibilities that the Practice Section had assumed, such as establishing membership requirements, peer reviewing firms’ SEC practices, and investigating firms via the Quality Control Inquiry Committee.

On October 20, the AICPA’s governing Council approved the establishment of a new voluntary firm membership center that restructures and replaces the SECPS effective January 1, 2004.

*Center for Public Company Audit Firms*

The new center, called the Center for Public Company Audit Firms (the “Center”), has been designed to provide a forum for member firms to express their views and ideas on technical and regulatory matters involving public company audit practice; enhance the quality of member firms’ public company audit practices through the development of technical and educational materials, the communication of SEC and PCAOB developments, and the sharing of best practices; and advocate solutions and positions to the SEC and PCAOB on behalf of member firms. The Center will concentrate its efforts on enhancing the quality of public company audit practice through representation as the profession’s liaison with the regulators and through education, communication and debate rather than on self-regulation.

The Center will also include a peer review program for member firms, similar to the SECPS peer review program. Center member firms that are inspected by the PCAOB will benefit from the peer review program because it will focus on audits of nonpublic entities so firms can meet their

state licensing, federal regulatory and AICPA membership requirements (as the PCAOB will be performing inspections of registered firms' public company practice). The peer review program will be nationally administered by a Center peer review committee made up of firms that are also subject to PCAOB inspection. Center member firms that are *not* subject to the PCAOB's inspection program can elect to have either a Center peer review or a peer review performed under the AICPA's Peer Review Program.

The following summarizes some of the key features of the Center:

*Membership* – All CPA firms are eligible for membership in the Center even if they do not practice before the SEC or PCAOB.

*Requirements of Members* –

- In order to join and retain membership status, all audit partners of the firm residing in the United States and eligible for AICPA membership must be members of the AICPA. Currently, all partners of the firm must be members of the AICPA.
- Each member firm must periodically file with the Center for each fiscal year, information determined by the Executive Committee to be relevant to the Center's effective operation, to be open for public inspection. This is similar to the Practice Section's current annual reporting requirement.
- Each firm must pay dues as established by the Executive Committee.
- If subject to the Center's peer review program, each member firm must pay administrative fees related to peer review, and comply with the requirements of and actions directed by the peer review committee; the reviews to be conducted in accordance with the standards established by the Center's peer review committee.
- Documents, as prescribed by the Executive Committee, relating to a peer review will be open to public inspection. Again, this requirement is similar to the existing peer review and public file requirements of the Practice Section.

*Enrollment* – Current Practice Section members will be automatically enrolled in the Center and the Center's peer review program on January 1, 2004. Center member firms that are not subject to PCAOB inspection may elect to have a peer review performed under the AICPA's Peer Review Program. Inquiries related to the Center's peer review program should be directed toward the Center staff at (201) 938-3000.

*Cost of membership* – The Center will assess dues and peer review administration fees. Similar to the SECPS, dues will be based on a formula that balances firm size and number of SEC issuers. Peer review administration fees will be based on firm size. It is expected that Center dues, on average, will be less than what has been typically assessed by the SEC Practice Section in a normal year.

*Governance* – The activities of the Center will be governed by an Executive Committee that is representative of the Center’s membership.

*SEC Practice Section*

On December 31, 2003, the SECPS will discontinue certain of its activities, while others will be transferred to the Center:

*Quality Control Inquiry (QCIC)* - The Executive Committee eliminated the requirement to report cases to the QCIC on the earlier of October 1, 2003 or the date that a firm’s registration application with the PCAOB has been accepted. The Executive Committee made this revision in recognition that firms registered with the PCAOB, including its associated persons, are subject to investigation and disciplining by the PCAOB. Cases previously reported to the QCIC will continue to be processed, in accordance with the QCIC’s normal operating procedures, through December 31, 2003.

*Peer Review* - The Practice Section’s Peer Review Committee continues to process 2003 peer reviews. On January 1, 2004, this activity will transfer to the Center’s Peer Review Committee. The Center’s Peer Review Committee will be responsible for administering the remaining 2003 peer reviews and for developing and administering a peer review program for 2004 (and ongoing) that considers the PCAOB inspection process and focuses on firms’ non-SEC practices so firms can meet their state licensing, federal regulatory and AICPA peer review requirements.

*Professional Issues Task Force (PITF)* - The Practice Section’s Professional Issues Task Force publishes non-authoritative guidance to practitioners through the issuance of Practice Alerts. The PITF will continue its efforts of identifying and considering practice issues which appear to present audit concerns for practitioners, under the AICPA’s Auditing Standards Board. The Center will play an integral role in this process by providing the PITF with relevant trends and information raised by members and identified through the Center’s peer review process. A member of the Center’s Executive Committee will also serve on the PITF.

*SEC Regulations Committee* - The Practice Section’s SEC Regulations Committee will continue (as a Committee of the Center) to be the primary liaison between the accounting profession and the SEC staff on technical matters relating to the SEC’s rules and regulations. The Committee will also continue to sponsor the annual National Conference on SEC Developments.

*Public Oversight* - The Transition Oversight Staff will cease its oversight activities on December 31, 2003.

As we embark into this new era of public company audit practice, the AICPA and the Center for Public Company Audit Firms are committed to helping you continue to meet your obligations to your clients and the investing public. We hope you will continue to support this effort as a

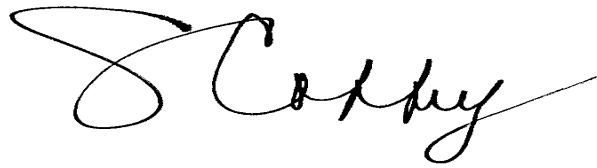
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member of the Center. If you have any questions regarding the above, please contact me at (203) 761-3579 or Susan Coffey, Vice President – Self Regulation and SECPS, at (201) 938-3177 or [scoffey@aicpa.org](mailto:scoffey@aicpa.org). The Center's website [[www.aicpa.org/cpcf](http://www.aicpa.org/cpcf)] will contain additional information about the Center and will be operational in early January 2004.

Sincerely,



Robert J. Kueppers  
Chair  
AICPA SECPS Executive Committee



Susan S. Coffey  
Vice President – Self Regulation and SECPS  
AICPA