



U.S. Securities and Exchange Commission

Office of the Chief Accountant: Letter from SEC Acting Chief Accountant to the American Institute of Certified Public Accountants re: The Auditing Standards-Setting Process

March 18, 2003

Mr. Charles Landes
Director, Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Mr. Landes:

This letter addresses the Commission staff's concerns regarding the March 18, 2003 press release announcing publication of exposure drafts of auditing and attest standards on internal control reporting, and the electronic message that was sent at 11:32 a.m. on the same day to numerous individuals involved in the auditing standards-setting process.

The press release begins by stating that the American Institute of Certified Public Accountants ("AICPA") is taking a "first step to implement a provision of the Sarbanes-Oxley Act." The press release continues to state that the AICPA's Auditing Standards Board ("ASB") "will continue to work closely with the SEC and the [Public Company Accounting Oversight Board] to finalize these new auditing standards," and that "the proposed auditing standard ... would apply to audits of public companies that are affected by the Sarbanes-Oxley Act." The press release further states that, "the effective date for these proposed changes would be for periods on or after September 15, 2003."

The Commission staff is concerned that these quotes create the misleading impression that the ASB will adopt final standards in this area that will be applicable to the audits of public companies' financial statements. As you know, the Sarbanes-Oxley Act grants the Public Company Accounting Oversight Board ("PCAOB") the authority to set auditing standards to be used by registered public accounting firms in the preparation and issuance of audit reports required by that Act or by the rules of the Commission.

The Act requires that the PCAOB take the actions necessary for the Commission to determine that the PCAOB has the organizational capacity to carry out the requirements of the Act and to enforce compliance with the Act. The actions to be taken include the adoption of initial or transitional auditing standards. According to the Act, at the time that the Commission determines that the PCAOB is appropriately organized and has the required capacity to carry out and enforce compliance with the Act, the Commission may approve the PCAOB's adoption of these initial or transitional auditing standards without going through the statutory rulemaking process. We currently estimate that the Commission's determination, and the adoption of the initial or transitional auditing standards, will occur on or about April 26, 2003. After that date, auditing standards may be adopted only pursuant to statutory procedures that require rulemaking by the PCAOB and by the Commission.

Because the ASB will not adopt the draft standards that are the subject of the AICPA's press release prior to April 26, 2003, those standards will not be included in the initial or transitional standards of the PCAOB. Before any standard in this area may take effect, therefore, it must be subject to the PCAOB's full rulemaking processes and to subsequent publication for comment and approval by the Commission.

The AICPA, at its discretion, may forward to the PCAOB copies of its exposure drafts, the comment letters it receives, and any proposed modifications to the drafts in response to those comments. The PCAOB may, but would not be required to, make use of those materials in formulating its proposals in this area.

Similar concerns exist regarding the electronic message. In the electronic message, the AICPA indicated that I had given the AICPA staff the "green light" to publish the exposure drafts. This description may create a misleading impression for the readers of the e-mail. As noted in your revised 2:26 p.m. electronic message, I indicated in my conversation with the AICPA staff that it was the AICPA's decision whether to publish the documents, and that Commission staff would not "stand in your way" from issuing the exposure drafts and initiating a public dialogue on these matters. As also noted in your revised electronic message, the Commission staff has not approved the exposure drafts or the positions taken in those drafts.

I hope this letter clarifies the Commission staff's position regarding the PCAOB's standards-setting authority and the potential impact of the ASB's efforts. If you have any questions, please contact me at (202) 942-4400.

Sincerely,

Jackson M. Day
Acting Chief Accountant

<http://www.sec.gov/info/accountants/staffletters/aicpa031803.htm>

[Home](#) | [Previous Page](#)

Modified: 03/20/2003