

May 14, 2004

Mr. Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street NW
Washington, DC 20549-0609

Re: File Number PCAOB 2003-08

Dear Mr. Secretary,

The Center for Public Company Audit Firms (the “Center”) of the American Institute of Certified Public Accountants (“AICPA”), respectfully submits the following written comments on the U.S. Securities and Exchange Commission’s (the “SEC” or the “Commission”) Release No. 34-49579 of the Public Company Accounting Oversight Board’s (“PCAOB” or the “Board”) Notice of Filing of Proposed Rule and Form Relating to Inspections of Registered Public Accounting Firms (the “Standard”). The Center was established by the AICPA to, among other things, provide a focal point of commitment to the quality of public company audits and provide the Commission and the PCAOB, when appropriate, with comments on its proposals on behalf of Center member firms. The AICPA is the largest professional association of certified public accountants in the United States, with more than 330,000 members in business, industry, public practice, government and education.

With the enactment of the Sarbanes-Oxley Act of 2002 (the “Act”), firms that are members of the Center are subject to regular and special inspections as the PCAOB may from time-to-time conduct. The Center seeks to assist its member firms in fulfilling their responsibilities required under the Act. Accordingly, the Center appreciates the opportunity to comment on the Standard. We recommend that this letter be read in conjunction with our comment letter on this Standard to the PCAOB dated August 20, 2003. This letter simply highlights the unresolved comments in areas that we consider most important to our members.

The Center supports the PCAOB in its efforts to fulfill its responsibilities of performing inspections of registered accounting firms as required by the Act. We support SEC approval of the Standard. However, we believe that there are certain areas which require further interpretation and/or rulemaking in order to clarify and improve the implementation of the inspection process.

Rule 4004 – Procedure Regarding Possible Violations

The proposed rule states, “If the Board determines that information ... indicates that the registered public accounting firm subject to such inspection, any associated person thereof, or any other person, may have engaged, or may be engaged, in any act, practice, omission to act that is or may be in violation of the Act, the rules of the Board, any statute or rule administered by the Commission, the firm’s own quality control

policies, or any professional standard, the Board shall, if it determines appropriate” report information to the Commission and each appropriate state regulatory authority, and commence an investigation. The note to the proposed rule states “the Board may, as appropriate, make referrals or report information to regulatory and law enforcement agencies other than those specifically described in Rule 4004.” We believe it is critical that more specific guidelines are established for reporting, investigations and referrals, because without such guidelines, registered firms and their associated persons may be inappropriately reported upon, investigated, or referred to other governmental agencies. For instance, since there is no discussion regarding the materiality of matters subject to reporting, investigation or referrals, immaterial matters could be acted upon, which would result in a misallocation of resources that could have been directed toward more significant matters. As written, even possible violations could be reported, investigated or referred. The Center believes that the thresholds under which these actions could occur should be defined. We also recommend that possible violations be investigated by the Board to the extent possible before being reported, and that guidelines be established as to when possible violations will be reported without initial investigation.

Further, the Center assumes that these actions will only be made as they relate to audits of issuers, since the Board’s authority only extends to audits of issuers. As this is not clear in the rule, the Center recommends that an interpretation be drafted clarifying this point.

Rule 4007 – Procedures for Firm Review of and Response to Draft Inspection Report and Issuance of Final Inspection Report

The proposed rule provides for the Director of the Division of Registration and Inspections, at the conclusion of each inspection, to submit to the Board a written draft report. The proposed rule does not discuss parameters on what is to be included in the report, including thresholds, materiality, etc. We believe it is imperative that further inspection and reporting standards be established to ensure consistency in performance and reporting on inspections.

In addition, the proposed rule does not address the time period from the conclusion of the inspection to the presentation of the draft inspection report to the Board. It is unclear if presentation to the Board is normally to occur on the next business day or at any time during the year. Since completion of the inspection report is critical to firms in meeting their state licensing requirements, we recommend that the Commission work with the Board to establish protocols with respect to the timing and presentation of inspection reports.

Rule 4009 – Firm Responses to Quality Control Defects

In our comment letter to the PCAOB dated August 20, 2003, we pointed out that the proposed rule does not address the time period that any portion of a firm’s final inspection report that has been made public will remain in the public records. In the PCAOB’s Section-by-Section Analysis of its rule on withdrawal from registration which is pending SEC approval (<http://www.pcaobus.org/rules/Release2003-016.pdf>), the Board indicated that it plans to adopt a practice of eliminating online access to a firm’s application and annual reports three years after withdrawal. We agree that this is an appropriate period of time and believe that this time period would also be suitable for any portions of a firm’s final inspection report that has been made public. We have found, through experience with our peer review public files, that the users of peer review reports are most interested in the current assessment of firms’ quality control systems, because it depicts their current practices. Accordingly, we recommend that an interpretation be adopted that would specifically require online access to all firm information, including any portions of a firm’s final inspection report that has been made public, for a period not to exceed three years (or the most recent portion of the firm’s

inspection report that has been made public in the case of tri-annual inspections) because the current information is most relevant and significant. We note that the three-year period is also consistent with the three year financial statement requirement for inclusion in registrant filings with the Commission.

CONCLUSION

We appreciate the opportunity to provide comments concerning the Standard. We are firmly committed to working with the SEC and PCAOB in accomplishing the timely and effective implementation of the Act, including that of inspections, and would welcome the opportunity to meet with you to clarify any of our recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Coffey". The signature is fluid and cursive, with a large initial "S" and a long, sweeping underline.

Susan S. Coffey, CPA
Vice President – Audit Quality and Professional Ethics
AICPA

cc: Chairman William H. Donaldson
Commissioner Cynthia A Glassman
Commissioner Harvey J. Goldschmid
Commissioner Paul S. Atkins
Commissioner Roel C. Campos

William J. McDonough, Chairman of the PCAOB
Kayla J. Gillan, Member
Daniel L. Goelzer, Member
Willis D. Gradison, Member
Charles D. Niemeier, Member