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Best practices : accounting consultations; communications with board of directors/audit committees; communications with the SEC staff

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AICPA

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SEC PRACTICE SECTION

BEST PRACTICES

Accounting Consultations

Communications with Board of Directors/ Audit Committees

Communications with the SEC Staff

To: SECPS Member Firms

The Public Oversight Board's Advisory Panel on Auditor Independence, in its report, Strengthening the Professionalism of the Independent Auditor, made a number of suggestions that if implemented by member firms, would enhance the value of the independent audit and better serve the investing public. Several of those recommendations centered on an auditor's communications with boards of directors and audit committees and on a firm's policies and procedures for internal accounting consultations. In response to those recommendations, the SECPS Executive Committee charged the Best Practices Task Force (Task Force) of the SECPS Peer Review Committee with the development of best practices for CPA firms in the areas of communications with the boards of directors and audit committees of its clients and internal accounting consultations. Best practices for consultations focuses on accounting consultations within a firm, including when consultation is necessary and/or required, with whom consultation should occur, and what documentation is appropriate under the circumstances. Best practices for communications with boards of directors and audit committees focuses on techniques for communicating qualitative assessments regarding a Company's financial statements to the board of directors and audit committee.

As a result of a continual dialogue with the Securities and Exchange Commission (SEC), the SEC Regulations Committee (Committee) of the AICPA developed best practices relating to consultation between a registrant, its independent auditing firm and the SEC staff. These best practices have been prepared to facilitate efficient and effective communications among those parties and to enable independent auditing firms to enhance the quality of their service to their clients.

The suggested best practices presented herein are illustrative only and firms are encouraged to consider these examples in designing and maintaining policies and procedures relative to internal accounting consultations, communications with boards of directors and audit committees, and communications with SEC staff that are appropriate in relation to the firm's accounting and auditing practice and its clients. A firm's policies and procedures relative to internal accounting consultations and communications with boards of directors and audit committees should be sufficient for a firm to obtain reasonable assurance of complying with applicable professional standards.

The best practices related to internal accounting consultation were developed by the Task Force, with the assistance of Dr. Alan S. Glazer, based on interviews of individuals in selected SECPS member firms. The best practices related to communications with board of directors and audit committees were developed by the Task Force based on survey results of certain member firms of the SEC Practice Section of the AICPA. Best practices for communications with SEC staff were developed by the Committee based on a survey of its members.

These best practices have not been approved, disapproved, or otherwise acted up on by any AICPA Senior Committee, the membership, or the governing body of the American Institute of Certified Public Accountants. Therefore, the contents of this document are not authoritative.

I would like to thank the members of the Task Force and the Committee for their efforts in developing these best practices. I would also like to thank Dr. Alan S. Glazer for his significant efforts in developing the best practices for internal accounting consultations. If you have any questions, comments or concerns, please feel free to contact Sheri L. Fabian at (201) 938–3455.

Sincerely,

Arthur Siegel
Chairman
SEC Practice Section Executive Committee

cc: Members of the SEC Practice Section Executive Committee
Members of the SEC Practice Section Peer Review Committee
Members of the SEC Practice Section Quality Control Inquiry Committee
Members of the SEC Regulations Committee
Public Oversight Board
Michael H. Sutton, Chief Accountant, Securities and Exchange Commission

Accounting Consultations

Introduction

Statement on Quality Control Standards (SQCS) No. 2, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice,* requires each member firm of the American Institute of Certified Public Accountants (AICPA) to have a system of quality control "to provide reasonable assurance that its personnel comply with applicable professional standards and the firm's standards of quality" (SQCS No. 2, para. 3). One important element of a firm's system of quality control is its technical consultation process — the series of activities in which engagement personnel obtain advice from others with more specialized knowledge and experience. That process should be designed to ensure that personnel "refer to authoritative literature or other sources and consult, on a timely basis, with individuals within or outside the firm, when appropriate (for example, when dealing with complex, unusual, or unfamiliar issues). Individuals consulted should have appropriate levels of knowledge, competence, judgment, and authority" (SQCS No. 2, para. 19).

The Public Oversight Board (POB) Special Report, In the Public Interest: Issues Confronting the Accounting Profession, issued in 1993, expressed concern about the potential conflict between client advocacy and auditor objectivity that arises when a CPA firm acts as an advocate for a client on an accounting issue instead of as an independent professional responsible for expressing an opinion as to whether a client's financial statements are presented fairly in conformity with generally accepted accounting principles (GAAP). To deal with the potential conflict, the Special Report recommended several steps to strengthen the process by which firm personnel assigned to an engagement consult with other firm personnel concerning clients' accounting issues.

In its 1994 report, Strengthening the Professionalism of the Independent Auditor, the POB Advisory Panel on Auditor Independence (the Kirk Panel) supported the POB's recommendations and concluded that firms should structure their consultation processes to ensure that engagement personnel are insulated from pressures to resolve issues in ways that unduly favor clients' interests over professional standards. Walter Schuetze, former Chief Accountant of the Securities and Exchange Commission (SEC), has suggested that some firms have given in to those pressures by condoning their clients' use of inappropriate accounting principles in SEC filings and advocating those principles to the SEC. A 1994 study, Staff Report on Auditor Independence, prepared by Schuetze's staff concluded that, although some firms have compromised their independence through such actions, those situations occur infrequently.[1]

Effective accounting consultation processes help to ensure that firms arrive at appropriate conclusions on technical accounting issues.[2] Specific issues regarding the effectiveness of some firms' consultation processes have been raised in peer reviews of firms in the AICPA's SEC Practice Section. Each member firm in the Section is required to have a peer review of its system of quality control every three years. As part of those reviews, firms' consultation policies and procedures, as well as the appropriateness of the consultation conclusions, are evaluated. Peer reviewers have identified weaknesses in some firms' consultation processes, including engagement personnel's failure to consult others on significant accounting issues and the inadequacy of reference materials available to engagement personnel.

In response to concerns about independence and the effectiveness of some firms' consultation processes, the AICPA's SEC Practice Section Peer Review Committee appointed a task force to study accounting consultation processes used by member firms. This report describes the results of a research project, initiated under the supervision of that task force, to describe how CPA firms conduct accounting consultations, to analyze the strengths and weaknesses of alternative ways of conducting consultations, and to identify consultation "best practices."

Project Background

The task force began the project in the summer of 1996. The task force asked 17 firms — including local, regional, and national organizations — that were members of the AICPA's SEC Practice Section to provide an outside consultant with materials describing their accounting consultation policies and procedures and with sample consultation documentation. The consultant discussed the firms' technical accounting consultation processes and specific strengths and weaknesses of their processes with many of the firms' chief technical partners[3] (or their designees), technical accounting consultants (partners and managers assigned to the firms' accounting consultation functions), and consultees (engagement partners and managers) during on-site and telephone interviews. All of the information was treated confidentially; only the consultant had access to information from specific individuals or firms.

[1] Schuetze's comments and the staff report are summarized in Appendix B of the Kirk Panel report.

[2] This report uses the term "appropriate" when describing the conclusions of research or consultation on an accounting issue. In this context, "appropriate" means "based on the substance of the transactions or events, the conclusions are reasonable and consistent with professional standards."

[3] Depending on how a CPA firm is legally organized, its owner (or owners) can have other names, such as "shareholder" or "proprietor." For purposes of this report, the term "partner" is used to describe a firm's owner.

Based on the written policies and procedures provided by the firms and the information gathered in the interviews, the task force and the consultant developed descriptions of the major activities that comprise the accounting consultation process. Existing quality control standards require that "[t]he nature, extent, and formality of a firm's quality control policies and procedures should be appropriately comprehensive and suitably designed in relation to the firm's size, the number of its offices, the degree of authority allowed its personnel and its offices, the knowledge and experience of its personnel, the nature and complexity of the firm's practice, and appropriate cost-benefit considerations" (SQCS No. 2, para. 4). As a result, firms have different approaches to organizing consultation resources and completing accounting consultations. Nevertheless, the task force believes that some approaches to accounting consultations are more effective and efficient than others. This report describes those approaches that the task force believes represent "best practices" for consultations on accounting issues.[4]

The term "best practices" is placed in quotation marks when used in this report. The notation is intended to indicate that the term should not be taken literally. Firms should consider these "best practices" in light of their own size, organizational structure, and type of accounting and auditing practice. For example, although the basic activities involved in accounting consultations are the same, smaller firms generally need less formal consultation policies and procedures than larger firms. The task force wishes to emphasize that the "best practices" described in this report are neither goals or standards against which all firms are to be measured nor are they to be used by peer reviewers as de facto quality control standards for evaluating consultations. Rather, these "best practices" represent opportunities for improvement, to be used by firms to strengthen their consultation processes, thereby helping firms provide high-quality accounting and auditing services to their clients.

Identifying Accounting Issues

In an environment in which technology, globalization, and other developments are rapidly changing their clients' businesses, CPA firms must deal with an increasing variety of complex transactions and events. Issues concerning how those transactions and events should be accounted for arise in several ways, such as:

- Engagement personnel identify issues during engagement planning and performance
- Supervisory-level engagement personnel and second (concurring) reviewers identify issues during the review of completed working papers

[4] Although not part of this project's scope, the task force believes that "best practices" firms generally complete consultations on auditing issues in the same manner as consultations on accounting issues.

- Clients raise accounting issues when they seek guidance from engagement personnel about accounting for completed or proposed transactions

- Accounting issues are raised by staffs of regulatory agencies, including the SEC[5]

- Accounting issues requiring consultation may be identified during firms' internal evaluations of potential new clients and of their continuing relationships with existing clients.

Because of the complexity, novelty, or materiality of some of the accounting issues raised in these situations, engagement personnel often have to conduct research and to consult with others before determining the appropriate accounting for a completed (or proposed) transaction or event. Engagement personnel in "best practices" firms are able to identify and research accounting issues and to recognize those that require consultation with others because those firms assign personnel to engagements who have the background, training, and experience appropriate for the engagements and tasks to which they are assigned.

Researching Accounting Issues

Engagement personnel conduct research on accounting issues by completing the following steps: define the accounting issue, review appropriate authoritative and firm literature and present practice, evaluate any alternative principles, formulate tentative conclusions, assess the need for consultation, and document their conclusions.

Define the Issue

Engagement personnel in "best practices" firms first define the accounting issue as clearly as possible. Problem definition in this situation means obtaining a detailed understanding of both the form and substance of the transaction or event. The accounting principles that could be applied, including those used (or proposed) by the client, as well as the dates, accounts, and amounts of entries to be recorded, financial statement presentation issues, and any information that would have to be disclosed in notes to the financial statements are identified. This information is necessary both to document the research in the working papers and to form the basis for any subsequent consultation with others.

Review the Literature and Present Practice

Engagement personnel in "best practices" firms have sufficient training in the use of, and have access to, appropriate research materials so that they can evaluate alternative accounting

[5] The AICPA's SEC Regulations Committee has developed "best practices" for communications with the SEC staff. As a result, this report does not discuss accounting consultations among a firm, its clients, and the SEC.

principles and firm policies regarding the application of those principles to the specific transactions or events being researched. Appropriate research materials include: authoritative literature, firm guidance, updates concerning emerging practice issues and the firm's position (if any) on them, the status of current standard-setting developments, SEC regulations (if applicable), specialized industry information (if applicable), and other reference sources. Up-to-date materials appropriate for the size and complexity of the firm's accounting and auditing practice, including indices and software to assist engagement personnel in literature reviews, are maintained by appropriate personnel in practice office libraries or are accessible through the firm's computer-based information and communications system.

Prior to reaching a conclusion, engagement personnel may also need information about present practices regarding accounting for the transactions or events being researched. Information about present practice, such as examples of how other companies have accounted for similar transactions and events, may be gathered by engagement personnel, by the firm's research staff and consultants, or by outside organizations. Engagement personnel in "best practices" firms recognize that the existence of apparent precedence in practice does not necessarily determine the appropriateness of a principle in a specific client's circumstance, particularly when examples of alternative principles exist in practice that may be appropriate in other circumstances.

Evaluate the Alternatives, Assess the Need for Consultation, and Document the Conclusions

In many cases, research by engagement personnel leads to a conclusion on the appropriateness of the accounting principles under consideration. In those situations in "best practices" firms, the results of the research, including the rationale for the conclusions reached, are documented in the working papers and reviewed by appropriate supervisory personnel.

Research by engagement personnel may not always result in an unambiguous conclusion. Determining the appropriateness of accounting principles or the methods in which they are applied may, at times, be particularly difficult. This typically occurs when authoritative pronouncements or firm policy concerning the issues are non-existent or unclear, or when application of that guidance is complex. In those situations, "best practices" firms encourage engagement personnel to seek advice from others concerning the appropriateness of engagement personnel's conclusions on accounting issues.

A Consultative Environment and Organizational Structure

In order to foster appropriate informal discussions and formal consultations about accounting issues, "best practices" firms establish and maintain a consultative professional environment and organizational structure in which communication about technical accounting issues is encouraged. "Best practices" firms' continuing education programs reinforce the message that engagement personnel, after completing their own research, should discuss accounting issues with others if they have any questions about the appropriateness of a client's accounting principles.

Maintaining a Consultative Environment

In "best practices" firms, informal discussions among engagement personnel and others in the practice office (and elsewhere in the firm) occur frequently, but they do not take the place of formal consultations on accounting issues. Informal discussions may occur in face-to-face conversations, telephone calls, or electronic mail. They often are simply "reality checks" by engagement personnel who are looking for research guidance or confirmation of tentative conclusions formed on the basis of their own research. "Best practices" firms encourage those types of informal discussions as well as formal consultations on technical accounting issues, when appropriate, so that personnel with more knowledge and experience are involved whenever engagement personnel believe it is necessary to seek advice from others on accounting issues.

Organizational Structure of the Formal Consultation Process

In a firm with a single office, management's decisions regarding how to organize the firm's formal consultation process are ordinarily straightforward. The firm's internal consultation resources, including the person designated "chief technical partner," are simply housed in that office. In firms with multiple offices, however, management must make several decisions regarding how to organize the formal consultation process.

Some multi-office firms' consultation processes are highly centralized geographically, with a "professional practice department" located in one office (often the firm's "national" or "home" office) or in a few practice offices. Other multi-office firms have a regional or practice office focus in which consultation resources are more widely dispersed geographically; a smaller "professional practice department" with a few highly-experienced consultants and department management would then be maintained (often in the "national" office).

Regardless of the organizational structure of their formal consultation processes, all "best practices" firms develop policies and procedures so that:

- Engagement personnel provide sufficient information to consultants

- Engagement personnel receive appropriate technical support on a timely basis

- Consultants provide consistent advice on accounting issues to engagement personnel throughout the firm so that clients' use of accounting principles is supported by established sources of those principles, by analogy to similar transactions or events for which established accounting principles exist, or by other sources (for example, by the firm's position on accounting for new types of transactions or events)

- Engagement personnel receive updated information about emerging practice issues (and about the firm's position on them, if any)

- All personnel remain objective and independent of client pressures favoring particular consultation conclusions.

In "best practices" firms, all personnel with consultation responsibilities are designated by firm management. "Best practices" firms, particularly large ones and those with multiple offices, publish and distribute to all firm personnel updated information about consultation assignments and how consultants can be contacted, so that engagement personnel are informed about which personnel have been designated as consultants and about the nature of their consulting responsibilities.

Consultants

Consultants in "best practices" firms have knowledge and experience appropriate for the types and complexity of the issues on which they work. "Best practices" firms have policies and procedures by which engagement (and other) personnel can be identified as potential consultants. For example, practice offices might nominate engagement personnel who have significant client experience handling accounting issues, have strong technical accounting skills, and have an interest in working extensively on technical issues. As another example, some firms recruit qualified partners and managers for tours of duty in the "professional practice department" to supplement a core group of permanently-assigned consultants.

Once identified, potential consultants in "best practices" firms proceed through an interview process to clarify the duties and responsibilities of the position and to enable consultation management to assess their suitability for the position. The final selection of individuals for consultant positions is approved by appropriate firm management.

Although much of a consultant's training is likely to be done through on-the-job experience, new consultants may need training in the use of specialized reference materials (such as those described in later sections of this report). "Best practices" firms provide continuing education opportunities to all consultants so that they remain current with accounting standard-setting developments and emerging practice issues. In "best practices" firms, policies and procedures for evaluating consultants' performance emphasize the quality of the advice provided.

The Accounting Consultation Process

"Best practices" firms' engagement personnel determine the need for consultation as soon as possible after identifying and researching an accounting issue. Prompt decisions about the need for consultation allow time for consultants to complete any additional research and discussions on the issue, enabling engagement personnel to provide more timely responses to clients. In some cases, however, early identification is not possible, and the consultation process in "best practices" firms is sufficiently flexible to handle emergency situations as they arise, without imposing unnecessary administrative requirements on either engagement personnel or consultants.

Initiating the Consultation

Initiating a formal accounting consultation is the responsibility of engagement partners; in some cases, partners may delegate that responsibility to other experienced engagement personnel. "Best practices" firms' policies describe specific circumstances in which engagement personnel are *required* to consult with others. These are situations where, because of the risks involved, a firm's senior management wants specific consultation resources and the firm's prior experience to be considered in resolving the issues. "Best practices" firms also have policies that describe circumstances, involving unusual or sensitive issues or requiring significant professional judgment to resolve, in which engagement personnel are *encouraged* to seek consultations with others.

"Best practices" firms' policies that describe specific circumstances requiring or encouraging consultations are based on the nature of the firm's accounting and auditing practice and are updated as necessary. Examples of circumstances in which a firm's policy might require or encourage consultation include:

- Transactions or events that are unusual or sensitive in nature, complex, involve related parties or significant uncertainties over accounting estimates, or are highly material

- Complex or judgmental revenue recognition issues, such as those involving barter transactions and sales of future revenue

- Issues related to inventory, such as proposed changes from LIFO

- Complex real estate transactions, such as sales where the seller maintains responsibilities for operations

- Accounting for business combinations using the pooling-of-interests method

- Recognition of deferred tax assets that are expected to be recovered based on future taxable income (exclusive of reversing temporary differences and carryforwards) and tax planning strategies

- Recently-issued authoritative guidance must be followed, authoritative bodies are considering new accounting standards, or emerging issues for which accounting practice is developing

- Professional or firm guidance is non-existent, subject to differing interpretations, or provides a choice among acceptable alternatives

- Accounting issues to be discussed with regulatory agencies, such as the SEC

- Uses of accounting principles representing departures from authoritative pronouncements that are necessary to make a client's financial statements not misleading

- Unresolved differences of opinion among engagement personnel or between engagement personnel and the second (concurring) reviewer

- Engagement personnel lack experience with specialized industry practices

- Issues exposing the firm to a high level of risk because the client is a public entity or is in a designated high-risk industry

- Discovery of material irregularities or illegal acts

- Substantial doubt about a client's ability to continue as a going concern

- Issues to be resolved with predecessor auditors prior to accepting an engagement

- Requests to express an opinion on the application of accounting principles to a completed, proposed, or hypothetical transaction (Statement on Auditing Standards [SAS] No. 50 engagement).

"Best practices" firms have clear policies regarding with whom a formal consultation should be initiated. In single-office firms and in multi-office firms with centralized consultation processes, engagement personnel typically contact a consultant in the firm's "professional practice department." In multi-office firms where consultation resources are decentralized, engagement personnel's initial contact is normally with consultants located in their local office or region. Other personnel, including consultants in the centralized "professional practice department," can also be contacted if: the local or regional consultants do not have the appropriate expertise or need additional assistance; there is a disagreement between the local office or regional consultant and engagement personnel; additional consultation is required by firm policy; or there is an emergency situation.

"Best practices" firms also have clear policies regarding the role of second (concurring) reviewers in the consultation process. In some firms, second (concurring) reviewers participate in discussions regarding technical accounting issues before consultants are involved. Together with engagement partners, they may initiate consultations with other firm personnel. In other firms, second (concurring) reviewers are not involved in discussions about accounting issues prior to consultations. In all "best practices" firms, however, second (concurring) reviewers are kept informed of all significant consultations, concur with the consultation's scope, review the conclusions reached in the consultations, and, if appropriate, bring additional information to the engagement partner's and the consultant's attention if the information might alter those conclusions.

After initiating a consultation, the engagement partner is responsible for following the issue through the consultation process, obtaining a conclusion on the accounting issues, implementing the conclusion, and determining whether the consultation is appropriately documented in the engagement working papers. "Best practices" firms design the consultation process to be sufficiently flexible to handle the wide variety of issues and circumstances requiring consultation. For example, engagement personnel are able to contact another consultant directly if their "designated" consultant is temporarily unavailable. Engagement personnel in "best practices" firms are also able to consult with personnel (including consultants) designated by the firm as industry specialists (for example, for financial institutions), as subject matter or topical specialists (for example, for leasing transactions), or as other types of specialists (for example, for SEC matters).

Discussions Between Engagement Personnel and Consultants

The extent of the discussions that ensue after a consultation has been initiated can vary tremendously. If the issues are relatively straightforward, engagement personnel may simply stop by a consultant's office for a brief conversation or may contact a consultant on the telephone or via electronic mail. Consultants can often conclude these types of consultations quite quickly.

In other circumstances, firm policy may require, or engagement personnel may initiate, a more formal consultation. In those circumstances, engagement personnel in "best practices" firms normally prepare and send a request to a consultant that includes: the client's name and appropriate background information; a detailed description of the form and substance of the transaction or event; the research previously completed, including the accounting alternatives considered; the tentative conclusions on the issues with supporting rationale; the name of the engagement partner (or designee) initiating the request; and the date by which a conclusion is needed.

Because of time and other pressures on engagement personnel, consultations cannot always be initiated by a formal written request. Face-to-face conversations between engagement personnel and consultants, as well as telephone calls, facsimile requests, and electronic mail, can be used to initiate consultations if necessary. (A computerized consultation request system is described in the "Documenting the Consultation" section of this report.)

If adequate information is not included in the initial consultation request, consultants in "best practices" firms elicit additional information from engagement personnel until the consultants believe that they have a full understanding of the issue. At that point, consultants in "best practices" firms may be able either to confirm the appropriateness of engagement personnel's tentative conclusion on the accounting issue or to recommend an alternative conclusion if the consultants believe that the alternative is appropriate in the client's circumstance.

In other situations, however, consultants must develop their own conclusions based on careful analyses of the transactions and events and on additional research. "Best practices" firms provide consultants with training in the use of, and access to, current and comprehensive reference materials, as well as other resources both within and outside the firm, that permit consultants to complete the necessary analyses of the accounting issues under consideration and to provide timely guidance to engagement personnel.

Consultation Reference Materials

Reference materials required by individual consultants vary with the size and complexity of the firm's clients, with the types and complexity of the accounting issues handled by the consultant, and with the consultant's knowledge and experience. Research materials provided to engagement personnel (described previously) are a minimum starting point. In "best practices" firms, access to more specialized reference materials — such as the Financial Accounting Research System (FARS), annual reports, SEC filings and accounting and auditing enforcement releases, as well as the firm's consultation database (described in the next section) — are made available to consultants as needed.

Access to resources outside the firm also may be needed if a firm's internal resources are not sufficient to resolve the issues. Examples of outside resources include: the research function of an association of CPA firms of which the firm is a member; an outside consultant or firm; the technical staffs of rule-making bodies, such as the AICPA, Financial Accounting Standards Board (FASB), Governmental Accounting Standards Board (GASB), and SEC; the AICPA Technical Information and state association technical services departments; and members of AICPA and state association technical committees.

In "best practices" firms, arrangements to use external resources are authorized by appropriate supervisory personnel. Client confidentiality may preclude the firm from disclosing certain information to personnel outside the firm, and, as a result, it is possible that an external consultant may not arrive at an appropriate conclusion. Although the use of external sources of information may assist firm personnel in arriving at conclusions on accounting issues, it is the firm's responsibility to reach appropriate consultation conclusions.

Consultants in "best practices" firms also establish their own informal sources of information. These may be personnel within or outside the firm, including other consultants, specialists, senior management, and FASB and AICPA staff. Consultants use these contacts as "reality checks" for their own tentative conclusions and as sources of information on emerging practice issues.

Consultation Database

Consultants often need extensive reference materials when dealing with new or complex issues. One type of specialized resource that "best practices" firms develop and make available to consultants is a consultation database maintained by the "professional practice department." When consultants receive requests for consultation, they can search the database using appropriate key words to locate examples of similar situations that often are useful in developing timely responses to those requests.

The database consists of either hard copy or computer records of documentation on prior consultations, organized and indexed by topics, key words, industries, and in other ways that allow information to be retrieved easily. For example, "business combinations" is an appropriate topic for many firms because many related issues exist. Within that topic, key words, such as "pooling of interests" and "goodwill," could be used as references to help locate previous consultation conclusions.

The consultation database need not contain documentation of all prior consultations. Consultants in "best practices" firms decide whether to include a consultation in the database on a case by case basis, depending on factors such as: the absence of authoritative pronouncements or firm policy on the issue; the extent of research done on issues that are likely to resurface in the future; and the need to update the conclusions of a consultation already documented in the database.

Completing the Consultation

After completing their own analyses and any additional research and discussion on the accounting issues, consultants develop conclusions and supporting rationale. Depending on the experience of the consultants and the importance of the issues, "best practices" firms may require that consultants' conclusions be approved by higher-level personnel before they are discussed with engagement personnel. The purpose of such a process is to ensure that the firm's position on the issue, as expressed in the consultant's conclusions, is appropriate in the client's circumstance and is approved by personnel with appropriate authority, knowledge, and experience.

Consultants in "best practices" firms discuss their conclusions and the supporting rationale with engagement personnel after the consultants have completed their analysis and, if appropriate, after the conclusions have been approved. For many consultations, the process ends at this point. The client adopts (or agrees to adopt) the accounting principles agreed to in the consultation, and firm personnel prepare appropriate documentation.

Disagreements Within the Firm

Because the resolution of accounting issues often requires professional judgment, engagement personnel may, at times, disagree with a consultant's conclusions. In those cases, "best practices" firms have policies and procedures to ensure that a report is not issued (and the client is not advised of the conclusions) until the disagreement is discussed and resolved so that the firm's final position on the issue has been clarified and the client is not given conflicting advice.

"Best practices" firms ensure that any disagreements among engagement personnel, second (concurring) reviewers, and consultants are discussed by appropriate firm personnel. Discussions take place at successively higher levels of authority within the firm until the firm's position is established. Firm policies clearly specify the lines of authority for settling such disagreements.

Engagement personnel, second (concurring) reviewers, or consultants who disagree with the firm's position on an accounting issue that has been the subject of a consultation may, on rare occasions, wish to disassociate themselves from that position. In "best practices" firms, those individuals prepare a memorandum for the working papers describing their conclusions on the issues and the reasons for their disagreement with the firm's position. Engagement partners or other appropriate personnel are responsible for documenting why those conclusions were not accepted as the firm's position on the issues.

"Best practices" firms establish and maintain a professional environment that encourages frank discussions of technical accounting issues and that permits all personnel to feel comfortable expressing their disagreement with others over conclusions on accounting issues. In many cases, additional information about a transaction or event may clarify the source of the disagreement and lead to a resolution of the issues.

Communicating Conclusions to Clients

Engagement personnel in "best practices" firms keep clients appropriately informed of the progress of ongoing consultations. After a consultation has been concluded, engagement partners are responsible for discussing, if necessary, the conclusions and the supporting rationale with their clients on a timely basis. The firm's consultation documentation is generally not shared with clients because the documentation is the firm's own record of the work performed and conclusions reached. If a client desires a written explanation of the consultation conclusions, engagement personnel in "best practices" firms prepare a formal statement to be reviewed and approved by the consultants that describes the firm's position and supporting rationale.

Maintaining a close, harmonious working relationship with clients while maintaining professional objectivity and independence helps to prevent the discussions about consultation conclusions from becoming contentious. Nevertheless, some clients may disagree with those conclusions when their positions on the issues are not the same as the firm's positions.

Engagement personnel in "best practices" firms are prepared for such disagreements. Engagement personnel may seek further clarification from consultants, ask consultants to meet (or to participate in conference calls) with clients to explain the basis for the firm's conclusions, or ask that higher levels of authority within the firm become involved in client discussions. Additional information made available by a client or changes in the substance of a proposed transaction may require additional consultation and lead to a different conclusion that is appropriate in the client's circumstance. "Best practices" firms ensure, however, that pressures clients can bring to bear on technical accounting issues — particularly pressures on engagement personnel with whom clients work closely — do not result in firm personnel allowing clients to use inappropriate accounting principles. In the words of the POB, "[p]artners and staff members must be reminded constantly that the firm's reputation for independence is far more valuable than the fees obtained from any client" (In the Public Interest, p. 44).

Documenting Consultations for the Working Papers

Personnel in "best practices" firms document the analyses of the accounting issues and the conclusions reached in the consultation. Engagement partners in "best practices" firms are responsible for determining that appropriate consultation documentation is included in the working papers. Although oral approval of consultation conclusions may sometimes be necessary because of time pressures, written documentation and approval by consultants or engagement personnel with appropriate knowledge and experience follow formal consultations in "best practices" firms.

"Best practices" firms develop policies concerning when written documentation of a consultation must be prepared to ensure that an appropriate record of the analyses and conclusions on all important accounting issues is maintained. Some firms require that virtually every consultation (other than very brief "informal" consultations or consultations dealing with proposed transactions that never occur) is documented in writing. Other firms provide some flexibility by requiring written documentation only in certain situations and, in others, allowing either engagement personnel or consultants or both to determine whether a specific consultation must be documented. Those firms typically provide guidance to help personnel make that decision. For example, a firm's policy might be as follows: all consultations either required by firm policy or involving the use of outside resources must be documented; other consultations may be documented depending on the nature and complexity of the issues.

Documentation of consultations in "best practices" firms includes: a description of the transaction or event; the accounting issues involved; the conclusions reached; the rationale that formed the basis for the conclusions, including references to professional literature and firm policies (whether applied directly or by analogy); the names of key individuals involved in the consultation; and other appropriate information or exhibits. A copy of the documentation is filed in the engagement working papers to support the consultation conclusions; additional copies are sent to all those who provided substantive consultation on the issues. Some firms require engagement personnel to document consultations using a standardized memorandum or other specified format. Other firms provide a sample format that personnel are encouraged to follow but allow personnel to use other formats as long as the documentation is appropriate.

"Best practices" firms require engagement personnel and consultants to review drafts of the documentation; to discuss those drafts to ascertain whether the information is clear, accurate, and complete; and to approve the final version. Engagement partners and consultants sign the documentation when it is finalized. That process, if completed promptly, helps to minimize any confusion or disagreement that might arise before the firm is committed to the consultation conclusions.

"Best practices" firms maintain control over the documentation so that it is prepared and approved on a timely basis. One method of maintaining control is for consultants to keep a log of all consultations for which documentation is to be prepared. Final documentation can be checked off by the consultant as it is received and approved. Administrative or staff personnel can be assigned to follow up with firm personnel who do not complete and approve documentation on a timely basis.

Computer technology can also be used to facilitate the documentation process. A standardized "consultation request form" template could be made available to all engagement personnel through the firm's internal communications system. Engagement personnel would initiate a consultation by completing the top part of the form and sending it electronically to the appropriate consultant. The consultant would acknowledge receipt of the request, obtain any additional information required from engagement personnel, perform the necessary analyses, and complete the rest of the form (after obtaining any necessary approval) by sending the conclusions and supporting rationale back to engagement personnel electronically. After appropriate approval by engagement personnel, a copy of the "consultation request form" could easily be made for the working papers. If firm personnel believe the issues were appropriate to include in the consultation database, the electronic record of the consultation (after any necessary reformatting and the addition of other relevant information and of appropriate key words) could be easily added to that database.

Monitoring Consultation Policies and Procedures

SQCS No. 3, *Monitoring a CPA Firm's Accounting and Auditing Practice,* requires firms to develop monitoring procedures that provide reasonable assurance that their systems of quality control are functioning effectively. "Best practices" firms review their consultation policies and procedures annually to determine whether they remain appropriate for the firm's accounting and auditing practice; any necessary changes are implemented promptly.

In addition, internal inter-office inspection reviews in "best practices" firms include evaluations of whether personnel are complying with the firm's consultation policies and procedures. Those evaluations include determining whether consultations are taking place when required by firm policy and when appropriate under the circumstances; whether consultation conclusions are appropriate; and whether consultation documentation is adequate and consistent with firm policy.

Communications With Board of Directors/Audit Committees

In its report Strengthening the Professionalism of the Independent Auditor, the Public Oversight Board's Advisory Panel on Auditor Independence ("POB Panel") made several recommendations that, if adopted by auditors, may enhance corporate governance (ie: The responsibility of a Company's board of directors to its shareholders, which includes monitoring of the Company's performance.). Some of those recommendations are as follows:

- The auditor should express judgments to boards of directors/audit committees about the appropriateness and acceptability of the accounting principles and the clarity of the financial statement disclosure practices of the Company. The auditor's judgment about the appropriateness of a Company's accounting principles and financial statement disclosures in compliance with generally accepted accounting principles should be timely and should include a candid discussion of:

  - The reasonableness of those accounting principles and financial statement disclosures and whether or not they are common practice.

  - The auditor's reasoning regarding:

    — The appropriateness of changes in a Company's accounting principles and financial statement disclosures.

    — The appropriateness of new accounting principles and financial statement disclosures instituted by a Company.

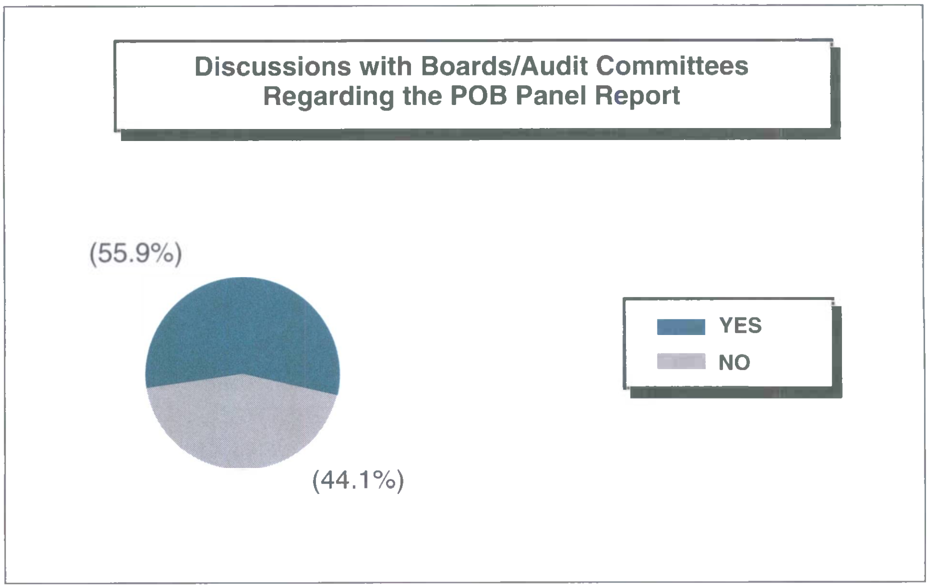
    — The appropriateness of significant estimates made by management in relation to financial statement disclosures.

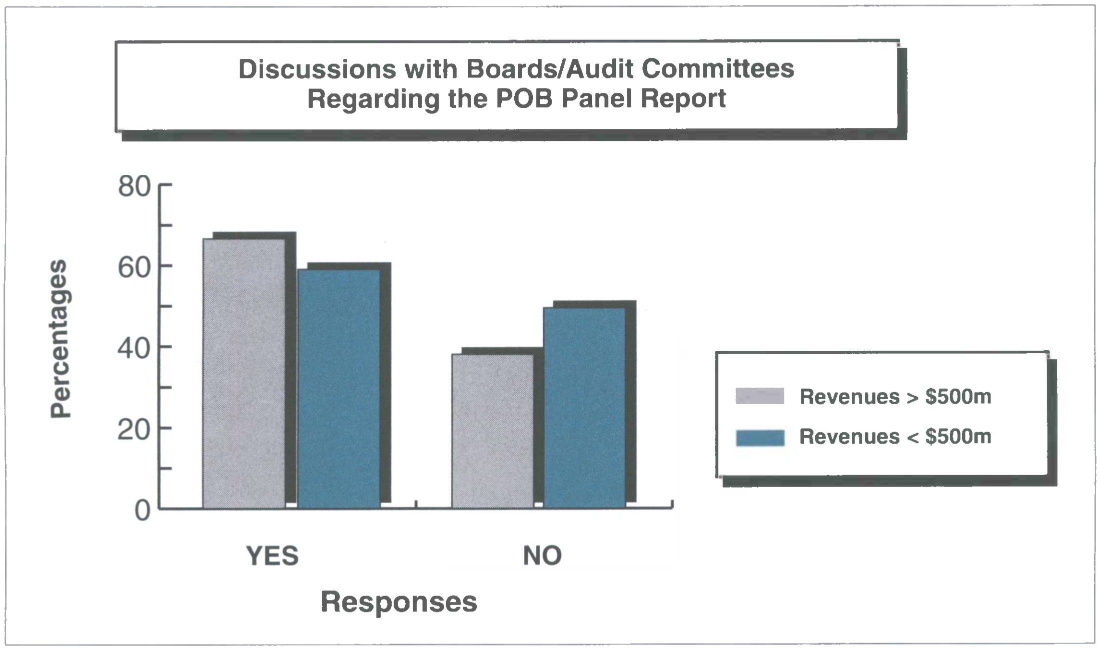
- The auditor should meet with boards of directors and audit committees at least once a year.

- The auditor should view the board of directors, not management, as the client.

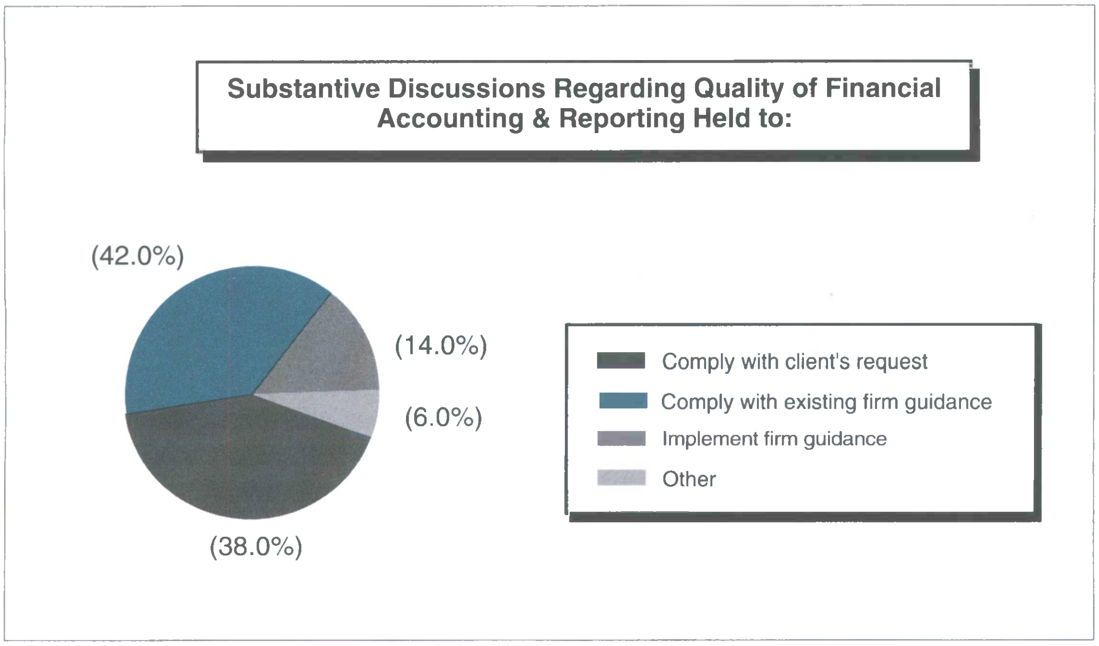
To address the POB Panel's recommendations relative to corporate governance, the SECPS Executive Committee charged the Best Practices Task Force ("Task Force") of the SECPS Peer Review Committee (of the American Institute of Certified Public Accountants) with formulating "best practices." These best practices are designed to assist firms in evaluating and enhancing their policies and procedures for communicating certain qualitative assessments regarding the financial statements of their clients to the boards of directors/audit committees of those entities. The qualitative assessments provided by an auditor assist the boards of directors/ audit committees in fulfilling their responsibilities relative to corporate governance. These communications also assist the auditors in fulfilling their responsibilities to serve the interests of the public. In developing its best practices, the Task Force conducted a survey of approximately 27 members of the SEC Practice Section of the AICPA, including three of its largest members. Member firms surveyed included those firms that were subject to a 1996 SECPS peer review. A survey was completed for each SEC engagement selected for review during the peer review and was completed by the individual responsible for the overall supervision of the respective engagement. Some of the more significant results of the surveys are as follows:

- As noted in the following chart, more than half of the respondents indicated that they have had discussions with the boards of directors ("boards")/audit committees of their clients regarding the specifics of the POB Panel report. Approximately 84% of those discussions were initiated by the audit firms. Also, noted below are the responses based on the size of the SEC registrant in terms of revenues:

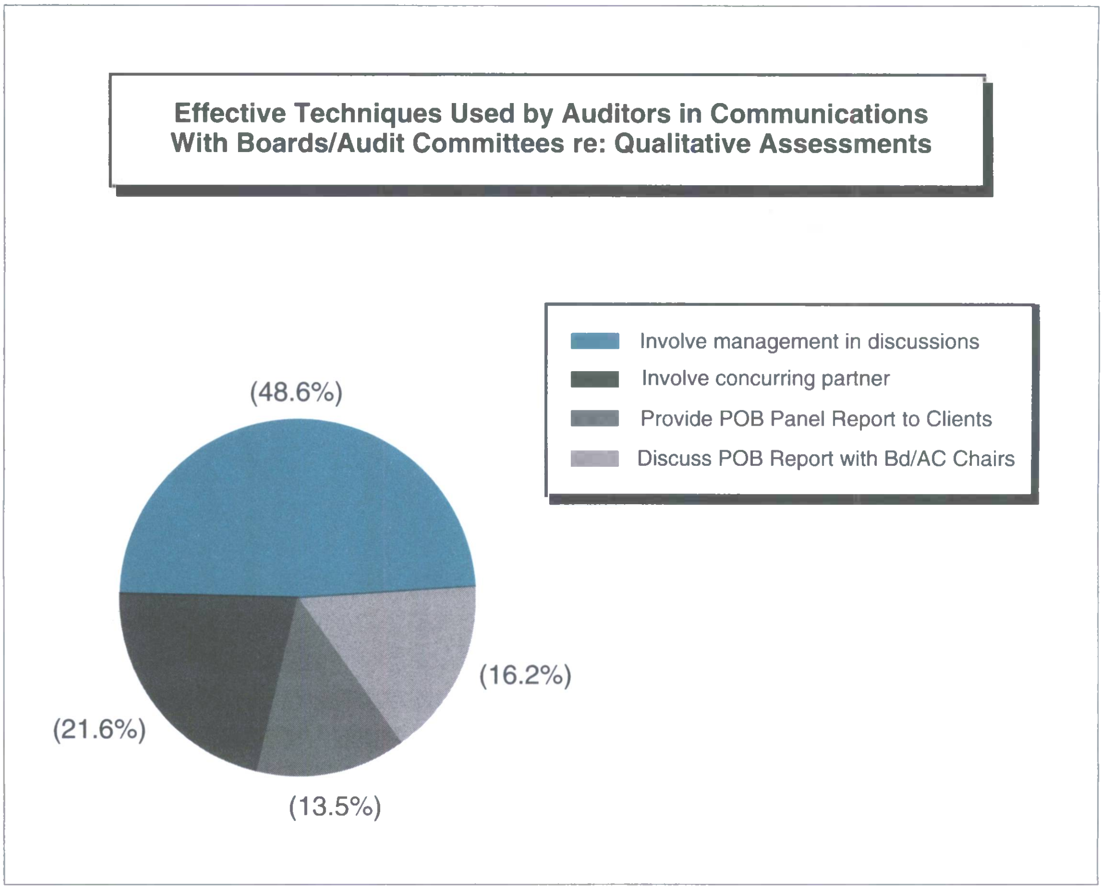




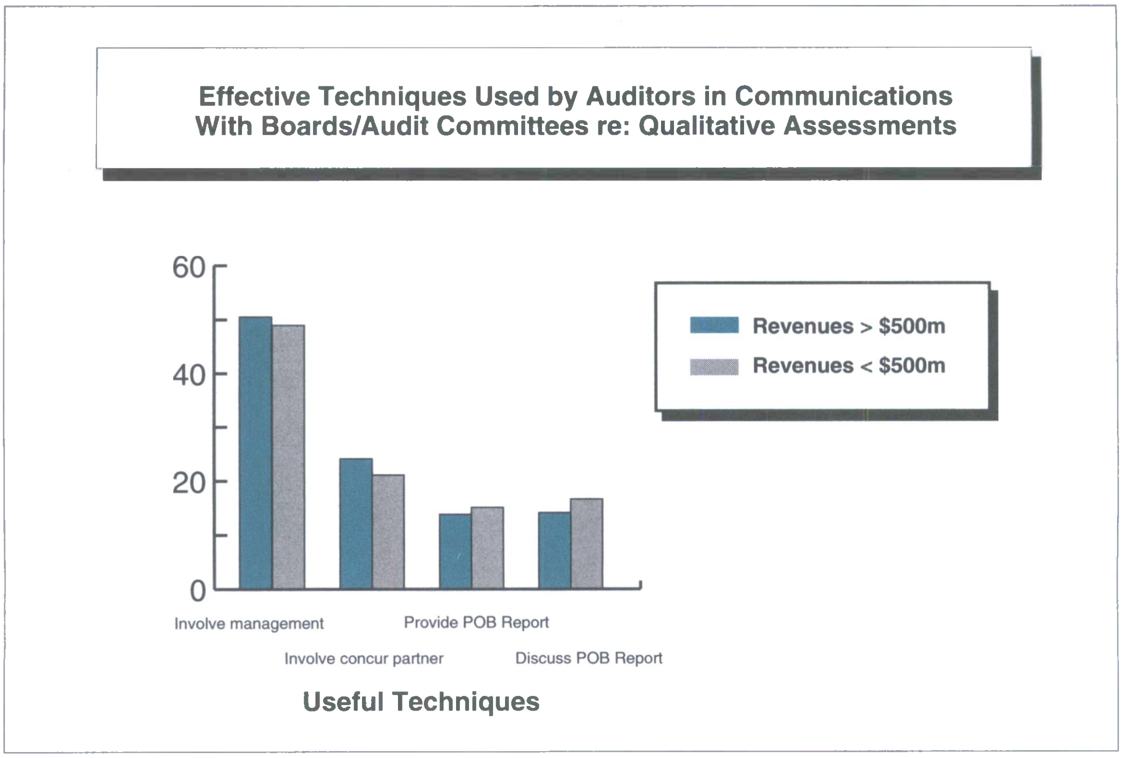
- Approximately 87% of the respondents indicated that they have had substantive discussions with boards/audit committees regarding the appropriateness and acceptability of the accounting principles used or proposed by the Companies, the clarity of the Company's financial statement disclosures, and the degree of aggressiveness of the Company's accounting principles and financial statement estimates. The chart below highlights the reasons why firms held such discussions:

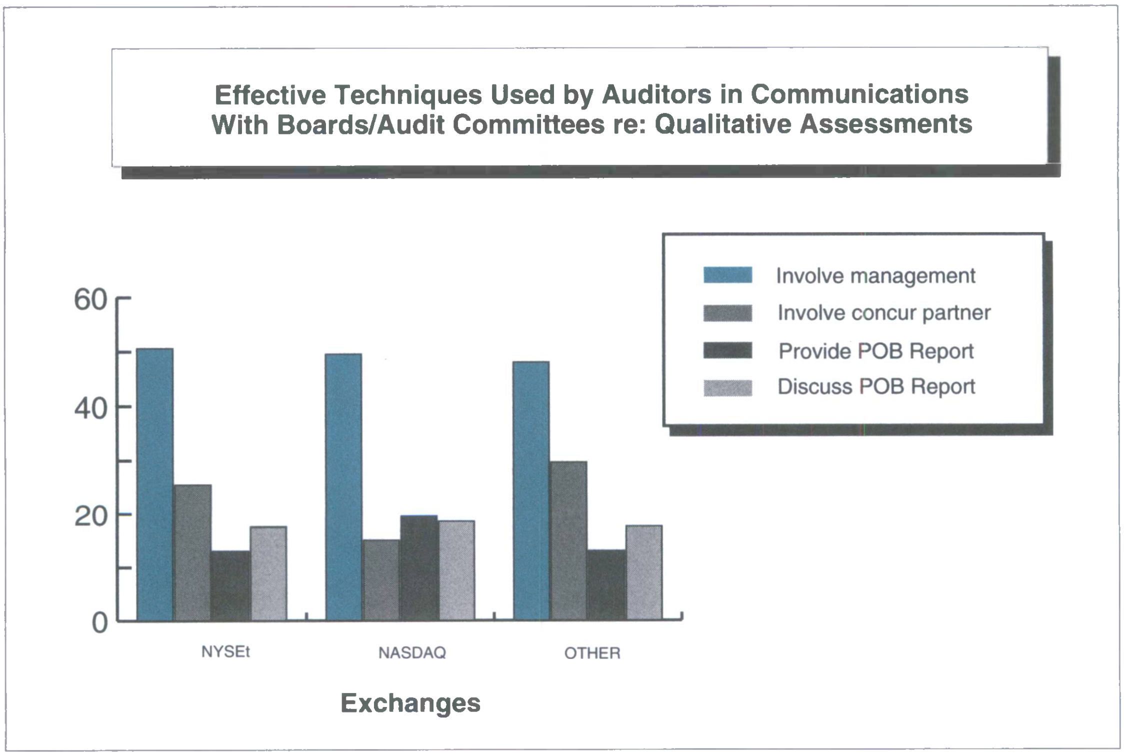


- The following chart highlights the most effective techniques used by audit firms to encourage communications with boards/audit committees regarding the qualitative assessments of the financial statements:



- Respondents also provided additional information for each engagement, such as the exchange on which the Company's securities are traded and the Company's average assets and revenues. The Task Force segregated the survey results based on each type of additional information and by the size of each audit firm. The Task Force then compared those results to the overall results noted above. No significant differences between the results were noted. The following charts illustrate first, certain results for entities with revenues in excess of or below \$500,000,000 and second, certain results based on the exchange on which the entities trade:


Effective Techniques Used by Auditors in Communications
With Boards/Audit Committees re: Qualitative Assessments
60
40
20
0
Revenues > $500m
Revenues < $500m
Involve management
Provide POB Report
Involve concur partner
Discuss POB Report
Useful Techniques


Effective Techniques Used by Auditors in Communications
With Boards/Audit Committees re: Qualitative Assessments
Involve management
Involve concur partner
Provide POB Report
Discuss POB Report
60
40
20
0
NYSEt
NASDAQ
OTHER
Exchanges

Based on the results of the surveys and incorporating some of the recommendations of the POB Panel, the following are best practices related to communications with boards/audit committees. The purpose of these best practices is to assist auditors in developing policies and procedures that will allow auditors to better address the needs of their clients and to assist the boards/audit committees of those clients in their responsibilities relative to corporate governance. This in turn serves to enhance the public's confidence in the financial information reported by those Companies.

Set the Tone

- Establish policies and procedures within the firm related to communications with boards/audit committees. Discuss such policies and procedures with members of the professional staff to enhance their understanding of the issues and to reemphasize the firm's commitment to client service. The information that follows may be used as a guide in establishing or evaluating the firm's policies and procedures in this area. It also may be useful in strengthening the relationships between firms and their clients' boards/audit committees so that the relationships best serve the needs of those clients and their shareholders.

Establish a Relationship with the Board/Audit Committee

- Establish a framework for the development of relationships that stresses open and candid conversation between the auditor and the boards/audit committees and allows the boards to fulfill their responsibilities to their shareholders. These discussions also may serve to facilitate a board's/audit committee's redefinition or determination of their respective roles. Provide a copy of and initiate a discussion with the board/audit committee about the recommendations in the POB Panel's report. Also, providing a copy of and discussing the POB Panel's report with members of senior management reemphasize the auditor's role in facilitating the board's responsibility to their shareholders and serve to enhance the auditor's relationship with management. It may also serve to facilitate a working partnership between the board/audit committee, senior management and the auditor. Providing firm literature to boards/audit committees relative to the role of the board/audit committee also may be useful.

Discussions with Boards/Audit Committees Regarding Qualitative Assessment of Financial Reporting

- Discuss with boards/audit committees the appropriateness and acceptability of the accounting principles and the clarity of the Company's financial statement disclosures. Discussions with boards/audit committees would typically include the auditor's judgments regarding the reasonableness of management's estimates included in the Company's financial statements and the auditor's judgments regarding recently issued accounting principles and/or financial statement disclosures. Hold such discussions with management first to ensure that the auditor has a clear and comprehensive understanding of management's rationale for determining the appropriateness of the Company's accounting principles and financial statement disclosures and estimates.

- Consider involving a concurring or second partner and/or a consultation partner in discussions regarding issues relative to the Company before meeting with the audit committee.

- To enhance the efficiency and effectiveness of the audit process, conduct discussions regarding the appropriateness and acceptability of accounting principles, the clarity of financial statement disclosures, and the reasonableness of management's estimates in advance of the Company's year end. A timely discussion allows boards to analyze management's estimates, accounting principles and key financial disclosures along with the auditor's assessment of the acceptability and appropriateness of those estimates, accounting principles and financial statement disclosures and to make appropriate changes to a Company's financial statements before they are finalized. Consider incorporating these discussions into the agenda for the annual audit planning meeting with boards/audit committees. Coordinate a final discussion with boards/audit committees at the conclusion of the engagement, in conjunction with communications required under generally accepted auditing standards.

- Establish a regular meeting schedule with boards/audit committees and management to discuss issues relative to a Company, including those noted above. Hold face-to-face discussions with the boards/audit committees at least once a year. Consider communications with the boards/audit committees on a quarterly basis, especially for clients with quarterly reporting requirements. Regular meetings facilitate communication and understanding regarding the expectations of the boards/audit committees of the auditors and an auditor's expectations of boards/audit committees.

Other Recommendation

- During the proposal process with prospective clients, discuss the POB Panel's report and the firm's commitment to the establishment of a sound working relationship with the board/audit committee.

Communications With the SEC Staff

This document summarizes "best practices" for consultation between the Registrant and the independent auditors' firm (the "Firm") and the SEC staff. It was prepared to promote efficient and effective communications among the SEC staff, Registrants and independent auditors. Firms are encouraged to consider the adoption of the best practices in this document in order to enhance the quality of the Firm's service to its clients ("Registrants"). However, it is important to keep in mind that Registrants have the primary responsibility for the financial statements and related disclosures filed under the Securities Acts.

The "best practices" discussed in this document do not represent rules or requirements of the AICPA, the SEC or other regulatory agencies or bodies and do not create legal rights or responsibilities for any party. They are not meant to mandate specific policies or procedures. Independent audit firms are organized differently and may be highly centralized, highly decentralized or somewhere in between. As such, SEC practices of the Firm will vary in relation to their organizational structure. As used herein, the term designated SEC partner(s) is a partner who can represent the Firm on accounting and auditing policy matters and state the Firm's position. The designated SEC partner may be a member of the Firm's technical group located in a national or a regional office or a partner with significant experience with SEC rules and regulations who is appointed to represent the Firm.

The SEC staff is available to discuss significant accounting and reporting issues with the Registrant and the Firm in advance of a filing. Issues relating to filing requirements (e.g., financial statements of predecessor or acquired companies, required updating, etc.) may also require discussion with the SEC staff to clarify the application of the requirements in certain Registrant circumstances. Where such discussion involves a significant accounting or reporting issue or a request for relief relating to a significant filing requirement, the engagement partner should discuss the matter with the designated SEC partner prior to communications with the SEC. In addition, any proposed written or oral communications with the SEC staff regarding staff "no name" inquiries on accounting and auditing matters or matters deemed policy in nature should be reviewed by the designated SEC partner.

Usually written inquiries involving accounting matters in specific cases should first be addressed to the Chief Accountant of the Division of Corporation Finance or an Associate Chief Accountant. New or controversial problems involving general accounting policies may be referred directly to the Office of the Chief Accountant. All such Registrant correspondence should indicate a copy has been sent to the Firm (engagement partner and the designated SEC partner).

If the engagement partner (or, if unavailable, the concurring partner) is to discuss a significant issue with the SEC staff or the discussion involves the Office of the Chief Accountant or the Division of Corporation Finance Chief Accountant's Office (i.e., Chief Accountant or an Associate Chief Accountant of the Division of Corporation Finance), the designated SEC partner also should be involved in all such communications whenever possible.

Prefiling conferences or telephone calls on registrant accounting or reporting matters should not be undertaken without the consent of the Registrant. There should be a clear understanding with the Registrant that the discussion will be conducted with candor and all pertinent facts will be disclosed during the discussion with the SEC staff. If certain facts relating to an SEC staff question are not known or are uncertain at the time of the discussion, the information should be provided subsequently in writing by the Registrant.

In many cases, a written submission, possibly followed up by a phone call or a meeting, is the most efficient and effective approach to resolving a significant issue. The submission should be on the Registrant's letterhead and should be reviewed by the Firm to ensure that: a) the issue to be discussed is clearly explained, and supported by sufficient background information including the substance and economics of the transaction; b) reference is made to appropriate sources of guidance in the professional literature that are relevant to the issue (Note: The most effective type of presentation for this purpose is one that cites literature supporting arguments on both sides of a particular issue, with a clear explanation as to why the Registrant believes that their preferred position gives rise to an appropriate answer.); c) the Firm's views are set forth where appropriate and are properly characterized; and d) the overall tone of the letter is business-like and professional. A listing of the names and identities of those who will be participating in any follow-up discussion also should be furnished.

As a general rule, especially when the issue involves a Registrant-specific transaction, it is preferable for the Registrant to lead the discussion (particularly with respect to representations as to the factual circumstances of an issue) with the independent auditor functioning in a support capacity by reinforcing and, where necessary, clarifying the technical points made by the Registrant. In this regard, independent auditors should express, as appropriate, the Firm's views on the application of GAAP, GAAS, and SEC rules and regulations to the issue being discussed.

In rare instances the Firm may be requested to reply directly to the SEC staff or address a letter to the Registrant that the Registrant will then send to the SEC staff as its reply. The practice of replying for the Registrant is undesirable because it may carry an implication of advocacy on the Firm's part that is inconsistent with the Firm's functions of independently examining and reporting on financial statements that the Registrant has prepared and for which the Registrant has primary responsibility. This does not imply an unwillingness to work with the Registrant, nor is it an attempt to dissociate the Firm from financial statements that the Firm has examined. By virtue of the auditor's report, the Firm has a legitimate interest in the audited financial statements. The Firm should cooperate in answering these requests in the following ways: a) offering to assist the

Registrant in preparing information requested by the SEC staff or in reviewing the material prior to submission to the SEC staff; b) participating with the Registrant in telephone discussions or meetings with the SEC staff; and c) furnishing the Registrant with the Firm's comments on a question of accounting principles. However, the Firm may, on occasion communicate directly with the SEC staff (after appropriate clearance with the Registrant and consultation with the designated SEC partner) in matters relating to the auditor's report or in those cases in which the SEC staff specifically requests the Firm's comments.

The SEC encourages the Registrant and its auditors to deal directly with SEC staff accountants in resolving SEC staff comments. If the Registrant and its auditors do not understand a comment, the SEC staff accountant, who is identified in the comment letter, should be called to discuss the comment. This process may be expedited by scheduling a conference call between the SEC staff, the Firm and the Registrant to discuss certain comments. Comments cannot be cleared over the phone; therefore, a written response should be provided to the SEC staff as a follow-up to any telephone discussion.

Usually the comments of the SEC staff are sound and can be adopted. Occasionally, however, SEC staff comments are based on a misunderstanding of disclosures in documents filed, or a justifiable difference of opinion may exist regarding the applicable accounting principles. Even after the SEC staff's comments have been clarified with the SEC staff accountant and Assistant Chief Accountant and all pertinent facts presented, there may continue to be disagreement on an issue.

The decision to appeal an accounting conclusion of an Assistant Chief Accountant should involve consultation with the designated SEC partner. The SEC staff views the appeals process as a legitimate and constructive element of the comment process. After the Registrant has requested an appeal, the Assistant Chief Accountant will consult with an Associate Chief Accountant in the Division Chief Accountant's Office and generally will set-up a conference call with all parties to discuss and resolve the issue. This process will be expedited if the Registrant provides a detailed written response to the comment(s) prior to requesting an appeal. If the issue cannot be resolved at the Associate Chief Accountant level, it will be presented to the Division Chief Accountant's Office, and then to the Office of the Chief Accountant of the Commission. It should be noted, however, that issues that reach the Associated Chief Accountant level of the Division of Corporation Finance generally involved consultation between the Division of Corporation Finance and the Office of the Chief Accountant. Communication with staff at higher levels (e.g., Associate Chief Accountant, Deputy Chief Accountant or Chief Accountant of the Division of Corporation Finance or the Office of the Chief Accountant) should also involve participation of the designated SEC partner along with the Registrant and the engagement partner. If the Chief Accountant did not participate directly in the discussion of the issues with the Registrant, it may be appropriate to request a meeting with the Chief Accountant.

An adverse decision of the Chief Accountant of the SEC may be appealed to the Commission, but this rarely is done. No one in the Firm is authorized to commit to appeal a decision of the Chief Accountant or advise the registrant to appeal a decision without appropriate Firm approval.

Organization of the Securities and Exchange Commission Attachment

The Commission

The SEC is headquartered at 450 5th Street, N.W., Washington, DC 20549. The Commission is composed of five members appointed by the President for staggered five-year terms. Not more than three Commissioners may be members of the same political party. One Commissioner is designated by the President to serve as Chairman. The Senate must consent to the appointment of all Commissioners.

SEC Divisions and Offices

The SEC is assisted by a professional staff of lawyers, accountants, engineers, securities analysts, and examiners who are organized into divisions and offices that report to the Commissioners. The divisions and offices of the SEC are as follows:

Divisions

- Corporation Finance
- Enforcement
- Investment Management
- Market Regulation

Offices

- Administrative and Personnel Management
- Administrative Law Judges
- Chief Accountant
- Compliance Inspections and Examinations
- Comptroller
- Economic Analysis
- Equal Employment Opportunity
- Executive Director
- Filing and Information Services
- Freedom of Information and Privacy Act Operations
- General Counsel
- Information Technology
- Inspector General
- International Affairs
- Investor Education and Assistance
- Legislative Affairs
- Municipal Securities
- Public Affairs, Policy Evaluation and Research
- Secretary
- Regional Offices

Accounting and auditing matters are addressed primarily by the Office of the Chief Accountant of the SEC and the Division of Corporation Finance. These SEC organizations and the Division of Enforcement are described below.

Office of the Chief Accountant

The Office of the Chief Accountant ("OCA") is the Commission's principal adviser on accounting and auditing matters. OCA oversees accounting standards-setting and the profession's self-regulatory organizations. In its oversight function, OCA monitors the Financial Accounting Standards Board ("FASB"), the Accounting Standards Executive Committee ("AcSEC"), the Emerging Issues Task Force ("EITF"), the Auditing Standards Board ("ASB"), the SECPS Peer Review Committee and the Public Oversight Board.

OCA also advises the Commission concerning the establishment, expression, and coordination of SEC policy and enforcement concerning auditing standards and accounting principles or practices. OCA is responsible for the preparation of regulations, financial reporting releases, and staff accounting bulletins.

The Chief Accountant is appointed by the Chairman of the SEC. OCA includes permanent staff (a Deputy Chief Accountant, Associate Chief Accountants, and Assistant Chief Accountants), Professional Accounting Fellows (PAFs) and an Academic Fellow. The PAF program is designed to appoint outstanding professional accountants to the OCA staff for a two-year fellowship. The Academic Fellow serves a one-year term.

Division of Corporation Finance

The Division of Corporation Finance ("DCF") serves the function of maintaining disclosure standards in connection with the public offering of securities under the Securities Act of 1933. It also administers the periodic reporting requirements of the Securities Exchange Act of 1934 (i.e., Forms 10-K, 10-Q, 8-K and proxy statements, etc.) of companies whose securities are traded on exchanges or in the over-the-counter market. The solicitation of proxies is another area of jurisdiction for this Division. One of the principal functions of the Division is to review and comment on filings made under the 1933 and 1934 Acts. Registrants will inherently have greater interaction with the Division of Corporation Finance since DCF, through the review and comment on filings, affects the accounting and disclosure practices of public companies served by independent auditors.

The Division of Corporation Finance is organized as follows:

Offices of the Division of Corporation Finance

- Office of the Director
- Office of the Assistant Directors
- Office of the Chief Accountant
- Office of Chief Counsel
- Office of Mergers & Acquisitions
- Office of Information & Analysis
- Office of EDGAR Policy
- Office of International Corporate Finance

The **Office of the Director** is responsible for the overall administration of the Division. Independent auditors are primarily concerned with the Office of the Assistant Directors and the Office of the Chief Accountant of the Division, and therefore these organizations are described in greater detail.

The **Office of the Assistant Directors** is responsible for the review of the registration statements and periodic reports of corporations filed with the SEC and the issuance of comment letters (i.e., deficiency letters). There are nine assistant directors to which companies are assigned based on industry based on their primary Standard Industrial Classification (SIC) code.

If a company is a new small business issuer, it will generally be assigned to the Office of Small Business. The Office of Small Business serves as the focal point for rule-making regarding small business issues and as the SEC's liaison with government and private sector organizations regarding small business issues.

The industries handled by the Assistant Director offices are as follows:

Office Nos.	Industries
1	Health Care and Insurance
2	Consumer Products
3	Communications and Computers
4	Natural Resources
5	Transportation and Leisure
6	Manufacturing and Construction
7	Banking and Leasing
8	Structured Finance, Real Estate and Investment Banks
9	Small Business

Each Assistant Director is assigned a Special Counsel, who assists with interpretations of legal issues, and two Assistant Chief Accountants who are responsible for the supervision and review of the staff accountants assigned to the Office. Each of the nine Assistant Director's offices includes ten to twelve examiners (who are either attorneys or financial analysts) and eight to nine Staff Accountants (sometimes referred to as "Review Accountants").

The **Office of the Chief Accountant** of the Division of Corporation Finance ("DCAO"—not to be confused with the Office of the Chief Accountant of the SEC previously discussed) is responsible for supervising the accounting activities of the Division. Upon request, DCAO will review the proposed accounting and disclosure of companies that have registered securities with the SEC (often referred to as "registrants" or "issuers") or that are considering such a registration. DCAO will advise these companies whether their proposed accounting and/or disclosure is consistent with the SEC's rules as well as the Division's interpretations of generally accepted accounting principles. DCAO works closely with OCA regarding accounting and disclosure issues. As a general rule, matters relating to specific filings by registrants are handled by the accounting staff of the Division of Corporation Finance. Generally, questions on accounting issues and auditing matters that involve basic policies of the SEC, questions that relate to auditor's independence or qualifications, or questions that concern new, unusual or controversial accounting issues relating to a registrant's financial statements are referred to OCA.

DCAO is headed by the Chief Accountant of the Division of Corporation Finance. Reporting to the Chief Accountant are a Deputy Chief Accountant and Associate Accountants (who primarily are responsible for pre-filing and other consultations with registrants, Assistant Chief Accountants and Staff Accountants).

Also within the Division of Corporation Finance, the **Office of the Chief Counsel** is responsible for interpretations of the securities laws and regulations. Upon request, the **Office of the Chief Counsel** will review the proposed interpretation of the securities laws and regulations by registrants or their legal counsel. The **Office of Mergers and Acquisitions** is responsible for the processing of tender offers. The **Office of International Corporate Finance** administers offerings and reporting by foreign private issuers, although it is not directly involved in the review of documents filed by foreign private issuers.

Division of Enforcement

The Division of Enforcement is responsible for the supervision and conduct of all enforcement activities under the federal securities laws. The Division institutes civil, administrative and injunctive actions. In situations where an investigation reveals possible criminal action, the Division works with the Office of the General Counsel to refer the case to the U.S. Department of Justice with a recommendation for criminal prosecution. The Division is composed primarily of attorneys but also includes a group of accountants, headed by the Chief Accountant of the Division of Enforcement. These accountants work with the attorneys in the Division to help pursue enforcement cases involving accounting and auditing matters and coordinate with OCA on these matters.

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