

## APPENDIX K – SMALLER FIRMS

**1** Over 80% of the audits of domestic SEC registrants are performed by the eight largest U.S.-based audit firms.<sup>1</sup> As a result, the Panel concentrated primarily on those firms and their audit methodologies. However, the Panel recognizes the important role that smaller firms that audit the remaining public entities play in our capital markets. (See also “Other Firms” in Appendix B.) Accordingly, the Panel staff reviewed and analyzed Practitioners Publishing Company’s “Guide to Risk-Based Audits” and “Guide to Audits of Small Businesses,” since these publications represent the core methodologies that a large number of smaller firms use.

**2** In addition, the Panel staff met with a group of eight professionals experienced in conducting peer reviews of smaller firms (see Appendix G). These individuals are partners in firms ranging from fewer than 10 to more than 600 professionals, and in the aggregate they conducted nearly 100 peer reviews in 1999.

**3** The discussions with these peer reviewers included a broad range of topics similar to the topics covered in meetings with the larger firms and in other focus groups, but from the perspective of the smaller firms. Substantial time was devoted to client acceptance and continuance policies and procedures; technical industry and specialist support for engagement teams, such as in the area of information technology; and the unique challenges these firms face as a result of changing technology and audit methodologies.

---

<sup>1</sup> Provided by SECPS staff.

