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August 12, 2004

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

File No. PCAOB-2004-05

Dear Mr. Katz:

BDO Seidman, LLP respectfully submits the following comments on the Public Company Accounting Oversight Board's ("PCAOB" or "Board") Auditing Standard No. 3, *Audit Documentation*, and an Amendment to Interim Auditing Standards – AU sec. 543.12, *Part of Audit Performed by Other Independent Auditors* (the "Standard").

We recognize the importance of establishing and enforcing standards that will restore confidence in our financial reporting environment and are anxious to participate further in the initiatives of the PCAOB and other regulatory bodies to advance the quality of our professional standards. We appreciate the dedicated effort necessary to develop quality standards.

While BDO Seidman supports the efforts of the PCAOB to clarify and strengthen audit documentation standards, we believe the proposed timeframe for implementing AS 3 should be deferred to coincide with the beginning of an audit period such as "for audit periods beginning on or after November 15, 2004."

We believe the current proposed implementation time frame could distract auditors from their significant efforts to understand and implement, in a condensed time frame, the requirements of new rulemaking in other areas, particularly Auditing Standard No. 2, on audits of internal control. This dilution of focus may cause audit quality to suffer, which would be adverse to the public interest.

Our experience to date indicates that the new requirements of AS 2 on internal controls will increase audit hours significantly over prior year audit hours, and extensive training on the AS 2 Standard will also require significant audit staff time. Staffing the new requirements this year and next is already a significant challenge in itself, without the incremental burden of new documentation rules.

Further discussion of our views follows:



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Retroactivity

The final standard would be effective for audits completed on or after November 15, 2004. We believe it is inadvisable to implement a new auditing standard well into an ongoing audit period. This is unprecedented in audit standards setting. Audits of many affected issuers are already in progress, with certain phases of critical AS 2 and regular audit preliminary work completed. This implementation date would apply the standard to work already performed that may or may not have been documented under the criteria of the proposed standard. While the PCAOB recognizes this, it states that documentation from periods before the effective date will be reconsidered on a case-by-case basis. In our view, this provides little comfort or guidance. To the extent that there might be circumstances where it would be necessary to reconsider prior documentation in light of this proposed standard (e.g., for workpaper consistency purposes) or as a result of future clarifications of certain provisions in this proposal, it may not be practical or even possible to recreate certain prior work (for example, due to issuer system limitations).

To implement a new auditing standard in the middle of an audit period will potentially create an inconsistent and confusing record of the work performed and conclusions reached. This would create the opposite of the effect that the Standard is trying to achieve.

Compression of Additional Work

The changes in audit documentation requirements and workpaper assembly procedures would occur contemporaneously with AS 2 and other new regulations. We believe this situation will unnecessarily burden and distract auditors and, therefore, could be counterproductive to the effective implementation of these important standards.

High quality audits require careful planning. Communication and training needs to precede implementation of a standard that introduces new performance requirements. Moreover, the additional work in developing processes and procedures, and training of staff to understand the proposed new documentation requirements for many issuers, will be compounded by the difficult implementation of AS 2. That is particularly the case this year, as companies and auditors are in the process of meeting new accelerated filing deadlines and new SEC independence and other requirements.

We believe it would be counterproductive, and not in the public interest, to compound these requirements with a new standard on documentation in the middle of the audit. Additionally, we believe the nuances of AS 3 on audit documentation will require further interpretation (e.g., how documentation can clearly demonstrate an audit procedure was performed). In advance of such clarifications, and time to train professionals to absorb the new rules (SAS 96 was just implemented last year), we believe that in the current environment auditors may take an overly conservative response to this requirement by adding more than actually required documents and documentation to the workpapers. This would unnecessarily raise company costs and, more importantly, may be a distraction to identifying and resolving the important issues on an engagement.



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Remote Locations and the Work of Other Auditors

The final Standard is a significant practical improvement in many respects over the ED proposal relating to workpaper filing and the work of other auditors, but various outstanding issues have not been resolved regarding the legal transfer of certain workpaper information necessary for audit review and file retention purposes. We believe the new requirements for auditing at remote locations and for reviewing, documenting and filing work performed by others will require time to effectively put in place.

45-Day Rule

The proposed standard requires the review and inclusion in the completed audit file of all workpapers, including those prepared by other firms and by those operating in other auditing jurisdictions. It is stated that an audit file should be finalized within 45 days from the auditor's granting approval to release the report. This provision requires, at the least, a significant new administrative process to assemble audit files in the reporting location, and will require firms to develop processes and guidance on how this can be most efficiently and effectively accomplished.

For the reasons stated above, we urge the Commission to work with the PCAOB to defer the effective date of the final standard to the beginning of an audit period such as "for years beginning on or after November 15, 2004." We do not believe that this recommended deferral will dilute the profession's response to specific corporate and professional issues that led to the Sarbanes-Oxley Act of 2002. In that regard, we concur with the Board's expressed view that in many areas the proposed standard does not go beyond the recently effective SAS 96 on audit documentation. We also believe that SAS 96 was a substantial advancement in standards that addressed the bulk of the documentation issues that had been identified prior to its release, and those issues noted in the Report of the POB's Panel on Audit Effectiveness. Those areas of the proposed standard that are incremental to SAS 96 and form the basis for our concern will require significant training and interpretation, which should be accomplished within a timetable sufficiently reasonable to ensure successful implementation in satisfaction of the public interest.

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We appreciate your consideration of our comments and suggestions, and would be pleased to communicate or meet with the Commission and its staff to clarify any of our comments.



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Please direct comments to Wayne Kolins, National Director of Assurance, at 212-885-8595 Wkolins@bdo.com or Lynford Graham, National Director of Audit Policy, at 212-885-8551 Lgraham@bdo.com.

Sincerely,

BDO Seidman, LLP

BDO Seidman, LLP

cc: Chairman William H. Donaldson
William J. McDonough, Chairman of the PCAOB