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VIA ELECTRONIC FILING

August 10, 2004

Mr. Jonathan G. Katz  
Secretary  
United States Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

**PCAOB Rulemaking on Auditing Standard No. 3, Audit Documentation,  
Release No. 34-50012, File No. PCAOB-2004-05**

Dear Mr. Katz:

Ernst & Young LLP (“Ernst & Young”) is pleased to comment on the rule adopted by the Public Company Accounting Oversight Board (“PCAOB”) to establish an auditing standard regarding audit documentation. We submitted comments to the PCAOB during its rulemaking process. The PCAOB amended several aspects of its proposal, addressing many of our comments and those of others. Accordingly, we believe the final rule is much improved and only in one area do we still have significant concerns – the effective date of the standard.

In our comment letter to the PCAOB on the proposed standard, we, and others, suggested that the PCAOB make the implementation date of the final standard prospective. We believe that auditing standards, particularly a standard with such pervasive effects on the audit as PCAOB Auditing Standard No. 3, should be adopted at the start of an audit rather than during

the course of the audit. The final rule adopted by the PCAOB changed the effective date of the standard to coincide with that of PCAOB Auditing Standard No. 2 because of the documentation issues prevalent in that standard. Auditing Standard No. 3, therefore, would be effective for audits of financial statements with respect to fiscal years ending on or after the later of November 15, 2004, or 30 days after the date of approval of the standard by the SEC. In its Basis for Conclusions, the PCAOB stated, however, that a delay beyond 2004 is not in the public interest.

We believe the effective date of PCAOB Auditing Standard No. 3 should be reconsidered. Most audits of 2004 financial statements for fiscal years ending on or after November 15, 2004 have already commenced, or will have commenced prior to the proposed effective date; so have most 2004 audits of internal control over financial reporting for accelerated filers with fiscal years ending after November 15, 2004. Thus, to the extent the proposed standard changes existing audit documentation requirements that pertain to work that already has been performed, auditors might not be able to comply with certain aspects of the proposed standard. It is not practical to apply auditing standards retroactively, particularly on audits of large, multinational corporations that involve numerous audit teams around the world.

We continue to believe that the implementation date of the final standard should be prospective following final approval by the SEC (e.g., for audits of financial statements for periods beginning on or after September 15, 2004). Alternatively, the PCAOB or SEC should clearly state through the rulemaking process that the additional documentation requirements of the final standard do not apply to conduct occurring prior to its effective date. This would be similar to the statement in the Release on Rule 3101, *Certain Terms Used in Auditing and Related Professional Practice Standards*, which states, "Rule 3101(b) applies to conduct

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occurring after the effective date of the rule.” In this manner, the new requirements for audit documentation retention (that the Sarbanes-Oxley Act of 2002 required the PCAOB to address), documentation changes subsequent to the report release date and the documentation completion date, the engagement completion document, and many other year-end matters would be effective for audits of 2004 financial statements for fiscal years ending on or after November 15, 2004. However, 2004 work already completed on these engagements pursuant to existing auditing standards would not be subjected to new, after-the fact documentation requirements.

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We appreciate the opportunity to provide these comments, and we would welcome further discussion of them.

Respectfully submitted,

*Ernst + Young LLP*