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August 10, 2004

Mr. Jonathan G. Katz, Secretary  
U.S. Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, D.C. 20549-0609

**Securities and Exchange Commission Release No. 34-50012**  
**File No. PCAOB-2004-05**  
**Public Company Accounting Oversight Board; Notice of Filing of Proposed**  
**Rule on 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***

Dear Mr. Katz:

KPMG LLP appreciates this opportunity to provide comments to the Securities and Exchange Commission (Commission) on the Public Company Accounting Oversight Board's (Board) Proposed Auditing Standard No. 3, *Audit Documentation* (Proposed Standard), and on the Proposed Amendment to Interim Auditing Standards – AU sec. 543.12, *Part of Audit Performed by Other Independent Auditors*. We fully support the Commission's and the Board's continuing efforts to improve financial reporting, corporate governance, and audit quality with the objective of furthering the public interest and restoring confidence in our capital markets system. Our comments below relate to a matter for the Commission to consider as it deliberates approval of the Proposed Standard.

**Effective Date**

The Proposed Standard provides that the final standard approved by the Commission would apply to audits of financial statements for fiscal years ending on or after the later of November 15, 2004, or 30 days after the date of approval of the final standard by the Commission. We have a number of concerns regarding this proposed effective date.

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As indicated in our January 20, 2004 letter to the Board regarding the Proposed Standard, audit documentation is, in many instances, prepared throughout the period under audit. In fact, we encourage performance of, and contemporaneous documentation of, audit procedures throughout the period under audit as an approach that enhances the effectiveness of a financial statement audit. For issuers that maintain multiple domestic or foreign locations, auditors typically prepare and distribute auditor instructions to participating offices in the first or second quarter of the issuer's fiscal year. In many instances, this communication already has taken place for calendar year-end issuers.

The proposed effective date would necessitate a retrospective review of audit documentation relative to communications and procedures completed in the months prior to the date a final standard is approved and becomes effective. We do not believe that the resulting impact of such "retroactive rule-making" would be to enhance audit quality. In fact, we believe that the introduction of a new auditing standard with an effective date requiring retroactive application serves to detract from audit quality.

We note that the Board's Release No. 03-023, dated November 21, 2003, included a specific request for comment on the effective date of the Proposed Standard. As the Board acknowledged in paragraph A68 of the Proposed Standard, many commenters (including registered public accounting firms as well as others) expressed concern that the proposed effective date was too early because of the retroactivity of the effective date and the need for adequate time to develop and implement processes and provide training. While the Board revised the initially proposed effective date from engagements completed on or after June 15, 2004 to audits of financial statements for fiscal years ending on or after November 15, 2004, the Board did not alleviate the concept of a retroactive effective date.

Paragraph A70 of the Proposed Standard indicates that the Board concluded that the effective date of the Proposed Standard should coincide with that of PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*, because of the documentation issues prevalent in PCAOB Auditing Standard No. 2. We note that paragraphs 159 through 161 of PCAOB Auditing Standard No. 2 include auditor documentation requirements that are incremental to AU sec. 339, *Audit Documentation*, in the Board's Interim Standards. Therefore, we believe that the Board's objective to improve the quality of audit documentation will be substantially accomplished with respect to audits of internal control over financial reporting, absent retroactive application of the provisions of the Proposed Standard.

Finally, the Board expressed a belief that a delay beyond 2004 is not in the public interest. We respectfully submit that the public interest will be best served by providing auditors with adequate time to adopt policies, processes, and practice aids to implement

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the provisions of the final standard thoughtfully and effectively, and to develop and conduct training for audit professionals. We also believe that it will be particularly burdensome, and not particularly beneficial, to implement the provisions of the final standard with respect to audit work already performed and documented.

Effective execution of new auditing standards requires that effective dates be established with due consideration to the needs of registered public accounting firms to establish policies, processes, and practice aids, and to develop and conduct training. The adoption of new auditing standards without such consideration, including those with effective dates that apply to in-process audits, creates an unnecessary risk of ineffective or inconsistent application of such standards. In our view, this risk, resulting from the selection of an effective date, is not in the public interest. Accordingly, we believe it is imperative that new auditing standards be effective for fiscal years *beginning* after a specified date subsequent to the issuance of a final standard. In the case of the Proposed Standard, we suggest an effective date as follows:

This standard applies to engagements to audit financial statements for years *beginning* on or after November 15, 2004 (for calendar year issuers, the year ending December 31, 2005) and for reviews of interim financial information for the first interim period of the first fiscal year in which the standard is applied (for calendar year issuers, the interim period ending March 31, 2005).

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If you have questions regarding the information included in this letter, please contact Sam Ranzilla, (212) 909-5837, [sranzilla@kpmg.com](mailto:sranzilla@kpmg.com), or Craig W. Crawford, (212) 909-5536, [ccrawford@kpmg.com](mailto:ccrawford@kpmg.com).

Very truly yours,

**KPMG LLP**

cc: Douglas R. Carmichael, Chief Auditor and Director of Professional Standards,  
Public Company Accounting Oversight Board  
Thomas Ray, Deputy Chief Auditor, Public Company Accounting Oversight Board

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