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VIA ELECTRONIC FILING

August 23, 2004

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

**PCAOB Rulemaking on Rule 3101, Certain Terms Used in Auditing and
Related Professional Practice Standards, Release No. 34-50077, File No.
PCAOB-2004-006**

Dear Mr. Katz:

Ernst & Young LLP (“Ernst & Young”) is pleased to comment on the rule adopted by the Public Company Accounting Oversight Board (“PCAOB” or “the Board”) to set forth the terminology the Board will use to describe the degree of responsibility that the auditing and related professional practice standards impose on registered public accounting firms (“auditors”). We support the PCAOB’s efforts to define auditors’ responsibilities and share the PCAOB’s view that its standards should provide clear, concise, and definitive imperatives that contribute to audit quality. We also encourage the PCAOB to exercise care in its standard-setting activities; decisions to use “must” and “should” terminology should carefully consider the specific objective to be achieved and the reasons for mandating the level of responsibility in the particular area of the audit (e.g. importance of the procedure, observed inconsistencies in

practice). In addition, as described below, we have some concerns regarding the effective date of the Rule, particularly in light of the proposed effective date of PCAOB Auditing Standard No. 3.

Effective Date

In the discussion of Rule 3101(c) in Appendix B (Section-by-Section Analysis of Rule 3101), the PCAOB states that, "Rule 3101 does not apply retroactively. Therefore, conduct occurring before the rule is effective will be evaluated in light of the standards as they existed at the time of the conduct." The Analysis in Appendix B goes on to say that, "... as an interpretive matter, the Board expects that it will interpret these terms in the existing, interim standards in a manner consistent with their definitions in Rule 3101, in light of the facts and circumstances of each particular situation."

Although the Board has stated that Rule 3101 does not apply retroactively, we are uncertain as to the documentation requirements for "conduct occurring" prior to the effective date. We are concerned that the interaction of this Rule (including the additional documentation requirement in 3101(a)(2)) with PCAOB Auditing Standard No. 3 and the existing interim auditing standards might lead to confusion and differing interpretations regarding compliance with the Board's standards.

We believe, as a matter of principle, that new auditing standards—and rules such as Rule 3101 that contain explicit or implied auditor performance requirements or documentation requirements—should be effective prospectively, not retroactively. Prospective implementation should be stated in terms such as: "This standard [or rule] is effective for audits of financial statements for periods beginning on or after [insert date]." In this manner, work already completed on engagements that are already in progress at the effective date of the final standard

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or rule would not be subjected to varying interpretations of 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