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Mr. J. Gordon Seymour
Acting Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, D.C. 20006-2803

**PCAOB Rulemaking Docket Matter No. 009,
Proposed Rule Regarding Certain Terms Used In Auditing And Related Professional
Practice Standards**

Dear Mr. Seymour:

We are pleased to submit this comment letter to the Public Company Accounting Oversight Board (“PCAOB” or the “Board”) regarding the above-referenced PCAOB Rulemaking Docket Matter.

We support the Board’s efforts to clarify and define the professional obligations of Registered Public Accounting Firms (“auditors”) in connection with services provided in accordance with the Board’s Auditing and Related Professional Practice Standards (“standards”). We share your view that it is desirable for the Board’s standards to provide clear, concise, and definitive imperatives that contribute to quality.

We also agree that significant actions and procedures associated with the terminology in proposed Rule 3101(a) and Rule 3101(b) generally are consistent with the manner in which independent auditors currently interpret existing auditing literature. However, as discussed further below, we believe that the documentation requirements in the proposed Rule, particularly the documentation requirements for a presumptively mandatory obligation, would be quite different than the requirements under current auditing standards.

Our specific views and significant comments on the proposed Rule are set out in this letter.

Documentation Requirements

The proposed Rule does not provide guidance on how the auditor demonstrates compliance with obligations that are unconditional or presumptively mandatory. The Section-by-Section Analysis of Proposed Rule 3101(a)(2) regarding deviations from obligations that are presumptively mandatory states:

Deviations must be justified by verifiable, objective, and documented evidence. Such evidence must be memorialized at the time of the audit, not after-the-fact, and must be made part of the audit workpapers.

The proposed Rule provides that failure to discharge an unconditional obligation or a presumptively mandatory obligation is a violation of Rule 3100, which requires auditors to comply with the Board's standards. As a result, one might infer that the proposed Rule requires auditors to prepare documented evidence of performance of each unconditional or presumptively mandatory obligation as well as any deviations from such obligations. If that is the Board's intent, we believe that the resulting required documentation would significantly exceed the current level of documentation.

The terms included in the proposed definitions appear frequently in paragraphs throughout the Board's Interim standards. For example, the following table illustrates the results of our electronic search of the occurrence of each of the defined terms within Rule 3200T, *Interim Auditing Standards*, and Rule 3300T, *Interim Attestation Standards*.

	Rule 3200T - Interim Auditing <u>Standards</u>	Rule 3300T - Interim <u>Attestation Standards</u>
<i>Obligations that are unconditional:</i>		
Must	73	7
Shall	29	28
Is required	<u>46</u>	<u>9</u>
	148	44
<i>Obligations that are presumptively mandatory</i>		
Should	1,300	486
<i>Other terms and phrases to consider:</i>		
May	1,310	328
Might	188	60
Could	<u>144</u>	<u>30</u>
	1,642	418

There are many instances in the Board's Interim standards where the term "should" is used in the context of the auditor applying judgment. Also, there are many instances where the proposed terms are not in the context of the auditor performing procedures.

We are concerned that if the proposed Rule or the manner in which it is implemented effectively requires documentation of all obligations that are unconditional and those that are presumptively mandatory, as well as all deviations from obligations that are presumptively mandatory, such documentation will be voluminous and in many situations will be of little value.

Accordingly, we recommend that the final Rule address only the proposed definitions of terms that the Board will use on a prospective basis, and that the related documentation requirements be addressed in the Board's documentation project or in the Board's review of each of the Interim standards. As each Interim standard is reviewed, the Board can consider whether to maintain or modify each instance of the terms indicated in the proposed Rule and also consider

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additional procedures applicable to that standard that should be unconditional, presumptively mandatory, or that need to be otherwise considered.

Effective Date

The text of the proposed Rule 3101(b) does not indicate an effective date for the application of the terms in the proposed Rule, but footnote 6 to item B of the Release (which is not included in the proposed Rule) states the Board believes the principles apply “with respect to conduct occurring prior to the effective date” of the proposed Rule. The Section-by-Section Analysis of Proposed Rule 3101(b) (which also is not included in the proposed Rule) states that Rule 3101(b) will apply to conduct occurring after the effective date of the Rule. However, most of the services provided by auditors in accordance with the Board’s standards cover a period of time.

We believe that the final Rule should not be applied before the effective date, nor should it extend to services that are in process as of the effective date. Furthermore, because the proposed terms are included in the Board’s Interim standards numerous times, auditors will need reasonable time to modify service methodologies to meet requirements of the proposed Rule. Accordingly, we believe that a specific effective date should be included in a final Rule (e.g., effective for audits of periods beginning on or after December 15, 2003) to facilitate a reasonable implementation process.

We would be pleased to discuss our comments with members of the Public Company Accounting Oversight Board or its staff.

Very truly yours,

/s/ Ernst & Young LLP