

May 16, 2007

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, NW  
Washington, D.C. 20006-2803

**Rulemaking Docket Matter No. 023**  
**Proposed Auditing Standard—Evaluating Consistency of Financial Statements and**  
**Proposed Amendments to Interim Auditing Standards**

Ladies and Gentlemen:

Ernst & Young LLP is pleased to comment on the PCAOB's proposed auditing standard, "Evaluating Consistency of Financial Statements" (the Proposed Standard), and related proposed amendments to interim auditing standards.

Proposed Auditing Standard on Evaluating Consistency and Related Conforming Amendments

In our view, the Proposed Standard reflects the changes to the accounting requirements as a result of the issuance of FASB Statement 154, "Accounting Changes and Error Corrections" (Statement 154), and provides appropriate direction to auditors regarding the circumstances in which auditors would be required to evaluate the consistency of the application of generally accepted accounting principles (GAAP) in financial statements.

We support the requirement that the auditor's report contain an explanatory paragraph drawing attention to a restatement of prior year financial statements for the correction of a material misstatement. In our view, the purpose of the explanatory paragraph in the auditor's report is to call the reader's attention to the fact that the financial statements have been restated, and to refer the reader to a more detailed disclosure by management about the restatement in the footnotes to the financial statements. Auditors commonly include such an explanatory paragraph currently. Accordingly, we do not believe that the specific inclusion of "restated to correct a misstatement" in the proposed reporting language would have a significant effect on the clarity of auditor reporting.

We recommend that the Board include in the final standard the comparison of the term “error” as used in Statement 154 with the term “misstatement” used in the Proposed Standard that was provided in footnote 7 of the Board’s Release. We believe it is helpful to auditors to understand that the terms have equivalent meaning and believe this discussion should be preserved in the final standard.

We recommend the Board revise slightly the first sentence of paragraph 11 of the Proposed Standard. As written, the sentence is a declarative statement that changes in classification do not require recognition in the auditor’s report, when in fact some changes in classification may result in a modification to the auditor’s report as discussed in the remainder of the paragraph. The first sentence could be revised to indicate that changes in classification in previously issued financial statements “generally do not require recognition” or “may not always require recognition” in the auditor’s report. This would make the first sentence consistent with the remainder of the paragraph.

Proposed Amendments to Interim Standards Relating to the GAAP Hierarchy

We support moving the responsibility for GAAP for nongovernmental entities from the Board’s interim auditing standards to the accounting literature and, therefore, agree with deleting the GAAP hierarchy. We believe the proposed amendments to AU sec. 410, “Adherence to Generally Accepted Accounting Principles”, and 411, “The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles” adequately clarify that GAAP refers to the accounting principles recognized in the standards of the Financial Accounting Standards Board or in the standards of any other standard-setting body recognized by the U.S. Securities and Exchange Commission.

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

Very truly yours,

*Ernst & Young LLP*