From: Barlow_James [Barlow_James@Allergan.com]
Sent: Friday, November 14, 2003 9:02 PM
To: Comments
Subject: Comments For Docket Matter No. 008

November 14, 2004

Office of the Secretary

PCAOB

1666 K Street, N.W.

Washington, D.C. 20006-2803

Regarding: PCAOB Rulemaking Docket Matter No. 008

Dear PCAOB Representative:

I would like to provide the PCAOB with my comments regarding question 17 in the Docket Matter noted above. The question asked is as follows:

17. Will the definition in the proposed standard of significant deficiency and material weakness provide for increased consistency in the evaluation of deficiencies? How can the definitions be improved?

The answer to the first question is no. The reasons for my answer are described in the answer to the second question noted below.

The answer to the second question is as follows.

The concept of a “significant deficiency” occurring where there is a “more than remote likelihood” involving an amount that is “more than inconsequential in amount” is defined at too low a threshold of possibility and magnitude. Every company has certain critical accounting policies which individually or in combination with other critical accounting policies may actually result in amounts differing from estimated amounts with more than a remote likelihood of occurrence at more than inconsequential amounts. That’s why such policies are listed as critical. Such examples at my company are i) estimated liabilities for managed care sales rebate and other incentive programs, the largest of which relates to Medicaid sales, and ii) income taxes, which includes both current and deferred taxes. Additionally, fair value computations under SFAS No. 123 are inherently inaccurate, but the Financial Accounting Standards Board indicated in its deliberations before adopting SFAS No. 123 that some estimate of value was better than no estimate of value at all. The PCAOB must realize that these amounts are estimated using a SFAS No. 5 concept of “probable” and “reasonably estimable,” which does not require a less than slight chance of being wrong.

The combination of probable and reasonably estimable does not equate to recordation of estimated amounts that can be certified to be accurate to a degree that will not vary by less than an inconsequential amount at a less than a remote likelihood. The concepts are theoretically different. Probable is something akin to 60% to 65% likelihood and remote is akin to less than 5%, or the inverse amount of 95% as to accuracy. As such, these critical policy accounts will always be by definition a significant deficiency, and their effects must always be combined with other accounts to determine if a material weakness occurs in combination with all accounts that are considered significant deficiencies. I believe the threshold for likelihood should be changed to something that is not more than a “possible likelihood,” which I define as something less than a 20% likelihood, which is clearly less than “reasonably possible,” but well above “remote,” as defined by SFAS No. 5.

The PCAOB should also address the following question in this auditing standard. If a company properly identifies for its readers its critical accounting policies and states that the estimated amounts included in the company’s financials have more than a remote likelihood of actually varying by amounts that are more than inconsequential, can those accounts then be considered exempt from combination with other accounts when determining if a material weakness exists when evaluating internal controls over financial reporting? I believe they should be exempt if properly disclosed.

This proposed auditing standard appears to create a sense of utopia in financial reporting. Rhetorically speaking, if every thing in accounting could be recorded with a less than remote likelihood of error at less than inconsequential amounts, we could truly achieve a brave new world in accounting. I don’t believe the economics of business support that possibility, even if a big brother is designated by law to watch over corporate America.

Respectfully,

James F. Barlow

Vice President, Corporate Controller and

Principal Accounting Officer

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