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

PCAOB Rule Making Docket Matter No. 030 – Exposure Draft - Communications
with Audit Committees

Dear Sirs:

In my capacity as a member of the Standing Advisory Group (SAG) I am pleased to have the opportunity to provide my comments and suggestions on the PCAOB's recent Exposure Draft (ED) "Communications with Audit Committees" (Release No. 2010-001). Xerox Corporation is a multinational organization with operations in over 130 countries and annual revenues of approximately \$22 billion. Our audit fees, exclusive of non-recurring items and non audit services, have approximated \$20 million in recent years. Xerox's Audit Committee meets approximately 12 times each year. We view these meetings as a very important governance process and extensive time and preparation, by all participants, is required for these meetings to be effective. Accordingly any proposals that potentially affect these meetings are of interest to the Company. These comments represent my views as a member of the SAG and as Chief Accounting Officer of the Company and do not necessarily represent the views of our independent auditors or the members of our Audit Committee.

Before providing specific comments, let me begin by stating my support for the Board's efforts to comprehensively update the current auditing standards with respect to audit committee communications. The ED and the covering Release are well written – the stated objectives are clear and appropriately emphasize the critical importance of effective two way communication. In my opinion the ED appears to codify the best practices in place today and for active, well run audit committees the ED should not generally represent a significant change from current practice.

While I endorse the majority of the ED's proposals, I do have concerns with certain of the detailed recommendations which arguably include placing the auditors in the role of management and certain prescriptive requirements which will not generally add meaningful content to audit committee meetings.

My detailed comments and recommendations follow:

Accounting Policies, Practices and Estimates and the Auditor's Evaluation of the Company's Financial Reporting

A significant portion of the ED (three full pages; paragraphs 12-13) is devoted to the aforementioned topics and appears to be the most central requirement of the ED. For a variety of reasons I do not believe many of the requirements of paragraphs 12 or 13 are necessary or practical and in a number of respects they appear to transfer to a company's auditors the usual role of management in communicating this information to a company's audit committee.

It is the responsibility of management for the preparation of a company's financial statements including the selection of accounting policies and procedures, the determination of the significant assumptions and estimates necessary for the preparation of those statements and the assessment of the range of possible outcomes for a given transaction, business activity or contingency. Many of the proposed auditor communications in paragraphs 12 and 13 are current requirements for management and in general I do not see the need for significant incremental auditor requirements in this area. I recommend the Board and the staff review management's current responsibilities (from other standards and standard setters) and incorporate such in the final Standard. I do observe the "Note" to paragraph 12 permits the auditor to allow management to make these communications however it appears to me there is not sufficient emphasis of this potentiality reflected into the details of paragraphs 12 and 13. It is also important to note that there is nothing to prohibit an audit committee from requesting the auditor's views on any of these subjects if they consider it important. I will use a few examples to illustrate the need for an overall reconsideration of the paragraph 12 and 13 requirements.

- Paragraph 12.a. ii requires communication as to how a company may adopt an issued but not yet effective new accounting standard. The need for these disclosures already exists and I recommend the final Standard parallel the related management requirements in SEC Staff Accounting Bulletin No. 74. Should management's disclosures be inadequate in a material way then it would be appropriate for an auditor to comment about such inadequacy in the context of the financial statements taken as a whole.
- Paragraph 12.b – with respect to critical accounting estimates, in general this section will be very difficult for an auditor to operationalize. While an accounting estimate may be important, it does not automatically follow that the estimate is problematic or without a reasonable basis. A more relevant communication would be a requirement for audit committee discussion of material changes in how critical estimates are determined and the underlying basis for such changes.
- Paragraph 12.b .iv – with respect to communicating the range of possible outcomes I believe this is properly the responsibility of management. Frequently it will be extremely difficult, if not impossible, for an auditor to adequately establish a range of possible outcomes independent from management involvement. To try to do otherwise places an auditor in the difficult position of assuming the auditor knows

more about a company's operations than does management. Assuming however that this requirement remains in the final Standard I recommend the definition of 'range' be clarified to mean the 'relevant range' so as to avoid the time and cost of preparing analyses of highly remote outcomes.

- Paragraph 13.a requires the auditor to communicate his or her evaluation of the quality and not just the acceptability of a company's selection of accounting policies, practices and disclosures. The draft requirement is too broad without a practical definition of 'quality'. For example, is 'quality' in the eyes of the auditor's personal or firm preferences or measured against existing practice? Alternatively is 'quality' measured against the stated financial reporting objectives included in FASB releases, etc?
- Paragraph 13.d requires the auditor to communicate potential bias in management's accounting estimates. As a practical matter 'potential' bias always exists and I suggest this requirement be narrowed to instances where there is reasonable evidence of actual bias in management's estimates.

As an overall comment on paragraphs 12 and 13 I find their collective construction and flow somewhat confusing and redundant and at a minimum the Board needs to re-consider the overall drafting of these paragraphs.

Corrected and Uncorrected Misstatements:

I concur with the ED's requirement for auditors to provide to audit committees a schedule of the quantitative, uncorrected errors found during the course of an audit and the basis for the auditor's conclusion that the uncorrected errors are immaterial (assuming that is the case). With respect to corrected errors found by the auditor, I recommend this requirement be limited to events that resulted in significant deficiencies or material weaknesses. Adjustments below these thresholds are, by definition, relatively minor and would not be a good use of audit committee time.

In response to Question 15 regarding communication of corrected misstatements found by management, I strongly disagree with this potential requirement. It will be difficult, if not often impossible, to differentiate between an "error" versus an adjustment that was identified by a sound system of internal accounting controls or even a routine closing adjustment in the normal course of business. Any required audit committee communications in this area should be limited to those management identified adjustments that also result in a significant deficiency or material weakness.

With respect to communicating to audit committees uncorrected misstatements for disclosure-only matters, I recommend that the final Standard permit the auditor to use professional judgment and limit required audit committee communications to unresolved disclosure matters which are significant, in the auditor's opinion, to an understanding of the financial statements. As you are aware, disclosure requirements are extensive and frequently management will make judgments as to which technically required

disclosures do not add meaningful incremental content to financial statements. Further, often the passage of time will result in previously important disclosures becoming irrelevant in the current period. Lastly, for readability purposes management may decide to include some technically required financial statement disclosures in other portions of filed documents such as the Management's Discussion and Analysis (MD&A) thereby effectively mooting any practical audit concerns. Financial statement disclosures and disclosures in other filed financial information are extensive and complex; I can envision situations where a large amount of technically required but otherwise low value disclosures will be made in order to avoid this proposed requirement. This will detract from the more important disclosures which is where users need to concentrate their time.

Form and Content of Communications:

The ED provides the auditor with the option of making required communications either orally or in writing. While there is an appeal to having this flexibility, I nonetheless believe that any mandatory communications should almost always be in writing. This has several advantages including documenting the work, the avoidance of any misunderstandings and a reference point for the future. There is nothing that precludes the auditor from orally providing details at an audit committee meeting. I believe that advance meeting materials are routinely prepared and distributed for board and board committee meetings at many companies. To be clear, I am not suggesting for the final Standard to require written materials to be distributed in advance; however in my experience having audit committee communications distributed in advance of the actual meeting is a significant enabler to an efficient meeting thereby providing time for a focused discussion of the substantive issues.

Consultations Outside of the Engagement Team by Management and by the Engagement Team

The ED requires the audit committee to be informed when management consults with other accountants on accounting or auditing matters. Paragraph 13.f of the ED requires an audit committee to be informed of significant accounting matters which the auditor has consulted outside of the engagement team.

It is appropriate for the audit committee to be informed of instances where management consulted with other accounting firms when the substance of the communication was a form of opinion shopping. This is the standard today and it should be retained in the final requirements. The ED refers to 'other accountants' and I recommend the Board clarify what is meant by such. I recommend 'other accountants' in this context needs to be limited to consultations with other auditing firms. For example, there are boutique accounting firms that specialize in only accounting research on a retainer or per diem basis and a company might find it cost effective to outsource technical research rather than retain in-house expertise. In response to Question 12, the proposed Standard should not be expanded to include consultations with non

accountants such as consulting or law firms. In my experience non accountants are often fully versed in the accounting related aspects of their professional practice – e.g. actuaries very well understand the FASB’s requirements for pension and retiree health plans and major law firms very well understand the FASB’s requirements for litigation contingencies. Other than with other auditing firms, management should be able to consult with any professional firms or other technical advisors deemed necessary without triggering a specific communication requirement with the audit committee.

With respect to the requirement for the engagement team to advise an audit committee of consultations outside of the engagement team, I recommend this requirement be limited to consultations of matters which are material and consequential to the audit and leave it to the judgment of the engagement team to determine which matters are of such significance that the client’s audit committee needs to be advised. Each firm has its own standards for when national office consultations are required – what might be an empowerment to the engagement team in one firm may be a required national office consultation at another firm. Many of these consultations may not even be for a particular problem on the engagement but the firm may have a desire to ensure consistent advice is being communicated to all of its clients on a particular subject and a required national office consultation was the chosen form of control. Further there will undoubtedly be instances where the ‘consultation’ was little more than a routine education of an engagement team on a technical matter that was not otherwise problematic. Accordingly I recommend the final standard afford the engagement team a degree of flexibility in determining which consultations it needs to bring to the attention of a client’s audit committee.

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Thank you for the opportunity to provide these comments for your consideration on this important project. Please do not hesitate to contact me if you have any questions or comments about the contents of this letter.

Yours very truly,



Gary R. Kabureck