November 21, 2003

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

Re: PCAOB Rulemaking Docket Matter No. 008:
Proposed Auditing Standard—An Audit of Internal Control
Over Financial Reporting

Dear Sir/Madam:

The Eastman Kodak Company ("Kodak" or the "Company") is pleased to comment on the Public Company Accounting Oversight Board's ("Board") proposed *Auditing Standard—An Audit of Internal Control Over Financial Reporting* ("Proposal").

Kodak is a global company engaged primarily in the developing, manufacturing and marketing of traditional and digital imaging products, services and solutions for consumers, professionals, healthcare providers, the entertainment industry and other commercial customers.

Kodak is committed to creating and maintaining a strong system of corporate governance. We believe that good corporate governance is based on a system of people, principles, processes and procedures. We also believe that an internal control structure over financial reporting is an important and fundamental cornerstone of that system.

While we support the Board's efforts to create a standard that would integrate the audit of financial statements with the audit of internal control over financial reporting, we disagree with many aspects of the Proposal in its current form. Certain of the requirements of the Proposal will create duplication of effort and inefficiencies in the operations of organizations. We believe that the Board has attempted to create requirements around internal control over financial reporting to obtain a level of assurance about the reliability of a company's financial statements for which the related costs of obtaining such level of assurance exceed the benefits.

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Questions regarding using the work of management and others:

We do not support the Proposal's three categories of controls and the limitations on the extent to which the external auditor may use the work of others for each of these categories. For example, the Proposal indicates that an auditor may not rely on the work of others with respect to testing of controls in the control environment, including controls around a company's information technology systems and controls specifically intended to prevent or detect fraud. These are two areas where an internal audit function would perform extensive testing and, therefore, the external auditor should leverage that work. We believe that the external auditor should be able to use its professional judgment to determine whether or not to rely on the work of the internal audit function of a company. As is the case with many public companies, Kodak's internal audit function is an important aspect of the control structure. It is comprised of competent, professional individuals who follow a strict set of policies and procedures while conducting its extensive work under an annual global plan, which is reviewed with and approved by senior management and the Company's audit committee.

To place the types of formal limitations on the extent to which the external auditor may use the work of others, including the internal audit function, will create significant duplication of effort, a significant increase in the cost of audit services and an unnecessary burden on various individuals throughout the organization, which in turn will create inefficiencies in the operations of organizations. The cost of achieving the level of assurance that a company's controls over financial reporting are working as designed by having the external auditor reperform (as a result of its inability to use the work of others) much of the same testing that the internal audit department performs, far exceeds the benefits. At a time when many foreign companies are not subject to the same rules as public registrants in the U.S., these inefficiencies and increased cost only serve to further restrict a company's ability to be competitive.

The reliance that the external auditor can place on the work of management and others, including internal audit, should be based on the external auditor's professional judgment and aligned with the reliance that the external auditor is currently able to place on internal audit to reduce the auditor's work in the performance of the annual audit of a company's financial statements.

Questions regarding obtaining an understanding of internal control over financial reporting:

We agree that the objectives to be achieved by performing walkthroughs, which are to understand how internal control over financial reporting is designed and whether the related controls are operating as they were designed, are sufficient to require the performance of walkthroughs. However, consistent with our response to the questions regarding using the work of management and others, we do not believe that the external auditor should be precluded from using the work performed by management and others, including internal audit, to satisfy the requirement to perform walkthroughs. As previously discussed, Kodak has a formal internal audit function that reports to senior management and the audit committee, which performs extensive work, including walkthroughs, within the Company's various businesses and functional areas to ensure that the Company's internal controls are operating as designed. Therefore, to preclude the external auditor from leveraging the work performed by the internal audit department would create significant duplication of effort, a significant increase in the cost of audit services and an unnecessary burden on various individuals throughout the organization, which in turn will create inefficiencies in the operations of organizations.

We believe the extent to which the external auditor uses the work of management and others, including internal audit, to perform walkthroughs, should be based on the auditor's professional judgment, taking into account the nature and documentation of the work performed by internal audit and the specific risks associated with a company's various significant processes.

Furthermore, we believe that requiring annual walkthroughs for all significant processes (defined as processes over each major class of transaction affecting significant accounts or groups of accounts) and location is excessive, especially in light of the proposal to preclude the external auditor from using the work of management and others, including internal audit. The requirement for external auditors to trace all types of transactions and events, both recurring and unusual, from origination until they are reflected in the company's financial reports for all significant processes each year, when much of this work has already been performed or could be incorporated into the scope of the work performed by internal audit, is unwarranted.

We believe that the external auditor should be able to apply professional judgment in determining which significant processes require annual walkthroughs and the extent to which it can leverage the work of management and others to achieve the objectives of such tests.

Questions regarding evaluating results:

We do support the Proposal's requirement that the external auditor evaluate the severity of all identified internal control deficiencies, and we do believe that the auditor should communicate all internal control deficiencies to management in writing, regardless of whether or not they have been deemed significant deficiencies or material weaknesses. The reason for this is that internal control deficiencies that are not currently deemed to be significant deficiencies or material weaknesses could evolve into a significant deficiency or material weakness as the related facts and circumstances change. However, we do not believe that the proposed definitions provide for increased consistency in the evaluation of deficiencies. Further, we strongly believe that the Proposal creates too low of a threshold for what constitutes a significant deficiency and material weakness.

The Proposal states, "A significant deficiency could be a single deficiency, or a combination of deficiencies, that results in more than a *remote likelihood* that a misstatement of the annual or interim financial statements that is *more than inconsequential in amount* will not be prevented or detected. [Emphasis added.] In our opinion, this definition will not drive consistency due to the fact that it still requires the use of professional judgment in its interpretation, based on the specific facts and circumstances. Additionally, we believe that the use of "remote likelihood" and "more than inconsequential" in the definition is confusing and will only serve to make the evaluation and designation of internal control deficiencies more difficult. Further, because the Proposal's definition of what constitutes a significant deficiency and material weakness establishes a threshold that is set too low, we believe that this will create an environment where audit committees will be presented with too much information that is not meaningful or substantive and, over time, may serve to make the audit committees insensitive to those deficiencies that are in fact significant or that should qualify as a material weakness.

We believe the definitions for significant deficiency and material weakness should be simplified using widely-understood terms. Additionally, we recommend that, if the Board continues with its proposed definition and concepts, that it considers the costs and operational impact to organizations, their external auditors and audit committees of setting too low of a threshold for internal control deficiencies to meet the criteria for a significant deficiency or material weakness. Even the Board acknowledges that internal controls should be designed and operated to provide reasonable assurance (high), but not absolute assurance, about the reliability of a company's financial reporting and its process for preparing and fairly presenting financial statements in accordance with accounting principles generally accepted in the U.S.

We do not support the provisions that require the external auditor to evaluate the effectiveness of the audit committee and, in fact, believe that that the provisions create a direct conflict with Section 301 of the Sarbanes-Oxley Act of 2002. Section 301 makes the audit committee directly responsible for the appointment, compensation, and oversight of the work of the external auditor, approving certain non-audit services, and resolving disagreements between the auditor and management regarding financial reporting. In our opinion, Section 301 requires the audit committee to assess the effectiveness of the external auditors. The Proposal requires that the external auditor evaluate the effectiveness of the audit committee, a group of individuals who are responsible for the oversight of the auditor's work. We question the operationality and effectiveness of this "circular" requirement and believe that it creates a conflict of interest and an independence issue for the auditor.

A committee appointed by the New York Stock Exchange (the "Committee") recently made a set of recommendations about improved corporate governance, stating with respect to the role of the audit committee:

> "...the [audit] committee stands at the crucial intersection of management, independent auditors, internal auditors, and the board of directors."

We support the Committee's description of the role of the audit committee. We are concerned that the Proposal's requirement for the auditor to assess the effectiveness of the audit committee could impact the audit committee's ability to perform its important role in improving corporate governance. Consequently, we recommend that the Board drop from its proposed standard any requirement that the auditor evaluate the effectiveness of the audit committee.

In summary, we do not support the Proposal in its current form. We believe that the requirements of the Proposal are overly burdensome and its implementation and ongoing compliance will introduce significant costs and inefficiencies to organizations. We believe that adoption of the Proposal has the potential to place U.S. public companies at a disadvantage with its foreign competitors who are not required to comply with such rules and regulations. We urge the Board to consider various provisions particularly in the area of the external auditor's use of the work performed by management and others, including internal audit. We believe that a substantial amount of savings can be achieved, in terms of both cost and operational efficiencies, if external auditors can use and rely upon the work performed by well-established internal audit functions, while also meeting the spirit and objectives of the Proposal. We further suggest that the Board work with professional organizations such as the American Institute of Public Accountants and the Financial Executive International (FEI) to understand the "true" cost of implementation of its Proposal. The Committee on Corporate Reporting of FEI estimates that audit fees likely will increase by 30-50% if the Proposal is adopted without change. That increase seems overly onerous for any company to have to bear, especially those trying to compete in a global environment.

We appreciate the opportunity to comment on the Proposal. If you have any questions regarding our comments or would like further information, please contact Gisele Dion, Director of Accounting Research, Policies, and Procedures at 585-724-6246.

Sincerely,

Robert H. Brust