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Loretta V. Cangialosi
Vice President and Controller

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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 Performed in Conjunction with an Audit of Financial Statements***

Ladies and Gentlemen:

Thank you for allowing Pfizer the opportunity to comment on the proposed professional standards as drafted by PCAOB to govern the independent auditor's attestation, and reporting on, management's assessment of the effectiveness of internal control.

Pfizer is a research-based global pharmaceutical company that discovers, develops, manufactures, and markets innovative medicines for humans and animals. Earlier this year, Pfizer completed its merger with Pharmacia Corporation, another global pharmaceutical company. After the acquisition, pro forma revenues of the combined company will approximate $45 billion and pro forma assets of the combined company will approximate $120 billion.

We fully support the PCAOB as they establish themselves in their private-sector role to oversee the auditors of public companies in order to protect the interests of investors and to further the public interest in the preparation of informative and independent audit reports. Further, we appreciated the opportunity to participate in PCAOB's July 29 'Roundtable' discussions regarding the proposed standard. In those discussions, we were heartened by the strong consensus among all constituents with regard to the following:

- The standards should be 'principle-based' vs. 'rule-based.
- There is no escaping that it still comes down to the auditor's application of judgement, i.e. 'one size fits all' was unanimously deemed to be inappropriate in the context of this standard. It is impossible to devise a complete set of rules covering all circumstances. Just as it does in the financial statement audit, it must come down to the auditor's judgment.

- There has to be a balance in the interpretation of the amount of external auditor work required to attest to management's assertion over the effectiveness of internal controls over financial reporting. There was solid agreement that the external auditor should not "principally" rely on the work of management/internal audit in completing their attestation. However, there was also clear agreement that the Internal Audit function was an important part of the internal control environment and could be relied upon to an appropriate extent if the external auditor was satisfied with their assessment of the objectivity and competence of that function.

We feel that the proposed standard deviates from that consensus in several areas. Below are those areas we feel the Board should review, and then recommit to the consensus.

The Intended Scope of the Attestation

From the outset, Section 404 (b) of the Sarbanes-Oxley Act specified that the external auditor "shall attest to, and report on, the assessment made by the management of the issuer." However, the proposed standard deviates from that requirement by suggesting that the external auditor must audit the entire internal control environment, thereby extending the intended requirement. This would require significantly more work by the external auditor with little incremental benefit over an attestation of management's assessment, the intended requirement. We do not believe the premise that such a robust undertaking actually achieves its intended result, higher comfort by the investor community. In fact, we feel this proposal may increase the auditor expectation gap relative to investors who are likely to deem this as a certification that there is no possibility of fraud. It will be almost impossible for external auditors to achieve the expected audit of the entire internal control environment.

We strongly believe that the Board should revert to the intended requirement of an attestation of management's assessment, protecting the credibility of that attestation. Companies need to be allowed to practice good governance and demonstrate a respect for compliance, rather than have guidance so complex it, compromises the credibility of the standard-setting process. If actual practice indicates a need for further guidance, it should then be considered.

Using the Work of Management and Others

The proposed standard offers specific guidance for auditor testing around 'significant transaction streams' and conducting 'walkthroughs'. And it specifically limits the auditor's use of work performed by management and internal audit in other key areas, e.g. controls over IT and reserve estimates. We feel the specificity of guidance in this area not only runs counter to the notion of the auditor using judgment in the execution of their duties, it begins to frame out a dangerous 'check the box' approach to attestation. It was agreed at the July Roundtable that "one size does NOT fit all", and we therefore continue to believe that such a mandated, uniform and specific approach which does not permit an auditor to use judgment is inappropriate.

The Internal Audit function has been identified in COSO and other mediums as a critical component of the internal control environment. The recently-approved NYSE listing requirements include an Internal Audit function. And, increasingly, Audit Committees are realizing an important asset in effective oversight is a competent, objective internal audit function with a good reporting relationship to them. By restricting the auditor's reliance on internal audit's efforts to routine transaction processing, the appeal of that function is dulled. That would contribute to a weakening of the function, clearly an unintended consequence to the Audit Committee. Again, the external auditor must be allowed to assess the competence, effectiveness and objectivity of the Internal Audit function and to exercise judgment in the conduct of their attestation program, including the extent to which they may rely on internal audit work.

Evaluation of the Effectiveness of the Audit Committee

The proposed standard provides that the auditor should evaluate the effectiveness of the Audit Committee's oversight of the company's external financial reporting and internal control over financial reporting as a part of its attestation. Given the Audit Committee's express obligation to retain, compensate and terminate the auditor, this evaluation requirement appears circumspect. Further, most Big 4 audit firms have a process by which the audit engagement partner and team are evaluated by Audit Committee members as a quality check. In this case, you have the Audit Committee evaluating the external auditor and deciding on the external auditor service and compensation and the external auditor evaluating the Audit Committee. This type of circular arrangement is the reason that Sarbanes Oxley saw fit to take the engagement of the external auditor away from management. Aside from the obvious conflict of interest, it's questionable whether auditors may have all the requisite skills to make such an evaluation. While external auditors have contact with many audit committees it does not mean that they have any in-depth knowledge or expertise in making a judgment on the effectiveness of the Audit Committee.

After taking so many positive steps in helping to re-establish auditor independence, we strongly urge you to delete such a specific evaluation of the Audit Committee by the auditor. We would suggest that Governance Committees of the Board of Directors already play an effective role in any evaluation of the Audit Committee. The Board is free to make those evaluations as they deem appropriate, including any direct contact with the auditor. Indeed, it may be appropriate to underscore the Board's obligations in that regard, rather than allow them to passively delegate their oversight role to the auditor.

Significant Transaction Stream Inclusion

The proposed approach focuses on significant transaction streams rather than focusing on the significant risk issues associated with financial failures. An audit approach that does not allow application of an auditor's judgment or take into account the relevant risk factors will not produce better or more reliable attestation reports for investors. For example, the current proposal would require auditors to 'walkthrough' the Payroll process as it is a significant transaction stream. However, in our industry, it is highly improbable that 'walkthroughs' and testing in this area would result in the detection of any kind of material weaknesses or misstatements.

We believe more significant risk events include:

- Wrong tone at the top
- Significant business model changes
- Rapid growth over a short period of time
- A change in the sales terms or changing revenue streams
- Compliance, regulatory or litigation issues
- Unusual or new accounting or structural transactions
- Reserves or accruals where significant judgment is required

Auditors must understand the overall control environment and the potential risk issues. To this end, we suggest a more principle-based approach that would allow auditors to exercise appropriate judgment in deciding which areas require ‘walkthroughs’ and related testing.

Control Documentation Guidance

The Standard focuses on using “textbook” methods to assess internal controls, including expectations for documentation of all controls. Given that global companies are dynamic in nature and ever changing, current and comprehensive documentation would present an excessive burden, which we believe exceeds the intentions of the legislation. In addition, today’s companies rely heavily on technology for controls focused both on prevention and detection, which are often embedded in the supporting information systems rather than documented on paper copy. Companies utilize significant analytical techniques today to understand their results and monitor the way in which financial results are being reported. For example, many companies have dashboards to show daily sales by product of store location. The internal controls methodology adopted in the final rules must consider these more “cutting edge” types of control activities. Again, we believe that permitting auditors to exercise more judgment would permit them to make the most appropriate tests in the circumstances.

In conclusion, we share the same goal as the PCAOB, maintaining and strengthening the integrity, quality and transparency of financial statements. However, we believe the proposal has introduced significant unintended consequences. We strongly recommend that the final rules reflect the good consensus obtained as part of PCAOB’s process of standard setting, i.e. the notion of principle-based, auditor judgement and ‘balance’.

We appreciate your consideration of these comments. We would be happy to discuss these matters further or to meet with you if it would be helpful.

Sincerely,

Loretta V. Cangialosi

Loretta V. Cangialosi
Vice President and Controller

cc:

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