November 21, 2003

Via Electronic Mail

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:

Wells Fargo & Company is a diversified financial services company with over $390 billion in assets providing banking, insurance, investments, mortgage and consumer finance. We appreciate the opportunity to comment on the proposed auditing standard ("Proposed Standard"), recently published by the Public Company Accounting Oversight Board (the "Board"), covering internal control over financial reporting implementing Section 404 of the Sarbanes-Oxley Act of 2002 (the "Act").

We support the Board's efforts to establish standards to carry out Section 404 of the Act but have outlined below strong reservations about aspects of the Proposed Standard.

Extent of Work to be Performed by Auditor is Excessive

We believe that the Board has unnecessarily gone beyond the statutory requirements of Section 404 of the Act by requiring the independent auditor to audit and report upon a company's internal control over financial reporting instead of attesting to management's assertion regarding the effectiveness of those controls. In light of the work that management must perform under Section 404 of the Act, the ongoing activities of the internal audit function and the work performed by the independent auditor during the course of the financial statement audit, the requirement to separately audit the controls in lieu of attesting on management's assertion is redundant.

Auditor's Professional Judgment is Overly Restricted

We believe the Board should permit independent auditors to rely upon the work of others, including the internal audit function, in fulfilling responsibilities under the Proposed Standard. SAS 65[1] provides an appropriate framework for auditors to use their professional judgment to determine when and to what extent they should rely on the internal audit function. The strength of the internal audit function, the overall control environment and management will vary from company to company and industry to industry and auditors should be able to adjust the extent of their testing accordingly. For example, as an insured depository institution and bank holding company, we are required by the Federal Deposit Insurance Corporation Improvement Act of 1991 to make an annual assertion regarding the effectiveness of our internal control structure and procedures on which our auditor opines. Consequently, we already use reliable and tested internal systems to monitor our control effectiveness. Prohibiting auditors from using their discretion to determine the level of reliance and extent of testing over these systems would subject us to significant additional cost yielding little or no improvement in the reliability of these controls.

In addition, we believe the requirement in paragraph 109 of the Proposed Standard that the auditor's own work serve as the principal evidence for its audit opinion should be removed from the Proposed Standard and the requirement to obtain sufficient competent evidence to support the opinion should be retained. The auditor should be able to obtain sufficient competent evidence to support its opinion, whether that evidence is derived principally from the auditor's own work or from reliance on others. Qualitative restrictions on the reliance an auditor can place on other's work is appropriate, but quantitative thresholds should not be imposed.

Remote Threshold is Not Workable

The Proposed Standard would preclude an auditor from giving an unqualified opinion if the auditor identified a "material weakness," defined as any significant deficiency that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. We believe this definition sets far too low a threshold for what constitutes a material weakness. The new SEC rules under Section 404 of the Act prohibit management from concluding in its annual internal control report that internal control over financial reporting is effective when one or more material weaknesses exist. In its adopting release for the rules covering Section 404 of the Act, the SEC defined material weakness by reference to current accounting literature, as a "reportable condition" in which the design or operation of one or more internal control components does not reduce the risk of misstatement to a relatively low level.[2] We urge the Board to take a similar approach, and to define material weakness as a significant deficiency that results in a "reportable condition" in which the design or operation of one or more internal control components does not reduce the risk of misstatement to a *relatively low level*. We do not think that the definition of material weakness will be workable unless the Board uses the same definition of material weakness used by the SEC.

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[1] Statement on Auditing Standards No. 65, *The Auditor's Consideration of the Internal Audit Functions in an Audit of Financial Statements.*

[2] See *Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports*, Release No. 34-47986 (June 5, 2003), 68 Fed. Reg. 36,636 (June 18, 2003), available at http://www.sec.gov/rules/final/33-8238.htm.

The proposed definition of "significant deficiency" raises similar problems. "Significant deficiency" would be defined as an internal control deficiency or a combination of such deficiencies that results in more than a remote likelihood that a financial misstatement of more than an inconsequential amount will not be prevented or detected. For the reasons described above, we think the concepts of "remote" and "more than an inconsequential amount" sets far too low a threshold and should be replaced with the SEC language of reducing to a "relatively low level" that a significant financial misstatement will not be prevented or detected. Furthermore, the use of different terms in reference to the same section of the Act will result in significant confusion in practical implementation.

Guidance Required for Audit Report Bring-down Procedures

We believe that it is vitally important that the Board clarify in paragraph 181 of the Proposed Standard the scope of the required bring-down procedures with regard to the filing of auditor consents (*e.g.,* relating to registration statements) because these consents can occur numerous times throughout the fiscal year and on relatively short notice. As currently drafted, the extent of the bring-down procedures required by the Proposed Standard may not be practical, particularly by large diversified organizations given the timing of these consents. As a practical alternative, we propose that the bring-down procedures be applied only to material adverse changes in controls.

Remove Prescriptive List of Strong Indicators of Material Weaknesses

Paragraph 126 of the Proposed Standard would mandate that auditors conclude any one of the various conditions noted as a significant deficiency and "a strong indicator" that a material weakness may exist. The list of strong indicators contained in paragraph 126 includes any material misstatement in a current period that was not initially identified by a company's internal control over financial reporting. Audit adjustments are often made to balances requiring a significant degree of judgment about factors that are not known or measurable and thus arise because of differences of opinion between management and the auditor, not because of a breakdown in internal control. This is particularly true for valuation of financial instruments and other assets for which no ready market exists, as well as for assessments about the collectibility of loans and about the probability and potential magnitude of contingent liabilities such as those arising from pending litigation. The Proposed Standard should permit auditors to use professional judgment in determining whether an audit adjustment is attributable to a material weakness in internal control over financial reporting and should not impose a presumption in this regard.

The Proposed Standard Should Provide Guidance Regarding Business Combinations Consummated Late in the Audit Cycle

Companies that combine by merger, acquisition or other transactions may have very different systems of internal control over financial reporting. In circumstances where these events occur late in the audit cycle, it may not be possible to evaluate internal control for the combined company without relying on the work of management and the auditor of the acquired company. Accordingly, we urge the Board to provide guidance to management and auditors of surviving companies of business combinations consummated late in an audit cycle, indicating the extent to

which they may rely on work performed by management and auditors of the constituent companies, including separate evaluations of the effectiveness of those companies' controls.

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We appreciate the opportunity to comment on proposed standards of the Board. If you have any questions, please contact me at (415) 222-3119.

Sincerely,

/s/ Richard D. Levy

Richard D. Levy
Senior Vice President, Controller