WELLS FARGO

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Via E-mail

Office of the Secretary,
Rulemaking Docket Matter No. 021
Public Company Accounting Oversight Board
1666K Street, N.W
Washington, D.C. 20006-2803

Re: Rulemaking Docket Matter No. 021 – Invitation to Comment on Proposed Auditing Standard – *An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements and Related Other Proposals ("Proposed Standard")*

Wells Fargo & Company (Wells Fargo) is a diversified financial services company with over $482 billion in assets providing banking, insurance, investments, mortgage and consumer finance services. As a public company, we appreciate the opportunity to comment on the issues being considered by the Public Company Accounting Oversight Board (the "Board") regarding the proposed standard on internal control over financial reporting.

Wells Fargo supports the Board's efforts to address the concern that the existing standard on internal control over financial reporting has been misinterpreted, resulting in excessive management and audit work at significant cost to public companies and investors as a whole. We appreciate this opportunity to provide you with our views on the Board's proposed changes.

- We believe that rotational testing is a natural result of a top-down, risk-based audit approach and would result in more effective audits at lower cost. Therefore, we disagree with the Board's complete prohibition of rotational testing.

- We believe the Board needs to provide additional guidance on the role company-level controls will play in the audit. Specifically, the Board has not gone far enough to encourage auditors and their clients to discuss and reach concurrence as to how company-wide controls will be leveraged to reduce process-level control testing.

- We believe the absence of guidance on what characteristics designate controls as "key" controls has led to a focus on *all* controls over financial reporting. A focus on key controls over financial reporting would increase the effectiveness of the audits and is consistent with the top-down, risk-based approach to audits of controls over financial reporting.

Rotational Testing

Auditing Standard No. 2 (AS No. 2) currently requires management to perform an annual standalone assessment of the internal controls over financial reporting, requiring management to re-perform tests of controls for significant processes regardless of the risk associated with the process or the results of testing in prior years.

The proposed standard omits language requiring the standalone audit and allows the external auditor, and presumably, the registrant's management, to take into account the results of prior year testing when determining the nature, timing and extent of procedures to be performed in the current year. However, it does not allow any form of rotational testing. Rotational testing, such as testing specific areas or process once every three years, provides companies with important strategic flexibility, and could be structured to annually verify a *subset* of all internal controls over financial reporting within the rotational cycle, or testing all controls in alternative years.

We believe that by not allowing rotational testing, the proposed standard limits the effectiveness of a risk-based audit approach and prevents companies from maximizing efficient application of Section 404's requirements. When well planned and executed, rotational testing is the natural culmination of a risk-based audit approach. It is not an effective use of resources to perform 100% testing of low or medium-risk processes whose controls have been validated without exception in prior years and which has not undergone significant change over the past twelve months. Additionally, we believe that even stable, mature, high risk processes could be subject to rotational testing under certain circumstances.

We recommend that the Board revisit the prohibition on rotational testing and suggest implementation of a risk-based rotational testing program. For example, a company could establish a risk continuum where at one end, high-risk, volatile processes are subjected to complete annual testing.. At the other end, low risk processes that have not experienced significant change and have historically been validated without exception would be subject to control testing on a three-year cycle. In those years when detailed testing is not scheduled to be performed, the company would heighten its testing of company-level controls linked to those low risk processes.

Identifying Company-Level Controls

The proposed standard places strong emphasis on a top-down approach to the audit, calling for the auditor to begin by identifying company-level controls that are linked to significant processes within the company. The auditor may be able to reduce testing at the process level by focusing on company-level controls linked directly to process level controls or are strong enough to detect or prevent material misstatements to relevant assertions.

We endorse the steps taken by the Board to focus the auditor's efforts on the most important controls in the company with the aim of making the reviews more effective and efficient.

However, we do not believe the current proposal goes far enough in requiring a formal process of evaluating how the existence (and subsequent testing) of company-wide controls directly impacts the reduction of process-level testing.

We recommend the Board adopt more concrete guidelines in this area, requiring that prior to audit commencement the auditor and management jointly discuss and reach general agreement upon the extent to which the existence of sound company-wide controls will be leveraged to modify the level of required process-level controls testing.

Key Controls

We recommend that the Board introduce the concept of “key” controls. A key control should be defined as a control whose absence or failure would significantly increase the reasonable possibility of a material misstatement in the financial statements. The key control concept should be closely tied to the top-down risk-based audit approach and provides the benefit of more effective testing by focusing on high-risk controls.

AS No. 2 discusses two types of controls; preventative controls which prevent errors or fraud from occurring in the first place and detective controls which detect errors or fraud which have already occurred. AS No. 2 discusses how it may be effective to use a combination of the two types of control to achieve a specific control objective.

In both AS No.2 and the proposed standard, we believe the Board gives the erroneous impression that all controls over financial reporting (preventative or detective) should be viewed as having the same importance. There are some controls over financial reporting that are so critical that their absence or failure to operate effectively would result in material misstatements in the financial statements of a company. For example, the absence of a reconciliation process in the preparation of a company’s financial statements could result in material misstatements going undetected. Conversely, there are other controls that if they failed would not have a significant impact on the accuracy of the financial statements.

Because the proposed standard does not effectively differentiate between “key” and “non-key” controls, companies and their auditors are focusing valuable resources testing controls which are not considered critical to reducing the risk of a material misstatement. Failing to differentiate between “key” and “non-key” controls is also at odds with a risk-based audit approach, which would dictate that companies and their auditors focus on areas of high-risk.

Conclusion

We recognize the importance of maintaining a rigorous, risk-based process for validating our internal controls over financial reporting. Additional Board direction and clarification in the above areas will assist our effort in this endeavor, as well as help us to direct our resources in the most efficient manner. We therefore encourage the Board to revisit its prohibition of rotational testing, especially for low and medium–risk, stable processes that have not undergone significant change in the past year. We urge the Board to clarify its guidance on company-level controls and introduce the concept of key controls. In closing, we believe these three changes, taken together would increase the effectiveness of the audits and result in a significant reduction in the burden to public companies.

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We appreciate the opportunity to comment on the issues contained in the Board's proposed standard on an audit of internal control over financial reporting that is integrated with an audit of financial statements and related other proposals. If you have any questions, please contact me at 415-222-3119.

Sincerely,

/s/ Richard D. Levy

Richard D. Levy
Senior Vice President & Controller