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Office of the Secretary
PCAOB
1666 K Street, NW
Washington, D.C. 200006-2803

Reference: PCAOB Rulemaking Docket Matter Number 021
Proposed Auditing Standard, An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements

Pfizer is a research-based, global pharmaceutical company with its principal place of business in New York. We discover, develop, manufacture and market leading prescription medicines for humans and animals. The Company's 2006 total revenues were $48.4 billion and its assets were $114.8 billion. We appreciate the opportunity to present our comments and observations in response to the Proposed Auditing Standard, as we firmly believe that strong internal controls over financial reporting are essential to the integrity of an entity's financial statements.

We applaud the Public Company Accounting Oversight Board (PCAOB) for being responsive to the feedback provided by issuers, auditors, investors and others. We all recognize the opportunities and challenges of ensuring that auditors have sufficient guidance to perform quality internal control audits in as efficient a manner as possible. This proposal strikes a reasonable balance, providing adequate latitude for auditors to use their judgment while providing clear guidance for auditors to consider risk and other relevant factors in designing their audit approach. Barriers to the implementation of a top-down, risk-based approach have included: the prevalence of required audit coverage ratios adopted by external audit firms, the limited impact of prior-year testing experience in determining the nature and extent of current-year testing, a focus on detailed transaction testing and we believe, an overly conservative approach currently mandated by the language of Auditing Standard No. 2 (AS2) to rollforward testing. In our view, the proposed guidance indicates that two common practices leading to inefficiencies are inconsistent with the top-down, risk-based approach: the use of coverage ratios; and the requirement that testing satisfy all financial statement assertions, not just the most relevant ones. We strongly support the emphasis provided to allow auditors to vary the evidence obtained regarding the effectiveness of internal controls based on the risk associated with the individual control and the guidance provided surrounding rollforward testing.

Pfizer has adopted a reliance model whereby our external auditors rely on the work of our internal auditors. Under this model, our internal auditors' work follows the requirements of AS2. Thus, for us to be as efficient as possible in our evaluation process, it is crucial that the SEC and PCAOB guidance align. Unfortunately, we believe the proposed auditing standard appears more stringent than guidance issued by the SEC. We have reviewed the SEC guidance and would be anticipating changes in our planned scope and testing approach for 2007, but our auditors have not shared our enthusiasm. One example of the perceived gap is in the significance of prior experience in designing a testing approach. We see the SEC

guidance as supporting the reduction of testing in areas where previous test results have been good, especially if controls have not changed. We are looking at an approach under which we would identify areas that have consistently performed well under SOX testing and, if there were no significant people, process or system changes, we would modify our testing approach to reflect the lower risk. That might entail reliance on walkthroughs or other less intensive procedures. However, we do not find support for this type of a change in the PCAOB proposed auditing standard. More importantly, the SEC guidance supports a top-down approach that should enable issuers to place reliance on strong entity-level controls to reduce process-level testing, but the PCAOB standard does not provide a clear basis for such reliance by auditors. We will most likely follow the new PCAOB guidance, if adopted, so as to not incur incremental costs by doing management's assessment one way and having the external auditors perform their assessment in another way.

We are concerned about the risk of a disconnect between the PCAOB stand-setters and the PCAOB inspectors and the consequences of any such disconnect on issuers. Our understanding was that a goal of the inspections was to drive consistency and identify overly conservative interpretations of the auditing standard. However, the 2005 inspection reports seemed to focus more on identifying gaps in the audit approach. In fact, during this year's audit cycle we found our auditors doing more transaction level testing in limited amounts in various low risk areas. When questioned as to why this was being done, we were advised that the PCAOB inspectors believed, in general, that audits did not have enough transaction testing to complement analytical reviews and controls testing done under SOX. I admit that this may have been an interpretation of what inspectors actually said, but it is important for the PCAOB to understand the potential unintended consequences of its inspectors' comments. We believe that it is critical that the PCAOB and its inspectors be aligned on the interpretation of the standards it sets.

External auditors are anticipating guidance from their national office and waiting to see what feedback is received as part of this comment process. We believe that it would be prudent for the PCAOB to monitor guidance delivered by the firms' national offices to ensure that they are adopting an approach consistent with the spirit and letter of the proposed standard rather than converting the guidance to a "one size fits all" approach.

Our comments related to specific questions posed in the proposed auditing standard are included in the attachment to this letter. We respectfully request that the proposed guidance be issued as soon as possible. We have completed much of our planning for 2007 and are just beginning our management testing. We would appreciate the opportunity to reflect the guidance in the proposed standard in our assessment approach early enough to allow us to achieve additional efficiencies this year. From a practical standpoint, it will be difficult for us to gain additional efficiencies in our 2007 management testing if the guidance is issued much later than June 30, 2007.

Once again, we appreciate this opportunity to comment and would be pleased to discuss our observations with you at any time.

Very truly yours,

Loretta V. Cangialosi

Loretta V. Cangialosi
Vice President and Controller

cc: Alan Levin
Senior Vice President and Chief Financial Officer

David Shedlarz
Vice Chairman

Attachment
Proposed Auditing Standard, An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements

1. Does the proposed standard clearly describe how to use a top-down approach to auditing internal control?

Yes, the proposed guidance provides a clear description of how to use the top-down approach. The proposed guidance indicates that two common practices leading to inefficiencies are inconsistent with the top-down, risk-based approach: the use of an arbitrary coverage ratio applied across the financial statements; and the requirement that testing satisfy all financial statement assertions, not just the most relevant ones.

2. Does the proposed standard place appropriate emphasis on the importance of identifying and testing controls designed to prevent or detect fraud?

Yes, we believe it does.

3. Will the top-down approach better focus the auditor's attention on the most important controls?

The top-down approach as described should focus the auditor's attention on the most important controls. However, we remain concerned that the proposed standard does not clearly provide a methodology to ensure that the benefits of strong company-level controls translate into efficiencies in the Section 404 effort. See our response to the next question.

4. Does the proposed standard adequately articulate the appropriate consideration of company-level controls and their effect on the auditor's work, including adequate description of when the testing of other controls can be reduced or eliminated?

The proposed standard does not clearly provide a methodology to ensure that the benefits of strong company-level controls translate into efficiencies in the Section 404 effort. It is clear that the most serious and well-known failures of controls that precipitated the introduction of Section 404 have occurred at the top, but we find that testing of controls at lower levels remains the major focus of the compliance effort. There is insufficient detailed guidance to enable companies with strong company-level controls to significantly reduce account and transactional control testing. While we understand that indirect controls may be less effective in preventing or detecting a misstatement, real world evidence supports the fact that without such controls, the risk of misstatement increases significantly. We struggle with the fact that the guidance does not seem to give credit to this fact in the amount of testwork necessary

The proposed standard should include specific examples of how strong company-level controls could reduce or eliminate further testing in certain areas. For example, how does a strong compliance mindset by senior management result in reduced testing in the procure-to-pay transaction cycle? This year we plan to pursue more thoroughly documenting our IT company-level controls as we feel we have the opportunity to modify our scope and testing approach to reflect the strength of these controls. However, the proposed standard provides little support for us to cite to our management or our externals auditors that the modifications we propose are appropriate.

5. Does the proposed standard appropriately incorporate risk assessment, including in the description of the relationship between the level of risk and the necessary evidence?

The proposed standard appropriately incorporates risk assessment. We strongly support the emphasis provided on allowing the auditor to vary the evidence obtained regarding the effectiveness of internal

controls based on the risk associated with the individual control. The SEC appeared to place a greater emphasis on focusing on controls that have changed. To align better with the SEC, it would be helpful if the risk assessment approach in the proposed standard placed greater emphasis on this as well. We believe the greater risk lies in controls that have changed.

6. Would the performance of a walkthrough be sufficient to test the design and operating effectiveness of some lower risk controls?

The performance of a walkthrough is clearly sufficient to test the design of controls**.** We would be conservative in identifying controls where a walkthrough would be sufficient to test for operating effectiveness. Company-level controls are well-suited to using a walkthrough to test both the design and operating effectiveness of a control. For low-risk process-level controls, if a walkthrough does not identify changes from the prior year and the controls have operated effectively in prior years, a walkthrough may be sufficient. We support providing the auditor the latitude to consider this option.

9. Will the proposed changes to the definitions reduce the amount of effort devoted to identifying and analyzing deficiencies that do not present a reasonable possibility of material misstatement to the financial statements?

We believe that the changes to the definitions are positive and will reduce the confusion over determining when something rises to the level of a significant deficiency. However, we do not think this will have much impact on the amount of effort expended in identifying and analyzing deficiencies.

10. Should the standard allow an auditor to conclude that no deficiency exists when one of the strong indicators is present? Will this change improve practice by allowing the use of greater judgment? Will this change lead to inconsistency in the evaluation of deficiencies?

Yes, an auditor should be allowed to use their judgment and conclude that no deficiency exists when one of the strong indicators is present. This approach provides the auditor an appropriate level of judgment and reflects the fact that standard-setters cannot anticipate the variety of circumstances an auditor may face in a large, complex organization. As the evaluation of each deficiency requires a good deal of judgment, inconsistency cannot be eliminated.

13. Will removing the requirement for an evaluation of management's process eliminate unnecessary audit work?

We believe the work eliminated will be minimal as our external auditors indicate they spent very little time in this area.

16. Does the proposed standard appropriately incorporate the value of cumulative knowledge?

We perceive a gap between the SEC and PCAOB guidance regarding the significance of prior experience in designing a testing approach. We see the SEC guidance as supporting the reduction of testing in areas where previous test results have been good, especially if controls have not changed. Some issuers will want to use a rotational testing approach or rely on walkthroughs in such cases, but we do not find support for this in the PCAOB proposed auditing standard. We note that the proposed standard does not clearly reject the practice that “each year must stand on its own”. Given past practice, we would like to

see positive confirmation that this is not required as this is an approach that auditors may be particularly hesitant to embrace. Specific examples may be helpful to clarify what is considered appropriate practice.

18. Will the proposed standard's approach for determining the scope of testing in a multi-location engagement result in more efficient multi-location audits?

The proposed standard's approach for determining the scope of testing in a multi-location engagement should result in more efficient multi-location audits by putting greater focus on risk assessment and emphasizing that auditors use judgment rather than shortcut approaches such as coverage ratios.

22. Is the principal evidence provision that was in AS No. 2 necessary to adequately address the auditor's responsibilities to obtain sufficient evidence?

In the spirit of auditor judgment, we do not believe the principal evidence provision that was in AS No. 2 is necessary to adequately address the auditor's responsibilities to obtain sufficient evidence.

25. What will be the practical effect of including, as a factor of objectivity, a company's policies addressing compensation arrangements for individuals performing the testing?

Including, as a factor of objectivity, a company's policies addressing compensation arrangements for individuals performing the testing seems unwarranted and will add complexity to the determination. The individuals performing testing are generally at a fairly low level in an organization. Thus, they not subject to unique compensation arrangements.

26. Will requiring a walkthrough only for all significant processes reduce the number and detail of the walkthroughs performed without impairing audit quality?

Requiring a walkthrough only for all significant processes should reduce the number and detail of the walkthroughs performed without impairing audit quality.

27. Is it appropriate for the auditor to use others as direct assistance in performing walkthroughs? Should the proposed standard allow the auditor to more broadly use the work of others in performing walkthroughs?

Pfizer has adopted a reliance model whereby our external auditors rely on the work of our internal auditors. This has been very effective in reducing our costs of compliance with no decline in the quality of the audit. Thus, we believe it is appropriate for the auditor to be allowed to use others as direct assistance in performing walkthroughs, consistent with their ability to rely on the testing of others within proper parameters.

34. How can the Board structure the effective date so as to best minimize disruption to on-going audits, but make the greater flexibility in the proposed standards available as early as possible? What factors should the Board consider in making this decision?

We respectfully request that the proposed standard be issued as soon as possible. We have completed much of our planning for 2007 and are just beginning our management testing. We would appreciate the opportunity to reflect the guidance in the proposed standard in our assessment approach early enough to allow us to achieve additional efficiencies this year. From a practical standpoint, it will be difficult for us to

gain additional efficiencies in our 2007 management testing if the guidance is issued much later than June 30, 2007.