Pfizer Inc.
235 East 42nd Street
New York, NY 10017-5755

Loretta V. Cangialosi
Vice President and Controller

May 1, 2006

Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Reference: File Number 4-511
Second-year experiences with the Implementation of Internal Control Reporting and Auditing Provisions

Dear Ms. Morris,

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 and many of the world's best-known consumer products. The Company's 2005 total revenues were $51.3 billion and its assets were $117.6 billion. We appreciate the opportunity to present our observations based on our second-year experiences of complying with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (Act), as we firmly believe that strong internal controls over financial reporting are essential to the integrity of an entity's financial statements.

Overall, we continue to support the Act as it was designed to enhance investor confidence in financial reporting and improve the protocols around corporate governance and auditor independence. We applaud the PCAOB for its issuance of guidance to reemphasize the importance of a risk-based approach and the need for judgment. In this second year of implementation of Section 404 of the Act, we identified improvements in our process to comply with the Act and our colleagues further enhanced their appreciation for the importance of maintaining a system of strong internal controls across the organization.

While the burden on our organization has lightened compared to Year 1, there still remains inefficiency in the overall process and the costs of compliance remain higher than expected. The requirement of two internal control opinions from the external auditors seems overly burdensome and warrants revisiting. While we do not advocate prescriptive rules which limit management's or its external auditor's ability to exercise professional judgment, we do recommend certain clarifications in guidance. Auditing Standard 2, *An Audit of Internal Control over Financial Reporting in Conjunction with an Audit of Financial Statements* (AS2), could particularly benefit from clarification in relation to: materiality; the evaluation of deficiencies; the risk-based approach; reliance on company level controls; and testing required in the rollforward period. We view these clarifications as lessening the financial burden and demand on resources while adhering to the "spirit" of the Act, without reducing the benefits being realized through compliance with the Act. Our comments are included in the attachment to this letter.

Once again, we appreciate this opportunity to comment on our second year experiences and encourage the Commission to continue to engage its constituents. We 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
Second-year experiences with the Implementation of Internal Control Reporting and Auditing Provisions

Comments:

We fully recognize that effective internal controls over financial reporting are essential to maintaining investor confidence in our capital markets and public trust in corporate accounting and reporting practices. In order to restore the loss of investor confidence resulting from the numerous corporate scandals, significant changes were needed. However, the burden on companies in terms of effort and costs has been far greater than what was originally anticipated by the SEC. Companies are spending a seemingly disproportionate amount of effort complying with the rules and regulations rather than developing innovative ways to run their operations and transform their businesses. Former Federal Reserve Chairman Alan Greenspan recently stated, "My impression is that there will be changes…[because of] the fairly significant concern domestically whether the amount of supervision, regulation and reporting is more than what was necessary to address the very real problems we confronted in 2002 as a consequence of the corporate scandals…" We agree with his views; further change can make this a better process.

While many of the changes between Year 1 and Year 2 have been extremely positive and have lessened the burden on public companies, further enhancements are needed. We appreciate and acknowledge that the SEC and PCOAB have been attentive and responsive to the concerns of both registrants and accounting firms. However, there is a need in some areas for greater clarity in guidance and in general there should be greater flexibility in the approach to SOX 404 compliance. Full realization of the benefits of a risk-based approach is hindered by existing guidance and interpretations. Changes such as those we propose would improve efficiency without sacrificing quality and bring greater focus to those areas with the greatest risk. In discussions with other companies, there is still a fair amount of inconsistency in interpretations of AS 2 among external auditors which causes confusion among registrants and could be remedied with additional guidance in select areas.

In Year 2, we further analyzed our methodology and enhanced our approach in order to achieve greater efficiencies in complying with the requirements of the Act. In this way, we were able to decrease our aggregate internal and external costs by over 40% from Year 1. Some of the more noteworthy enhancements include the following:

- **<u>Increased Reliance on the Work Performed by Management</u>**
  As permitted by AS2, we worked together with our external auditors to identify lower-risk areas where greater reliance could be placed on the testing performed by both our internal audit group and business process owners. This reliance model reduced some of the duplicative work performed in the prior year, contributed to a significant reduction in external audit attestation fees and eased some of the burden on our colleagues and business process owners. We continue to work with our auditors to rely on the work performed by management in additional areas. We also believe the PCAOB and SEC should continue to fully support and promote to external auditors expanded usage of this model in order to further realize efficiencies in terms of both dollars and time expended by all parties involved.

- **<u>Key Control Rationalization</u>**
  As additional guidance has been issued by various parties and we have become more comfortable with the determination of how to identify and define a *key* control, we have reduced the number of controls designated as *key* by approximately one-third. This reduction is largely the result of improvements to our model in which we determine which key controls, by design, mitigate identified risks more effectively and test them accordingly. We anticipate even further refinement of this model in Year 3 as we evaluate overlapping financial statement assertions during our determination of key controls for testing.

Attachment
Second-year experiences with the Implementation of Internal Control Reporting and Auditing Provisions

- **Information Technology (IT) Risk Assessment**
  In Year 1, we did not use a risk assessment model to drive the testing of the IT applications that support in-scope financial processes. As such, all IT applications were treated as high risk; therefore, our external auditors placed no reliance on the testing performed by management. In Year 2, we achieved significant efficiencies by developing a risk assessment model for the IT applications. This assessment was quite involved, encompassing approximately 100 in-scope applications rated across about a dozen risk criteria. The development of this model has enabled our external auditors to include an IT general controls review for all SOX-related applications, while enabling an increased testing focus on those applications rated as medium or high risk. This increased reliance on testing performed by management generated considerable efficiencies.

Based on our experiences, the following would ease the burden required to comply with the spirit of the Act, yet not lessen the benefits realized by compliance:

- **Reduce the Requirements of the SEC's Rule on Internal Controls over Financial Reporting**
  Section 404 of the Act requires each registered public accounting firm to "attest to, and report on, the assessment made by management of the issuer" (emphasis added). The Act itself does not require a standalone opinion on the effectiveness of internal controls. This requirement is the result of an SEC action. We believe this additional requirement has been a key driver in the increased cost of compliance. Compliance with the SEC rule requires a level of planning, testing and documenting by the external auditors that greatly exceeds the level required to evaluate management's assessment.

  If an external auditor disagrees with management's assessment, an adverse opinion on management's assessment would be expressed. The scarcity of such adverse opinions in the first two years of SOX 404 compliance suggests management assessments have been accurate and that a second opinion from the external auditor may be excessive and the incremental cost unjustified. As we begin the third year of compliance, we respectfully request that the necessity of two audit opinions be reexamined.

- **Clarify the Guidance Related to Materiality and Deficiency Evaluation**
  Deficiencies are required to be evaluated for significance, individually and in the aggregate. Significance is measured in terms of the potential impact on the financial statements. AS2 indicates that the assessment should consider both quantitative and qualitative factors, but does not distinguish between the assessment of deficiencies that affect the income statement and the assessment of deficiencies that only affect the balance sheet (reclassifications between account balances).

  The guidance should be revised to indicate that the quantitative thresholds used to evaluate deficiencies should be determined by the financial statement impacted by the deficiency.

  Furthermore, the methodology being used to determine materiality, as used to evaluate control deficiencies, is not being consistently applied in practice. In particular, additional guidance is needed for the measurement of "more than inconsequential". Although common approaches to this quantification problem are being broadly adopted, there is insufficient guidance to provide authority for such an approach. Without such guidance, issuers must essentially agree with external auditor judgments on materiality, which may be set arbitrarily low.

Attachment
Second-year experiences with the Implementation of Internal Control Reporting and Auditing Provisions

- **<u>Aggregation of Deficiencies</u>**
  Additional guidance would be advantageous in the area of the evaluation of deficiencies. While the direction provided by AS2 and the *Framework for Evaluating Control Exceptions and Deficiencies* is helpful for deficiency evaluation, several open issues remain. For example, how should deficiencies in information technology general controls be aggregated? Should the potential impact of unremediated deficiencies be aggregated with remediated deficiencies? Should aggregation by significant account include absolute values or is it appropriate to net the effects of offsetting deficiencies? We are requesting that additional guidance be provided for aggregation of deficiencies, including comprehensive examples.

- **<u>Risk-based Approach</u>**
  AS2 encourages a risk-based approach to the assessment of internal controls by allowing professional judgment to influence the nature, timing and extent of the procedures performed. In response to PCAOB guidance, our auditors moved to use more judgment guided by their expertise and knowledge of the company as they realized that one size does not fit all. Full realization of the benefits of this risk-based approach, however, is hindered by existing guidance and interpretations. In a truly risk-based approach, certain locations could be excluded from testing based on professional judgment, results obtained from prior year assessments, company level controls and other factors. This scenario is not viable under AS2 since the auditor each year must obtain sufficient evidence about whether the company's internal controls over financial reporting is operating effectively. Our auditor's interpretation of the requirement to obtain sufficient evidence in a multi-location environment includes obtaining at least 50% coverage of each significant account. In addition, each year the SOX 404 compliance audit must "stand on its own." Combined, these requirements cause auditors to repeatedly test qualitatively low-risk locations, processes and accounts that are quantitatively significant. Instead of investing resources to improve processes, issuers are forced to dedicate resources to assemble evidence that controls are still working for these low-risk areas.

  To further promote the risk-based approach, the concept of sufficient evidence should be clarified and the ability to place reliance on results obtained from prior years should be reconsidered. Revisions to these concepts will improve the efficiency of the testing while not exposing the process to significant risk.

- **<u>Rollforward Period</u>**
  Guidance around stub period testing continues to be extremely conservative and difficult to apply. Specifically, PCAOB FAQ #51 indicates that roll-forward procedures are required for any control tested prior to October (for a calendar year-end issuer). This requirement creates a significant burden for an organization, ignores the risk-based approach promulgated in AS2 and is very difficult to execute. We recommend using a risk assessment model that considers the changes in controls and time elapsed since the last testing date as well as the inherent risk of the related financial statement accounts, among other factors. Additional testing could then be limited to the areas with the greatest risk. Greater reliance on testing conducted before the fourth quarter of the year is certainly warranted under any approach that strives for an appropriate balance between risk and efficiency. In addition, this approach is consistent with the SEC's rule on internal control over financial reporting, which indicates a preference for testing controls over a period of time. The current rollforward guidance encourages companies to perform a disproportionate amount of testing in the fourth quarter to reduce the cumulative volume of testing.

Attachment
Second-year experiences with the Implementation of Internal Control Reporting and Auditing Provisions

- **<u>Self Assessments</u>**
  PCAOB FAQ #48 prohibits external auditor reliance on a self assessment prepared by the same person that is performing the control, under any circumstances. For external auditor reliance to be considered, one individual would perform the control while the second individual would test control execution. For low-risk areas, we propose that auditors be permitted to rely on self assessments prepared by the person who performs the control when the self assessment is monitored by an objective and competent body (e.g., internal audit) who performs periodic quality control testing. This model offers a testing approach that provides a proper balance of risk and efficiency.

- **<u>Emphasis on Company-Level Controls</u>**
  Company-level controls have a pervasive impact on controls at the application and transaction level. If properly tested and found to be effective, reliance on company-level controls can significantly improve the efficiency of the compliance process. In practice, however, we have found that reliance on company-level controls has not been consistent. These controls are being tested to complement the work performed at the process level rather than as the foundation for the audit. We advocate the introduction of more specific guidance in this area so that the benefits of the strong company-level controls will translate to greater efficiencies in our overall SOX 404 effort.

- **<u>Reports of Service Providers</u>**
  The current literature does not provide sufficient guidance on the testing requirements when a SAS No. 70 report is received with a qualified opinion. The guidance does not clearly define the issuer's and external auditor's testing responsibilities when a qualified opinion is received in a SAS No. 70 report and the service provider's deficiencies are subsequently remediated prior to the issuer's year-end. As SAS No. 70 reports are typically received in close proximity to year-end, this poses a particularly difficult problem for issuers, as it leaves little opportunity to respond to reported exceptions. If the service provider's external auditor does not update the SAS No. 70 report, we do not believe that the issuer should have the responsibility to test the remediation of the deficiency at the service provider. We believe that reasonable assurance can be achieved by obtaining a stub period representation letter from the service provider.