August 23, 2017

Mr. Brent J. Fields  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20529-1090

RE: SEC Release No. 34-81187, Public Company Accounting Oversight Board; Notice of Filing of Proposed Rules on The Auditor’s Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion, and Departures from Unqualified Opinions and Other Reporting Circumstances, and Related Amendments to Auditing Standards

Dear Mr. Fields:

On behalf of the more than 190,000 global members of The Institute of Internal Auditors (IIA), one-third of whom reside in the United States, we are pleased to comment on SEC Release No. 34-81187. The IIA feels it is well suited to provide input on these proposed rules as the internal audit profession’s most widely recognized advocate, educator, and provider of standards, guidance, and certifications.

We applaud the efforts of the SEC and PCAOB to enhance the auditor’s reporting model, which would provide more substantive and comprehensive information for investors and other stakeholders.

In today’s dynamic and volatile business environment, transparency is crucial. That is why The IIA called on the SEC several years ago to require all publicly traded companies to have an internal audit function. The New York Stock Exchange did just that more than a decade ago, requiring its listed companies to have an internal audit function in place upon or within the first year of listing, depending on the circumstances. Additionally, a number of Asian exchanges, including those in Hong Kong and Malaysia, now require internal audit functions for their listed companies.
We also believe it is important that the requirement should mandate an “independent” auditing structure in which the chief audit executive reports directly to the independent directors of the reporting company.

We recognize that such a requirement by the SEC might face challenges in gaining support in the current atmosphere of deregulation. As a result, we believe a viable alternative would be to adopt a position similar to that taken by the Australian Stock Exchange. The ASX Corporate Governance Principles and Recommendations state that, if a listed entity does not have an internal audit function, it must explain the reason for this. Additionally, it should explain how risk management and internal control processes are managed, evaluated and continually improved in the absence of an internal audit function.

While the presence of an independent internal audit function does not guarantee success for a company, the absence of one suggests that the organization’s leadership may not see the value in ensuring strong, effective risk management, internal control, and governance. We believe this is a self-imposed risk about which potential investors should be made aware.

We appreciate the opportunity to comment on SEC Release No. 34-81187. Please do not hesitate to contact Kathy Anderson, The IIA’s Managing Director of North American Advocacy, if you have any questions regarding our recommendations or would like to schedule a time for us to meet either in person or via conference call. Ms. Anderson can be reached at kathy.anderson@theiia.org or +1-407-937-1291.

Sincerely,

Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA
President & Chief Executive Officer

cc:  Jay Clayton, Chairman
     Michael S. Piwowar, Commissioner
     Kara M. Stein, Commissioner
     Wesley R. Bricker, Chief Accountant
     Marc A. Panucci, Deputy Chief Accountant