March 28, 2013

Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090
Attn: Secretary, Elizabeth M. Murphy

Responded via email to rule-comments@sec.gov

RE: NASDAQ Notice of Filing of Proposed Rule Change to Require That Listed Companies Have an Internal Audit Function – File Number SR-NASDAQ-2013-032

Dear Ms. Murphy,

The Institute of Internal Auditors (IIA) appreciates the opportunity to respond to NASDAQ’s and SEC’s Notice of Filing of Proposed Rule Change to Require That Listed Companies Have an Internal Audit Function. As a globally recognized authority of the internal auditing profession, The IIA represents more than 180,000 members, one-third of which reside in the United States.

The IIA believes that a properly structured internal audit function can provide independent, objective assurance and advisory activities that add value and improve an organization’s operations. An adequately staffed and resourced internal audit function helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

The proposed rule change will help provide management and its audit committee on-going assessments of risk management processes and the system of internal control, and provide assurance related to the company’s governance activities. Our principle comments regarding the proposed rule change are:

1. The IIA fully supports the proposal that NASDAQ listed companies have an internal audit function.

2. The IIA recommends that the NASDAQ proposed rule change require internal audit functions to follow globally recognized professional standards.

   For example, the Board of Governors of the US Federal Reserve System (January 23, 2013) in its supplemental policy statement on the internal audit function and its outsourcing stated, “The Federal Reserve is providing this supplemental guidance to enhance regulated institutions’ internal audit practices and to encourage them to adopt professional audit standards and other authoritative guidance, including those issued by The IIA.”

3. The IIA fully supports the proposed requirement for the audit committee to meet periodically with the internal auditors. Best practices suggest that the audit committee
periodically (no less than annually) hold a private executive session with the chief internal audit executive without management present to foster open and candid communications between the internal auditors and the audit committee.

4. Consistent with the NYSE requirement, The IIA believes it is appropriate for the audit committee to discuss the responsibilities, budget and staffing of the internal audit function with the outside auditors to determine the extent of reliance on the work of internal auditors. The IIA’s perspective is that the audit committee should serve as the approval body following a discussion with management and the internal auditors as to the appropriateness of responsibilities, and the sufficiency of budget and staffing of the internal audit function. Such responsibilities would typically be outlined in the audit committee charter.

The IIA welcomes the opportunity to work with the SEC and NASDAQ to support any activities that enhance a listed company’s internal auditing, governance, risk management and control functions. We offer The IIA’s resources to help companies meet the requirements of the proposed Rule.

Best regards,

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

About The Institute of Internal Auditors
The IIA is the global voice, acknowledged leader, principal educator, and recognized authority of the internal audit profession and maintains the International Standards for the Professional Practice of Internal Auditing (Standards). These principles-based standards are recognized globally and are available in 29 languages. The IIA represents more than 180,000 members across the globe and has 109 affiliates in 190 countries that serve members at the local level.