

February 3, 2023

Public Company Accounting Oversight Board
Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

RE: IIA Comments Regarding PCAOB Rulemaking Docket Matter No. 028

Dear Chair Williams and PCAOB Members DesParte, Ho, Stein, and Thompson:

On behalf of The Institute of Internal Auditors (The IIA), the international professional association representing approximately 230,000 internal auditors, I appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) proposed auditing standard, "[The Auditor's Use of Confirmation, and Other Proposed Amendments to PCAOB Standards.](#)"

Although the recommended policy change minimally impacts the provision of internal audit services, it represents a significant departure from the regulatory status quo regarding the relationship between internal and external auditors.

The IIA is concerned about and objects to this proposed change in PCAOB standards which is presented without any explanation or evidence for the need for such a change. In addition, we are deeply concerned by the PCAOB's characterization of internal auditors – both in the release and in comments made by PCAOB staff to the press – which imply that internal auditors are untrustworthy or incapable of exhibiting due care in the performance of their duties.

More specifically, Section III(I) of the PCAOB proposal states:

*Involving internal auditors or other company employees in these activities [confirmation process] would create a risk that information exchanged between the auditor and the confirming party is **intercepted and altered**, (emphasis added).¹*

Upon publication of the proposed auditing standard, PCAOB officials indicated in a *Wall Street Journal* article, "The goal is to make sure that internal auditors don't manipulate the confirmation requests before they go out or the responses after they come back."²

These false and inflammatory assertions mischaracterize the internal audit profession and are completely unwarranted. The proposal fails to cite any examples, recent or historic, where internal auditors have failed external auditors in the confirmation process. My conversations with IIA members and other external stakeholders in the audit community have similarly yielded no evidence of internal audit failures that may have prompted the PCAOB's drastic proposed change. If there have been problems, we would like to work with you to find ways to resolve them in the most effective way.

¹ "The Auditor's Use of Confirmation, and Other Proposed Amendments to PCAOB Standards," The Public Company Accounting Oversight Board, December 20, 2022: https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/rulemaking/docket_028/2022-009-confirmation.pdf?sfvrsn=d3d14ede_2

² "PCAOB Proposes Tighter Requirements for Audit Firms Verifying Outside Information About Clients," *The Wall Street Journal*, December 20, 2022: <https://www.wsj.com/articles/pcaob-proposes-tighter-requirements-for-audit-firms-verifying-outside-information-about-clients-11671561236>

Internal auditors pride themselves on their commitment to providing objective assurance, **independent from management**, in accordance with the globally recognized International Standards for the Professional Practice of Internal Auditing (*Standards*) and the requirements of The IIA's Code of Ethics.

Adherence to the mandatory principles-based IIA *Standards* promotes a sound ethical culture and establishes the basis for relying upon the work and judgment of internal audit professionals. The *Standards*, coupled with the Code of Ethics, creates a process for evaluating the performance and efficacy of internal audit services.

It is also important to note that internal auditors and external auditors possess the **same independent reporting relationship** to an organization's audit committee. Both internal auditors and external auditors also have an **obligation to exercise due care** in the handling of all information.

Prior to this new proposal, as you are aware, the PCAOB's standard for evaluating internal auditors has been Accounting Standard 2605 (AS 2605) entitled, "[Consideration of the Internal Audit Function](https://pcaobus.org/oversight/standards/auditing-standards/details/as-2605-consideration-of-the-internal-audit-function_1528)." In that standard, the PCAOB specifically acknowledges that "**internal auditors maintain objectivity** with respect to the activity being audited," (emphasis added).³

AS 2605 also unequivocally grants external auditors the authority to utilize an internal audit function, as needed, to provide direct assistance during an audit. This longstanding partnership is governed by the requirements set forth in AS 2605.27 which states:

*When direct assistance is provided, the auditor should assess the **internal auditors' competence and objectivity** (see paragraphs .09 through .11) and supervise, evaluate, and test the work performed by internal auditors to the extent appropriate in the circumstances, (emphasis added).*⁴

The PCAOB's new proposal, in a radical departure from AS 2605, seemingly implies no assessment of competence and objectivity can possibly permit internal auditors to assist external auditors in certain facets of the confirmation process. According to this new standard, internal auditors are, *prima facie*, not to be considered trustworthy.

The incongruity between the PCAOB's positions in AS 2605 and the present proposal (which the PCAOB acknowledges is a substantive deviation but does not provide a policy rationale for the change) creates regulatory mixed messages:

- The PCAOB affirms in AS 2605 that "internal auditors maintain objectivity" and may provide "direct assistance;" however, the current proposal prohibits the direct assistance of internal auditors in the confirmation process and suggests internal auditors are not objective.
- AS 2605 requires external auditors to assess the "internal auditors' competence and objectivity" prior to accepting direct assistance; however, the current proposal unilaterally dismisses the objectivity of internal audit without an evaluation required under AS 2605.27.

These assertions jeopardize longstanding collaborations between external audit firms and internal auditors. While the scope of responsibilities for each profession is different, internal and external auditors must work in harmony to ensure that governance, risk and control processes are in place and

³ "AS 2605: Consideration of the Internal Audit Function," The Public Company Accounting Oversight Board: https://pcaobus.org/oversight/standards/auditing-standards/details/as-2605-consideration-of-the-internal-audit-function_1528

⁴ "AS 2605: Consideration of the Internal Audit Function," The Public Company Accounting Oversight Board: https://pcaobus.org/oversight/standards/auditing-standards/details/as-2605-consideration-of-the-internal-audit-function_1528

adequately working. Disparagement of either audit function – particularly from a government regulatory agency – undermines this partnership and risks engendering public mistrust in the auditing profession.

The prohibition on support by the internal audit function also stands in sharp contrast to the permissibility of other intermediaries in the confirmation process. The new proposal provides specific guidance on how external auditors can successfully work with intermediaries.

Indeed, paragraph .24 of “Maintaining Control over the Confirmation Process” states:

The auditor or the confirming party can engage another party as an intermediary to facilitate direct electronic transmission of confirmation requests and responses between the auditor and the confirming party. When using an intermediary for this purpose, the auditor should evaluate the implications on the reliability of confirmation requests and responses as discussed in Appendix B.

The section also affirms in paragraph .22:

The auditor should maintain control over the confirmation process to minimize the likelihood that information exchanged between the auditor and the confirming party is intercepted or altered.

The new proposal seems to imply that external auditors are capable of assessing the reliability and associated risks of using other intermediaries, but they lack the ability to make an informed choice about engaging independent internal auditors for assistance. According to the PCAOB’s language, internal auditors are presumptively never to be trusted. Such a position is offensive to the long-standing history of collaboration and cooperation between external auditors and internal audit functions and unnecessarily casts suspicion on the integrity of all internal auditors.

While internal auditors are not often involved in the confirmation process, they should be treated without prejudice and external auditors should be trusted to evaluate the objectivity, competence, and independence of the internal audit function from management.

Therefore, I respectfully ask that you maintain AS 2605 as the standard for evaluating internal auditors’ involvement in the confirmation process.

The IIA recommends that the proposed language contained in the section “Using Internal Audit in the Confirmation Process,” be modified and replaced with the following:

Using Internal Audit in the Confirmation Process

.32 The auditor may ~~use~~ engage internal auditors to provide direct assistance to the auditor in the confirmation process in accordance with AS 2605, *Consideration of the Internal Audit Function*, ~~except that an internal auditor should not (i) select the items to be confirmed, (ii) send confirmation requests, or (iii) receive confirmation responses. In reviewing AS 2605, the auditor should focus particularly on evaluating the internal auditors’ competence, objectivity, and independence from management (reporting directly to the audit committee or board of directors).~~

Any assistance by internal auditors, including acting as an intermediary, does not reduce or absolve the auditor of any accountability or due diligence requirements in ensuring the integrity, thoroughness, accuracy, and custody safeguards of the confirmation process.

This language does not implicitly impugn the integrity of internal auditors and maintains the current standard allowing external auditors to evaluate the appropriateness of engaging an internal audit function in the confirmation process. Moreover, the suggested language underscores that engaging internal auditors does not change the requirements of due care that are the ultimate responsibility of external auditors.

In further updating this proposal with our new language, I would note that the new addition to .27 "Using Internal Auditors to Provide Direct Assistance to the Auditor" (as discussed on Page A2-4) is also no longer necessary.

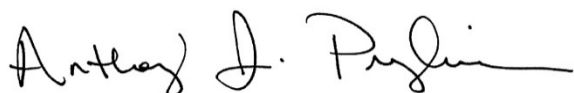
Using Internal Auditors to Provide Direct Assistance to the Auditor

.27 In performing the audit, the auditor may, ~~unless prohibited by PCAOB standards,~~ request direct assistance from the internal auditors. This direct assistance relates to work the auditor specifically requests the internal auditors to perform to complete some aspect of the auditor's work. For example, internal auditors may assist the auditor in obtaining an understanding of internal control or in performing tests of controls or substantive tests, consistent with the guidance about the auditor's responsibility in paragraphs .18 through .22. When direct assistance is provided, the auditor should assess the internal auditors' competence and objectivity (see paragraphs .09 through .11) and supervise, review, evaluate, and test the work performed by internal auditors to the extent appropriate in the circumstances. The auditor should inform the internal auditors of their responsibilities, the objectives of the procedures they are to perform, and matters that may affect the nature, timing, and extent of audit procedures, such as possible accounting and auditing issues. The auditor should also inform the internal auditors that all significant accounting and auditing issues identified during the audit should be brought to the auditor's attention.

I thank you for your consideration of The IIA's views. It is important to The IIA and the entire internal audit profession that we have a constructive, collaborative, and open dialogue with the PCAOB and all external auditors to ensure that we are partnering and aligning whenever possible. This important relationship benefits investors, corporations, auditors, and the public interest. I look forward to continuing to work with you on this proposal and other issues before the PCAOB.

Should you or your staff have any questions regarding our recommendations or if you would like to discuss this matter in greater detail, please have your staff contact Mat Young, IIA Vice President for Global Advocacy, Policy, and Government Affairs at Mat.Young@TheIIA.org.

Respectfully,



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President and Chief Executive Officer
The Institute of Internal Auditors