The Institute of Internal Auditors
Elevating Impact

August 7, 2026

Mr. Demetrios (Jim) Logothetis
Chairman
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

RE: IIA Comments in Response to the Request for Public Comment on PCAOB Standard Setting, PCAOB Release No. 2026-005

Dear Chairman Logothetis and Members of the Board:

On behalf of The Institute of Internal Auditors (The IIA), the international professional and standard-setting organization with more than 265,000 members worldwide, including over 75,000 in North America, I am pleased to submit these comments in response to the Public Company Accounting Oversight Board's (PCAOB or the Board) Request for Public Comment on PCAOB Standard Setting, PCAOB Release No. 2026-005 (the Standard Setting RFC).[1]

The IIA commends the Board for continuing the transparent, sequenced stakeholder engagement process that it began with the March 31, 2026 Request for Public Comment on PCAOB Strategic Priorities (the Strategic Priorities RFC).[2] The IIA submitted a comment letter in response to the Strategic Priorities RFC on May 15, 2026 (the May 15 Letter) and incorporates that letter by reference here.[3] Consistent with the Board's guidance that commenters need not restate views previously provided,[4] these comments supplement the positions set forth in the May 15 Letter.

The IIA's comments address Questions 1, 2, and 4 (standard-setting and research priorities); Questions 8 and 10 (artificial intelligence); Questions 12 and 13 (a conceptual framework for PCAOB standard setting); and Questions 17 and 18 (alignment with international auditing standards).

About The Institute of Internal Auditors

The IIA is an international professional and standard-setting organization headquartered in Lake Mary, Florida, and is recognized globally as the internal audit profession's leader in standards, certification, education, research, and technical guidance. The execution of internal auditing worldwide is guided by The IIA's International Professional Practices Framework® (IPPF®), which establishes mandatory requirements for independence, objectivity, competence, and quality

[1] Request for Public Comment on PCAOB Standard Setting, PCAOB Release No. 2026-005 (June 23, 2026), *available at* https://pcaobus.org/oversight/standards/standard-setting-research-projects [hereinafter Standard Setting RFC].

[2] Request for Public Comment, PCAOB Strategic Priorities, PCAOB No. 2026-001 (Mar. 31, 2026), *available at* https://pcaobus.org/about/strategic-plan-budget.

[3] Letter from Anthony J. Pugliese, President & Chief Executive Officer, Inst. of Internal Auditors, to Chairman Demetrios (Jim) Logothetis & Members of the Bd., Pub. Co. Accounting Oversight Bd., Re: IIA Comments in Response to PCAOB Request for Public Comment on Strategic Priorities, PCAOB No. 2026-001 (May 15, 2026), *available at* https://assets.pcaobus.org/pcaob-dev/docs/default-source/about/administration/strategic-plan-comments-2026/39_iia.pdf [hereinafter May 15 Letter].

[4] Standard Setting RFC at 10 ("Commenters whose letters in response to the Strategic Priorities RFC already address items discussed in these questions need not repeat their responses.").

assurance. The IIA also confers the Certified Internal Auditor® (CIA®) designation, the only globally recognized professional certification for internal auditors, of which more than 218,000 have been earned worldwide.[5]

A defining feature of a properly structured internal audit function is its independence from management: internal auditors functionally report to the organization's governing body, typically the board of directors or its audit committee. That structural independence, together with the quality assurance and improvement program that the IPPF® requires every internal audit function to maintain, positions internal audit as a distinct and essential participant in the assurance ecosystem that supports reliable public company financial reporting.

I. Standard-Setting and Research Priorities (Questions 1, 2, and 4)

The Standard Setting RFC notes that the use of internal auditors was among the topics that the Board did not identify as potential focus areas, and that some commenters encouraged the Board to prioritize modernization of the remaining interim standards. The IIA respectfully urges the Board to identify the use of internal auditors as a potential focus area and undertake modernization of the remaining interim standards. In particular, the Board should prioritize Auditing Standard 2605, Consideration of the Internal Audit Function (AS 2605). Three considerations support that prioritization.

First, AS 2605 occupies a unique position among the interim standards listed in Appendix 1 of the Standard Setting RFC. It is the only interim standard whose operative criteria are defined by reference to an external professional discipline whose governing framework has been comprehensively replaced since the Board adopted the interim standards in 2003. The Global Internal Audit Standards™, the mandatory core of the IPPF®, were issued on January 9, 2024, took effect on January 9, 2025, and represent a complete modernization of the profession's requirements for independence, objectivity, competence, and quality assurance. AS 2605 nonetheless continues to direct external auditors to evaluate internal audit competence and objectivity against generalized criteria that predate this modernization. Whereas other interim standards address audit procedures whose subject matter has evolved incrementally, the professional referent of AS 2605 has been superseded outright. Modernization of AS 2605 is therefore not merely desirable; it is necessary to keep the standard tethered to the profession it addresses.

Second, the Board possesses a ready benchmark. The International Auditing and Assurance Standards Board (IAASB) revised its analogous standard, International Standard on Auditing 610, Using the Work of Internal Auditors, in 2013.[6] A project to modernize AS 2605 could accordingly leverage the IAASB's completed work, consistent with the Board's stated interest in considering the standards of other standard setters,[7] thereby reducing standard-setting cost and shortening the time to adoption.

Third, modernizing AS 2605 is efficiency-enhancing rather than burden-adding. Updated, objective reliance criteria would reduce duplication of assurance work, increase the predictability of reliance determinations across engagements and inspections, and lower issuer compliance costs without

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[5] Inst. of Internal Auditors, Certified Internal Auditor (CIA) (2026) (reporting 218,589+ CIA designations as of Mar. 31, 2026).

[6] Int'l Auditing & Assurance Standards Bd., International Standard on Auditing 610 (Revised 2013), Using the Work of Internal Auditors.

[7] *See* Standard Setting RFC at 13–15 (discussing consideration of the standards of other standard setters and areas of potential alignment with international auditing standards).

diminishing investor protection. The IIA emphasizes that reliance is not delegation: the external auditor's responsibility to report on the financial statements rests solely with the auditor and cannot be shared with the internal audit function, and nothing in the modernization The IIA proposes would alter that allocation of responsibility or diminish the sufficiency of the evidence the external auditor must obtain. As The IIA detailed in its March 2026 policy report, Modernizing the Sarbanes-Oxley Act, internal audit functions devote substantial resources to compliance with Sections 302 and 404 of the Sarbanes-Oxley Act of 2002; a 2025 study released by KPMG found that most surveyed respondents allocated over 60 percent of total internal audit hours to SOX compliance.[8] Standards that establish clear, consistent criteria for evaluating internal audit work convert that existing investment into audit efficiency.

In response to Question 4, and consistent with the recommendations in the May 15 Letter and The IIA's published analysis of AS 2605, a modernized AS 2605 should: (1) require that the competence and objectivity of an internal audit function be evaluated against conformance with the Global Internal Audit Standards, replacing the current subjective criteria with an objective, profession-based benchmark; (2) recognize an external quality assessment conducted in conformity with Standard 8.4 of the Global Internal Audit Standards as a basis on which the external auditor may evaluate the function; (3) update the objectivity criteria to reflect the chief audit executive's direct functional reporting relationship to the board of directors or its audit committee; and (4) identify relevant professional certifications, including the Certified Internal Auditor® designation, among the indicia of internal auditor competence.

Finally, with respect to Questions 1 and 2, The IIA supports the Board's identification of fraud as a potential focus area and recommends that any project to revise AS 2401, Consideration of Fraud in a Financial Statement Audit, or AS 2405, Illegal Acts by Clients, account for the role of internal audit in organizational fraud risk management. Internal audit functions perform continuous, risk-based monitoring of the control environment and are frequently among the first to detect intentional acts that could result in material misstatement. ISA 240 (Revised), which the Board has indicated it may leverage, situates the external auditor's fraud responsibilities within the broader system of organizational controls, and research published in 2026 by the Internal Audit Foundation and AuditBoard (now Optro) underscores the urgency of coordinated action: while internal audit leaders widely recognize AI-enabled fraud as a growing organizational risk, only four in ten believe their functions are adequately prepared to detect or respond to it.[9] Given the interrelationship among AS 2401, AS 2405, and AS 2605, The IIA recommends that the Board consider modernization of AS 2605 in conjunction with any fraud-related standard setting.

II. Artificial Intelligence (Questions 8 and 10)

The IIA's views on the intersection of artificial intelligence and the assurance ecosystem, including its recommendation that the Board engage with The IIA as it develops AI-related standards and guidance, are set forth in the May 15 Letter and incorporated by reference.[10] The IIA offers three supplemental observations.

First, in response to Question 8, The IIA supports addressing the AI-related matters identified by commenters through the Board's existing Data and Technology research project in the first instance, with standard setting to follow where research demonstrates that existing standards or

[8] Inst. of Internal Auditors, Modernizing the Sarbanes-Oxley Act 11 (Mar. 2026) (quoting a 2025 KPMG study).
[9] Internal Audit Found. & AuditBoard, Internal Audit and AI-Enabled Fraud (Feb. 17, 2026) (survey of 373 North American internal audit leaders).
[10] May 15 Letter at 4–5.

guidance are insufficient. Whichever vehicle the Board selects, the treatment of AI-assisted audit work should be consistent across the assurance ecosystem: the criteria governing supervision, documentation, and evaluation of AI-assisted work performed by the external auditor should not diverge from the criteria applied when the external auditor uses or relies upon comparable technology-assisted work performed by internal auditors.

Second, in response to Question 10, AS 2605 itself illustrates a current standard that is not fit for purpose in an AI environment. The standard's criteria for evaluating internal audit work predate the profession's adoption of data analytics, continuous monitoring, and AI-enabled tools, and the standard supplies no framework for evaluating internal audit evidence generated with technological assistance. Modernizing AS 2605 would resolve this deficiency at the same time that it addresses the broader obsolescence described in Section I above.

Third, the internal audit profession has developed a substantial body of practice on AI risk, AI governance, and the appropriate use of AI in assurance contexts, including The IIA's Artificial Intelligence Auditing Framework. The IIA recommends that the Board draw upon this work, and upon the profession's operational experience deploying and auditing AI-enabled tools, as the Data and Technology research project proceeds.

III. A Conceptual Framework for PCAOB Standard Setting (Questions 12 and 13)

The IIA supports the development and adoption of a conceptual framework for PCAOB standard setting. The IIA offers this view from institutional experience: as a global standard setter, The IIA developed the Global Internal Audit Standards through a multi-year process that included extensive worldwide public comment, and it has found that a structured, principles-based framework promotes transparency, consistency across projects, disciplined prioritization, and continuity through changes in governing-body composition. Each of those benefits would serve the Board's statutory mandate to protect investors and further the public interest in the preparation of informative, accurate, and independent audit reports.

With respect to Question 13, The IIA supports the qualitative characteristics identified in the Standard Setting RFC, namely clarity, operability, scalability, and inspectability,[11] and recommends that the framework incorporate two additional characteristics. The first is ecosystem coherence: standards should recognize the respective and complementary roles of participants in the financial reporting and assurance ecosystem, including internal audit, and should not require duplication of assurance activities already performed under recognized professional frameworks. The second is currency: the framework should require periodic reassessment of any standard whose operative criteria incorporate or depend upon an external professional framework, so that the standard is reexamined when its external referent materially changes. Had such a mechanism existed, AS 2605 would have been reassessed upon the adoption of the Global Internal Audit Standards rather than remaining substantially in its 2003 form.

IV. Alignment with International Auditing Standards (Questions 17 and 18)

In response to Question 17, The IIA supports prioritizing alignment with IAASB standards, given the Board's observation that the audit methodologies of many of the largest registered firms are

[11]Standard Setting RFC at 12 (identifying clarity, operability, scalability, and inspectability as examples of core qualitative characteristics of effective standards).

based substantially on IAASB requirements.[12] Among individual standards, the pairing of AS 2605 and ISA 610 should rank among the highest priorities for alignment. ISA 610 was revised in 2013; AS 2605 remains substantially in the form adopted in 2003. The resulting divergence produces inconsistent reliance practices within global network firms that audit under both frameworks, a divergence that serves no investor-protection purpose.

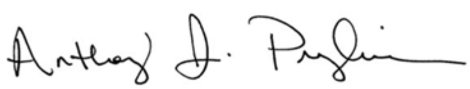
In response to Question 18, alignment should be considered both prospectively and retrospectively. A purely prospective approach would leave in place precisely those standards where divergence is greatest and longest-standing. AS 2605 is the paradigm case for retrospective examination: the analogous international standard was modernized more than a decade ago, and the professional framework underlying both standards was comprehensively updated effective January 9, 2025. The IIA also encourages the Board, in examining alignment, to consider how the IAASB framework addresses internal audit functions that operate in conformity with The IIA's professional standards.

Conclusion

The IIA is committed to an open, collaborative, and productive relationship with the PCAOB and stands ready to provide additional information, engage in dialogue, or participate in any advisory or research processes the Board may establish, including the Data and Technology research project. For additional information or to discuss The IIA's comments further, please contact Ramón A. Correa, Director for U.S. Advocacy, at Ramon.Correa@TheIIA.org.

Thank you for your consideration of our comments and for your continued commitment to transparent, evidence-based standard setting in service of investors and the capital markets.

Respectfully,



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[12]Standard Setting RFC at 14 (observing that certain aspects of the audit methodologies of some registered firms, particularly some of the largest firms belonging to global networks, are based substantially on the requirements of IAASB standards).