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## PCAOB Member Emphasizes Role of Internal Audit in Protecting Investors

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In remarks at the Institute of Internal Auditors [2015 General Audit Management Conference](#) held on March 9th, PCAOB Member Jeanette M. Franzel emphasized protecting investors through coordination of internal auditors, external auditors, and audit committees. Among other comments, Ms. Franzel noted concerns from audit committee members "around the increasing levels of stress in the system," and observed that "internal auditors are uniquely positioned to make significant contributions to audit committees as [audit committees] face the challenges of the current business environment and its related risks." She added, "The opportunity is enormous, given internal audit's responsibilities across a company for performing risk assessments, developing risk-based audit plans that cover a full range of operational and financial risks, conducting those audits, and performing work to support the external audit."

Ms. Franzel discussed the PCAOB's inspection findings regarding the external auditor's use of the work of internal audit. She said that the PCAOB's inspection results in this area "are relatively positive." Nonetheless, while internal-audit related deficiencies are not as frequent as other types of audit deficiencies, "the issue is serious when the external auditors' use of internal audit work does not meet PCAOB standards and results in insufficient evidence to support the external audit opinion." She said that "[s]uch scenarios may indicate a lack of effective coordination and should be of great concern to an audit committee." Ms. Franzel also expressed concern about anecdotal reports that external auditors were decreasing their reliance on internal audit in an attempt to avoid an adverse PCAOB finding in this area.

Separately, Ms. Franzel reported on the PCAOB's current views regarding external auditors' audits of internal control over financial reporting (ICFR). Ms. Franzel had expressed concerns at the Institute's 2014 conference that a "perfect storm" was brewing in this area as management implements the new 2013 COSO internal control framework and external auditors responded to PCAOB findings of a high level of deficiencies in ICFR audits. (See [this previous post](#).) Ms. Franzel stated that preliminary results of 2014 inspections "indicate that some improvements have been seen in the area of auditing internal control." However, she observed that "more strides still need to be made by audit firms here, as auditing internal control is still the most frequent area of inspection findings."

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