



Statement of
The Institute of Internal Auditors
House Committee on Financial Services
Subcommittee on Capital Markets and Government Sponsored Enterprises
“The 10th Anniversary of the Sarbanes-Oxley Act”

Chairman Garrett, Ranking Member Waters and members of the Subcommittee:

The Institute of Internal Auditors (The IIA) is pleased to submit this written statement for the record in connection with this important hearing.

The IIA is the internal audit profession’s global voice, acknowledged leader, chief advocate, and principal educator. As the profession’s recognized authority, The IIA has actively supported its members in their role of assisting organizations implement and execute the requirements of the Sarbanes-Oxley Act (Sarbanes-Oxley). We appreciate the chance to provide Congress with our perspective on the importance of strong corporate governance, risk management and internal controls as enhanced by Sarbanes-Oxley as it relates to financial reporting.

Established in 1941, The IIA is the sole recognized world leader in certification, education, research, standards and guidance for the internal audit profession. The IIA’s more than 175,000 global members (of which over 63,000 are in the United States) work across a wide range of disciplines, including internal auditing, risk management, governance, internal control, information technology audit, education, and security. The IIA is dedicated to supporting quality, professional, and ethical practices across all industry sectors as well as public enterprises, providing internal audit practitioners, executive management, boards of directors, and audit committees with guidance designed to enhance governance, risk management and control. We are engaged with many government, professional and standard setting bodies around the world as they all pursue enhancing organizational governance, risk management, and control activities.

The Sarbanes-Oxley Act was designed, among other things, to improve corporate governance and restore investor confidence in the wake of notable scandals such as Enron and WorldCom. The legislation included a number of reforms intended to, for example, improve the reliability of corporate financial reporting. Sarbanes-Oxley helped achieve this by establishing oversight of public company audits, requiring certification of financial statements by the chief executive officer (CEO) and chief financial officer (CFO), and requiring greater independence from audit committees and auditors. As we approach the tenth anniversary of this landmark legislation, The IIA believes such legislative reforms, while never perfect, have brought key financial reporting matters to the



forefront of corporate consciousness and have resulted in meaningful improvement in the disciplines associated with the integrity of reported financial data and related operating results. Internal audit plays a significant role in overall corporate governance. The IIA believes the four cornerstones of effective corporate governance are the Board of Directors (supported by a well qualified audit committee), executive management, internal audit, and external auditor. When these governance cornerstones work effectively, internal controls are enhanced, reporting has greater integrity, ethics are stressed, oversight is improved, risks are more effectively identified and mitigated, and, most importantly, investor confidence can be restored and maintained.

Since Sarbanes-Oxley was enacted, these cornerstones have been improved, as companies have become more transparent and vigilant in managing and mitigating the risk of inaccurate or fraudulent financial reporting. In so doing, many companies have significantly enhanced their understanding of key risks and controls surrounding the financial reporting process. The IIA agrees that effectively mitigating risk and having appropriately robust control processes around financial reporting is paramount and should be a major priority for board and audit committee members as well as executive management.

Good organizational governance is simply good business. Sarbanes-Oxley, while not perfect, has created a foundation for the future of corporate governance and internal controls in support of financial integrity and reporting. There are many who can and will, appropriately, debate the benefits and burdens resulting from the Sarbanes-Oxley legislation. Many will also say that you can never legislate ethics, with such legislation only making already ethical people work harder. However, in the end, the responsibilities and accountabilities placed on Corporate America as a result of Sarbanes-Oxley, on the whole, have made a positive impact. We applaud this subcommittee's activities to assess the impacts of Sarbanes-Oxley at its one decade anniversary. Like any piece of significant legislation, there likely remain opportunities to better focus some aspects of the legislation and related regulations, clarify its intent, and reduce the associated costs. We would be honored to be an active participant in future conversations and debates as this topic progresses.

Today, more than ever, internal auditing is critical to strong corporate governance. As noted by Carlo di Florio, Director of the Securities and Exchange Commission Office of Compliance Inspections and Examinations, the financial crisis should serve as a reminder of the fundamental need for stronger ethics, risk management, and regulatory compliance practices to prevail. The IIA believes every organization, regardless of size, benefits from a fully resourced and professionally competent internal audit staff that provides value-added services critical to efficient and effective organizational management.

Internal auditors are well versed in risk management and control and are capable of helping companies address complex business challenges. Performed by professionals with an in-depth understanding of the business culture, systems and processes, internal audit assists their organizations by independently identifying and examining risks and controls supporting the accuracy of financial reporting. In particular, internal auditors can be instrumental in reporting risks



threatening the achievement of strategic and operational objectives, as well as helping identify potential fraud involving management or others. When optimized, internal audit can fulfill its most fundamental role – that of supporting management’s and boards of directors’ ethical pursuit of achieving organizational objectives.

The IIA stands ready to assist Congress and the regulators raise the standards of business conduct and impress on organizations the need to follow sound corporate governance practices, all in the pursuit of cost-effectively enhancing long-term investor confidence.