

AGENDA

Audit Committees Increase Oversight of Internal Auditors

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Audit committees are taking a more hands-on approach to their oversight of internal auditors. Audit committee members report taking a closer look at who the internal auditors are and how they are supported internally and externally, determining their agenda for the year and reviewing their assessment of risk.

Sarbanes-Oxley gives the audit committee authority over the company's external auditor, and, in the past couple of years, it has become best practice for audit committees to assume similar responsibility for their companies' internal auditors.

There are a few factors giving audit directors more time to spend on other duties, such as working more closely with internal auditors.

Recently, the number of audit committee meetings, although still high, appears to be leveling off and SOX-related work has eased up a bit for directors. In fact, the prevalence of Fortune 500 companies holding 10 or more audit committee meetings per year decreased from 47.4% in 2005 to 43% in 2006, according to **Equilar**.

Also, there have been "increased efficiencies, a positive learning curve and technical systems and software rollouts" when it comes to firms' tackling 404, according to a recent **Financial Executives International** survey.

All of this gives audit committee members more time to focus on their relationship with internal auditors.

"There has been a dramatic change in the role of the internal auditor," **Richard Roedel**, audit committee member with **Brightpoint** and **Dade Behring Holdings**, said at the recent annual meeting of the **Association of Audit Committee Members**.

"We can't be effective audit committee members, or chairs of audit committees, without effective internal audit," he added. "Internal audit helps the audit committee fulfill its fiduciary duties."

Meanwhile, audit committees are realizing that the oversight of internal auditors is so important that some committees are bringing in additional help.

"We hired another of the Big Four [accounting firms] for another set of eyes and ears," said **Fred Schwab**, audit committee member at **Boyd Gaming**, at the meeting. "We ask them questions we can't ask the internal auditors."

Harvey Pitt, former chairman of the **SEC**, speaking at the same meeting, urged audit

directors to maintain their focus on what's important at the company.

"Being an audit committee member is not about attending a set number of meetings," he said. "It's about significant time spent with key employees in key areas of the company."

The active oversight role raises an important question for audit directors: Can they manage the internal auditors remotely?

"It's a complex issue of interpersonal relations because we're not seeing [the internal auditors] every day," said **Allen Freedman**, audit committee member at **StoneMor Partners**.

Roedel disagreed: "You don't have to see them to manage them. We're active in setting the internal audit agenda and we spend a fair amount of time on our oversight responsibility."