



Grant Thornton

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March 29, 2013

U.S. Securities and Exchange Commission  
Attention: Elizabeth M. Murphy, Secretary  
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Via Email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

Re: File Number SR-NASDAQ-2013-032

Dear Commissioners and Staff:

Grant Thornton LLP appreciates the opportunity to comment on the U.S. Securities and Exchange Commission's ("SEC") *Notice of Filing of Proposed Rule Change to Require that Listed Companies Have an Internal Audit Function* issued by the NASDAQ Stock Market LLC ("Nasdaq"). We respectfully submit our comments and recommendations to further clarify and strengthen the proposed Nasdaq rule change.

We believe that the periodic evaluation and testing of controls by an internal audit function whose activities are overseen by an audit committee can enhance a company's monitoring and risk assessment processes and its system of internal control over time. Accordingly, we support the proposed Nasdaq rule change that requires listed companies to establish and maintain an internal audit function, and we encourage the SEC to promote the establishment of similar requirements with other exchanges.

With respect to the proposed Nasdaq rule change, we suggest more clearly defining the internal audit function by including concepts such as being *independent and objective* and using a *systematic, disciplined approach*. We believe that, consistent with historical and more recent professional standards, an internal audit function should essentially be an independent, objective activity that brings a systematic, disciplined approach in evaluating and improving a company's risk assessment process and system of internal control. We also believe that, because the audit committee is responsible for overseeing the financial reporting process, the internal audit function should report directly to the audit committee. As stipulated in the SEC's release, "...the audit committee has sole responsibility to oversee the internal audit function and cannot allocate or delegate this responsibility to another board committee." In this regard, the rule should be clarified to indicate the respective oversight and reporting responsibilities.

We also suggest that the rule be modified to address the internal audit function's responsibilities to adhere to a set of standards or principles that provide a framework for performing internal

audit activities, such as the *International Standards for the Professional Practice of Internal Auditing*. Such standards and principles would provide some guidelines related to the purpose, responsibility, size, complexity, and structure of the internal audit function and its communication and reporting responsibilities as well as certain other matters, such as the internal audit function's independence, objectivity, and proficiency.

Additionally, the proposed Nasdaq rule change includes a requirement for the audit committee to discuss with the external auditor the responsibilities, budget, and staffing of the internal audit function. Although we generally agree that such communications should take place, we believe that the rule should be clarified to indicate that these communications are made in conjunction with the audit and would include the related activities performed or to be performed by the internal audit function. The ultimate objective of these communications would be for the audit committee to provide information to the auditor that is relevant to the auditor's risk assessments and related audit procedures.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Karin A. French, National Managing Partner of Professional Standards, at (312) 602-9160 or at [Karin.French@us.gt.com](mailto:Karin.French@us.gt.com).

Sincerely,

