

February 14, 2023

Public Company Accounting Oversight Board  
Office of the Secretary  
1666 K Street, NW  
Washington, DC 20006-2803

**RE: PCAOB Rulemaking Docket Matter No. 028 and Internal Auditing**

Dear PCAOB & Board Members Vanich, Andriynko, Busedu, and Hardison:

I am writing in response to the open comment period for Docket 028: Proposed Auditing Standard Related to Confirmation and Related Amendments to PCAOB Standards. I represent the Internal Auditing group at MDU Resources Group, Inc., providing essential products and services through our regulated energy delivery and construction materials and services businesses. We are the largest publicly traded company headquartered in North Dakota and conduct business in nearly every state in the United States.

The purpose of my letter is to voice our concern on the language used in the above-referenced proposed auditing standard. Specifically, Section III. – I. of Proposed Rule filing 2022-009 states: “Involving internal auditors or other company employees in these activities would create a risk that information exchanged between the auditor and the confirming party is intercepted and altered.” While this language is used in reference to the Confirmation Process, the precedence it is setting would be detrimental to our Internal Auditing (IA) function and the profession as a whole. This language is incorrect and indicates internal audit is the same as “other company employees” when in fact, IA functions independently from management and prides themselves on providing an objective perspective to our company. Our Internal Auditing department reports directly to our Audit Committee, no different than our external auditors.

Additionally, in a Wall Street Journal article on the proposed changes published December 20, 2022, PCAOB officials are referenced as stating that the “goal is to make sure that internal auditors don’t manipulate the confirmation requests before they go out or the responses after they come back.” This statement sends the overarching message that internal auditors are inherently untrustworthy. Our Internal Audit department is anything but untrustworthy. Our company and Board of Directors looks to our IA team to be the independent and objective voice in our corporation.

Internal Audit is an important, vital function of our company that generates value by bringing a defined, systematic approach to assessing and improving how effective our risk management, control and governance processes are. IA provides an independent and objective perspective, separate from management. The value of IA is not always overtly evident or quantifiable however, as one of our board members once said, “we will never know all the land mines we would have stepped on without Internal Auditing.” Our IA team also allows the corporation to spend dollars in ways that provides value to our shareholders, by performing high quality work that our external auditors rely on. By saving on external audit fees, our company can use this money in other ways to move our business forward and to give back to our stockholders. If the message remains ‘as-is’ in the proposed auditing standard, this casts an unwarranted negative light on the IA profession and IA function that brings value to our company.

Today, as it has been in the past, our Internal Audit team and external auditors work closely in coordination to ensure appropriate coverage in audit engagements and avoid duplication of efforts. This proposed change would alter the collaborative relationship that has historically existed between internal and external audit. It seems that if the language remains unchanged from the proposal, the next question would be, "If external audit can't rely on IA for Confirms, why should they rely on IA for anything?" This proposed change could damage the perception of the Internal Audit profession and be an unfair characterization. Our Internal Audit team is required to adhere to mandatory professional standards, and a code of ethics and takes pride in doing so.

Currently the existing PCAOB Account Standard 2605 (AS2605 - "Consideration of the Internal Audit Function") acknowledges "internal auditors maintain objectivity with respect to the activity being audited." Why now, in the case of the Confirmation Process, would internal auditors not be able to maintain objectivity to be relied upon by external audit? To our knowledge, there have been no specific examples of IA failure with regards to confirms, which would have warranted the proposed change. Additionally, AS2605 allows external auditors to assess the objectivity and competence of internal auditors and then decide whether or not to rely on a specific internal audit function. Within AS2605.11 it states that external auditors may "also use professional internal auditing standards as criteria in making the assessment" of an internal auditors' competence and objectivity. These are the same professional internal auditing standards that our Internal Audit function complies with.

Due to the points made in this letter, I respectfully encourage the PCAOB to remove this damaging language from Proposed Rule filing 2022-009 with regards to the characterization of Internal Auditing, while still expecting external auditors to assess the objectivity and competence of internal auditors. Doing this would not take ultimate responsibility off external auditors with regards to the Confirmation Process.

If you would like to discuss this matter further, please reach out to me at 701-530-1037, or Dawn.Belohlavek@MDUResources.com.

Thank you for your consideration,



Dawn Belohlavek  
Chief Audit Executive & Director of Internal Auditing  
MDU Resources Group, Inc.