

Statement of Michael J. Head
Managing Director of Corporate Audit, TD AMERITRADE Holding Corporation
Before the PCAOB Investor Advisory Group
May 4, 2010
Washington, D.C

My name is Michael J. Head, Managing Director of Corporate Audit, and I am the Chief Audit Executive of TD AMERITRADE. I am also a board member of The Institute of Internal Auditors (The IIA), an international professional association serving the needs of internal auditors around the world.

As an internal audit professional and long-time investor advocate, I am pleased with the PCAOB's very timely decision to focus on investor protection. I would like to begin my comments today by explaining how TD AMERITRADE and internal auditing enhance investor protection, as well as the quality of internal controls and related financial reporting, two essential components of the PCAOB's mission. Next I will give my thoughts on the strategic direction of the Investor Advisory Group and topics to consider for future deliberation.

Regarding my first point...investor protection: How does TD AMERITRADE and internal audit enhance investor protection?

Here at TD AMERITRADE, we strive to be the better investment firm for today's investor. For more than 35 years we have been in the business of serving retail investors – either directly or through our network of independent registered investment advisor clients.

TD AMERITRADE provides a variety of products, tools, and services that, every day, help retail investors pursue their financial goals. Active trader, long-term investor, independent registered investment advisor, or something in between – we have an objective, straightforward solution for the retail investor. TD AMERITRADE has a multi-channel business model that allows the client to decide how he/she wants to be served. Our products, tools, and services are driven by the needs of the client.

Each and every day, internal auditors provide assurance to management, the board, regulators, and others... including shareholders and investors... that risk management and control processes are in place and working effectively. In many organizations, as well as at TD AMERITRADE, internal auditors are considered *the* risk identification and control experts, often championing strong risk management practices throughout their organization.

Because we are inside the organization and perform internal audits throughout the enterprise, we have far-reaching knowledge of the organization's culture, operations, and risks. Additionally, internal auditors bridge the gap between management and the board, and often serve as the organization's safety net for compliance with rules, regulations, and overall best business practices.

Like many of you, internal auditors are concerned with the prevention of fraud in any form, including financial statement fraud and investment fraud. As a result, internal auditors are natural proponents of investors who rely on the organization's governance, integrity, and control processes to protect their investments.

Regarding my second point...the quality of internal controls and financial reporting: How does internal audit enhance the quality of internal controls and financial reporting and audit quality?

Internal and external auditors share mutual interests regarding the effectiveness of internal controls and financial reporting. At TD AMERITRADE, the internal and external auditors work closely together, sharing risk assessments and audit plans, and jointly planning the annual audit of financial statements.

Our external auditors rely on the work of Internal Audit because of the quality of the work performed, the professionalism and competency of the internal audit staff, independence and objectivity of Internal Audit, and our unwavering commitment to following the *International Standards for the Professional Practice of Internal Auditing (The Standards)*. Because the external auditors rely on the work of Internal Audit, the financial reporting audit process is more efficient and effective, yielding a higher quality of financial reporting results. Management also relies on the work of Internal Audit to help ensure operational and compliance processes are efficient and effective. As a result, internal auditors positively impact operational efficiency and effectiveness, compliance with laws and regulations, and accuracy and quality of financial reporting.

Now I would like to provide my thoughts on the direction of the Investor Advisory Group and topics to consider in future deliberations. Which regulations or standards should be changed, enhanced, or developed to enhance investor protection and the quality of financial reporting?

Regarding the standards the PCAOB sets:

1. Mention *the International Standards for the Professional Practice of Internal Auditing (the Standards)* directly in your guidance.

When Internal Audit follows *The Standards*, the interests of all parties...the board, management, the external auditors, the shareholders, and the investors... are better protected and served. Additionally, the external auditors can place greater reliance on the work of internal auditors who follow *The Standards*. When there is no way of tying Internal Audit's performance back to *The Standards*, internal audit quality suffers and the external auditors' ability to rely on Internal Audit's work could be diminished. AS2 mentioned *The Standards*. AS5 did not. Specific recognition of *The Standards* in PCAOB guidance is necessary to ensure consistency in internal audit quality within an organization and from company to company.

2. *Write a new standard to replace or enhance the existing SAS 65 standard that is in place: The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements.* SAS 65 is over 20 years old and needs to be revised to clarify the roles and responsibilities of Internal Audit, as well as the modern practice of internal auditing. One motivation to do so is that IFAC is currently revising ISA 610: *Using the Work of Internal Auditors*. The IIA is currently assisting IFAC in revision of 610 and would be happy to help the PCAOB develop a new standard for relying on the work of Internal Audit.

What other ways can the PCAOB influence investor protection?

1. Many organizations, including my own, do business with privately-held, non-publicly traded investment firms and broker/dealers. Under the scope of SOX, if a business activity or transaction with a private, non-publicly traded firm is contributing in a material way to the financial results of a company (for example, reported expenses/revenues or dealings), external auditors must ensure that the company's management obtains a SAS 70 audit report or performs direct verification procedures to ensure internal controls are effective and financial reporting is accurate and complete. For consistency purposes, the PCAOB should require external auditors to ascertain that the privately-held firms meet the same audit requirements that my firm, as a publicly traded company, must meet.
2. The PCAOB should have a meaningful dialogue with the SEC and related regulators on the audit requirements for private, non-publicly traded firms. The PCAOB, through these efforts, could help ensure more consistent audit requirements, as well as better compliance with existing auditing standards, for private, non-publicly traded firms.

Thank you for the opportunity today to provide my thoughts on the direction of the Investor Advisory Group and topics for future deliberation. I look forward to supporting the PCAOB on this important initiative for enhanced investor protection.