



Statement of
The Institute of Internal Auditors
House Committee on Financial Services
Subcommittee on Monetary Policy and Trade
“The Unintended Consequences of Dodd-Frank’s Conflict Minerals Provision”

Chairman Campbell, Ranking Member Clay and members of the Subcommittee:

The Institute of Internal Auditors (IIA)¹ appreciates the opportunity to submit this statement for the hearing of the House Financial Services Subcommittee on Monetary Policy and Trade titled, “The Unintended Consequences of Dodd-Frank’s Conflict Minerals Provision.”

We commend you for holding this important hearing to review the unintended consequences of Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which requires the Securities and Exchange Commission to promulgate rules for public companies requiring them to disclose their use of minerals that originate in the Democratic Republic of the Congo (DRC), which Section 1502 defines as “conflict minerals.”²

We fully acknowledge that Congress’s intent for enacting the conflict minerals provision was well founded, and we are not expressing an opinion regarding its effectiveness in the DRC. However, we would like to use this opportunity to bring to the Subcommittee’s attention some unintended consequences caused by Section 1502 specifically, and more broadly, the impact of mounting compliance burdens being placed on organizations overall:

- (1) **Section 1502 may not be the most cost effective way to address the concerns expressed by Congress.** Companies are undergoing painstaking efforts in preparing to comply (and in some cases restructuring their operations to avoid the necessity to comply) with the challenging complexity and detail associated with Section 1502. This is resulting in an initial and ongoing organizational cost burden that we believe may not be the most cost effective way to achieve the goals of the provision; and

¹ The Institute of internal Auditors (IIA) is the global professional association that serves as the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator. The IIA’s more than 180,000 members around the world predominately work in internal auditing, risk management, governance, internal control, information technology audit, education, and security. For additional information, visit the IIA’s website: www.theiia.org.

² Public Law 111-203.

(2) **Section 1502, among other laws and resultant regulations enacted over the past ten-plus years, is exacting a toll on organizations that is overly burdensome.**

Organizations do not have unlimited resources and continually diverting resources and attention from strategic activities may necessarily require companies to pull back from other investments. This calls into question the aggregate cost versus benefit of ten-plus years of legislative-driven mandates affecting organizations. It also raises concerns regarding the inherent distraction of organizations from their core missions, and the inability of risk management and risk mitigation personnel within organizations to continue to focus on the primary goal of managing risk (rather than determining how best to comply with arguably overly burdensome regulations like Section 1502).

Risk assurance and risk management functions, such as internal audit, are being distracted from helping boards and executive management better assess, evaluate and manage risk by being pulled into assisting other parts of the organization address a mounting compliance burden. Internal auditors provide independent, objective assurance and consulting to their company's boards and executive management that is designed to add value and improve an organization's operations. These individuals help their organizations accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Organizational governance, risk management and internal control activities are fundamental to well managed companies.

Proper risk management requires internal auditors to evaluate risk exposures relating to an organization's governance, operations, and information systems regarding the following:

- (1) Achievement of the organization's strategic objectives;
- (2) Reliability and integrity of financial and operational information;
- (3) Effectiveness and efficiency of operations and programs;
- (4) Safeguarding of assets; and
- (5) Compliance with laws, regulations, policies, procedures, and contracts.³

Such evaluations are fundamental to helping ensure that companies manage risk appropriately, especially in this time of globalization, interconnectedness and interdependency with heightened concerns regarding systemic risk and the potential impact that a troubled institution may have on the nation's financial system and the economy, in general.

³ *International Standards for the Professional Practice of Internal Auditing (Standards)*, available at <https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf>.



Section 1502 is a key example of where the focus of internal auditors is being taken off of key strategic and operational risk assurance practices that are vital to a company's effective risk management activities, in order to focus on ensuring appropriate compliance mechanisms are established, which are typically not key to a company's operations.

In this time of economic uncertainty, most public companies are hesitant to hire additional internal audit, compliance and/or risk professionals when new laws and/or regulations are implemented, like those stemming from Section 1502. Instead, such risk professionals are usually required to redirect their activities away from risk-based assessments and other core competencies and toward helping companies ensure compliance with new mandates, creating a number of likely unintended consequences. Every increased hour spent on such compliance activities detracts or lessens the time available to evaluate and assess strategic, financial and operational risk management and risk mitigation. While compliance activities may not be the most cost effective way to accomplish the public policy objective, public companies are unnecessarily impacted.

Again, the IIA does not question the intentions of Section 1502, but simply wishes to draw the Subcommittee's attention to some unintended consequences of this particular provision on U.S. companies, as well as signal elevating concerns about the totality of regulatory compliance which calls into question the overall toll being placed on companies today.

Thank you again for the opportunity to submit this statement in relation to the Subcommittee's hearing. The IIA looks forward to being a resource to Congress so that it achieves its objectives in the most efficient, effective and cost/beneficial manner.