

OECD Corporate Governance Committee

To: Mr. Carmine Di Noia

2, rue Andre Pascal

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France

Submitted electronically

20 October 2022

Subject: Comments on the Draft Revisions to the G20/OECD Principles of Corporate Governance

Dear Mr. Carmine Di Noia,

1. The Board of the International Forum of Independent Audit Regulators (IFIAR) appreciates the opportunity to comment on the public consultation on Draft Revisions to the G20/Organisation for Economic Co-Operation and Development (OECD) Principles of Corporate Governance (the “OECD Principles”). As an international organization of independent audit oversight regulators that share the goal of serving the public interest and enhancing investor protection, IFIAR is committed to improving audit quality globally through the promotion of high-quality auditing and professional standards, as well as other pronouncements and statements.
2. IFIAR’s objectives are as follows:
 - Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity, with a focus on inspections of auditors and audit firms.
 - Promoting collaboration and consistency in regulatory activity.
 - Initiating and leading dialogue with other policymakers and organisations that have an interest in audit quality.
 - Forming common and consistent views or positions on matters of importance to its members, while considering the legal mandates and missions of individual members.
3. The comments we provide in this letter reflect the views expressed by many, but not necessarily all, members of IFIAR’s Board, and not the full membership of IFIAR. Accordingly, the comments are not intended to include, or reflect, all the views that might be provided by individual members on behalf of their respective organisations.
4. Where we do not comment on certain specific matters, this should not be interpreted as either approval or disapproval by the IFIAR Board or IFIAR.

Overall comment

5. A system of independent audit oversight and audit regulation is most effective if it exists within an appropriate financial reporting environment. A key foundation of such an environment is the existence of a well-developed legal and corporate governance framework that provides necessary support for high-quality auditing. We believe that the OECD Principles have played a key role in fostering good corporate governance practices over the past nearly two decades.
6. We continue to support the recognition that audit regulation, consistent with IFIAR's [Core Principles for Independent Audit Regulators](#) (the "IFIAR Core Principles"), is an important factor in improving audit quality. IFIAR revised the IFIAR Core Principles in April 2022, reflecting advances in audit oversight since the IFIAR Core Principles were originally developed in 2011.
7. We welcome the new section on digital technologies used for supervision and enforcement, and the inclusion of a chapter on sustainability and resilience. The IFIAR Core Principles also incorporate considerations for the use of digital technologies by the regulatory authorities and the possibility of auditors providing assurance for sustainability information.

Cross-border cooperation

8. We commend the retention of Section I.G calling for enhancing cross-border cooperation. Considering the global nature of financial markets, cross-border cooperation and information sharing amongst audit regulators as well as other regulatory bodies, including financial market regulators, are vital to the effective oversight of national audit firms and improving audit quality. Therefore, IFIAR has developed the IFIAR Multilateral Memorandum of Understanding (MMOU) to assist IFIAR Members' cooperation, in addition to bilateral or other arrangements they may have in place.
9. A key strategy of IFIAR is to facilitate information sharing among IFIAR Members, which helps them to understand regulatory frameworks in different jurisdictions, and may help to minimize "regulatory arbitrage" as noted in Section I.C.

Supervisory, regulatory and enforcement authorities

10. We endorse Section I.E's statement that "Supervisory, regulatory and enforcement responsibilities should be vested with bodies that are operationally independent and accountable in the exercise of their functions and powers responsibilities, have adequate powers, proper resources, and the capacity to perform their functions and exercise their powers, including with respect to corporate governance". This language is consistent with paragraphs 12-14 of the IFIAR Core Principles.
11. We recommend amending the language in the last sentence of Paragraph 4 of Section IV.C as follows (proposed additions are underlined and italicized, and proposed deletions are struck out): "In addition, regulators should have at their disposal a comprehensive and effective range of regulatory tools, including disciplinary measures/sanctions ~~at their disposal,~~ independent investigatory powers vis-à-vis auditors and audit firms under their jurisdictions, and the authority to communicate disciplinary measures/sanctions to the public to address any breaches...". Making these changes would bring this sentence in line with paragraphs 12-14 of the IFIAR Core Principles.

Independent audit oversight

12. Given the nature of responsibilities assumed by audit regulators, we suggest that the OECD Principles explicitly state in Section I.C that audit should be regulated by an independent body and not by a self-regulatory authority.

Audit committees

13. Audit committees play an important role in audit quality oversight and in improving audit quality globally. We support the emphasis in paragraph 3 of Section IV.C on the role independent audit committees play in overseeing the overall relationship with the external auditor, including the external auditor's appointment, reappointment and compensation, and in approving and monitoring the nature of non-audit services provided by the external auditor to the company to help ensure auditor independence.
14. We recommend the addition of wording in paragraph 3 of Section IV.C to reflect that the audit committee should have access to, and utilize, sufficient relevant information when making a decision on the appointment of the auditor. This information may be provided in auditor transparency reports, and may include information on the audit firm's governance, culture, the results of external and internal quality reviews and other relevant audit-related matters and performance metrics.¹
15. In addition, we observe that in many jurisdictions there are also requirements regarding the independence, special skills and expertise of audit committee members, reflecting the fact that the increasing complexity of businesses, financial reporting, internal controls and the audit has an impact on both the scope and nature of the responsibilities of the audit committee.²

The responsibilities of the board

16. We suggest that Section V.D.8 include a reference to the Board's oversight responsibilities regarding the external auditor (usually through the audit committee), including focusing on independence of the auditor and audit quality over cost.

Other comments

17. We suggest adding high quality accounting and auditing standards as additional elements of the corporate governance framework in Paragraph 1 of Section I.
18. We suggest adding a reference to group audit and regulatory oversight of group audit in Section I.H.
19. We recommend that the following excerpt from the second sentence of Paragraph 4 of Section IV.C be amended as follows (proposed additions are italicized and underlined, and proposed deletions are struck out): "the designation of an audit regulator, independent from the profession, and who, at a minimum, conducts recurring inspections of audit companies undertaking audits of public interest entities, is ~~one example among other important factors that support~~ an important contributor in ensuring high-quality audits that serve the public interest."
20. We recommend that the references to "audit company" in section IV be changed to "audit firm" or "auditor".

¹ See [IFIAR' Report entitled 'Internationally Relevant Developments in Audit Markets', \(July 20, 2021\)](#)

² See IFIAR's publication entitled '[Audit Committees and Audit Quality: Trends and Possible Areas for Further Consideration](#)' (April 7, 2017)

21. A number of jurisdictions, including G20 members, have developed auditing standards that incorporate mandatory provisions to complement those required by international auditing standards developed by the International Auditing and Assurance Standards Board (IAASB), with a view to enhance audit quality. We recommend that the header of Sections IV.C be modified to refer to annual audits being prepared in accordance with “*standards that are consistent with high quality international auditing standards*” and the header of Section VI.A.5 be modified to refer to annual assurance attestations being prepared in accordance with “*standards that are consistent with high quality international assurance standards.*”
22. Paragraph 1 of Section IV.C could be rewritten as principles-based by stating that “the auditor’s *provides an opinion certifying that stating* as to whether the financial statements, which are the responsibility of the company’s management, represent fairly, in all material ~~aspects~~ *respects*, the financial position and financial performance of a company, ~~the auditor’s report should also include an acknowledgement that financial statements are the responsibility of the company’s management~~” (proposed additions are italicized and underlined, and proposed deletions are struck out).
23. We propose adding the following words after the reference to corporate reporting at the end of paragraph 1 of Section IV.C: “In some jurisdictions, the external auditors are also required to report on the company’s corporate governance *and internal controls over financial reporting*” (proposed additions are italicized and underlined).

Please do not hesitate to contact me to discuss any of the IFIAR Board’s comments.

Yours faithfully,



Duane M. DesParte, IFIAR Chair

Cc: Takashi Nagaoka, IFIAR Vice Chair
Carl Renner, Executive Director