



February 11, 2015

OECD Corporate Governance Committee
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France

Submitted electronically to dafca.contact@oecd.org

COMMENTS ON THE 2014 REVIEW OF THE OECD'S PRINCIPLES OF CORPORATE GOVERNANCE

Dear Members of the Corporate Governance Committee,

The International Forum of Independent Audit Regulators (IFIAR) appreciates the opportunity to comment on the public consultation on the Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance (the "OECD Principles").

IFIAR is an international organization of independent audit oversight regulators that are committed to improving audit quality. IFIAR's members share the common goals of serving the public interest and enhancing investor protection.

IFIAR's more specific 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 policy-makers and organizations that have an interest in audit quality; and
- Forming common and consistent views or positions on matters of importance to its Members, taking into account the legal mandates and missions of individual members.

Since the OECD Principles were revised in 2004, independent regulation of the audit profession has expanded significantly. IFIAR's rapid growth illustrates this development. Established in 2006 by audit regulators from 18 jurisdictions, our membership today includes 51 jurisdictions located in Africa, the Americas, Asia, Europe, the Middle East and Oceania. Independence from the audit profession is a criterion for IFIAR membership.

All IFIAR members' regulatory mandates include oversight responsibility for a system of recurring inspections of audit firms undertaking audits of public interest entities within the member's jurisdiction. Many of the areas covered by the OECD Principles do not fall within the responsibilities common among all IFIAR members. As such, IFIAR's comments on the OECD Principles are limited to aspects that relate directly to external audit and audit regulation.

We support paragraph 93's strengthened language regarding the independence of the auditor. We also support recognition that audit regulation, consistent with IFIAR's Core Principles, is an important factor in improving audit quality. An effective system for independent audit regulation promotes the accountability of external auditors to financial statement users. We suggest that the language in paragraph 93 be strengthened, to state that independent audit regulation "is" (rather than "can be") an important factor in improving audit quality.

We commend the retention in paragraph 96 of support for the external auditor being competent and qualified. We support the added reference in paragraph 96 to the importance of an auditor having the qualifications, expertise and ongoing training and monitoring to exercise sufficient *professional scepticism*. IFIAR members frequently observe a lack of professional scepticism in instances of deficient audit performance. This paragraph presents another opportunity for the OECD Principles to encourage independent audit oversight; the attributes addressed in this paragraph, along with independence, are central to our members' oversight programs, which typically involve inspections of the firms to evaluate the adequacy of audit performance and, in some cases, enforcement action.

Paragraphs 94 and 95 address aspects of the audit committee's role, with particular emphasis on appointment and oversight of the reporting entity's overall relationship with the auditor, including provision of non-audit services. Importantly, the audit committee can play a key role in reinforcing the independence and quality of the external audit, including through monitoring the effectiveness of audit arrangements and the quality of the auditor. Since the OECD Principles were last revised, the increased publication and communication by audit regulators of their inspection findings and observations of audit quality have become an additional resource for audit committees in their evaluation of audit quality.

In addition to national and regional developments regarding communications with audit committees, IFIAR has recently expanded its attention to include dialogue with and about audit committees. IFIAR's current "work plan", a membership-approved overview of IFIAR's two-year plan for key initiatives, includes increased contacts with audit committees. During 2014, IFIAR's Investor and Other Stakeholders Working Group, which is charged with coordinating communications with investor representatives, expanded its scope of activities to include outreach to audit committee members. This working group coordinated a panel discussion at IFIAR's 2014 Plenary meeting on the topic of Auditor Communications with Audit Committees. Highlights from that discussion are available on IFIAR's website (found [here](#)).

IFIAR continues to consider ways to exchange views with audit committee members. An aim of this interaction is to understand audit quality considerations and experiences of those involved in the appointment and oversight of the external auditor. Another aim is to assist audit committees in understanding the audit regulator's oversight of audit firms. This information may contribute to the audit committee's evaluation of and interactions with the audit firm, roles contemplated at paragraphs 94-95 of the OECD Principles.

Finally, we convey the following observations:

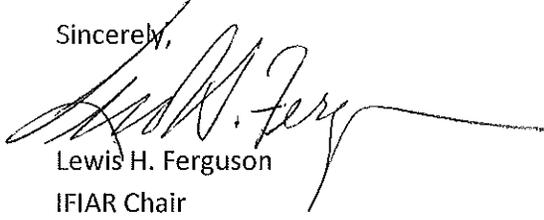
- The OECD Principles at V.B. support high quality standards of *accounting*. There is no mention that the external audit should be conducted in accordance with high quality standards of *audit*. Consideration should be given to including such a statement.
- The language in V.C. and paragraph 93 could be slightly revised for improved compatibility with terms used in audit standards.¹

As the OECD Corporate Governance Committee continues its review of the OECD Principles, *we encourage the committee to avoid any dilution of the principles' emphasis on the external auditor's independence, competence, and qualifications, or of the promotion of independent auditor oversight.* During your deliberations on final revisions to the OECD Principles, should the Corporate Governance Committee wish to discuss further IFIAR's positions on these or other related matters, we would be pleased to assist.

The comments we have provided in this letter reflect the views expressed by many, but not necessarily all, of the members of IFIAR. They are not intended to include, or reflect, all of the comments or views that might be provided by individual members on behalf of their respective organizations. Where we did not comment on specific matters, this should not be interpreted as either approval or disapproval by IFIAR of the proposed OECD Principles.

¹ The following examples are for illustration and are not comprehensive of text that could further align with audit standards. For instance, auditors "express an opinion" about whether financial statements fairly "present" the financial position, performance and, often, "cash flows" of a company.

Sincerely,

A handwritten signature in black ink, appearing to read "Lewis H. Ferguson", with a long horizontal flourish extending to the right.

Lewis H. Ferguson
IFIAR Chair