

International Corporate Governance Network
Accounting and Auditing Practices Committee

STATEMENT ON INTERNATIONAL STANDARDS ON AUDITING

The Accounting and Auditing Practices Committee (the Committee) of the International Corporate Governance Network (ICGN) welcomes the prospect of International Standards on Auditing (ISA) as potentially beneficial for investors. ISA can promote quality auditing of financial statements in an age of increased complexity of financial reporting and accounting. ISA, if properly designed and implemented/enforceable, can contribute to a more uniform and higher level of quality of financial disclosure across national borders, thus enhancing the reliability and comparability of accounts, facilitating well-informed investment decisions, and providing support to boards and shareholders in matters of corporate governance and internal financial governance as well as providing a level of protection and detection for the benefit of the audited entity itself.

As a consequence, the Committee recognizes the efforts made by the International Federation of Accountants (IFAC) and, since April 2002, its International Auditing and Assurance Standards Board (IAASB) to develop ISA and promote their adoption in an increasing number of countries. The ICGN participates in this process through its membership in the IAASB's Consultative Advisory Group. The Committee also follows closely the progress in the European Union (EU) of the new Eighth Company Law Directive which may result in ISA having the force of law throughout the Member States.

However, ISA are still a work-in-progress. Their success as a credible and respected tool will depend on several factors:

- First, the importance of the statutory framework in which ISA will operate. There are several aspects of the underlying statutory framework in any given jurisdiction to consider here:
 - ISA are standards, not legislation or regulation. In some legal systems, they will remain standards, outside the bounds of formal legislation; in others, it is proposed that ISA be incorporated by reference into formal legislation, in effect being given the force of legislation. The implications of this choice are important, primarily in terms of enforceability of the standards.
 - As well, there is the potential for conflict between ISA, whether embedded in legislation or not, and pre-existing legislation such as corporate or companies law, in particular. Conflicts or inconsistencies between ISA and national or corporate law risk not only disabling ISA but the hard-won convergence and harmonization which ISA is designed to promote. We feel in particular that ISA should not put any limits on auditor responsibility or restrict auditor liability in ways which would be indiscriminately applicable to all jurisdictions.

- Secondly, the governance of the standards-setting process is important.
 - Care should be taken to promote the credibility and legitimacy of ISA through the process by which they are developed. The necessity for high quality technical work is a given, but ISA should not be viewed as the preserve of a small number of large international audit firms and their professional associations. The risk, and it is a very real one, is that ISA will be viewed as a lowest common denominator, serving the interests of the large international audit firms. For example, in emerging and developing economies, small audit firms and sole practitioners are largely absent from the table. They may not speak English or may lack the resources to comment on the standards under development.
 - A broader constituency would also include investors and regulators in addition to the current membership of accountants and audit firms.

The reforms introduced by IFAC and the IAASB in the past few years mark progress in this direction. However, there is no guarantee that these reforms are sufficient in the long term. The IAASB cannot yet be considered independent of the profession and therefore should not be considered the ultimate guarantor of the credibility of ISAs and of the benefits of standardization as highlighted at the beginning of this Statement. The Committee thinks that this role should be unambiguously assumed by the Monitoring Group, which was formed in 2003 and includes the World Bank, the Basel Committee of Banking Supervisors, the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), and the European Commission. The Monitoring Group should take leadership in fostering the legitimacy and accountability of the standard-setting process and therefore maintaining the status of ISAs. To this end, the Committee thinks that the Monitoring Group should shortly launch an interim effectiveness review of the governance framework of the IAASB.

The Committee looks forward to closely monitoring future developments and possibly participating in discussions that may be held in relation to this important issue.

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