RE: IIA Comments on the Draft Revisions to the OECD Guidelines on Corporate Governance of State-Owned Enterprises

To Whom it May Concern:

On behalf of The Institute of Internal Auditors (The IIA), the international professional association representing over 240,000 internal auditors, I appreciate the opportunity to comment on the Organisation for Economic Co-operation and Development’s (OECD) proposal entitled: “Guidelines on Corporate Governance of State-owned Enterprises.”

We are particularly pleased with the addition of language in Section VI of the Guidelines about the board’s responsibility to ensure the effectiveness of the State-Owned Enterprise’s risk management, internal controls, and internal audits.

The internal audit profession serves as the independent “eyes and ears” of an organization by providing objective assurance on organizational risk, corporate governance, and internal controls. In order to accomplish these objectives, an internal audit function should be independent from management and report to the organization’s governing body (i.e. board of directors, or the board’s audit committee). This reporting relationship enables the assessments and conclusions of the internal audit function to be objective, credible, and trustworthy.

The IIA recommends the following enhancements designed to strengthen the proposed revisions to the Guidelines. We believe that the proposed revisions provide additional information to users and clarity on the proper role of internal audit in assisting the governance of organizations that is consistent with the revisions in the proposal.

Proposal #1

The widely accepted Three Lines Model is designed to show how organizations, of all types, can mitigate risk and ensure accountability through effective oversight and governance. Where the OECD provides background documentation that helped inform the revisions, we would recommend the addition of the Three Lines Model to the Studies on Corporate Governance under item 12. This inclusion of the Three Lines Model would assist users with a greater understanding of the key roles of organizational, management, internal audit, and outside providers in assessing the design and operating effectiveness of governance structures.

Proposal #2

With respect to references to internal audit, the Guidelines will be enhanced if the language is consistent with that of the IIA, as the only global association for the practice of internal audit. Further, users of the Guidelines, who may be less familiar with the proper implementation of an internal audit function, including the role of a Chief Audit Executive, would benefit from references to the use of
globally recognized internal auditing standards. Overall, the IIA agrees with the underlying principle stated within section V, disclosure, transparency, and accountability on page 17. However, the word choice “capacity, autonomy, and professionalism” slightly differs from our terminology, namely “properly resourced, independent, and competent,” which we believe would be preferable. Additionally, the internal audit function should be led by the Head of Internal Audit or a Chief Audit Executive who reports functionally to the board or the governing body’s audit committee.

**Proposal #3**

Consistent with the G20/OECD Principles of Corporate Governance, we recommend ensuring that distinctions are made between the equally important roles of internal and external auditors. As such, a minor but meaningful alteration is recommended. The modification of “internal controls and audit-related matters” to “internal controls and internal and external audit-related matters” would result in a more comprehensive understanding as covered in the OECD’s G20/OECD Principles of Corporate Governance thereby maintaining consistency across OECD publications.

**Proposal #4**

The board of a state-owned enterprise is empowered when they are provided with assurance, independent of management, on key areas of risk. To this end, on page 22 we suggest the addition of an expectation that the board obtains internal assurance from the internal audit function, specifically concerning environmental, social, and governance (ESG) matters. This augmentation would elevate the board’s confidence in the integrity of the organization’s reporting and highlight internal audit’s pivotal role in ensuring holistic organizational integrity.

We believe these collective suggestions contribute to a robust and comprehensive document that embraces the evolving landscape of governance, encompassing the multifaceted role of the internal audit function.

Should you have any questions concerning The IIA’s proposed amendments, please contact Harold Silverman, Senior Director of CAE and Corporate Governance Engagement, at Harold.Silverman@TheIIA.org.

Sincerely,

Anthony J. Pugliese, CIA, CPA, CGMA, CITP
President and Chief Executive Officer
The Institute of Internal Auditors, Global Headquarters