



April 18, 2000

The Honorable Donald J. Johnston
The Secretary-General
OECD
2, Rue Andre Pascal
75775 PARIS Cedex 16
FRANCE

Dear Mr. Secretary-General,

Financial Transparency and Accountability Study

Transparency International (TI) is pleased to transmit to the OECD Working Group on Bribery the attached Study surveying current practices and requirements relating to (a) books and records, (b) internal controls, and (c) auditing practices in sixteen countries including the ten leading exporters. The frame of reference for the Study is Article 8: Accounting of the OECD Convention on Combating Bribery of Foreign Public Officials, and Recommendation V: Accounting Requirements, External Audits, and Internal Company Controls of the 1997 Revised Recommendation of the Council. Article 8 and Recommendation V recognize that accounting, auditing and internal controls play an essential role in combating international corruption. The provisions of the Convention criminalizing foreign bribery cannot be effectively enforced unless they are accompanied by requirements for financial transparency and accountability.

The Study was conducted by a task force consisting of representatives of the Big Five international accounting firms, Arthur Andersen, Deloitte & Touche, Ernst & Young, KPMG, and PricewaterhouseCoopers, chaired by Thomas L. Milan of Ernst & Young. The sixteen national surveys were conducted by representatives of the firms based in each country.

Principal Findings

The principal findings of the Study are:

- While most countries have legal requirements for books and records, many do not extend these requirements to all companies engaged in significant international transactions or to subsidiaries outside of the country. The task force takes the position that books and records requirements should apply to all companies engaged in international transactions, and that they must be consistently applied to all subsidiaries in order to prevent parent companies from circumventing such requirements.
- Most countries do not have explicit legal requirements that companies must maintain adequate systems of internal controls. The task force takes the position that a legal requirement for an adequate system of internal controls is a key foundation for preventing and detecting bribery.

- Auditing standards and practices vary from country to country. The task force takes the position that countries where auditing standards do not meet or exceed the International Standards of Auditing (ISA) should adopt ISA as minimum auditing standards, or modify existing standards relevant to bribery and other illegal acts to meet or exceed ISA.
- National requirements for audited financial statements are based on factors, such as company size and whether securities are publicly traded. The task force takes the position that all companies engaged in significant international operations should be covered by legal requirements for annual audits by independent auditors.
- Financial statement disclosure requirements relating to bribes vary from country to country. The task force takes the position that improved quality and consistency of disclosure should be achieved by requiring countries that do not meet or exceed International Standards of Accounting (IAS) to adopt IAS as minimum accounting standards, or modify existing standards relevant to disclosure of contingent liabilities to meet or exceed IAS.

Proposed Follow-up Steps

Based on the work of the Task Force, TI urges OECD to take the following steps:

1. The OECD Ministerial at its June 2000 meeting should recognize the need for additional work relating to accounting, auditing, and internal controls, and call for a report by the Working Group at the 2001 Ministerial.
2. Phase 2 of the monitoring process, in its country reviews, should address the need for action to overcome deficiencies identified in the surveys of such countries performed by the Task Force.
3. TI appreciates the opportunity to make a presentation on the work of the Task Force at the April 27 consultation with the Working Group. In view of the length of the report, there will only be time for a preliminary exchange of views. TI welcomes the suggestion of the Secretariat that a full day consultation be held in the Fall dealing with accounting, auditing and internal controls.
4. TI believes that additional work during the coming year should lead to the development of a revision of Recommendation V: Accounting Requirements, External Audits, and Internal Company Controls of the 1997 Revised Recommendations.

Respectfully submitted on behalf of Transparency International,

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Chairman of the Board

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Member of the Board

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