



ICGN

International Corporate Governance Network

Office of the Secretary
PCAOB
1666 K Street, NW
Washington, DC 20006-2803

comments@pcaobus.org

16 March 2020

Dear Secretary,

Subject: ICGN Response to the PCAOB Concept Release for Potential Approach to Revisions to PCAOB Quality Control Standards.

The International Corporate Governance Network (ICGN) is pleased to respond to the Public Company Accounting Oversight Board (PCAOB or the Board) consultation on the PCAOB's Concept Release - Potential Approach to Revisions to PCAOB Quality Control Standards.

Led by investors responsible for assets under management in excess of US\$34 trillion, ICGN is a leading authority on global standards of corporate governance and investor stewardship. Our membership is based in more than 45 countries and includes companies, advisors and other stakeholders. ICGN's mission is to promote high standards of professionalism in governance for investors and companies alike in their mutual pursuit of long-term value creation contributing to sustainable economies world-wide. Our policy positions are guided by the ICGN Global Governance Principles¹ and the ICGN Global Stewardship Principles,² both of which have been developed in consultation with ICGN Members and as part of a wider peer review. For more information on ICGN please see: www.icgn.org.

One of ICGN's core policy priorities is to seek transparency through better reporting, audit and metrics.³ Audit quality is a critical component of transparency and good corporate governance. Section 7 of ICGN's Global Governance Principles focuses specifically on fundamental governance issues and practices relating to audit and reporting.

ICGN applauds the work of the PCAOB in focusing on improvements in quality control (QC) standards through reliance on the International Standard on Quality Management 1 (ISQM 1), a draft proposal issued by the International Auditing and Assurance Standards Board (IAASB). ICGN appreciates that ISQM 1 is a useful starting point that will need customization to best fit the U.S. markets. We understand

¹ See: ICGN Global Governance Principles:
http://icgn.flpbks.com/icgn_global_governance_principles_jpn/

² See: ICGN Global Stewardship Principles:
https://www.icgn.org/sites/default/files/ICGN_Global_Stewardship_Principles_JPN_1.pdf

³ See ICGN Policy Priorities:
<https://www.icgn.org/sites/default/files/ICGN%20Policy%20Priorities%202018-9.pdf>

that the new QC standards should lead to higher quality audit outcomes than under the current approach which, by comparison, is dated and does not include some of the better practices adopted internationally.

ICGN is hopeful that the PCAOB is able to stay the course and adopt new QC standards and such new standards will prove effective in practice. We urge the PCAOB to focus on quality, which is obtained through high ethical standards and independence, including independence at the highest governance levels of audit firms. The appointment of independent directors to audit firm oversight boards should also provide an opportunity to facilitate better lines of communication with investors, the ultimate client of audit work (see point below on investor engagement).

Transparency is also important. As such, it is important that the audit firms provide publicly available reports on their audit quality, including internal controls and monitoring, any identified deficiencies and remedial action that has been taken. Investors would particularly benefit from greater disclosure around how audit quality is maintained through more dispersed networks, including oversight and integration of component audit teams that feed into group-level audits.

We note that there is an ongoing gap in consideration of the investor in these processes. We believe that QC standards should include express efforts to engage with investors and reflect those investor needs. This would be welcome at a firm level as well as at individual engagement levels, where investors offer a valuable sounding board for potential concerns around accounting quality that could help direct auditors' work.

We believe it is important to "join the dots" between audit quality and investor stewardship. In other words, effective QC standards should focus more clearly on the ultimate customer, the investors. Further, there should be more substantial consideration of long-term risks that are important to investors such as climate-related risk. We encourage the PCAOB to further consider the investors and more thoroughly address risks.

We hope these comments are useful in your deliberations. If you would like to follow up with us with questions or comments, please contact our Policy Director George Dallas: george.dallas@icgn.org .

Yours sincerely,



Kerrie Waring
Chief Executive Officer, ICGN

Copies:

James Andrus, Chair, ICGN Disclosure and Transparency Committee:
James.Andrus@calpers.ca.gov