

The Public Company Accounting Oversight Board  
1666 K St. NW  
Washington, D.C. 20006-2803

**Comments on the PCAOB's firm's System of Quality Control and Other Proposed Amendments to PCAOB Standards, Rules, and Forms - PCAOB Rulemaking Docket Matter No. 046**

January 25, 2023

To the PCAOB Board Members:

I appreciate the concerted efforts by the PCAOB to update the auditing standards and engage the public throughout this project. The purpose of this comment letter is to highlight some of the PCAOB's achievements in protecting investors and pinpoint to some other areas that could benefit from creating a firm sense of accountability among auditors for the ultimate goal of protecting shareholders and hence the U.S. economy. In my comments, I will refer to some sections of the proposed PCAOB's firm's system of quality control and other proposed amendments to PCAOB standards, rules, and forms in the PCAOB Rulemaking Docket Matter No. 046, that was issued on November 18, 2022.

*PCAOB's proposed rule:*

*Under proposed QC 1000, the objective of the QC system would be to provide reasonable assurance as to compliance with the professional and legal requirements that apply to the firm's engagements.*

Comment No. 1:

While the term "reasonable assurance" is not an absolute form of assurance, in my opinion it is not an indicative of a "high level of assurance". It entails judgment, and an acceptable level of errors whether these errors are intentional or unintentional, material, or immaterial. A notion that goes in contraction with the objective of the proposed QC system. While this term is very popular in the accounting and auditing profession, particularly during the audit process for reasons related to circumstances that are beyond the auditor's control, the QC system should be held to higher level of quality and all its components are "theoretically speaking" fall under the control of the accounting firm. Therefore, I would like to suggest removing the word "reasonable" and emphasizing that the term "assurance" refers to a high level of assurance.

Further, the objective of the QC system may be enhanced if the focus was on protecting investors, ensuring auditors independence in fact and in appearance, and proactively preventing economic crimes with the ultimate goal of mitigating fraud.

*PCAOB's proposed rule:*

*This definition (referring to "applicable professional and legal requirements") is intended to capture all professional and legal requirements specifically related to engagements under PCAOB standards of issuers and SEC-registered broker-dealers, including relevant accounting, auditing, and attestation standards, PCAOB and SEC rules, other provisions of federal securities law, other relevant laws and regulations (e.g., state law and rules governing accountants), and other legal requirements related to the obligations and responsibilities of accountants or auditors or to the conduct of the firm's engagements.*

Comment No. 2

Engagements (and all other audit related work) subject to PCAOB standards should be conducted with the primary goals of protecting investors, proactively preventing fraud, early detection, and prevention of material misstatement, exposing managerial greed, and being transparent with audit committee members, among other things. All these crucial goals can only be achieved if auditors are (1) independent, and (2) skilled/familiar with the accounting and auditing standards.

The use of “applicable professional and legal requirements” is vague and quite controversial as to whether outcomes of court cases, for example, can supersede accounting and auditing standards. It would be more relevant and definitive to have a much clearer definition of the foundation of the system of QC to promote firmness and accountability among auditors and accounting firms. For example, I would like to suggest using “to meet all applicable standards and regulatory requirements and promote high quality and ‘useful’ financial and non-financial information and achieve a high level of transparent financial reports”.

*PCAOB’s proposed rule:*

*The governance and leadership component of the firm’s QC system addresses the environment that enables the effective operation of the QC system and directs the firm’s culture, decision-making processes, organizational structure, and leadership. A firm’s culture and tone, as set by leadership, can and should promote the importance of quality.*

Comment No. 3

The governance and leadership component of the firm’s QC system does not include the firm’s efforts in establishing strategies and plans (short- and long-term) to promote for diversity, equity, and inclusion in recruiting talented leaders, governance body, and auditors.

Respectfully submitted,

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