

Audit Quality - Raising the Bar

Audit quality is quintessential for enhancing value and credibility in financial reporting. The emerging Indian economy looks forward to quality services rendered by Chartered Accountants that help in bringing credibility to the financial statements and various reports. Various stakeholders look at the signature of Chartered Accountant as a certificate that things are in order and audit quality has been ensured.

According to a generally accepted explanation given by the Institute of Chartered Accountants of England and Wales, audit quality is “Delivering an *appropriate professional opinion* supported by the necessary evidence and *objective judgements*. Ultimately Auditors provide Quality service to shareholders if they provide audit reports that are independent, reliable and supported by adequate audit evidence.....”

We all are aware that an audit is an assurance engagement relating to historical financial information, which provide reasonable assurance. The process of an audit involves not only the auditor and preparers of financial statements but also the key stakeholders closely connected to the audit profession, such as regulators, standard setters, audit committees, investors, governments and the general public. Therefore, all stakeholders connected with the audit process need to engage in order to achieve the objective of audit quality.

Though the primary responsibility for ensuring audit quality rests with auditors, the National Auditing Standard Setters are responsible for formulating and issuing sound and effective auditing standards. It is important that standard setters draft standards that are clear and the requirements of the standards should not introduce judgements biases or which may not be feasible to be implemented in an objective way in letter and spirit. Management and those charged with governance are responsible for preparing financial statements in compliance with applicable financial reporting framework and for establishing and maintaining sound and effective internal controls. The primary responsibility for assessing the entity's ability to continue as a going concern rests with the management. Audit committees are responsible to oversee effectiveness of audit process and evaluate performance of auditors. Professional Accountancy Bodies are responsible for providing adequate support to auditors in effective implementation of auditing standards. Regulators and oversight bodies while conducting audit reviews need to keep in mind that several aspects of audits particularly

audits of accounting estimates require auditors to use professional judgement.

Over the years, various actions have been taken nationally and internationally to improve audit quality. Auditing and Assurance Standards Board (AASB) of ICAI has issued two standards dealing with audit quality, i.e., SQC 1 and SA 220. SQC 1 deals with audit quality at the level of audit firms. SA 220 “*Quality Control for an audit of Financial Statements*” which deals with audit quality at the level of individual audit engagements is at par with ISA 220 issued by the International Auditing and Assurance Standards Board (IAASB) of IFAC. To make these standards more robust, AASB keeps revising these standards from time to time. Recently, AASB has also revised its auditor's reporting standards for enhancing auditor's reporting on important auditing aspects e.g. key audit matters, going concern, other information, key features of audit process.

The IAASB has also issued a publication titled “A Framework for Audit Quality”, to create awareness of key elements of audit quality, encourage stakeholders to suggest ways to improve audit quality and facilitate greater dialogue among stakeholders. Nationally also, the Companies Act, 2013 has made significant changes aimed at further improving audit quality which include (a) making auditing standards mandatory for auditors (b) strengthening auditor's independence e.g. broader criteria for auditor disqualification, mandatory auditor rotation, prohibition on auditors on rendering non-audit services (c) enhanced auditor's reporting e.g. reporting on internal financial controls, reporting to central government about frauds, reporting about auditor's qualification, reservation or adverse remark relating to maintenance of accounts.

The Institute is quite conscious of the role it needs to play in this regard and has taken various measures to constantly raise the bar of excellence towards audit quality. After aligning its Standards on Auditing (SAs) with corresponding ISAs issued by IAASB, the Institute has been helping the members in effective implementation of SAs by taking multiple steps, viz., implementation guides, training programmes, video lectures and e-learning. ICAI has also implemented new/revised auditor's reporting standards for audits of financial year 2018-19 and onwards, i.e., starting from April 1, 2019. The revised formats of auditor's reports are further going to fulfill the users' expectation of getting more relevant information for their decision-making purposes.

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