

Role of Quality Review Board in Improving Audit Quality



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Introduction

Under Sec. 28A of the Chartered Accountants Act, 1949, consequent to the Chartered Accountants (Amendment) Act, 2006, the Central Government constituted a Quality Review Board (QRB) consisting of a Chairperson and ten other members on 28th June, 2007. The Chairperson and members of the Board

are appointed from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy. Five members of the Board are nominated by the Council of the Institute of Chartered Accountants of India (ICAI) and the Chairperson and other five members are nominated by the Central Government.

Apart from the five representatives of the Council of the Institute of Chartered Accountants of India, the current composition of the Board also consists of representatives from the Ministry of Corporate Affairs, Ministry of Law & Justice, Comptroller & Auditor General of India, Securities & Exchange Board of India and one practising CA. The current Chairperson, Quality Review Board is a retired Indian Revenue Service Officer of the Government of India.

Functions of the Board

As per Sec. 28B of the Chartered Accountants Act, 1949, the Board shall perform the following functions, namely:-

- (a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;
- (b) to review the quality of services provided by the members of the Institute including audit services; and
- (c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

In exercise of the powers conferred by clauses (f) and (g) of Sub-section (2) of Section 29A of, read with Section 28C and Sub-section (1) of Section 28D of, the Chartered Accountants Act, 1949, Government of India has also issued 'Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of

Service and Allowances of the Chairperson and Members of the Board) Rules, 2006'. Rule 6 of Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006 specifies that the Board may, in discharge of its functions: –

- (a) on its own or through any specialized arrangement set up under the Institute, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide;
- (b) lay down the procedure of evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review;
- (c) call for information from the Institute, the Council or its Committees, Members, Clients of members or other persons or organizations, in such form and manner as it may decide, and may also give a hearing to them;

Provided that where the Board does not receive the information called for by it from any Member of the Institute, the Board may request the Institute to obtain the information from the member and furnish the same to the Board:

Provided further that where the Board does not receive the information called for by it from any company registered under the Companies Act, 1956 (1 of 1956), the Board may request the Central Government in the Ministry of Corporate Affairs for assistance in obtaining the information.

- (d) invite experts to provide expert/technical advice or opinion or analysis on any matter or issue which the Board may feel relevant for the purpose of assessing the quality of work and services offered by the members of the Institute;
- (e) make recommendations to the Council to guide the members of the Institute to improve their professional competence and qualifications, quality of work and services offered and adherence to various statutory and other regulatory requirements and other matters related thereto.

In terms of the aforesaid Rule 6, the Board has issued the 'Procedure for Quality Review of Audit Services of Audit Firms' (the 'Procedure', available at <http://www.grbca.in>). As per the aforesaid Procedure, Quality Review is directed towards evaluation of audit quality and adherence to various statutory and other regulatory requirements. It would involve review and assessment of the work of auditors while carrying out their audit function so that the Board is able to assess (a)

the quality of audit and reporting by the auditors; and (b) the quality control framework adopted by the auditors/audit firms in conducting audit.

Reviews

In accordance with the aforesaid Procedure, the Quality Review Board had initiated in the year 2012 a system of independent review of statutory audit services of the audit firms auditing accounts of public interest entities in India pursuant to a process comprising selection of the audit firms for review and engagement of Technical Reviewers. The Board had decided to engage Chartered Accountants as Technical Reviewers. Currently, a total of 96 Chartered Accountants have been empanelled with the Board. The Board has also decided to engage industry specific experts. On-line application forms are available at <http://www.qrbca.in> for empanelment as a Technical Reviewer and as industry experts with the Board and the empanelment is open throughout the year.

Quality Review Board had initiated a robust system of independent review of statutory audit services of the audit firms auditing accounts of public interest entities in India in August 2012. The Board had selected a total of 354 review assignments for review of statutory audits of 261 top listed and other public interest entities in India. The Board had selected 215 Audit firms, registered with the ICAI, who had performed these audits. These 261 entities represent various industries/sectors. These entities selected for review represent about 75% market cap of the stocks listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). The Technical Reviewers empanelled with the Board for conducting these reviews who along with their qualified assistants ensured that resources of more than 200 qualified professionals were available with the Board for conducting these review assignments.

Since then, the Board has finalised a total of 214 review reports while reviewing audits of top listed and other public interest entities in India. Based upon these 214 review reports, 28 cases have been recommended to the ICAI Council for consideration and in 108 cases appropriate advisories have been issued to the concerned audit firms for improvement in future. Out of these 28 cases recommended to the ICAI Council, 27 have been considered by it where it has been decided to initiate disciplinary proceedings in 6 cases and issue advisory to the concerned Audit firm/s in 18 cases while 3 cases were closed. The whole review mechanism has been administered as per best international practices based upon a detailed analysis of the inspection systems of the audit regulators around the world. QRB keeps issuing Reports providing analysis and summary of observations made by the Reviewers in review reports. These reports are accessible at QRB website <http://www.qrbca.in>. Key Learnings have also been hosted at the QRB website which act as necessary guidance to the members at large for improving the quality of audit services in future.

The review procedures include a review of aspects of the firm's auditing of financial statements of selected

audit/s. The scope of the reviews is determined according to the Board's criteria, and the firms are not allowed an opportunity to limit or influence the scope. The major focus of the reviews is on compliance with Technical standards, relevant laws & regulations, quality of reporting, and the firms' quality control framework. In addition to evaluating the quality of the audit work performed on a specific audit, the review includes review of certain aspects of the firms' practices, policies, and procedures related to audit quality. The review addresses practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures. The Quality Review Board has also specified the Quality Review Program General Questionnaire containing questions concerning various aspects of an audit firm such as Quality control, ethical requirements & audit independence; leadership and responsibilities; assurance practices; client relationships & engagements; human resources, consultation; differences of opinion; engagement quality control review; engagement documentation; audit planning & risk assessment; materiality; audit sampling & other selective testing procedures; audit documentation; audit evidence; written representations; and Auditor's report.

In the course of reviewing aspects of selected audits, a review may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, aspects in which an entity's financial statements do not present fairly the financial position or the results of operations in conformity with the applicable Generally Accepted Accounting Principles (GAAP) and other technical standards. It is not the purpose of a review, however, to review all of a firm's audits or to identify every aspect in which a reviewed audit is deficient. Accordingly, a review should not be understood to provide any assurance that the firm's audits, or its clients' financial statements or reporting thereon, are free of any deficiencies.

Public trust in an auditor's ability to examine an assertion critically and analytically, based on both independence and subject matter expertise, gives the profession an edge on all competitors. The Quality Review Board is acutely focused on helping the profession build public confidence in audit. QRB's work is based on facts and founded on what is learnt in the review and in the outreach. Through various programs, QRB has been guiding the audit firms to improve their audit quality. QRB has also been guiding its Reviewers in terms of their role and responsibilities and how they should structure their review emphasizing upon compliance of technical standards, relevant laws and regulations and other aspects. QRB's reviews involve assessment of the work of auditors while carrying out their audit function so that the Board is able to assess (a) the quality of audit and reporting by the auditors; and (b) the quality control framework adopted by the audit firms in conducting audit. The vast majority of audit firms have responded responsibly by taking actions to improve compliance and

overall audit quality. A number of other important initiatives have also been taken by the QRB with a view to effectively carry out the functions as entrusted to the Board by the Parliament of India u/s 28B of the Chartered Accountants Act, 1949.

International Co-operation

At the international level, co-operation amongst the public oversight bodies is an important recent addition to the international agenda. The Quality Review Board appreciates the need to establish international linkages and co-operation with the counterpart international bodies and organisations with a view to sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity.

It was observed that International Forum of Independent Audit Regulators (IFIAR) offers a platform for dialogue with other international organizations that have an interest in audit quality. Since its establishment in 2006, the

IFIAR's membership has grown to represent independent audit regulators from 51 jurisdictions from across the world. India is currently not represented in this body, however, QRB is making persistent efforts for seeking IFIAR membership.

QRB has also initiated dialogue with the U.S. PCAOB, CPAAOB, Japan and Netherlands Authority for Financial Markets (AFM) as part of the initiative to engage in mutual co-operation with the counterpart independent audit regulators of major countries. Significant benefits were derived from knowledge and experience sharing; understanding their audit regulation mechanism; and other matters of mutual interest. These interactions provided the right platform for making the review systems and practices in line with the best international practices. All these initiatives aim to serve public interest and enhance investor protection by improving audit quality, including through independent reviews of auditors in India.

The author is Chairperson, Quality Review Board established by the Government of India under the Chartered Accountants Act, 1949. She is retired Indian Revenue Service Officer of 1977 batch. She had earlier served as Secretary, National Human Rights Commission in the rank of Secretary to the Government of India and as Member, Central Board of Direct Taxes. Views expressed herein are her own. She can be reached at parvinderbehuria@gmail.com. For more details about QRB, please visit <http://qrbca.in>
