

Quality Review Board-A Sagacious Journey



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Cases of financial irregularities continue to grab newspaper headlines on a routine basis these days, both in India and abroad, bringing to the fore again the concerns over the need to improve audit quality. Government of India is also taking all out efforts to clean up the economy. In this process, a quality audit has become all the more imperative.

A 'quality audit' is achieved when the auditor's opinion on the financial statements can be relied upon. With a view to improving the quality of audit services in the country, the Central Government had constituted a Quality Review Board (QRB), in exercise of the powers conferred under the Chartered Accountants Act, 1949, by Gazette Notification GSR 448(E) in 2007.

QRB has been constituted as an independent body to review the quality of services rendered by chartered accountants in the country and its review process contributes towards an increasingly robust and transparent financial reporting system in the country.

QRB also guides the CAs to improve the quality of services and adherence to various statutory and other regulatory requirements. It is a robust set-up where the central government nominates the chairperson and five members. Members are nominated from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy. The current Board, for example, has senior representatives from the Ministry of Corporate Affairs, Ministry of Law & Justice, Comptroller & Auditor General of India (CAG) and market regulator Securities & Exchange Board of India (SEBI). The Institute of Chartered Accountants of India (ICAI) also nominates five members. Majority of members of QRB are independent of the profession.

Since FY 2012-13, QRB has formalised a distinct and strong system of independent review of statutory audit services of the audit firms auditing accounts of top listed, other public interest entities and other top private limited companies in India. Earlier during this year in January, 2019, Ministry of Corporate Affairs had clarified to QRB that, in view of Section 132(2) of Companies Act, 2013 r/w Rule 9(4) of NFRA Rules, 2018, the issue of QRB reviewing audits of companies/bodies corporate specified under Rule 3 of NFRA Rules, 2018 will only arise in case a reference is so made to QRB by NFRA, and not otherwise. Accordingly, QRB would now be able

to initiate reviews of quality of audit services provided by members of the Institute only in respect of entities other than those specified under Rule 3(1) of NFRA Rules, 2018; and those referred to QRB by NFRA under Rule 9(4) of NFRA Rules, 2018. However, in the meanwhile, QRB has been completing the on-going reviews of top listed and other public interest entities which had already started. We are also revisiting our Procedure for conducting quality reviews aligning it with our revised mandate and in view of the experience gained during reviews.

QRB's reviews involve assessment of the work of statutory auditors while carrying out their statutory audit function so that QRB is able to assess (a) the quality of audit and reporting by the statutory auditors; and (b) the quality control framework adopted by the audit firms in conducting audit. Quality reviews initiated by the QRB are designed to identify and address weaknesses and deficiencies related to how the audits were performed by the Audit firms. The major focus of the reviews is on compliance with technical standards, relevant laws & regulations, quality of reporting, independence and firm's quality control framework.

QRB is operationally independent from any external interference and from commercial, or other sectoral interests, in the exercise of its functions and powers, including not being controlled in its governance by audit practitioners. QRB has devised its own Procedure for review of audit firms which also empowers it to publish the findings observed during the review in any manner considered appropriate.

QRB reviews are carried out by a large team of Technical Reviewers (TRs) who are engaged by the QRB directly, on an engagement basis, from across the country. These TRs are practicing professionals and possess requisite experience and expertise essential to carry out the inspections. They are bound to ensure that there is no conflict of interest with respect to the Audit firm and the selected audit file subjected to review/inspection by them and are also required to give a separate declaration in each case to the Board of QRB to the above effect and that any violations thereof would be treated as misconduct and liable for action under the Chartered Accountants Act, 1949. Further, as an additional measure to ensure independence, it is also ensured that TRs of a different city/region than the city/region of the Audit firm are sent to the Audit firm to review. Any cases of even slightest threat to their independence are regularly brought to the notice of QRB, from time to time. Thereupon, QRB takes necessary remedial action. QRB considers confidentiality of information pertaining to the quality review assignments to be of paramount importance. Accordingly, TR as well as all the members of the review team are required to submit a confidentiality declaration.

QRB has also issued a Technical Guide on Conducting Quality Review. This Technical Guide, which aims to set uniform benchmarks and practices for conducting reviews, deals in great detail about practical aspects of conducting quality reviews by the Technical Reviewers (TRs) such as basic principles of conducting the review, terms of review, quality control in a review, planning, conducting and reporting aspects of the review etc. The QRB website <http://www.qrbca.in> can be visited for more information on the role and functions of QRB.

Since FY 2012-13, QRB has selected 603 review assignments for review of statutory audits of 471 top listed other public interest entities and other top private limited companies in India. QRB has selected about 300 Audit firms, who had performed these audits, for conducting their reviews according to a set procedure and timeline. The selected entities range from various industries/sectors, and represent more than 85% market cap of the stocks listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE).

While cases of material non-compliances and those requiring significant improvement are recommended to the Council of the ICAI for taking necessary action u/s 28B(a) of the Chartered Accountants Act, 1949, in other cases, requiring improvement, QRB issues advisories to Audit firms for improvement u/s 28B(c) of the Chartered Accountants Act, 1949 which are subsequently followed-up for compliance.

With a view to providing greater independence to the QRB, the ICAI Council has suo-motu decided to recommend to the Central Government for making appropriate amendments in Section 28B of the Chartered Accountants Act, 1949 so that the recommendations of the QRB for taking disciplinary action against the member/s can directly be referred to the Disciplinary Directorate instead of placing the same first before the Council. The Council also decided that till the appropriate amendments in the Act are made, such recommendations of the QRB be directly forwarded to the Disciplinary Directorate. It may further be mentioned that u/s 15(2)(o) of the Chartered Accountants Act, 1949, the ICAI is statutorily required to include the details of action taken on the

QRB's recommendations in its Annual Report which is laid before the Parliament of India. This provision duly ensures accountability of ICAI on the QRB's recommendations.

Since FY 2012-13, based upon 471 completed reviews, 31 cases have been recommended to the ICAI Council for consideration for further action, including disciplinary action and in 265 cases appropriate advisories have been issued by the QRB to the concerned audit firms highlighting their shortcomings and advising them towards improvement in the quality of their services which are subsequently followed-up for compliance. Now, it is for the concerned Audit firms to take remedial actions for the deficiencies highlighted as well as identify the root causes thereof and improve themselves. Further, out of all the cases so far recommended by the QRB to the ICAI Council, in 5 cases, in prima facie opinion of Disciplinary Directorate, they have been found to be guilty and these cases are at the hearing stage now before appropriate authorities. QRB also publishes periodic reports on the findings observed in an aggregated manner which are hosted at the website for the information of all concerned stakeholders and as necessary guidance to CAs for improving quality of their audit services in future as well as sent to the concerned Ministries/Regulatory bodies/other concerned Authorities for information.

The whole review mechanism is a strong deterrent to errant audit practices. Also, a huge number of audit firms have reacted responsibly by taking action to improve compliance and overall audit quality.

Not just in India but internationally also, QRB had initiated dialogue for co-operation with International Forum of Independent Audit Regulators (IFIAR) as well as independent audit regulators of various other countries.

It is believed that reinforcing market confidence through audit reliability and increasing audit transparency are real challenges today. Overall, the practice of quality audit and audit quality review conducted by QRB will usher in greater reliability and transparency and increase confidence in audits in the country.
