

## **Auditing Standards and Its Impact on Audit Quality in India: A Brief Review**

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### **1. INTRODUCTION**

Auditing standards are a set standard auditing techniques applied in the conduct of audit of financial statements of an entity. In other words, auditing standards guide the auditors in their practice, guide the users to understand the work of the auditors and guide the educators who prepare people to become auditor. Initially, auditing techniques were not in any standard form and applied by the auditors on the basis of insight developed through practice keeping in mind the basic auditing principles of integrity, objectivity, confidentiality, independence, professional confidence and due care. In India, The ICAI, the sole regulatory authority of accounting profession took initiative to harmonize auditing practices by way of issuing standard auditing techniques. Formally, in 1985, these standard auditing techniques were issued in the form of Standard Auditing Practice (SAP). With time elapsed and changing business environment these standards have been modified to Auditing and Assurance Standards (AASs) and subsequently to Standards on Auditing (SAs). But quality of audit practice still remains a questionable issue particularly in the context of some corporate audit failures throughout the world. Audit failures, however, do not mean poor auditing standards; it is failure on the part of the auditor for many reasons. A Chartered Accountant (CA) in practice should bear in mind the auditing principles like integrity, confidentiality, independence and professional care and competence etc. In fact a trend has been observed that the practicing auditors, in general, are least aware of auditing standards. Somehow, they manage to audit financial statements without getting well acquainted with the intricacies of the standard techniques. The quality of audit definitely deteriorates. Against this backdrop the intention of the study is to review Indian auditing standards as one of the important tools for audit quality improvement from different perspectives.

### **2. REVIEW OF LITERATURE**

There may be had some of those related studies by CheeW.Chow in his work 'On the Measurement of Auditing Standards' and concluded that higher auditing standards may be good indicators for greater proportion of qualification in audit report. Linda Elizabeth

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De Angelo in her study on 'Auditor Size and Audit Quality' tried to emphasize that size of audit firms matters for implementation of auditing standards and larger the audit firms, the greater the chance of large audit firms discovering technical errors and reporting it. Carl S. Warren made an attempt in this direction to ascertain if there was any uniformity in audit firms issuing qualified audit reports and the type of qualification thereof. Warren, again, investigated in to other factors concerning qualification of audit reports and his research was further enriched by John K. Shank and Richard J. Murdock in their study on 'Comparability in the Application of Reporting Standards: Some further Evidence' where they had used larger sample, the elimination of constancy qualifications and testing audit conditions with respect to systematic market risk to overcome the problems faced by Warren. However, Arnold Wright in his paper on 'The Impact of CPA Firm Size on Auditor Disclosure Preferences' strongly argued that audit firm size might not be an important indicator of nature and type of qualification decisions. Finally, a debate over auditing standards and audit quality had got a new direction that individual auditors carry out work to less than professional standards and the pressures that give rise to audit failures. Under the aegis of Contemporary Accounting Research (CAR), Rhode conducted a questionnaire survey to investigate the extent to which auditors claimed to have carried out audit work when they had not, in fact, done so. Among the respondents in private practice, 58% stated that they had signed for completing audit steps when they had not, in fact, done the work. The survey also revealed that respondents considered that excessive time pressure would be the likely cause of such behaviour. One indication of this was that 55% of the respondents reacted to audit time pressure while completing required procedures in their own time without reporting the hours. The CAR suggested that the principal factors underlying the apparent excessive time pressure was the degree of competition within the auditing profession. The CAR also suggested that individual firms should carry out studies to investigate the extent and causes of inadequate audit performance by individuals within their own firms. A study, here, would be of great importance to determine whether the UK experience is similar to that in the USA and whether large firms are required to take further steps and procedures so as to reduce the likelihood of inadequate auditing and its potentially disastrous consequences.

### **3. OBJECTIVES OF THE STUDY**

It is noteworthy that auditing standards are one of the important parameters of audit quality improvement, the others are professional ethics, code of conduct, continuing professional education, independence of auditors, peer review etc. To be more specific, it is to be reviewed keeping in mind that auditing standards convergence, principle based rather than rule based auditing standards, categorization of auditing standards in to audit risk standards, quality control standards and engagement standards etc, implementation of auditing standards and compliance with auditing standards are some of the issues that are

considered as measures for improvement of audit quality.

#### **4. RESEARCH METHODOLOGY**

The descriptive study is based on review of information available in contemporary literature including books, journals periodicals, magazines, newsletter etc.

#### **5. DISCUSSION AND ANALYSIS**

Some fundamental factors of auditing standards impacting upon audit quality improvement viz., Harmonization or convergence of Indian auditing standards, Application of Indian auditing standards, Implementation of Indian auditing standards and overall improvement of Indian audit quality are focused upon while reviewing auditing standards from different perspectives towards improvement of audit quality in India.

##### **5.1 Harmonization/ Convergence of Indian Auditing Standards**

Harmonization is a way to bring uniformity and harmonization of auditing standards attempts to bring uniformity in methods, procedures, techniques and processes as applied by two or more countries to examine their financial statements. The convergence practice aims at adopting a single set of auditing standards by the countries in agreement with convergence process. The countries in convergence process, then, follow a single set of standards as their own with no other standards to follow for the same purpose. In India, the work is in progress for convergence of Indian Auditing and Assurance Standards (AASs) with International Standards on Auditing (ISAs). These initiatives may be undertaken due to globalization of capital markets and cross broader financing strategy. These initiatives may invite both merits and demerits. The merits of convergence encourage comparability of audit quality of participant countries. So far as India is concerned, it provides scope to Indian auditors for overseas practice subject to the prevailing law of the country. The demerit, on the other hand, is left with the fact that in the process of convergence the applicable laws, customs, usage and business environment in India becomes a secondary issue. So, a proper tradeoff be maintained while undertaking convergence programme.

##### **5.2 Application of Indian Auditing Standards**

Application aspect of auditing standards is determined keeping in view the basic approaches with which standards are formulated. Basic approaches are generally principle based or rules based. Accordingly, there are two broad dimensions of auditing standards, namely, principle based and rule based auditing standards accepted by different countries in the world. Again, professional judgement plays key role in the application of the standards. Principle based auditing standards deserve more professional judgement as compared to the rule based auditing standards. Indian auditing standards are principle based keeping in line with ISAs. Due to principle based foundation of the Indian auditing standards,

there is much scope for application of basic auditing principles in compliance with the standards. Also, audit risk is another vital issue that may be reduced if the auditor follows rule based standards because audit risk is limited by the rules. Principle based standards have wider scope of operation. They seldom provide problem specific guidelines that arise in individual audit engagement. However, statements and guidance notes are issued by ICAI from time to time to address these issues. Moreover, Indian Standards on Auditing (SAs) are framed in such a way that can cover both governmental and non governmental entities with a single set of standards.

### **5.3 Implementation of Indian Auditing Standards**

Implementation of Indian auditing standards is concerned with proper and effective oversight thereof. Audit quality increases if the auditor properly complies with auditing standards in practice. But proper compliance with the auditing standards calls for continuing professional education on the part of the auditor. The auditor should have proper audit training in application of standard techniques in the conduct of audit of financial statements. The audit firms are designed to maintain a quality control system to ensure compliance with the standards. The firm, if needed, may conduct peer review to ensure compliance with the standards. In addition, more regulatory authorities like, the SEBI, ICAI, NFRA (National Financial Reporting Authority) etc should provide vigilance service with regard to auditor's compliance with Indian auditing standards. However, NFRA, an independent oversight body like the Public Company Accounting Oversight Board (PCAOB) in USA has been constituted in pursuance of Companies act 2013 to ensure oversight function particularly over audit profession. It is noteworthy that Companies act 2013 has constituted NFRA under section 132(S210A) with extended authority for maintaining quality of audit practices including mandatorily complying with auditing standards by audit firms in practice. In fact, users have no scope to verify auditor's compliance with auditing standards; the regulatory authorities, therefore, should be more responsible in this regards.

### **5.4 Overall Improvement of Audit Quality**

Audit quality is the outcome of factors contributing to it. Those factors refer to professional ethics, auditing standards, auditor's independence, professional education, professional judgement, peer review and Financial Reporting Review Board etc. Auditing standards specify minimum quality level that the auditors are expected to maintain to their clients and public. Due process of setting standards needs to be transparent, orderly and externally validated. They must satisfy the needs of investors' protection, market integrity and financial stability but to embody at the same time the expertise and experience of those

who really do the audits. A professional accountant should perform professional services independently on the basis of relevant technical and professional standards and should protect the interest of the clients along with requirements of market integrity, objectivity and transparency of the professional system.

## 6. CONCLUSION

It may be concluded that auditors agree to a more positive assessment about the impact of auditing standards on audit quality improvement. Keeping in line with convergence of Indian accounting standards by 2011 convergence of Indian auditing standards with ISAs would definitely improve audit quality. It would open up scope for audit practice overseas. Indian auditing standards are good in number and quality but lack proper implementation. This is because of ignorance on the part of the auditors about the scope of operation of different auditing standards; moreover, there is weak regulatory mechanism.

There is no denying the fact that Generally Accepted Auditing Standards (GAAS) have authoritative support for Generally Accepted Accounting Principles (GAAP). However, in case of GAAS override, professional care, due diligence of the auditor become need of the hour. The documentation of compliance with GAAP is verified and finally attested by the auditor in pursuance of guidelines of auditing standards. Again, the principle based approach of Indian auditing standards is convenient for application in Indian business environment. Moreover, auditing standards classified in to audit risk standard, quality control standards and engagement standards etc help the auditor to be more specific about audit responsibility in practice. But more important issue is a strong regulatory network that needs to be effective for proper implementation of SAs. The auditors are expected to continue professional education, training and proficiency and set up quality control system so that the audit firms are in a position for proper execution of the standards. In addition, peer review process, independent oversight functions should run simultaneously to ensure proper implementation. Last but not least, all regulatory authorities in India should be proactive enough to ensure auditors effectively complying with SAs in practice.

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