Replacing the Accounting Regulator - II

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What is the issue?

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- Recent bank scams exposes audit failure of ICAI.
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- ICAI needs to adopt global best practices to address such issues.
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What is the need for Audit regulator?

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- Almost all major economies today have independent audit regulators, with the most prominent ones being set up between 2000 and 2005.
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- The Public Company Accounting Oversight Board (PCAOB) in the US is one of the earliest regulators, set up as a result of the Sarbanes-Oxley Act of 2002.
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- To share knowledge and experiences, the International Forum of Independent Audit Regulators (IFIAR) was set up in 2006.
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- Today, IFIAR has 52 independent audit regulators worldwide.
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What is the Indian scenario of audit agencies?

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- In India, discussions on setting up an independent oversight body had commenced almost a decade ago, however it is only now that it is finally

close to being implemented.
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- The Institute of Chartered Accountants of India (ICAI) has sufficient safeguards to ensure that the process does not result in self-regulation.
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- There are few practical concerns with the Quality Review Board coming into existence.
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- The inclusion of an independent audit regulator, National Financial Reporting Authority (NFRA), in the Companies Act, 2013 was also failed due to various reasons.
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- There are also lack of awareness regarding the extent of responsibilities of an auditor among non-auditors.
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What are the reason for this difficulties?

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- In India there are inadequate reporting and recognising the inherent weaknesses in self-regulation.
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- It is difficult to demonstrate that a mechanism that is designed, managed and includes members of the professional body can ensure effective implementation of independent oversight.
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- This is perhaps the reason why India is not yet a member of IFIAR.
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- NFRA’s extensive powers in terms of its ability to investigate, impose penalty and banning operations of auditors and audit firms have been the mainstay of most conversations around the topic.
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What measures needs to be taken?

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- The Government need to and other agencies must involve in setting standards, monitoring compliance and, most importantly, suggesting measures for improvement in quality of audits.
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- The structural and operational mechanisms that ensure following things must be made
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    1. The body remains operationally independent and its decisions are subject to scrutiny and are transparent.
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    2. Members maintain highest level of independence and prohibiting conflicts of interest.
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    3. Clarity in the inter-se relationships with the professional bodies, clear distinction in the respective roles and responsibilities.
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- Best practices of various countries need to be used by NFRA and that will be instrumental in ensuring a robust, world-class oversight mechanism.
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- Thus the overarching objective of a regulator is to enhance audit quality which, in turn, will enhance investor protection and public interest.
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Source: Business Line

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