

A Comparative Study on Audit Quality Followed in India, UK & USA

Authors: Tanya Kumari, Chaitanya Nellithaya, Shah Krushali, Josy Thomas, Anitta Sony, Nerole G Kochikunnel, Mary George, Sunil DB, Jayanthi P – Research Scholar's, CHRIST (Deemed to be University)

Guided by : Dr. Kavitha Jayakumar, Associate Professor, CHRIST (Deemed to be University)

Abstract: *In this research study, we examine the audit procedures and audit format followed by various countries namely India, United States of America and United Kingdom towards the professional courses such as CA, CPA and ACCA originated and followed by each of these countries respectively. All these audit responsibilities and regulations contribute significantly towards the type of audit quality every country enhances among them and this in turn either uplifts the trust carried among the auditors through the various stakeholders or leads to different corporate scandals which break down the audit carried by firms completely. Our results and discussions highlight that in order to uplift a country like India, adapting stringent rules and regulations is much necessary in order to ensure that profession of audit always serves towards a good impact in terms of factors such as auditor's fees, auditors' size and auditors' reputation.*

KEYWORDS: Audit Quality, Quality Review Board, Auditing and Assurance Standards Board, Enhancing Audit Quality.

Introduction

Auditors play a key role in adding to the credibility of the budget summaries on which they are reporting. Top notch audits help the financial stability. Quality audit is the method of orderly inspection of a quality agenda performed by an external or internal quality auditor or an audit crew. It is an important part of a company's quality management framework and is a key factor in the "ISO quality framework standard, ISO 9001". Quality audits are usually made at a predefined time interval and provides the assurance that the company has obviously categorised internal framework monitoring process interconnected to gripping actions. This helps in deciding whether the firm fulfils to the well-defined quality framework forms and can include technical or results-based evaluation principles. Audits are a basic administration device to be applied for validating objective evidence of processes, to evaluate how efficiently processes have been executed, for passing verdict on the capability of achieving any target levels, to provide suggestions vis-à-vis reduction and eradication of delinquent areas. For the benefit of the organization, quality auditing must report non-conformances and corrective actions, yet in addition feature sections of good practice. Thusly, various partitions may share facts and review their working practices accordingly, furthermore addition to the persistent enhancements.

For the purpose of keeping a regulatory check on the quality of audit, various countries like India, UK & USA have set up regulatory bodies like "Quality Review Board (QRB)", "The International Auditing and Assurance Standards Board (IAASB)" & "Enhancing Audit Quality (EAQ)" respectively. Since the establishment of these regulatory bodies stringent laws have been passed to maintain the quality of audit performed by the certified auditors.

Review of Literature

The proficiency of secondary market depends on the accessibility of dependable financial information about the performance of companies. The more rapidly the information is gathered, handled, confirmed and circulated among the traders of the market, the better will be the working of secondary market. And there arises a need for quality of the audit performed (Francis, 2004)

Therefore Audit Quality is defined as the likelihood that an auditor would discover and address a breach of accounting law in the client's reporting system. Research has found that the size of company has a very significant impact on the company's performance in regards to the audit quality, which is also an important factor in building the investor's confidence (Santoso & Widyaswati, 2017).

Audit quality is an idea that has distinctive definitions for different individuals. Clients of financial statements view audit reports to give outright confirmation that organization financial reports have no material misquotes and don't execute fraud (Epstein & Geiger, 1994)

Due to the significance of having a high-level audit, more research ought to investigate different regions that identify with audit quality, for example, customer service satisfaction, customer dependability, and auditors turnover. Another expansion that may reveal more insight into the subject of the audit effort is the fuse of corporate governance attributes into the analysis (Aghaei, 2011).

It is also observed in a study that auditors are more prone to receive higher fees during the IPO audits than the post IPO audits as they are more exposed under the Act of 1934 and 1933. It was also noted that the audit quality is higher during the pre IPO audit (Venkataraman, Weber, Willenborg, & Willenborg, 2019).

The quality of audit has been defined to be impacted by various factors such as the size of the accounting firm, auditors characteristics, auditor tenure, non-audit services, audit fee and audit partner rotation (Fuhui, Shixuan, Jie, & Wei, n.d.).

FR has identified five drivers of audit quality which can be listed as (1) The culture of the audit firm; (2) the skills and qualities of audit partners (3) the efficiency of the audit process; (4) the reliability of audit reporting; and (5) external factors beyond the control of auditor impacting the audit quality (Velury, 2013)

Many studies found that long tenure of auditor did not impair independence. Some found that long tenure improved audit quality and the short tenures are associated with lower audit quality (Tepalagul & Lin, 2014).

Objectives

- 1) Comparative analysis of the audit quality and audit format procedures followed by the auditors in India, United States of America and United Kingdom
- 2) Suggest recommendations to improve the audit quality and procedures of the auditors in Indian context

The two main objectives for this research study are finalized after conducting the literature review and it was found out by the researchers that there are not many studies pertaining where there is a comparison of audit quality work made between developed and developing nations. There have been studies considering only the developed or developing nations. But it is important for a country like India which is at a faster developing stage to consider the audit procedures followed by the developed nations to improve, inculcate and incorporate any of the developed nation audit procedures if supported for the goodness of auditors' quality to avoid the corporate scandals.

Discussion

The main objective of the paper is to compare and analyse audit quality and audit format procedures followed by the auditors in India, United States of America and United Kingdom. It was found that, all the three nation has a different board which makes laws and other rules as a separate governing body for audit quality methods that are as follows:

INDIA: Under Sec.28 of Chartered Accountants Act, 1949, after the Amendment of the act in 2006 "(QRB) or Quality Review Board" was established by the Central government. This board since the date of establish is striving constantly in refining the quality of audit firms by concentrating more on its analyses. The Quality Review Board analyses all characteristics of how an audit was achieved in top registered and other public interest organizations, nominated on a risk-based methods. QRB certifies to avoid conflict of interest of all persons involved in analysing the exercises and seeks out to maintain the privacy of the obtained information. To provide supervision to the Audit firms for safeguarding perfection in the quality of them services, they publish periodic reports, on a yearly basis, provided that the key audit quality review conclusions are in an aggregated method and issues essential support to the Auditing firms for upgrading and identification of root causes thereof. The published reports are publicly made available at Quality review board website. Quality Review Board has established a strong system of self-governing review of legal audit services of the Auditing firms based upon best worldwide practices.

UNITED KINGDOM: As per to the frameworks developed by the board of The International Auditing and Assurance Standards Board (IAASB), for quality of audit describes the basic process of input and output factors that mainly contributes at the engagement in audit quality, auditing firms and for the financial report audits. This agenda also shows the importance of apposite relations among stakeholders and the importance of several appropriate factors. The term of 'audit quality' is difficult to define, for the The International Auditing and Assurance Standards Board, as it includes a number of crucial fundamentals that create an atmosphere which increases the possibility that quality audits are performed on a unswerving basis.

“The key fundamentals of audit quality recognized by the Framework are:

(a) Inputs (b)Outputs (c)Process (d)Key Interaction within the Financial Reporting supply chain and (e)Contextual Factors” (Global, 2014)

UNITED STATES OF AMERICA: As business and regulatory/governing environments progress and develop progressively composite, the CPA profession’s obligation to accomplish quality audits becomes even more crucial. The Enhancing Audit Quality (EAQ) initiative established or launched in the year 2014, by the AICPA board aligns all the audit and assurance associated activities with the main goal of achieving the quality improvement in a firm. Basically, “EAQ transforms audit data into valuable insights and tools to support auditors, auditees and other stakeholders.” (AICPA, 2018). EAQ focuses mainly on Assessment of Risks, Auditing Accounting Estimates, Internal Control. Where Risk Assessment is defined regarding quality of audit, “Identifying, assessing and responding to risks of material misstatement are at the core of every audit. However, in more than half of all audits, firms aren’t properly assessing risk or linking their assessment to their audit procedures” (AICPA, 2018). Auditing Accounting Estimates is defined regarding quality of audit, “When auditing financial statements, it’s critical that auditors properly consider accounting estimates. Non-conformity in this area is the most common audit issue detected by practice monitoring programs worldwide.” (AICPA, 2018). And Internal Control is defined as per quality of audit, “Obtaining an understanding of a client’s internal control is fundamental to any audit. However, many auditors struggle with the identifying controls, evaluating their design and implementation, and testing their operating effectiveness” (AICPA, 2018).

Conclusion

As per to the article, authors have researched upon the audit procedures and audit format followed by various countries namely India, United States of America and United Kingdom towards the professional courses such as CA, CPA and ACCA originated and followed by each of these countries. As each of the audits are responsible for any firms across the globe. The three professions in the three main countries chosen have their own rules and regulations of audit and they subsidize meaningfully to the audit quality type followed in these three nations. Which in-turn these audit quality increases the trusts and beliefs in the investors or leads to different corporate scandals which break down the audit carried by auditors. The author has described the topic based on two main objectives where the primary objective is to compare and analyse audit quality and audit format procedures followed by the auditors in India, United States of America and United Kingdom. And the secondary objectives is to suggest the necessary recommendations which in-turn improves the quality of an audit and its procedures of the auditors in Indian context.

References

- Accountants, A. I. of C. P. (2019). Strengthening Organizations, Advancing Economies, 1–7.
- Aghaei, A. (2011). Review of studies on audit quality, 20, 312–317.
- Alhadab, M. (2016). IPO Underpricing and Audit Quality : Evidence from the Alternative Investment Market in the UK
 Mohammad Muflih Alhadab *, (September). <https://doi.org/10.22495/cbv12i2c1art5>
- Alhadab, M., & Clacher, I. (2018). The Impact of Audit Quality on Real and Accrual Earnings Management around IPOs. *The British Accounting Review*. <https://doi.org/10.1016/j.bar.2017.12.003>
- Bharat, A., & Charles, L. (2005). The Association between Audit Quality and Post-IPO Performance : A Survival Analysis Appr.
- Board, Q. R. (2017). Report on Audit Quality Review.
- Chang, X., Gygax, A. F., Oon, E., & Feng, H. (2008). Audit quality, auditor compensation and initial public offering underpricing, 48(September 2005), 391–416.
- Clarkson, P. M., Fraser, S., Is, V. A., & Simunic, D. A. (1994). The association between audit quality, retained ownership, and firm-specific risk in U.S vs Canadian IPO markets *, 17, 207–228.
- Francis, J. R. (2004). What do we know about audit quality ? *, 36, 345–368. <https://doi.org/10.1016/j.bar.2004.09.003>
- Fuhui, W., Shixuan, W., Jie, G., & Wei, S. (n.d.). Audit Quality and its Affecting Factors :
- Gambier, A. (2016). Enhancing audit quality in the public interest : A focus on professional scepticism, quality control and group audits, 44(0), 1–26.
- International Auditing and Assurance Standards Board. (2019). Audit quality – a perpetual current issue, 1–8.
- Lee, P. J., Taylor, S. J., & Taylor, S. L. (2007). Auditor Conservatism and Audit Quality : Evidence from IPO Earnings Forecasts, 1–35.
- Lee, P., Stokes, D., Taylor, S., & Walter, T. (2003). The association between audit quality, accounting disclosures and firm-specific risk : Evidence from initial public offerings, 22, 377–400. <https://doi.org/10.1016/j.jaccpubpol.2003.08.003>
- Review, P. (2019). Enhancing Audit Quality : See the profession’s 2017 progress, 2018–2019.

- S.Hughes, S. M. D. G. A. F. J. (n.d.). THE ROLE OF AUDITS AND AUDIT QUALITY IN VALUING NEW ISSUES.
- Santoso, A., & Widyaswati, R. (2017). The Effect of Earnings Management on Company's Performance with Audit Quality and Company's Size as Moderating Variables, *18*(2), 97–106.
- Sun, N. (n.d.). EMPIRICAL RESEARCH ON IPO, 39–51.
- Tepalagul, N., & Lin, L. (2014). Auditor Independence and Audit Quality: A Literature Review. <https://doi.org/10.1177/0148558X14544505>
- Velury, U. K. (2013). Audit Quality: Insights from the Academic Literature, *32*(April 2012), 385–421. <https://doi.org/10.2308/ajpt-50350>
- Venkataraman, R., Weber, J. P., Willenborg, M., & Willenborg, M. (2019). Litigation Risk, Audit Quality, and Audit Fees : Evidence from Initial Public Offerings, *83*(5), 1315–1345. <https://doi.org/10.2308/accr.2008.83.5.1315>
- Wang, L. (2015). The Research of Initial Public Offering Audit Risk Management, (October), 471–475.
- York, N. E. W. (2019). AICPA Reports on Actions Promoting Enhanced Audit Quality, 1–2.
- Yue, T., Winton, A., Yu, X., Wang, T. Y. U. E., Winton, A., & Yu, X. (2019). American Finance Association Corporate Fraud and Business Conditions : Evidence from IPOs Source : The Journal of Finance, Vol. 65, No. 6 (DECEMBER 2010), pp . 2255-2292 Published by: Wiley for the American Finance Association Stable URL : <https://www.jstor.org/stable/23324410> Corporate Fraud and Business Conditions : Evidence from IPOs, *65*(6), 2255–2292.

