

# Framework of Audit Quality for Statutory Financial Audit: A Conceptual Review

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## Abstract

Compliance with applicable legal and regulatory requirement and issuing reports which are appropriate in circumstances is the basic prerequisite of quality audit. According to framework of audit quality proposed by International Auditing and Assurance Standards Board (IAASB) under International Federation of Accountants (IFAC), quality of audit depends upon certain underlying factors, communication among the stakeholders of financial reporting supply chain and certain contextual issues. In this current study, an attempt has been made to conceptually discuss the framework of audit quality as proposed by IAASB and draw conclusion on its applicability in ensuring quality of audit.

**Keywords:** Statutory Audit, Quality Control, Audit Quality.

## 1. Introduction

A quality audit is a prerequisite of generating financial statements free from manipulations. Quality of audit is predominantly attributed to competence and independence of auditors. But, groundbreaking revelations of repeated accounting scandals at Enron, WorldCom and Satyam have proved that statutory auditors' independence can easily be moulded in a company (Saha, 2015). The entire foundation of investors' confidence in financial statement depended upon such independence. However, these accountings scandals were a sudden blow to that foundation (Saha, 2015a). In this backdrop, it is highly imperative that regulators should move to improve the quality control procedure and take measures to improve the same (Saha & Roy, 2015). Quality audit should provide reasonable assurance that all professional and regulatory requirements relating to audit have been duly complied with and reports issued are appropriate in circumstances (ISQC-1, 2009). At the international level, the International Federation of Accountants (IFAC) has several operating boards. Among them, International Auditing and Assurance Standards Board (IAASB) and International Ethical Standards Board of Accountants (IESBA) are noteworthy. IAASB issues International Standards on Auditing (ISAs) and International Standard on Quality Control (ISQC)-1 which shape the professional responsibilities of statutory auditors, while IESBA issues Code of Ethics for Professional Accountants that define their ethical role. Developed and developing countries adopted those standards and codes and modified it according to their country specific requirements. Based on these legal and professional requirements, accounting firms design policies and procedures to ensure quality of all of their engagements especially audit engagements. These policies finally get reflected in the engagement practice. Therefore, to ensure quality of audit, there should be a proper synchronisation of regulatory and ethical requirements at national, firm and engagement level. A multi-way communication between different stakeholders of financial reporting supply chain is also necessary identify the lacuna in quality control framework. Finally, there are certain contextual factors which externally influence quality of audit.

In the current study, an attempt has been taken to discuss the quality control framework for statutory audit of financial statements based on a discussion paper issued by the IAASB. Major factors of audit quality, important communications between stakeholders of financial reporting supply chain, influence of contextual factors on quality of audit and Indian scenario of quality control for statutory financial audit are thoroughly discussed here.

## 2. Objectives of the Study

The study has following objectives:

- (i) To conceptually discuss different factors of audit quality (Refer to Section 4);
- (ii) To exhibit the interactions among the stakeholders of financial reporting supply chain (Refer to Section 5);
- (iii) To critically review the contextual factors of audit quality (Refer to Section 6);
- (iv) To discuss the quality control framework for statutory audit of financial statements in India (Refer to Section 7).

### 3. Methodology

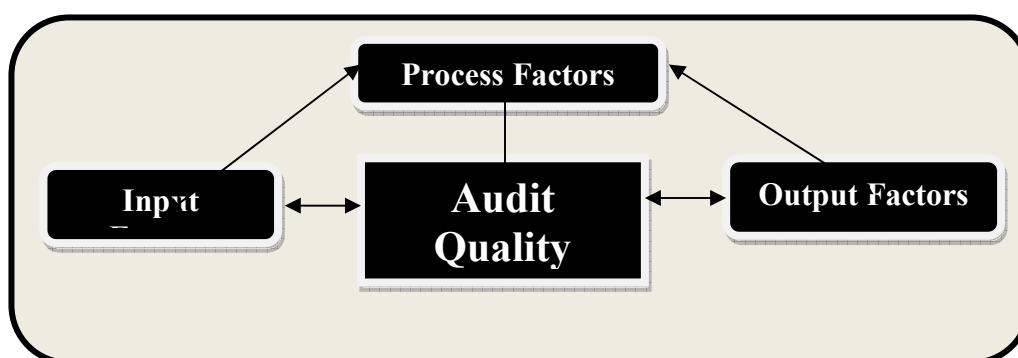
The study is descriptive and exploratory in nature. With a view to collecting data for the current study, at the outset, a discussion paper titled, '*A Framework for Audit Quality: Key Environments that Create Environment for Audit Quality*' published by the IAASB under the IFAC has been referred. In addition to that, several other secondary source materials are collected to develop an idea about audit quality. The entire study has then been made as per stated objectives and a suitable conclusion of the study has been made.

### 4. Audit Quality Factors

Audit quality depends upon many factors encompassing certain key elements that create an environment for performance of quality audit on a consistent basis. Factors of audit quality can be classified into following three major groups:

- (a) Input Factors: Quality of attributes brought into the engagement;
- (b) Process Factors: Attributes that influence audit process; and
- (c) Output Factors: Reports generated at the completion of audit process.

The relationship of these three segments to audit quality can be represented here.



At the national level, regulatory framework determines the specific regulatory requirements for input, process and output factors. Each accounting firm, based on these regulatory environment and their firm specific considerations develops policies and procedure to achieve needs these three factors. Finally, an engagement partner implements applicable regulations for them and policies of the firm and ensure fulfilment of necessities of these three factors. Hence, input, process and output factors at national, firm and engagement levels which significantly influence overall audit quality are mentioned in the following sections.

#### 4.1 Input Factors

Personal Attribute	<ul style="list-style-type: none"> <li>◆ Values, virtue, ethics and attitudes of statutory auditors;</li> <li>◆ Knowledge, skill and experience of the statutory auditors.</li> </ul>
Input Factors at National Level	<ul style="list-style-type: none"> <li>◆ Ethics principles and specific ethical requirement in the country;</li> <li>◆ Active participation of regulators, national standard setters, and professional bodies in maintaining consistency in the ethical requirements;</li> <li>◆ Information sharing between audit firms on acceptance of audit engagements.</li> <li>◆ Robust arrangement for licensing audit firms/ individual auditors.</li> <li>◆ Education and training for statutory auditors;</li> <li>◆ Process of updating statutory auditors on recent developments in accounting, auditing and ethical requirements;</li> <li>◆ Attracting person with potential towards this profession (Saha &amp; Roy, 2015a).</li> </ul>
Input Factors at Firm Level	<ul style="list-style-type: none"> <li>◆ Governance arrangements giving audit quality paramount importance;</li> <li>◆ Appraising and rewarding personnel with orientation of audit quality;</li> <li>◆ Influence of financial consideration on action and decision of the firm;</li> <li>◆ Continuous professional development for partners and staffs on accounting, auditing, ethics and industry related issues;</li> <li>◆ Access to technical support;</li> <li>◆ Scope of consultation within and outside the firm;</li> <li>◆ Robust system for accepting or continuing client relationship;</li> <li>◆ Policies to deal with difficult issues faced by engagement teams;</li> <li>◆ Structure of engagement teams;</li> <li>◆ A system of appraisal and training by senior staff to junior staff within the firm (Saha &amp; Roy, 2015).</li> </ul>
Input Factors at Engagement Level	<ul style="list-style-type: none"> <li>◆ Engagement team's commitment towards relevant ethical requirements and protection of public interest;</li> <li>◆ Compliance of ethical principles – Integrity, Objectivity, Independence, Professional Competence and Due Care etc.</li> <li>◆ Engagement team shows professional scepticism;</li> <li>◆ It understands entity's business;</li> <li>◆ Active involvement of engagement partner in risk assessment, planning, supervising and reviewing the work performed;</li> <li>◆ Sufficient experience of each member of the engagement team;</li> <li>◆ Sufficiency of time available to conduct audit;</li> <li>◆ Ease of communication with management and those charged with governance.</li> </ul>

#### 4.2 Process Factors

Process Factors at National Level	<ul style="list-style-type: none"> <li>◆ Regulations governing audit procedure, ethical requirements in audit and quality control procedure;</li> <li>◆ Presence of bodies to inspect qualities of relevant attributes of auditing both within firm and for individual engagements;</li> <li>◆ Effective system for investigating allegations of audit failure and instituting disciplinary actions.</li> </ul>
Process Factors at Firm Level	<ul style="list-style-type: none"> <li>◆ Adaption of audit methodology that encourage professional scepticism and professional judgement;</li> <li>◆ Supervision and review of audit work;</li> <li>◆ Adaption of audit methodology to ensure appropriate audit documentation;</li> <li>◆ Rigorous quality control and monitoring procedure;</li> <li>◆ Review of engagement quality (Saha &amp; Roy, 2015a).</li> </ul>
Process Factors at Engagement Level	<ul style="list-style-type: none"> <li>◆ Compliance with applicable regulations;</li> <li>◆ Use of information technology while conducting audit procedures;</li> <li>◆ Effective interactions with other stakeholders;</li> <li>◆ Effective arrangements with managements.</li> </ul>

### 4.3 Output Factors

Quality of audit is reflected in the outcome of audit procedure. Output of an audit procedure is audit report which is issued as an outcome of audit procedure is shown here:

Table 1. Outcome of Audit Procedure

Issuing Authority	Issued to	Nature of the Report	Contents of the Report
Auditor	Users of financial information	Auditor's Report	Independent observation on truth and fairness of financial statements and risk of material misstatement.
Auditor	Those charged with governance	Auditor's Report	Audit responsibilities, timing and scope of audit, threats and safeguards to independence in audit engagements and audit findings.
Auditor	Management	Auditor's Report	Auditor's observations on entity's business and systems, regulatory issues and industry perspective.
Auditor	Financial and Prudential Regulators	Auditor's Report	Assurance of compliance with reporting requirements, additional emphasis on matters that are of significant importance to regulators and matters which are illegal in nature.
Management	Users of financial information	Audited Financial Statements	Quantitative or qualitative modifications in draft financial statements after the audit.
Management	Users of financial information	Reports from those charged with governance	Declaration by those charged with governance that exercised high degree of oversight on audit procedures and ensures audit quality.
Regulators	Those charged with governance	Information on Individual Audit	Result of inspection of individual audit engagement.
Audit Firm	General Public	Transparency report	Governance and quality control policies of an audit firm.
Audit Firm	General Public	Annual and other report	Key performance indicators of audit quality, initiatives to improve it, weakness in governance structure, recommendations to change laws and regulations.
Regulators	General Public	Aggregate view on audit firm inspection	Results of inspection of all or select audit firms.

(Source: Framework for Audit Quality, IAASB)

### 5. Financial Reporting Supply Chain : Interactions among the Stakeholders

Audit procedure requires a statutory auditor to have a continuous two way interaction with other four stakeholders in the financial reporting supply chain. Effective formal or informal interactions among these stakeholders influence audit quality. The following are the stakeholders of financial reporting supply chain:

- Management;
- Auditors;
- Those charged with Governance (e.g. Audit Committee);
- Regulators; and
- Users of Financial Information.

Nature of such communication represented in the following diagram.

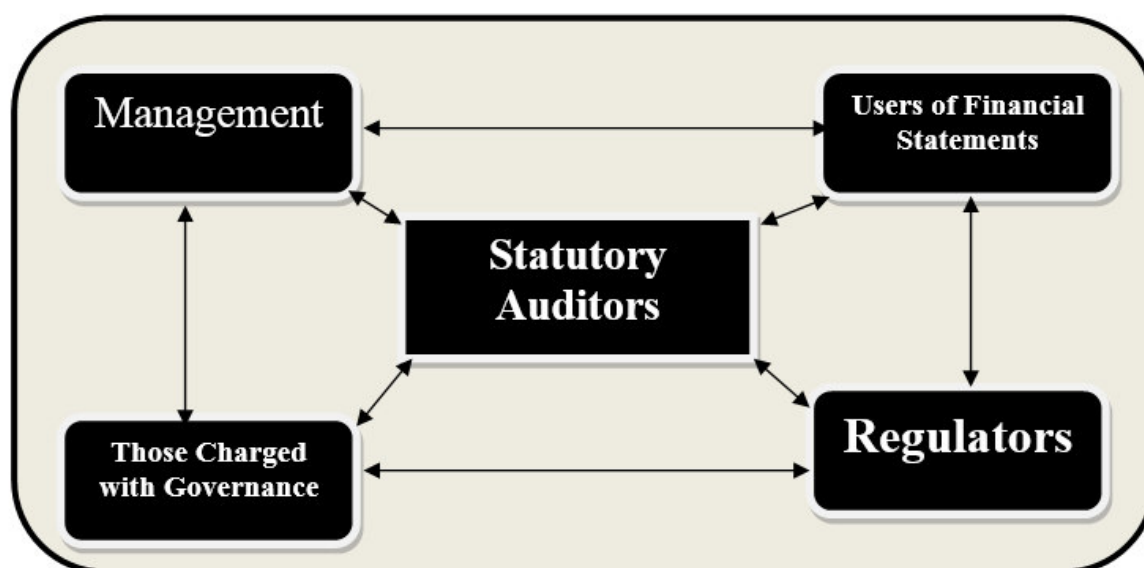


Exhibit 2. Interactions with Financial Reporting Supply Chain  
 (Source: Figure Compiled based on Framework for Audit Quality, IAASB)

Major interactions among the stakeholders are here:

Interacting Parties	Major Interactions
Statutory Auditor and Management	<ul style="list-style-type: none"> <li>◆ Information needs to design audit procedure;</li> <li>◆ Sufficient appropriate audit evidences within or outside the company to assess risk of material misstatement and validity of significant judgements made by the management;</li> <li>◆ Select audit findings where management explanation is needed;</li> <li>◆ Possible improvements in the entity's financial reporting and internal control process;</li> <li>◆ New financial reporting requirements;</li> <li>◆ Perspectives on industry issues;</li> <li>◆ Observations on legal and regulatory matters.</li> </ul>
Statutory Auditor and those charged with Governance	<p>Auditor communicates following matters to those charged with governance:</p> <ul style="list-style-type: none"> <li>◆ Audit plan</li> <li>◆ Significant findings on financial reporting risk faced by the entity;</li> <li>◆ Significant findings on managements' judgement on financial reporting process;</li> <li>◆ Significant findings on quality of financial reporting process;</li> <li>◆ Significant findings on weakness of internal financial control.</li> </ul> <p>Those charged with governance communicate following matters to Auditors:</p> <ul style="list-style-type: none"> <li>◆ Financial reporting risks;</li> <li>◆ Areas of business that require special audit attention;</li> <li>◆ Audit resources required to perform audit effectively and commensurate fees payable;</li> <li>◆ Independence issues in an engagement and means of their resolution;</li> <li>◆ Fraud risk, management's choices of accounting estimates and accounting policies;</li> <li>◆ Other difficult or contentious matters.</li> </ul>
Statutory Auditor and Financial Statements Users	<p>Financial statements users communicate auditors on following issues:</p> <ul style="list-style-type: none"> <li>◆ Significant matters pertaining to audit</li> </ul> <p>Auditors communicate financial statements users on following issues:</p> <ul style="list-style-type: none"> <li>◆ Unbiased and politically neutral insights into the operations and financial reporting practices of the entity;</li> <li>◆ Compliance with relevant regulatory requirement in financial statement;</li> <li>◆ Constructive and timely recommendations about the company.</li> </ul>

Statutory Auditor and Regulators	<p>Regulators can be categorised under three groups – a) Financial regulator (governing financial market, market participants and financial reporting); b) Audit regulator (governing audit procedure of audit firms); c) Prudential regulator (governing prudential bodies like banks or insurance companies).</p> <p>Interactions between Auditor and Financial and Prudential Regulator comprise following issues:</p> <ul style="list-style-type: none"> <li>◆ Findings on audit of financial statements and internal control of companies under the purview of their regulations;</li> <li>◆ Information that impact the scope of audit and audit conclusion and opinion;</li> <li>◆ Information that indicates a failure to fulfil requirement of banking licenses;</li> <li>◆ Information that indicate material breach of laws or regulations;</li> <li>◆ Adverse changes in the risk of bank businesses and going concern issues.</li> </ul> <p>Interactions between Auditor and Audit Regulator:</p> <ul style="list-style-type: none"> <li>◆ Findings of audit inspection of audit firms;</li> <li>◆ Root causes of deficiencies in their quality operations;</li> <li>◆ Means of resolving deficiency issues.</li> </ul>
Management and those charged with Governance	<ul style="list-style-type: none"> <li>◆ Potentially significant issues impacting financial reporting process;</li> <li>◆ Assumptions behind significant judgements made by the management;</li> <li>◆ Areas where financial reporting process may be strengthened.</li> </ul>
Management and Regulator	<ul style="list-style-type: none"> <li>◆ Significant information about the company and its financial statements at the time of inspection.</li> </ul>
Management and Users of Financial Statements	<ul style="list-style-type: none"> <li>◆ Significant transactions of the company;</li> <li>◆ Analysts' opinion on company's stock performance;</li> <li>◆ Modified opinion issued by an auditor.</li> </ul>
Regulators and Those charged with governance	<ul style="list-style-type: none"> <li>◆ Result of inspection of an accounting firm, auditing in a particular company;</li> <li>◆ Information on quality of audit in that company as a part of inspection process.</li> </ul>
Those charged with Governance and Users of Financial Statements	<ul style="list-style-type: none"> <li>◆ Audit Process</li> </ul>
Regulators and Financial Statements Users	<ul style="list-style-type: none"> <li>◆ Information on inspection of an accounting firm.</li> </ul>

## 6. Contextual Factors of Audit Quality

There are certain factors called contextual factors to audit quality that constitute the environment of auditing and influence audit quality. They are shown in the following exhibit:

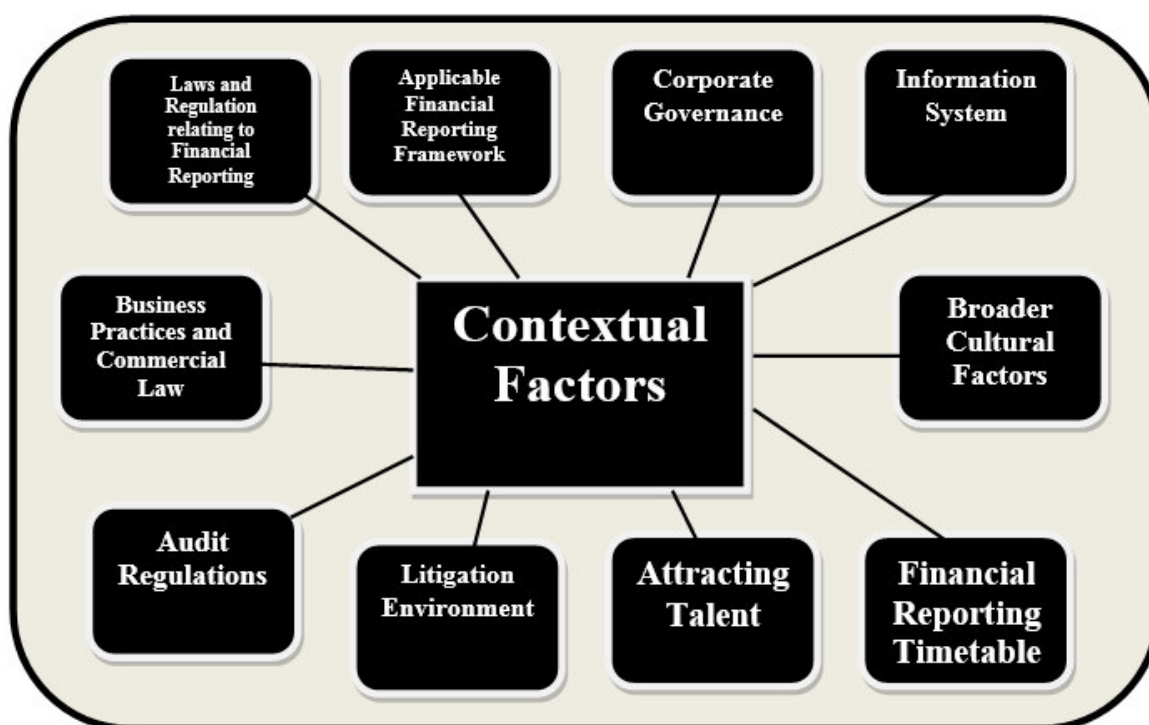


Exhibit 3. Contextual Factors of Audit Quality

(Source: Figure Compiled by Author based on Framework for Audit Quality, IAASB)

Here, the contextual factors of audit quality are discussed in brief.

Contextual Factors	Description
Business Practices and Commercial Law	<ul style="list-style-type: none"> <li>◆ Commercial Law influences the formality with which a business undertakes transactions. If commercial law in a country is less formal, business is undertaken on the basis of personal relationship and trust. Agreements can be orally amended, ownership claims could not be asserted, and liabilities could not be assessed. In such situation, management has enough opportunity to use fraudulent practices while preparing their financial statement.</li> <li>◆ Lack of documentary evidences of financial records may prohibit those charged with governance to assess economic substance of transactions and analyse effectiveness of internal control system. In such situation, it will not be possible for the auditors to conduct a quality audit. Therefore, sufficiency and enforceability of commercial law has significant bearing on overall audit quality.</li> </ul>
Laws and Regulations Relating to Financial Reporting	<ul style="list-style-type: none"> <li>◆ Laws and regulations relating to financial reporting define management responsibilities in relation to financial reporting; encourage compliance through surveillance and enforcement mechanisms; ensure cooperation of management with auditors; implement punitive action against management if they are held responsible of fraudulent reporting or non-cooperation with auditors. All these regulations control management behaviour towards financial reporting and influence audit quality.</li> </ul>
The Applicable Financial Reporting Framework	<p>Financial reporting framework assists the management with effective implementation of accounting policies on a consistent basis. A principle based approach provides several alternative procedure for an accounting policies, whereas rule based framework specifies exact method to be followed. Choice of financial reporting framework influence audit procedure in the following way:</p> <ul style="list-style-type: none"> <li>◆ In United Kingdom (UK) (ACCA, 2011) and India (MCA, 2011), the Generally Accepted Accounting Principles (GAAPs) is converged with International Financial Reporting Standards (IFRS). IFRS follows a principle based approach. In this approach, auditor cannot challenge the choice of alternative in principle based framework. The major challenge faced by an auditor in this case is to identify management's intent in relation to a particular transaction and confirm whether that intent is proportionate with choice of alternative. Apart from that, IFRS framework</li> </ul>

	<p>also requires fair value measurement and disclosure of financial information (IFRS, 2013). It also allows the management to design certain accounting estimates. Auditors face significant challenge to gather sufficient appropriate evidences to support qualitative information (e.g. risk management strategies, fair value assumptions) which involves judgements, probabilities, forward looking expectations, and use of complex models by the management. Auditor may require specialised expertise in these cases.</p> <ul style="list-style-type: none"> <li>◆ In United States of America (USA), the GAAPs follow a rule based approach. In this approach, it is difficult for the auditors to focus on the substance of transactions and challenge their fair representation in the financial statements (AICPA, 2008). An auditor also faces serious challenge to gather evidences on accounting estimate which is an approximation of financial statements element, item or accounts or fair values of financial disclosures that involves significant judgements, probabilities, forward looking expectations, and use of complex models by the management. Here, auditors also face challenge to gather sufficient appropriate evidences to support accounting estimates of management that is dependent upon business, industry or economy related factors.</li> </ul> <p>In this way, choice of financial reporting framework and auditors' ability to deal with it influences quality of audit.</p>
Information System	<p>Information system refers to a system in place to effectively perform and monitor the process of business, accounting, reporting and internal control. Financial information is available from accounting system and non-financial information (e.g. assumptions in notes to accounts, fair value assumptions, and non-financial key performance indicators) are available from other information systems within the company. As financial and non-financial, both forms of information should be readily available to auditors for effective conduct of audit, a strong, secure and continuous information system influence quality of audit.</p>
Corporate Governance	<p>Corporate governance results in accurate and reliable disclosure of financial information. In listed companies, Audit Committee comprising independent directors of the board plays the role of those charged with Governance. Members of Audit Committee should be financially literate and independent from the management. Significant attributes of corporate governance that influence audit quality are discussed as follows:</p> <ul style="list-style-type: none"> <li>◆ Those charged with governance recognise external auditing as a rigorous process that increase confidence in the reliability of published financial statement. It is also observed as a mode of obtaining expert opinion from an independent observer on control or reporting risk faced by the entity. This attitude values auditing beyond its regulatory requirement and attaches absolute importance to it which motivates an auditor to perform quality audit.</li> <li>◆ Those charged with governance decides time and scope of audit procedure and determine audit fees accordingly. It allows a statutory auditor to gather sufficient and appropriate resources for effective implementation of audit procedure.</li> <li>◆ Audit Committee recommends appointment, provision of non-audit services, and audit fees of auditors. All these issues have significant bearing on independence of an auditor.</li> <li>◆ Those charged with governance facilitate communication between external and internal auditors. Internal audit is a process designed to evaluate and improve the effectiveness of the entity's governance process, risk management and internal control. A scientific communication between internal and external auditor, can help the later to gather sufficient appropriate information on financial reporting and control environment of the entity.</li> </ul>
Broader Cultural Factors	<p>National culture affects the attitude of stakeholders in the financial reporting supply chain. Therefore, regulation governing financial reporting or auditing practices highly depend upon cultural factors. There are four major cultural factors that impact quality of financial reporting and audit. They are:</p> <ul style="list-style-type: none"> <li>◆ Attitude to Authority: It is the degree of inequality in the society that impact senior junior relationship in a company. Where such power differences are high, auditors are not able to question management's views on a particular transaction. This reduces quality of audit.</li> </ul>



	<ul style="list-style-type: none"> <li>◆ Uncertainty avoidance: It is the degree to which an individual wish to structure an unstructured situation. If the degree of uncertainty avoidance is high, the individual wants to take a conservative approach. In auditing as well, impact of this factor is seen when auditor assess audit risk and decide on the sufficiency and appropriateness of audit evidence.</li> <li>◆ Collective behaviour: It is the extent to which individuals want to work collectively. A country with less collective behaviour values individual approaches and encourages scepticism. But, in a country where collective ideas are predominant auditors are less likely to question management on accounting issues.</li> <li>◆ Transparency: It is the value given by society as to what is the right balance between transparency and confidentiality. If the degree of confidentiality is high, auditor may not be able to have proper understanding about the company and risk of material misstatement cannot be identified.</li> </ul>
Audit Regulations	Audit regulations involves licensing an audit firm or professional accountant to take up audit procedure, setting professional and ethical standards for conduct of audit, administering inspection of audit procedure and finally disciplinary proceedings in case of non-compliance with applicable standards.
Litigation Environment	In case of audit failure, litigation is filed against the audit firm. If the audit firm is required to compensate the litigant, it causes additional cost for him. With a view to addressing such costs, an audit firm may be more cautious towards compliance with applicable regulations and quality of audit will improve. However, if litigation becomes the key driver of audit quality, the auditor will comply with audit regulations in a checklist fashion only to avoid scope of litigations in future. Scope of innovation in audit procedure will diminish and new talent will have no incentive to join this profession.
Attracting Talent	A person with a sense of judgement, an inquiring mindset and knowledge in business, financial reporting, and auditing process is best suited for auditing profession. Though, the profession offers all the means to make a person eligible for this profession, the internal talent of the person is also essential. In many countries university graduates with knowledge and expertise in this field join this profession. The accounting profession should attract talents by informing them about glorious potentials of this profession which is normally measured in terms of remuneration. More the quality personnel join this profession; more will be the quality of audit provided by them.
Financial reporting timetable	The time frame within which the auditor has to work affects quality of audit. It is certain that if auditors are able to undertake a detailed procedure of all the accounts in the financial reports, the quality of auditing and quality of financial reporting will be much better. But as per standard regulation in different countries, the time allowed for auditing is very less. Therefore, the auditor for conducting a quality audit has to depend upon internal control system of the company and take up audit sampling. In some jurisdictions, management provide preliminary financial statements and some accounting estimates prior to beginning of audit. This provides auditor with a basic understanding on the financial statements to be audited. Applicable standards also specify auditors' responsibilities in relation to events occurring after balance sheet date.

### 7. Audit Quality and Quality Control Procedure: Indian Scenario

In India, responsibilities of the firm's personnel regarding quality control procedures for specific types of engagements are set out in accordance with Standards on Auditing (SAs) issued by Auditing and Assurance Standards Board (AASB) under the direction of the Institute of Chartered Accountants of India (ICAI). In addition to that, the Companies Act, 2013, the Chartered Accountants Act, 1949 (Amended in 2006), Code of Ethics also comprise the other legal and regulatory requirements to be fulfilled by an accounting firm and its members.

In case of auditing, a system of quality control provides a reasonable assurance that the accounting firm and its personnel have complied with applicable professional standards, and other legal and regulatory requirements and the reports issued by the engagement partner are appropriate in circumstances (IFAC, 2009). A system of quality control basically encompasses 'Policies' designed to achieve the aforesaid objectives and the 'Procedures' necessary to monitor compliance with those policies. In order to bring uniformity in policies and procedures of different accounting firms registered under the ICAI, a Standard on Quality Control (SQC)-1 titled '*Quality Control for firms that perform Audits and Reviews of Historical Financial Information, and other*

*Assurance and related Services Engagements*’ has been issued which is applicable to all accounting firms. The nature of policies and procedures formulated by individual firms based on SQC-1 depends upon their size and operating characteristics.

It is obvious that SQC-1 plays a predominant role in guiding an accounting firm to formulate quality control policies and procedures for all its engagements. From stakeholders’ perspective, audit and review of historical financial information is the most significant engagement undertaken by an accounting firm. Hence, policies and procedures developed in accordance with SQC-1 apply to it as well. Accounting firms implement those policies with the help of the Engagement Partner appointed as statutory financial auditor in a particular company. Select SAs including SA-220 titled ‘*Quality Control for an Audit of Financial Statements*’ provide guidance to the Engagement Partner with respect to implementation of quality control policies and procedures. Policies and procedures formulated by an accounting firm based on SQC-1 (ICAI, 2009) address some elements: (a) Leadership responsibilities for quality within the firm; (b) Relevant ethical requirements; (c) Acceptance and continuance of client relationship and specific engagements; (d) Human resources; (e) Engagement performance; and (f) Monitoring.

These policies and procedures are actually implemented in an audit engagement with the help of relevant SAs. SA-200 titled, ‘Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with SAs’, SA-210 titled, ‘Agreeing the Terms of Audit Engagement’, SA-220 on ‘Quality Control for an Audit of Financial Statements’, SA-230 titled, ‘Audit Documentation’, SA-300 titled, ‘Planning an Audit of Financial Statements’, SA-500 titled, ‘Audit Evidence’, etc. set the operational guidelines for conduct of an audit under the quality control framework made by an accounting firm.

Consequent to the Chartered Accountants (Amendment) Act, 2006, a Quality Review Board (QRB) has been constituted by the Central Government in pursuant to Section 28A of the Act. Members of this board are nominated by the Council of Chartered Accountants of India (CCAI) and the Central Government. The basic responsibility of this board is to review the quality of services of the professional accountants and recommending best practices. QRB had initiated the review procedure in the year 2012. The review procedure includes a review of aspect of an accounting firm’s auditing of financial statements. The major focus of the review is on compliance with technical standards, other laws and regulations, quality of reporting and firm’s quality control framework. It also includes firm’s practices, policies and procedures on certain aspects. With the help of a ‘Quality Review Programme General Questionnaire’, QRB gathers data about different aspects of a firm, such as quality control, ethical requirement and auditor independence, leadership and responsibilities, assurance practices, client relationships and engagements, human resources, consultation, difference of opinion, engagement quality control review, engagement documentation, audit planning and risk assessment, audit sampling and other selecting testing procedures, written representations and auditors’ report. QRB on the basis of this data identifies the deficiencies in audit procedures and communicate it to the accounting firm as well as the CCAI (Agarwal, 2015).

## 8. Conclusions

Statutory audit of financial statements cannot operate in vacuum. There are certain inputs in the form of regulations and ethical code that frames the basic structure of auditing in a country. Based on those national regulations, accounting firms develop their policies and procedures to successfully execute all of their engagements especially audit engagements. The engagement partner in an audit engagement also exerts considerable influence to the quality audit by complying with applicable regulatory and ethical standards. The entire audit process should be monitored in line with applicable professional standards. When the audit process is complete, several reports are made. Some of them are prepared in accordance with applicable law and some are made to fulfil information of a particular stakeholder group. Their appropriateness in a particular circumstance also ensures quality of audit. During the course of audit, a multi-way communication between management, those charged with governance, users of financial statements, regulators and auditors on significant issues governing audit procedure also influence quality of audit. The study also discusses about the contextual factors of audit quality which constitutes the environment for audit procedure. Regulatory structure in the country, applicable financial reporting framework, litigation environment, broader cultural factors, etc. are some of the important issues that externally influence quality of audit. Lastly, the quality control framework for statutory financial audit in India is critically reviewed. Quality control framework mainly comprises SQC-1 and selects SAs issued by the ICAI. Together, they implement quality of audit at firm and engagement level. Moreover, presence of QRB had made sure that the quality control policies of the accounting firm are appropriately followed.

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