

Replacing the Accounting Regulator - II

Click [here](#) for part I of the issue

\n\n

What is the issue?

\n\n

\n

- Recent bank scams exposes audit failure of ICAI.

\n

- ICAI needs to adopt global best practices to address such issues.

\n

\n\n

What is the need for Audit regulator?

\n\n

\n

- Almost all major economies today have independent audit regulators, with the most prominent ones being set up between 2000 and 2005.

\n

- 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.

\n

- To share knowledge and experiences, the International Forum of Independent Audit Regulators (IFIAR) was set up in 2006.

\n

- Today, IFIAR has 52 independent audit regulators worldwide.

\n

\n\n

What is the Indian scenario of audit agencies?

\n\n

\n

- 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.

\n

- The Institute of Chartered Accountants of India (ICAI) has sufficient safeguards to ensure that the process does not result in self-regulation.

\n

- There are few practical concerns with the Quality Review Board coming into existence.

\n

- The inclusion of an independent audit regulator, National Financial Reporting Authority (NFRA), in the Companies Act, 2013 was also failed due to various reasons.

\n

- There are also lack of awareness regarding the extent of responsibilities of an auditor among non-auditors.

\n

\n\n

What are the reason for this difficulties?

\n\n

\n

- In India there are inadequate reporting and recognising the inherent weaknesses in self-regulation.

\n

- 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.

\n

- This is perhaps the reason why India is not yet a member of IFIAR.

\n

- 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.

\n

\n\n

What measures needs to be taken?

\n\n

\n

- 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.

\n

- The structural and operational mechanisms that ensure following things must be made

\n

\n\n

\n

1. The body remains operationally independent and its decisions are subject to scrutiny and are transparent.

\n

2. Members maintain highest level of independence and prohibiting conflicts of interest.

\n

3. Clarity in the inter-se relationships with the professional bodies, clear distinction in the respective roles and responsibilities.

\n

\n\n

\n

- Best practices of various countries need to be used by NFRA and that will be instrumental in ensuring a robust, world-class oversight mechanism.

\n

- Thus the overarching objective of a regulator is to enhance audit quality which, in turn, will enhance investor protection and public interest.

\n

\n\n

\n\n

Source: Business Line

\n\n

\n

