

NFRA introduces audit quality inspections

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The National Financial Reporting Authority (NFRA) has published its audit quality inspection guidelines as a step towards further improving the quality of audit profession. The inspection guidelines are on the lines of the best practices followed by International Audit Regulators. In fact, Audit quality inspections are integral to the functioning of independent audit regulators, world-wide. The International Forum for Independent Audit regulators (IFIAR), which comprises independent audit regulators from 54 countries, requires that audit regulators, should as a minimum, conduct recurring inspections of audit firms undertaking audits of public interest entities in order to assess compliance with applicable professional standards, independence requirements and other rules, laws and regulations.

Also, in response to a NFRA's consultation paper "Enhancing Engagement with Stakeholders" in 2021, many stakeholders had suggested onsite inspection of audit firms by NFRA to help inspection teams familiarize themselves with the systems and processes followed by audit firms and also to enable the audit firms to comply with auditing standards, guidance etc in its audits.

NFRA's inspections are intended to identify areas and opportunities for improvement in the audit firm's system of quality control. Inspections will consist of firm-wide review of audit quality (SQC 1) and individual file reviews on test-check basis to evaluate the level of compliance with applicable auditing standards and quality control policy and processes. NFRA has clarified that inspections by nature, are distinct from investigations. However, in certain cases, test-check by the inspection teams may provide basis for enforcement or investigation under applicable provisions of the Act and Rules.

Audit quality inspections will provide an opportunity for feedback and course correction to the audit firms and at the same time foster a greater mutual understanding of the policies and procedures that underlie audit quality management. The inspections are intended to bring about systemic improvements in overall financial reporting framework in the country. The inspection guidelines are available at:

<https://nfra.gov.in/sites/default/files/Inspection%20guidelines%20Final.pdf>