

NFRA's audit quality inspection guidelines

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In news– The National Financial Reporting Authority (NFRA) has recently published guidelines on audit quality inspection, in a bid to further improve the standards of auditors.

Key guidelines-

- The inspection **guidelines are based on recommendations of the International Forum for Independent Audit Regulators (IFIAR)**, which comprise audit regulators of 54 countries.
- NFRA will pick the audit firms for such inspections based on its own risk identification parameters along with other factors such as the size of the firm and nature of audits that they conduct.
- In some cases, audit firms may also be selected based on specific concerns highlighted by the government or any other regulatory agency.
- **NFRA's inspections will consist of firm-wide review of audit quality (SQC1) and individual file reviews** on test-check basis to evaluate the level of compliance with applicable auditing standards and quality control policy and processes.
- **The NFRA guidelines focus on three aspects:** adequacy of governance framework, ascertaining the effectiveness of an audit firm's internal controls and evaluating the audit risks along with mitigating measures.

What is the International Forum for Independent Audit Regulators (IFIAR)?

- It is a global member organization comprising independent audit regulators from 54 jurisdictions.
- IFIAR was established in Paris in 2006.

- Its members are audit regulators and supervisors from the continents of Africa, Asia, Europe, North and South America and Oceania.
- IFIAR holds a Plenary meeting annually to discuss broad issues related to audit quality matters.

About NFRA-

- It **was constituted on 1st October, 2018 by the Government of India** under Sub Section (1) of Section 132 of the Companies Act, 2013.
- The NFRA is **an independent regulator overseeing the auditing profession**, and its creation was first recommended by the Standing Committee on Finance in its 21st report.
- It recommends accounting and auditing policies and standards to be adopted by companies for approval by the Central Government.
- It monitors and enforces compliance with accounting standards and auditing standards.
- It oversees the quality of service of the professions associated with ensuring compliance with such standards and suggests measures for improvement in the quality of service.
- Apart from setting the rules and regulations governing the audit sector, the NFRA has the power to debar erring auditors or audit firms for up to 10 years and impose significant fines on them.
- As per rule 3 of the NFRA rules, 2018, the Authority shall have the power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service or undertake the investigation of such sections of the auditors .

Further

reading:

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