


Public Company Audits

Quality controls are
indispensable for
accounting firms.

The US Public Company Accounting and Oversight Board (PCAOB) is a body that was created by the Sarbanes-Oxley Act of 2002 to oversee the audit of public companies and other issuers. The US Securities and Exchange Commission (SEC) must approve the rules and standards of the PCAOB.

The PCAOB has issued a standard AS 1110, which details the relationship between auditing standards and quality standards.

As per this standard, a firm of independent auditors must adopt a quality control system in conducting an audit practice. Auditing standards improve the quality of audit engagements, whereas quality control standards improve the firm's conduct and monitoring of its audit practice.



In a recent inspection of a New York-based audit firm that was penalized \$ 3 million for violations of auditing standards and quality controls in audits of hundreds of special-purpose acquisition companies (SPAC).

The PCAOB has noted the following deficiencies in quality procedures:

- Undertaking issuer engagements that cannot be completed with professional competence.
- Inadequate assessment of the risks associated with providing professional services in certain circumstances.
- Failure to ensure workload management of partners and engagement quality review partners to fulfil their responsibilities with professional competence and due care.
- The final sets of audit documentation were not assembled timely.
- Form AP not filed timely.
- Failure to perform procedures that will help recognize and assess the risks of material misstatement at the assertion level concerning SPAC audits.
- Failure to inculcate a practice of individuals consulting within the firm or outside to get a perspective on complex issues.
- Not able to perform procedures to establish that some issues were critical audit matters.
- Lack of necessary communication to issuer audit committees.

This inspection has brought to the forefront issues in the manner of handling audits by audit firms; while the lack of quality controls does not necessarily imply inadequate adherence to audit standards, what it does bring to the surface is a need for audit firms to be proactive and set up robust quality procedures. The New York-based audit firm has been asked to make functional changes and add an independent committee to oversee the audit practice under the leadership of a "Chief Quality Officer".

KNAV Guidance for Quality Audits

For accounting firms conducting audits for public companies in India, KNAV suggests that firms incorporate the following to strengthen their quality procedures:

Awareness

A firm auditing public companies must always place the public interest above profits, and with this awareness, they must always take assignments that fall within their competence.

Training

Individuals in an audit firm must be open to continuous learning to keep up with ever-changing laws. Firms must make efforts to ensure training is imparted on the go.

Risk assessment

As an audit firm, you can access the company's processes and identify potential risks. It is important to tailor your audit procedures to mitigate the identified risks. Audit is an iterative process. New risks identified during an audit, should be responded with additional audit procedures.

Strong communication

Capitalizing on peer knowledge is critical to a successful audit. A network must be established that can be accessed to get clarity on matters that are difficult for the team. This ensures best practices are being followed and hence better audits. Consider setting-up a National Accounting Office

Documentation

An audit is as good as its documentation. Documentation is evidence for the approach, methodology, and process followed in reaching a conclusion. Hence, this must be paramount and filed promptly whenever needed.

Quality control is critical to any function and more so with audits. When an audit practice develops mandatory quality procedures that must be followed, it creates for itself a name that becomes synonymous with excellence and merit.

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