

Quality Control Procedure for Statutory Financial Audit

An Empirical Study

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By

Siddhartha Sankar Saha

*Department of Commerce, University of Calcutta,
Kolkata, India*

Mitrendu Narayan Roy

*Goenka College of Commerce and Business
Administration, University of Calcutta, Kolkata, India*



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Preface

Inadequacies in the quality control environment for statutory audit of financial statements can go a long way towards the publication of falsified financial reports over a number of years, which can ultimately bring about a massive accounting fraud impacting on the national economy and society as a whole. The quality control of statutory audit of financial statements with the backdrop of recent corporate accounting scandals and their irreversible impacts on stakeholders of those businesses is a major problem area of the current economic environment. In order to address this problem, this research has been conducted in the form of a research-oriented book that provides a comprehensive outlook on the quality control framework for statutory financial audit. The book begins with a conceptual discussion on the quality of statutory audit of financial statements. Different factors governing the quality of statutory financial audit are identified and a comprehensive framework for quality control is established. The book also conceptually reviews the quality control framework for statutory financial audit in three select countries (India, the UK and the US) based on select parameters and makes a comparative study among them. The most critical part of this research, which makes it different from any other research in the field, is an analysis of respondents' perceptions on the quality control procedure for statutory financial audit. On the basis of the respondents' opinions, the research study finally suggests some measures to bring about significant progress in the field of quality control for statutory financial audit.

However, the primary objective of the book is to assist professionals in the field of accounting and auditing, who are the primary intended audiences of the book, in understanding the importance of quality control for statutory financial audit. Moreover, the book examines the effectiveness of the existing standards and other legal and regulatory requirements in enforcing quality control policies and procedures and suggests modifications in those regulations. The book will be of use to academics in the commerce and management fraternity as well as students pursuing postgraduation in commerce and business

administration and also students pursuing professional courses who require an in-depth knowledge in this field. The book would also be beneficial to researchers in finance and control, in giving them an insight into the current state of quality control for statutory financial audit and showing them possible paths for further research.

Since the beginning of the current research, valuable advice and suggestions have been received from a number of sources. In view of this, we are pleased to put on record our sincere thanks to the partners or managers of a number of reputed chartered accounting firms, including PricewaterhouseCoopers, KPMG, Ernst & Young, etc. (located at Kolkata, India) for their valuable suggestions while formulating the questionnaire for this study.

We express our gratitude to learned authors from India and abroad whose works have inspired so many ideas for our present work. We acknowledge with thanks the cooperation of librarians and staff of a number of libraries in Kolkata (including Central Library, University of Calcutta, Central Library, St. Xavier's College, American Council Library, British Council Library, B.C. Roy Memorial Library, IIM – Calcutta, etc.) for allowing us to consult relevant books, research papers and other electronic materials for our study.

We also convey our thanks to the learned respondents for their thoughtful opinions through the questionnaire designed for the study. We extend our best wishes to our friends and colleagues for their support and encouragement.

We are also thankful to our respective parents and other beloved family members for their uncounted sacrifice during our completion of this research work.

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Dr. Siddhartha Sankar Saha

E-mail: drsiddharthasxc@gmail.com/
pss_saha@yahoo.com

Dr. Mitrendu Narayan Roy

E-mail: mitrenduroy@gmail.com

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List of Abbreviations

A	Agreement
AASB	Auditing and Assurance Standards Board
AICPA	American Institute of Certified Public Accountant
AQR	Audit Quality Review
ASB	Auditing Standards Board
AU – C	Auditing Sections – Clarified
CA	Chartered Accountant
CCAI	Council of Chartered Accountants of India
CEO	Chief Executive Officer
CIA	Central Intelligence Agency
CPA	Certified Public Accountant
CPD	Continuous Professional Development
D	Disagreement
DF	Degree of Freedom
EQCR	Engagement Quality Control Reviewer
FRC	Financial Reporting Council
GAAPs	Generally Accepted Accounting Principles
GAASs	Generally Accepted Auditing Standards
GDP	Gross Domestic Product
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IASB	International Accounting Standards Board
ICAE&W	Institute of Chartered Accountants of England and Wales
ICAI	Institute of Chartered Accountants of India
ICAI	Institute of Chartered Accountants of Ireland
ICAS	Institute of Chartered Accountants of Scotland

IESBA	International Ethics Standards Board of Accountants
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standard Board
ISA	International Standard on Auditing
ISQC	International Standard on Quality Control
MD & A	Management Discussion and Analysis
N	Neutral
PCAOB	Public Company Accounting Oversight Board
PPP	Purchasing Power Parity
QRB	Quality Review Board
RQB	Recognised Qualifying Bodies
RSB	Recognised Supervisory Body
SA	Standard on Auditing
SA	Strong Agreement
SAS	Statement of Auditing Standard
SD	Strong Disagreement
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SOX	Sarbanes Oxley
SQC	Standard on Quality Control
SQCS	Statement of Quality Control Standard
UK	United Kingdom
USA	United States of America

List of Standard Measures/ Symbols and Their Explanations

H_0	Null hypothesis
H_1	Alternate hypothesis
χ^2	Chi-square
F_O	Observed frequency
F_E	Expected frequency
p value	Probability
U	Test statistic of Mann – Whitney test
Z	Standardised test statistic
σ	Standard deviation
r	Correlation coefficient