What the Profession Owes the Public

Audit quality is discussed as a firm obligation and measured as a compliance standard. It is neither. It is infrastructure — and infrastructure that is quietly weakening.

The Signal and What It Supports

In the early twentieth century, the Michelin tyre company published a guide to restaurants. Its purpose was commercial: encourage people to travel farther, wear out more tyres, buy more replacements. The stars it awarded were a tool. Their intent was transactional.

Over time, something unexpected happened. The Michelin Star became a signal — not of a specific meal on a specific night, but of consistent, dependable excellence. Its value was not in what it said about any individual restaurant. It was in what it communicated about a standard that could be trusted across restaurants, across cities, across years.

The audit opinion works the same way in financial markets. An investor who has never met a company's management relies on the audit opinion to tell them that the financial statements can be trusted. A lender who extends credit across geographies relies on the audit signal to reduce information asymmetry. A regulator relies on the profession's collective output to maintain the integrity of financial reporting at a system level.

> The audit opinion is not primarily a service to the company being audited. It is infrastructure for the financial system that relies on it.

What the Profession Measures and What It Should

The profession measures audit quality primarily at two levels: the engagement and the firm. At the engagement level: were procedures performed, was evidence sufficient, was documentation adequate? At the firm level: are policies in place, is monitoring conducted, are deficiencies remediated?

These are necessary measurements. They are not sufficient ones. They measure inputs and processes. They do not directly measure what the profession ultimately owes its public: a financial reporting system in which audit opinions can be relied upon as honest, independent, and competently formed signals of whether financial statements fairly represent the entities they describe.

The gap between what is measured and what is owed becomes visible at moments of failure. When a company that received an unmodified opinion for consecutive years collapses, the question regulators, investors, and the public ask is not whether the audit file was complete. It is whether the audit opinion communicated something real.

> The profession that measures only technical correctness and calls it quality has confused the input with the output. The input is a compliant audit. The output — the thing the public needs — is a trustworthy signal.

The Infrastructure Argument & The Trust Deficit

The Infrastructure Argument

Infrastructure is different from service delivery in one critical respect: its value is systemic, not transactional. A road serves not only the person who drives on it today but everyone who relies on the road network being functional and safe. A road that appears sound but has structural weaknesses invisible to its users does not merely fail the person whose car falls through it. It undermines trust in the entire road network.

The audit opinion is infrastructure in exactly this sense. When a company receives a clean opinion that subsequently proves to have been inadequately supported, the damage is not limited to the investors who relied on that specific opinion. It damages the signal itself. It tells every user of audit opinions everywhere that additional scrutiny is required, that the infrastructure has weaknesses that users must individually account for.

India has its own accumulation of these instances. Satyam. IL&FS. DHFL. Reliance Capital. Each involved financial statements that passed through audit and governance processes without the signal they generated being reliable. Each contributed to a public and regulatory scepticism about the audit profession that now shapes NFRA's enforcement posture, its inspection intensity, and the expectations that boards and investors bring to the audit relationship.

> Every clean opinion that precedes a significant corporate failure adds a small but real degradation to the profession's credibility signal. Accumulated across enough instances, that degradation becomes structural.

The Trust Deficit and Its Implications

The trust deficit the profession faces in India is not primarily the result of individual auditor failures. It is the result of a pattern — visible enough, documented enough, and consequential enough — that users of financial statements have begun to discount the audit signal. That discounting has specific, observable consequences — each a rational response, each a real cost to the system.

Regulators Invest More in Direct Oversight

NFRA's growing enforcement activity, SEBI's increasing scrutiny of financial reporting quality, the expansion of inspection programmes — each represents the system compensating for reduced confidence in the profession's own quality signal.

Audit Committees Apply Independent Overlays

More pointed questions, more documentation, more independent scrutiny of management's financial statements — not because the law requires it, but because they no longer fully trust that the audit alone provides the assurance they need.

Investors Build Their Own Analytical Checks

Cash flow versus profit analysis, receivables ageing scrutiny, related party transaction mapping — precisely because they have learned that a clean opinion does not resolve these questions on its own.

What the Obligation Actually Requires

Three Implications for the Profession

The profession's obligation to the public is not discharged by producing compliant audits. It is discharged by sustaining a signal that financial markets can rely upon. That distinction has three specific implications.

Quality Must Be Designed, Not Inspected Into Existence

A quality system that identifies deficiencies after they occur, remediates individual files, and hopes the pattern does not repeat has not addressed the infrastructure problem. Quality must be built into the design of engagements before fieldwork begins, not caught after inspection.

The Signal Must Communicate What Users Need

A clean opinion that is technically unmodified but informationally insufficient on going concern, related party substance, or the auditor's actual confidence in significant estimates is not fulfilling the infrastructure obligation. The profession must move from reporting what it has done to communicating what it has established.

Independence Must Be Cultural, Not Merely Structural

Structural safeguards — rotation, fee thresholds, independence declarations — are necessary. They do not create independence culture. A profession in which commercial pressure and long relationships systematically tilt judgement toward accommodation has a problem no rotation policy resolves.

The Michelin Star Revisited

The Michelin Star retained its value for more than a century not because every starred restaurant was perfect on every night, but because the standard behind the star was consistently and rigorously applied. When restaurants lost stars, they lost them for reasons. When the guide made mistakes, it acknowledged them. The signal survived because the process behind it was taken seriously as an end in itself — not merely as a compliance exercise but as a genuine commitment to the standard it represented.

The audit profession's signal — the unmodified opinion — has the same potential. It was designed as a mechanism for sustaining trust at scale. It enables stakeholders to rely on representations made by entities they may never directly observe. In that function, it is as important to the financial system as any other piece of market infrastructure.

Whether it fulfils that function depends on the profession's willingness to hold itself to the standard the signal represents — not just at the level of individual firms and individual engagements, but as a collective commitment to the quality of the system that every audit, in aggregate, constitutes.

The public relies on the signal.
The profession owns the standard behind it.
That is what the profession owes the public.

CA Pranav Jain, FCA | Co-Founder, Anveshana Consulting Private Limited | anveshana@anveshanaconsulting.com
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