Date: 26 March 2021

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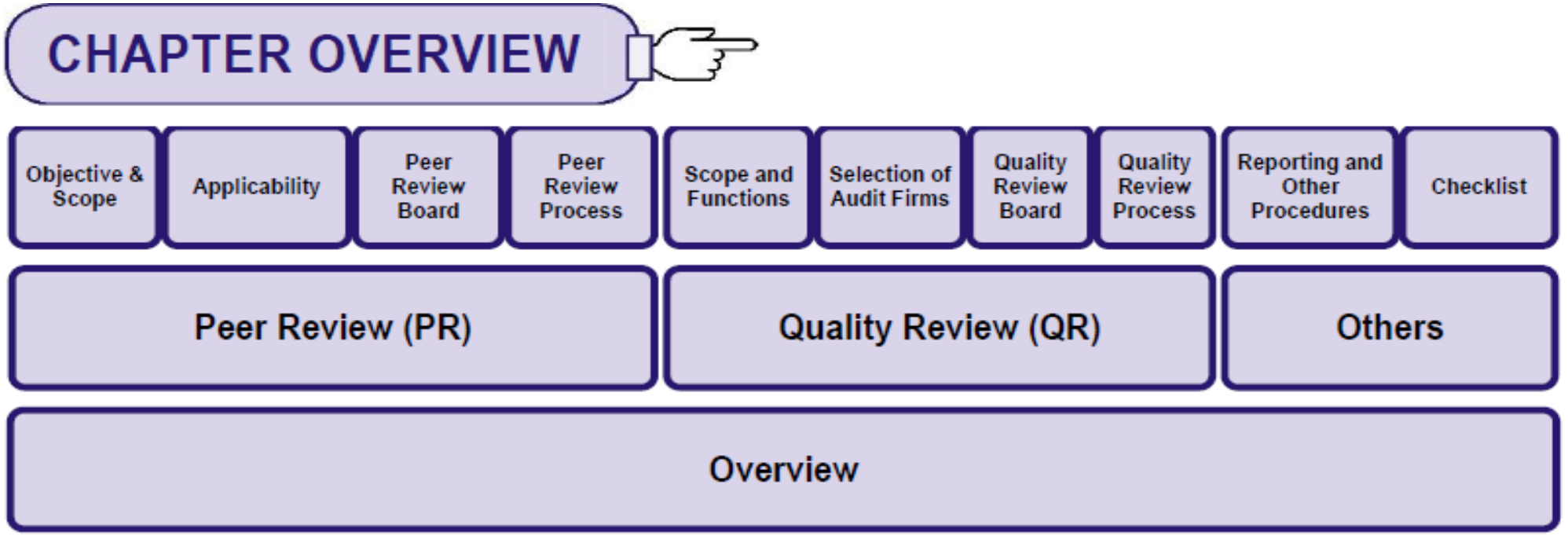
FINAL LEVEL
PAPER 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

CHAPTER 17 – UNIT 1 – PEER REVIEW

Faculty: CA ACHAL JAIN

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CHAPTER OVERVIEW



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1. INTRODUCTION

The term '**peer**' means a person of similar standing. The term '**review**' means conduct of re-examination or retrospective evaluation of the subject matter. In general, for a professional, the term "peer review" would mean review of work done by a professional, by another professional of similar standing.

'Peer Review' is defined as, a regulatory mechanism for monitoring the performances of professionals for maintaining quality of service expected of them for enhancing the reliance placed by the users of financial statements for economic decision-making.

The concept of peer review is quite old. A competent professional always thinks that there is a scope for improvement in his performance. Naturally, the source of improvement can be another professional from his own field. We very often come across stories of professional

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rivalries and secretive practices. However, there has not been a dearth of well meaning professionals in different fields who have strongly felt that the professional work done by them should be reviewed by somebody else who is equally knowledgeable.

What is expected in a peer review is much beyond simple discussion or sharing of views. It is sharing of complete information and documentation and subjecting to oneself to independent scrutiny regarding professional work. This has always been an important method of knowledge gathering and competence improvement.

Practical examples of peer review are generally seen in the field of education and medicine although they are referred to differently.



1. In the field of education, when a moderator rechecks the answer papers evaluated by one paper checker, what the moderator is doing is nothing but a peer review.

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2. Secondly, it is not uncommon for a senior teacher to sit in the last row and evaluate the performance of the new teacher. These are commonly seen examples of peer review, although not termed that way.

3. In the field of medicine also, such examples are seen. When a doctor refers a patient to another doctor for second opinion, what the second doctor is doing is nothing but peer review.

4. In the field of medicine and scientific research, peer review is very commonly done in case of professional journals before publishing any article or research paper. Before the article is published, it is subjected to review by a panel of reviewers.

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However, the situations described above are examples of on the job review. Moreover, the sample size in such cases is very small and the selection of the sample may also be influenced by the person whose review is to be done. Therefore, the benefit derived by the person reviewed is limited and the profession as such also does not benefit much. In order to reap the benefits of peer review, it has to be done on a much larger scale and in a much organised manner.

As per the Statement of Peer Review, certain key terms are as under:

"**Peer Review**" ***means an examination and review of the systems and procedures to determine whether the same have been put in place by the Practice Unit for ensuring the quality of assurance services as envisaged by the Technical, Professional and Ethical Standards as applicable including other regulatory requirements thereto and whether the same were consistently applied during the period under review."***

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"Reviewer" *means a member duly approved and empaneled by the Board on fulfilling the qualifications prescribed for a Reviewer.*

"Practice Unit" means a firm of Chartered Accountants or a member in Practice, practicing whether in an individual name or a trade name or such other entity as recognized by the Institute of Chartered Accountants of India from time to time.

Peer Review Board means the Board constituted by the Council in terms of this Statement from time to time. The expression "Peer Review Board" is hereinafter referred to as "Board". The Peer Review Board (the Board) was established in March, 2002 and the Statement on Peer Review has been revised in April'2020.

The Statement on Peer Review shall be deemed to be a guideline of the Council under clause (1) of Part II of Second Schedule to the Act and it is obligatory for the Practice Unit to comply with the provisions contained in this Statement.

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PEER REVIEW OF AUDITORS

Peer review of attest function has a special significance. First of all the nature of work is such that it can be easily subjected to peer review. It is possible to review the work subsequent to its completion; which means that one does not get disturbed while doing the work because of the peer review. Secondly, the business environment is changing so fast that it is necessary for an auditor to keep improving his audit techniques and seek a stamp of approval about his competence. And thirdly, the question of whether an auditor has performed his function satisfactorily or not is arising more frequently now. There is a considerable gap between what the society as a whole expects the auditors to do and what the auditors are actually required perform; by law and as per the terms of their engagement. Therefore, if the work of any auditor is questioned, the auditor's first line of defence would be that the work has happened as per auditing practices which have been peer reviewed.

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It is important to note that in spite of the advantages of peer review, not many professional bodies have implemented the concept effectively. In this background, it is very creditable that ICAI has, over a period, made peer review compulsory for all auditors.

2. OBJECTIVES OF PEER REVIEW

The main objective of Peer Review is to ensure that in carrying out the assurance service assignments, the members of the Institute-

The Statement of Peer Review also makes it clear that the peer review, "does not seek to redefine the scope and authority of the Technical, Professional and Ethical Standards specified by the Council but seeks to enforce them within the parameters prescribed by the Technical Standards but only seeks to ensure that they are implemented, both in letter and spirit.".

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Objectives	• comply with Technical, Professional and Ethical Standards as applicable including other regulatory requirements thereto and • have in place proper systems including documentation thereof, to amply demonstrate the quality of the assurance services.	Thus, the primary objective of peer review is not to find out deficiencies but to improve the quality of services rendered by members of the profession.

The peer review is directed towards maintenance as well as enhancement of quality of assurance services and to provide guidance to members to improve their performance and adherence to various statutory and other regulatory requirements. Such an objective of the peer review process makes it amply clear that the reviewer is not going to sit on the judgement of the *practice unit* while rendering assurance services but to evaluate the procedure followed by the practice unit in rendering such a service.

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Accordingly, where a Practice Unit is not following the prescribed Standards, the Reviewers are expected to recommend measures to improve the procedures followed by the Practice Units. To elaborate further, the key objective of peer review exercise is not to identify isolated cases of engagement failure, but to identify weaknesses that are pervasive and chronic in nature.



5. Absence of formal planning of an audit represents a serious deficiency that needs to be remedied by the practice unit. An instance of the auditor not carrying out physical verification of furniture and fixture may not attract the same comment. However, certain items of assets are best verified through the physical verification process and not adopting the same procedure may rightly be viewed as a systemic failure.

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The conclusion, therefore, is that the peer review seeks to identify and address patterns of non-compliance with quality control standards.

3. SCOPE OF PEER REVIEW

The Statement on Peer Review lays down the scope of review to be conducted as under:

The Peer Review process shall apply to all the assurance services provided by a Practice Unit.

1. Once a Practice Unit is selected for Review, its assurance engagement records pertaining to the Peer Review Period shall be subjected to Review.

2. The Review shall cover:

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(i)	Compliance with Technical, Professional and Ethical Standards.
(ii)	Quality of reporting.
(iii)	Systems and procedures for carrying out assurance services.
(iv)	Training programmes for staff (including articled and audit assistants) concerned with assurance functions, including availability of appropriate infrastructure.
(v)	Compliance with directions and / or guidelines issued by the Council to the Members, including Fees to be charged, Number of audits undertaken, register for Assurance Engagements conducted during the year and such other related records.
(vi)	Compliance with directions and / or guidelines issued by the Council in relating to article assistants and / or audit assistants, including attendance register, work diaries, stipend payments, and such other related records.

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As it is clear from the above, that the Statement of Peer Review **aims to confine the scope of review to preceding three years** since this would establish the consistency or deviations, if any, in respect of procedures followed by the practice unit.

The Statement defines the scope of peer review which revolves around compliance with technical, ethical and professional standards; quality of reporting; office systems and procedures with regard to compliance of assurance engagements; and, training programmes for staff including articled and audit assistants involved in assurance engagements. The entire peer review process is directed at the assurance services. Assurance Services means assurance engagements services as specified in the "Framework for Assurance Engagements" issued by the Institute of Chartered Accountants of India and as may be amended from time to time.

As per the Statement, **Technical, Professional and Ethical Standards –** means

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i) Accounting Standards issued by ICAI that are applicable for entities other than companies under the Companies Act, 2013;

ii) Accounting Standards prescribed under section 133 of the Companies Act; 2013 by the Central Government based on the recommendation of ICAI and in consultation with the National Financial Reporting Authority (NFRA) and notified as Accounting Standards Rules 2006, as amended from to time;

iii) Indian Accounting Standards prescribed under section 133 of the Companies Act 2013 by the Central Government based on the recommendation of ICAI and in consultation with NFRA and notified as Companies (Indian Accounting Standards) Rules, 2015, as amended from time to time;

iv) Standards :

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Standards issued by the Institute of Chartered Accountants of India including-	
(a) Engagement standards (b) Statements (c) Guidance notes	(d) Standards on Internal Audit. ***(e)Guidelines/ Notifications / Directions / Announcements / Pronouncements / Professional Standards issued from time to time by the Council or any of its Committees.***

v) Framework for the preparation and presentation of financial statements, Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and Framework for Assurance engagements;

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vi) ***Provisions of the relevant statutes and / or rules or regulations which are applicable in the context of the specific engagements being reviewed including instructions, guidelines, notifications, directions issued by regulatory bodies as covered in the scope of assurance engagements.***

Students may note that Engagement means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria but does not include:

(i) Management Consultancy Engagements;

(ii) Representation before various Authorities;

(iii) Engagements to prepare tax returns or advising clients in taxation matters;

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(iv)	Engagements for the compilation of financial statements;
(v)	Engagements solely to assist the client in preparing, compiling or collating information other than financial statements;
(vi)	Testifying as an expert witness;
(vii)	Providing expert opinion on points of principle, such as Accounting Standards or the applicability of certain laws, on the basis of facts provided by the client; and
(viii)	Engagement for Due diligence.

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The phrase 'Assurance Services' is used interchangeably with Audit Services, Attestation Functions, and Audit Functions.

4. APPLICABILITY

Practice Units subject to Review

1. Every Practice Unit including its branches, based on their category as determined below will be subject to Peer Review in accordance with this

Level I: A Practice Unit which has undertaken any of the under-mentioned assurance services in the period under review ***shall be treated a Level I entity:***

(i) Central Statutory Audit of Public Sector Banks, Private Sector Banks, Foreign Banks, Cooperative Banks and Public Financial Institutions;

(ii) Central Statutory Audit of Central or State Public Sector Undertakings and Central Cooperative Societies based on criteria such as turnover or paid up capital etc. as may be decided by the Board;

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(iii)	Central Statutory Audit of Insurance Companies;
(iv)	Statutory Audit of asset management companies or mutual funds;
(v)	Statutory Audit of enterprises whose equity or debt securities are listed in India or abroad;
(vi)	***Statutory audit of any body corporate including trusts which are covered under public interest entities.***
(vii)	Statutory Audit of Entities which have raised funds from public or banks or financial institutions of over Rupees Fifty Crores during the period under Review;
(viii)	Statutory Audit of Entities which have raised donations and / or contributions over Rupees Fifty Crores during the period under Review;
(ix)	***Statutory Audit of entities having net worth of more than two Hundred and Fifty Crores rupees at any time during the period under Review.***

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(x)	Statutory Audit of entities which have been funded by Central and / or State Government(s) schemes of over Rupees Fifty Cores during the period under Review.
(xi)	***Statutory Audit of Non – Banking Financial Companies (NBFCs) as may be defined by the Board.***
(xii)	***Central Statutory Audit of Regional Rural Banks.***
(xiii)	***Statutory Audit of parent, subsidiary, associate, and joint venture of the above entities.***

Level II: A Practice Unit which has undertaken any of the under-mentioned assurance services in the period under review ***shall be treated as Level II entity:***

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(i) Statutory / Internal / Concurrent / Systems / Tax audit and / or Departmental Review of Branches / Offices of -

- ***(a) Public Sector undertaking***
- (b) Public Sector or Private Sector and / or Foreign Banks
- (c). Insurance Companies
- (d). Co-operative Banks
- ***(e). Regional Rural Banks***

(ii) Statutory Audit of Non – Banking Financial Companies (NBFCs) as may be defined by the Board.

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(iii) Statutory Audit of entities having Net Worth of over Five Crores rupees or an annual turnover of more than Fifty Crores rupees during the period under Review.

(iv) UDIN's generated by the Practice Units more than the specified number determined by the Board from time to time.

(v) Statutory Audit of entities which have raised funds from public or banks or financial institutions of more than Twenty Five Crores rupees but less than Fifty Crores rupees during the period under review.

(vi) Any other Practice Unit providing assurance or other services not covered under (i) (ii), (iii), (iv) and (v) hereinabove.

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2. ***Special case review : The Board, based on specific information received from Secretary, ICAI or any other Committee of the Institute including Disciplinary directorate or any other Regulator , which in the opinion of the Board requires a special review of the Practice Unit, may conduct a special review of the Practice Unit.***

3. Any Practice Unit not selected for Peer Review, may *suo moto* apply to the Board for the conduct of its Peer Review. The Board shall act upon the same within 30 days from the date of receipt of such request.

4. An auditee (Client) may request the Board for the conduct of Peer Review of its auditor (Practice Unit). The Board shall act upon the same within 30 days from the date of receipt of such request.

5. ***The Board may, with the approval of the Council, modify any of the above criteria.***

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Periodicity of Peer Review

The Periodicity of Peer Review will be:	
(a)	Level - I Practice Units – Once in 3 years.
(b)	Level - II Practice Units – Once in 4 years

However, if the Board so decides or otherwise at the request of the Practice Unit, the Peer Review for a Practice Unit can be conducted at shorter intervals.

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5. PEER REVIEW BOARD

The Board shall be constituted by the Council. The Board shall consist of a maximum of twelve members to be appointed by the Council, of whom not less than 50% shall be from amongst the members of the Council as defined in Section 9 of the Chartered Accountants Act, 1949, as amended from time to time.

The Council may nominate members to the Board from outside bodies and from amongst prominent individuals of high integrity and reputation, including but not limited to, regulatory authorities, bankers, academicians, economists, legal Professionals and business executives. The Council shall appoint the Chairman and the Vice-Chairman from amongst its elected Council members appointed on the Board.

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The term of two third members shall be for three years or end of the term of the member in the Council whichever is earlier, or such other period as may be prescribed by the Council from time to time. The Chairman and the Vice-Chairman of the Board may be rotated every year by the Council of the Institute.

Casual vacancies on the Board shall be filled by the Council. A Member of the Disciplinary Committee or the Disciplinary Board of the Institute of Chartered Accountants of India shall not be a member of the Board.

Meeting Requirement : No business shall be transacted at any meeting of the Board unless there are present at least one third members of the Board but not less than three members, including the Chairman or, in his absence, the Vice-Chairman. In the absence of quorum within half an hour of the time fixed for the meeting, the meeting shall stand adjourned to a date, time and place fixed by the Chairman or, in this absence, the Vice-Chairman. The

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Board shall meet as and when required for transaction of the business before it. However, at least one meeting shall be held in every three months.

Reporting: The Board shall submit a report to the Council prior to the date of every meeting of the Council.

5.1 Eligibility to be a Reviewer

1. *A Peer Reviewer shall: -*

   (a) *Shall be a member in practice with at least 10 years of experience for Level I entities and 7 years of experience for Level II entities.*

   (b) *In case a member has moved from industry to practice and is currently in practice he should have at least 15 years of experience in industry and at least 5 years' experience in practice for Level I entities and an experience of at least 10 years in industry and at least 3 years' experience in practice, for Level II entities.*

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Level II entities.

(c) *Should have undergone the requisite training and cleared the requisite test for Peer Review as prescribed by the Board.*

(d) *Should have conducted audit of Level I Entities for at least 7 years or got his entity audited for at least 7 years which should be a Level I entity to be eligible for conducting Peer Review of Level I Entities.*

2 *A member on being appointed as a Reviewer shall be required to -*

(a) *furnish a declaration as prescribed by the Board, at the time of acceptance of Peer Review appointment.*

(b) *sign a Declaration of Confidentiality as per Annexure A to this Statement .*

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3 *A member shall not be eligible for being appointed as a Reviewer, if -*

(i) any disciplinary action / proceeding is pending against him

(ii) he has been found guilty of professional or other misconduct by the Council or the Board of Discipline or the Disciplinary Committee at any time

(iii) he has been convicted by a competent court whether within or outside India, of an offence involving moral turpitude and punishable with imprisonment

(iv) he or his partners or personnel has any obligation or conflict of interest in the Practice Unit.

4. A Reviewer shall not accept any professional assignment from the Practice Unit for a period two years from the date of appointment. *Further, he should not have accepted any professional assignment from the Practice Unit for a period of two years before the date of appointment as reviewer of that Practice Unit.*

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5.2 Qualified Assistant

- The reviewer may take the help of a qualified assistant while carrying out peer review. In this context, the Board decided to clarify that a reviewer is permitted to take the assistance of only one assistant who shall be a chartered accountant and a person who does not attract any of the dis-qualifications prescribed under Section 8 or Section 21 of the Chartered Accountants Act, 1949.

- The name of the qualified assistant which the reviewer would like to assist him shall be identified and intimated to the Board as well as the practice unit before the commencement of the peer review.

- Such a qualified assistant shall also have to sign the declaration of confidentiality as annexed to the Statement.

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- He shall have no direct interface either with the practice unit or the Board. Further the person chosen for assisting the reviewer shall be ***from the firm of the reviewer as a partner or paid assistant as per the records of ICAI.***

5.3 Confidentiality

Strict confidentiality shall be maintained by all those involved in the Peer Review process, namely, Reviewers, members of the Board, any Qualified Assistants or Practice Unit.

All persons governed by the secrecy provisions:

(a) shall at all times preserve and aid in preserving secrecy with regard to any matter arising in the performance or in assisting in the performance of any function, directly or indirectly related to the process and conduct of Peer Reviews;

(b) Reviewer shall not make use of or disclose the contents of Review report or any confidential information about the process of Review unless as required by the Board or the Council.

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Non-compliance with the secrecy provisions in the above clause shall amount to professional misconduct as defined under Section 22 of the Chartered Accountants Act, 1949.

A Declaration of Confidentiality shall be signed by the persons who are responsible for the conduct of Peer Review i.e., Reviewers and his Qualified Assistants and be filed with the Board. All members of the Board shall also sign a declaration of Confidentiality in a manner as may be prescribed by the Board.

6. APPROACH OF THE REVIEWER

Briefly, the stepwise approach which may be adopted by the reviewer is discussed in the following paragraphs:

a) The reviewer should gain an understanding of the engagement letter since an assurance engagement or for that matter any other kind of engagement should begin with an engagement letter.

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Engagement letter is an important document as it defines the nature and scope of the assurance engagement, practice unit's responsibilities with regard to the engagement. This understanding would help him in planning the review of documentation. The reviewer should focus the review primarily on the key engagement matters. The reviewer should also consider the materiality of the matter while planning the review.

b) The number of assurance engagements to be selected requires the exercise of judgement by the reviewer based on the evaluation of replies given in the questionnaire and the size of the practice unit. The objective is to obtain a reasonable cross-section of the practice unit's clients although greater weight may be given to large clients.

c) The practice unit may have policies and procedures for accepting a particular engagement. These policies and procedures may not exist in the form of records in each practice unit. In such a case the reviewer should consider enquiring from the concerned persons about such policies

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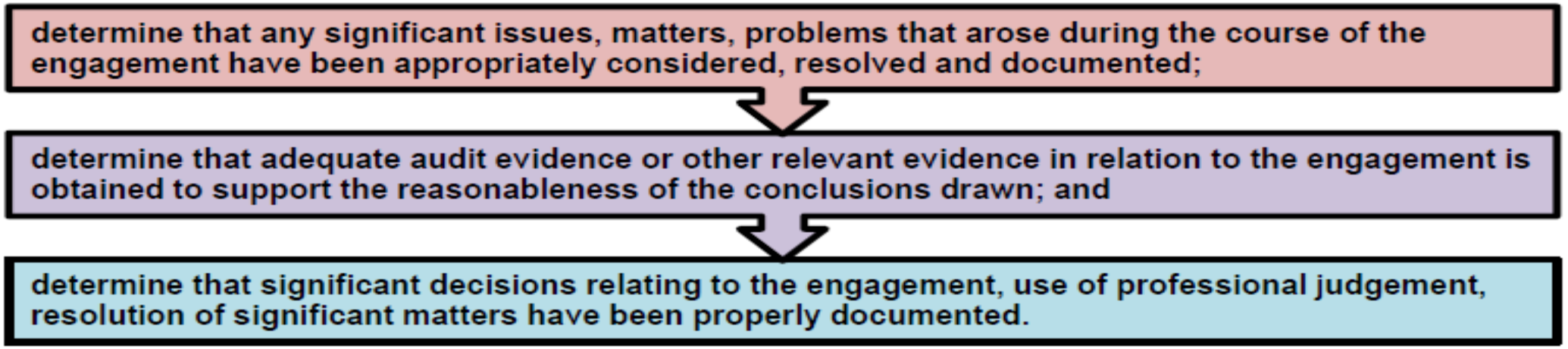
and procedures. The reviewer should, wherever possible, examine that the policies and procedures for acceptance of audit have been complied with and necessary documentation with regard to the same exists.

d) The reviewer may follow a combination of compliance procedures and substantive procedures throughout the peer review process. The mix of compliance and substantive procedures depends upon the professional judgement of the reviewer. The reviewer may consider the following:

In carrying out the compliance tests, the reviewer may evaluate whether the policies and procedures of the practice unit are sufficient to ensure compliance of technical standards and whether these policies and procedures are adequately communicated to all staff who are involved in carrying out the assurance work.	In performing substantive tests, the reviewer should evaluate whether the practice unit's working papers relating to the client adequately document the findings and conclusions and whether the report of practice unit is in consonance with the findings and conclusions drawn.

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e) Finally, the reviewer while evaluating records may consider the following:



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6.1 Obligations of the Practice Unit

Any Practice Unit, in addition to the prescribed information to be furnished including the questionnaire, statements and such other particulars as the Board may deem fit, shall comply with the following.

i) Produce to the Reviewer or allow access to, any record, document or prescribed register maintained by the Practice Unit or any other record or document which is of a class or description so specified, and which is in the possession or under the control of the Practice Unit.

ii) Provide to the Reviewer such explanation or further particulars/ information in respect of anything produced in compliance with a requirement under sub clause (1) above, as the Reviewer shall specify.

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iii) Provide to the Reviewer all assistance in connection with Peer Review;

iv) Where any information or matter relevant to a Practice Unit is recorded otherwise than in a legible form, the Practice Unit shall provide and present to the Reviewer a reproduction of any such information or matter, or of the relevant part of it in a legible form, with a translation in English or Hindi, if the matter is in any other language, and if such translation is requested for by the Reviewer. The Practice Unit shall be responsible and accountable for the accuracy and truthfulness of the translation so provided.

6.2 Obligations of the Peer Reviewer

i) The Reviewer shall not take any extracts of the Practice Units clients' file or records examined by him while conducting Peer Review, as a part of his working papers.

ii) The Reviewer shall complete the Review within the prescribed time frame.

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7. THE PEER REVIEW PROCESS

The Peer Review process will include-.

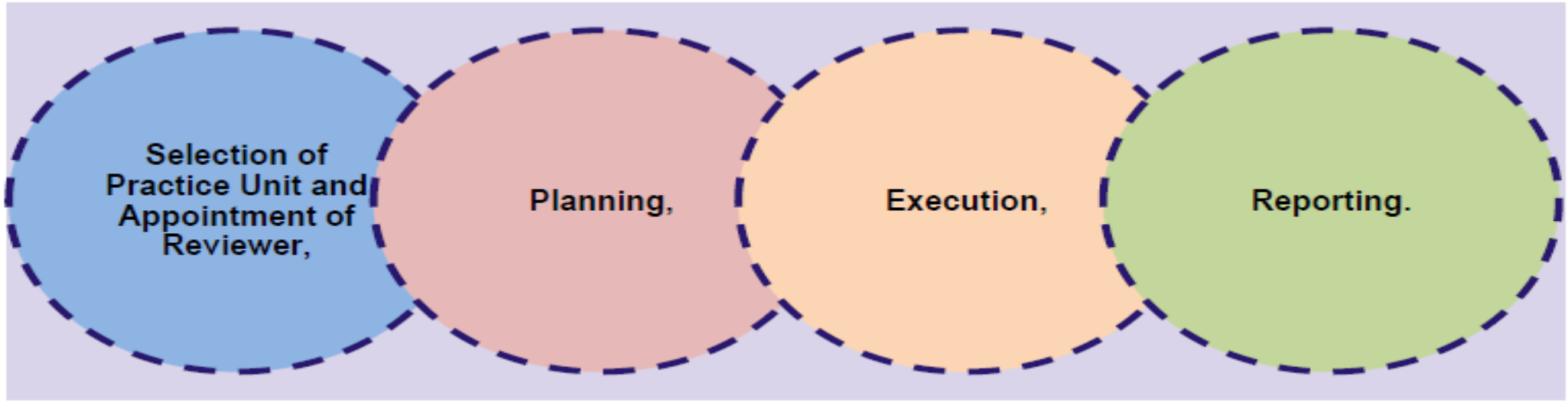


Image showing Peer Review Process

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7.1 Selection of Practice Unit & appointment of Reviewer

i) Notification to the Practice Unit: A Practice Unit which has been selected for a Peer Review shall be notified by the Board.

ii) A declaration in the form approved by the Board shall be submitted by the Practice Unit within seven days from the date the Practice Unit (PU) has been notified by the Board so that Reviewer to be allotted from the Panel of three reviewers can be identified by the Board as per Level submitted by Practice Unit, in the declaration form.

iii) Name of three Reviewers shall be recommended by the Board to the Practice Unit so selected.

iv) The Practice Unit shall select one out of the three Reviewers & intimate to the Board within seven days of receipt of the names.

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v) The Board shall intimate the Reviewer so selected and seek his consent within seven days.

7.2 Planning

i) Information to be furnished by Practice Unit: On intimation by the Board, of the Reviewer's consent, the Practice Unit shall within 15 days furnish the following in formation to the Reviewer:

a) Duly filled-in Questionnaire sent by the Board.

b) Complete list of assurance engagement clients indicating the nature of service provided and the fees charged for the period under Review.

c) A note on the policies and procedures adopted by the Practice Unit in relation to Independence, Staff Supervision and Development, 'Second Person' Review and the process generally followed in carrying out assurance services.

d) Details of any proceedings against the Practice Unit or any of its partners or qualified assistants taken by any regulatory, monitoring or enforcement bodies relating to investigation or allegation of deficiency

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in the conduct of Attest function by them during the period of three years preceding the period of Review or at any time thereafter i.e. till the date of submission of the duly filled-in Questionnaire.

ii) Information to be furnished by Peer Review Board: The Peer Review Board shall call for relevant information from the UDIN Directorate and share the concerned details with Peer Reviewer which shall form part of Peer Review.

iii) Selection of Sample by the Reviewer:

a) The Reviewer shall within 15 days of receiving the information from the Practice Unit select a sample of the assurance services that he would like to Review and intimate the same to the Practice Unit and the Peer Review Board.

b) The Reviewer may also seek further / additional clarification from the Practice Unit on the information furnished / not furnished.

c) The Reviewer shall plan for an on–site Review visit or initial meeting in consultation with the Practice Unit. The Reviewer shall give the Practice Unit at least fifteen days' time to keep ready the necessary records of the selected assurance services.

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d) The Reviewer and Practice Unit shall mutually co-operate and ensure that the entire Review process is completed within 90 days from the date of notifying the Practice Unit about its selection for Review.

Note: Flowchart of Peer Review Process Planning Step is given at the end of the chapter in Appendix.

7.3 Execution

i) Peer Review Visits: Peer Review visits will be conducted at the Practice Unit's head office or /and branch(es) or any other locations. ***This on-site Review should not extend beyond seven to fifteen working days based on the size of the Practice Unit.***

ii) Compliance Review-General Controls: The Reviewer is required to carry out a compliance Review of the following General Controls for evaluating the degree of reliance to be placed upon them for effective Review:

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- Independence
- Maintenance of Professional Skills and Standards
- Outside Consultation
- Staff recruitment, Supervision and Development
- Office Administration

iii) Selection of Assurance Service Engagements for Review:

a) The number of assurance service engagements to be reviewed shall depend upon:

- The Standard of quality controls generally prevailing;
- The size and nature of assurance service engagements undertaken by the Practice Unit.
- The methodology generally adopted by the Practice Unit in providing assurance services.
- The number of partners / members involved in assurance service engagements in the Practice Unit;

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- The number of locations / branch offices of the practice Unit;

  The Fees charged / received / ***GST*** paid by the Practice unit.(b)From the initial sample selected at the planning stage, the Reviewer, in consultation with the ***Peer Review Board***, may reduce or enlarge the initial sample size of assurance service engagements for Review.

iv) Review of Records: The Reviewer is required to adopt a combination of compliance approach and substantive approach in the Review process.

A) Compliance Approach – Assurance Service Engagements: The compliance approach is to assess whether proper control procedures have been established / followed by the Practice Unit to ensure that assurance services are being performed in accordance with Technical, Professional and Ethical Standards.

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The following areas shall be considered:

- Assurance services records for Administration
- Review and Evaluation of System of Internal controls
- Substantive Tests
- Financial Statements Presentation and Disclosures
- Assurance Services Conclusions
- Assurance Services Reporting

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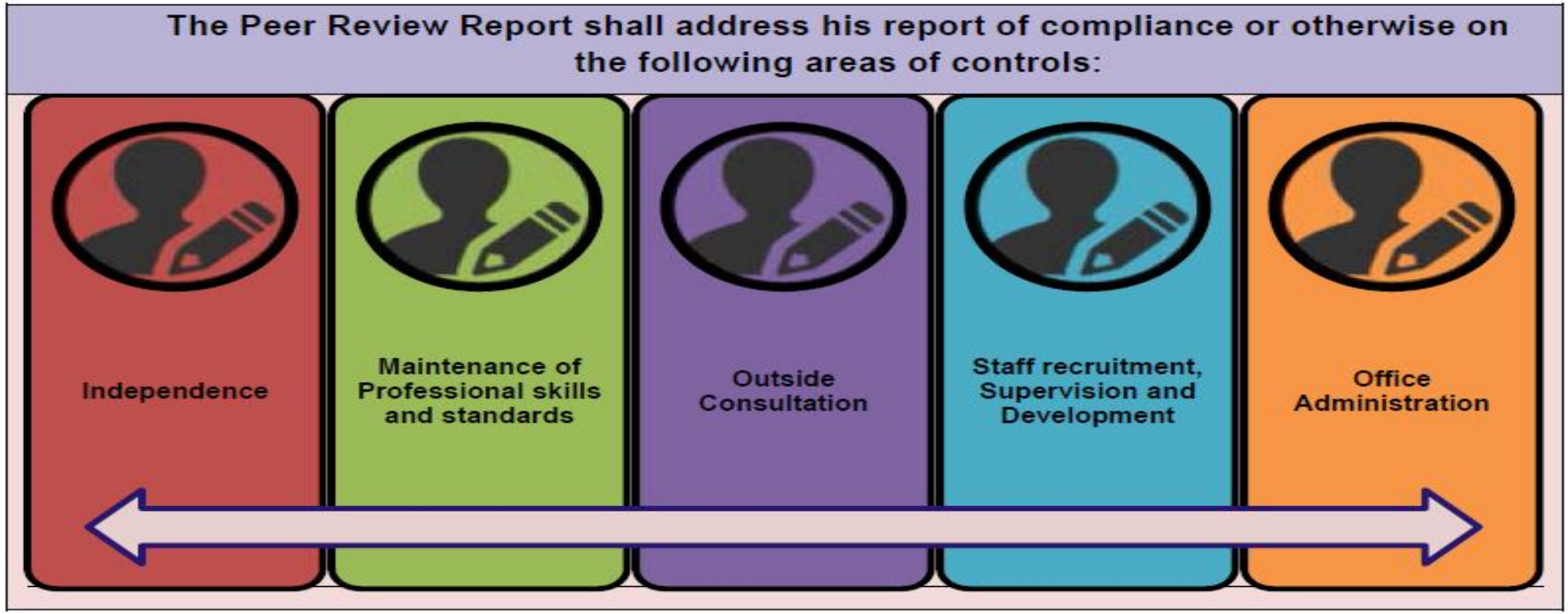
B) Substantive Approach - Assurance Engagements: This approach requires a Review of the assurance working papers in order to establish the extent of compliance, whether the assurance work has been carried out as per the Technical, Professional, and Ethical Standards.

(**Note:** Flowchart of Peer Review Process Execution Step is given at the end of the chapter in Appendix.)

7.4 Reporting

The Peer Review Report should state that the system of quality control for the assurance services of the Practice Unit for the period under Review has been designed so as to carry out the assurance services in a manner that ensures compliance with Technical, Professional and Ethical standards.

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(i) Discussion/Communication of Findings

a) After completing the on-site Review, the Reviewer, before making his Report to the Board, shall communicate his findings in the Preliminary Report to the Practice Unit if in his opinion, the systems and procedures are deficient or non-compliant with reference to any matter that has been noticed by him or if there are other matters where he wants to seek clarification.

b) The Practice Unit shall within 15 days after the date of receipt of the findings, make any submissions or representations, in writing to the Reviewer. (i.e. Response to the Preliminary Report).

ii) Peer Review Report of Reviewer

a) At the end of an on-site Review if the Reviewer is satisfied with the reply received from the Practice Unit, he shall submit a Peer Review Report to the Board along with his initial findings, response by the Practice Unit and the manner in which the responses have been dealt with. A copy of the report shall also be forwarded to the Practice Unit.

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b) In case the Reviewer is of the opinion that the response by the Practice Unit is not satisfactory, the Reviewer shall accordingly submit a modified Report to the Board incorporating his reasons for the same. The Reviewer shall also submit initial findings **(i.e. Preliminary Report),** response by the Practice Unit **(Response to Preliminary Report)** and the manner in which the responses have been dealt with. A copy of the report shall also be forwarded to the Practice Unit.

c) In case of a modified report, The Board shall order for a **"Follow On"** Review after a period of one year from the date of issue of report as mentioned in (b) above. If the Board so decides, the period of one year may be reduced but shall not be less than six months from the date of issue of the report.

Illustrative Qualifications:
The PU does not have any documented policies for its system of quality control in accordance with SQC 1, Standard on Quality Control. In view of this it was not possible for us to evaluate compliance with the PU's quality controls. We did, however make specific inquiries of the managing partner of the PU with regard to policies implemented with regard to the various elements given in the Standard. On an overall basis, it was found that policies implemented were rudimentary and not commensurate with the size of the PU and the nature of its practice. There were particular deficiencies in establishing and implementing quality control policies and procedures in the areas of (i) Ethical requirements, and (ii) Acceptance and continuance of client relationships and specific engagements.

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The PU has no practice of documenting the samples selected for tests of details, what audit procedures were applied to test the samples, or the outcome of such testing, if performed. The only document that evidences performance of tests of details are query sheets. In several instances, it was observed that queries were raised but there is nothing to evidence how they were solved or disposed of.
During review of one of the audit files it was found that the entity's current liabilities were in excess of its current assets by several multiples, the entity had made cash losses during the last three years and its accumulated losses were five times its share capital. In spite of this, there was no evidence in the audit file of the engagement team's evaluation of the management's assessment of going concern in accordance with SA 570, Going Concern, while the financial statements were prepared on a going concern basis.

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It was observed during examination of engagement files that the staff deployed lacked industry expertise and was, in general, inexperienced. The PU does not have a system of supporting and encouraging its resources to undergo relevant professional education necessary to execute audits of entities in specialised industries. Moreover, there was no evidence in the working papers prepared by articled assistants of any review performed by a senior resource.
No evaluation of the control environment of the entities audited was seen to have been done to identify risks due to deficiencies or weaknesses in the audited entities internal control in accordance with SA 315, Identifying and Assessing the Risk of Material Misstatement through Understanding of the Entity and its Environment. Moreover, no attempt was made to test internal control over financial reporting in order to determine if the controls are implemented and operating effectively in accordance with SA 330, The Auditor's Response to Assessed Risks.

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7.5 Peer Review Certificate

On receipt of the Peer Review Report, the Board shall within three months:

a) Issue a Peer Review Certificate to the Practice Unit mentioning the next due date for Review.

b) Inform the Practice Unit that a Peer Review certificate cannot be issued along with the reasons therefor as well inform the Practice Unit about the due date for conducting a follow- on review.

7.6 Validity of Peer Review Certificate

A Practice Unit cannot continue with the existing certificate, whose validity has expired. All documents signed by the Practice Unit during the intervening period (i.e. expiry of previous certificate and issuance of new certificate) will be invalid. Therefore, it is the responsibility of the Practice Unit to complete the Peer Review of the firm and submit all necessary documents at least one month before the date of expiry of the previous certificate.

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8. INHERENT LIMITATIONS OF REVIEW

The reviewer conducts the review in accordance with the Statement on Peer Review. The review would not necessarily disclose all weaknesses in compliance of technical standards and maintenance of quality of assurance services since it would be based on selective tests. As there are inherent limitations in the effectiveness of any system of quality control which happens to be subject-matter of review, departure from the system may occur and may not be detected.

9. DIFFERENCE BETWEEN PEER REVIEW AND QUALITY REVIEW

Peer review is a review of the systems and procedures of an audit firm. Although sample audit files are inspected by the peer reviewer, it is done for the purpose of testing the effectiveness of the systems and procedures. The intention is to not to find faults but to help the firm develop effective systems. It is a kind of mentoring process. Peer review is a part of the activities of ICAI aimed at improving the quality of service.

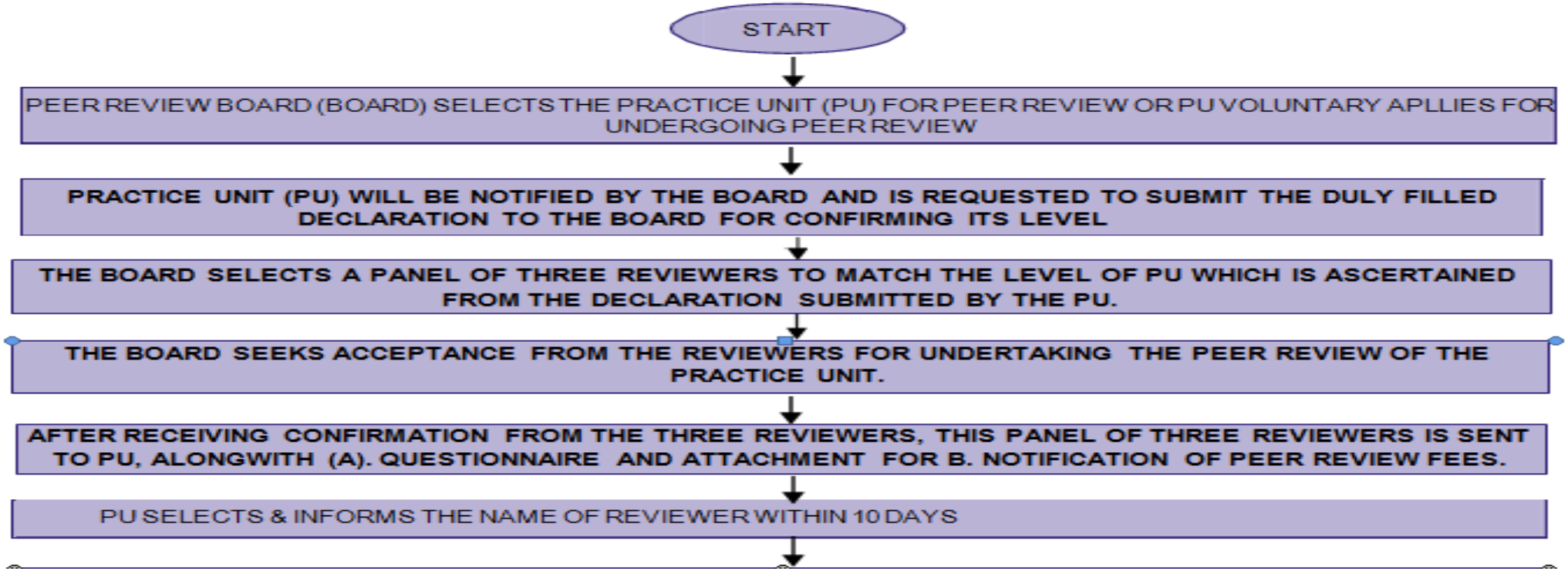
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In contrast, a quality review is supposed to act as a deterrent. Quality Review Board (QRB) is constituted by the Central Government and is independent of ICAI. As per Section 28A of the Chartered Accountant's Act, the Central Government has the authority to constitute a Quality Review Board. QRB carries out supervisory and disciplinary functions. A quality review normally pertains to one particular audit conducted by an audit firm. The main objective quality review is to find errors or inadequacies, if any, committed by the auditor while conducting the audit. Serious errors detected in quality review lead to disciplinary action against the member.

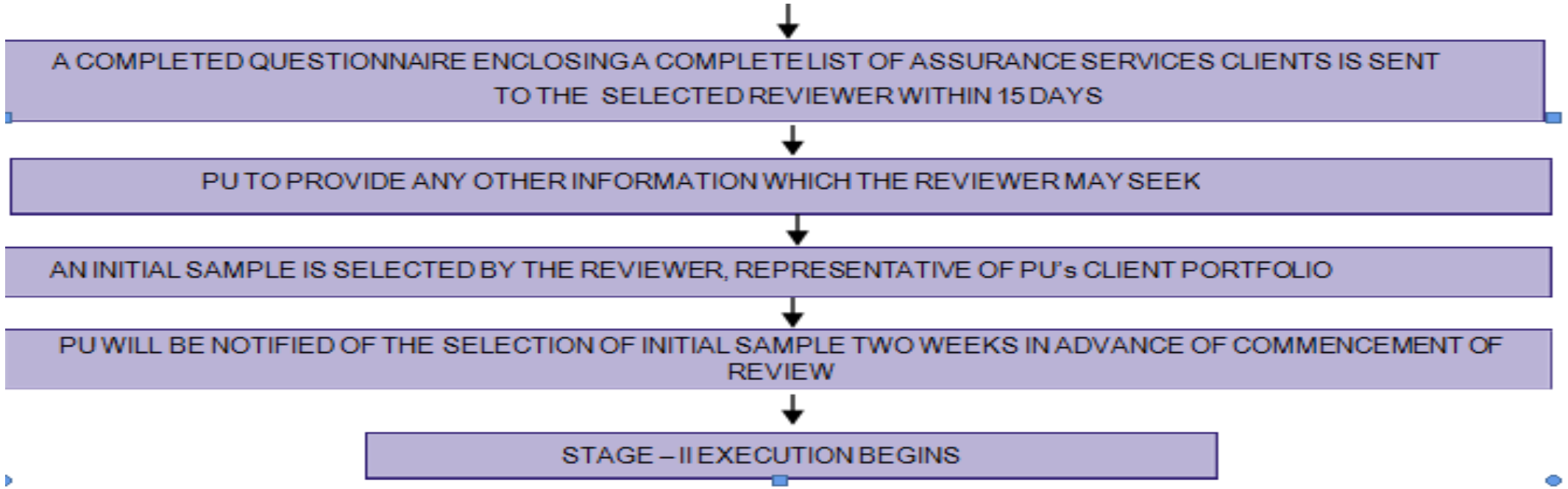
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Appendix: Flow Charts – Peer Review Process

Stage–I: Planning

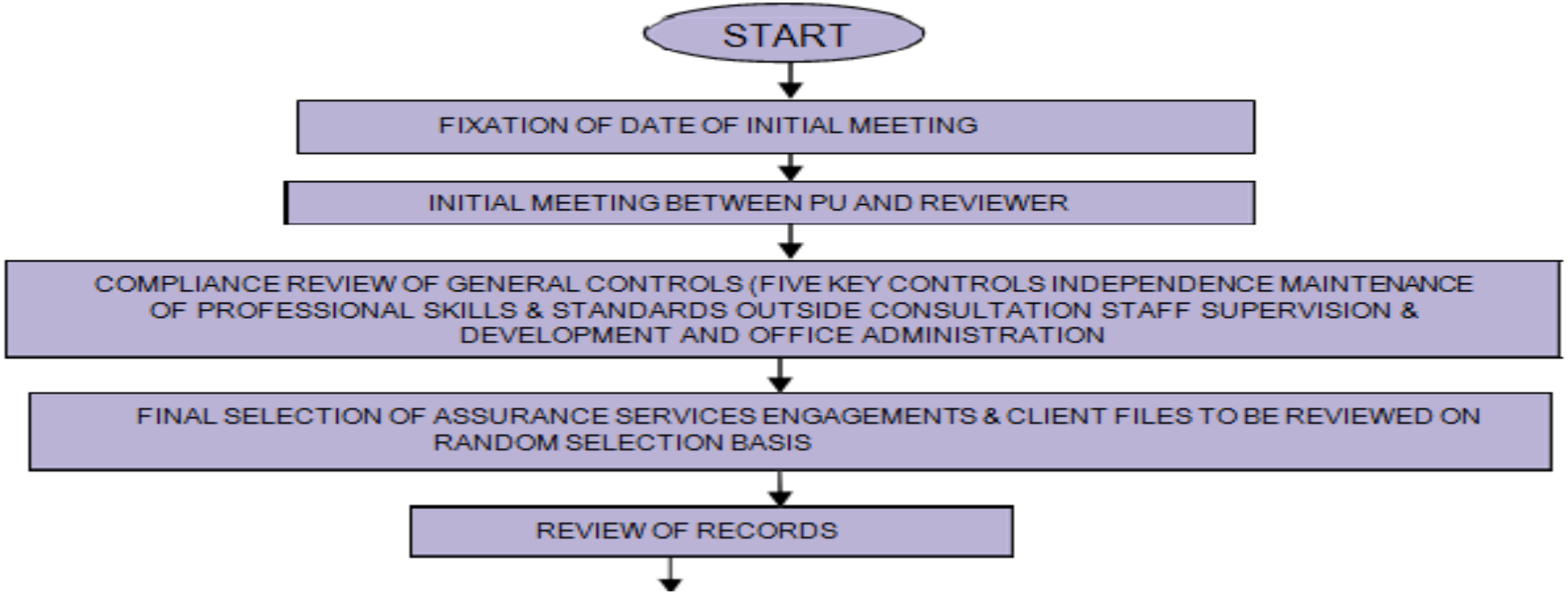


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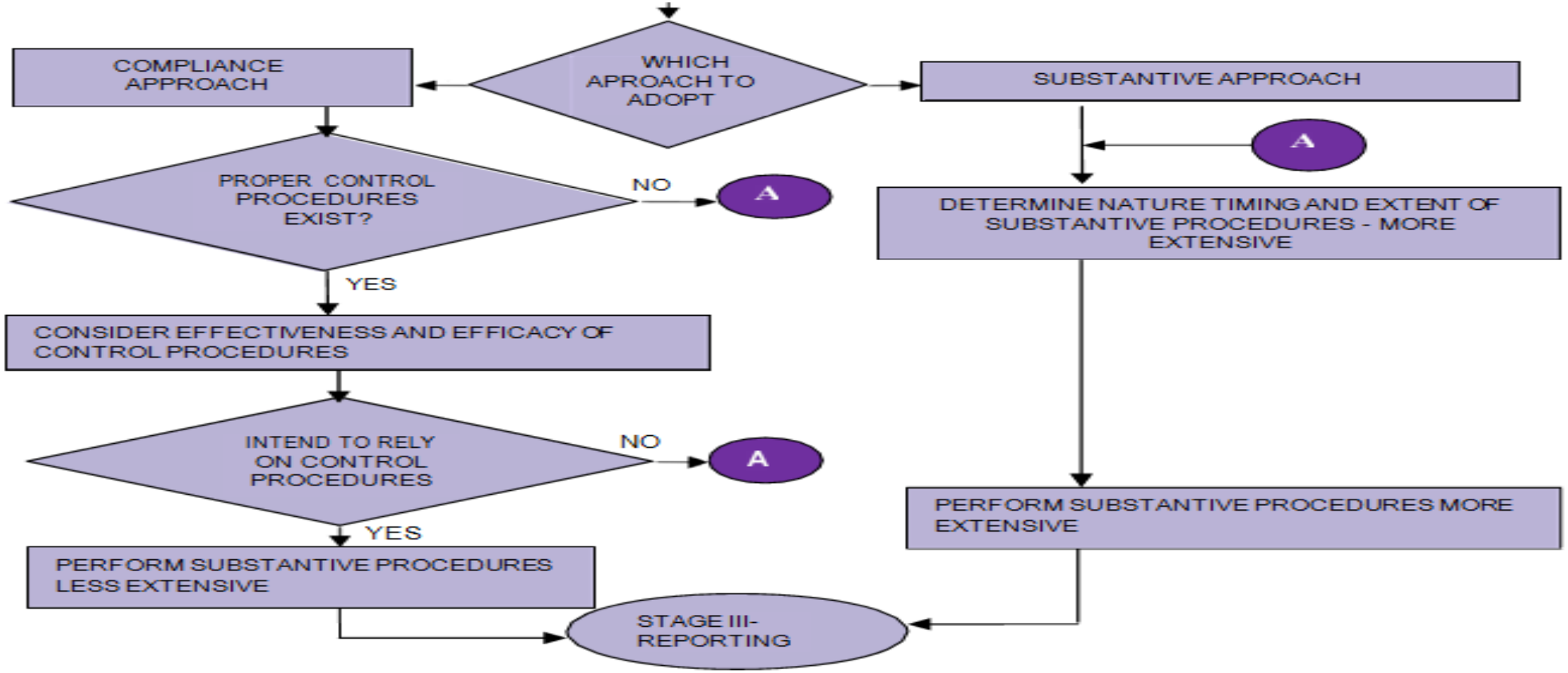


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Stage– II: Execution

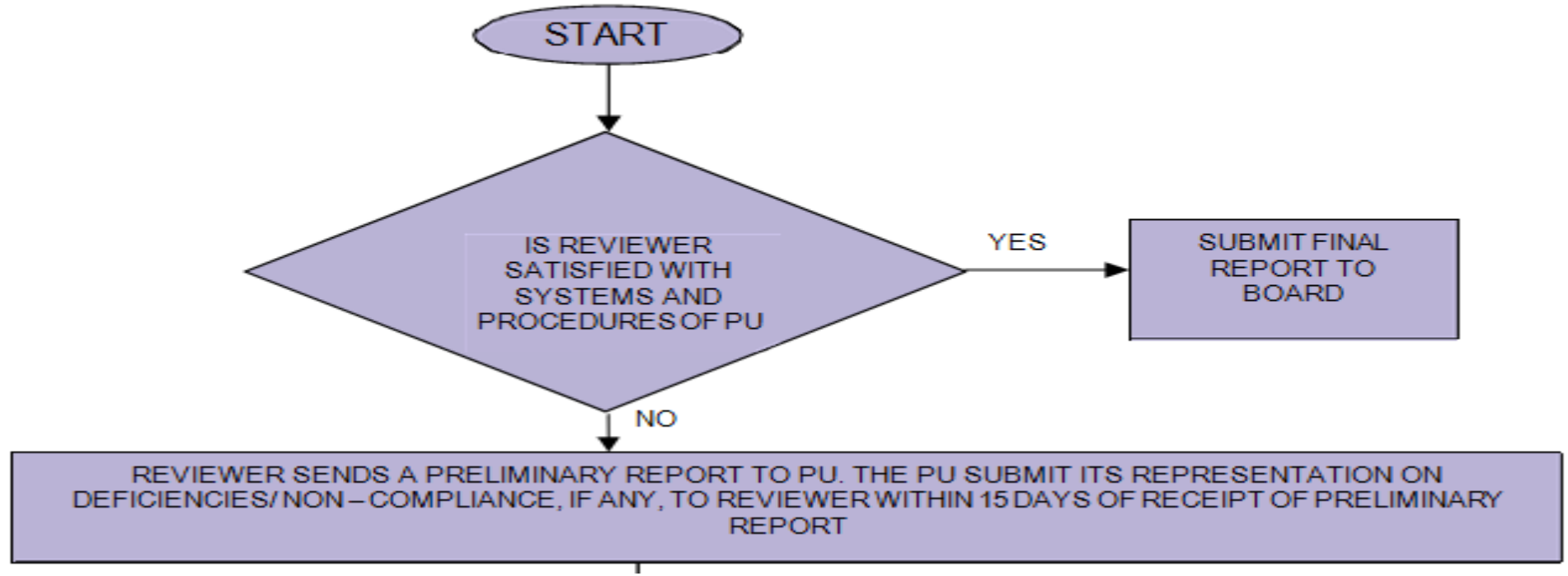


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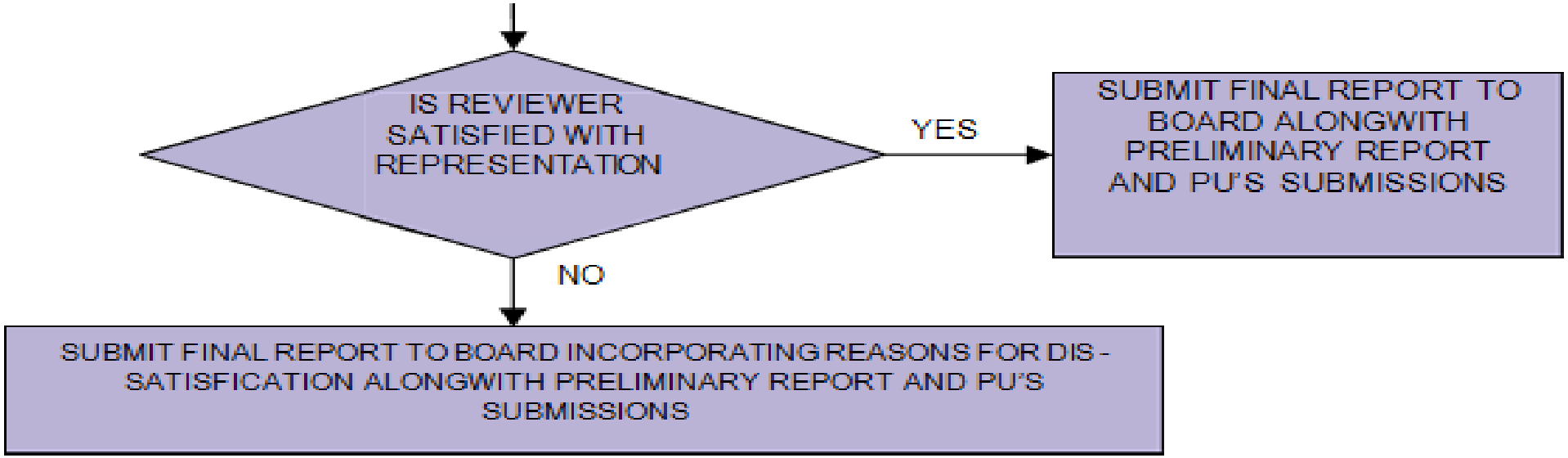


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Stage– III: Reporting



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