

INTRODUCTION

- The concept of Peer review first came into existence in March 2002.
- Peer review is conducted to assure that profession is conscious of its responsibilities and strive its best to ensure that highest standards are observed by all practicing members rendering audit and attestation services to the society.
- It involves examination of the systems and procedures of the PU (Practice Unit).
- To ensure that in professional assignments, the member of ICAI,



Key Code: **VIEW**

1. **Verify** compliance with Ethical Standards, Technical Standards and guidelines issued by ICAI.
 2. **Identify** chronic and pervasive loopholes and proper standard of operation.
 3. **Enhance** quality of audit and reliability of financial statements.
 4. **Work** performed by articles, employees and team, possess proper knowledge as required for audit.
- Scope of Review:
 1. **Peer Review period “means 3 years preceding the year** in which the Practice Unit is selected or such other period or any period as may be prescribed by the Peer Review Board for conducting a Peer Review.”
 2. **Assurance services which shall be subjected to peer review** means assurance engagements services but does not include:
 - 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.
 - Engagements solely to assist the client in preparing, compiling or collating.
 - Information other than financial statements
 - Engagements for the compilation of financial statements
 - Engagements to prepare tax returns or advising clients in taxation matters
 - Representation before various Authorities
 - Testifying as an expert witness
 - Management Consultancy Engagements
 - Engagement for Due Diligence.

PEER REVIEW PROCESS

STAGE 1: PLANNING

1. **EMPANELMENT OF REVIEWERS:** A panel of reviewers is maintained by the Peer Review Board. He should be:
 - (a) a member of ICAI;
 - (b) possessing at least 10 years experience of audit; and
 - (c) currently active in the practice; and
 - (d) free from any obligation or conflict or interest in the reviewed firm or its partners or personnel.
2. **SELECTION OF THE PRACTICE UNIT:** PU’s are selected for Peer Review on a random basis, as per applicability.

- 3. INTIMATION TO THE PRACTICE UNIT:** An Intimation in writing is sent by the Board to the practice unit informing of its selection for peer review. The following documents shall also be sent to the practice unit.
- (i) A copy of the statement on Peer Review.
 - (ii) A panel of three reviewers.
 - (iii) A copy of the questionnaire.

- 4. INITIAL COMMUNICATION BY THE PRACTICE UNIT:** The practice unit is required to communicate to the Board, its choice of the reviewer within a period of 15 days from the receipt of intimation.

The practice unit is also required to complete and send the questionnaire to the reviewer within one month of the receipt of the intimation, along with a complete list of its attestation service engagement clients.

The reviewer is entitled to seek such other information also as the reviewer considers necessary.



- 5. SELECTION OF SAMPLE ATTESTATION SERVICE ENGAGEMENTS:** The reviewer also selects a sample of attestation service engagements on random basis for review.

The reviewer is required to select a sample that is representative of the practice unit's client portfolio.



- 6. COMMUNICATION OF SAMPLE SELECTION:** The reviewer sends a written intimation to the practice unit about the sample selected by the reviewer, two weeks in advance, from the date the reviewer intends to begin the review. The intimation also contains a request for ready availability of that relevant records.

- 7. CONFIRMATION OF VISIT:** The reviewer, in consultation with the practice unit, is required to fix the date(s), for on-site review.

Date(s) are to be fixed in a manner so that the peer review process is completed within four months of the receipt of intimation by the practice unit.

STAGE 2: EXECUTION

Such visits will be conducted at the practice unit's head office.

The reviewer may not visit a branch (outside the city/ town limits from head office) of practice unit unless the turnover of attestation functions of that branch is more than one million rupees.

In such a case, he may instruct the practice unit to get relevant records to the head office.

- 1. INITIAL MEETING:** An initial meeting should be held between the reviewer and the partner (designated by the practice unit for the purpose) or the sole proprietor of the practice unit.

The purpose of the meeting is to confirm the accuracy of responses to the questionnaire.

The reviewer should have a full understanding of the systems and procedures at the conclusion of the meeting.



- 2. COMPLIANCE REVIEW:** The reviewer should carry out the compliance review of the five general controls, i.e., independence, maintenance of professional skills and standards, outside consultation, staff supervision and development and office administration.

The reviewer should review these general controls to gain an understanding of the working of the practice unit and specific control procedures existing at the practice unit.



Apart from making inquiries with the personnel concerned, the reviewer may adopt other procedures to establish the fairness of the responses by the practice unit to the questions. Selection of other procedures or techniques is a matter of the reviewer's judgment.

3. SELECTION OF ATTESTATION SERVICE ENGAGEMENTS: The number of attestation service engagements to be reviewed depends upon the number of practicing members involved, degree of reliance to be placed on general controls and the total number of engagements undertaken by the practice unit during the period under review. The reviewer may modify the initial sample selected for review in consultation with the practice unit at the execution stage.

4. REVIEW OF RECORDS- COMPLIANCE AND SUBSTANTIVE APPROACH: The reviewer may adopt the compliance approach in determining the nature, timing and extent of the substantive review procedures to be applied in review.

The reviewer should conduct adequate compliance procedures to gain an evidence that those general controls on which the reviewer intends to rely operate effectively.

Based on the results of compliance procedures, the reviewer concludes either to rely or not to rely on the general controls.

The compliance approach may not be warranted if the size of the firm is small or medium. In such a case, the reviewer may adopt only substantive approach for conduct of review.

Review of working papers helps in deciding as to whether the attestation services have been undertaken in accordance with the prescribed technical standards.

5. OBLIGATION OF THE PRACTICE UNITS: The Statement requires the practice unit to produce to the reviewer or afford him access to, any record or document which contains information relevant to the peer review.

The practice unit is also expected to provide all assistance to reviewer.

Reviewer may take the abstracts of the documents maintained by the practice unit, but in order to ensure the confidentiality of client's file with the practice unit, the reviewer shall not carry extracts of the client's files or records acquired by him while conducting peer review, as part of his working papers.



STAGE 3: REPORTING

1. PRELIMINARY REPORT OF REVIEWER: At the end of the on-site review, the reviewer is required to send a preliminary report to the practice unit before making any report to the Board on the areas in case systems and procedures of the practice unit reviewed have been found to be deficient or where non-compliance has been noticed by the reviewer.

The reviewer has to take care that the report does not contain name of any individual of the practice unit. However, no preliminary report is required in case no deficiencies or non-compliance are noticed by the reviewer.

The preliminary report is addressed to the practice unit.

If the reviewer draws a conclusion that there existed a limitation on scope of review, the fact, should also be communicated to the practice unit through the preliminary report.

The reviewer should prepare the report on his letterhead.

The report should be dated and also contain the reviewer's signature and membership number and reviewer's code number allotted by the Board.





2. **REPLY TO PRELIMINARY REPORT:** The practice unit has to send its representations, in writing, to the reviewer, on the areas mentioned in the preliminary report.
The reply to the preliminary report should be sent by the practice unit within a period of 21 days from the receipt of the preliminary report from the reviewer.
3. **QUALIFIED REPORT OF THE REVIEWER:** If the reviewer is not satisfied with the reply of the practice unit, the reviewer has to submit a qualified report to the Board.
The report so submitted should clearly indicate that it is a "qualified report".
The Board may then order after twelve months for follow up review.
He is then required to submit the follow up report to the Board for consideration.
4. **FINAL REPORT OF THE REVIEWER:** If the reviewer is satisfied with the reply of the practice unit, the reviewer shall submit his final report to the Board.
The final report should incorporate the findings as discussed with the practice unit.

Q1) Write a short note on Scope of peer review.

Answer: 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:
 - 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 relation to article assistants and/or audit assistants, including attendance register, work diaries, stipend payments, and such other related records.

Q2) Write a short note on Technical, ethical and professional standards as per statement on peer review.

Answer: Technical, Ethical and Professional Standards as per statement on peer review: As per the Statement, Technical, Professional and Ethical Standards means

1. Accounting Standards issued by ICAI and /or prescribed and notified by the Central Government of India;
2. Standards issued by the Institute of Chartered Accountants of India including
 - (i) Engagement standards
 - (ii) Statements
 - (iii) Guidance notes
 - (iv) Standards on Internal Audit
 - (v) Statements on Quality Control
 - (vi) Notifications / Directions / Announcements / Guidelines / Pronouncements / Professional standards issued from time to time by the Council or any of its committees.
3. Framework for the Preparation and presentation of financial statements, framework of statements and Standard on Auditing, Standard on Assurance Engagements, Standards on Quality Control and Guidance Notes on related services

issued, from time to time, by the Institute of Chartered Accountants of India and framework for assurance engagements;

4. Provisions of the various relevant statutes and / 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.

Q3) A, a practicing Chartered Accountant is appointed to conduct the peer review of another practicing unit. What areas A should review in the assessment of independence of the practicing unit?

Answer: Review in the Assessment of Independence of the Practicing Unit –

The reviewer should carry out the compliance review of the five general controls, i.e., independence, maintenance of professional skills and standards, outside consultation, staff supervision and development and office administration and evaluate the degree of reliance to be placed upon them. The degree of reliance will, ultimately, affect the attestation service engagements to be reviewed.

A, a practicing Chartered Accountant should review following controls in respect of assessment of independence of the practicing unit:

- (i) Does the practice unit have a policy to ensure independence, objectivity and integrity, on the part of partners and staff? Who is responsible for this policy?
- (ii) Does the practice unit communicate these policies and the expected standards of professional behaviour to all staff?
- (iii) Does the practice unit monitor compliance with policies and procedures relating to independence?
- (iv) Does the practice unit periodically review the practice unit's association with clients to ensure objectivity and independence?

Q4) Briefly explain Collection of evidences by Peer reviewer.

Answer: Collection of Evidence by Peer Reviewer: A Peer Reviewer collects evidence by applying the following methods:

- (i) Inspection mainly consists of examination of documentation (working papers) and other records maintained by the practice unit.
- (ii) Observation consists of witnessing a procedure or process being performed by others. For example, while conducting on-site review, the reviewer may review the performance of internal control.
- (iii) Inquiry consists of seeking appropriate information from the partner (designated by the practice unit for the purpose)/sole proprietor or other knowledgeable persons within the practice unit. The inquiries may originate from the responses to the questions given in the questionnaire. The inquiries may also arise from the inspection of documentation maintained by the practice unit.

While observation and inquiry may be considered as external independent sources of review evidence, inspection remains the most significant method for confirming the effective observance of control procedures in the practice unit. Observation and inquiry may also corroborate the evidence provided by inspection. The reviewer, in order to carry out the review effectively, should have an understanding of the documentation maintained by the practice unit.

Q5) Write a short note on "Reporting" stage in Peer Review.

Answer: Reporting stage in Peer Review:

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.

The Peer Review Report shall address the compliance report or otherwise on the following areas of controls:

1. Independence.
2. Maintenance of Professional skills and standards.
3. Outside Consultation.
4. Staff recruitment, Supervision and Development.
5. Office Administration:

(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 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.

(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.

(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, 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.

(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.

Q6) Explain the objectives of Peer Review.

Answer 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

- (1) comply with Technical, Professional and Ethical Standards as applicable including other regulatory requirements thereto and
- (2) 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 Statement of Peer Review also makes it clear that the peer review, "does not seek to redefine the scope and authority of the Technical Standards specified by the Council but seeks to enforce them within the parameters prescribed by the Technical Standards". 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. Accordingly, where a practice unit is not following technical standards, the reviewers are expected to recommend measures to improve the procedures. 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. For instance,

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

Q7) Write a short note on Preliminary Report under Peer Review.

Answer: Preliminary Report Under Peer Review:

In the process of peer review, After completing the on-site Review, if in the opinion of Reviewer, the systems and procedures are deficient or noncompliant with reference to any matter that has been noticed by him or if there are other matters where he wants to seek clarification. Then the Reviewer shall communicate his findings in the Preliminary Report to the Practice Unit, before making his Report to the Board. However, no preliminary report is required in case no deficiencies or non-compliance are noticed by the reviewer.

The reviewer while preparing the preliminary report should review and assess the conclusions drawn from the review that indicates the deficiencies to be reported upon. The preliminary report is addressed to the practice unit. The report, apart from mentioning the areas where systems and procedures of the practice unit have been found to be deficient, should also contain a paragraph that discusses the scope of the review performed by the reviewer. If the reviewer draws a conclusion that there existed a limitation on scope of review, the fact, along with such limitation on the scope of the review, should also be communicated to the practice unit through the preliminary report. The reviewer should prepare the report on his letterhead. The report should be dated and also contain the reviewer's signature and membership number and reviewer's code number allotted by the Board.

Q8) What are the areas excluded from the scope of peer reviewer?

Answer: Areas excluded from scope of Peer Reviewer are:

- (i) Management Consultancy Engagements;
- (ii) Representation before various Authorities;
- (iii) Engagements to prepare tax returns or advising clients in taxation matters;
- (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.

Q9) Explain the stepwise approach adopted by the Peer reviewer.

Answer: Approach of the Reviewer:

The stepwise approach which may be adopted by the reviewer is discussed below

- (i) 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. This understanding would help him in planning the review of documentation.
- (ii) 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.
- (iii) The practice unit may have policies and procedures for accepting a particular engagement. 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.

(iv) The reviewer may follow a combination of compliance procedures and substantive procedures throughout the peer review process.

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

- ❖ determine that any significant issues, matters, problems that arose during the course of the engagement have been appropriately considered, resolved and documented;
- ❖ determine that adequate audit evidence or other relevant evidence in relation to the engagement is obtained to support the reasonableness of the conclusions drawn; and
- ❖ determine that significant decisions relating to the engagement, use of professional judgement, resolution of significant matters have been properly documented.