PEER REVIEW MANUAL



Peer Review Board The Institute of Chartered Accountants of India

(Set up by an Act of Parliament) New Delhi

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Foreword

The Peer Review Board has been established in terms of the Statement on Peer Review issued by the Institute of Chartered Accountants of India (ICAI) in March, 2002. Since then, it has been marking its presence and has been duly acknowledged. The Securities & Exchange Board of India (SEBI) recognizing the importance of the peer review mechanism, has mandated for the listed entities that the limited review/statutory audit reports submitted to the concerned stock exchanges shall be given only by those auditors who have subjected themselves to peer review process and holds a valid certificate issued by the 'Peer Review Board' of the ICAI. Further, the Comptroller & Auditor General of India has been seeking details from the Chartered Accountant firms about their peer review status while applying for allotment of audit for Public Sector Undertakings.

The Board, in order to guide the members in the process of peer review, had brought out a comprehensive Peer Review Manual providing an insight into various aspects of peer review process. However, in the recent years there have been number of changes and modifications in various reporting formats and standards. These changes have significant implications on the compliances thereof. It is indeed the responsibility of the professional bodies to provide members with adequate facilities and opportunities to meet the challenges thrown by the dynamic environment by continuously enhancing their knowledge, skills and professional values. I am glad that the Peer Review Board of the ICAI has revised the 'Peer Review Manual' to provide updated information to the reviewers incorporating the recent updates and changes.

I hope that the firms and reviewers will be extremely benefited with the revised manual. I am sure it would serve as a useful and informative tool for the practice units & members and help them in smooth conduct of their peer review

I would like to compliment the CA. M. Devaraja Reddy, Chairman, CA. Mukesh Singh Kushwah, Vice-Chairman and the entire team of the Board in bringing out this revised manual objectively.

New Delhi, 29th January, 2014 CA. Subodh Kumar Agrawal President

Preface to the Third Edition

In its proactive pursuit to upgrade and maintain audit & assurance quality standards, the Council of The Institute of Chartered Accountants of India took initiative with the establishment of Peer Review Board in March 2002. Such an endeavor of the Council of ICAI aims to maintain and enhance the quality of assurance services and to guide its members in improving their performance and ensuring adherence to various technical standards issued by it from time to time. It is the Institute's endeavor to meet the demands of high quality assurance, consistency and greater transparency. As per the revised Statement on Peer Review the main objective of Peer Review is to ensure that in carrying out the assurance service assignments, the members of the Institute (a) comply with Technical, Professional and Ethical Standards as applicable including other regulatory requirements thereto and (b) have in place proper systems including documentation thereof, to amply demonstrate the quality of the assurance services.

The level of awareness created during the last twelve years of the Peer Review concept has indeed brought about an overall improvement in the quality of audit & assurance services rendered by our Members. The Peer Review mechanism is gaining momentum speedily and the concept of peer review for the Indian Accountancy Profession has successfully emerged which is also widely accepted

As always our endeavor to provide the latest and updated information to members, the Board has come out with an updated & improved version of the Peer Review Manual for the benefit of members.

After completion of the detailed Peer Review process the Peer Review Board issues a certificate to the Practice Units on the basis of the clean final report submitted by the Peer Reviewer. The Peer Review Board is also continuously striving towards organizing training programmes for Peer Reviewers in various parts of the country.

I take this opportunity to express my deep gratitude and sincere thanks to CA. Subodh Kumar Agrawal, President, ICAI and CA. K. Raghu, Vice President, ICAI for their invaluable guidance & support to the activities befitting Peer Review Board.

I also wish to place on record my gratitude to CA. Mukesh Singh Kushwah, Vice Chairman & the convener of the study group and other learned members of the study group specially CA V.Rethinam, CA Rakesh Kumar Garg, CA K.K.Tulshan, CA Munish Saraogi and CA Dinesh Behl entrusted with the task of the revision of Peer Review Manual. I also appreciate CA Ashok Kapoor, Secretary to the Peer Review Board, CA Waseem Qureshi and Mr Priyanshu Malhotra, Officers of the Peer Review Board who have provided inputs, devoted their valuable time and put in efforts to bring the Manual in revised form.

I sincerely hope that this revised manual would be immensely useful to the Reviewers/ Practice Units to provide quality professional services in accordance with the professional and ethical norms so as to make the accounting profession respectable and reliable.

29th January, 2014 Hyderabad CA. M. Devaraja Reddy. Chairman Peer Review Board

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CHAPTER 1

The Concept of Peer Review

1.01 The term 'peer' means a person of similar standing. The term 'review' means reexamination or retrospective evaluation of the subject matter. In generality, for a professional, the term "peer review" would mean review of the work done by a professional, by another member of the same profession with similar standing.

The Peer Review Board (the Board) was established in March, 2002 in terms of Paragraph 6.1 of the Statement on Peer Review (hereinafter referred to as the 'Statement' unless otherwise mentioned) issued by the Institute of Chartered Accountants of India (hereinafter referred to as "the Institute" or 'ICAI'). Apart from providing for setting up of the Board, the Statement also lays down the framework to conduct peer reviews and other matters related or incidental thereto. The Statement has been revised in Dec 2011, which is reproduced in Appendix I to this Manual. The revised Statement envisages disciplinary action in certain cases apart from partially revising the coverage of Practice Units, Scope of Peer Review, Powers of the Peer Review Board, Reviewer's Role, Practice Unit's responsibilities etc. The Board has also issued several notifications and circulars for the smooth conduct of peer review process. The text of Notification(s) and Circular(s) are reproduced in Appendix II to this Manual.

- 1.02 The quality of the services rendered by Chartered Accountants has always been on the "priority list" of the Institute. Towards this end, the Institute has been striving hard to formulate Standards, Statements, Guidance notes, industry-specific publications, research studies, monographs etc. to ensure, enhance and sustain the quality of audit and assurance services and provide guidance to auditors and enable them to discharge their duties in the most efficient and effective manner. Throughout the world, the concept of peer review, *inter alia*, is being used by all accountancy bodies as a tool for enhancing the quality of services being rendered by professional accountants. The Institute, recognising the need to observe best international practices, has established a system of Peer Review to be at par with the other developed countries of the world in so far as quality of assurance services is concerned.
- 1.03 The Statement defines certain key terms as under:
 - "3.6 (a) **Peer Review Board** means the Board constituted by the Council in terms of the Statement from time to time. The expression "Peer Review Board" is hereinafter referred to as "Board".

3.5(b) **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 and whether the same were consistently applied in the period under review.

- 3.4 (c) **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.
- 3.7 (d) **Reviewer** means a member duly approved and empanelled by the Board on fulfilling the qualifications prescribed for a Reviewer as per Para 10.0 of this Statement."

Scope of Peer Review

- 1.04 The Statement on Peer Review lays down the scope of review to be conducted as under:
 - "7.1 The Peer Review process shall apply to all the assurance services provided by a Practice Unit.
 - 7.2 Once a Practice Unit is selected for Review, its assurance engagement records pertaining to the Peer Review Period shall be subjected to Review.
 - 7.3 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 relating to article assistants and / or audit assistants, including attendance register, work diaries, stipend payments, and such other related records."
- 1.05 As is clear from the above, the Statement aims to define the scope of review, to establish the consistency or deviations, if any, in respect of procedures followed by the practice unit during the Peer Review Period. As per para 3.3 of the Statement, Peer Review

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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."

1.06 The Reviewers may note that the entire peer review process is directed at the assurance services which may be used interchangeably as audit services, attestation function or audit functions of a practice unit. Assurance services which shall be subjected to peer review 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 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
- (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.
- (viii) Engagement for Due diligence

It may be noted that while reviewing office systems and procedures and training programmes for the staff, the Reviewer shall focus on such areas which may affect the quality of assurance services performed.

- 1.07 It is also important for a Reviewer to understand the scope of review with reference to compliance with **Technical**, **Professional and Ethical Standards**. The said term has been defined in the Statement on Peer Review. As per Para 3.9 of the Statement, the term "**Technical**, **Professional and Ethical Standards**" *means*
 - (i) Accounting Standards issued by ICAI and /or prescribed and notified by the Central Government of India;
 - (ii) 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) Statements on Quality Control
- (f) Notifications / Directions / Announcements / Guidelines / Pronouncements / Professional Standards issued from time to time by the Council or any of its Committees.
- (iii) 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;
- (iv) 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.

Therefore, the Reviewer shall focus on compliance by the practice unit with all **Technical**, **Professional and Ethical Standards** requirements in respect of services rendered while performing a particular assurance engagement.

Objectives of Peer Review

1.08 The Statement specifies the main objectives of peer review as under:

- To ensure that in carrying out the assurance service assignments, the members
 of the Institute comply with Technical, Professional and Ethical Standards
 including other regulatory requirements thereto, and
- To ensure that such a member has in place proper system (including documentation system) to amply demonstrate the quality of assurance services.

It is important to note that peer review does not seek to redefine the scope and authority of any of the Technical, Professional and Ethical Standards but only seeks to ensure that they are implemented both in letter and spirit.

1.09 In view of the above, the Reviewer may note that the primary objective of peer review is to improve the quality of services rendered by members of the profession. In the same vein, the Statement also makes it clear that 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. 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 judgment of the practice unit while rendering assurance services but to evaluate the procedures followed by the practice unit in rendering

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such a service. 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.

Therefore, the objective is to maintain and enhance the quality of assurance services by providing appropriate guidance rather than simply pointing out deficiencies of the practice unit. To elaborate further, the key objective of peer review 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. However in cases where Peer Review Certificate cannot be issued the Board shall inform the Practice Unit alongwith the reasons and a due date for follow on review in accordance with Paragraph 15.6(b) of the Statement.

- 1.10 This Manual is intended to assist both the Reviewer and the Practice Unit being reviewed in carrying out and undergoing the peer review process. This Manual is not a substitute for the Statement on Peer Review. Therefore reviewers are expected to read the Manual in conjunction with the Statement. The Manual explains the peer review process in a simplified manner and provides guidance on the practical steps that the Reviewer and Practice Unit need to take. It also provides reporting formats and guidance on documentation and reporting.
- 1.11 This manual has primarily been designed to assist the Reviewers in performing their work. However, suggested policies, processes and procedures described herein would also assist the practice unit in enhancing the quality of their work. Such a description has been made only with a view to ensuring reasonable assessment by the Reviewer that the work has been carried out and documented in the manner prescribed by the Institute in its various Technical, Professional and Ethical Standards for adherence to quality of work by the Practice Unit.
- 1.12 The users of this Manual may note that the Accounting Standards and Standards on Auditing may undergo a change in future. Users are therefore advised to acquire the latest information on Technical, Professional and Ethical Standards from the publications of the Institute and other regulatory bodies from time to time.

Conclusion

1.13 The Peer Review mechanism was introduced by the Council of the ICAI, with the setting up of Peer Review Board in March 2002. Since then the Board has been progressing well with

the objective of providing guidance to the Members and to maintain as well as to enhance the quality of assurance functions. Initially, the Statement provided support to the CA fraternity for a period of more than 11 years to educate the members to have in place the working process and document as required for various procedures of the assurance services as concerned. With a view to cater to the needs of the profession and meet the challenges of the ever changing environment the Council revised the Statement on Peer Review in December 2011.

To ensure and sustain the quality, the revised Statement provides for disciplinary proceeding in appropriate cases, effective from year 2014. This would arise in case of Practice Units which are found to be deficient in complying with the technical, professional and ethical standards and do not have in place proper systems including documentation thereof to amply demonstrate the quality of the assurance services.

CHAPTER 2 PEER REVIEW PROCESS

2.01 The objective of this Chapter is to explain the process of peer review as stipulated in the Statement on Peer Review. This would help the reviewer to understand the process and plan the peer review accordingly. The subsequent paragraphs of this Chapter discuss the process of peer review step-by-step. The clarification(s) issued by the Board, if any, have also been dealt with at appropriate places. A Flow Chart depicting the complete process of peer review and an illustrative time schedule for carrying out the peer review process are given in Annexure I and Annexure II to this Chapter respectively. The Peer Review Board advisories for Peer Reviewers are also given in Appendix VII to this Manual.

Empanelment of Reviewers

- 2.02 A panel of reviewers is maintained by the Peer Review Board (Board). To be eligible, a reviewer (i) has to be a Member of the ICAI with at least 10 years of experience in practice, (ii) should be currently in practice, (iii) should have undergone the requisite training, (iv) should furnish a declaration as prescribed by the Board, (v) should have signed a declaration of confidentiality as prescribed by the Board, and (vi) should have conducted audits of Level I entities for at least 7 years in order to be eligible to conduct peer reviews of Level I entities.
- 2.03 Furthermore, the experience of 10 years, as required, should be cumulative and not necessarily continuous, but any period of audit experience of less than 2 years shall not be counted for this purpose.
- 2.04 In situations like ill-health or other preoccupations or where there is a conflict of interest between a reviewer and a practice unit giving rise to a threat to the reviewer's independence (arising for example from past association with a person connected with the practice unit), a reviewer may decline an assignment.
- 2.05 If a practice unit desires to have a reviewer from another region or State in India, the practice unit shall, within the time limit mentioned in the intimation letter, make such request to the Board with an undertaking that it shall bear any additional cost that this may entail.
- 2.06 The Statement provides that the reviewer may take the help of a qualified assistant while carrying out peer review. Such assistant 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 whom the reviewer would like to assist him should be 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. 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.

Selection of the Practice Unit

2.07 Practice units are categorized into Levels I, II and III respectively depending upon the size and nature of their practice. Details of this classification are given in Paragraph 11 of the Statement. All categories of practice units i.e. Level I, II, III are subject to peer review.

2.08 Level I practice units are generally required to be subjected to review once in three years, Level II once in 4 years and Level III once in 5 years. However, if the Board so decides or otherwise at the request of the practice unit, peer review can be conducted at shorter intervals. Paragraph 11.2 of the Statement allows a practice unit to suo motu apply to the Board. Also Paragraph 11.3 allows an auditee (client) to request the Board for conduct of peer review of its auditor (practice unit). The Board shall act upon both within 30 days from the date of receipt of such request.

Appointment of reviewer and response to the Questionnaire

2.09 Once a practice unit is selected, intimation shall be communicated by the Board along with (i) a questionnaire, and (ii) recommended names and contact details of three reviewers.

The practice unit is required to select one out of these three reviewers and inform the Board of its choice within 7 days of receipt of such intimation.

- 2.10 The Board shall inform the selected reviewer of the choice made by the practice unit and seek his consent within 7 days to act as reviewer. Upon receipt of the consent, the Board shall intimate the practice unit that the reviewer has accepted the assignment to carry out the peer review.
- 2.11 The practice unit is then required to furnish the following information within 15 days to the reviewer:
 - (a) dully filled in questionnaire (sent by the Board)
 - (b) Complete list of assurance services clients [with nature of service provided, fees charged, and period under review].
 - (c) A note on policies and procedures adopted by the practice unit [for independence, staff supervision and development, process generally followed for assurance services etc.]
 - (d) Details of any proceedings against practice unit, its partners and qualified assistant associated with such peer review]

Peer Review Process 9

Information to be provided by the practice unit in response to the questionnaire should be for the head office as well as all branches of the practice unit.

- 2.12 With reference to the questionnaire, it may be noted that if the practice unit maintains a register of its assurance clients with a system of numbering, then instead of providing names of its clients, it may choose to provide the client numbers/code.
- 2.13 The information sought in the questionnaire is only to acquaint the reviewer with basic knowledge about the practice unit and its quality controls. Its purpose is to help the reviewer in planning his review. With particular reference to Compliance Review certain information of a proprietary nature may, at the discretion of the practice unit, not be mentioned or provided in the response to the questionnaire but may be offered for examination to the reviewer during site visit.

Initial sample selection and intimation thereof

- 2.14 The reviewer shall, within 15 days of receiving the information from the Practice Unit, make a selection of audit/assurance files that he has an intention of reviewing in the course of his substantive review.
- 2.15 Selection of files is entirely at the reviewer's discretion. However, in order to make the selection as representative of the total population of the practice unit's clients as possible, he may be guided by (i) size of entity's operations, (ii) nature of industry, (iii) the reviewer's initial impression of the quality control environment in the practice unit, (iv) number of branches of the practice unit, and (v) the number of audit partners.
- 2.16 After making initial selection of audit/assurance files and before his visit to the practice units' office, the reviewer would intimate the practice unit of this selection. The purpose of prior intimation is to enable the practice unit to collate/make available the audit files at the location where the review is to take place and be in readiness for the review. The reviewer shall give the practice unit at least 15 days time to keep ready the necessary records of the selected assurance services.
- 2.17 The reviewer and the 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.

Branches of Practice Unit

2.18 Where a practice unit has a head office at one location and branches or offices at other locations, it would be within the reviewer's scope to examine the quality controls at all such locations.

2.19 Where a branch is located in a different city/town, the reviewer is advised to visit, if the Branch turnover from assurance services is more than Rs. 25,00,000. However in respect of branches having turnover less than Rs.25,00,000 the reviewer shall have freedom to arrange, in consultation with the practice unit, for documents, related records and related personnel to be brought to head office and examine them centrally.

Cost of Review

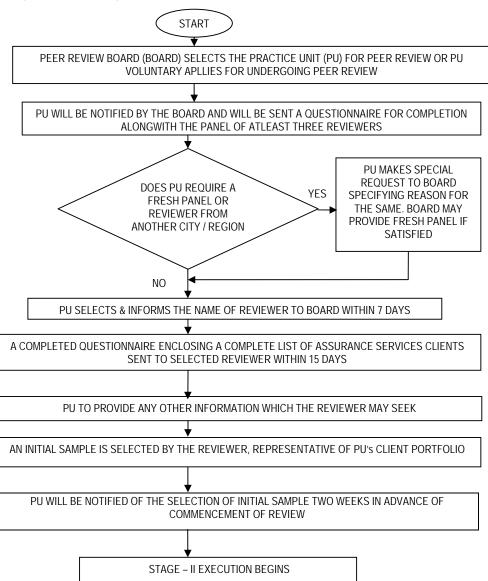
2.20 The cost of peer review is indicated in the Appendix II to this Manual (Notification (s) issued by the Peer Review Board) . The cost structure is however subject to change by the Board from time to time.

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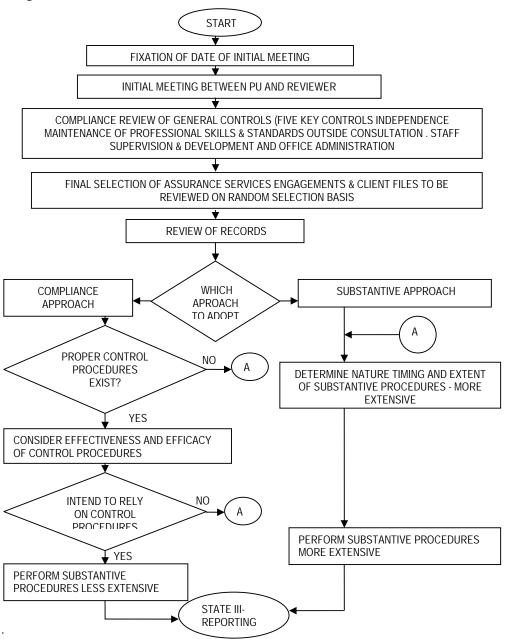
ANNEXURE I

Flow Charts - Peer Review Process

Stage-I: Planning

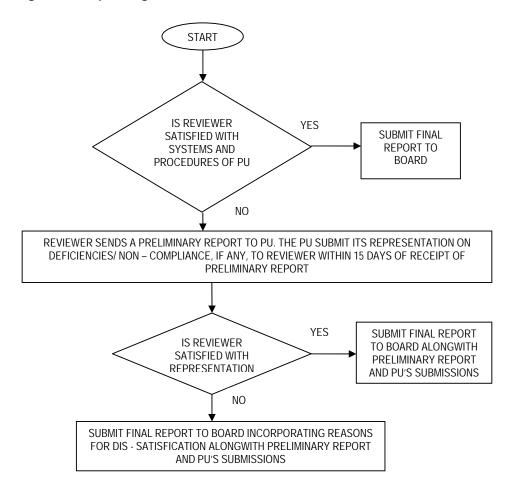


Stage- II: Execution



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Stage-III: Reporting



ANNEXURE II

Illustrative Time Schedule of Peer Review Process

Sr. No	Review Process	Time as stipulated in Statement of Peer Review	Tentative Cumulative Days
1.	'Peer Review Board (Board) notifies the selection of practice unit (PU) for review. Panel of three reviewers along with questionnaire to be sent to PU	Day 1	Day 1
2.	PU to give the choice of one reviewer out of panel of three	Within 7 days of receipt Within 10 days	Day 9
3.	Board to notify the reviewer as per the choice given by PU		Day 11
4.	Reviewer to send his consent to the Board	Within 7 days of receipt	Day 20
5.	PU to complete the questionnaire and send it to the reviewer with complete list of assurance service clients and duly filled questionnaire etc.	Within 15 days	Day 37
6.	Reviewer to call for any other information if required after evaluation of the questionnaire sent by the PU.	Within 5 days	Day 42
7.	PU to furnish additional information asked by the reviewer	Within 5 days	Day 47
8.	Reviewer to decide on the initial sample from the client list of the PU		Day 50
9.	PU to be notified about the sample selected by the reviewer and on sight review by fixing the date as per mutual consent.	15 days' advance notice before visit of reviewer to PU's office.	Day 65

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10.	Reviewer to carry out the review by visiting the office of PU.		Day 65 to 67
11.	Reviewer to send the preliminary report/ initial findings to PU for comments.		Day 70
12.	PU to submit representation/ submission to reviewer	Within 15 days	Day 85
13.	Reviewer to submit final report to the Board		Day- 90
14.	Board to consider and give the recommendation to PU and give instructions for follow-on/further review as the case may be.	In the next meeting to held in every quarter	

Notes:

- 1. The time period mentioned includes the transit time for mailing/sending the reports/communication etc.
- 2. The reviewer and PU have to ensure that entire review process is completed within 90 days of notification of selection of PU for review.

QUESTIONNAIRE FOR PRACTICE UNITS

- 3.01 As a part of the peer review process, each practice unit is required to complete the questionnaire designed by the Board, within 15 days of receipt and send the same to the reviewer (refer Paragraph 2.12 of the Manual).
- 3.02 The questionnaire has been designed to ascertain the existence of internal controls within a practice unit that ensure the quality of assurance services rendered by it. The questionnaire is divided into different sections which deal with various aspects of the quality controls within the practice unit like policies and procedures addressing leadership responsibility, ethical requirements, acceptance and continuance of client relationship, human resource, engagement performance and monitoring etc.
- 3.03 The questionnaire has been prepared in such a manner that the responses to the questionnaire would help in identifying the quality controls as narrated above that would normally be existing in a practice unit although it is not intended to be exhaustive. It is possible that some practice units may not have some of these controls considering the level of practice. Non-existence of some of the controls by itself need not be construed as a deficiency in the quality of systems prevalent in such practice unit. The reviewer would use the responses to the questionnaire to plan the review.
- 3.04 During his visit to the practice unit, the reviewer would evaluate the reasonableness and accuracy of the responses to the questionnaire. Based on his evaluation of the responses to the questionnaire, the reviewer may consider that the system adopted by the practice unit is not adequate. It is also possible that the system of practice unit is considered satisfactory for its type of practice, though the same has not been adequately explained in the questionnaire.
- 3.05 Attention of the reviewer is also invited to Paragraph 15.2 of the Statement. It is reiterated that apart from the information given in the questionnaire, the reviewer is entitled to seek such other information as he/she considers necessary to facilitate the selection of sample of assurance services engagements, which appropriately represents the practice unit's client portfolio.
- 3.06 It is also probable that large practice units while responding to the questionnaire may simply make a cross-reference to their own quality control manuals. In such a case, the reviewer shall have to consider the need for an additional visit to the practice unit before actually planning the on-site review of controls. Such additional visit would enable the reviewer to understand the prevalent controls in operation while performing assurance services.

3.08 The Board recognizes that the responses to the questions may contain confidential information. The reviewer, therefore, should take appropriate measures to strictly ensure that such information is not made available or known to any other person. Attention is also invited to Paragraph 18 of the Statement on Peer Review which lays down the confidentiality requirements related to the process of peer review.

QUESTIONNAIRE

QUESTIONNAIRE FOR PRACTICE UNIT PART A - PROFILE OF PRACTICE UNIT (PU)

Name of practice unit
PU Number.
Address
Status Partnership Proprietorship
Limited Liability Partnership Practicing in Individual Name
Date of establishment of the PU d d m m y y y y
Firm registration number (Membership no., in case of an individual practicing in own name)
Period under review ¹ From:
Contact Person for Peer Review

¹ Refer Para 3.3 of Statement on peer Review (Revised) issued by the Institute

9.	Particulars about the constitution of the PU during the period under review (as per Forn
	18 filled with the ICAI):

Name of partner	Membership no. of	Association with	experience	Predominant function (e.g. audit, tax, consulting)		ils of nges
	partner	Practice unit (in years)	in practice		Joined (Year)	Left (Year)

10.	Particulars of	Chartered	Accountants	Employed
-----	----------------	-----------	-------------	-----------------

Name (s)	Membership no.	Association with the practice unit	Experience (in years)
		(in years)	

11. Details of Other Employees

Particulars		Number
(a)	Semi-Qualified Assistants	
(b)	Articled Assistants	
(c)	Administrative Staff	
(d)	Others	

12 If the PU has any branch offices, furnish the following details

S. No	Member in Charge	Membership No

13

Gross receipts of the Practice Unit [both H.O. and branch(es)] from assurance functions for the period under review:	Year	Gross Receipts (In lacs)

14 Concentration:

Furnish details where professional fees from all services provided to a client/ group by the PU exceed 10 % of the PU's total gross receipts1:

Name of the Entity/Group	% of PU's total gross receipts ¹

- Disciplinary proceedings: If disciplinary proceedings of the Institute have been initiated against any partner/employee of the PU, and remains unresolved, furnish details:
 - (i)
 - (ii)
 - (iii)

¹ Gross receipts means gross receipts from assurance services

Please provide details of assurance clients in the following format for head office and each branch separately for the period under review (wherever space is insufficient, please use additional sheet)

S.	Name or code	Type of Engagement ²			Turnover	Capital
No	number of client ¹	Statutory Audit	Tax Audit	Others	Rs. (in lakhs) ³	
Α	Offices or	Audit	Auuit		iakiisj	
``	Branches of					
	Public Sector					
	Banks, Private Sector Banks,					
	Foreign Banks,					
	Cooperative Banks and Public					
	Financial					
	Institutions					
В	Central or State					
	Public Sector					
	Undertakings and					
	Central Cooperative Societies having					
	paid up capital of					
	over Rs. 5 Crores					
	and/or annual turnover of more					
	than Rs. 50 Crores					

 $^{^{}m 1}$ The practice unit may mention one unique code number instead of client name as per the client register maintained by it.

² Tick appropriate Box.

³ As at the balance sheet date of the latest financial period under review.

С	Insurance Companies			
D	Asset Management Companies/Mutual Funds			
E	Enterprises whose equity or debt securities are listed in India or abroad			
F	Entities which have raised funds from public or banks or financial institutions of over Rs. 50 Crores			
G	Entities which have raised donations and/or contributions over Rs. 50 Crores			

H	Entities having Net Worth of more than Rs. 500 Crores at any time			
I	Entities which have been funded by Central and / or State Government(s) schemes of over Rs. 50 Crores.			
J	Regional Rural Banks/ Cooperative Banks			
K	NBFCs		 	
L	Other Entities			

PART B - GENERAL CONTROLS (Based on SQC 1)

The Standard on Quality Control i.e. SQC-1 is made mandatory by ICAI on and from (1st April 2009). Hence, the PU is required to establish a system of 'Quality Control', designed to provide reasonable assurance that the PU and its personnel comply with professional standards; regulatory, legal and ethical requirements.

Broadly, PU system of quality control should include policies and procedures addressing leadership responsibility, ethical requirements, acceptance and continuance of client relationship, Human Resources, Engagement Performance and Monitoring etc. A Questionnaire based on these criteria is given in Para 17 To 22 below.

[Notes:

- 1. Where responses to the questions below are readily available from PU's own Manual, it will be sufficient to provide a cross reference to the relevant Para/chapter of the same.
- 2. The application of SQC-1 will depend on various factors such as the size and operating characteristics of the PU and whether it is part of network. Hence Level III category of 'PU' may answer these questions accordingly.]

17 LEADERSHIP RESPONSIBILITIES FOR QUALITY WITHIN A FIRM

17a	What are the policies and procedures established by the PU to promote a culture of Quality in performing assurance engagements and, how does the PU's CEO of managing partner (MP) assume ultimate responsibility for the PU's system of quality control (QC)?
17b	How does the PU ensure that commercial considerations do not override the quality o work performed?

17c	To whom has responsibility for developing, implementing and operating the PU's QC system been assigned? Describe how this authorised person has sufficient appropriate experience, ability and authority within the PU to assume that responsibility?
17d	How policies and procedures of the Practice Unit addresses performance evaluation, compensation and promotion for its personnel to demonstrate the Practice Unit's overriding commitment to quality?
17e	What resources or investments has the PU made for the development, communication to its personnel and support of its QC system?
18 18a	ETHICAL REQUIREMENTS (INCLUDING INDEPENDENCE) What internal processes has the PU established to ensure that its partners and professionals adhere to the ethical requirements contained in the Code of Ethics issued by
18a	·

	at steps has the PU taken to ensure that its partners and professionals comply with thowing professional ethics relating to assurance services:
>	Integrity
>	Objectivity
_	
- -	Professional competence and due care
_	
\triangleright	Confidentiality

	Professional behavior in the client service work that they do?
prof	the PU set up policies and procedures to ensure that the PU and its partners ressionals are and remain independent at all times? How did the PU communicated the perfect to them.
	at policies, processes and safeguards has the PU established to mitigate owing threats to its independence? Self-interest threat
> 	Self-review threat
	Advocacy threat

>	Familiarity threat
>	Intimidation threat
	at policies, processes and safeguards has the PU established with regard to the independence that could arise because of the following?
>	Financial interests of its partners and professionals in audit clients, their ow and officials
>	Employment relationships in audit clients, their owners and officials
>	Business relationships with audit clients, their owners and officials

	Long association with the clients, their owners and officials
> 	Acceptance of gifts and hospitality from clients, their owners and officials
> >	Where fees from a client/ group of related entities from all services provided by the PU are a significant proportion of the total earnings of the PU
> 	Scope of services that may involve perceived conflicts of interest provided to a client/ group of related entities by the PU
	s the PU, in the past, withdrawn from an engagement if effective safeguards reduce threats to independence to an acceptable level could not be applied?

18h	Has the PU obtained written confirmations atleast annually from its partners and professionals for compliance with its policies and procedures on independence?		
18i	How does the PU confirm independence of another Firm that performs part of its engagement?		
l8j	Are the number of Tax Audit assignments performed by the PU in a financial year, more than the specified number, as per ICAI Notification? (If yes, specify reasons)		
18k	Has the PU accepted appointment as auditor of an entity where the audit fee of another auditor for carrying out audit under Companies Act, or various other Statutes has not been paid (except in the case of a sick unit)?		
	(If yes, specify reasons)		

181	"Are the number of audit assignments held by the PU, at any time, more than the specified number of audit assignments of companies under the prevailing Companies Actand/or the limit prescribed by the ICAI? (If yes, specify reasons)"
18m	Has the PU accepted appointment as Statutory Auditor of PSU(s)/Government Company(ies)/Listed company(ies) and other Public Company(ies) having turnover of more than Rs. 50 crores or more in a year and accepted other work or assignment or service in regard to the same entity(ies) on a remuneration which in total exceeds the fee payable for carrying out statutory audit of the same entity? (If yes, specify reasons)
18n	Has the PU accepted appointment as an auditor of a concern while he is indebted to the concern or has given any guarantee or provide any security in connection with the indebtedness of any third person to the concern, for the limits fixed in the statute and in other cases for amount not exceeding Rs 10,000? (If yes, specify reasons)
180	Has the PU at any point of time received fees from a client below the minimum scale of fees recommended for audit assignments by the ICAI? (If yes, specify reasons)

	Has the PU, being statutory auditor of a client rendered any services to the same client, as mentioned in section 144 of Companies Act 2013 (if yes, specify reason)
· t	Has the PU, as incoming auditor for an entity, followed the direction given by the ICAI not to accept an appointment as auditor in the case of unjustified removal of earlier auditor? (If no, specify reasons)
l i	Does the PU or a Network, as a good and healthy practice, make a disclosure of the payment received by it for other services through the medium of a different firm or firms in which the said PU or Network or its partners may have an ownership interest? (If no, specify reasons)
8s I	

	CEPTANCE AND CONTINUANCE OF CLIENT RELATIONSHIPS AND SPECIFIC GAGEMENTS
	en accepting or deciding to continue a client relationship, what processes does the have:
	To evaluate the integrity of the entity and its people
	To determine whether it has the competencies and resources to undertake the
	engagements
>	To comply with the ethical requirements
	v does the PU obtain an understanding with its clients regarding the services to be formed?
	at processes does the PU have, for withdrawal from an engagement and/or from a nt relationship if required?

How does the PU document details of issues and decisions taken relacceptance and continuance of client relationships and specific engagements?	ating to
HUMAN RESOURCES	
What steps has the PU taken to ensure that personnel it hires have the capability, competence and commitment to ethical principles to perform as professional standards, regulatory and legal requirements?	
What process does the PU follow for determining the appropriateness engagement team?	 s of an
What are the considerations for assigning responsibility for an engageme	ent to a

What steps has the PU taken to ensure that its personnel participate in CPE, Training and Development activities that enable them to accomplish assigned responsibilities?
How does the PU ensure that personnel selected for advancement have the qualifications to fulfil the responsibilities they will be called upon to assume?
ENGAGEMENT PERFORMANCE
How does the PU ensure that the planning process it undertakes for engagements meets professional, regulatory and legal requirements?
How is it ensured that the PU's engagements are performed, supervised, documented,
reported and communicated in accordance with the requirements of professional standards, applicable regulators and those of the PU itself?
How is it ensured that qualified team members review work performed by other team members on a timely basis?

d	What process exists to ensure that engagement teams complete the assembly of final engagement files on a timely basis?
е	How does the PU maintain confidentiality, safe custody, integrity accessibility and retrievability of engagement documentation?
f	How is it ensured that the PU retains engagement documentation for a period of time sufficient to meet the needs of the Firm, professional standards, laws and regulations?
g	What policies and procedures does the PU have to ensure that proper consultation takes place within the PU for difficult or contentious matters?
h	(a) How does the PU deal with and resolve differences of opinion, within the engagement team, or with those who are consulted or between engagement partner and quality control reviewer?

	naire for Practice Units	3
(b)	How the conclusions reached are documented and implemented?	
		-
(c)	Does the firm release the Report until the matter is resolved?	
rev tha	Does the PU have criteria for determining whether an engagement quality corriew should be performed for given engagements? b) How is it ensured/ monitor treports of engagements for which a engagement quality assurance review quired are not released before completion of the review?	re
rev tha	riew should be performed for given engagements? b) How is it ensured/ monitor treports of engagements for which a engagement quality assurance review	rec
rev tha req Wh	riew should be performed for given engagements? b) How is it ensured/ monitor treports of engagements for which a engagement quality assurance review	orec
rev tha req Wh	riew should be performed for given engagements? b) How is it ensured/ monitor it reports of engagements for which a engagement quality assurance review juired are not released before completion of the review? The procedures for addressing the nature, timing, extent	orec

Peer Review Manual
MONITORING
How has the PU assigned responsibility for the monitoring process?
How does the PU perform monitoring procedures in the light of adherence to professional standards, regulatory and legal requirement, appropriate designing and implementation of quality control system etc.?
How and how frequently does the PU Communicate the deficiencies noted and recommendations for remedial action to concerned engagement personnel and to other firm personnel?
recommendations for remedial action to concerned engagement personnel and to other

22e	(a) What documentation does the PU prepare in evidence of the monitoring opera of each element of its quality control system?	tion
	(b) For how long does the Practice Unit retains monitoring documentation?	
22f	Has the PU been subjected to a Peer Review in the past? - if so, give details and att certificate.	 ach
Signa	ure	
Nam	of Firm	
	of Proprietor/Partner/ Individual Practising in own name ership No. of the Signatory	
Date		

CHAPTER 4 REVIEW PROCEDURES

4.01 A reviewer, based on the information and explanation obtained during the course of review, has to assess the evidence obtained and formulate his opinion on the compliance with technical, professional and ethical standards and the internal controls within the practice unit that contribute towards maintenance of the quality of reporting. This Chapter outlines the procedures to be followed by the reviewer.

Off-Site Procedures

- 4.02 It is obligatory for the practice unit to furnish the duly filled in questionnaire with a list of assurance service clients to the reviewer within 15 days of the receipt of the intimation from the Peer Review Board.
- 4.03 The reviewer starts the review procedure upon receiving the practice unit's response to the queries raised through questionnaire. This will give him a broad understanding about the quality controls of the practice unit and assist him in determining the extent of application of compliance and substantive testing; he would need to perform in an effective and efficient manner. For instance if the quality controls are apparently good, he may perform compliance testing rather than substantive testing.
- 4.04 Based on his evaluation of the responses given in the questionnaire, the reviewer may frame further questions to seek replies from the practice unit or determine the additional information that may be required for the review. The reviewer would also determine the relevant records/ documentation that may be required to be examined during the course of the review.
- 4.05 While conducting off-site reviews, the reviewer would select an initial sample from the complete list of assurance services. This initial assessment of selection of sample may either be further reduced or increased at the execution stage in consultation with the practice unit.

On-Site Procedures

4.06 The on-site procedures would begin with an initial meeting with the practice unit. The Statement makes it abundantly clear that a reviewer must fix the date(s) for on-site review in consultation with the practice unit and the practice unit should be given at least 15 days time to keep ready the necessary records relating to selected assurance services. While flexibility is built-in in this process, the reviewer must fix the date by mutual consent so that he can conduct the review within specified time.

4.07 The primary purpose of the initial meeting with the practice unit is to determine the accuracy of the responses given in the questionnaire and seek additional information in respect of those questions whose answers fail to explain all relevant procedures. For example, the reviewer, in order to verify the accuracy of particulars filled in Part A of the questionnaire (Profile of the Practice Unit) examines the file containing the particulars. Similarly, the practice unit may have written policies and procedures which may corroborate the responses given in the questionnaire. It may, however, be noted that absence of such written policies and procedures does not necessarily mean that the policies and procedures followed by the practice unit are not adequate for maintaining the quality of service being rendered. The reviewer should obtain sufficient appropriate evidence to ensure that the responses to the questions are accurate. The manner of obtaining the evidence is discussed later in this Chapter.

- 4.08 Based on the above procedures, i.e., initial examination of the responses given in the questionnaire, additional information sought by the reviewer on inspection of internal manuals, responses to further questions posed by him and after establishing the accuracy of the responses, the reviewer should be able to have a thorough understanding of the policies and procedures followed by the practice unit.
- 4.09 Once the reviewer identifies the policies and procedures followed by the practice unit, the reviewer's next task is to perform compliance testing or compliance review. The primary purpose of the compliance review is to make an evaluation and identification of those control procedures on which it might be sufficient to rely upon. Then the reviewer should apply substantive procedures.
- 4.10 The reviewer should obtain sufficient appropriate review evidence by applying performance of compliance and substantive review procedures to enable him to draw reasonable conclusion that the policies and procedures adopted by the practice unit under review have been designed to carry out professional assurance service engagements in a manner that ensures compliance with the technical, professional and ethical standards.
- 4.11 The reviewer obtains sufficient appropriate review evidence by applying one or more of the following methods:
 - ◆ Inspection
 - Observation
 - Inquiry
- 4.11.1 Inspection mainly consists of examination of documentation (working papers) and other records maintained by the practice unit.
- 4.11.2 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.

4.11.3 Inquiry is an effective method 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.

4.12 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.

Compliance Review Procedures

4.13 It is the first stage of applying review procedures to ascertain whether the practice unit has been observing the systems as contemplated by it in the questionnaire. The Statement requires the reviewer to consider the 'general controls' which comprise of five controls, viz.,

- Independence
- Maintenance of professional skills and standards
- Outside consultation
- Staff supervision and developments
- Office administration

The Statement makes it imperative that all practice units are expected to address each of the five key control areas. However, the reviewer shall have regard to the size of the practice unit while evaluating such controls. It also envisages that the reviewer may have certain supplementary questions to consider and evaluate whether such controls are in place and are operational within the practice unit. A checklist which is illustrative in nature for the guidance of reviewers in respect of each five general controls is given hereunder:

(a) Independence

- 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?
- Does the practice unit communicate these policies and the expected standards of professional behaviour to all staff?
- Does the practice unit monitors compliance with policies and procedures relating to independence?

• Does the practice unit periodically review the practice unit's association with clients to ensure objectivity and independence?

(b) Professional Skills and Standards

- Does the practice unit have an established plan for personnel needs at all levels, based on current and anticipated clientele, business growth, impending retirements, etc.?
- Does the practice unit have an established recruitment policy?
- Are applicants and new personnel informed of the personnel policies and procedures relevant to them?
- Does the practice unit have continuing education programmes for partners and staff?
- How easily the current and relevant professional literature, including accounting and auditing standards and pronouncements by professional bodies are available to the partners and staff?
- Does the practice unit conduct programmes for developing expertise in specialised areas and industries?

(c) Outside Consultation

- Is there a policy for consulting experts (both internal and external)?
- Has the practice unit built up a network of other accountants, solicitors and advocates, and technical consultants in industries in which its clients operate?

(d) Staff Supervision and Development

- Does the practice unit have written guidelines on the responsibility at each level, and on the expected performance and qualifications necessary for advancement to the next level?
- Does the practice unit have a system for gathering and evaluating information on the performance of personnel?
- Does the practice unit have a system of periodically counselling personnel on performance and career opportunities?
- Does the practice unit have a system of assigning an audit to the most appropriate personnel? Are requirements of specialised expertise and personnel skills given due consideration?
- Does the practice unit have written guidelines for maintaining working papers (form and content)?

 Does the practice unit have standardised forms, checklists, and questionnaires to assist in the conduct of audit?

(e) Office Administration

- Does the practice unit have established procedures for record retention, including security aspects?
- Does the practice unit maintain a record containing particulars such as client name, nature of engagement, particulars regarding date of commencement of audit, date of audit report, billing, etc?
- Does the practice unit maintain staff register?
- Does the office have a proper library containing relevant books and all publications of Institute of Chartered Accountants of India?

Criteria for selection of sample for review

- 4.14 Evaluation of the above general controls by reviewer would help him in determining the appropriate selection of sample. However the Statement emphasises that the number of assurance services engagements to be reviewed in a sample shall depend upon
 - (i) Its size and nature
 - (ii) Generally prevailing standards of quality control
 - (iii) Methodology adopted by PU
 - (iv) Number of partners/members involved
 - (v) Number of locations/ branch offices
 - (vi) Fees charged

It is also to be noted that the reviewer may reduce or enlarge the initial sample in consultation with PU.

Review of Records - Compliance/Substantive Review Procedures

4.15 After evaluating general controls by performing compliance procedures, the Statement envisages that a reviewer should actually review the records of the practice unit. As per the Statement the reviewer is required to adopt a combination of compliance approach and substantive approach in the review process.

4.16 The reviewer may adopt the compliance approach that helps 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 evidence that those general controls on which the reviewer intends to rely operate generally as identified by the reviewer and they have been functioning effectively throughout the period of review. Based on the results of compliance procedures, the reviewer decides either to rely or not on the general controls. In case the reviewer decides to rely on the general controls, he would also need to determine the extent of reliance to be placed on such controls. In such a situation, the nature, timing and extent of substantive procedures would be, normally, less extensive and *vice-versa*. The compliance approach may not be warranted if the size of the firm is small or medium or the kind of assurance services rendered by the practice unit does not warrant elaborate controls within the firm. In such a case, the reviewer may adopt only substantive approach for conduct of review.

- 4.17 At the first stage compliance approach is applied where the records in respect of following key controls are to be reviewed to ensure compliance with technical, professional and ethical standards:-
 - (i) Assurance services records administration
 - (ii) Review and evaluation of system of internal controls
 - (iii) Substantive tests
 - (iv) Financial statement presentation
 - (v) Assurance services conclusions
 - (vi) Assurance services reporting
- 4.18 The substantive approach involves application of such review procedures that provide the reviewer evidence as to the appropriateness of the factors on which the review is required to be focused on (refer Paragraph 7.3 of the Statement on Peer Review). The reviewer establishes the appropriateness of factors by reviewing the documentation available within the practice unit. For example, review of working papers related to an assurance engagement would provide the reviewer evidence that the assurance services have been undertaken in accordance with the prescribed technical, professional and ethical standards. The details of the execution of the peer review are given in the Statement on Peer Review. Reviewers are also advised to refer to the Statement for a detailed description of the execution stage of the peer review. This approach establishes the extent of compliance and finally determines whether assurance work was done as per the technical, professional and ethical standards.

Finally, the reviewer may decide to employ substantive procedure only if he is unable to place reliance on specific control procedures. The application of substantive review procedures would involve inspection of working papers of the assurance engagement.

Illustrative Checklist of Audit Programme of a practice unit

4.19 A checklist which illustrates the contents of the audit programme of a reviewee practice unit for the guidance of the reviewer is given hereunder:

- Appointment letter and the relevant resolution for the appointment.
- Terms of the engagement including reports required and manner of determining audit fees.
- System of book-keeping and the list of the books of accounts maintained by the entity.
- Particulars of the promoters, directors and their powers.
- Names of persons who write the books of accounts and other authorised officers.
- Memorandum and Articles of Association, Partnership Deed as applicable.
- Details of business of client and its accounting systems by reviewing and assessing information on:
 - nature of business of the entity
 - internal control system including owner/manager controls.
- Statement of Profit and Loss account, Balance sheet, Auditors' and Directors' reports of the previous year and the reports of internal auditor.
- Analytical review procedures in order to :
 - identify areas of accounts which are important because of their size
 - highlight unusual or unexpected figures or relationships in the accounts
 - design audit test which concentrates on important and unusual items
 - obtain sufficient audit assurance to allow the reduction or even elimination of detailed testing in some areas.
- Assessment of audit risk by using the professional judgement and audit procedures to ensure that it is reduced to an acceptable low level.
- Preliminary estimates of materiality for the audit as a whole.
- Class of accounting transactions which are relevant and to decide the type of testing and samples.
- Selection of representative samples.
- Compliance tests to evaluate the reliability of key controls.
- Material weaknesses in the operation of key controls of management.

• Performance of analytical review procedures, substantive tests of detail to obtain sufficient, relevant and reliable audit evidence for each audit objective.

- Fundamental accounting assumptions, i.e,. consistency, going concern and accrual basis of accounting are followed by the client in the preparation and presentation of financial statements.
- Disclosure of change in an accounting policy which has a material effect.
- Audit report is received from all the Branch Auditors and any reservation made by the branch auditor is appropriately dealt with in the finalisation of accounts.
- Working papers contain all audit evidence, and are cross-referenced.
- Summary of work done, problems, important judgements and audit conclusions.
- Review by Senior incharge of work of all assistants, audit programme followed and work performed as per time schedule.
- Updation of audit working papers including permanent records.
- Review of unadjusted errors to determine whether individual and aggregate effect is material.
- Compliance with legal and regulatory requirements.
- Compliance with all mandatory Accounting Standards issued by the Institute.
- Post balance sheet events.
- Formulation of draft audit opinion.
- Comparison of budgeted time to actual and reasons for major variations.
- Complete staff evaluation forms.
- Planning of next year's audit.

Compliance with Technical, Professional and Ethical Standards

4.20 As per Para 3.9 of the Statement on Peer Review **Technical**, **Professional and Ethical Standards** - means

- '(i) Accounting Standards issued by ICAI and /or prescribed and notified by the Central Government of India;
- (ii) Standards issued by the Institute of Chartered Accountants of India including Engagement standards

- (a) Statements
- (b) Guidance notes
- (c) Standards on Internal Audit
- (d) Statements on Quality Control
- (e) Notifications / Directions / Announcements / Guidelines / Pronouncements / Professional standards issued from time to time by the Council or any of its committees.
- (iii) 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.
- (iv) 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."
- 4.21 An illustrative list of Statements, Guidance Notes, notifications/ directions issued by the Institute of Chartered Accountant of India is given as Annexure to this Chapter.

Quality of Reporting

- 4.22 The reviewer should verify whether the practice unit has in place policies and procedures to provide reasonable assurance that the reports issued are supported by conclusions reached at each stage of audit and are adequately referenced. The quality of report encompasses, apart from what is stated in the preceding sentence, the form and contents of the report also. This section aims at suggesting some procedures that should be followed by the reviewer to verify that the reporting done by the practice unit is of desired quality.
- 4.23 The reviewer should determine the level of supervision of the engagement under review. In determining the level(s) of supervision required for a particular engagement, the reviewer should examine the following:
- Complexity of the subject matter
- Qualifications of persons performing the work
- Extent of consultation available and used
- Degree of authority delegated to assistants on an engagement

- Performance of personnel assigned to an engagement
- Risk inherent in the engagement.
- 4.24 The working papers of the practice unit must contain adequate evidence to support the audit opinion including full information on work carried out by other auditors. This will normally include copies of the audit programme, particulars of audit tests carried out, copies of the important working papers and a letter of representation or copy, if addressed to the other auditors. The reviewer should examine the working papers from this angle also.
- 4.25 When preparing the auditor's report, the practice unit should comply with the reporting standards prescribed under the Companies Act or other applicable laws, Auditing and Assurance Standards, Statement on Qualifications in Auditor's Report and other relevant reporting guidance issued by the ICAI.
- 4.26 The auditor's report should contain a clear written expression of opinion on the financial information and if the form or content of the report is specified or prescribed under any agreement or statute or regulation, the audit report should comply with such requirement.
- 4.27 The following specific circumstances should be referred to in the report issued by a practice unit:
- The scope of the auditor's examination is affected by conditions that preclude the application of one or more auditing procedures considered necessary in the circumstances.
- The financial statements are affected by a departure from acceptable accounting principle.
- Inadequate disclosure in the financial statements of an item of material nature.
- The financial statements are affected by material uncertainties concerning future events, the outcome of which is not reasonably determinable at the date of the auditor's report.
- The auditor wishes to emphasize a matter regarding the financial statements.
- 4.28 Auditor's Report for Audits Conducted in Accordance with Standards on Auditing
- A. *Title:* The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor.
- B. *Addressee:* The auditor's report shall be addressed as required by the circumstances of the engagement.
- C. *Introductory Paragraph:* The introductory paragraph in the auditor's report shall:
 - (a) Identify the entity whose financial statements have been audited;

- (b) State that the financial statements have been audited;
- (c) Identify the title of each statement that comprises the financial statements;
- (d) Refer to the summary of significant accounting policies and other explanatory information; and
- (e) Specify the date or period covered by each financial statement comprising the financial statements.
- D. Management's Responsibility for the Financial Statements: The auditor's report shall include a section with the heading "Management's [or other appropriate term] Responsibility for the Financial Statements". This section of the auditor's report describes the responsibilities of those in the organisation that are responsible for the preparation of the financial statements. The auditor's report need not refer specifically to "management", but shall use the term that is appropriate in the context of the legal and/or regulatory framework applicable to the entity. In case of some entities, the appropriate reference may be to those charged with governance.

The auditor's report shall describe management's responsibility for the preparation of the financial statements in the manner in which that responsibility is described in the terms of the audit engagement. The description shall include an explanation that management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Where the financial statements are prepared in accordance with a fair presentation framework, the explanation of management's responsibility for the financial statements in the auditor's report shall refer to "the preparation and fair presentation of these financial statements" or "the preparation of financial statements that give a true and fair view", as appropriate in the circumstances.

E. *Auditor's Responsibility*: The auditor's report shall include a section with the heading "Auditor's Responsibility". The auditor's report shall state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.

The auditor's report shall state that the audit was conducted in accordance with Standards on Auditing issued by the Institute of Chartered Accountants of India. The auditor's report shall also explain that those Standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The auditor's report shall describe an audit by stating that:

(a) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements:

- (b) The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control; and
- (c) An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.
- (d) Where the financial statements are prepared in accordance with a fair presentation framework, the description of the audit in the auditor's report shall refer to "the entity's preparation and fair presentation of the financial statements" or "the entity's preparation of financial statements that give a true and fair view", as appropriate in the circumstances.

The auditor's report shall state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

- F. Auditor's Opinion: The auditor's report shall include a section with the heading "Opinion". When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:
 - (a) The financial statements present fairly, in all material respects, in accordance with [the applicable financial reporting framework]; or
 - (b) The financial statements give a true and fair view of in accordance with [the applicable financial reporting framework].

When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework].

If the reference to the applicable financial reporting framework, in the auditor's opinion, is not to the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) or Accounting Standards, notified by the Central Government by publishing the same as the Companies (Accounting Standards) Rules, 2006, or the Accounting Standards for Local Bodies issued by the Institute of Chartered Accountants of India, as may be applicable, the auditor's opinion shall identify the jurisdiction of origin of the framework.

G. Other Reporting Responsibilities: If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under the SAs to report on the financial statements, these other reporting responsibilities shall be addressed in a separate section in the auditor's report that shall be sub-titled "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section.

If the auditor's report contains a separate section on other reporting responsibilities, the headings, statements and explanations shall be under the sub-title "Report on the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Financial Statements."

- H. *Signature of the Auditor:* The auditor's report shall be signed.
- I. Date of the Auditor's Report: The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, *including* evidence that:
 - (a) All the statements that comprise the financial statements, including the related notes, have been prepared; and
 - (b) Those with the recognised authority have asserted that they have taken responsibility for those financial statements.
- J. *Place of Signature:* The auditor's report shall name specific location, which is ordinarily the city where the audit report is signed.

Note: For further guidance in this regard, the readers are requested to refer to the complete text of the Standard on Auditing (SA) 700, "Forming an Opinion and Reporting on Financial Statements", as published by the Institute of Chartered Accountants of India.

4.29 An unqualified opinion indicates the auditor's satisfaction in all material respects with the following matters or as may be laid down or prescribed under the relevant agreement or statute or regulation, as the case may be:

- The financial information has been prepared using acceptable accounting policies, which have been consistently applied.
- The financial information complies with relevant regulations and statutory requirements.

• There is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.

- 4.30 When a qualified opinion, adverse opinion or a disclaimer of opinion is to be given or reservation of opinion on any matter is to be made, the audit report should state the reasons thereof.
- 4.31 The reviewer should, particularly, ascertain that principles relating to the manner of qualifying the audit report as laid down in the Statement on Qualifications in Auditor's Report and other relevant pronouncements of the ICAI have been complied.

Office Systems and Procedures

- 4.32 This section of the Chapter provides an insight into the office systems and procedures and training and office administration of the practice unit. The reviewer should focus on the implementation of these systems and procedures during the course of review. The reviewer may, however, note that applicability of these may vary with the size and level of operations of the practice unit.
- 4.33 Practice Unit's policies may include:
- The implementation of quality control policies and procedures by the practice unit, designed to ensure that all audits are conducted in accordance with Standards on Auditing.
- The practice unit's general quality control policies and procedures communicated to its
 personnel in a manner that provides reasonable assurance that the policies and
 procedures are understood and implemented.
- The implementation of those quality control procedures which are, in the context of the policies and procedures of the firm, appropriate to an individual audit.
- 4.34 Office procedures include:
- The organisation of the field work of audit and delegation of the work to assistants in a
 manner that provides reasonable assurance that the work would be performed with due
 care by the person having the degree of professional competence required in the
 circumstances.
- The auditor while performing supervisory responsibilities should consider the professional competence of assistants performing work delegated to them when deciding the extent of direction, supervision and review, appropriate for each assistant.
- Assistants to whom work is delegated should be given appropriate directions. Direction
 involves informing assistants of their responsibilities and the objectives of the
 procedures they are to perform.

• The audit programme is an important tool for communication of audit directions.

- The partner should monitor the progress of audit to consider whether the assistants have necessary skill and competence, they understand the audit directions and the work is carried out in accordance with the overall audit plan and audit programme.
- The work performed by each assistant should be reviewed by personnel of at least equal competence.
- 4.35 *Time Budget*: Time is of vital importance in all audit work. The partner must control it firmly, as assistants are generally liable to take up more time than originally scheduled. Many precious man-hours are lost if a busily occupied senior staff member fails to note that an assistant is wasting time on non-essentials. Again, a senior may lose control by failing to compare the schedule with the complete item of work.
- 4.36 *Staffing*: The requirement of proper staff is a critical component of the practice unit. In this context, the following may be noted:
- The practice unit should have clearly laid down qualifications necessary for various levels of responsibility. This is to ensure that the firm is staffed by personnel who have the capability to maintain the Technical and professional competence required, to enable them to fulfil their responsibilities with due care.
- There should be introductory procedures for the new employees like orientation programme, discussion of office procedures, etc.
- The performance of each staff should be evaluated and communicated to the staff on periodical basis and should be filed in the staff file.
- 4.37 *Professional development of staff*: All large or medium size practice units or progressive small practice units should have a system of continuous professional development of its staff and should have –:
- Laid down policies and procedures of the practice unit relating to independence and the system to communicate them to the staff at the time of joining and subsequently on periodic basis.
- In-house mechanism for continuous professional development education.
- Provide access to libraries and other authoritative sources to its staff; provide copies of Technical material issued by the Institute, from time to time, thereby ensuring that they are aware of changes taking place in Accounting and Auditing Standards.
- The practice of designating experts/experienced individuals as available for consultation and their area of expertise.

Training and Office Administration

4.38 The training programme of the articled/audit clerk is a significant component to ensure the availability of proper manpower. The objectives of such training programme include:

- Acquisition of adequate theoretical knowledge.
- Developing skills in applying theoretical knowledge to practical situations.
- Inculcating a disciplined attitude.
- Imbiding due professional orientation.
- Developing ethical values.
- 4.39 While designing the training programme of articled/audit clerks, the practice unit should consider the following elements:
- Assigning progressive work experience commensurate with the expanding abilities of the trainees.
- Designing a study plan to ensure that trainees are fully prepared to take examinations at the earliest opportunity for which they are eligible.
- Ensuring that work experience is preceded and backed by practical instructions, including briefing before each assignment to ensure that the application of practical techniques to the circumstances of individual clients is properly understood.
- Ensuring in-house theoretical training is integrated with practical work experience.
- Assigning higher levels of technical and supervisory responsibility and client contact designed to ensure that personal and managerial skills are developed.
- Ensuring that professional attitude and an understanding of professional ethics are developed.
- 4.40 *Audit working papers*: The working papers are the property of the auditor and the auditor should adopt reasonable procedures for custody and confidentiality of his working papers and should retain them for a period of time sufficient to meet the needs of his practice and satisfy any pertinent legal or professional requirement of record retention.
- 4.41 *Filing of working papers*: The working papers should be properly filed in order to ensure that they are easily retrievable. In case of recurring audits, working paper files may be classified as permanent audit files and current files. To the extent possible the records related to permanent files should be kept in bound manner, duly numbered. In this context attention is invited to Chapter 5 on "Documentation".

Annexure Illustrative List of Technical, Professional and Ethical Standards¹

(Refer Paragraph 3.7 of the Statement on Peer Review)

I Accounting Standards

AS 1	Disclosure of Accounting Policies
AS 2	Valuation of Inventories
AS 3	Cash Flow Statements
AS 4	Contingencies and Events Occurring After the Balance Sheet Date
AS 5	Net Profit or Loss for the Period, Prior Period Items and Changes in
	Accounting Policies
AS 6	Depreciation Accounting
AS 7	Construction Contracts (Revised 2002)
AS 9	Revenue Recognition
AS10	Accounting for Fixed Assets
AS11	The Effects of Changes in Foreign Exchange Rates (Revised 2003)
AS12	Accounting for Government Grants
AS13	Accounting for Investments
AS14	Accounting for Amalgamations
AS15	Accounting for Retirement Benefits in the Financial Statements of Employers
AS16	Borrowing Costs
AS17	Segment Reporting
AS18	Related Party Disclosures
AS 19	Leases
AS 20	Earnings Per Share
AS 21	Consolidated Financial Statements
AS 22	Accounting for Taxes on Income
AS 23	$\label{lem:counting} \mbox{ Accounting for Investments in Associates in Consolidated Financial Statements} \\$

AS 24	Discontinuing Operations
AS 25	Interim Financial Reporting
AS 26	Intangible Assets
AS 27	Financial Reporting of Interests in Joint Ventures
AS 28	Impairment of Assets
AS 29	Provisions, Contingent Liabilities and Contingent Assets
	Reviewers are expected to refer to relevant standards, notifications, etc. applicable to the practice unit with reference to the time period under review.
II St	andards on Auditing (SAs)
100-199	Introductory Matters
200-299	General Principles and Responsibilities
200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
210	Agreeing the Terms of Audit Engagements
220	Quality Control for an Audit of Financial Statements
230	Audit Documentation
240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
250	Consideration of Laws and Regulations in an Audit of Financial Statements
260	Communication with Those Charged with Governance
265	Communicating Deficiencies in Internal Control to Those Charged Governance and Management
299	Responsibility of Joint Auditors
300-499	Risk Assessment and Response to Assessed Risks
300	Planning an Audit of Financial Statements
315	Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment
320	Materiality in Planning and Performing an Audit
330	The Auditor's Responses to Assessed Risks

402	Audit Considerations Relating to an Entity Using a Service Organisation
450	Evaluation of Misstatements Identified During the Audit
500-599	Audit Evidence
500	Audit Evidence
501	Audit Evidence—Specific Considerations for Selected Items
505	External Confirmations
510	Initial Audit Engagements – Opening Balances
520	Analytical Procedures
530	Audit Sampling
540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
550	Related Parties
560	Subsequent Events
570	Going Concern
580	Written Representations
600-699	Using Work of Others
600	Using the Work of Another Auditor
610	Using the Work of Internal Auditors
620	Using the Work of an Auditor's Expert
700-799	Audit Conclusions and Reporting
700	Forming an Opinion and Reporting on Financial Statements
705	Modifications to the Opinion in the Independent Auditor's Report
706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
710	Comparative Information—Corresponding Figures and Comparative Financial Statements
720	The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements
800-899	Specialized Areas

800 Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

- Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
- 810 Engagements to Report on Summary Financial Statements

III. Standards on Internal Audit

- 1. Standard on Internal Audit (SIA) 1, Planning an Internal Audit
- 2. Standard on Internal Audit (SIA) 2, Basic Principles Governing Internal Audit
- 3. Standard on Internal Audit (SIA) 3, Documentation
- 4. Standard on Internal Audit (SIA) 4, Reporting
- 5. Standard on Internal Audit (SIA) 5, Sampling
- 6. Standard on Internal Audit (SIA) 6, Analytical Procedures
- 7. Standard on Internal Audit (SIA) 7, Quality Assurance in Internal Audit
- 8. Standard on Internal Audit (SIA) 8, Terms of Internal Audit Engagement
- 9. Standard on Internal Audit (SIA) 9, Communication with Management
- 10. Standard on Internal Audit (SIA) 10, Internal Audit Evidence
- 11. Standard on Internal Audit (SIA) 11, Consideration of Fraud in an Internal Audit
- 12. Standard on Internal Audit (SIA) 12, Internal Control Evaluation
- 13. Standard on Internal Audit (SIA) 13, Enterprise Risk Management
- 14. Standard on Internal Audit (SIA) 14, Internal Audit in an Information Technology Environment
- 15. Standard on Internal Audit (SIA) 15, Knowledge of the Entity and its Environment
- 16. Standard on Internal Audit (SIA) 16, Using the Work of an Expert
- 17. Standard on Internal Audit (SIA) 17, Consideration of Laws and Regulations in an Internal Audit
- 18. Standard on Internal Audit (SIA) 18, Related Parties

IV Framework -Accounting and Auditing

1. Framework for the Preparation and Presentation of Financial Statements

2. Framework for Assurance Engagements.

V Statements

- 1. Statement on Reporting under Section 227(1A) of the Companies Act,1956
- 2. Statement on the Companies (Auditor's Report) Order, 2003 [Issued under Section 227 (4A) of the Companies Act, 1956]
- 3. Statement on Peer Review.
- 4. Statement on Continuing Professional Education.

VI Guidance Notes

- 1. Guidance Note on Provision for Proposed Dividend
- 2. Guidance Note on Auditing of Accounts of Liquidators
- Guidance Note on Preparation of Financial Statements on Letter-heads and Stationery of Auditors
- 4. Guidance Note on Auditor's Report on Revised Accounts of Companies Before Circulation to Shareholders
- 5. Guidance Note on Certificate to be Issued by the Auditor of a Company Pursuant to Companies (Acceptance of Deposits) Rules, 1975
- 6. Guidance Note on the Duty Cast on the Auditors under Section 45-MA of the Reserve Bank of India Act, 1934
- 7. Guidance Note on Audit Reports and Certificates for Special Purposes
- 8. Guidance Note on Audit of Fixed Assets
- 9. Guidance Note on Revision/Rectification of Financial Statements
- 10. Guidance Note on Audit of Accounts of Non-Corporate Entities (Bank Borrowers)
- 11. Guidance Note on Reports in Company Prospectuses (Revised)
- 12. Guidance Note on Audit of Abridged Financial Statements
- 13. Guidance Note on Audit of Inventories
- 14. Guidance Note on Audit of Investment
- 15. Guidance Note on Audit of Debtors, Loans and Advances
- 16. Guidance Note on Audit of Cash and Bank Balances

- 17. Guidance Note on Audit of Liabilities
- 18. Guidance Note on Audit of Revenue
- 19. Guidance Note on Section 227(3)(e) and (f) of the Companies Act, 1956 (Revised 2004)
- 20. Guidance Note on Audit of Expenses
- 21. Guidance Note on Special Considerations in the Audit of Small Entities
- 22. Guidance Note on Computer Assisted Audit Techniques (CAATs)
- 23. Guidance Note on Audit of Miscellaneous Expenditure (Revised 2003)
- 24. Guidance Note on Audit of Consolidated Financial Statements
- 25. Guidance Note on Audit of Payment of Dividends
- 26. Guidance Note on Capital and Reserves
- 27. Guidance Note on Audit of Banks (Revised 2006)
- 28. Guidance Note on Audit of Accounts of Members of Stock Exchanges (Revised)
- 29. Guidance Note on Audit of Companies carrying on General Insurance Business
- 30. Guidance Note on Audit of Companies carrying on Life Insurance Business
- 31. Guidance Note on Terms Used in Financial Statements
- 32. Guidance Note on Treatment of Reserves Created on Revaluation of Fixed Assets
- 33. Guidance Note on Accounting Treatment for Excise Duty (Revised 2000)
- 34. Guidance Note on Accrual basis of Accounting
- 35. Guidance Note on Accounting for Depreciation in Companies
- Guidance Note on Some Important Issues Arising from the Amendments in Schedule XIV to the Companies Act, 1956
- 37. Guidance Note on Availability of Revaluation Reserve for Issue of Bonus shares
- 38. Guidance Note on Accounting for Corporate Dividend Tax
- 39. Guidance Note on Accounting by Dot Com companies
- 40. Guidance Note on Accounting Treatment for MODVAT/CENVAT (under revision)
- 41. Guidance Note on Accounting for Oil & Gas Producing Activities
- 42. Guidance Note on Accounting for Employee Share-based Payments

- 43. Guidance Note on Accounting for State-level Value Added Tax
- 44. Guidance Note on Accounting for Fringe Benefits Tax
- 45. Guidance Note on Accounting by Schools
- 46. Guidance Note on Accounting for Credit Available in Respect of Minimum Alternative Tax under the Income-tax Act, 1961
- 47. Guidance Note on Accounting for Real Estate Transactions (Revised 2012)
- 48. Guidance Note on Measurement of Income Tax Expense for Interim Financial Reporting in the context of AS 25
- 49. Guidance note on Applicability of Accounting Standard (AS) 20, Earnings Per Share
- 50. Guidance note on remuneration paid to key management personnel- Whether a related party transaction
- 51. Guidance note on Applicability of AS 25 to Interim Financial Result
- 52. Guidance note on Turnover in case of Contractors
- 53. Guidance Note on Accounting and Auditing of Political Parties
- 54. Guidance Note on Accounting for Self-generated Certified Emission Reductions
- 55. Guidance Note on Accounting for Rate Regulated Activities (Effective Date yet to be notified)
- 56. Guidance Note on Tax Audit under Section 44AB of the Income Tax Act, 1961
- 57. Guidance Note on Report Under Section 115JB of The Income-Tax Act, 1961
- 58. Guidance Note on Audit of Public Charitable Institutions under the Income-Tax Act, 1961
- 59. Guidance Note on Report on International Transactions under Section 92E of the Income-Tax Act, 1961 (Transfer Pricing)
- 60. Guidance Note on Audit of Fringe Benefits under the Income-tax Act, 1961 (With Supplementary Guidance Note on Tax Audit under section 44AB of the Income-tax Act, 1961)
- 61. Guidance Note on Independence of Auditors
- 62. Guidance Note on Revision of the Audit Report
- 63. Guidance Note on Section 293A of the Companies Act and the Auditor

- 64. Guidance Note on Certification of Documents for Registration of Charges
- 65. Guidance Note on Certification of Corporate Governance as stipulated in Clause 49 of the Listing Agreement (Revised 2006)

VII Ethical Standards

- 1. Code of Ethics
- 2. Guidance Note on Independence of Auditors
- 3. FAQ's on Ethical Issues
- 4. Guidance Note on Revision of Audit fee
- 5. Council decisions from time to time.

CHAPTER 5 DOCUMENTATION

5.01 The Statement does not lay down any documentation requirements for the practice units. However, it suggests, on a comprehensive reading, that the practice unit should maintain certain minimum records/documentation that represents the adequacy of quality control policies and procedures followed by the practice unit. This Chapter aims at providing an insight into the documentation requirements applicable to the practice units and the procedures or areas on which the reviewer should concentrate to form his opinion on the policies and procedures followed by the practice unit. SQC 1- "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements" is mandatory from 1 April 2009 on all the assurance engagements. SA 200- Quality Control for audit of Financial Statements has become applicable from 1 April 2010. The Reviewer should assess at the firm level and at the engagement level, the quality control as required by these Standards.

The maintenance of adequate documentation does not necessarily mean that the quality control policies and procedures of the practice unit are adequate. The other factors that should be considered are the audit procedures, summarization of observations and translation of those observations into the final report. Further, the ICAI has issued SA 230-"Audit Documentation" which should be read in conjunction with other Standards on Auditing (SA's) having a bearing on documentation. The mandatory nature of these Standards implies that while discharging their attest function, it is the duty of the members of the ICAI to ensure that the SAs are followed in the audit of financial information covered by their audit reports. If, for any reason, a member has not been able to perform an audit in accordance with the SA's, his report should draw attention to the material departures therefrom.

From the above, it is clear that the records maintained by the practice units fall into two categories, i.e., mandatory records and recommendatory records. Working papers maintained by the practice units pursuant to the SA 230 are mandatory records.

- 5.03 The requirements of records relating to quality control of the practicing unit as per SQC 1 briefly stated, are as under:
 - (a) The firm should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partner(s) are appropriate in the circumstances. Therefore,

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the reviewer should ensure that the firms quality control standards are suitably designed according to the size and nature of the professional work carried out by the practicing unit.

- (b) The firm's system of quality control should include policies and procedures addressing each of the following elements:
 - (i) Leadership responsibilities for quality within the firm.
 - (ii) Ethical requirements.
 - (iii) Acceptance and continuance of client relationships and specific engagements.
 - (iv) Human resources.
 - (v) Engagement performance.
 - (vi) Monitoring.

5.04 The quality control policies and procedures should be documented and communicated to the firm's personnel. Such communication describes the quality control policies and procedures and the objectives they are designed to achieve, and includes the message that each individual has a personal responsibility for quality and is expected to comply with these policies and procedures.

5.05 SQC 1 has given detailed guidance on each of the above matter including independence, maintenance of records and documentation, consultation procedures, engagement documentation etc. The reviewer needs to ensure that these mandatory requirements are documented and SQC 1 is complied with.

5.06 It should be ensured that the practicing unit has a reasonable documented system in respect of each of abovementioned items and the practicing unit is in compliant with the SQC1.

Documentation requirements as per SA 230

- 5.07 (a) The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:
 - The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements.
 - The results of the audit procedures performed, and the audit evidence obtained.
 - Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

(b) In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:

- the identifying characteristics of the specific items or matters tested;
- who performed the audit work and the date such work was completed;
 and
- who reviewed the audit work performed and the date and extent of such review.
- (c) The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.
- (d) If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency.
- (e) If, in exceptional circumstances, the auditor finds it necessary to depart from a relevant requirement in a SA, then he shall document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure.

5.08 The reviewer should review the working papers of the practice unit to establish compliance by the practice unit with the technical, professional and ethical standards. The reviewer is concerned with establishing that the procedures used by the practice units are sufficient and appropriate, that the procedures are properly effected in an assurance engagement. The reviewer is also concerned with verifying that the procedures used by the practice units generate sufficient appropriate evidence to support the conclusions arrived at in relation to the assurance engagement being reviewed. In other words, the logic of conclusions drawn in relation to the engagement should flow from the working papers. The working papers should also disclose that no significant points or issues remained unresolved.

5.09 All working papers must be prepared in a manner that they clearly and logically depict the clear reference to notes, results of test, etc. Working papers must depict the clients name, file number, accounting period, subject of working paper, reference of working paper with current or permanent file, initials of preparer, the date of preparation, and the authentication by engagement reviewer.

Assembly of File as per SA 230

The reviewer should ensure that the firm has adequate policies and procedures to ensure compliance with SA 230 in respect of assembly of file. The final audit file is required to be

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assembled within 60 days after the date of Auditors' Report. After assembly of file no document should be added or deleted subject to exceptional circumstances as stated in SA 230.

Permanent File

5.10 In the case of recurring audits, some working paper files may be classified as permanent audit files, which are updated currently with information of continuing importance to succeeding audits, as distinct from current audit files.

The reviewer, after obtaining an understanding of the engagement letter, should examine the permanent file with regard to the engagement. The reviewer should also verify that the permanent file is updated regularly to reflect the changes in the information contained in the file. For example, the reviewer may observe that since computerisation by the client, the auditor's understanding of the accounting and internal control has been reflected in the permanent file.

- 5.11 In the case of review of an audit engagement, the reviewer should also verify that the permanent audit file contains the following documentation:
 - (i) the auditor's (practice unit) assessment of inherent risk and control risk;
 - (ii) where the auditor (practice unit) has made an assessment that inherent risk is high, the reasons for such assessment; and
 - (iii) where the auditor (practice unit) has made an assessment that the control risk is less than high, the basis for such assessment made by the auditor.
 - (iv) if in any year there is a change in the above, the change should also be reflected in the permanent audit file along with the reasons for change.

The following Table illustrates contents of a permanent file:

Title	Information Contained			
Engagement	Letter of engagement Correspondence with retiring auditor			
Constitution	 Copies of Memorandum and Articles of Association in case of corporate entities or Partnership agreement in case of partnership firm or Act, Regulation, bye-laws, trust deeds, as applicable under which the entity functions 			
Background and organisation structure	Nature and history of the businessProfile of ownership			

	Registered office details
	Management structure including organisation chart
	 Industry specification with reference to client's size, economic factors affecting the industry, seasonal fluctuations and demands
	 Facility locations, plant capacity, owned or leased, age, capital expenditure budget, etc. Products specifying diverse range alongwith classification
	Purchase volumes, main suppliers, policies
	• Inventory norms, inventory levels during last five years and related ratios.
	 Sales volumes including exports, main customers, methods of distribution, pricing policies, credit policy
	 Personnel showing numbers, analyses by departments or function, method of remuneration, contracts, union agreements, HR policy
	• Copy of audited financial statement for previous five years, if it exist.
	Study and evaluation of internal controls related to
	Significant audit observations of past
	• Statistical information showing 5 years comparison of performance indicators (major accounting ratios) Industry statistics
Systems (For larger	Details of methods of accounting including cost
audits this section could be held on a separate	 accounting, flowcharts, specimens of accounting documents, code structure and list of accounting records
file)	EDP-systems security, source code security, authorisation and back up policy
Contracts, agreements,	Leases agreements photocopies/ extracts of the same
Minutes	Title deeds inspected annually by auditor
	Royalty agreements
	 Minutes of continuing importance such as Directors' meeting, Members' meeting
Group	Group structure - subsidiaries, associates

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	•	Joint venture
	•	Names of auditors
Other professional	•	Bankers
advisor's list	•	Solicitors
	•	Investment Analysts
	•	Registrars
	•	Credit Rating Agency
Miscellaneous	•	Details of other client information of a permanent nature

In case the Practice Unit does not opt for maintaining permanent file, the above records should nevertheless form part of final audit working papers file. (Note: See para 5.17 also)

Audit File

5.13 The reviewer should examine the Audit file with regard to the engagement documentation of the following matters which are important in providing evidence that the engagement was carried out in accordance with the basic principles mentioned in SA 200-Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing:

- (i) General and specific evaluation of the internal audit function and conclusions in this respect (relevant only in case of audit and other functions of similar nature).
- (ii) Audit programme, significant changes in the audit programme and the reasons for such changes;
- (iii) In the case of an audit, when other auditor's work has been used in relation to the components of the client of the practice unit whose financial information were audited by other auditors, their significance to the financial information of the entity (client of the practice units) as a whole, the auditing procedures performed and conclusions drawn by the practice unit with regard to the use of the work of another auditor; where the other auditor's report was modified, the manner in which the modifications made by other auditors are dealt with;
- (iv) In case the engagement under review was executed jointly with another practice unit(s), the division of work amongst the practice units and other joint auditor(s) as well as the areas of work covered by all of them;
- (v) Communication of division of work to the client;
- (vi) Evidence that the work performed by assistants has been reviewed.

(vii) Non-compliance of laws and regulations by the entity (client of the practice unit).

5.14 The following Table illustrates contents of Audit file:

Title	Information Contained				
Engagement	Acceptance of annual reappointment				
Accounts	Copy of draft financial statement Copy of final signed financial statement				
Reports and final papers	 Copies of all draft and final reports issued to client Correspondence with other auditors and experts Comments received from client and letter of representation Observations on accounts and points carried forward to next year Final journal entries Company accounts checklist - directors' report Audit completion report 				
Audit Plan	 Planning programme Time and cost summary Briefing notes Copy of planning letter to client Points carried forward from previous year 				
Balance sheet, statement of profit and loss account and cash flow statement audit – systems testing	 Lead schedules/ Notes Audit programmes Detailed working papers and conclusions Company accounts and accounting standard, if any, checklists Queries raised and explanations received Third party confirmations and certificates Weaknesses identified and copy of letter of weaknesses sent to client 				
Accounts preparation	 Schedules/ Notes Trial balance Cross-reference to audit work performed 				
Audit Programme	 Audit procedure (compliance and substantive) Detailed working papers and conclusions Queries raised and explanations received 				

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Extracts from minutes	Directors' meetings		
relating to accounting	Members' meetings		
	Audit committee meetings		
	Investment and other Board committee meetings		
Statistical information	Performance indicators collected which have a bearing on the extent, nature, timing of substantive tests		

5.15 Schedules/Notes supporting a figure in the Balance Sheet or Statement of profit and loss account may have:

- (a) a summarized schedule/ Notes (a lead schedule) showing the make-up of the figure in the balance sheet, and be supported by back-up schedules/ Notes showing the make- up of those figures on the lead schedule;
- (b) extensive cross-referencing between the back-up schedules/ Notes, lead schedules/ Notes and the accounts themselves to facilitate explanation of any figure in the accounts or working papers; and
- (c) comparative figures for the previous year so that the auditor can explain and satisfy himself on movement/differences between the years.

Working Paper Guidelines

- 5.16 Normally speaking the content of working papers will be guided, amongst other factors, by the completeness and accuracy, clarity and understanding, and legibility and neatness. Generally, each individual assigned to an audit engagement should prepare the working papers in such a manner that any professional not connected with the engagement may later examine such working papers and be able to determine that the work was performed in accordance with generally accepted auditing standards. The use of standardized working papers (for example, checklists, preprinted forms, questionnaires, specimen letters and standard organization of working papers) may improve the efficiency with which they are prepared and reviewed. Practice Units may also have pre determined numbering system and section dividers for each item of financial statements to ensure uniformity of working papers.
- 5.17 The working papers may be classified as "permanent files" as distinct from "current files". It is not important that the classification of working papers is done on the basis of "Permanent vs. Current". The moot point is that the information is recorded somewhere. Whatever may be the format, each audit working paper should be headed with the following information:

- Name of the client
- Period covered by audit
- Subject matter
- File-reference
- Initials of the member of the audit team who prepared it and the date on which it was prepared.
- In case of a working paper prepared by the client, the date of receipt and the initial of the audit team member who carried out the audit work thereon.
- Initials of the member of the audit team who reviewed the working paper.

5.18 The largest portion of working papers includes the detailed schedules/ Notes prepared by the client or the auditors in support of specific amounts on the financial statements. The major types of supporting schedules/ Notes are account analysis, list schedules, reconciliation of amounts, tests of reasonableness, procedures description, informational and outside documentation. The auditor uses several working paper schedules/ Notes. An account analysis schedule, normally used for fixed assets, liabilities and equity accounts, shows the activity in a general ledger account during the entire period under audit, tying together the beginning and ending balances. The list schedule shows the details of those items that make up an end-of period balances in a general ledger account. A reconciliation relates a specific amount in the accounting records to another source of information, e.g., a reconciliation of accounts payable balances with vendor's statements. The test of reasonableness schedule contains information that enables the auditor to evaluate whether the client's balance appears to include a misstatement considering the circumstances. A summary of procedures, description, schedule etc summarizes the result of audit procedures performed. Information schedules contain non-audit information such as tax information, regular information and time budgets. External documentation includes confirmation replies, copies of client agreements, etc.

Review of Working Papers

5.19 All audit work papers should be reviewed to evaluate the work done and the conclusions reached. However, when the reviewer goes about this task, the review should have an analysis of the facts developed in the course of the audit and a method of determining whether the work performed meets the firm's internal standards. The purpose of the review is to correlate the working papers with the financial statements, assess whether adequate evidence has been obtained, determine whether significant matters or problems have been properly considered and resolved, and, in general provide assurances upon which the firm may assume responsibility for the work done by its professional personnel.

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The practicing unit should furnish to reviewer following details:

(i) Profile of the Practice Unit: These records should contain the relevant documents that corroborate the information provided by the practice unit in response to the questionnaire. These records may be bifurcated into three sections that deal with:

- information related to partners and constitution of firm;
- staff including qualified members of the Institute and other professional bodies;
 and
- articled clerks.

The reviewer while performing the review should examine whether the file is maintained properly and is regularly updated for any changes.

- (ii) List of Clients: Every practice unit should maintain a register containing the list of clients. The register should provide information about the kind of services being rendered to the client, among other things. It is advisable to maintain such register in a manner wherein a unique code number is allotted to each client since it would facilitate the submission of information to the reviewer as and when asked. The register may also include the contact details and brief profile of the client for ready reference. The reviewer should also examine the register, apart from the list of clients provided by the practice units, in response to the questionnaire. This would help the reviewer in modifying the initial sample selected for peer review.
- (iii) Staff Files: Each practice unit should maintain files containing particulars of each employee, e.g., application/curriculum vitae, appointment letter, details of training programmes undergone during employment, periodic evaluation of performance, etc.

CHAPTER 6 REPORTING

6.01 The reviewer, after completion of his review, may submit the initial findings i.e. preliminary report to the practice unit before submitting the final report to the Board. The practice unit shall within 15 days of receipt thereof give its comments/representations to the reviewer. The reviewer, based upon his satisfaction from the comments/representation by the practice unit shall issue the final report to the Board. The purpose of this Chapter is to provide the guidelines on the form and contents of the reviewer's report issued pursuant to review of the practice unit. The reviewer should adhere to the requirements mentioned in this Chapter while preparing his report. It may be noted that the requirements mentioned in this Chapter apply to the preliminary as well as the final reports of the reviewer.

6.02 A clean report indicates that the reviewer is of the opinion that the practice unit is conducting its affairs in a manner that ensures the quality of services rendered by it. However, a reviewer may qualify the report due to one or more of the following:-

- non-compliance with technical standards;
- non-compliance with professional standards;
- non-compliance with ethical standards;
- deficiency in quality control system;
- non-compliance with quality control policies and procedures; or
- non-existence of adequate training programmes for staff.

6.03 The reviewer should review and assess the conclusions drawn from the review, as the basis for the expression of opinion on the factors mentioned above on system of quality control in the practice unit. The expression of opinion by the reviewer should be as clear as possible.

Basic Elements of the Peer Reviewer's Report

- 6.04 The report should contain:
 - (a) An indication about the quality control procedures with a specific reference to the quality control standards.

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(b) A statement indicating that the system of quality control is the responsibility of the reviewed firm.

- (c) A reference to the description of the scope of the peer review conducted.
- (d) Existence of limitation(s), if any, on the review conducted with reference to the scope as envisaged in the Statement on Peer Review.
- (e) A statement indicating that the review did not necessarily disclose all instances of lack of compliance with technical, professional and ethical standards.
- (f) An opinion whether the practice unit's system of quality control has been designed to meet the requirements of the quality control standards, technical, professional and ethical standards for assurance services.
- (g) Where the reviewer concludes that a modification in the report is necessary, description of the reasons for modification. The report of the reviewer should also contain the suggestions.
- (h) A reference to the preliminary report.

6.05 The peer review report should be issued on the reviewer's (individual) letterhead and signed by the reviewer. The report should be addressed to the Peer Review Board and should be dated as of the date of the conclusion of the review.

6.06 The preliminary report along with the response of the practice units should be enclosed with the final report.

Guidelines for Modifying Peer Review Report

6.06 In deciding on the type of report to be issued, a reviewer should consider the evidence obtained and should document the overall conclusions with reasons with respect to the year being reviewed in respect of following matters:

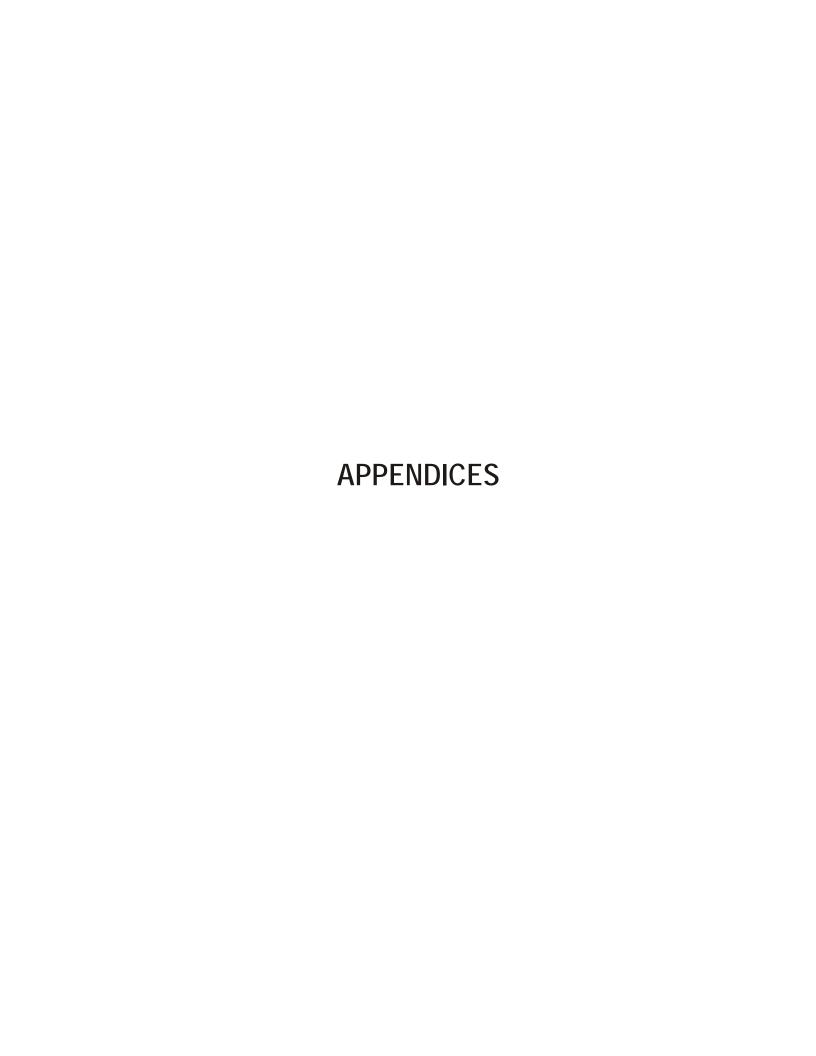
- whether the policies and procedures that constitute the reviewed firm's system of quality control for its assurance services have been designed to ensure quality control to provide the firm with reasonable assurance of complying with technical, professional & ethical standards.
- whether personnel of the reviewed firm complied with such policies and procedures in order to provide the practice unit with reasonable assurance of complying with technical, professional & ethical standards.,
- whether the practice unit has instituted adequate mechanism for training of staff.

• whether the practice unit ensures the availability of expertise and/or experienced individuals for consultation with the consent of the auditee.

- whether the skill and competence of assistants are considered before assignment of assurance engagement
- whether the progress of assurance service is monitored and work performed by each assistant is reviewed by the service incharge and necessary guidance is provided to assistants
- whether the practice unit has established procedure to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained.
- whether the practice unit maintains the Audit files as per the standards laid down by the ICAI.
- whether the practice unit verifies compliance with laws and regulations to the extent it has material effect on financial statement.
- whether the internal controls within the practice unit contribute towards maintenance of quality of reporting.

Illustrative Reports

6.07 Appendix V to this manual contains a model preliminary report and Appendix VI contains the model clean final report and model Qualified final report to be issued for non-compliance with technical, professional and ethical standards and for deficiency(ies) in internal quality control systems.



APPENDIX

Statement on Peer Review

1.0 Introduction

1.1 The Institute of Chartered Accountants of India (hereinafter referred to as "the Institute") has been constituted under the Chartered Accountants Act, 1949 (hereinafter referred to as "the Act") for discharging the functions assigned to the Institute under the Act. Section 15 of the Act provides that "the duties of carrying out the provisions of this Act shall be vested in the Council" and enumerates various duties of the Council. With a view to regulate the profession of Chartered Accountants and in terms of the powers vested, the Council is issuing this Statement on Peer Review.

Peer Review process is based on the principle of systematic monitoring of the procedures adopted and records maintained while carrying out audit & assurance services in the course of one's the professional responsibility to ensure and sustain quality Peer Review is primarily directed towards ensuring as well as enhancing the quality of audit and assurance services of Chartered Accountants in Practice. The Peer Review is conducted of a Practice Unit by an independent evaluator known as a Peer Reviewer.

The main objective of Peer Review is to ensure that in carrying out the assurance service assignments, the members of the Institute (a) comply with Technical, Professional and Ethical Standards as applicable including other regulatory requirements thereto and (b) have in place proper systems including documentation thereof, to amply demonstrate the quality of the assurance services.

In this statement the framework under which Peer Review is to be conducted has been specified.

Peer Review assumes further significance in the light of ever increasing public interest in auditing and assurance services provided by Chartered Accountants in Practice.

2.0 Objectives

2.1 The purpose of the Peer Review statement is to provide a framework for, planning, performing, reporting and administration of the Peer Review process.

Peer Review process is intended to Review the quality control framework of the Practice Unit as well as proper and consistent application of such control frameworks across engagement samples selected for Review.

The statement provides the terms of reference of such Reviews and the roles and responsibilities of the parties concerned.

The implementation of the scope and authority of this Statement is to be ensured both in letter and spirit in the peer Review process.

3.0 Definitions

For the purpose of this statement,

- 3.1 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 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;
- (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

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

- 3.2 Member means a member as stated in section 2 (2) of the Chartered Accountants Act, 1949.
- 3.3 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.
- 3.4 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.
- 3.5 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 and whether the same were consistently applied in the period under review.

3.6 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".

- 3.7 Reviewer means a member duly approved and empanelled by the Board on fulfilling the qualifications prescribed for a Reviewer as per Para 10.0 of this Statement.
- 3.8 Qualified Assistant means a member who is an associate of the Reviewer either as a partner or as a paid assistant as per the records of the Institute of Chartered Accountants of India.
- 3.9 Technical, Professional and Ethical Standards means
- (i) Accounting Standards issued by ICAI and /or prescribed and notified by the Central Government of India;
- (ii) 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) Statements on Quality Control
 - (f) Notifications / Directions / Announcements / Guidelines / Pronouncements / Professional standards issued from time to time by the Council or any of its committees.
- (iii) 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;
- (iv) 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;
- 3.10 Year means the period of twelve months commencing on the 1st day of April every year.
- 3.11 Words and expressions used and not defined in this Statement shall have the meanings assigned to them under the Chartered Accountants Act, 1949, as amended from time to time

and the Chartered Accountants Regulations, 1988, as amended from time to time, framed there under.

4.0 Authority of the statement on Peer Review

- 4.1 The Statement on Peer Review applies to all Practice Units and Peer Reviewers.
- 4.2 The statement on Peer Review issued in relation to conduct of members in performance of assurance services and intends to:
- Promulgate a structured framework for ensuring the quality of assurance services and for conducting Peer Review;
- (ii) Provide framework in relation to roles and responsibilities with respect to the parties involved in Peer Review Process including the Peer Review Board; and
- (iii) Prescribe the scope of Peer Review and the procedures to be adopted for the conduct of a Peer Review

5.0 Powers of the Council

- 5.1 To constitute and empower the Board and to fill the vacancies arising in the Board from time to time.
- 5.2 To amend this statement governing the framework of the Peer Review process and the procedures framed there under including the roles of the Board and/or Reviewer.
- 5.3 To authorise the Board to decide upon the scope and procedures governing the Peer Review process.
- 5.4 To refer such matters to the Board in relation to Peer Review as the Council may deem fit.
- 5.5 To approve the Annual Budget of the Board.
- 5.6 To call for such information from the Board relating to the Practice Units / Reviewers as it may deem fit.

6.0 Peer Review Board

- 6.1 Establishment and Appointment
 - (a) The Board shall be constituted by the Council.
 - (b) 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.

(c) 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.

- (d) The Council shall appoint the Chairman and the Vice-Chairman from amongst its elected Council members appointed on the Board.
- (e) The term of a member shall be for one year, or such other period as may be prescribed by the Council from time to time.
- (f) Casual vacancies on the Board shall be filled by the Council.
- (g) A Members of the Disciplinary Committee or the Disciplinary Board or the Committee on Ethical Standards or the Committee on Financial Reporting and Review Board of the Institute of Chartered Accountants of India shall not be a member of the Board.

6.2 Meetings

- (a) No business shall be transacted at a meeting of the Board unless there are present at least four members, including the Chairman or, in his absence, the Vice-Chairman.
- (b) If there is no 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.
- (c) The Board shall meet not less than four times in a year.

6.3 Reporting

The Board shall submit a report to the Council within 30 days of its meeting

7.0 Scope of Peer Review

- 7.1 The Peer Review process shall apply to all the assurance services provided by a Practice Unit.
- 7.2 Once a Practice Unit is selected for Review, its assurance engagement records pertaining to the Peer Review Period shall be subjected to Review.
- 7.3 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 relating to article assistants and / or audit assistants, including attendance register, work diaries, stipend payments, and such other related records.

8.0 Functions of the Board

- 8.1 The Board shall be vested with the powers to ensure compliance of the statement.
- 8.2 The powers and duties of the Board shall include:
 - (a) To call for information and / or records from Practice Units / Reviewers in such form and manner as may be prescribed;
 - To arrange for orientation and periodic training programmes for Reviewers and/ or Practice Units;
 - (c) To prescribe the procedures to be followed in relation to Peer Review;
 - (d) To maintain a panel of Reviewers;
 - (e) To define the terms of appointment of the Reviewers;
 - (f) To prescribe formats for maintenance of records by Peer Reviewers and to examine the same.
 - (g) To Review the work performed by a Reviewer;
 - (h) To collect information to determine the level of a Practice Unit as referred to in Para 11 of this Statement.
 - (i) To define the scope of selection of Practice unit for Peer Review as the Board may deem fit;
 - (j) To select and notify the Practice Unit for Peer Review to be conducted during the year;
 - (k) To select three Reviewers and intimate their names to the Practice Unit and allow the Practice Unit to choose any one Reviewer there-from within 30 days or such other period as may be prescribed from time to time by the Board;
 - Provided that, the Board shall, for reasons to be recorded in writing, appoint a Reviewer for the Practice Unit if: -

 the Practice Unit does not select Reviewer within a period of 30 days or such other period as may be prescribed, from the date of service of the intimation;

- (ii) all the three Reviewer have declined the assignment; or
- (iii) The Reviewer selected by the Practice Unit does not give his confirmation within 30 days of being intimated by the Peer Review Board.
- (iv) The Practice Unit on its own requests the Board to appoint a Reviewer.
- (I) To prescribe a register to be maintained by the Practice Unit for assurance services rendered during the year.
- (m) On considering the report of a Reviewer:
 - (i) Issue recommendations to the Practice Unit; or
 - (ii) Order a "Follow On" Peer Review to be carried out; or
 - (iii) Issue Peer Review Certificate in the format as the Board may decide.
- (n) To form such sub groups of the Board, as may be necessary to discharge its various functions.
- 8.3 Where deemed appropriate, after the conclusion of a cycle of Reviews or at the end of each such period as may be determined, the Board shall have the powers to make a Special Report to the Council on:
- (i) The level of implementation and adherence to Technical, Professional and Ethical Standards amongst Practice Units and
- (ii) Its suggestions for further improvement in quality of Peer Review.
- (iii) Such other related matters and or informations it may deem fit.
- 8.4 Pursuant to a follow on review carried out in terms of Clause 8.2(m), if the report of the reviewer continues to be adverse then the deficiencies as reported shall be referred to a sub group of the Board. The Sub Group shall consider the nature and materiality of the deficiencies contained in the follow on review and gives its findings within 30 days from the date the said matter has been referred to it by the Board.

The sub group shall give its findings to the Board about the nature and materiality of the deficiencies which the Board after due deliberations may either accept or reject for reasons to be recorded in writing. If the Board is of the opinion that the findings of the subgroup contains material deficiencies then the Board shall refer the matter to the Council for considering whether the same may be referred to the Disciplinary Directorate for initiating disciplinary action.

8.5 The provisions contained in Clause 8.4 of this Statement shall be applicable to Peer Reviews initiated or ordered after April 1, 2014.

- 8.6 The Board shall Review composition of the panel of Reviewer periodically.
- 8.7 The Board may perform such other function or act as may be incidental to, or, which it considers necessary or expedient for the performance of its functions, or exercise of its powers as delegated to it by the Council, including the formation of sub-committees and regional benches of the Board for specific tasks.

9.0 Compliance with the Statement on Peer Review

All Practice Units and Reviewers shall comply with the provisions of this Statement. The Board, subject to the procedure stated in clause 8.4 and 8.5 of this statement, is empowered to forward the name of a practice unit or practice units to the Council for initiating Disciplinary action.

10.0 Eligibility to be a Reviewer

- 10.1 A Peer Reviewer shall:
 - (a) Be a member with at least 10 years of experience in practice;
 - (b) Is in Practice as per the Chartered Accountants Act, 1949.
 - (c) Should have undergone the requisite training as prescribed by the Board.
 - (d) Should furnish a declaration as prescribed by the Board, at the time of acceptance of Peer Review appointment.
 - (e) Should have signed the Declaration of Confidentiality as prescribed by the Board.
 - (f) Should have conducted audit of Level I Entities for at least 7 years to be eligible for conducting Peer Review of Level I Entities as referred to in Para II of this Statement.
- 10.2 For being a Reviewer a member should not have: -
 - (i) Disciplinary action / proceedings pending against him
 - (ii) been found guilty by the Council or the Disciplinary Board or Committee at any time.
 - (iii) been convicted by a Competent Court whether within or outside India, of an offence involving moral turpitude and punishable with transportation or imprisonment.
 - (iv) any Obligation or conflict of interest in the Practice Unit or its Partners / Personnel.

10.3 A Reviewer shall not accept any professional assignment from the Practice Unit for a period two years from the date of appointment.

11.0 Practice Units subject to Review

11.1 Every Practice Unit, based on their category as determined below will be subject to Peer Review in accordance with this statement.

Level I

A Practice Unit which has undertaken any of the under-mentioned assurance services in the period under review:

- (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;
- (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 Entities which have raised funds from public or banks or financial institutions of over Rs. Fifty Crores during the period under Review.
- (vii) Statutory Audit of Entities which have raised donations and / or contributions over Rs. Fifty Crores during the period under Review.
- (viii) Statutory Audit of entities having Net Worth of more than Rs. Five Hundred Crores at any time during the period under Review.;
- (ix) Statutory Audit of entities which have been funded by Central and / or State Government(s) schemes of over Rs. Fifty Cores during the period under Review.

Level II

A Practice Unit which has undertaken any of the under-mentioned assurance services in the period under review:

- (i) Statutory / Internal / Concurrent / Systems / Tax audit and / or Departmental Review of Branches / Offices of
 - (a) Public Sector or Private Sector and / or Foreign Banks;
 - (b) Insurance Companies:

- (c) Co-operative Banks
- (d) Statutory Audit of Regional Rural Banks,
- (e) Statutory Audit of Non Banking Financial Companies (NBFCs)
- (ii) Statutory Audit of entities having Net Worth of over Rs. Five Crores or an annual turnover of more than Rs. Fifty Crores during the period under Review.;

Level III

Any other Practice Unit providing assurance services not covered in Level I and Level II hereinabove.

- 11.2 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.
- 11.3 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.
- 11.4 The Board may with the approval of the Council, modify any of the above criteria

12.0 Obligations of the Practice Unit/ Peer Reviewer

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

- 12.1 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;
- 12.2 Provide to the Reviewer such explanation or further particulars in respect of anything produced in compliance with a requirement under sub clause (i) above, as the Reviewer shall specify; and
- 12.3 Provide to the Reviewer all assistance in connection with Peer Review;
- 12.4 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.

Obligations of the Peer Reviewer

12.5 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.

12.6 The Reviewer shall complete the Review within the prescribed time frame.

13.0 Periodicity of Peer Review

- 13.1 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
 - (c) Level III Practice Units Once in 5 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.

14.0 Cost of Peer Review

14.1 The cost of Peer Review including the limit of out of pocket expenses payable to the Reviewer shall be decided by the Board from time to time and shall be paid by the Practice Unit. In case Reviewer has to conduct "Follow-On" Review, the same rate would apply to the follow-on Review also. The amount shall be paid by the Practice Unit within 30 days of receipt of the bills from the Reviewer.

15.0 Review Framework

The Peer Review process will include

- Selection of Practice Unit and appointment of Reviewer,
- Planning
- Execution and
- Reporting.
- 15.1 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) Name of three Reviewers shall be recommended by the Board to the Practice Unit so selected.

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

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

15.2 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 information to the Reviewer:

- Duly filled-in Questionnaire sent by the Board.
- Complete list of assurance service clients indicating the nature of service provided and the fees charged for the period under Review.
- 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.
- 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 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) 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.
 - (b) The Reviewer may also seek further / additional clarification from the Practice Unit on the information furnished / not furnished as mentioned in clause 15. 2(i) above.
 - (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.
 - (d) The Reviewer and Practice Unit shall mutually cooperate 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.

15.3 Execution

 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 working days.

- (ii) Compliance Review-General Controls
 - (a) 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:
 - 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:
 - 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;
 - The number of locations / branch offices of the practice Unit;
 - The Fees charged / received / service tax paid by the Practice unit.
 - (b) From the initial sample selected at the planning stage, the Reviewer, in consultation with the Practice Unit, 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.

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
- Assurance Services Conclusions
- Assurance Services Reporting
- (B) Substantive Approach Assurance Service 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, Ethical, and Professional Standards.

15.4 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.

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

- (a) Independence
- (b) Maintenance of Professional skills and standards.
- (c) Outside Consultation
- (d) Staff recruitment, Supervision and Development.
- (e) 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.

15.5 Working Papers

The Reviewer shall document all his working papers and submit a copy of his working papers to the Board, if called for by the Board within 12 months of completion of Review / submission of Review Report.

15.6 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 therefore as well inform the Practice Unit about the due date for conducting a follow on review.

16.0 Referral of Disputes and Appeal

16.1 Where a dispute arises over the powers of Reviewer or the process of the Review or the conclusions reached therein or for any particular matter related to Review, the Practice Unit or the Reviewer or both may refer the dispute to the Board in prescribed Form, in duplicate, duly verified and signed by the Reviewer or Practice Unit or the partner / proprietor of the Practice Unit within 30 days from such event.

16.2 Where a dispute is referred to the Board, the same shall be disposed off within 60 days, after an opportunity of being heard is provided or receipt of written submission from the parties to the dispute and the Board shall communicate such decision to each of the parties to the dispute within 30 days of the Board meeting.

16.3 Where the Practice Unit or the Reviewer or both are not satisfied with the decision of the Board, it may refer the matter to the Council, in writing, in duplicate, within 60 days from the date of receipt of the decision of the Board. It should be duly verified and signed by the Reviewer or Practice Unit or the partner / proprietor of the Practice Unit.

17.0 Immunity

- 17.1 A Practice Unit, which makes available records or documents to a Reviewer, shall not be held liable under the Code of Ethics or under the Chartered Accountants Act, 1949 and the Regulations framed there under, by reason of compliance with this Statement except as provided under Clause 8.4 of this Statement.
- 17.2 The Reviewer, by virtue of conducting the Peer Review shall not be held liable except for the liability arising out of his own conduct under the Code of Ethics under the Chartered Accountants Act, 1949 and Regulations framed there under as well as under the relevant clauses of this Statement.
- 17.3 The members of the Board shall not be held liable by virtue of their having discharged the responsibilities as given in this Statement or as may be directed by the Council, other than the liability arising out of their own conduct under the Code of Ethics under the Chartered Accountants Act, 1949 and Regulations framed there under as well as under the relevant clauses of this Statement.

18.0 Confidentiality

- 18.1 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.
- 18.2 All persons governed by the secrecy provisions:
 - 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.

18.3 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 (appended as **Annexure 'A'**) 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.

19.0 Procedural Departures

19.1 Wherever the Reviewer, his qualified assistant or any member of the Board have not followed the prescribed procedures, they shall have to justify significant departures and such justification shall have to be mandatorily made known to the Board within a reasonable period of time.

20.0 Budget and Finance

- 20.1 The Council shall approve the Annual Budget of the Board.
- 20.2 The Board shall have the autonomy to administer its budget after the approval as above. For this purpose, the Secretary to the Board shall be the authorized officer.

21.0 Secretariat

- 21.1 The Council shall cause to be set up an appropriate and independent Secretariat to assist the Board in the discharge of its functions.
- 21.2 All persons working in the Secretariat shall be subject to the same norms of confidentiality as the Board Members and Reviewer(s).
- 21.3 Appropriate arrangements for training of personnel of the Secretariat shall be made from time to time.

Annexure 'A' Declaration of Confidentiality

[In accordance with the Statement on Peer Review, this statement of confidentiality is to be individually filled in by each of the persons who are responsible for the conduct of Peer Review i.e., Reviewer and his qualified assistants. The Reviewer shall be responsible for taking this undertaking from all those persons who assist him or are likely to assist him in conducting Peer Reviews, and shall send the same to the Board. This statement of Confidentiality shall be filed by the Reviewer and his qualified assistants for each Review undertaken by them.

To

The Chairman,

Peer Review Board,

The Institute of Chartered Accountants of India

New Delhi

Sir,

I, hereby declare that I am aware of the need for confidentiality in the conduct of Peer Reviews. I undertake and promise that in so far as any or all of the following relate to me or are brought to my knowledge/attention, in any manner whatsoever and when so ever, I shall ensure that:

- Full Confidentiality of the Working papers shall always be maintained at all times so that unauthorized access is not gained by anyone.
- The Practice Unit's assurance services procedures shall not be disclosed to any third party except as provided under this Statement.
- Any information with regard to any matter coming to my knowledge in the performance or in assisting in the performance of any function during the conduct of Peer Reviews shall not be disclosed to any person except as provided under this Statement.
- Access shall not be given to any person other than as required under the Peer Review Statement, to any record, document or any other material, in any form which is in my possession, or under my control, by virtue of my being or having been so appointed or my having performed or having assisted any other person in the performance of such a function.
- I have no direct or indirect conflict, of interest with the Practice Unit.

I understand that any breach of the provisions regarding confidentiality as contained in the

Statement on appropriate disc				be	considered	as	gross	negligence	and	make	me	liable	to
Signature:													
Name:													
Address:													
Designation:													
Membership No	0.												
Name of Praction	ce Uni	t Review	ed:										
Date:													
Place:													

APPENDIX |

Notification(s) & Circular(s) Issued by the Peer Review Board

(i) Notification No: PRB/Notfn./008/11-12, issued on: August 2011

In exercise of power vested in the Peer Review Board by the Statement on Peer Review, the Board hereby notifies that the cost of Peer Review for Stages-I, II & III, including honorarium and TA/DA for reviewer and his qualified assistant, shall be as under:

Total Revenue from Assurance service clients of practice unit (Per Annum) ¹	Cost of Peer Review
Less than Rs 10 lacs p.a.	Rs 15,000/-
From Rs 10 lacs to 50 Lacs p.a.	Rs 25,000/-
From Rs 50 lacs to 1 crore p.a.	Rs 40,000/
From Rs 1 crore to 3 crore p.a.	Rs 60,000/-
From Rs 3 crore to 5 crore p.a.	Rs 75,000/-
Above Rs 5 crore p.a.	Rs 1,00,000/-

¹ For calculating Total Revenue from Assurance service clients of practice unit (Per Annum) the Sum total of Revenue from Assurance service clients for all periods under review shall be divided by number of years under review.

(ii) Circular No: PRB/CIR/001/02-03, issued on: January 10, 2003

Sub: - Declaration to be furnished by the reviewer every year.

In order to ensure that a member of the Institute against whom disciplinary action is pending under section 21 of the Chartered Accountants Act, or has been convicted by a competent court under section 8 of the said act does not continue to be in the panel of the reviewers maintained by the Peer Review Board, it is clarified that the reviewer would be required to furnish a declaration to the Board, every year, to the following effect: -

- (i) A panel of reviewers will be maintained by the Peer Review Board, satisfying the qualification requirements laid down in the Statement, i.e., an individual should be a member of the Institute; possess atleast 10 years experience of audit; and be currently active in the practice of accounting and auditing.
 - In this context, the Board has clarified that 10 years experience of audit should not necessarily be continuous but cumulative experience of 10 years. Any period of audit experience of less than 2 years shall not be counted for this purpose. Also mere membership of 10 years would not be enough to be empanelled as a reviewer. It has to be 10 years experience of audit.
- (ii) He had not been convicted by a competent Court whether within or without India, of an offence involving moral turpitude and punishable with transportation or imprisonment or of an offence, not of a technical nature, committed by him in his professional capacity unless in respect of the offence committed he has either been granted a pardon or, on an application made by him in this behalf, the Central Government has, by an order in writing, removed the disability (the conviction here means conviction at the first Court).

Secretary Peer Review Board

APPENDIX III



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA PEER REVIEW BOARD

APPLICATION FORM FOR EMPANELMENT AS A REVIEWER

		-
		Photographs
1.	Applicant's Name	
	Mr/Ms	
	FIRST MIDDLE	LAST
2	Father's Name	
	Mr	
3	Date of Birth	
	DD MM YY	
4.	Mailing Mailing	
	Address Addres	
	CITY STATE	PINCODE
5.	E-mail Address	
6.	Telephone Number	
	Mobile Number	
7.	Fax Number -	

8.	Memb	ership Number of ICAI						
9.	Associate Member Since DD MM YY							
10.	DD MM YY							
11.	Post-C	Qualification Courses Pursued (Conducted by ICA	AI)					
		Name of Course	Year of Completion					
	Α	Management Accountancy Course						
	В	Tax Management Course						
	С	Corporate Management Course						
	D	Information and Systems Audit						
	Е	Insurance and Risk Management						
	F	CAAT						
	G	ITL & WTO						
12.	Any M	ajor achievement (during education)						
13.	Audit	working Experience (since enrolment as Associa	te):(starting from last to first) ²					
(a)	Firm N	lame and Address						
	Date of Constitution							
	Numb	er of Partners						
	Numb	er of Paid Chartered Accountants						

100

² Use additional sheet, if required

	404
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	Working as [Please specify the Position held in the firm of Chartered Accountant(s)]
	[Please specify the Period of Working in the firm of Chartered Accountant(s)]
	Working since
(b)	Firm Name and Address
	Date of Constitution
	Number of Partners
	Number of Paid Chartered Accountants
	Working as [Please specify the Position held in the firm of Chartered Accountant(s)]
	[Please specify the Period of Working in the firm of Chartered Accountant(s)]
	From To
	(Specify years only)

14. Major Assurance Work handled³

Name of Client	Level of Responsib ility ⁴	Turnover ⁵	Audit Fees ⁶		Type of Audits Fick appropriate Box)		
	(mentio	n appropria	te code)	Statutory	Tax	Internal/ other	
Banks							
1.							
2.							
Financial Institutions							
1.							

³ Use additional sheet, if required

⁴ Please specify the level of responsibility as: Audit assistant-AS and Supervisory-SP.

⁵ Please specify the Code for Turnover (per annum in rupees) as 1 to 50 crores-1; 50 to 200 crore-2 and above 200 crores-3.

⁶ Specify code for Audit fees per annum in rupees: upto 50 thousand-1; 51000 to 2 lacs- 2; 2 to 5 lacs-3 and more than 5 lacs-4.

2.												
Insurance Companies												
1.												
2.												
Companies												
Public												
1.												
2.												
Private												
1.												
2.												
Government												
1.												
2.												
Co-operative Societies												
1.												
2.												
NBFCs												
1.												
2.												
15. Professional Achievements: Details of CPE Programmes attended:												

Appendices 103 17. Whether any Disciplinary action is pending against you (referred to Disciplinary Committee for enquiry)? Yes No If Yes, please give details I hereby declare that I am a member of the Institute b. I Possess minimum ten years experience of audit and am currently active in the practice of accounting and auditing (Note: 10 years' audit experience need not be continuous but cumulative; but any block of less than 2 years' experience in determining cumulative experience shall not be counted); and The information given above is true and correct and nothing has been concealed C. therefrom. Name (Signature) Date For Office Use Only: Whether applicant: (a) Is member of the Institute (b) possess atleast 10 years' audit experience (c) is currently active in the practice of accounting No 🗌 and auditing Yes 2. Whether applicant is to be considered for allotment of reviews of practice units falling under: All Stages of peer review Stage III only 3. Whether complete information in the prescribed format is given in respect of points: 13. Audit Working experience: Yes No 14. Major Assurance Work handled: Yes No Whether all other applicable points of the form have been filled Yes ☐ No ☐ If No, Points

Whether any Disciplinary action is pending

Yes No No

RE No. allotted

5.

6.

APPENDIX IV

Model Letter to the Practice Unit Informing Selection of Sample

Date
{Name and address of the practice unit selected for review}
Dear Sir/Madam,
Subject: Information for Selection of Sample Assurance Service Engagements.
This is with reference to the letter no dated issued by the Peer Review Board regarding carrying out peer review of your firm, in response to which you have selected me as a reviewer, for the purpose.
I hereby acknowledge the receipt of the duly filled in questionnaire. Based on the analysis of the said questionnaire, I have selected sample assurance services and clients for review as per the enclosed list. You are requested to ensure the ready availability of the relevant record related to the assurance services rendered to these clients for carrying out peer review.
I plan to visit your office for the review on <i>{mention the proposed date(s)}.</i> You are requested to confirm your convenience for above mentioned date(s).
Thanking you,
Yours faithfully,
-Sd-
(Name of the Reveiwer)
Encl.: as above
Copy to : Peer Review Board.

APPENDIX V Model Preliminary Report (Initial Findings)

	Į	Name	of	practice	unit
--	---	------	----	----------	------

Dear Sir/Madam,

This is with reference to the peer review of your firm carried out by me on {mention the date}for the period(s) {mention the period(s)}. I am expressing my opinion on the quality control system as designed by your firm and its implementation. My observations regarding the deficiencies observed by me in the system of quality control for the assurance services of your firm is enclosed as Appendix. You are requested to send your representation/ comments on the observations, so that the report may be submitted to the Peer Review Board.

Signature of the Reviewer (Name of the Reviewer) Membership No. Reviewer's Code No.

Place:

Date:

APPENDIX VI Model Final Report

A. Final Report

To Peer Review Board.					
As per your letter no	dated	, I have carri	ed out the pe	er review	of {name
of the practice unit} FRN	having it	s registered Head	Office at {ada	lress of th	he practice
unit HO} for the period(s)	{mention the	periods reviewed}.	The review	was cor	nducted in
accordance with the Stat	ement on Pee	r Review issued	by the Inst	itute of	Chartered
Accountants of India.					

Objective

The major focus of the review was on Compliance with Technical, professional & ethical Standards, Quality of Reporting, Office systems and procedures and the Training Programme for staff (including Articled and Audit Clerks) concerned with assurance function including appropriate infrastructure engaged in assurance services. I am expressing an opinion on the implementation of quality control policies and procedures designed to ensure the compliance of Technical, professional & ethical Standards and maintenance of quality of assurance services and its implementation.

Limitation

This review was limited primarily to inquiries of the Practice Unit's personnel and an overall examination of the systems and procedures and a selection of engagement working papers, and was therefore not intended to identify or discover all weaknesses. This review was also not intended to focus on isolated cases of control or engagement performance deficiencies but rather on weaknesses of a pervasive and chronic nature. As there are inherent limitations in the effectiveness of any system of quality control, departure from the system may occur and not be detected. Also, projection of any evaluation of system of quality control to future periods is subject to the risk that the system of quality controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Opinion

In my opinion the system of quality control for the assurance services of *[name of practice]*

unit} for the period under review has been designed so as to carry out professional assurance services assignments in a manner that ensures compliance with technical, professional & ethical standards laid down by the Institute and maintenance of the quality of assurance service work they perform.

Signature of the Reviewer (Name of the Reviewer)
Membership No.

Reviewer's Code No.

Place:

Date:

B. Qualified Final Report

To Peer Review Board.				
As per your letter no	dated	, I have carried	out the peer re	view of {name
of the practice unit} FRN	having its	registered Head Off	fice at {address	of the practice
unit HO} for the period(s)	{mention the p	eriods reviewed}. T	he review was	conducted in
accordance with the Stat	ement on Peer	Review issued by	the Institute	of Chartered
Accountants of India.				

Objective

The major focus of the review was on Compliance with Technical, professional & ethical Standards, Quality of Reporting, Office systems and procedures and the Training Programme for staff (including Articled and Audit Clerks) concerned with assurance function including appropriate infrastructure engaged in assurance services. I am expressing an opinion on the implementation of quality control policies and procedures designed to ensure the compliance of Technical, professional & ethical Standards and maintenance of quality of assurance services and its implementation.

Limitation

This review was limited primarily to inquiries of the Practice Unit's personnel and an overall examination of the systems and procedures and a selection of engagement working papers, and was therefore not intended to identify or discover all weaknesses. This review was also not intended to focus on isolated cases of control or engagement performance deficiencies but rather on weaknesses of a pervasive and chronic nature. As there are inherent limitations in the effectiveness of any system of quality control, departure from the system may occur and not be detected. Also, projection of any evaluation of system of quality control to future periods is subject to the risk that the system of quality controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Qualified Opinion

In my opinion, because of the deficiencies described below, the system of quality control for the assurance services of *{name of practice unit}}* for the period under review has not been designed so as to carry out professional assurance services assignments in a manner that ensures compliance with technical, professional & ethical standards laid down by the Institute and maintenance of the quality of assurance service work they perform.

Reasons for Qualified Opinion (Illustrative)

The review disclosed that the firm's quality control policies and procedures do not provide a means of ensuring that the financial statements reported on include all relevant disclosures. As a result, we noted financial statements that did not include all of the disclosures required by the technical, professional & ethical standards and, in one instance, financial statements that were materially misleading.

The review also disclosed that as required by the firms policy the review of the audit work performed by each assistant is not done by the personnel of at least equal competence to ensure that the work is performed in accordance with audit programme, results are properly documented, objective of audit procedures are achieved. Similarly some more weaknesses were noticed in the Internal control system which requires improvement. The list of the areas which require improvement is enclosed as Annexure to this report.

As per the requirement of Statement on Peer Review, I had sent the preliminary report to the practice unit for their representation relating to the above aspect. In my opinion, the representation received from the practice unit is not satisfactory. A copy of preliminary report and the practice unit's representation thereon are enclosed as Annexure to this report.

Signature of the Reviewer (Name of the Reviewer)
Membership No.
Reviewer's Code No.

Place:

Date:

Annexure to the Final Peer Review Report of M/s_____

Genei	ral instructions: Tick 'Yes' / 'No', wherever applicable.
SI. No.	Particulars
1	Date on which questionnaire is received

No.	Observations						
1	Date on which questionnaire is received						
2	Number of initial samples selected for review						
3 (a)	Was there any change made in initial sample selected by the Reviewer?						
(b)	If 'Yes', specify the number selected, after change						
4	Name of the Qualified Assistant (if any) who helped in the conduct of review						
5	Whether general controls are in existence and operating effectively during the period under review?						
	(i) Independence Yes/No						
	(ii) Professional Skills and Standards Yes/No						
	(iii) Outside Consultation	Yes/No					
	(iv) Staff Supervision and Development	pervision and Development Yes/No					
	(v) Office Administration Yes/No						
6	Whether audit records administration is satisfactory?	Yes/N	0				
7	Whether working papers are properly maintained?	Yes	No				
8	Whether review of internal control systems was carried out properly in performing assurance engagement?	Yes	No				
9	Whether proper systems and procedures exist within the PU to ensure compliance with technical, professional and ethical standards?						
	(i) Accounting Standards including Interpretations thereof Yes/No						
	(ii) Auditing and Assurance Standards including General Yes/No Clarifications thereof						
	(iii) Statements	Yes/N	0				
	(iv) Guidance Notes	Yes/N	0				
	(v) Institute's Notifications/ Directions	Yes/N	0				

	(vi) Self Regulatory Measures	Yes/N	0
10	Whether overall presentation of financial statements conforms to statutory requirements of presentation under various Statutes?	Yes	No
11	Whether audit conclusions drawn are duly supported by audit queries/observations?	Yes	No
12	Whether the quality of audit reports in respect of format and content found proper?	Yes	No
13(a)	Whether the Reviewer has issued preliminary report?	Yes	No
(b)	Whether the preliminary report issued by the Reviewer contained any deficiencies?	Yes	No/NA
(c)	If 'Yes', please specify the areas of deficiencies		
14(a)	Whether PU has responded to the preliminary report?	Yes	No/NA
(b)	Whether the Reviewer is satisfied with the response received from the PU?	Yes	No/NA
15	If the Reviewer is not satisfied with the response of the PU, whether qualified report has been issued?	Yes	No/NA
16(a)	Is the Final Report qualified?	Yes	No/NA
(b)	If 'Yes', specify the reasons		
17	Whether the Reviewer received full co-operation from the PU during review?	Yes	No

18	Is there any point which the Reviewer wants to bring to the notice of the Board? If yes, please elaborate separately.

Signature

Date:

Name of the Reviewer

Membership No.

RE No.

APPENDIX **VII**

Peer Review Board Advisories for Peer Reviewers

- 1. While corresponding with the Board reviewer should mention correct RE/PU number.
- 2. Firm's letterhead should not be used while corresponding with the Board or the PU.
- 3. Any names either of employer or partner or clients should not be mentioned while corresponding with the Board or the PU.
- 4. Before commencing the peer review exercise study in detail the Peer Review Manual.
- 5. While conducting peer review ensure adherence to the Statement on Peer Review and the guidelines issued by the Board.
- 6. Ensure adherence to the Illustrative Time Schedule given in the Peer Review Manual.
- 7. Formal consent letter accepting peer review assignment, together with the Declaration of Confidentiality or letter intimating non-acceptance with reasons should be sent to the Board and not to the PU.
- 8. In cases where the Board has permitted an assistant, the Declaration of Confidentiality of the Assistant, if any, assisting you in the assignment should also be sent.
- 9. While conducting peer review ensure adherence with SA's wherever applicable. Few examples are given hereunder: -
 - (a) Document working papers of the review performed and findings, including matters that indicate deficiencies in the PU's policies and procedures relating to quality control and significant lack of compliance therewith. (SA 230 – Audit Documentation)
 - (b) Obtain written representations from the PU, wherever required. (SA 580 Written Representations
 - (c) A Letter of engagement may be sent to the PU. (SA 210 Agreeing the Terms of Audit Engagement)
- 10. The number of assurance engagements to be reviewed should be selected by exercising professional judgement based on the evaluation of the questionnaire and the size of the PU. Obtain a reasonable cross-section of the PU's clients although greater weight may be given to large clients.

11. An assurance engagement, which is the subject matter of any disciplinary proceedings before ICAI or any other judicial body, should not be reviewed.

- 12. A combination of compliance procedures and substantive procedures may be followed throughout the peer review process. The mix of compliance and substantive procedures should be decided by exercising professional judgement.
- 13. In case the review exercise is likely to exceed 2 days, inform the PU as well as the Board, in advance, indicating the additional time to be taken, with reasons. However ensure that the review exercise does not exceed 72 hours.
- 14. Compliance with four focus areas mentioned below should be seen:
 - (a) Compliance with Technical, Professional and Ethical standards
 - (b) Quality of reporting
 - (c) Office systems and procedures
 - (d) Training Programme for Staff (Including Articled and Audit Clerks)
- 15. An unqualified report may be issued only if there is reasonable compliance of the above.
- 16. After on- site visit, issue a Preliminary Report for PU's response.
- 17. PU's response to the Preliminary Report should be obtained in writing.
- 18. Point out the deficiencies or non-compliances noticed during the course of review and do not give any advice/suggestions in the Preliminary Report.
- 19. Review findings should be discussed with the PU before finalizing the Peer Review Report (Final-clean/qualified).
- 20. Any objections raised by the PU must be dealt with before submitting the Peer Review Report (Final-clean/qualified) to the Board.
- 21. Issue the Peer Review Report (Final-clean/qualified) after discussing draft report with the Practice Unit.
- 22. Peer Review Report should be issued on Reviewer's personal letter-head, alongwith RE number/PU number and correct name of the PU.
- 23. Peer Review report should be addressed to the Board and should be dated as of the date of the conclusion of the review.
- 24. Peer Review Report (Final-clean/qualified) should be prepared in the prescribed format(s) as given in the Peer Review Manual.
- 25. Peer Review Report (Final-clean/qualified) should be clear and specific and it should also be free of any ambiguity.

- 26. Peer Review Report (Final-clean/qualified) may also contain suggestions.
- 27. Peer Review Report (Final-clean/qualified) should contain an attachment, which describes the peer review conducted including an overview and information on planning and performing the review.
- 28. Ensure that there is no contradiction in the information given in the Annexure to the Report and the Peer Review Report.
- 29. While submitting the Peer Review Report (Final-clean/qualified) to the Board, enclose Annexure to the Report, copy of the questionnaire submitted by the PU, copy of Preliminary Report and PU's response thereto and the manner in which PU's representation has been dealt with.
- Copy of the Peer Review Report (Final-clean/qualified) should also be sent to the PU, while submitting to the Board.
- 31. Wherever so ordered by the Board, complete the follow-on review within the stipulated time period.
- 32. While conducting follow-on review, cover the period subsequent to the period covered in the Qualified Final Report.
- 33. The follow-on report should be in the format of Final Report, accompanied by the Annexure. It should contain reference to the letter from the Board, directing follow-on review.
- 34. The follow-on report should contain an attachment indicating how the PU has dealt with the deficiencies pointed out in the earlier review.
- 35. The cost of review and TA/DA wherever applicable should be charged at the rates notified by the Board, from time to time, for various Stages.
- 36. Ensure confidentiality of the contents of review report or working paper file, document or other material in any form coming to the knowledge while performing peer review.
- 37. Extracts of the client's file or records examined while conducting peer review should not be carried, as a part of the working papers.

APPENDIX VIII

Some 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.
- While the PU has documented policies for independence, there was no evidence on record to show that the said policies or the related quality controls were implemented. The engagement files examined also contained no evidence that any engagementspecific procedures were followed to ensure that the engagement teams were independent of the client.
- 3. The PU does not have a practice of obtaining engagement letters as required under SA 210, Agreeing the Terms of Audit Engagement.
- 4. 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.
- 5. The PU does not have any standard documented policy or procedure for planning and performing audits. Nor does it have any standard checklists to ensure that resources performing the engagement have ensured compliance with relevant technical standards, either accounting or auditing. There is also no standard documentation policy, with the result that engagement files lack consistency and file contents vary significantly from one file to another.

6. Working papers were found to have no supporting documentation to demonstrate that a risk-based audit was performed. There were no documents in the audit files to show that the engagement partner and his team had done any planning at all. For example, there was no evidence in the files:

- (a) Of any overall audit strategy or detailed audit plan in accordance with SA 300, Planning an Audit of Financial Statements. Additionally, there were no audit programmes at the account balance level to guide/ instruct the resources performing the audit on what procedures they should follow.
- (b) Of risk assessment having been done in accordance with SA 315, Identifying and Assessing the Risk of Material Misstatement through Understanding of the Entity and its Environment. Consequently, there were no working papers to establish that audit risks were duly responded to in accordance with SA 330, The Auditor's Response to Assessed Risks.
- (c) Of the determination of materiality during planning in accordance with SA 320, Materiality in Planning and Performing an Audit.
- 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.
- 8. The PU was found to have complied with none of the requirements of SA 240, The Auditor's Responsibilities Relating to Fraud.
- 9. The PU does not perform any controls evaluation or testing. It performs only a substantive audit for which there are no planning documents available in the audit files except standard, non-tailored audit programmes. In performing tests of details for transactions, the PU does not follow any stated methodology in accordance with SA 530, Audit Sampling, in terms of sample design, sample size or sample selection. Samples selected are not free from bias. Moreover, the PU does not project misstatements into the population or evaluate the results of audit sampling.
- 10. 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.

11. The PU's audit files lack evidence of how significant estimates and judgements were audited or how the engagement teams reached a conclusion that the process adopted by the clients for making those estimates and judgements was sufficient and appropriate.

12. 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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