

PEER REVIEW

1. REVIEW PROCEDURE & REPORTING
2. IMPORTANCE OF AQMM

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Objective of Peer Review

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Before understanding the procedure and reporting of Peer Review it is necessary to understand the objective of Peer Review.

The objective is as under –

A - Examination and review -

- Of the systems and procedures of PU
- As envisaged by Technical, Professional and Ethical standards
- To determine whether they are in existence, put in place, effective and operating

B – To express opinion on above (Reporting).

Objective of Peer Review

Following negations should be taken positively –

► The objective is –

- Not to find deficiencies but improve the quality of services rendered.
- Not to identify isolated cases of engagement failure but to identify the pervasive and chronic weakness.
- Not to sit on the judgement of the PU but to evaluate the procedure followed.

Focus of Peer review

The focus of the Peer Review –

1. Compliance with Technical, Professional and Ethical standards

❖ Technical standards –

- AS and Ind AS with its Implementation guides.
- SA with its Implementation guides.
- Guidelines and Guidance Notes issued by ICAI
- Provisions of relevant statutes. (Consider NOCLAR from Sec.360 of Code of Ethics)

❖ Professional standards

- Framework for preparation & presentation of financial statements
- SQC1 and its implementation guide.

Focus of Peer review

❖ Professional standards – contd.

- Quality of reporting of PU.
- Office systems and procedures by PU.
- Training programs for staff.

❖ Ethical standards

- Directions of ICAI in respect of fees, number of Audits, Tax Audits and other directions.
- Directions of ICAI relating to articled assistants – attendance, work diaries, stipend, etc.
- Generally, adherence to the Code of Ethics.

Peer review process w.e.f. 1st October 2022

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► Applicability of Peer Review –

| Criteria | Date |
|---|------------|
| Statutory audit of listed entities – Phase I | 01/04/2022 |
| Audit of Unlisted Public cos. With capital > 500 cr., or Turnover > 1000 cr. or Loans > 500 cr. - in preceding FY OR 5 or more partners – Phase II (mandate dt. 16/3/24) | 01/07/2024 |
| Audit of entities having raised funds from public or banks > 50 cr. or Public interest entities OR 4 or more partners – Phase III (Mandate dt. 16/3/24) | 01/01/2025 |
| Firms conducting audits of branches of Public Sector banks OR 3 or more partners – Phase IV | 01/04/2025 |

Peer review process w.e.f. 1st October 2022

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- The time schedule 20 days – from selection of PU by PRB or voluntary application made by PU - till final reporting. Illustrative time schedule is given in Annexure II of Peer Review Manual – Volume I – January 2023. This necessitates the permanent readiness of PU for Peer Review.
- In case any extension is required, a joint intimation by the reviewer and PU to be given to PRB in Form 7 giving the reasons for the extension.
- The RE can be selected from same city or outside or the preferred city.
- The application for Peer Review and the questionnaire to be submitted by PU is combined together in Form 1.

Peer review process w.e.f. 1st October 2022

- ▶ The declaration of confidentiality is to be submitted to the PU instead of PRB.
- ▶ The RE has to submit a letter for submission of report to PRB which is to be signed by PU also. Form 9.
- ▶ Separate guidelines are prescribed for Peer Review of new practice units.
- ▶ A new concept called “AQMM” is added in Peer Review. PU has to do self appraisal & give answers to questions which yield 600 marks. The questionnaire is included as Part C to Form 1. The entire AQMM is elaborated in later part.
- ▶ The RE is paid fees for Peer review as per Appendix XI of Peer Review Manual – Volume 1.
- ▶ Validity of Peer review 3 years for all firms.

Peer review process w.e.f. 1st October 2022

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► New provisions in respect of sample size -

Minimum Sample size now depends on average Annual gross receipts of PU from Assurance services for period under review –

- ❖ Less than 5 cr. - 10
- ❖ 5 to 10 cr. – 15
- ❖ 10 to 20 cr. – 20
- ❖ 20 to 30 cr. – 25
- ❖ 30 to 50 cr. – 30
- ❖ More than 50 cr. – 50

Average receipts means receipts for all years under review divided by no. of years under review.

Peer review process w.e.f. 1st October 2022

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Certain other criteria are also prescribed for sample selection - as under -

- ❖ Highest turnover client,
- ❖ At least 5 samples of listed cos, Public Sector Undertakings
- ❖ At least 1 sample from Central Statutory / Branch Audit of Banks / Insurance Co.
- ❖ Must include each type of assurance engagement – Statutory / Internal/ Concurrent/ Tax/ GST etc.
- ❖ Client contribution > 15% of receipts,
- ❖ Sample from each location,
- ❖ Sample for each partner
- ❖ Sample for each year under Review.

Peer Review Procedure

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The Peer review procedure can be broadly divided into 3 stages –

- ▶ Planning stage – off site procedures
- ▶ Execution stage – on site procedures
- ▶ Reporting stage

PLANNING STAGE – OFF SITE PROCEDURES

Planning – Off site

- ▶ The process is initiated by ICAI – PRB or by the PU voluntarily.
- ▶ PU sends Application cum questionnaire to PRB in Form 1.
- ▶ On receipt of Form 1, PRB sends the names of 3 Peer reviewers – one of which is to be selected by PU.
- ▶ PU selects the RE and intimates PRB.
- ▶ Intimation to RE by PRB about his selection.
- ▶ The RE intimates to PRB about the acceptance of the assignment in Form 2
- PRB intimates the PU about the acceptance of Peer review assignment by the selected RE.
- The declaration of confidentiality is to be submitted by the RE to PU which will be acknowledged by PU. (one CA assistant is permitted).

Planning – Off site

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- ▶ PU submits the Questionnaire in Form 1 to RE.
- ▶ RE to validate the information provided by PU in Part A of Form 1.
- ▶ RE selects sample from the data given by PU in Annexure A of Part A of Form 1.
- ▶ The sample selection is as per the criteria provided by PRB.
- ▶ The sample selected by the RE should be intimated to PU along with the likely date of site visit to PU office in Form 5.
- ▶ The RE may seek additional information from the PU in Form 6.
- ▶ The RE shall plan “on site review” to verify the sample selected.
- ▶ The initial sample selected may be enlarged if required.
- ▶ The review of the sample should be completed within 6 days

Contents of Form 1

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Application by PU containing following information -

- ▶ Application by PU to PRB
- ▶ Part A
 - Profile of PU
 - Annexure A – Category wise list of clients of PU
- ▶ Part B - General controls based on SQC 1
 - ❖ B-I – Leadership responsibilities for quality
 - ❖ B-II – Ethical requirements
 - ❖ B-III – Acceptance & continuance of client relationship
 - ❖ B-IV – Human resources
 - ❖ B-V – Engagement performance
 - ❖ B-VI – Monitoring
- ▶ Part C - AQMM

AUDIT QUALITY MATURITY MODEL

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- ▶ This model was introduced in July 2021.
- ▶ The objective is to develop Framework for Audit Quality, to work on key elements of Audit Quality and to develop and promote Audit Quality Indicators.
- ▶ The Audit Firm itself has to self-review its own Audit Quality Maturity & assign marks to the Questionnaire provided by Centre for Audit Quality (CAQ) of ICAI. The model is also included in Peer Review process & the RE also assesses the Audit Quality Maturity & assign marks. It has 3 sections – total 600 marks. The marks obtained decide the Level of the PU – as elaborated in later slide.
- ▶ The level of the firm arrived at, after being reviewed by the peer reviewer shall be hosted on the website of the ICAI alongside the details of the peer review certificate.

AUDIT QUALITY MATURITY MODEL

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- ▶ It is applicable to PU undertaking Audit of listed companies, SCA of Banks excluding co-operative Banks but including Multistate Co-operative banks and Insurance companies. This is applicable from 1st April 2023 and additional fees are given for this to RE. It is recommendatory for all other firms.

AUDIT QUALITY MATURITY MODEL

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- ▶ The self-assessment of AQMM is included in Part C of Form 1 (application by PU). The contents are as under -
 - Section 1 – “Practice Management – Operations” – Practice areas, Practice manuals, QC review of manuals, Effort monitoring, QC for engagement, **Benchmarking of services**, Client sensitisation, Technology adoption, Revenue budgeting & pricing. – **280 marks**
 - Section 2 – “Human Resource Management” – Resource planning, training & development, Attrition & compensation, skillset, use of experts, performance evaluation. – **240 marks**
 - Section 3 – “Practice Management - Strategic & Functional” – Practice management, infrastructure, **practice credentials**. – **80 marks**

Audit Quality Maturity Model

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- ▶ The assessment of AQMM by RE is included in Annexure III to the Final report of RE. The RE has to explain the reason for difference in self assessment by PU and RE's assessment.
- ▶ In some questions related to Benchmarking of Services – Section 1 & Practice Credentials – Section 3, negative marks are also awarded.
- ▶ Depending upon the marks obtained, the AQMM level is decided as under –

| AQMM Level | % Score | Interpretation |
|------------|---------------------------|---|
| Level 1 | Up to 25% in each section | Nascent firm – immediate upgradation required. |
| Level 2 | 25% to 50% | Some progress – fine tuning required to reach next level. |
| Level 3 | 50% to 75% | Substantial progress. fine tuning required to reach next level. |
| Level 4 | Above 75% | Significant adoption of standards and procedures. |

AUDIT QUALITY MATURITY MODEL

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AQMM offers the following benefits to the firms:

- Assessing the current level of audit quality maturity
- Helps in identifying the areas needing improvisation.
- Helps developing a roadmap for upgrading of the firms to the higher level of audit maturity.
- Provides visibility to the firm by the Levels being hosted in the public domain.

Execution – On site

The execution of Peer review can be generally divided in 2 parts –

Part 1 of execution – PU has already provided the answers related to General controls as per SQC - 1 in **Part B of Form 1**. RE is required to verify the correctness of these answers from the documents made available by PU.

Part 2 of execution – Review of records & samples – by following the Compliance approach & substantive approach - keeping in view the reporting requirements as contained in **Annexure I, II & III** to be attached with the Final report of RE.

PART 1 OF EXECUTION – ON SITE

Part B of Form 1

Leadership responsibilities for quality within firm part B (I) point 1 to 10

- Policy and procedure document.
- Organization chart of PU.
- Document for appointment, role, responsibilities & authority of Managing Partner. (MP)
- Document for appointment, role, responsibilities & authority of Managing Partner. (EP)

Review of GC & SQC 1 – indicative list of documents

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Ethical requirements part B (II) point 1 to 15

- Policy and procedure document (embodying fundamental principles like Integrity, Independence, Objectivity, Professional competence, Confidentiality & Professional behavior)
- Declaration of independence from staff and partners.
- Nondisclosure agreements with staff, partners and consultants.
- Specific direction about non acceptance of gifts and hospitality from client.
- Record of training of the staff and partners in respect of ethical requirements and recent changes in it.
- Threat analysis and mitigation document. (Threat of self interest, self review, advocacy, familiarity & intimidation.)

Review of GC & SQC 1 – indicative list of documents

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Acceptance and continuance of client relationship and specific engagements part B (III) point 1 to 7

- Policy and procedure document.
- Client assessment and client KYC.
- Client acceptance and engagement continuance form.
- Pre audit and post audit risk assessment.
- Self analysis about capability to execute the assignment.
- Communication by the PU with the previous auditor.
- Issue of letter of engagement (LOE) before commencing the work.
- Decision about the fees before acceptance of assignment and such decision not to override the work execution.

Review of GC & SQC 1 – indicative list of documents

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Human resources part B (IV) point 1 to 10

- Policy and procedure document.
- Recruitment policy for semi qualified and qualified staff and partners.
- Service rules and joining checklist.
- Remuneration, increments and reward policy.
- Work execution record of staff and muster.
- Staff training record.
- Rotation policy for staff and partners.
- CPE record for partners and staff.

Review of GC & SQC 1 – indicative list of documents

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Engagement performance part B (V) point 1 to 20

- Policy and procedure document.
- Decision in writing about applicability of AS, Ind AS, SA, Guidance notes, Technical guides, Implementation guides, etc. and its compliance.
- Formal audit plan and program with allocation of duties.
- Review by another partner.
- Compliance checklist for final signature.
- Document regarding engagement of outside experts and its evaluation.
- Document regarding engagement quality control review.
- Conclusion writing.
- MRL.

Review of GC & SQC 1 – indicative list of documents

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Monitoring part B (VI) point 1 to 6

- Policy and procedure document.
- Quality control policies.
- Proof of revision of QC policies.
- Proof of review and revision of Audit programs, forms and checklists.
- Proof of review of administrative and personnel records.

PART 2 OF EXECUTION – ON SITE

Review of records & samples

Review of records and samples

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The review of the records and samples is taken to ensure that assurance services are being performed in accordance with Technical, Professional and Ethical standards. This is a MACRO review of PU taken by following –

- Compliance procedures – Checking the compliance of PU in respect of SQC-1 & its IG related to -
 - ❖ Leadership
 - ❖ Ethical requirements
 - ❖ Client relationship
 - ❖ Human resources
 - ❖ Engagement performance & Monitoring

Effectively, it is an assessment of the answers given by PU in Part B, of Form 1 by RE.

Review of records and samples

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- Substantive procedures –

These procedures are carried on the sample selected by RE - to confirm whether the documented general controls – as checked in Compliance approach - are actually implemented while rendering the assurance services. It is a MICRO review of PU & it involves -

- ❖ Checking the compliance of PU in respect of Audit plan & program & comparison of Audit program with actual workflow.
- ❖ Checking the compliance of PU in respect of AS, IND AS & SA. The checklists for compliance are made available in Peer Review manual.

Review of records and samples

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- Substantive procedures – contd.

- ❖ Checking the compliance of PU in respect of Guidance notes, implementation guides, Technical guides and other pronouncements of ICAI.
- ❖ Quality of reporting - Financial statement presentation and disclosure as per the Reporting framework.
- ❖ Supervision in Engagement.
- ❖ Working papers of PU in respect of assurance assignments
- ❖ Permanent & current files of clients selected in sample.

Review of records and samples

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- Substantive procedures – contd.

- ❖ Office procedures – Selection of engagement team, preparation of audit plan & program, direction & supervision & review of work performance.
- ❖ Staffing – Selection, appointment letters, orientation, office manual, rotation, promotions, independence policy, organization chart, time sheets etc.
- ❖ Staff training – subject knowledge, managerial skills, professional attitude, CPE record.
- ❖ Client register, Audit register & Certification register of PU.

Client related external documents of PU to be verified

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- Appointment letter from the client for all audit assignments
- NOC from previous Auditor.
- Intimation to ROC whenever required.
- Organization chart of the client.
- List of authorized signatories.
- Copy of Memorandum and Articles of Association.
- Copy of previous balance sheets.
- Notes on business of the client, accounting system of the client.

Client related external documents of PU to be verified

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- Note on Internal control environment and its testing.
- Accounting policies and any changes in accounting policy
- Compliance with legal and regulatory requirements
- Assessment of going concern.
- Verification of the working papers in respect of client of PU in Permanent Audit file, Current Audit file & Audit working papers file (Foldering of soft documents , storage of hard documents, cross referencing of working papers)

Client related Internal Documents of PU to be verified

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- Client KYC & Client Risk assessment
- Client acceptance/continuance evaluation.
- Audit plan & program
- LOE & MRL
- Risk assessment documentation
- Determination of materiality.
- Sample selection documentation
- Record of substantive tests performed
- Record of analytical procedures performed

Client related Internal Documents of PU to be verified

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- Confirmation of compliance with accounting standards.
- Company law & other applicability calculators
- AS & SA compliance chart
- Audit conclusion document
- Minutes of Final discussion with the client.
- Checklist for final signature.

Hard copies of client related documents of PU to be verified

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- Essential documents of the client to be taken on record in hard copy by PU – duly signed by the client –
 - ❖ Opening & closing Trial balance or data.
 - ❖ Previous & current Balance sheet duly signed with all disclosures.
 - ❖ Bank reco. and balance confirmation statement – cash & bank.
 - ❖ Stock statement.
 - ❖ Appointment letter, NOC from previous Auditor, LOE, MRL
 - ❖ List of branches & list of places where books are maintained.
 - ❖ List of various registrations under various laws.

Internal office documents of PU to be verified

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- Six policies
- Annual policy revision document
- Independence & confidentiality document from staff
- Standard worksheets
- Office manual
- QC manual.
- Manual for staff performance evaluation
- Staff training schedules & training material

Peer Review important points

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- True & Fair view -
 - It is seen number of times that the final accounts signed by PU do not have sufficient disclosures as required by Schedule III of Companies Act. Similarly, different Partners & Branches do not follow any consistency in formats & disclosures.
 - Insufficient disclosures mean the accounts are not fairly prepared since all significant information required to be disclosed is not disclosed.
 - This case may require the issuance of Preliminary report or Qualified report of PU by the Peer Reviewer.
- As per Peer Review guidelines, the Peer Reviewer shall not take any extracts of the PU's clients' files or records made available to him while conducting the Peer Review.

PEER REVIEW REPORT & CERTIFICATE

Working papers of Peer Reviewer to be taken from PU ⁴²

- Recent Firm card of PU
- Copy of Firm's PAN and GSTR as KYC of PU
- A confirmation from PU that all the assurance clients are included in Annexure A to Form 1.
- Record and noting of all the documents checked at the PU level.
- The working papers of the RE may be required to be submitted to PRB within 18 months of submission of Peer Review Report.

Peer Review Report

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- The Final Report of the Peer Review is to be submitted to PRB as per the Model Final Report format of PRB.
- Annexure I to final report – Answers in “Yes/No/NA”
- Annexure II to final report - Comments on -
 - ❖ QC, Ethical requirements & independence
 - ❖ Engagement documentation
 - ❖ Audit planning & risk assessment
 - ❖ Audit sampling & other selective testing procedures
 - ❖ Materiality
 - ❖ Audit documentation
 - ❖ Audit evidence.

Peer Review Report

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- Annexure III to final report (AQMM) is applicable w.e.f. 1st April 2023 in respect of PU's carrying out the audit of Listed entities, Banks etc.
- In case the RE observes any deficiencies in the system of quality control for assurance services by PU, he has to issue a Preliminary Report addressed to PU asking for the representation from PU on the observations.
- On receiving the satisfactory answers to Preliminary report, RE can issue Final Report.
- If answers are not satisfactory & the weakness is pervasive & chronic, RE will have to issue Qualified Report.

Peer Review Report

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- Along with the Final Report, the RE has to attach following documents –
 - ❖ Annexure A – checklist of the documents submitted and compliance checklist.
 - ❖ Final bill of the RE – as per the fee schedule - along with receipt for payment received from PU.
 - ❖ Copy of Form 1 – questionnaire received from PU.
 - ❖ List of sample selected by RE along with the basis for selection.
 - ❖ Form 9 - Letter of submission of report by RE to PRB along with confirmation of the receipt of the report by PU.
 - ❖ Copy of Preliminary Report – if any – along with PU’s submissions on the same.

Peer Review Certificate

- On submission of satisfactory Final Report, PRB Secretary places the Report before PRB for issuance of Peer Review Certificate to PU.
- The Certificate is valid for a period of 3 years commencing from the date of receipt of Peer Review Report by the Board.
- The next cycle of Peer Review needs to be completed before expiry of previous Peer Review Certificate.
- If the Report of the next cycle is received before expiry of earlier Peer Review Certificate, the new Peer Review Certificate will be valid from the date of expiry of earlier Peer Review Certificate.

Important readings

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- Peer review manual – Volume 1 & 2.
- Peer review guidelines & Handbook on Peer review forms.
- Code of Ethics – Volume I & II and the available PPTs.
- Accounting standards & Indian Accounting standards
- Standards of Auditing
- E Booklet on sample checklist on SA.
- SQC 1 & its implementation guide
- Audit working papers Templates of ICAI – June 2023.
- Audit of Small entities of ICAI – 2020
- Audit Quality Maturity Model – Revised Version 1.0 – Sept. 2022

Thank You

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