

PEER REVIEW

1. PROCEDURE
2. REPORTING

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Objective of Peer Review

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It will not be proper to understand the procedure and reporting of Peer Review without understanding the objective of Peer Review. The objective is as under –

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

Express opinion on above (Reporting).

Objective of Peer Review

► 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.

Peer review of PU

The tenet (principle) of the Peer Review is to ensure compliance by PU with the technical, professional and ethical standards which include –

- AS and Ind AS.
- SA.
- Guidelines and Guidance Notes issued by ICAI.
- Standards issued by ICAI – engagement, internal audit, QC etc.
- Provisions of relevant statutes.
- Framework for preparation and presentation of financial statements.
- Most important is SQC1 and its implementation guide.

Peer review of PU

The focus of the Peer Review is on –

1. Compliance with Technical, Professional and Ethical standards.
2. Quality of reporting of PU.
3. Office systems and procedures by PU.
4. Training programs for staff.
5. Compliance with the directions of ICAI in respect of fees, number of Audits, Tax Audits and other directions.
6. Compliance with the directions of ICAI relating to articulated assistants – attendance, work diaries, stipend, etc.

Changes w.e.f. 1st October 2022

The Peer review process has become more streamlined & formal over the period of time. The most important changes which are effective from 1st October 2022 are as under –

- ▶ The time schedule has been cut down to just 20 days – from selection of PU till final reporting. Prior to this the time schedule was 60 days. This necessitates the permanent readiness of PU for Peer Review.
- ▶ In case any extension in the time schedule is required, a joint application by the reviewer and PU is required to be made in Form 7 giving the reasons for the extension.

Changes w.e.f. 1st October 2022

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- ▶ 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.
- ▶ In the final report, a schedule III is added which pertains to self appraisal – Audit Quality Maturity Model – V 1.0. 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.

Changes 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.
- ▶ Classification of PU into LI and LII done away. Details explained in the next slide.

Changes w.e.f. 1st October 2022

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► Prior provisions in respect of LI and LII –

- LI – undertaking SCA, Listed Companies, Loans > 50 Cr. etc.
- LII – SBA, Unlisted Companies with turnover < 50 Cr. etc.
- Sample size – LI – 8, LII – 5.
- Validity of Peer Review certificate – LI - 3 years and LII - 4 years.

► New provisions in respect of LI and LII –

- LI and LII done away with.
- Sample size now depends on annual gross receipts of PU coupled with other criteria like highest turnover client, 5 samples of listed cos, 1 from CSA, client contribution > 15% of receipts, from each location, for each partner and from each year.
- Validity of Peer Review certificate – 3 years across the board.

Peer Review Process

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

- ▶ Planning stage
- ▶ Execution stage
- ▶ Reporting stage

PLANNING OF PEER REVIEW

Planning

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- ▶ The process is initiated by ICAI – PRB by intimating the Practice unit (PU) about its selection for peer review & then PU submits Form 1 to PRB.
- ▶ Alternatively, PU itself may voluntarily initiate the process by sending Application cum questionnaire to PRB in Form 1.
- ▶ Names of Peer Reviewers – On receipt of Form 1, PRB sends the names of 3 Peer reviewers – one of which is to be selected by PU.
- ▶ Selection of Peer Reviewer (RE) – PU selects the RE and intimates PRB.

Planning

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- ▶ Intimation to RE – PRB intimates the selected Reviewer about –
 - His selection by PU along with PU details.
 - The documents checklist to be submitted at the time of report.
 - Fees for Peer Review to be paid by PU as per Schedule.
 - Time schedule for Peer Review.
 - Sample selection criteria.

Planning

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- ▶ The RE intimates to PRB about the acceptance of the assignment.
- ▶ 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).
- ▶ PU submits the Questionnaire in Form 1 to RE.
- ▶ RE selects sample from the data in Annexure A of Form 1.

Planning

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- ▶ The sample selection is as per the criteria provided by PRB.
- ▶ The sample selected by the RE should be intimated to PU 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.

Execution of Peer review

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

Part 1 of execution – Review of compliance with the General Controls (GC), SQC 1 & its Implementation guide. PU has already provided the answers related to this in **Part B (I to VI) 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. This should be done by keeping in view the reporting requirements as contained in **Annexure I & II** to be attached with the Final report of RE. The newly introduced **Annexure III** in respect of AQMM also spells the reporting requirements.

PART 1 OF EXECUTION OF PEER REVIEW

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

- Policy and procedure document in respect leadership responsibilities.
- Organization chart of PU.
- Document for appointment of Managing Partner. (MP)
- Document for role, responsibilities and authority of MP.
- Document for appointment of Executing Partner. (EP)
- Document for role, responsibilities and authority of EP.
- QC manual.

Ethical requirements part B (II) point 1 to 15

- Policy and procedure document regarding ethical requirements.
- Declaration of independence from staff and partners.
- Non disclosure 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 regarding acceptance and continuance of client relationship and specific engagements.
- 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 regarding human resources.
- 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 regarding engagement performance.
- 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.

Monitoring part B (VI) point 1 to 6

- Policy and procedure regarding monitoring.
- 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.

Audit Quality Maturity Model

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- ▶ Newly introduces w.e.f. 1st April 2023.
- ▶ Akin to CAMELS rating given to co-operative banks.
- ▶ Comprises of 3 sections to assess competency basis – each having self assessment and marks for the same.
 - 1st section – Practice management and operation - 280 marks.
 - 2nd section – Human resources management - 240 marks.
 - 3rd section – Practice management – strategic and functional - 80 marks.
 - Total 600 marks.

Audit Quality Maturity Model

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- ▶ RE also awards the marks and has to explain the reason for difference in self assessment by PU and RE's assessment.
- ▶ In some cases 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.
Level 3	50% to 75%	Substantial progress.
Level 4	Above 75%	Significant adoption of standards and procedures.

PART 2 OF EXECUTION OF PEER REVIEW

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 review is taken by following –

- Compliance approach and
- Substantive approach.

Review of records and samples

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Compliance approach –

- Record of administration of assurance services
- Review and evaluation of system of internal controls.
- Record of substantive tests performed.
- Financial statement presentation and disclosure.
- Assurance service conclusion.
- Assurance service reporting.

Substantive approach –

- Review of assurance working papers.

Compliance approach

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Following documents at the minimum should be with PU in respect of compliance testing –

- Appointment letter from the client.
- 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 client business of the client, accounting system of the client.

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Compliance approach

- Note on Internal control environment and its testing.
- Determining the materiality.
- Selection of sample for audit.
- Assessment of going concern.
- Accounting policies and any changes in accounting policy.
- Compliance with legal and regulatory requirements.
- Compliance with accounting standards.
- Checking the draft of final accounts.
- Final discussion with the client.

Substantive approach

- Foldering of soft documents.
- Storage of hard documents.
- Cross referencing of working papers with books and financial statements.
- Essential documents of the client to be taken on record in hard copy – duly signed by the client –
 - ❖ Trial balance or data.
 - ❖ Balance sheet with all disclosures.
 - ❖ Bank reconciliation statement and balance confirmation statement.
 - ❖ Stock statement.

WORKING PAPERS OF RE

Working papers of Peer Reviewer

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Following documents should be obtained by the RE as part of his own working papers –

- Recent Firm card – to confirm the names and the number of partners 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.

Working papers of Peer Reviewer

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- Record and noting of all the documents checked at the PU level.
- Record and noting of all the documents available with PU and checked by RE in respect of assurance services rendered by PU.
- 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 important points

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- 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.
- 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

Peer Review Report

- The Final Report of the Peer Review is to be submitted to PRB as per the Model Final Report format of PRB.
- Annexure I, II are required to be attached.
- Annexure III is applicable w.e.f. 1st April 2023 in respect of PU's carrying out the audit of Listed entities, Banks other than co-operative banks (except multistate co-operative) and Insurance companies. It is recommendatory for other PU.
- 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.

Peer Review Report

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- If the representation received from PU is satisfactory, RE may issue Final Report.
- If the representation received from the PU is not satisfactory, the RE may issue Qualified Final Report as per the format provided by PRB.
- Such Qualified Report becomes necessary –
 - ❖ When the weakness in the control or engagement performance deficiencies are pervasive and of chronic nature.
 - ❖ The financial statements of the client of PU did not include of the disclosures required by technical, professional and ethical standards.

Peer Review Report

- Along with the Final Report, the RE has to attach following documents –
 - ❖ Annexure A – checklist of the documents submitted and compliance checklist.
 - ❖ Annexure I – comprising of 24 questions to be answered in “Yes/ No/ NA” format.
 - ❖ Annexure II – Compliance according to SQC 1 – 36 questions with many sub points under each question to be answered elaborately where ever necessary.
 - ❖ Annexure III – AQMM V 1.0 – self assessment by PU and assessment by RE in 3 parts – Total 600 marks.

Peer Review Report

- ❖ Final bill of the RE 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.

Thank You

