

21.1 Introduction

The term "peer" means a person of similar standing. The term "review" means conduct of re-examination or retrospective evaluation of the subject matter. In general, for a professional, the term "peer review" would mean review of work done by a professional, by another professional of similar standing. 'Peer Review' is defined as, a regulatory mechanism for monitoring the performances of professionals for maintaining quality of service expected of them for enhancing the reliance placed by the users of financial statements for economic decision-making.

As per the Statement of Peer Review "Peer Review" means an examination and review of the systems and procedures to determine whether they have been put in place by the practice unit for ensuring the quality of assurance services as envisaged and implied/mandated by the Technical Standards, Ethical Standards and Professional Standards and whether these were effective or not during the period under review".

The examination and review of a practice unit would be carried out by a "reviewer", i.e., a member, selected from a panel of reviewers maintained by the Board. The term "practice unit" means members in practice, whether practising individually or as a firm of Chartered Accountants.

21.2 Objectives of Peer Review

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

- (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.*

Thus the primary objective of peer review is not to find out deficiencies but to improve the quality of services rendered by members of the profession. The Statement of Peer Review also makes it clear that the peer review, "does not seek to redefine the scope and authority of the Technical Standards specified by the Council but seeks to enforce them within the parameters prescribed by the Technical Standards". The peer review is directed towards maintenance as well as enhancement of quality of assurance services and to provide guidance to members to improve their performance and adherence to various statutory and other regulatory requirements. Such an objective of the peer review process makes it amply

21.2 Advanced Auditing and Professional Ethics

clear that the reviewer is not going to sit on the judgement of the *practice unit* while rendering assurance services but to evaluate the procedure followed by the practice unit in rendering such a service. Accordingly, where a practice unit is not following technical standards, the reviewers are expected to recommend measures to improve the procedures. To elaborate further, the key objective of peer review exercise is not to identify isolated cases of engagement failure, but to identify weaknesses that are pervasive and chronic in nature. For instance, absence of formal planning of an audit represents a serious deficiency that needs to be remedied by the practice unit. An instance of the auditor not carrying out physical verification of furniture and fixture may not attract the same comment. However, certain items of assets are best verified through the physical verification process and not adopting the same procedure may rightly be viewed as a systemic failure. The conclusion, therefore, is that the peer review seeks to identify and address patterns of non-compliance with quality control standards.

21.3 Scope of Peer Review

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

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

1. *Once a Practice Unit is selected for Review, its assurance engagement records pertaining to the Peer Review Period shall be subjected to Review.*
2. *The Review shall cover:*
 - (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.*

As it is clear from the above, that the Statement of Peer Review aims to confine the scope of review to preceding three years since this would establish the consistency or deviations, if any, in respect of procedures followed by the practice unit. A *Practice Unit* means members in practice, whether practicing individually or a firm of Chartered Accountants.

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

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

- (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;

Students may note that assurance services shall 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 interchangeably with Audit Services, Attestation Functions, and Audit Functions.

21.4 Applicability

Practice Units subject to Review

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 Rupees Fifty Crores during the period under Review;*
- (vii) Statutory Audit of Entities which have raised donations and / or contributions over Rupees Fifty Crores during the period under Review;*
- (viii) Statutory Audit of entities having Net Worth of more than Rupees 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 Rupees Fifty Crores 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.

- 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.*
- 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.*

Periodicity of Peer Review

The Periodicity of Peer Review will be

- (a) *Level - I Practice Units – Once in 3 years.*
- (b) *Level - II Practice Units – Once in 4 years*
- (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.

21.5 Peer Review Board

The Board shall be constituted by the Council. The Board shall consist of a maximum of twelve members to be appointed by the Council, of whom not less than 50% shall be from amongst the members of the Council as defined in Section 9 of the Chartered Accountants Act, 1949, as amended from time to time. The Council may nominate members to the Board from outside bodies and from amongst prominent individuals of high integrity and reputation, including but not limited to, regulatory authorities, bankers, academicians economists, legal Professionals and business executives. The Council shall appoint the Chairman and the Vice-Chairman from amongst its elected Council members appointed on the Board. 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. Casual vacancies on the Board shall be filled by the Council. A Members of the Disciplinary Committee or the Disciplinary Board or the Committee on Ethical Standards or the

21.6 Advanced Auditing and Professional Ethics

Committee on Financial Reporting and Review Board of the Institute of Chartered Accountants of India shall not be a member of the Board.

21.5.1 Eligibility to be a Reviewer

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

21.6 The Peer Review Process

The Peer Review process will include

- Selection of Practice Unit and appointment of Reviewer,
- Planning
- Execution and
- Reporting.

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.*

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.*
- (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.*

3 *Execution*

(i) *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.

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 in the Preliminary Report to the Practice Unit if in his opinion, the systems and procedures are deficient or non-compliant with reference to any matter that has been noticed by him or if there are other matters where he wants to seek clarification.*
 - (b) The Practice Unit shall within 15 days after the date of receipt of the findings, make any submissions or representations, in writing to the Reviewer. (i.e Response to the Preliminary Report).*

(ii) Peer Review Report of Reviewer

- (a) At the end of an on-site Review if the Reviewer is satisfied with the reply received from the Practice Unit, he shall submit a Peer Review Report to the Board along with his initial findings, response by the Practice Unit and the manner in which the responses have been dealt with. A copy of the report shall also be forwarded to the Practice Unit.*
- (b) In case the Reviewer is of the opinion that the response by the Practice Unit is not satisfactory, the Reviewer shall accordingly submit a modified Report to the Board incorporating his reasons for the same. The Reviewer shall also submit initial findings (i.e Preliminary Report), response by the Practice Unit (Response to Preliminary Report) and the manner in which the responses have been dealt with. A copy of the report shall also be forwarded to the Practice Unit.*
- (c) In case of a modified report, The Board shall order for a "Follow On" Review after a period of one year from the date of issue of report as mentioned in (b) above. If the Board so decides, the period of one year may be reduced but shall not be less than six months from the date of issue of the report.*

21.6.1 Qualified Assistant: The reviewer may take the help of a qualified assistant while carrying out peer review. In this context, the Board decided to clarify that a reviewer is permitted to take the assistance of only one assistant who shall be a chartered accountant and a person who does not attract any of the dis-qualifications prescribed under Section 8 or Section 21 of the Chartered Accountants Act, 1949. The name of the qualified assistant which the reviewer would like to assist him shall be identified and intimated to the Board as well as the practice unit before the commencement of the peer review. Such a qualified assistant shall also have to sign the declaration of confidentiality as annexed to the Statement. 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 and should have been working with him for at least one year as a member in practice.

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

All persons governed by the secrecy provisions:

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

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

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

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

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

- (a) The reviewer should gain an understanding of the engagement letter since an assurance engagement or for that matter any other kind of engagement should begin with an engagement letter. Engagement letter is an important document as it defines the nature and scope of the assurance engagement, practice unit's responsibilities with regard to the engagement. This understanding would help him in planning the review of documentation. The reviewer should focus the review primarily on the key engagement matters. The reviewer should also consider the materiality of the matter while planning the review.
- (b) The number of assurance engagements to be selected requires the exercise of judgement by the reviewer based on the evaluation of replies given in the questionnaire and the size of the practice unit. The objective is to obtain a reasonable cross-section of the practice unit's clients although greater weight may be given to large clients.
- (c) The practice unit may have policies and procedures for accepting a particular engagement. These policies and procedures may not exist in the form of records in each practice unit. In such a case the reviewer should consider enquiring from the concerned persons about such policies and procedures. The reviewer should, wherever possible, examine that the policies and procedures for acceptance of audit have been complied with and necessary documentation with regard to the same exists.
- (d) The reviewer may follow a combination of compliance procedures and substantive procedures throughout the peer review process. The mix of compliance and substantive procedures depends upon the professional judgement of the reviewer. The reviewer may consider the following:
 - In carrying out the compliance tests, the reviewer may evaluate whether the policies and procedures of the practice unit are sufficient to ensure compliance of technical standards and whether these policies and procedures are adequately communicated to all staff who are involved in carrying out the assurance work.
 - In performing substantive tests, the reviewer should evaluate whether the practice unit's working papers relating to the client adequately document the findings and

21.12 Advanced Auditing and Professional Ethics

conclusions and whether the report of practice unit is in consonance with the findings and conclusions drawn.

- (e) Finally, the reviewer while evaluating records may consider the following:
- determine that any significant issues, matters, problems that arose during the course of the engagement have been appropriately considered, resolved and documented;
 - determine that adequate audit evidence or other relevant evidence in relation to the engagement is obtained to support the reasonableness of the conclusions drawn; and
 - determine that significant decisions relating to the engagement, use of professional judgement, resolution of significant matters have been properly documented.

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