

CHAPTER 21

Peer Review

Question 1

Briefly explain the Preliminary Report under Peer Review.

Answer

Preliminary Report Under Peer Review: In the process of peer review, , *After completing the on-site Review, if in the opinion of Reviewer, the systems and procedures are deficient or 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. Then the Reviewer shall communicate his findings in the Preliminary Report to the Practice Unit, before making his Report to the Board.* However, no preliminary report is required in case no deficiencies or non- compliance are noticed by the reviewer.

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

Question 2

Write a short note on - Peer review.

Answer

Peer Review: 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 issued by the Institute of Chartered Accountants of India, 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

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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. 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.

Question3

Explain the objectives of Peer Review.

Answer

Objectives of Peer Review

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

- (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 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.

Question 4

Write short note on "Reporting" stage in Peer Review.

Answer

Reporting stage in Peer Review: This includes the following steps:

1. *Preliminary Report of Reviewer - After completing the on-site Review, if in the opinion of Reviewer, 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. Then the Reviewer shall communicate his findings in the Preliminary Report to the Practice Unit, before making his Report to the Board.* The reviewer has to take care that the report does not contain name of any individual of the practice unit. However, no preliminary report is required in case no deficiencies or non- compliance are noticed by the reviewer. *In such case the reviewer can directly submit the Final Clean Report.*

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

2. **Reply to Preliminary Report** - The practice unit has to send its submissions or representations, in writing, to the reviewer, on the areas mentioned in the preliminary report. The reply to the preliminary report should be sent by the practice unit within a period of 21 days from the receipt of the preliminary report from the reviewer.
3. **Final Report**
 - **Final Qualified Report of the Reviewer (Modified Report)** - If the reviewer is not satisfied with the reply of the practice unit, the reviewer has to submit a qualified report to the Board. The report so submitted should clearly indicate that it is a "qualified report". The Board may then order after twelve months for **follow on** review by appointing a new reviewer. The new reviewer is then required to submit the follow up report to the Board for consideration.
 - **Final Clean Report of the Reviewer** - If the reviewer is satisfied with the reply of the practice unit, the reviewer shall submit his final report to the Board. The final report should incorporate the findings as discussed with the practice unit.

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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.

Question 5

Briefly explain the Collection of evidences by Peer reviewer.

Answer

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

- (a) Inspection mainly consists of examination of documentation (working papers) and other records maintained by the practice unit.
- (b) 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.
- (c) Inquiry consists of seeking appropriate information from the partner (designated by the practice unit for the purpose)/sole proprietor or other knowledgeable persons within the practice unit. The inquiries may originate from the responses to the questions given in the questionnaire. The inquiries may also arise from the inspection of documentation maintained by the practice unit.

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

Question 6

Write short notes on the "Focus of a Peer review".

Answer

Focus of a Peer review : *As per the Statement of Peer Review issued by the Institute of Chartered Accountants of India, 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.*

The Review shall cover:

- (i) *Compliance with Technical, Professional and Ethical Standards;*
- (ii) *Quality of reporting.*

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- (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.*