

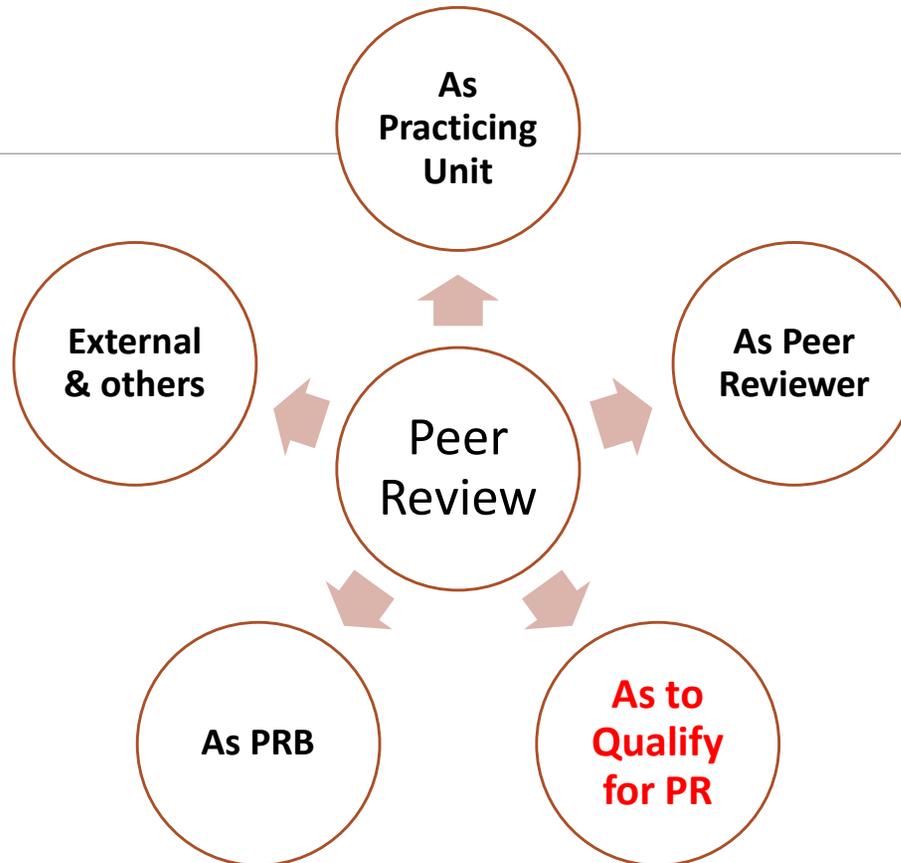
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# **Review Procedures and Reporting**

## **Training Programme for Peer Reviewers**

**CA R S Balaji, B.Com., FCA**

# Peer Review





# Risk Associated With Audit



**QUALITY REVIEW BOARD**

(Established under an Act of Parliament)

In Pursuit of Professional Excellence of Chartered Accountants in India



**NFRA**



सत्यमेव जयते

**National Financial Reporting Authority**  
Government of India



**The Institute of Chartered Accountants of India**  
(Setup by an Act of Parliament)

**Peer Review Board**

NFRA

QRB

FRRB

PRB

AQMM

# Peer Review Mandate

Phase	Category of Firm	Mandatory Date
I	PU undertaking audit of listed entities	1/4/2022
II	<p>PU's Proposing to undertake Statutory Audit of unlisted public companies having paid up capital of not less than Rs. 500 cr., or having annual Turnover of not less than Rs.1000 cr., or having, in aggregate, outstanding loans, debentures and deposits of not less than Rs. 500 cr. as 31<sup>st</sup> March of immediately preceding FY</p> <p>OR</p> <p><b>PU's rendering attestation Services and having 5 or more partners</b> For these Practice Units, there is a prerequisite of having Peer Review Certificate before accepting any Statutory audit.</p> <p>Accordingly Practice Units which accept Statutory audits on or before the mandatory date should ensure that they have a Peer Review Certificate at the time of signing.</p>	<b>01/07/2024</b>

# Peer Review Mandate

Phase	Category of Firm	Mandatory Date
III	<p>Practice Units which propose to undertake the Statutory Audit of entities which have raised funds from public or banks or financial institutions of over <b>Fifty Crores rupees</b> during the period under review or of any body corporate including trusts which are covered under public interest entities: (For these Practice Units, there is a pre-requisite of having Peer Review Certificate.) OR</p> <p>Practice Units rendering attestation services and <b>having 4 or more partners</b>: For these Practice Units, there is a prerequisite of having Peer Review Certificate before accepting any Statutory audit.</p>	01/01/2025
IV	<p>Proposing to take SBA of public sector banks OR PU having 3 or more partners (before accepting such audit)</p>	01/04/2025

# Eligibility to be a Peer Reviewer

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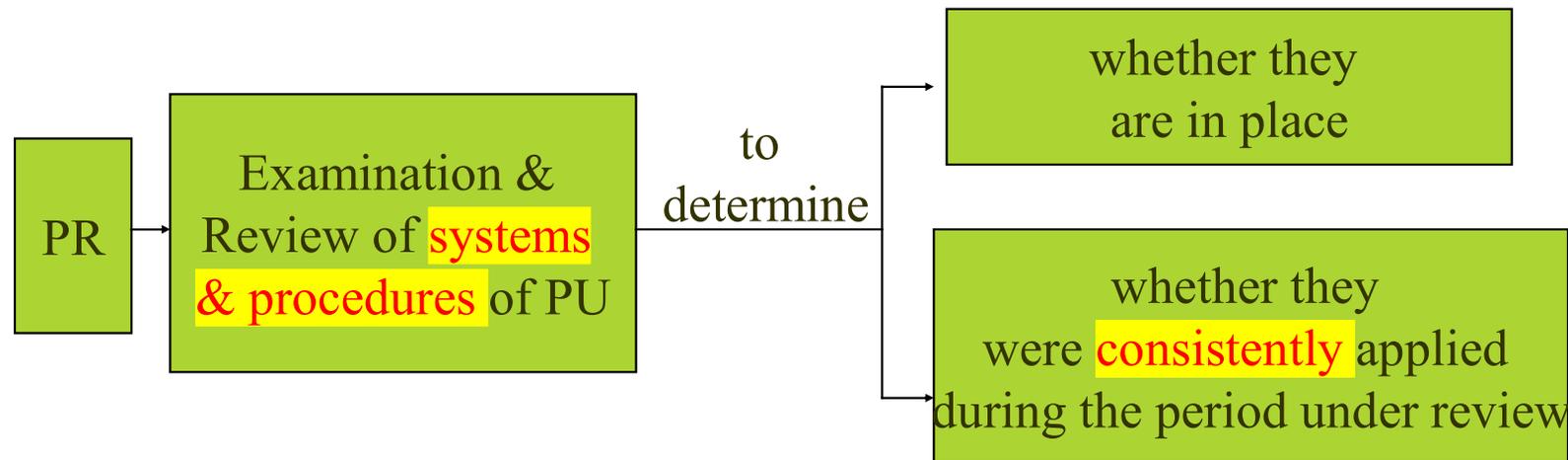
(1) A **member in practice** shall be eligible to be enrolled as a Peer Reviewer if:

(a) Member in practice having **at least 7 years** of assurance practice experience or

(b) A member in employment who has subsequently obtained a Certificate of Practice, having **at least 10 years of experience** in employment and **at least 3 years audit experience** in practice and is in whole time practice at the time of enrolment and appointment as Peer Reviewer.



# What is Peer Review- Peer Review Guidelines 2022



**To ensure Quality of Assurance Services  
as envisaged by Technical, Professional and Ethical Standards**

**Including AQMM wherever applicable or any other regulatory requirements**

Purpose is to Identify weakness in engagements rather than failure in engagements

## Scope of Peer Review

- Peer review covers only **Assurance Services** provided by the PU
- “**Peer Review period**” means **3 financial 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 in a specific case.
- **Focus**
  - Compliance with **Technical, Professional and Ethical Standards**
  - Quality of Reporting
  - Office Systems and Procedures
  - Training Programme for Staff

Weakness  
Identified  
during Peer  
Review

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Audit documentation is not proper

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No Practice manual or Quality Review manual maintained

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Management Representation Letter not taken

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Written communication to those charged with governance not issued

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Technical standards not followed

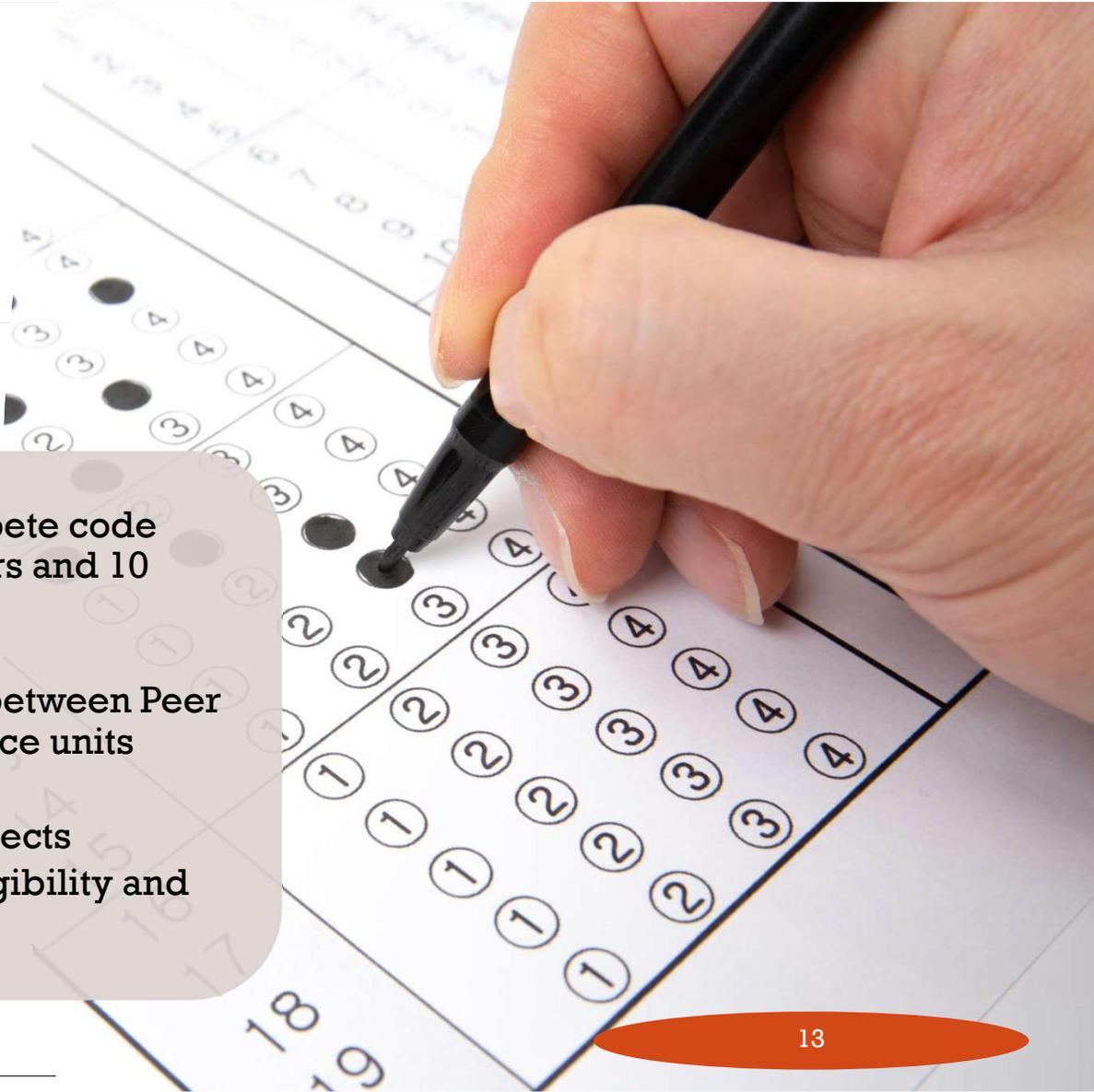
## Some Observations

The PU does not have a practice of **obtaining engagement letters as required under SA 210**, Agreeing the Terms of Audit Engagement.

## Some Observations

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.



## Peer Review Guidelines 2022

**Council  
introduced  
the New  
guidelines  
with effect  
from 1st  
October  
2022**

**Guidelines is a complete code  
containing 7 Chapters and 10  
Forms dealing with:**

- Procedures
- Communications between Peer reviewer and Practice units
- Reporting aspects
- Administrative aspects
- Peer reviewer- Eligibility and Obligations

## Changes w.e.f. 1<sup>st</sup> October 2022

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

- **Time Schedule:** 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.
- **Extension:** 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. 1<sup>st</sup> October 2022

- PR 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**.

- **Sample Selection  
Criteria**



# Sample Selection Criteria

- Firms in existence for more than 3 financial years:

Average annual gross receipts/ Revenue from assurance service clients of Practice Unit for the period under review	Minimum sample size (number)
Less than Rs.5 crore	10
From Rs.5 crore to less than Rs.10 crore	15
From Rs.10 crore to less than Rs.20 crore	20
From Rs.20 crore to less than Rs.30 crore	25
From Rs.30 crore to less than Rs.50 crore	30
Rs. 50 crore and above.	50

**If total population < minimum prescribed, 100% selection is required and Certificate with 18 months validity to be issued.**

..contd.



## Sample Selection Criteria

- Firms in existence from 1 to 3 financial years:

Minimum sample size (number)	Validity of Peer Review Certificate
If the total number of assurance clients are 5 or more but less than 10 then 100% selection has to be done compulsorily by the Reviewer and the fact intimated to the Board.	Three years validity Certificate is issued
In case of total assurance clients are 10 or more the reviewer has to select sample as per the above table	
If the total of assurance clients are less than 5, the Reviewer has to select 100% sample in such cases and the fact intimated to the Board.	Eighteen months validity Certificate is issued

Thereafter, for secondary and subsequent cycles, a Peer Review certificate will be issued with validity of 18 months until the Peer Review is conducted for complete three years period.

..contd.

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## Highest Turnover among Statutory Audit population

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At least 5 samples in total - in case less than 5, then 100% from category of: **Statutory Audit of Listed entities, Central/ State Public Sector Undertakings and Central Cooperative Societies**

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At least 1 sample each from CSAs / SBAs audit of Banks and Insurance Co.

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Each type of Assurance Engagement (Statutory / Internal / Concurrent/ Tax / GST etc.)

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**Concentration clients**

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**Selection from each location (Branch wise)**

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**Selection of services rendered by each partner  
(Partner wise)**

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**Sample must be picked from each year under review  
(Year wise)**

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**Include clients in respect of whom advisory has been  
issued by FRRB or any regulator**

# Peer Review Process

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

**Planning stage**

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**Execution stage**

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**Reporting stage**

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# PLANNING STAGE

## Selection of Practice Unit

- PRB selects the PU for review or PU voluntarily applies

## Selection of Reviewer

- PRB selects 3 reviewers from the panel and notifies PU

## Initial Samples

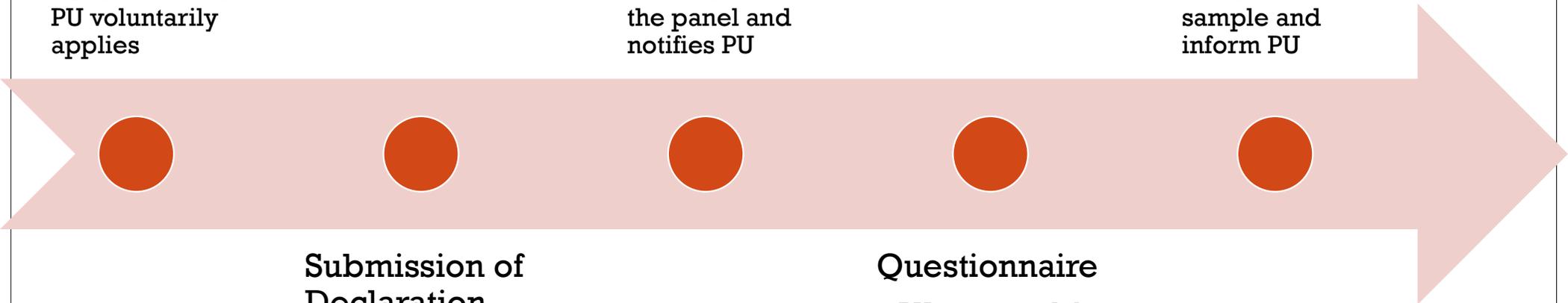
- Reviewer to select the initial sample and inform PU

## Submission of Declaration

- PU should submit the declaration to the board

## Questionnaire

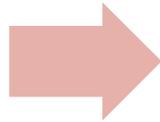
- PU must send the questionnaire to Reviewer



# EXECUTION STAGE

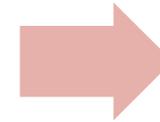
## Initial Meeting

- Initial meeting between PU and reviewer



## General Controls

- Compliance review of the general controls of the PU



## Review of records and samples

- Sample selection as per the Criteria to be made by the PR

# REPORTING STAGE

## Preliminary Report

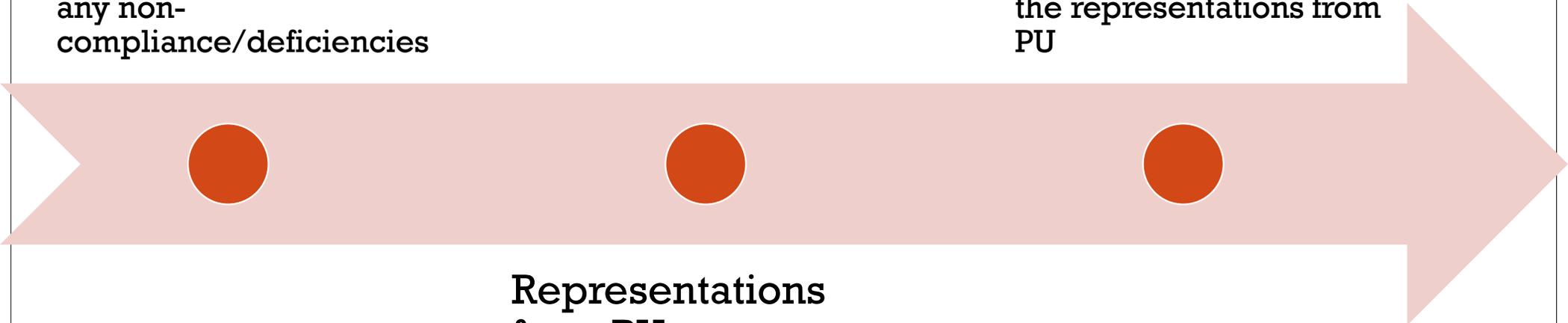
- Issued to PU in case of any non-compliance/deficiencies

## Final Report

- Final report is issued to PRB, after considering the representations from PU

## Representations from PU

- A reply is received from the PU for the preliminary report issued



# ● Execution Stage

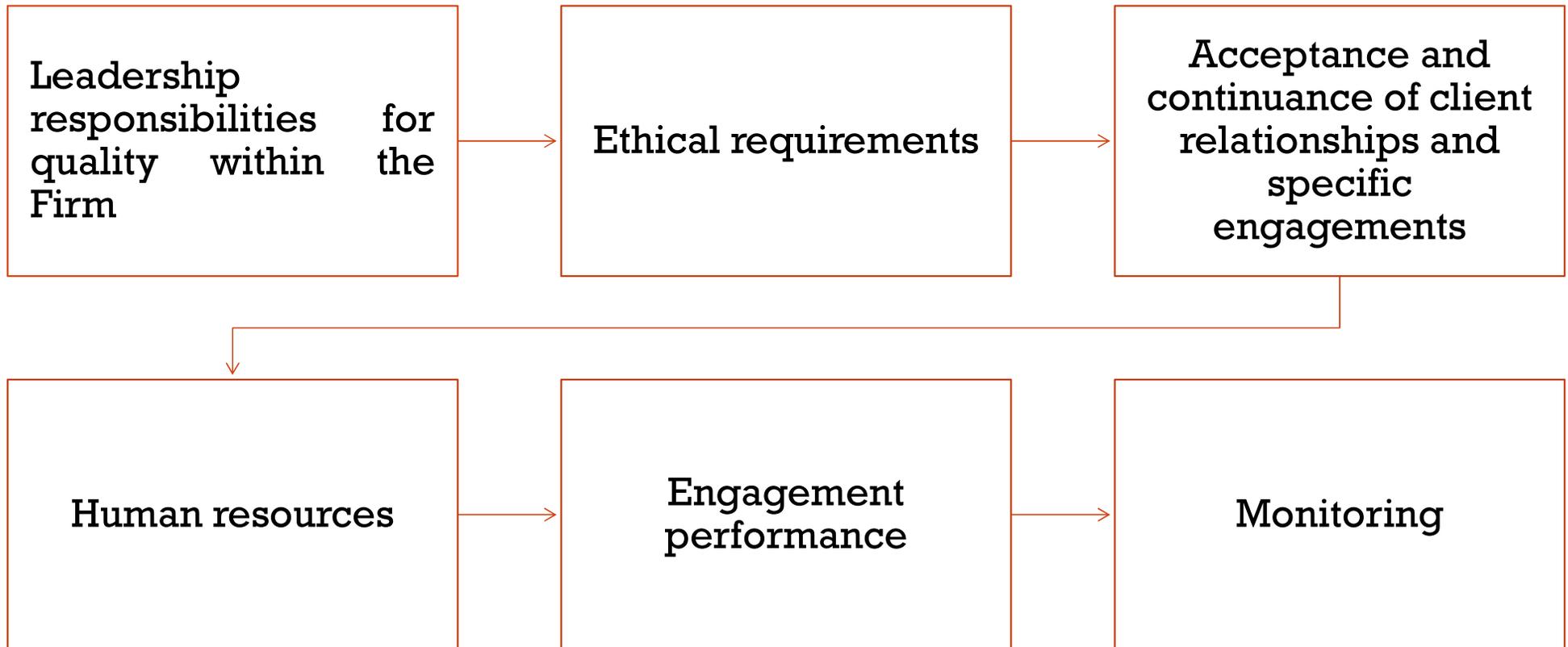
## Execution of Peer review

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**. PR 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 PR. The newly introduced **Annexure III** in respect of AQMM also spells the reporting requirements.

# 6 Points - Specific Compliance of SQC - 1



# General Controls



Independence

Maintenance of Skills

Outside consultation

Staff supervision and Development

Office Administration

# Compliance Review - General Controls



**Maintenance  
Skills**

of

- CPE Requirements, Inhouse Discussion, etc.,

**Outside  
consultation**

- Experts for Consultation, Use of SA 620, Documenting Differences

**Staff supervision  
and Development**

- Orientation & Training, Monitoring Performance & Team Coordination

**Office  
Administration**

- Review of Work and Guidance, Communication Aspects etc.,



# ● Substantive Testing

Specific Audit  
Documentation

Acceptance  
Related  
Matters

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Pre-Audit Correspondence

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Appointment Letter

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Consent Letter

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Communication with Previous Auditor

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Client Acceptance Checklist

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Engagement Letter

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Specific Audit  
Documentation

Communication  
&  
Work Aspects

---

Letter of Confirmation  
(SA 505)

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Representations by the  
Management (SA 580)

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Correspondence Concerning  
Significant Matters

SA 240, SA 260, SA 265, SA 701



- Documentation of procedures performed by PU is of critical importance
- The Peer Reviewer shall not take any extracts of the Practice Units' clients' files or records made available to him while conducting 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 (with respect to AQMM) is applicable w.e.f. 1<sup>st</sup> 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 PR 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

- If the representation received from PU is satisfactory, PR 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.
- Along with the Final Report, the PR has to attach the required annexures.

## Minimum recommended fee

- Minimum fee recommended for Practice Units where the **Period of Review is 3 years** - Table 1 -

Average gross receipts/ Revenue from assurance service Clients of Practice Unit (Per Annum) for the period under review	Fees (Rs.)*	Fees for Practice Units conducting statutory audit of Listed entities (Rs.)
Upto Rs 10 lacs p.a.	15,000/-	18,000/-
Over Rs 10 lacs upto Rs. 50 Lacs p.a.	25,000/-	30,000/-
Over Rs 50 lacs upto Rs. 1 crore p.a.	40,000/-	48,000/-
Over Rs 1 crore upto 3 crore p.a.	60,000/-	72,000/-
Over Rs 3 crore upto 5 crore p.a.	75,000/-	90,000/-
Over Rs 5 crore p.a. upto 10 crore p.a.	150,000/-	180,000/-
Over Rs. 10 crore p.a. upto Rs. 20 crore p.a.	200,000/-	240,000/-
Over Rs. 20 crore p.a. upto Rs. 30 crore p.a.	300,000/-	360,000/-
Over Rs. 30 crore p.a.	500,000/-	600,000/-

..contd.

# Peer Review Test conducted by PRB

<b>Sl.No</b>	<b>Subject</b>	<b>Marks</b>
1	SQC - 1	<b>07</b>
2	Standards on Auditing	<b>14</b>
3	Ind AS	05
4	Accounting Standards	03
5	Code of Ethics	06
6	Peer Review Process	<b>07</b>
7	UDIN / TAX / GST / Companies Act	<b>08</b>



**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

(Set up by an Act of Parliament)



**Peer Review Board**

**Peer Review...  
Together...We Can**

Towards achieving global standards  
of excellence



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# Thank You!

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