

FAQs Peer Review Board



Peer Review Board
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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FOREWORD

The Peer Review Board had been established in terms of the Statement on Peer Review issued by the Institute of Chartered Accountants of India in March, 2002. The Peer Review mechanism is primarily directed towards maintenance as well as enhancement of quality of assurance services and to provide guidance to members to improve their performance and quality of professional work so as adhere to various statutory and other regulatory requirements.

The Planned effort of the Board coupled with effective performance of the Peer Reviewers not only inspired the Practice Units to continually improve the quality of service that they render to the society at large, but it has also attracted the attention of, and received recognition from various regulatory authorities such as SEBI and C&AG.

Since its inception, the Peer Review Board has been very dynamic and continuously evolving to keep in pace with the changing requirements from the members in practice. 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. With a view to improve peer review process, the Board has also incorporated necessary changes in various forms and formats which are available on webpage of Peer Review Board.

In an endeavour to provide the latest and updated information to members, the Board has come out with an updated & improved version of the FAQs for the benefit of members.

I hope current efforts will prove useful and informative for the Practice Units and Members and help them in smooth conduct of their Peer Review.

I would like to place on record, my deep appreciation for the efforts put in by the Chairman of the Board, CA. Jay Chhaira, CA. Prakash Sharma, Vice-Chairman, together with all members of the Board and the officers of the Board, in bringing out this informative booklet objectively.

New Delhi
January, 2018

CA. Nilesh S. Vikamsey
President

PREFACE

Peer Review Process which had started with the establishment of the Peer Review Board in 2002, has been gaining momentum since its inception. The mechanism is now a well developed and understood procedure and matured since its inception and is well accepted. Peer Review Training Programmes are being conducted regularly all across the country. The participants of the programmes have immensely gained from these programs. During these programs various important questions with regard to the peer review mechanism and the recent updates/ changes are raised. Although the Faculty has mostly answered to the best of their ability to respond to the queries raised, there might still be several questions that remain unanswered or might come to mind at a later stage.

Also, the 2nd edition of the FAQs were published in December, 2009 and since then there has been several changes in the economic environment, advisories of the Council and various Boards of the Institute, new Standards and Guidelines issued by the Institute, which requires a corresponding reflection in the planning and execution of the assurance services being provided by the members. Also, during the process of Peer Review, various issues have been put up to the Board for its consideration, and the decisions of the Board, although communicated through the training sessions, needed to be brought out in the form of a publication. Towards this end, Peer Review Board was of the view that a revised FAQ by brought out to satisfactorily answer to various queries of the Practice Units and the Reviewers. The latest edition has many new decisions taken by the Council and the Peer Review Board, which have been incorporated in this revised edition.

I take opportunity to thank the President CA. Nilesh Shivji Vikamsey, Vice President CA Naveen N. D. Gupta, Vice Chairman CA. Prakash Sharma and members of the Peer Review Board for their active support in bringing out this publication.

I wish to place on record my gratitude to CA Sonali Das Halder, Secretary, Peer Review Board and the officers of the Board for the compilation of the various decisions, changes in procedures and reporting requirement of the Board. I also place on record efforts of CA. Shashi Gupta, Senior member of the profession, for reviewing this edition, and to all the Members of the Board for providing their whole-hearted cooperation. The Board would welcome suggestions and improvements in the contents of the booklet.

I sincerely hope that this booklet will prove to be very useful to the Reviewers/ Practice Units/ Practicing members to provide quality professional services in accordance with the professional and ethical norms, and practices so as to make the accounting profession respectable and reliable.

January, 2018
Ahmedabad

CA. Jay Chhaira
Chairman
Peer Review Board

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INTRODUCTION

Q1 What does “Peer Review” generally mean?

The term "peer" means a person of similar standing. The term "review" means a general survey or assessment of a subject or thing. The term "peer review" would mean review of work done by a professional, by another professional of similar standing.

Peer review means an examination and review of the systems and procedures to determine whether they have been put in place by the PU for ensuring the quality of assurance including tendering 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.

In other words, the peer review involves examination of the systems and procedures of the PU but does not aim to identify isolated cases of engagement failure.

Q2 What is the concept of peer review in India?

The reputation and acceptability of a learned profession hinges on its ability to render the highest quality of services to the society. Towards this end, the Institute of Chartered Accountants of India has always been striving hard to formulate standards, statements, guidance notes, industry-specific publications, research studies, monographs, study materials etc., to provide guidance to auditors and thus enable them to discharge their duties in the most efficient and effective manner. Throughout the world, including India, the concept of peer review, *inter alia*, is being used by all accountancy bodies as a tool for enhancing the quality of services rendered by professional accountants. The Institute, recognizing the need to observe the best international practices, has established a system of peer review.

Q3 What is the need for peer review?

Peer review helps in reassuring the stakeholders and the society at large that the profession is conscious of its responsibilities and is always striving to ensure that the highest standards are observed by all practicing members rendering audit and assurance services to the society. The peer review process is an endeavour to enhance the

quality of services rendered by members of the Institute of Chartered Accountants of India in public practice.

Q4 What are the major differences between peer review system in India and in some of the developed countries of the world?

In the US, public accountancy firms are required to enroll professionals in an approved Practice Monitoring Programme in order to be admitted to or retain membership in the AICPA (the professional body in the US). Furthermore, under Sec 104 of the Sarbanes-Oxley Act, 2002 they are additionally liable to be inspected by the PCAOB (Public Companies Accounting Oversight Board), to assess the degree to which each firm and persons associated with it comply with the Act, the PCAOB and SEC rules, the professional and reporting standards, etc.

However, in India, the system of peer review is intended to be educative and is aimed at enhancing the quality of assurance services rendered by the members of the Institute who are in public practice.

Q5 What is the main objective of peer review?

The main objective of peer review is to ensure that in carrying out their professional assurance assignments, the Institute's members in practice: (a) comply with the Technical, Professional and Ethical Standards laid down by the Institute, including other regulatory requirements thereto; and (b) have in place proper systems (including documentation systems) for maintaining the quality of the assurance services work they perform for their clients.

Essentially, through review of records, peer reviewer identifies areas of weaknesses which are pervasive and chronic in nature and where a member may require guidance in improving the quality of his performance and adherence to various requirements as per applicable technical standards.

Q6 To whom Peer Review is applicable?

Peer Review is applicable to all practicing Chartered Accountants and firms/Practice Unit.

Q7 Is it true that the significant objective of peer review is to identify deficiencies?

No, the significant objective of peer review is not to find out deficiencies but to improve the quality of services rendered by the

members. The objective of peer review is not to identify isolated cases of engagement failure, but to identify weaknesses that are pervasive and chronic in nature.

Q8 What professional opportunities are likely to be provided by the process of peer review?

Some of the areas which may provide/ enhance professional growth/ opportunities both for Reviewer and Reviewee could be as under:

- (i) Training of Reviewer and Reviewee would lead to updating of knowledge and consequently expansion of horizon of professional opportunities.
- (ii) Incentive for implementation of the best professional practices by a practice unit (PU), (i.e. an individual or a firm in practice that is being subjected to peer review), since one's internal policies and procedures are subject to an independent review.
- (iii) Enhancement in the competence of members since such a process greatly increases the awareness about the implementation of Technical Standards both on the part of Reviewer and Reviewee.
- (iv) Facilitates networking and affiliation for small and medium PUs.
- (v) Peer Review serves as a quality assurance certificate and invites preference from regulatory and other authorities while assigning professional work to CAs.
- (vi) Reviewer earns fees as per prescribed scale for the review of practice unit.

Q9 What is the meaning of Practice Unit(PU)?

Practice Unit means members in practice, whether practicing individually or as a firm of Chartered Accountants.

Q10 Which authority has set up the peer review system and who administers it?

The Council of the Institute of Chartered Accountants of India has issued a Statement on Peer Review (henceforth referred to as 'the Statement'), which lays down the framework for conduct of peer reviews by setting up the Peer Review Board (henceforth referred to as 'the Board'). The duty of carrying out the provisions of this Statement is vested in the Board.

Q11 What is the composition and Powers of the Board?

Composition: With a view to providing strong foundation to Peer Review system in India, the Board has been constituted with members from the Central Council as well as nominees of C&AG, SEBI, MCA, CII etc. It may, however, be noted that members of the Disciplinary Committee or the Committee on Ethical Standards and Unjustified Removal of Auditors of the Institute of Chartered Accountants of India shall not concurrently serve on the Board.

Powers: The Board has the primary responsibility to ensure compliance with the various requirements laid down in the Statement on Peer Review.

Q12 What are the duties of the Board?

The duties of the Board include:

- To call for information and / or records from Pus / Reviewers in such form and manner as may be prescribed.
- To arrange for orientation and periodic training programmes for Reviewers and/or Practice Units.
- To prescribe the procedures to be followed in relation to Peer Review.
- To maintain a panel of Reviewers.
- To define the terms of appointment of the Reviewers based on specific criteria.
- To prescribe formats for maintenance of records by Peer Reviewers and to examine the same.
- To review the work performed by a Reviewer.
- To collect information to determine the level of a Practice Unit as referred to in Para 11 of this Statement.
- To define the scope of selection of Practice Unit for peer review as the Board may deem fit.
- To select and notify the Practice Unit for Peer Review to be conducted during the year.
- To select three Reviewers and intimate their names to the Practice Unit and allow the Practice Unit to choose any one

Reviewer there from within 30 days or such other period as may be prescribed from time to time by the Board.

Provided that, the Board shall, for reasons to be recorded in writing, appoint a Reviewer for the Practice Unit if:

- (i) The Practice Unit does not select Reviewer within a period of 30 days or such other period as may be prescribed, from the date of service of the intimation, or
- (ii) All the three Reviewer has declined the assigned, or
- (iii) The Reviewer selected by the Practice Unit does not give his confirmation within 30 days of being intimated by the Peer Review Board,
- (iv) The Practice Unit on its own requests the Board to appoint a Reviewer.
 - To prescribe a register to be maintained by the Practice Unit for assurance services rendered during the year.
 - To examine the aspects of basis of selection of records pertaining to the assurance including tendering services in terms of the appropriate Technical Standards and the prescriptions as given by the Council.
 - To prescribe the practice and procedure to be observed for peer reviews.
 - On considering the report of a Reviewer,
 - ✓ to issue recommendations to the PU
 - ✓ to order a “Follow On” peer review to be carried out
 - ✓ to issue the Peer Review Certificate.
 - The Board may make a special report to the Council on the level of implementation and adherence of Technical, Professional and Ethical Standards by PUs in general and make suggestions on how quality can be further improved.

Q13 What do “assurance services” mean in the context of peer review?

The whole concept of peer review is directed at assurance services only. Therefore, one must clearly understand the term “assurance

services". As per the Statement, the assurance services include auditing or verification of financial transactions, books, accounts or records and verification or certification of financial accounting and related statements as defined under Section 2(2)(ii) of the Chartered Accountants Act, 1949. Thus, the term assurance services include all those services such as internal audit, concurrent audit etc., which involve provisions of some kind of element of assurance to users.

As per PARA 3.1 of Statement on Peer Review :

3.1 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 but does 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 in this Statement interchangeably with Audit Services, Attestation Functions, and Audit Functions. Assurance services provided vide tender has been brought in ambit of Peer Review.

Q14 What do “technical standards” mean in the context of peer review?

Technical standards in relation to which peer reviews are to be carried out, and which the peer review process seeks to enforce, are specified as under:

- Accounting Standards issued by the Institute of Chartered Accountants of India and/or prescribed and notified by the Central Government of India;
- Auditing and Assurance Standards issued by the Institute of Chartered Accountants of India;
- 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
- Framework for the Preparation and Presentation of Financial Statements and Framework of Statements on Standard 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. Statements issued by the Institute of Chartered Accountants of India;
- 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.

Q15 What is the scope of peer review?

The focus of peer review is on:

- Compliance with Technical, Professional and Ethical Standards.
- Quality of Reporting.
- Office Systems and Procedures - pertaining to assurance services only.

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- Training Programmes for Staff (including articled and audit clerks) – concerned with assurance functions, including availability of appropriate infrastructure.
- 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
- 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.

Q16 What is the time period for which records of assurance services are subjected to Peer Review?

- (i) While assurance engagement records for the three immediately completed financial years are subject to peer review, the records of audit reports/assurance relating to years prior to the accounting year beginning 1 April, 2002 shall not be subject to review.
- (ii) From 2017, newly constituted firms i.e. where constitution of firms is less than 1 year, can apply for peer review suo-moto if Member i.e. Proprietor/Partner has at least five years of post-qualification experience (holding full time COP)

Q17 What should be the minimum sample size for various of PU firms to be selected for Peer Review by the Reviewer?

Para 7.2 of the Statement on Peer Review states, once a Practice Unit is selected for review, its assurance engagement records pertaining to the Peer Review Period shall be subjected to Review. Accordingly, once a practice unit is selected for review as a firm/individual, its assurance engagement records pertaining to the immediately preceding three completed financial years shall be subjected to review. Minimum sample size to be selected by Peer Reviewer is as under:

For Level I entities: 8; validity of certificate will be 3 years

For Level II entities: 5; validity of certificate will be 4 years

For Level III entities: 3; validity of certificate will be 5 years

However, since SEBI has made it compulsory for the auditor of listed companies to get themselves registered under Peer Review exercise with ICAI and obtain a Peer Review Certificate, a minimum one completed financial year is to be covered under Peer Review of a newly established firm with minimum five sample size to be selected by reviewer, so that newly constituted firm may not lose any professional opportunity. Validity of certificate will be 3 years. In case sample size is less than 5, validity of certificate will be 1 year.

In case of newly constituted firms where constitution of the firm is less than 1 year, minimum sample size (Number of audits conducted by new firm) to be reviewed by reviewer should be 03, for issuing Peer Review certificate carrying validity of one year from the date of issue, irrespective of the Declaration submitted by the PU.

Q.18 Does grant of peer review certificate signify that PU will not be subjected to disciplinary proceedings in respect of assurance engagements for which review was carried out?

No. Peer Review is only a review by Peer Review Board of systems & procedures followed by Practice Unit. The scope and purpose of peer review is general and is subject to inherent limitations. Consequently, peer review does not provide blanket exemption to members of the Institute in respect of disciplinary proceedings, even in respect of engagements that were subjected to peer review.

However, neither the Institute or the reviewer can file any complaint in respect of deficiencies observed during the course of Peer Review.

REVIEWER

Q19 Who is qualified to perform the functions of a Reviewer?

A Reviewer shall,

- (i) be a member of the Institute, with at least 10 years' experience in practice;
- (ii) is in practice as per the Chartered Accountants Act, 1949
- (iii) Should have undergone the requisite training as prescribed by the Board (once in five years)
- (iv) Should furnish a declaration as prescribed by the Board, at the time of acceptance of Peer Review appointment
- (v) Should have signed the Declaration of Confidentiality as prescribed by the Board
- (vi) 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

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

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

10 years' audit experience need not be continuous but cumulative; but any block of less than 2 years' experience in determining cumulative experience shall not be counted.

Q20 How to apply for empanelment as a Reviewer?

Members fulfilling the above criteria may empanel at any time by applying in the prescribed form. The Empanelment form may be downloaded from the Institute's website: www.icaai.org, available at the following link:

https://resource.cdn.icaai.org/8627an201_empanelment_reviewer.pdf

Or it may be obtained from the office of the Board at 'ICAI Bhawan', I.P. Marg, New Delhi-110002.

Q21 Will the information disclosed by Practice Unit be kept confidential by the reviewer?

The Reviewer appointed by the Peer Review Board is bound by a confidentiality agreement with the Peer Review Board. If he misuses the information disclosed by PU, he may be subject to disciplinary action by the Institute.

Q22 What are the commonly made errors while filling the empanelment form?

Commonly noticed mistakes are...

- Associate date and Fellow date not mentioned at Point Nos. 10 and 11 of the Empanelment Form].
- Audit work experience not mentioned properly with respect to the following [Point No. 13 of the Empanelment Form]:
 - ✓ Not as per the format. It is given in the form of resume, or experience of firm. Experience of the specific member applying for empanelment only is required in the prescribed format
 - ✓ Working since (in the firm) and working as (position in the firm) not mentioned. It is given as not applicable/blank whereas individual's duration of work in the firm and position occupied whether as employee/proprietor/partner is required from the date of enrolment as Associate Member/fellow members
 - ✓ Number of partners, number of paid chartered accountants and date of constitution of firm not mentioned
 - ✓ Industrial experience is mentioned. Only audit experience is required.

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- ✓ Articleship experience is mentioned. Audit experience as a member of the Institute is required.
- Major work handled not mentioned properly. [Point no. 14 of the Empanelment Form].
- Not as per the format.
- Name of clients, level of responsibility, turnover, audit fees and type of audit not mentioned including experience in audit assurance services provided under tender. All the details are required for each client.
- Level of responsibility, turnover and audit/assurance fees not specified as per the codes given in the form.
- Experience in financials filed in XBRL format
- No. of Tax Audit reports signed

Q23 Does empanelment as a Reviewer guarantee allotment of peer review work?

No, review work will be allotted to those Reviewers whose experience matches with the attest functions performed by the PUs. This is necessary, as it will ensure that there is no mismatch between the audit including tendering experience of the Reviewer and the PU.

As per Clause 10.2 (i) of the statement of Peer Review, a member will not be eligible to be a Reviewer if there is Disciplinary action/proceedings pending against him. Reviewer to intimate Board if in any case any Disciplinary is initiated against him, otherwise Board will consider the matter as non-compliance by the Reviewer under the provisions of the statement of the Board and the Board may direct that reviewer name be removed from reviewer panel with immediate effect and no further assignments be allotted till the conclusion of the disciplinary proceedings.

Q24 Can a Reviewer decline an assignment under any circumstances?

A reviewer may decline the assignment in case of conflict of interest between the Reviewer and the PU, after informing the Board and stating reasons why he cannot take up the assignment. Such a situation may arise when the Reviewer's independence is likely to be compromised due to any reason, including his past association with the persons connected with the PU to be reviewed. A reviewer may

also decline the assignment on account of ill-health and/or his other pre-occupations etc.

Q25 Can a Reviewer take assistance in the conduct of review?

The Reviewer may take help of **only one** qualified assistant. The assistant should,

- (a) be a member of the Institute.
- (b) not be disqualified under the Chartered Accountants Act, 1949.
- (c) have been a partner or employee of the Reviewer for at least one year;
- (d) sign and submit the Declaration of Confidentiality before starting the review and
- (e) shall have no direct interface either with the practice unit or the Board and should be from the Practice Unit firm and has been working with him for at least one year as a member in practice.

Finally, the Reviewer must submit consent and Declaration of Confidentiality to the Board before the commencement of the peer review. It may be noted, such qualified assistant shall not have direct interface either with the PU or the Board. Reviewer to submit 'Name' of qualified assistant services used against point 4 of Annexure-I of the Final Report.

Q26 Can Qualified Assistant sign of behalf of Reviewer?

No, only Reviewer under his individual capacity should sign and submit the Report alongwith Annexure-I & Annexure-II.

Q27 What are the other criteria for selection of sample for review to be considered before selecting samples?

Evaluation of the general controls as submitted by the Practice Unit in the Questionnaire, would help the reviewer in determining the appropriate selection of sample (keeping in mind Minimum samples to be selected, category-wise, as prescribed by the Board). However the Statement emphasises that the number of assurance services engagements to be reviewed in a sample shall depend upon:

- (i) Its size and nature
- (ii) Generally prevailing standards of quality control
- (iii) Methodology adopted by PU

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- (iv) Number of partners/members involved
- (v) Number of locations/ branch offices
- (vi) Fees charged

It is also to be noted that the reviewer may reduce or enlarge the initial sample.

Please note:

1. Sample chosen should compulsorily include that assurance engagement assignment which have the highest turnover among the population
2. Sample should also have at least one Public Limited Company, if there is any such assignment.
3. If sample size is less than minimum, then 100% selection has to be done, compulsorily and the fact intimated to the Board. (If sample size is less than minimum, than certificate for validity of one year is issued by the board)
4. If the PU has provided assurance services under tender, one such sample has to be compulsorily included for review
5. Sample selected should be representative of the population.

Note: Peer Review Board reserves the right to ask for working papers from Reviewer for particular Peer Review as specified in the Statement on Peer Review.

PRACTICE UNIT

Q28 Whether all PUs will be subjected to peer review?

The peer review process in India was introduced in three stages, namely, Stage I, Stage II and Stage III. There are three levels of PU's. Different types of PUs are included at each level.

Note:

- (i) 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.
- (ii) 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.
- (iii) The Board may with the approval of the Council, modify any of the criteria for selection of a Practice Unit for review.

Q29 Can I reject all the reviewers mentioned in the panel and ask for another reviewer?

Yes, subject to a maximum of 3 panels. If the Practice Unit fails to choose the name of reviewer even after third panel provided, then reviewer would be appointed by the Board.

Please note that fresh panel may be provided under the following circumstances:

- (i) Where there is a conflict of interest between the Practice Unit and the Reviewer.
- (ii) Pre occupation / ill health of all three Reviewers.
- (iii) All three Reviewers have declined the assignment.

Q30 Which PUs are covered under Level I?

A Practice Unit which has undertaken any of the under-mentioned assurance services in the period under review:

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- (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.

Q31 Which PUs are covered under 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.
- (iii) Any other Practice Unit providing assurance services not covered in Level I and Level II herein above.

Q32 Which PUs are covered under Level III?

Level III covers residuary Practice Units providing assurance services which are not covered in Level I and Level II.

Q33 Are services provided by Practice Unit under tender, covered under review?

Yes, as per decision of Peer Review Board, services provided by quoting under Tender have to be covered under review. If such services are provided by the Practice Unit, at least 1 such sample have to be selected for review.

Q34 If I have been peer reviewed can I disclose this on my website?

Only the fact of being Peer Reviewed can be stated. However, neither the certificate nor the Peer Review Report may be given on the website.

Q35 How will a PU be selected for review?

At each stage of peer review, certain PUs, satisfying the criteria laid down in the Statement, would be selected for peer review on a random sample basis. The Board is empowered to decide the proportion of PUs to be included in the selection during each phase of implementation.

A PU may also, suo moto; apply to the Board for the conduct of its peer review. Further, an auditee concern may request the Board for the conduct of peer review of its auditor (PU).

Q36 What is the periodicity of review?

All PUs covered under Level-I shall be subjected to mandatory review once in a block of three years. However, if the Board so decides or otherwise at the request of the PU, the peer review for a PU can be conducted at shorter intervals in respect of PUs falling under Level I.

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However, PUs falling under Levels II and III may be subjected to review every four and five years respectively.

Q37 What action to be taken if Practice Unit moves up/down from level-2/level-3 to level-1 & vice versa?

Regarding validity of Peer Review Certificate, if Practice Unit is covered under Level II/Level III of Peer Review, then it shall be subjected to mandatory review once in a block of four years/five years respectively. Four/Five years period shall be counted from the date of issue of Peer Review Certificate and not from the period covered under Peer Review. However, if the firm is having audit of listed entity or any other audit carried out by Level I entity at any point of time, firm must update the status with Peer Review Board and undergo voluntary next cycle Peer Review once in every three years from the date of issue of earlier certificate.

Further if sample size is less than minimum prescribed, than validity of certificate issued is of one year.

Q38 What are the obligations of a PU?

Any person, being a partner/sole proprietor or any person employed by/whose services are engaged by the PU, shall,

- Submit duly filled declaration form for the Peer Review period given by the Board.
- Practice Unit to submit duly filled in Questionnaire for the Peer Review Period allotted to the Reviewer after confirmation of his appointment. Chapter 3 of the Manual contains the Questionnaire (<http://resource.cdn.icai.org/28284prb17887.pdf>) to be filled. Practice Unit is requested to carefully, fill in the same in as detailed a manner as possible, and **send it to the Reviewer which may be selected.**
- After board receives the “Declaration of Confidentiality” alongwith acceptance of reviewer for review, the Board intimates the Practice Unit and Reviewer to start the process of review and Practice Unit to submit the filled in Questionnaire to the Reviewer, only. **(Any report received by the Board prior to non-receipt of reviewer’s acceptance and Declaration, will be considered “Void-Ab-Initio and will not be accepted by the Board.)** The Questionnaire will enable the Reviewer to

decide whether he needs any further information or he can commence the review work, at a mutually convenient date.

- **Whenever there is a change in contact details/Email Ids Practice Unit to intimate the same to the Board.**
- Produce to the Reviewer, or afford him access to, any records or documents considered relevant by him within reasonable time.
- Provide explanation or further particulars as specified by the Reviewer.
- Provide to the Reviewer all assistance in connection with the conduct of peer review.
- Provide information in legible form. If information is in any language other than in English, then provide a suitable translation in English, if requested by the Reviewer.
- Provide the Reviewer access to all documents relevant to his review no matter which office of the Practice Unit these documents may be available in, in case practice unit has more than one office. If the turnover from assurance services in any branch of the PU is more than Rs. 25 lakhs, the Reviewer has to compulsorily select at least 1 sample from such branch. The PU should assist the Reviewer accordingly.
- Allow the Reviewer to inspect, examine or take any abstract of or extract from a record or document. However, in order to ensure the confidentiality of the contents of the client's file with the PU, the Reviewer shall not make copies or extracts of any document from the client's files reviewed by him, or of any client records acquired by him while conducting peer review, as part of his working papers, or otherwise.

Q39 What are the consequences if a PU that falls under Level I does not apply to the Peer Review Board?

As filing of declaration by PUs is a mandatory requirement as per the Statement on Peer review, non-compliance with it shall amount to Professional/Other misconduct, as defined under Section 21/22 of the Chartered Accountants Act, 1949.

Q40 Can PU refuse to get itself Peer Reviewed?

No. Once a firm has been selected by the Board for Peer Review, it is the obligation of the firm to comply with the same.

COST OF PEER REVIEW

Q41 What is the cost of peer review and who shall bear it?

In exercise of power vested in the Peer Review Board by the Statement on Peer Review, the Board has notified that the cost of Peer Review for Level-I,II,III, including honorarium and TA/DA for reviewer and his qualified assistant, shall be as under:

Total Revenue from Attestation service clients of practice unit (Per Annum)	Cost
Less than Rs 10 lacs p.a.	Rs 15,000/-
From Rs 10 lacs to 50 Lacs p.a.	Rs 25,000/-
From Rs 50 lacs to 1 crore p.a.	Rs 40,000/-
From Rs 1 crore to 3 crore p.a.	Rs 60,000/-
From Rs 3 crore to 5 crore p.a.	Rs 75,000/-
Above Rs 5 crore p.a	Rs 1,00,000/-

Please note that the cost of peer review is to be borne by your firm in terms of Notification Nos. PRB/Notfn./008/11-12, (http://resource.cdn.icai.org/24073revised_cpr_prb.pdf).

Further Consolidated Cost of Peer Review is paid by the Practicing Unit to the reviewer for the **total period reviewed and not for the per year basis**. The total revenue from the Assurance services for the three financial shall be clubbed and average of the same would be taken to arrive at the fee payable which shall be as per the above notification.

Consolidated Cost of Peer Review is paid by the Practicing Unit to the reviewer for the **total period reviewed and not for the per year basis**. In this regard, it may also be clarified that the total revenue from the assurance services for the three financial shall be clubbed and average of the same would be taken to arrive at the fee payable which shall be as per the notification.

The cost of Peer Review including the limit of out of pocket expenses payable to the Reviewer shall be decided by the Board from time to time and shall be paid by the Practice Unit. In case Reviewer has to

conduct "Follow-On" Review, the same rate would apply to the follow-on review also. The amount shall be paid by the Practice Unit within 30 days of receipt of the bills from the Reviewer.

Q42 Is payment of honorarium to be made through the Board?

No, the PU directly pays the honorarium to the Reviewer, by crossed account payee cheque/demand draft within 30 days of receipt of the bills from the Reviewer. Proof of receipt of fees is to be submitted to the Board for issuance of the Peer Review Certificate.

Q43 Is GST applicable in case of Peer Review?

GST is payable by the Reviewer for the peer review fees received by him (if applicable). The peer reviewer is appointed in his individual capacity. Therefore all communications with the Board should be made in the name of the Reviewer. Fees will be paid by the PU to the Reviewer. Therefore, to avail of GST credit, the GST number of the reviewer and not of the firm should be used.

Q44 Can a PU opt for a Reviewer from outside the state/region of his operation?

Yes, PU can make a specific request to the Board, alongwith reasons, within the time limit mentioned in the intimation letter to the PU, for opting for a Reviewer from outside the state/region of his operation. PU can request for peer review of branch where the major activity for assurance services are rendered or turnover is high.

Note: 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. Information to be provided by the practice unit in response to the questionnaire should be for the head office as well as all branches of the practice unit. With reference to the questionnaire, it may be noted that if the practice unit maintains a register of its assurance clients with a system of numbering, then instead of providing names of its clients, it may choose to provide the client numbers/code.

Where a practice unit has a head office at one location and branches or offices at other locations, it would be within the reviewer's scope to examine the quality controls at all such locations. Further, where a branch is located in a different city/town, the reviewer is advised to visit, if the Branch turnover from assurance services is more than Rs. 25,00,000. However in respect of branches having turnover less than

Rs.25,00,000 the reviewer shall have freedom to arrange, in consultation with the practice unit, for documents, related records and related personnel to be brought to head office and examine them centrally.

Q45 What if constitution of Firm changes, during the Peer Review Period?

If the constitution of a firm changes from proprietorship to partnership or vice - verse or constitution of partnership firm changes, while the Firm Registration number remains same, Peer Review initiated/carried out at proprietor's name/proprietary concern/ partnership firm, shall be valid for newly constituted firm. However, if there is change in Firm Registration nos. of proprietary concern and newly constituted partnership firm, both will be considered as different entities and thus will be Peer Reviewed separately and the Peer Review Certificate issued in the name of the original firm will be invalid from the date of dissolution of the firm.

PEER REVIEW PROCESS

Q46 How is peer review conducted?

Peer Review is conducted in three stages, namely, Stage I - Planning, Stage II - Execution and Stage III - Reporting.

Q47 What are the steps involved in the Planning Stage?

- A firm may apply for voluntary Peer Review by submitting duly filled Declaration/Application form (Standard Performa). On receipt of Declaration form from the Practice Unit, request for voluntary Peer review is processed. A pool of trained reviewers (city wise) is maintained by the Board. Names (with address) of three local reviewers are randomly allotted to a Practice Unit to select one from the three. Intimation for initiation of review in hardcopy (through courier) or mail is sent by the Board to the PU for initiating Peer Review, alongwith panel of 3 reviewers, a copy of questionnaire and notification cost of peer review.
- Once PU selects one reviewer from the panel provided and communicates the same to the board (**as per Statement on Peer Review, PU is required to intimate to the Board**), letter of appointment is sent to the reviewer for his acceptance of the review. After receiving intimation from the Board, reviewer has to convey his acceptance/non acceptance to the Board. If reviewer agrees to accept the assignment, he will send the same alongwith duly signed Declaration of Confidentiality; he may also take assistance of one qualified assistant to conduct peer review under intimation to the board and signed Declaration of Confidentiality of the Assistant. Acceptance of reviewer would be communicated to PU with a request to send duly filled questionnaire (pertaining to the relevant three years covered under review) to the reviewer directly, so as to enable the reviewer to select sample from the questionnaire for review.
- Peer Review process is of 90 days in total at present and time interval has been successively distributed as per the illustrative time schedule. After visiting the PU office, if reviewer is satisfied with the PU records & documentation, he may issue a clean final report to the PU and sent report to the Board. However, if reviewer has found major irregularities, he will issue qualified

report. Further, a preliminary report is issued when some deficiencies are pointed out by the reviewer and a clarification of the same from the Practice Unit is desired. If reviewer is satisfied with the response of the PU to the preliminary report, he may issue clean final report thereafter. However, the Reviewer is required to discuss the findings of the review with the PU and thereafter submit his report to the Board after consideration of the representation of the PU.

Q48 Is it necessary to reveal the names of all assurance clients to the Reviewer?

Yes, complete list of assurance clients is to be provided for the Peer Review Period by Practice Unit in Part A of Questionnaire-Point 17 A to 17L. PU may mention the unique code number as per client register, instead of client name.

Q49 On what basis does the Reviewer decide number of assurance including tendering service engagements to be reviewed?

The number of assurance (including tendering) service engagements to be reviewed would depend upon the size of the PU, degree of reliance that can be placed on general quality controls and the total number and variety of assurance (including tendering) services engagements undertaken by the PU during the period under review. However, keeping the time constraints in mind, it might not be advisable to select a very large sample, though it should be representative of the PU's client portfolio. Minimum number of samples to be reviewed is prescribed by the Board.

Q50 How does a Reviewer select assurance service engagements to be reviewed?

The Reviewer is required to select on a random basis, depending on the level of the practice Unit firms, an initial sample for review from the complete list of assurance service engagement clients of the PU. He may select the sample on the basis of the information given in the questionnaire and after seeking such other information from the PU as he considers necessary to facilitate the selection. The engagements to be reviewed should be a balanced sample from a variety of different-sized clients covering various entities so that they reflect the overall performance of a PU.

The Reviewer may modify the initial sample selected for review, in consultation with the PU, at the execution stage. This further refinement of initial sample is done by the reviewer on the basis of information and knowledge that he gains during the course of initial meeting and by performance of compliance review of the five general controls within the PU. Ordinarily, further refinement would involve a reduction of the initial sample to a smaller, actual sample for review, and not selection of new engagements not included in the initial sample.

List of sample selected & basis of sample selection (one sample mandatory of tendering services, if applicable) Please note: 1. Minimum sample size to be selected by you while carrying out Peer Review will be as prescribed by the Board. 2. Sample chosen should compulsorily include that assurance engagement assignment which have the highest turnover among the population 3. Sample should also have at least one Public Limited Company, if there is any such assignment. 4. Sample should also have at least one sample of assurance service provided on tender 5. Sample should cover the various audit assurance services provided by the PU like Statutory Audit, Internal Audit, Tax Audit, Concurrent Audit, Systems Audit, Departmental Review of Branches / Office etc. **If sample size is less than minimum, then 100% selection has to be done, compulsorily** and the fact intimated to the Board. Newly constituted firms satisfying the following two conditions, can also apply for peer review of their firm:

- (i) Member (i.e. partner / proprietor of the firm) should have five years of post-qualification experience (holding full time COP)
- (ii) Minimum sample size (Number of audits conducted by new firm) to be reviewed by reviewer should be 05, for issuing Peer Review certificate carrying validity of next three years from the date of issue.
- (iii) If sample size is less than 5, certificate with validity of 1 year will be issued.

Q51 Will assurance functions in respect of smaller clients also be subjected to Peer Review?

Yes. There is no provision in the Statement on Peer Review restricting the assurance functions to be reviewed, according to the size of the clients.

Q52 Should an assurance engagement that has been the subject matter of disciplinary proceedings be made available to Reviewers?

No, the Reviewers are free to select samples for review as per the information provided to them vide the Questionnaire. The PU should not, in any way, influence the Reviewer in selecting engagements for review.

Q53 What are the steps involved in the Execution Stage?

Briefly, steps involved in the Execution Stage are:

- On-site visit arranged by mutual consent between the Reviewer and the Reviewee which should not extend beyond 7 working days
- At initial meeting, the accuracy of responses to questionnaire is confirmed and the reviewer seeks to obtain a full understanding of the system, to form a preliminary evaluation of its adequacy.
- A compliance review of five “general controls” (independence, maintenance of professional skills and standards, outside consultation, staff supervision and development and office administration) is then carried out.
- Refinement of the initial sample selected for review, in consultation with the PU. The refinement of initial sample is done on the basis of the initial meeting and compliance review of the five general controls.
- Review of records:
 - ✓ By compliance approach or substantive approach or a combination of both.
 - ✓ If compliance approach is adopted, the six “key controls” shall be reviewed (audit record administration, financial statements presentation, review and evaluation of system of internal controls, substantive tests, audit conclusion and audit report).

- ✓ If the substantive approach is adopted, a detailed examination of the selected files shall be made to cover areas given in the “Illustrative checklist of audit programme of a Reviewee” to be found in **paragraph 4.19** of the Peer Review Manual.

Q54 Are the branches of big-sized firms under the purview of Peer Review?

Where a practice unit has a head office at one location and branches or offices at other locations, it would be within the reviewer’s scope to examine the quality controls at all such locations. Further, where a branch is located in a different city/town, the reviewer is advised to visit, if the Branch turnover from assurance services is more than Rs. 25,00,000. However in respect of branches having turnover less than Rs.25,00,000 the reviewer shall have freedom to arrange, in consultation with the practice unit, for documents, related records and related personnel to be brought to head office and examine them centrally.

Q55 Can a Reviewer visit client(s) of the PU?

No, he cannot, under any circumstances, communicate with or visit the client(s) of the PU.

Q56 Can a Reviewer take extracts of PU's client(s) file?

No. The Reviewer may have access to, or take the abstracts of the records and documents maintained by the PU in order to carry out the review work at PU's office, but in order to ensure the confidentiality of the contents of the client's file with the PU, the Reviewer shall not make copies or extracts of any document from the client's files reviewed by him, or of any client records acquired by him while conducting peer review, as part of his working papers, or otherwise.

Q57 What are the steps involved in the Reporting Stage?

Briefly, steps involved in the Reporting Stage are:

- After visiting the PU office, if reviewer is satisfied with the PU records & documentation, he may issue a clean final report to the PU and sent report to the Board. However, if reviewer has found major irregularities, he will issue qualified report. Further, a preliminary report is issued when some deficiencies are pointed out by the reviewer and a clarification of the same from

the Practice Unit is desired. If reviewer is satisfied with the response of the PU to the preliminary report, he may issue clean final report thereafter. However, the Reviewer is required to discuss the findings of the review with the PU and thereafter submit his report to the Board after consideration of the representation of the PU.

- PU should respond to the preliminary report within 10 days.
- The Board considers the final report (clean or qualified) and if satisfied, issues Peer Review Certificate.
- The Board if not satisfied, may issue recommendations to the PU and direct for further / follow up review.
- The Board may suggest a follow up review after a period of one year or 6 months from the date as per the Board's direction.
- Follow-up review ordered on or after April,2009 should be carried out by a reviewer other than the one who carried out the review initially. Further, Practice Unit is required to pay requisite fees to previous reviewer who had qualified the report as well as to the follow up reviewer in such circumstances.
- If the Reviewer is satisfied with the PU's response to the preliminary report, he submits final report to the Board with a copy to the PU. Final report should be accompanied by preliminary report, PU's submissions thereon and point-wise verification of Reviewer to Practice Unit response on preliminary report.
- The Board considers the follow on review report and if satisfied, issues Peer Review Certificate.
- The final report to be submitted to the Board should also contain an Annexures forming part of it. The Annexures are available on the Institute's website: www.icaai.org and at Appendix of Peer Review Manual. Annexure I and Annexure II have been made compulsory for both Level I and Level II firms w.e.f. 17.03.2017.
- Reviewer is required to submit reason for delay in submission of Final Report & other documents, if request for extension of period of review was not applied for by Reviewer/Practice Unit earlier.

- Note: Before submitting the acceptance for Peer Review, Reviewer to take note of clause 10 'Eligibility to be a Reviewer', as given in statement of Peer Review.

Q58 What documents are to be submitted after the conclusion of the Peer Review process?

PU to submit representation to reviewer- Reviewer is satisfied with PU response on Preliminary Report along with Point wise justification and basis of arriving at Opinion/conclusion for issuing clean report

On completion of the Review, Reviewer has to submit, the undermentioned documents alongwith reasons of delay in submission, if any:-

1. Final Report (<http://resource.cdn.icai.org/22634announ12933.pdf>), alongwith Annexure I ,to the Chairman PRB) ***The peer review assignment is assigned to an individual peer reviewer and therefore, only individual reviewer's letterhead, stamp and other stationery should only be used.***
2. Annexure II (mandatory for Level I & Level II firms) (<http://resource.cdn.icai.org/36414annexII130115prb.pdf>)
3. List of sample selected & basis of sample selection (one sample mandatory of tendering services, if applicable)

Note 1. -minimum sample size to be selected while carrying out Peer Review will be 08, 05 and 03 for Level 1 , Level 2 and Level 3 respectively. (If sample size is less than minimum, than 100% selection has to be done, compulsory)

In case, Minimum sample as per level is not reviewed, then validity of certificate will be for One year from date of issuance of Certificate.

Note2. Further, sample chosen should compulsorily have that assurance engagement assignment which have highest turnover among the population. Sample should also have at least one Public Limited company, if there is any such assignment.

Note 3: For Newly established firm:

- a. a minimum of one completed Financial Year is to be covered under Peer Review of a newly established firm ;

- b. Member (i.e. proprietor / partner of the firm) should have five years of post-qualification experience (holding full time COP)
 - c. Minimum sample size (Number of audits conducted by new firm) to be reviewed by reviewer should be 05 for issuing Peer Review Certificate carrying validity of next three years from the date of issue. (Validity of certificate will be one year for less than 5 samples).
4. Preliminary Report if issued, PU's submissions & reviewer verification thereon.
 5. Basis of reaching to the conclusion in the Final Report.
 6. Completed copy of Peer Review Questionnaire received from Practice Unit (<http://resource.cdn.icai.org/28284prb17887.pdf>).

Reviewer is advised to pay attention to **point 2 (j) to 2 (s) of Part B** of the Questionnaire and submit explanation received from PU, if reply is in the affirmative to the said points.

A copy of the Final Report along with Annexure I and Annexure II is to be sent to the PU also.

Q59 What should be the duration of Peer Review Process?

The Board has formulated an Illustrative Time Schedule of Peer Review Process which is given below:

Revised Illustrative Time Schedule of Peer Review Process

S. No.	Review Process	Time Schedule	Cumulative Days
1.	<p>Peer Review Board notifies the selection of PU for Review. A Panel of three reviewers to be sent to PU, along with a. Questionnaire, b. Declaration for confirming the level of PU and attachment for c. Peer Review Cost, based on Turnover.</p> <p>PU is informed that Questionnaire, is to be sent to Reviewer selected by PU and copy of Questionnaire sent to Peer Review Board.</p> <p>Kindly Note: PU to submit the filled in</p>	Day-1	Day 1

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S. No.	Review Process	Time Schedule	Cumulative Days
	Questionnaire to the Reviewer, only after board confirms the receipt of “Declaration of Confidentiality” along with acceptance of reviewer for review. (Any report received by the Board prior to non-receipt of reviewer’s acceptance and Declaration, will be considered “Void-ab-Initio and will not be accepted by the Board.		
2.	PU to give the choice of the reviewer. In case of Fresh panel requested by PU, due date to be counted from date of issuance of Fresh Panel for selection of Reviewer.	Within 10 days	Day 11
3.	<p>A. a. Board to notify the reviewer as per the choice given by PU; and</p> <p>b. Reviewer to submit his consent for accepting the Review along with submission of Declaration of Confidentiality.</p> <p>1. Note: Review should be started only after the Board receives the Declaration, as above, alongwith the intimation and Declaration of Confidentiality of assistant, if any, and the Board approves the same. Approval of the Board should be obtained before the starting of the review.</p>	Within 1 week	
	B. Peer Review Board to Issue letter (3 rd letter from PRB)) to Practice Unit for – Consent of Reviewer.	Within 1 week	Day 25
4.	Reviewer to call for any other information if required after evaluation of the Questionnaire sent by the PU.	Within 5 days	Day 30
5.	PU to provide the additional information asked by the reviewer	Within 5 days	Day 35

Peer Review Process

S. No.	Review Process	Time Schedule	Cumulative Days
6.	Reviewer to decide on the initial sample from the client list of the PU	Within 7 days	Day 42
7.	PU to be notified about the sample selected by the reviewer. Advance notice to be given before visit of reviewer to PU's office	5 days.	Day 47
8.	Reviewer to carry out the review by visiting the office of PU after fixing the date as per the mutual consent.	23 days	Day 70
9.	Reviewer to send the preliminary report to PU for comments.	Within 5 days after completion of Review.	Day 75
10.	PU to submit representation to reviewer- Reviewer is satisfied with PU response on Preliminary Report along with Point wise justification and basis of arriving at Opinion/conclusion for issuing clean report	Within 5 days	Day 80
11.	After completion of the review, report is to be submitted alongwith all required Annexures and information (Refer Q58)	Within 10 days	Day 90
12.	Board to consider and issuance of Peer Review certificate in case of Clean Report and if in case of Qualified Report submitted, by Reviewer, Board gives recommendation to PU for rectifying the deficiencies observed by Reviewer. Reviewer to submit proof of receipt of Peer Review Fees before issuance of certificate.	In the next meeting to be held in every quarter	

The time period mentioned includes the transit time for sending the reports, communication etc.

Q60 How should a Reviewer conduct a review?

First of all, the Reviewer makes his assessment of the PU on the basis of the duly filled-in Questionnaire (i.e. Parts A, B) received from the PU. The off-site review includes determination of initial sample of assurance service engagements to be reviewed and obtaining basic understanding of quality control policies and procedures of the PU. While selecting the samples, the Reviewer has to keep in mind the requirements for selection of sample (Refer Q50).

During the first meeting, reviewer verifies whether information provided in the questionnaire is in conformity with the state of affairs at the PU. Next, he performs a compliance review of the five general controls to determine whether such controls do exist and are being effectively implemented.

Then, he reviews the records of the PU in respect of six key controls (by compliance approach) to assess whether policies and procedures adopted by the PU in carrying out assurance service engagements ensure compliance with the technical standards.

Finally, if the Reviewer finds the implementation of the six key controls at the PU unsatisfactory, he may employ the substantive approach to check whether the assurance service engagements has been carried out as per the technical standards.

Q61 Can a Reviewer challenge the judgment exercised by a PU in conducting an audit?

No, a Reviewer cannot challenge the professional judgment exercised by a PU in conducting an audit, unless such judgment clearly contradicts the position stated in a technical standard.

DOCUMENTATION

Q61 In respect of which matters should a Reviewer maintain working papers?

A Reviewer should document the working papers to substantiate the review performed and his findings, including matters that indicate deficiencies in the PU's policies and procedures relating to quality control and significant lack of compliance therewith.

Q62 For how long should a Reviewer preserve working papers?

The Reviewer is required to keep working papers for a period, as prescribed by the Board, or till the PU appeals against the review before the Peer Review Board /the Council of the Institute or the date of final judgment by the Board/Council, as the case may be.

Q63 What kind of records should a PU maintain?

A PU should maintain documentation in accordance with the requirements of SA 230, "Documentation". The records should, preferably, be classified as mandatory records and recommendatory records.

Q64 What are the mandatory records that must be maintained by a PU?

Mandatory records requirements are stated in 'Standard on Auditing' SA 230, "Documentation", which is a mandatory Standard on Auditing. Apart from the general criteria for the quality and contents of working papers, the standard lists what the permanent audit file and current audit file may normally contain.

Q65 What are the minimum recommendatory records that may be maintained by a PU?

The PUs may maintain minimum recommendatory records for the following:

- (i) Profile of the PU should be bifurcated into information relating to,
 - (a) Partners and constitution of the firm;
 - (b) Staff including qualified members of the Institute and other professional bodies; and

(c) Articled clerks.

The reviewer while performing the review should examine whether the file is maintained properly and is regularly updated for any changes.

(ii) List of Clients

(iii) Staff Files

(iv) Manual of Policies and Procedures for:

(a) acceptance of an engagement and appointment letter duly authorized in writing is received

(b) skills and competence for particular type of engagement

(c) the manner of assignment and delegation of authority and responsibility for different kinds of engagement

(d) the procedure for consultation

(e) policy for retention of clients

(f) guidelines for monitoring the engagement; and

(g) policies regarding direction and supervision of the engagement.

Q66 What is the importance of documentation?

Documentation is an essential part of any assurance engagement. According to 'Standard on Auditing' SA 200, "Basic Principle Governing an Audit", the auditor should document matters which are important in providing evidence that the audit was carried out in accordance with the basic principles. Documentation for purposes of this standard refers to the working papers prepared or obtained by the auditor and retained by him, in connection with the performance of his audit. Working papers should record the audit plan, the nature, timing and extent of auditing procedures performed, and the conclusions drawn from the evidence obtained. Thus, in today's scenario, where the quality of audit work is getting increasingly questioned, and auditors are being called upon to justify their opinion, adequate documentation is the only way for an auditor to substantiate that he was not negligent.

Q67 What documentation is considered adequate?

The extent of documentation is a matter of professional judgment since it is neither necessary nor practical that every observation, consideration or conclusion be documented by the auditor. Working papers should be sufficiently complete and detailed to demonstrate that the auditor can obtain an overall understanding of the audit. All the working papers must be prepared in a manner so that they clearly and logically show the schedule, result of test etc. Working papers must depict the client name, file number, accounting period, subject of working paper, reference with current or permanent file, initials of the preparer & date. If documentation maintained by a PU provides reasonable basis for the opinion expressed, it will be considered adequate. If documentation evidences the nature, extent and quality of audit procedures followed that enabled the auditor to reach the opinion expressed, that would constitute reasonable basis. In particular, all significant matters which require exercise of judgment, together with auditor's conclusions thereon, should be included in the working papers. Further, the documentation should also be relevant and must contain information on the matters specifically laid down by the Standards on Auditing issued by the Institute, especially SA 230.

Q68 Does adequate documentation always signify that quality control policies and procedures of the PU are adequate?

Not necessarily. Good documentation policies are generally designed to ensure that adequate audit procedures are followed and loose ends are tied up, but it does not replace the need for an auditor to use his professional skill, care and judgment in planning and performing the audit. Documentation records and evidences what work was done, but does not guarantee the quality of that work, nor whether technical standards were duly followed.

REPORTING

Q69 What should be the basic elements of the Reviewer's report?

The report should contain

- (a) an indication of what a system of quality control encompasses and a reference to the quality control standards.
- (b) a statement indicating that the system of quality control is the responsibility of the reviewed firm.
- (c) scope of the peer review conducted.
- (d) limitation(s), if any, on the review conducted with reference to the scope as envisaged in the Statement of Peer review.
- (e) a statement indicating that the review did not necessarily disclose all instances of lack of compliance with technical standards.
- (f) an opinion on whether the reviewed PU's quality controls are designed to meet the requirements of the quality control standards for assurance services and whether they were found to be operating efficiently during the period under review.
- (g) if instead of a clean report, a modified report is necessary, a description of why modification was required. The report of the reviewer should also contain suggestions.
- (h) a reference to the preliminary report; and
- (i) an attachment which describes the peer review conducted, including an overview and information on planning and performing the review.

The report should be issued on the Reviewer's (individual) letterhead and signed by the Reviewer in individual capacity. It should be addressed to the Peer Review Board and should be dated as of the date of the conclusion of the review. No report would be accepted unless and until reviewer is properly appointed i.e. declaration of confidentiality of reviewer and qualified assistant, if any, in the approved format, is submitted to the Board at time of acceptance of Peer Review of respective Practice Unit and intimation of receipt of the same is communicated by the Board to the PU and the Reviewer.

Q70 What does a clean report signify?

A clean report indicates that the Reviewer is of the opinion that the PU is conducting its affairs in a manner that ensures the quality of services rendered by it.

Q71 When can a Reviewer qualify his report?

A Reviewer can qualify the report due to one or more of the following

- (a) non-compliance with technical standards
- (b) quality control system design deficiency
- (c) non-compliance with quality control policies and procedures; or
- (d) non-existence of adequate training programmes for staff.
- (e) non-existence of internal control system
- (f) non-maintenance of current file and permanent file as per standards laid down by ICAI

Q72 How should a Reviewer decide whether he should give a clean report or a qualified report?

In making that decision, the Reviewer should consider the evidence he has obtained and document his overall conclusions with respect to the following matters:

- (a) Whether the policies and procedures that constitute the reviewed PU's system of quality control for its assurance services have been designed to ensure quality control to provide the firm with reasonable assurance of complying with technical standards.
- (b) Whether personnel of the reviewed PU complied with such policies and procedures in order to provide the firm with reasonable assurance of complying with technical standards.
- (c) Whether the PU has instituted adequate mechanism for training of staff.
- (d) Whether the PU ensures the availability of expertise and/or experienced individuals for consultation with the consent of the auditee.
- (e) Whether the skill and competence of assistants are considered before assignment of assurance engagement.

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- (f) Whether the progress of assurance service is monitored and work performed by each assistant is reviewed by the service in charge and necessary guidance is provided to assistants.
- (g) Whether the PU has established procedures to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained.
- (h) Whether the PU verifies compliance with laws and regulations to the extent it has material effect on financial statement.
- (j) Whether the internal controls within the PU contribute towards maintenance of quality of reporting.

MISCELLANEOUS

Q73 What is the procedure for referral of disputes?

When a dispute arises over any matter related to the review, the PU, the Reviewer or both may refer the dispute, in writing in duplicate, within 30 days from the date of completion of the review. It should be verified and signed by authorized person and lodged with the Secretary, Peer Review Board.

The Board, after taking into consideration any submissions or representations made in writing by the PU and/or the Reviewer

- shall decide on the dispute and communicate the decision to each of the parties to the dispute
- may issue directions relating to the matter in dispute to such PU or the Reviewer concerned and require such unit or Reviewer to comply with them
- shall convey its decision in this regards to the appellant within 15 days from the date of the decision, so as to provide the appellant sufficient time to respond.

If a PU is dissatisfied with the decision of the Board, it may submit a petition referring the matter to the Council within 60 days from the date of receipt of the decision of the Board. The petition should be in duplicate. It should be verified and signed by authorized person and filed with the Secretary, Peer Review Board.

Q74 Can review of a PU lead to disciplinary proceedings?

No, a PU, which makes available records or documents to a Reviewer, shall not incur any liability under the Code of Ethics under the Chartered Accountants Act, 1949 and the Regulations framed thereunder, by reason of compliance with the Statement on Peer Review.

Q75 Can peer review certificate be issued to a PU against which Disciplinary Proceedings are in progress?

With effect from 21.04.2017, peer review certificates are being issued to practice units against whom Disciplinary proceedings are in progress. The Board on consideration opined that the peer review and disciplinary are independent proceedings and review is concerned with

the quality of audit assurance services provided by the PU. Therefore peer review certificate may be issued to a PU against whom disciplinary proceedings are in progress subject to an otherwise clean report being received from the reviewer.

Accordingly, a disclaimer has been inserted on the face of the Peer Review Certificate as follows: "The Peer Review process pertains to review of assurance services independent of Disciplinary Proceedings and therefore does not provide immunity from Disciplinary / Legal proceedings or action initiated against Practice Unit firm or its partners / employer."

Q76 What are the liabilities of a Reviewer?

The Reviewer, by virtue of carrying out the peer review shall not incur any liability other than the liability arising out of his own conduct under the Code of Ethics under the Chartered Accountants Act, 1949 and Regulations framed thereunder as well as under the relevant clauses of the Statement on Peer Review.

Q77 Certain PUs have asked the Board as to what they should do regarding confidentiality issues raised by their clients on peer review when they sought to obtain letters as required under 'Standard on Auditing' SA 210?

The Council of the Institute of Chartered Accountants of India has been constituted under the Chartered Accountants Act, 1949 for discharging the functions assigned to the Institute under the Act. The Council has clarified the nature of authority attached to various documents issued by the Institute. The 'Statements' have been issued with a view to securing compliance by members on matters, which are critical for proper discharge of their functions. 'Statements', therefore, are mandatory. SA 210 is a Statement and thus required to be followed both in letter and spirit by members. The Reviewer is assigned the task of undertaking peer review of a PU and is not required to communicate with or visit the PU's client office under any circumstances. Thus the Reviewer will not go through the books of account of the PU's client. The reviewer will only have access to working papers of the PU that are the property of the PU. More importantly, the Reviewer cannot carry extracts of such client's working papers and records acquired by him while conducting peer review, as part of his working papers.

The Statement on Peer Review contains enough safeguards which are:

- (a) Strict confidentiality/ secrecy provisions shall apply to all those involved in the peer review process, namely, Reviewers, Members of the Board, the Council, or any person who assists any of these parties.
- (b) Person(s) subjected to the confidentiality/ secrecy provisions :
 - (i) shall at all times after his/ their appointment preserve and aid in preserving secrecy with regard to any matter coming to his/ their knowledge in the performance or in assisting in the performance of any function, directly or indirectly related to the process and conduct of peer reviews
 - (ii) shall not at any time communicate information on any such matter to any other person,
 - (iii) shall not at any time permit any other person to have any access to any record, document or any other material in any form which is in his/their possession or under his/their control been so appointed or his/their having performed or having assisted any other person in the performance of such a function.
- (c) Non-compliance with the confidentiality/ secrecy provisions shall amount to professional misconduct as defined under Section 22 of the Chartered Accountants Act, 1949.
- (d) A Statement of Confidentiality shall be filled in by the persons who are responsible for the conduct of peer review i.e., Reviewers, the Members of the Board and qualified assistant who assist him; it should be renewed every year.