

TRAINING MODULES FOR PEER REVIEWERS



Peer Review Board

The Institute of Chartered Accountant of India

(Set up by an Act of Parliament)

New Delhi

Training Modules for Peer Reviewers



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Foreword

The Peer Review process has been gaining momentum drastically. To fulfill the task of Peer Review the reviewers are required to undergo training before they are assigned peer review work. The Board has successfully conducted Peer Review Training Programmes since inception of the Peer Review Board in October 2003 all across the country and more than 115 programmes have been held imparting training to almost 5000 reviewers.

Efforts are made to ensure that the reviews are conducted at par with international standards and in order that the reviewers are fully equipped to understand the nuances and intricacies of the Peer Review work, the Board had developed Training Modules for Peer Reviewers. The training programmes are designed to update and upgrade the knowledge and skills of the members.

The Training Modules has been revised to provide updated information to the Reviewers incorporating all the recent updates and changes.

It is ensured that the reviewers are able to understand the technicalities and procedure of the peer review work. The Peer Review Board has revised and updated Training Modules, dealing with each of the Chapters of the Manual. The objective of the training modules is to provide a training curriculum for reviewers to undergo after empanelment and simultaneously to provide guidance to the training facilitators (trainers) on how to conduct reviewers' training. The training is imparted by senior and eminent members of the profession.

I am confident that Reviewers will be extremely benefited with the revised Training Modules and ensure that the objective of peer review is achieved resulting in enhancement of quality of attestation services performed by our professional fraternity. I would also like to thank CA K. Raghu, Chairman of the Peer Review Board and other members of the Peer Review Board for undertaking the revision of the Modules.

New Delhi
January, 2010

CA. Uttam Prakash Agarwal
President

Preface

The Peer Review mechanism is gaining momentum speedily. The concept of peer review for the Indian accountancy profession has successfully emerged and is widely accepted. Approximately 4000 firms have already been issued Peer Review Certificate.

To create a vast pool of reviewers, the Board organizes regular training programmes for Peer Reviewers all over the country. These training programmes equip the members to become competent Peer Reviewers. To achieve the objective of Peer Review, the Board has so far organized more than 115 programmes across the country. The interest shown by the Reviewers is very encouraging and the Board is assured that the reviews would be conducted in the best of the profession. Keeping oneself abreast with the developments taking place in the profession within and outside India the Peer Review Board endeavors that the Reviewers are uptodate with the latest releases.

The Training Module publication for Peer Reviewers has been revised and updated to cater to the current changes and facilitate the reviewers. In order that the training imparted by the Board is meaningful and covers all the latest changes in technical literature of the Institute, an exercise was undertaken to revise the Training Modules. The compulsory provision of practical training is an integral feature of the scheme of education and training for the chartered accountancy course. Such a provision, indeed, goes much deeper to the roots of professional ethics and outlook and is the foundation of the Institute's high standing.

The Training Modules have been prepared and revised in user friendly manner. Each Module has been designed from the view point of the Trainer and the Reviewer. Such an approach would enable the Reviewers to appreciate and understand the complexities of the manner of conducting peer review through participative approach.

It is my privilege to place before you, on behalf of the Board, the revised version of the Training Module for Peer Reviewers and also place on record on my own

behalf and on behalf of other members of the Board, sincere thanks and appreciation for all the resource persons who have been taking various training programmes and Board secretariat in helping the Board to develop the training modules.

Bangalore
January, 2010

CA. K. Raghu
Chairman
Peer Review Board

Foreword to the Second Edition

The peer review mechanism introduced by the Institute, with the setting up of the Peer Review Board in 2002 is progressing satisfactorily. Practice Units, where Final Peer Review Reports have been received, have been issued the Peer Review Certificates, in terms of the Statement on Peer Review. There are instances also where the Reviewers have noticed deficiencies during the course of review and sent Qualified/Interim Reports. Follow-up review has been directed in all such cases.

As mandated in the Statement on Peer Review, the Board is to impart training to the empanelled Reviewers, before they are assigned peer review work. The Board has been conducting the Training Programmes all over the country since October, 2003 and so far 27 programmes have been held at different places.

In order that the reviews are conducted in a manner matching with international standards, the Board had developed Training Modules for Peer Reviewers, dealing with each Chapter of the Peer Review Manual. The Modules besides being training curriculum for Reviewers, provide guidance to the facilitators (trainers) on how to conduct the training.

During the interregnum between the issuance of the Training Modules in 2003 and now, many new Accounting, as well as Auditing and Assurance Standards have been issued and some of the existing ones revised. To provide upto date information to the Reviewers, the Training Modules have been revised, incorporating all the technical inputs issued till now, including Guidance Notes etc. Shri Shantilal Daga, Chairman and other members of the Peer Review Board, ably assisted by the Secretary to the Board, Shri Vijay Kapur deserve appreciation for undertaking the revision of the Modules.

I am sure the Reviewers will benefit with the revised Training Modules and ensure that the objective of peer review is achieved in its letter and spirit, resulting in enhancement of quality of attestation services performed by our fraternity.

New Delhi
4th August, 2005

Kamlesh S Vikamsey
President

Preface to the Second Edition

The concept of peer review for the Indian accountancy profession the first of its kind in any profession conceived in 1998 took shape in 2002 when the Council of the Institute issued Statement on Peer Review and set up a Peer Review Board, comprising of members of the Council, representatives from regulatory bodies, industry and eminent persons from other strata of Society. The system has successfully come out of the nascent stage and gaining acceptance.

The first two stages of implementation commenced in 2003 and 2004 and Final Peer Review Reports have been received and considered by the Peer Review Board in respect of Practice Units (PUs) under Stage I. All such PUs have been issued Peer Review Certificates. Follow-up review has been ordered in cases where the Reviewers had come across deficiencies and, accordingly, issued Qualified/Interim Reports.

The Statement on Peer Review mandates the Board to arrange for such training programmes for reviewers as may be deemed appropriate. In furtherance of this mandate, the Board has so far organized 27 programmes at various places. The interest and inquisitiveness demonstrated by the Reviewers at these programmes is very encouraging and assuring for the Board that the reviews will be conducted in keeping with the best global practices in this regard.

Keeping oneself abreast with the developments taking place in the profession within and outside India is a hallmark of a vigilant professional and we, in the Peer Review Board, are confident that the Reviewers are upto date with the latest technical releases. Nevertheless, the Board considers it an obligation to provide necessary inputs in relation to Accounting and Auditing Standards developed by the Institute, thereby ensuring comprehensive and qualitative reviews.

The International Federation of Accountants (IFAC), of which India is the founder member, has issued an International Standard on Quality Control titled "Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements" (effective from June 15, 2005). The Standard aims to establish standards and provide guidance regarding a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance

and related services engagements. It emphasises that the firms should establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances.

In its International Professional Practice Statement dealing with "Assuring the Quality of Professional Services" also, it has been stated that IFAC believes that all firms of professional accountants should have quality control policies and procedures for all professional services and that member bodies should ensure that these policies and procedures are subject to external review. Since the Society increasingly depends upon the professional accountants for assistance in assessing the credibility of information, it is appropriate, according to IFAC, that review of assurance engagements is more rigorous than the review of other services.

To facilitate the reviewers to imbibe the niceties of the peer review system, the Board issued Training Modules for Peer Reviewers in June, 2003. Much water has flowed down the Yamuna since then in that new Accounting as well Auditing and Assurance Standards have been issued, besides revision of the ones in force. In order that the training imparted by the Board is meaningful and covers all the latest technical literature of the Institute, an exercise was undertaken to revise the Training Modules.

It is my privilege to place before you, on behalf of the Board, the revised version of the book which, I am sure, will serve the desired purpose. I am happy to place on record my and the Board's gratitude to Shri Khurshed N. Pastakia, FCA for having gone through the revised version and giving his valuable suggestions and inputs. I also wish to acknowledge the assistance provided by the Board's Secretariat in coming out with this revised edition.

Hyderabad
4th August, 2005

Shantilal Daga
Chairman
Peer Review Board

Foreword to the First Edition

One of the powers of the Peer Review Board, as enshrined in the 'Statement on Peer Review' issued by the Council of the Institute in April, 2002 is "to arrange for such training programmes for the reviewers as may be deemed appropriate". The purpose of imparting training to reviewers is to ensure that the objective of peer review is attained in letter and spirit and familiarise them with all procedures, prescriptions, guidance and notifications, as may be issued by the Board from time to time.

The Peer Review Board, set up last year, has brought out a Peer Review Manual which was released formally on 1st April, 2003 by Shri V. K. Dhall, Secretary, Department of Company Affairs. The Manual provides an insight of various aspects which a reviewer may come across during the course of peer review. It also provides brief overview on all the focus areas of the review like compliance with technical standards, quality of reporting, office systems and procedures and training programmes for staff. The purpose of the Manual is to equip the reviewers as well as the practice units with the desirables that are required for effective implementation of the peer review.

In order that the reviewers are fully equipped to understand the nuances and intricacies of the peer review work, the Peer Review Board has developed Training Modules, dealing with each of the seven Chapters of the Manual. The Modules have been prepared to provide a training curriculum for reviewers to undergo after empanelment and, simultaneously, to provide guidance to the training facilitators (trainers) on how to conduct reviewers' training. The training will be imparted by senior and eminent members of the profession.

I am sure the Training Modules will be extremely useful for the reviewers in carrying out the peer review of practice units covered under Stage I of implementation, effective from 1st April, 2003. I would like to thank Shri Sunil Bhargava, Chairman, Peer Review Board and other members of the Board for the excellent work done.

New Delhi
10th June, 2003

R Bupathy
President

Preface to the First Edition

The profession of Chartered Accountants is one that is regarded as one of the most respectable one, wherever in the world one may go. It is for that reason that those belonging to this profession must show themselves worthy of this regard and respect every moment of their professional lives.

'Gunaigauravamayato noccairasanamasthitah|
prasadasikharastho'pi kako na garudayate||

One gets respect by good qualities, not by sitting on a high seat. Even though a crow may sit on top of a palace, it does not thereby become an eagle. This is a lesson that many of us have to learn; and it is to drive home the essence of this lesson that it is necessary for all of us who are proud to belong to this profession of chartered accountants, to submit ourselves to reality-checks and knowledge-checks, for by doing that we publicly state that while we are not perfect, no one is, or can be, we are willing to learn in what ways we fall short of what we should be. In that, we show ourselves to be different, for it is the student and most importantly, the student of oneself, who has the chance of reaching higher levels of learning and effectiveness. It is for these reasons that the Institute embraced the concept of peer review, and decided that it is necessary that the process should begin as quickly as possible.

Following that decision, the Practice Units covered under Stage I of the Peer Review have become eligible for participation in that process from 1st April, 2003.

In order that the peer review work is carried out in a comprehensive and qualitative manner resulting in enhancement of quality of attestation services and providing guidance to members to improve their performance and adhere to various statutory and other regulatory requirements, the Board has brought out a 'Peer Review Manual', which details out the process and modalities of the peer review as well as provides guidelines to the reviewer for planning and carrying out the review. The Manual also enables the practice units to understand as to what a reviewer would look for at practice unit's office.

One of the mandate given to the Peer Review Board, under the Statement on Peer Review issued by the Institute is "to arrange for such training programmes for reviewers as may be deemed appropriate". The training is aimed towards ensuring that the objective of peer review is achieved in letter and spirit and the reviewers are familiar with all the procedures, prescriptions etc.

The compulsory provision of practical training is an integral feature of the scheme of education and training for the chartered accountancy course. Such a provision, indeed, goes much deeper to the roots of professional ethics and outlook and is the foundation of the Institute's high standing.

Any profession exists only so long as it satisfies the needs of society and the requirements of the changing environment. The rapidly changing economic and industrial scene and the growing needs of business and industry have expanded the scope of services rendered by the accountancy profession. This necessitates a comprehensive evaluation of the system of practical training on a continuous basis. It is imperative to ensure that the range and depth of practical training is adequate so as to develop a well-rounded professional accountant.

While the Peer Review Manual deals in detail with the review process, it is felt that participation in the training programmes would provide the reviewers a deep insight into the practical aspects of review work. It will also be a good opportunity for the reviewers to seek clarifications, if any, before embarking on peer review assignments allotted by the Board. Since, peer review concept is being introduced, for the first time in India, it becomes imperative that the reviewers hone their skills so that the objectives of the Statement on Peer Review are achieved successfully.

One would appreciate that in every profession - be it medicine, law, accountancy, architecture or any other profession - skills are predominantly acquired through practice and knowledge plays a somewhat subservient role. Ancient history is replete with references to teachers teaching the princes, the science of bow-making and using bows (dhanurvedya) or the science of bringing up and maintaining horses (ashwavidya) through practical demonstrations. It is beyond doubt that the training sharpens practical skills of trainees and provides a platform where education and experience merge in a subtle way and it is this confluence which makes for a better professional.

As a corollary to the Peer Review Manual, the Board has developed training modules. It has been endeavoured to see that the Modules, as far as possible, are

in harmony with each Chapter of the Manual. Accordingly, the Training Modules for Peer Reviewers comprise of seven modules besides Introduction, tracing the genesis of Peer Review and the peer review process to be followed under Indian environment. Module I deals with Compliance Review of General Controls, followed by Module II which outlines the Review of Records by following Substantive Approach. Module III deals extensively with the auditing standards, as also some of the important guidance notes on the subject. Documentation forms the crux of work done by the practice units which form the subject - matter of discussion in Module IV. The matters relating to Quality of Report are covered by Module V. Miscellaneous aspects relating to office systems, procedures and training and office administration to be examined by the Reviewer are discussed in Module VI. Finally Module VII deals with different formats of reports to be given by the Reviewers.

The Training Modules have been designed in a lucid and user friendly manner. Each Module has been designed from the view point of facilitator i.e. the Trainer and the participant i.e. the Reviewer. Such an approach would enable the Reviewers to appreciate and understand the complexities of the manner of conducting peer review through participative approach.

At the end, I would like to remind the readers of something that is part of our age-old wisdom, 'nindantu nitinipunah yadi va stuvantu| lakshmi smavishatu gachhatu va yathestam| adyaiva va maranamastu yougantareva, nyayaryat pathah pravichalanti padam na dhirah||

Cunning people may defame one, money (lakshmi) may come and go, death may occur now or in the future, but those on the Right path never waver in their steps, nor lose their patience. That ideal is something that is equally valid for reviewers and reviewees because both of them are, in the ultimate, and all analyses, professionals committed to tread the straight and narrow path.

I consider it a privilege to place on record, on my own behalf and on behalf of other members of the Board, sincere thanks and appreciation for Shri N.V. Iyer, in helping the Board to develop the Training Modules.

New Delhi
9th June, 2003

Sunil Bhargava
Chairman
Peer Review Board

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	INTRODUCTION		



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- The Peer Review Process: An Overview
- Introduction
- Salient Features of the Statement of Peer Review
- Training Modules for Peer Reviewer: How to Make Effective Use

THE PEER REVIEW PROCESS: An Overview

- The PU will be notified of impending review along with a questionnaire
- The PU will be notified with names of three reviewers
- The PU will select one reviewer and send the completed questionnaire and the list of its attest clients after the PU is advised by the Board of reviewer's acceptance of assignment
- Reviewer selects preliminary sample of audit files and informs the PU
- On-site visit arranged by mutual consent
- Review may last between 1 and 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 key general controls is then carried out
- Final selection of audit files may be the same as, more, or less than, the preliminary selection
- Review of records i.e. of PU's client files
- Reviewer may issue final report (clean or qualified) to the Board with a copy to the PU or Preliminary report given to PU; PU to respond within 10 days
- The Board considers the final report (clean or qualified) and if satisfied, will issue Peer Review Certificate
 - The Board if not satisfied, may issue recommendations to the PU and direct the reviewer for further review
 - After further review, if the Board is satisfied, Peer Review certificate will be issued else no certificate will be issued



PEER REVIEW MODULES

- If reviewer is satisfied with PU's response to the preliminary report, he submits final report to the Board
- If reviewer is not satisfied, he submits a qualified report to the Board, with a copy to the PU
 - On receipt of qualified report or request from by the PU by the Board, it may instruct the reviewer to carry-out a follow-up review after a period of 12 months, by a fresh reviewer at its discretion
 - After follow-up review, if the Board is satisfied, Peer Review Certificate will be issued else no certificate will be issued
- The Board considers the final report and if satisfied, will issue Peer Review Certificate
 - The Board if not satisfied, may issue recommendations to the PU and direct the reviewer for further review
 - After further review, if the Board is satisfied, Peer Review certificate will be issued else no certificate will be issued.

INTRODUCTION

The Environment

The global economic environment has in recent times been spattered by the turbulences in the financial scenario, following the unearthing of frauds and procedural and financial malpractices followed by some leading corporate entities. The credibility of the opinion expressed by the auditors on the independent review of financial statements and records has also been questioned quite often. The inordinate hue and cry raised over these instances has culminated into the review of the auditor-auditee relationship, reexamining the degree of auditors independence, transparency and effectiveness in bridging the widening gap between expectations and performance. In India, the Naresh Chandra Committee in its report on Corporate Governance Reforms chalked out the path-breaking recommendations on the reforms required in the role of auditors, their independence and corporate governance.

The Naresh Chandra Committee also felt that there was a need to establish an efficient and professional body which can be entrusted to provide transparent and expeditious auditing quality oversight. This will be in the interest of investors, the general public and the professionals themselves. With this consideration in mind, Committee recommended the setting up of an independent Quality Review Board to periodically examine and review the quality of audit. All these developments manifest the need of a mechanism designed on the lines of the sound international practices and moulded in light of the indigenous environmental tenets, which provides, apart from corporate governance, due assurance on the quality of audit and compliance with the generally accepted accounting and auditing pronouncements on part of the auditors.

The Institute of Chartered Accountants of India, in its endeavour to meet the demands of high quality assurance, consistency and greater transparency took the pivotal step and released the Statement on Peer Review envisaging to maintain and enhance the quality of attestation services and to guide its members for improving their performance and ensuring adherence to various technical standards issued by the Institute. That this affirmation comes through the processes put into place by an independent body, only adds to the strength and vigour of the concept itself. And to



that extent strengthens also the professional's resolve to grow and evolve into a more contributing human being, a person who stands alone as an integrated, knowledgeable and mature one, confident both of his own abilities and firmness of the values which support his stance.

The Historical Retrospect

The concept of "peer review" came into existence in the United States during mid-seventies as promulgated by the American Institute of Certified Public Accountants (AICPA). The introduction of "peer review" by the AICPA was acknowledged by the Securities Exchange Commission (SEC) as the single most important self-regulatory initiative. During the early days of its inception, the review became necessary when a firm joined the SEC practice section or private companies practice section (PCPS) of the AICPA or both. It was conducted only once in every three years. There were two types of reviews, namely, "committee-appointed review" and "firm-on-firm review". In the latter case, an oversight body "Quality Control Review Panel" was also constituted. The review report was a public document and the firm could send copies of the report to clients, the firm personnel and other outside parties.

During early 2001, while Enron continued to dominate both the front and the business pages of major financial newspapers, scams in many other US companies such as World Com, Xerox, etc. also came to forefront. While noting the collapse of Enron, Harvey L. Pitt, the then Chairman of the Securities Exchange Commission observed, "over the last decade or so, this country's vaunted system of disclosure, financial reporting, corporate governance and accounting practices has shown serious signs of failing to keep up with the needs of today's investors, our economy, and new technology that makes rapid communications not only possible but essential. The latest example, a most tragic and unprecedented, one is the failure of Enron". He further stressed the need for reform of the regulation of the accounting profession. A two-pronged approach put forward by him included overhauling of disciplinary system and quality control aspects. Major reforms suggested in the area of peer review were as under:

- There should be a reform of the current peer review process that avoids firm-on-firm review.
- The new process should replace the current triennial firm-on-firm peer review with more frequent monitoring of audit quality and competence designed to produce better audit quality and transparent procedures in the future.
- There should be a permanent Quality Control staff, composed of knowledgeable people unaffiliated with any accounting firm.
- The staff should be deployed and overseen by the new publicly dominated body and its staff.



With the implementation of Sarbanes-Oxley, Act, 2002 and the constitution of Public Companies Accounting Oversight Board, the focus has been to install more robust mechanisms to instill confidence of the society in the accountancy profession.

The Indian Scene

In its proactive pursuit to upgrade and maintain audit quality standards, the Council of the Institute of Chartered Accountants of India took initiative as far back as in 1998 to introduce a system of review of the work of professionals and accordingly issued the Statement on Peer Review (the Statement) in early 2002. This statement laid down the framework for conduct of peer reviews by setting up the Peer Review Board (the Board). The Statement laid down the objective of the Review stating that such reviews are for the purpose of enhancing quality of professional work and they have no relationship whatsoever with any disciplinary or any other regulatory mechanism. The review begins with the assumption that professionals work professionally, and ends with an enhancement of those attributes of professionalism that serve to keep the profession of chartered accountancy in India in the forefront of the accounting and auditing profession in the world.

The review is directed towards maintenance as well as enhancing of quality of attestation services. With a view to achieving this primary objective, the peer review process would provide suggestions and guidance to the firms subjected to review so that they could improve their performance and consequently discharge their responsibilities to society in a much better manner, at par with International Standards. The Board would provide guidance in case any shortcoming is noticed during the course of review regarding application of Technical Standards issued by the Institute. Thus the function of the Board is to review the application of existing standards issued and shall not be to set any new standards, guidance notes, opinions, statements etc. While reviewing engagement records pertaining to attestation services, the reviewer would concentrate on areas where the practicing members need guidance in improving the quality, consistency and adaptability. Thus **the reviewer is not intended to evaluate the process of judgement formation by the reviewee**. The purpose of review is not to comment on the opinion expressed by the practice unit so long as that opinion is based on compliance with appropriate procedures, systems, techniques and tools, effectively and consistently. Thus the reviewer would be concentrating on the adequacy of procedures laid down and not on the audit opinion given by the practice unit.

Need for Peer Review

Peer review as a self-regulatory mechanism is the natural answer by the profession to assure the society and the stakeholders at large that the profession is conscious of its responsibilities and shall strive its best to ensure that the highest standards are



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observed by all its practising members. The Institute of Chartered Accountants of India has earned the distinction of being at the forefront of adopting diverse mechanisms such as issuing accounting and auditing and assurance standards, statements, guidance notes, etc. to enhance the quality of work performed by chartered accountants. A large number of research studies, industry-specific guides, etc. have also been published to improve the skills of members. These proactive initiatives have impressed upon the profession of chartered accountancy in India a stamp of quality and ethics. In this direction, the Council of the Institute took a progressive step forward by introducing a system of review of the work of the professionals. **The Council, in adopting the Statement on Peer Review has very clearly expressed its view that peer review is meant for the purpose of enhancing quality of professional work, transparency in technical standards used, world class procedures and techniques resulting into more reliable and useful audit and reports and it has no relationship whatsoever with any disciplinary or any other regulatory mechanism. The review begins with the assumption that professionals discharge their responsibilities properly and the aim of review is to enhance those attributes of professionalism that serve to keep the profession of chartered accountancy in India in the forefront of the accounting and auditing profession in the world.** The main objectives of peer review are:

1. To ensure compliance with the technical standards laid down by the ICAI by the practice units.
2. To have in place proper systems (including documentation systems) for maintaining the quality of the attestation services work performed by the practice units.
3. To increase the reliance placed by the users of financial statement for economic decision making.
4. To ensure adherence of various statutory and other regulatory requirements.
5. To ensure quality across cross-section of audit firms.
6. To strengthen public confidence.
7. To bring more transparency in attestation functions carried out by the members.

It may be understood that peer review does not seek to redefine the scope and authority of the technical standards specified by the Council but seeks to enforce them within the parameters prescribed by the technical standards, in a systematic, consistent and transparent manner and adhere to the well established procedures and systems of conduct and reporting of audits.



Cost of Peer Review

It is a natural principle that a user availing services must bear the cost. Accordingly, the Statement provides that the practice unit must bear the cost of review. The Board while laying down the cost was fully aware of the fact that it must be compatible with the level of services provided by the reviewer. At the same point of time, it is also fully conscious of the fact that it should not be prohibitive to act as a deterrent. The Board has accordingly laid down a structure which is compatible with the level of services provided and commensurate with the benefits accruing to the practice unit. It must, however, be noted that such cost shall have to be borne by the practice unit once in three years falling under Stage I. In respect of units covered under Stage II and Stage III, such cost might have to be incurred once in four or five years or more. Normally the review should be over in two days' time. However, if the work is likely to exceed two days, the reviewer will be required to intimate to the Board as well as the practice unit, in advance of extension of time for completion of review, with reasons. The practice unit may further reduce the cost of review by adopting one or more of the following procedures:

- Selection of a reviewer by the practice unit who belongs to same region/state, whereby TA/DA cost of the reviewer could be avoided.
- Use of electronic communication channels to provide the reviewer with information desired in a speedy and effective way.
- Multi-location firms may pool in information, record files, reports, etc. at one convenient or agreed location.
- Proper and exhaustive replies to be given in the questionnaire which could lead to cutting time and eventually the cost.



**SALIENT FEATURES
OF THE
STATEMENT ON PEER REVIEW**



Definition of Peer Review

- ✓ Peer Review deals with examination and review of systems and procedures to determine whether the systems and procedures are:
 - In existence
 - Effective
 - Operating continuously during the period under review.



Objective of Peer Review

- ✓ Assessing the maintenance of Quality of Attestation Service Engagements performed by Practice Units through:
 - Compliance with Technical Standards; and
 - Existence of proper systems (including documentation systems)
- ✓ Not to find out deficiencies but to improve the quality of services rendered by the members
- ✓ Not to identify isolated cases of engagement failure, but to identify weaknesses that are pervasive and chronic in nature.



Scope of Peer Review

- ✓ Attestation Services
 - Attestation Engagement Records for immediately preceding three completed financial years (Records prior to accounting year beginning 1.04.2002 shall not be subjected to review)
- ✓ Focus
 - Compliance with Technical Standards
 - Quality of Reporting
 - Compliance with Ethical Standards
 - Compliance with Professional Standards in terms of regulatory, legal & societal norms.
 - Office Systems and Procedures (attestation services only)
 - Staff training Programmes (attestation services only).



Attestation Services

- ✓ Include:
 - Auditing or verification of financial transactions/books/accounts/records
 - Verification/certification of financial accounting & related statements defined under Section 2(2)(ii) of the Chartered Accountants Act, 1949
- ✓ Do not include:
 - Management Consulting Engagements
 - Representing a client before the Authorities
 - Engagements to prepare tax returns or advising clients in taxation matters
 - Engagements for the compilation of FSs
 - Engagements solely to assist the client in preparing, compiling or collating information other than FSs
 - Testifying as expert witness
 - Providing expert opinions on points of principle (ASs or the applicability of certain laws) on the basis of facts provided by the client.

- ✓ The whole concept of peer review is directed at attestation services only. Therefore, one must clearly understand the term "attestation services". As per the Statement, the attestation 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 attestation services include all those services such as internal audit, concurrent audit, tax audit etc., which involve provision of some kind of element of assurance to users. The services which have been specifically excluded from the scope of attestation services are all management consulting engagements, representing a client before the authorities, preparing tax returns and providing tax advice, compilation services, testifying as expert witness and providing expert opinions based on facts. It may be noted that the term attestation services shall not include preparation of financial statements as it would fall under the clause engagements for the compilation of financial statements.



Technical Standards

- ✓ Accounting Standards
- ✓ Engagements and Quality Control Standards
- ✓ Framework for the Accounting, Auditing & Related Services
- ✓ Statements
- ✓ Accounting Standards Interpretations General Clarification issued under Auditing and Assurance Standards
- ✓ Notifications/Directions including those of self-regulatory nature
- ✓ Relevant Statutes/Regulations.
- ✓ Guidance Notes issued by the ICAI



Reviewer

An individual who...

- ✓ is a member
- ✓ possesses at least 10 years cumulative audit experience
- ✓ is currently active in practice of accounting and auditing.
- ✓ Reviewer can also take assistance of a Chartered Accountant working with him at least for one year who shall also be subject to confidentiality requirements as that of Reviewer. If assistance is taken, the name of that person and membership number shall be indicated in S.no.4 of the Annexure to be attached to the Final Report.



Allotment of Review Work

- ✓ Receipt of Empanelment Form
 - ✓ Issue of Empanelment Letter
 - ✓ Filing of Declaration which is to the following effect:
 - (i.) that no disciplinary action was pending
 - (ii) have not been convicted by a competent court whether within or without India, of an offence involving moral turpitude and punishable with transportation or imprisonment or of an offence, not of a technical nature, committed by you in your professional capacity unless in respect of the offence committed, you have either been granted a pardon or, on an application made by you in this behalf, the central government has, by an order in writing, removed the disability (the conviction here means conviction at the first court)
 - ✓ Undergone training
 - ✓ Intimation of 3 names of reviewers to the PU
 - ✓ Selection of a reviewer by the PU
-
- ✓ A member to be empanelled should have 10 years of experience of Auditing and Accounting and it is assumed that such a member would have diverse experience of various attest functions which are covered under peer review.
 - ✓ A reviewer is permitted to take the assistance of only one assistant who shall be a chartered accountant and a person who does not attract any of the dis-qualifications prescribed under Section 8 or Section 21 of the Chartered Accountants Act, 1949. The name of the qualified assistant which the reviewer would like to assist him shall be identified and intimated to the Board as well as the practice unit before the commencement of the peer review. Such a qualified assistant shall also have to sign the declaration of confidentiality. He shall have no direct interface either with the practice unit or the Board. Further the person chosen for assisting the reviewer shall be from the firm of the reviewer and should have been working with him for at least one year as a member in practice.



Firms covered under Peer Review

✓ Stage I

PU's conducting:

- Central Statutory Audit of Public Sector Banks/Private Sector Banks/Foreign Banks/Public Financial Institutions
- Central Statutory Audit of Central & State Public Sector Undertakings and Central Cooperative Societies having paid-up capital of over Rs. 5 crore and an annual turnover of more than Rs. 50 crore
- Central Statutory Audit of Insurance Companies
- Audit of Companies having paid-up capital of over Rs. 5 crore and an annual turnover of more than Rs. 50 crore

.....continued



.....continued

- Audits or Rendering attestation functions for asset management companies and mutual funds schemes (Implementation commenced from 1st April 2003)

✓ Stage II

PU's conducting statutory audit of:

- Branches of Public Sector Banks
- Branches of Private Sector and Foreign Banks
- Regional Rural Banks/Co-operative Banks
- Non-Banking Financial Companies (NBFCs) listed on the Stock Exchanges and not covered under Stage I



- Companies having paid-up capital of Rs. 2 to 5 crore and turnover above Rs. 20 crore

✓ **Stage III**

- PUs not covered under Stage I or Stage II (Implementation to commence from 1st April 2005).

- ✓ The following Practice Units are also covered under Stage II as per the Statement on Peer Review which have been for the time being deferred by the Board from the purview of peer review:
- ✓ Practice units conducting statutory audit of concerns which have raised funds from the Public/Financial Institutions of over Rs. one crore at any time during the period covered by the review and satisfy such other criteria in these regards as the Board may decide, as well as concerns who have shown readiness to raise funds of the above amount or more as evidenced by their filing of prospectus.



Selection of PU

- ✓ Random sample basis
 - Stage I PUs, mandatory review once in a block of three years or at shorter intervals on request of the PU or decision of the Board
 - Stages II/III PUs, may be subjected to review every four /five years
- ✓ Board decides the proportion of PUs to be reviewed during each phase
- ✓ A PU may also, suo motu, apply to the Board for getting reviewed
- ✓ An auditee concern may request the Board for the conduct of peer review of its auditor (PU).



Confidentiality

- ✓ Reviewer's access only to working papers of the PU
- ✓ Reviewer cannot carry extracts of client's working papers & records acquired by him while conducting peer review, as part of his working papers
- ✓ Reviewer bound by Code of Ethics
- ✓ Reviewer bound by "secrecy provision" enshrined in the Statement on Peer Review.



- The reviewer is required to sign the Statement of Confidentiality as under:
 - Working papers shall always be kept securely so that unauthorised access is not gained by anyone.
 - The practice unit's attestation services procedures shall not be disclosed to third parties.
 - Any information with regard to any matter coming to his knowledge in the performance or in assisting in the performance of any function during the conduct of peer reviews shall not be disclosed to any person.
 - Access to any record, document or any other material, in any form which is in his possession, or under his control, by virtue of being or having been so appointed or having performed or having assisted any other person in the performance of such a function, shall not at any time be permitted to any other person.
- The aforesaid statement of confidentiality is also to be signed by members of the Board, others who assist the reviewer and personnel associated with the Secretariat of the Board.
- Statement of confidentiality to be filed with the Board every year.
- Non-compliance with the secrecy provisions shall amount to professional misconduct as defined under Section 22 of the Chartered Accountants Act, 1949 and/or other stringent punishment as the Board may decide from time to time.

TRAINING MODULES FOR PEER REVIEWERS: How to Make Effective Use

TRAINING FOR REVIEWERS

Statement on Peer Review states:

To ensure that the objective of peer review is attained in letter and spirit, adequate training facilities shall be provided from time to time to the Reviewers and other persons who assist the Board as and when and in the manner considered appropriate by the Board. Reviewers shall be expected to be fully familiar with all procedures, prescriptions, guidance and notifications as may be issued by the Board from time to time.

Following from the requirement to train the reviewers given in clause 15.1 of the Statement on Peer Review referred to above, this set of training modules is prepared to provide a training curriculum for reviewers to undergo after empanelment and, simultaneously, to provide guidance to the training facilitators (trainers) on how to conduct the reviewers' training.

CONTENTS OF THE TRAINING MODULES

In designing this training curriculum, it is realised that qualifying reviewers, who possess at least ten years of experience in audit and are also currently active in the practice of accounting and auditing, would already possess expert knowledge in technical standards, including the ICAI's accounting standards, auditing and assurance standards, framework in respect of accounting and auditing, statements, general clarifications, interpretations, guidance notes, self-regulatory measures and relevant legislation in the context of specific engagements. As such, no useful purpose would be served in re-training them in their area of expertise.

However, because this review particularly focuses on the quality of audit and attestation performed by the reviewee PUs, the expected audit methodology as

specified in the Auditing and Assurance Standards Generally Accepted in India (Indian GAAS), might bear some repetition.

Besides this, the modules take a reviewer through the key concepts involved in the process of conducting a review consistent with the pronouncements contained in the Institute's Statement on Peer Review, as well as the methodology prescribed in the Peer Review Manual.

The objective of the training programme is to equip a reviewer with overall knowledge of the peer review methodology and the skills required for conducting reviews.

The training curriculum, thus, includes the following modules:

MODULE I	:	Compliance Review of General Controls
MODULE II	:	Review of Records
MODULE III	:	Technical Standards
MODULE IV	:	Documentation
MODULE V	:	Quality of Reporting
MODULE VI	:	Miscellaneous
MODULE VII	:	Reporting by Reviewers

Design and Layout of the Training Modules

Each module is sub-divided into participant guides (PG) meant for the reviewers under training, facilitator guides (FG) meant for the facilitators or trainers who will train the participants, and PowerPoint presentations to be used as training material by the facilitators.

Participant guides include the overall aims and objectives, key learning points, knowledge assumed, schedule of topics to be covered, key technical references, pre-work to be done by participants before training and, where considered necessary, detailed study material on the subject.

Facilitator guides generally include all of the contents of the participant guides, pre-work to be done by the facilitator, and detailed sets of instruction under each slide or topic to guide the facilitator both technically and in teaching techniques/presentation methodology that he should employ when presenting a given slide or group of slides.



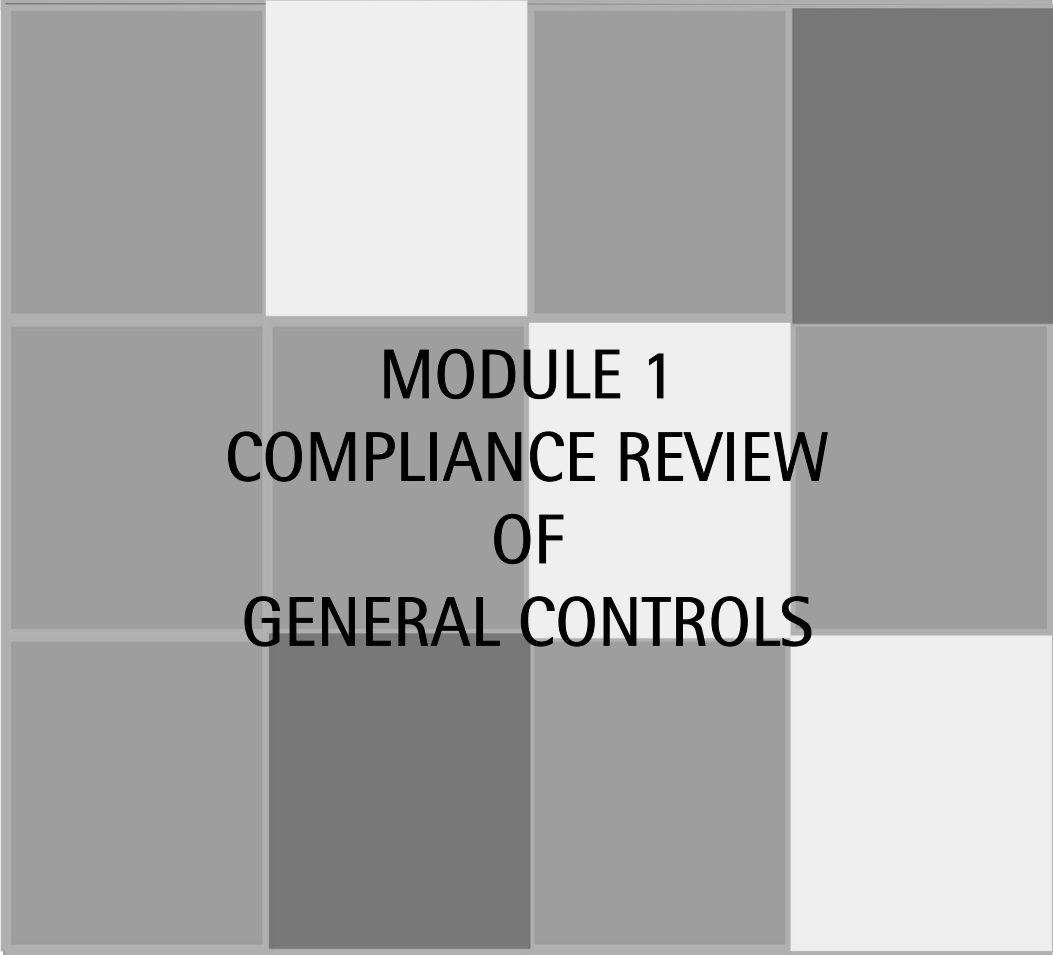
Using the Training Modules

The following should be distributed to the facilitators and participants (trainees) sufficiently in advance before commencement of the course:

- The Training Manual - The manual comprises of the Facilitator Guides (FG) and Participant Guides (PG). Both facilitator and participants should go through the guides and ensure that they are fully aware of what is given under "KNOWLEDGE ASSUMED" and "PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS".
- The Statement on Peer Review
- The Peer Review Manual
- Frequently Asked Questions on Peer Review.

Both facilitators and participants are expected to possess and bring to the training, a copy of ICAI publications on Technical Standards.

The facilitator may use the Power Point Presentation provided to present each module. The Notes provided under the slides in the facilitator guides are aids for the facilitator to present the module or a given slide(s) and include guidance on activities that he can make the group perform. He should thoroughly familiarize himself with these Notes and the subject matter. He should also know how to make a Power Point presentation and operate an LCD projector.



**MODULE 1
COMPLIANCE REVIEW
OF
GENERAL CONTROLS**

In this Module...

- **Facilitator Guide**
- **Context of General Controls**
- **Areas Covered**
- **Evaluation and Purpose**
- **Participant Guide**

COMPLIANCE REVIEW OF GENERAL CONTROLS

Facilitator Guide

OVERALL AIM

- To obtain an understanding of expected controls
- To determine whether
 - ✓ these controls were established by the practice unit, and
 - ✓ were functional during the period of intended reliance

OBJECTIVES

- To understand the context in which the Peer Review Manual introduces the concept of general controls
- To comprehend the areas covered by general controls
- To assess questions answered by practice unit
- To understand the procedures

KNOWLEDGE ASSUMED

- Statement on Peer Review
- Peer Review Manual

SCHEDULE

Description

The Context of General Controls

Areas Covered

Questions to be answered by practice unit

Evaluation and Purpose

KEY TECHNICAL REFERENCES

None

PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS

None

EQUIPMENT REQUIRED

A laptop loaded with Power Point, an LCD slide projector, flip charts, colour markers and a public address system with a mobile mike.



Compliance Review of General Controls

- The facilitator should introduce the concept of “compliance with general controls” by emphasising that Peer Review is directed towards maintenance and enhancement of quality of attestation services and to provide guidance to members to improve their performance and adhere to technical standards, various statutory and other regulatory requirements.
- Reviewer should make a primary evaluation of the design and quality of installed controls and the effectiveness of their operation in real life situations. Based on such evaluation, the reviewer needs to decide on the nature and extent of substantive procedures to obtain sufficient appropriate review evidence that the PU's audit and attestation processes meet the professional standards expected of it by the Institute.
- If controls are well designed and are found to be operating effectively, a lower level of substantive testing by the reviewer may be justified. On the other hand, if the PU's quality controls are non-existent, badly designed or inoperative, no reliance can be placed on them and the reviewer will find it necessary to perform a higher level of substantive testing.



Context of General Controls

Internal meeting between PU & Reviewer

Compliance Review of General Controls

Selection of Engagements for Review



General Controls – Area Covered

- ✓ Independence
- ✓ Maintenance of Professional Skills & Standards
- ✓ Outside Consultation
- ✓ Staff Supervision & Development
- ✓ Office Administration.



Specific Controls

- ✓ Audit Record Administration
- ✓ Review and Evaluation of System of Internal Controls
- ✓ Substantive Tests
- ✓ Financial Statement Presentation
- ✓ Audit Conclusion and
- ✓ Audit Report



Independence

- ✓ Independence policies and procedures
- ✓ Communication thereof
- ✓ Designation of Independence Officer
- ✓ Monitoring independence.



- Attention of readers is invited to the Guidance Note on Independence of Auditors.
- Independence can often be an issue in smaller PUs, not so much in terms of the auditor holding financial interests in the audited entity, but in terms of services provided that cause conflicts of interest. Small PUs are often found to perform all services including book-keeping, taxation and audit services. The reviewer should take care to ensure that auditor independence is maintained to the fullest extent required by law and as per Institute's technical standards.



Maintenance of Professional Skills & Standards

- ✓ Guidelines and requirements for CPE
- ✓ In-house mechanism for CPE
- ✓ Monitoring CPE.



MODULE I

- The cutting edge of a learned profession, such as ours, is in keeping our professional skills well-honed and in tune with changing times. This is because our services cater to a business, economic and regulatory environment that is constantly changing and, with the thrust of liberalisation, rapidly integrating into the global environment.
- It is therefore of utmost importance that PUs have a well-planned in-house mechanism for training and upgrading the technical skills of their people. This is especially important in relation to the training of articled clerks.
- Admittedly, very small PUs might not have the same resources as medium-sized or large PUs for such continuing professional education (CPE) programmes for their people. In such cases, they should make efforts to ensure that their people attend various lectures, seminars, workshops, etc., organised by the Regional Councils, Branches thereof or study circles set up under the Regional Councils of the Institute.
- In any case, all PUs ought to have, and execute, a plan for CPE of their people and monitor their attendance there. The mandatory requirements relating to CPE laid down by the Institute may also be noted in this context.



Consultation

- ✓ Access to reference libraries and other authoritative sources
 - Literature
 - Consulting firms/individuals
- ✓ Availability of expertise for consultation
 - Maintenance of records
 - Documenting resolution of differences of opinion.



- Consultation is emphasised because it is obviously difficult for any professional to know everything. Large PUs have in-house consulting mechanisms where one partner feels free to discuss contentious issues pertaining to an audit with his other partners and senior professionals.
- Smaller PUs equally need to have a consultation process set up by accessing reference libraries (such as those maintained by the Institute's Regional Councils) and by seeking the consultation of outside experts, if required.
- In either case, whether the PU is small or big, it is imperative that such consultation is well-documented in the workpapers in order that the PU has recorded evidence that it exercised due care in the performance of its professional duties.



Staff Supervision & Development

- ✓ Orientation for new appointees
- ✓ System of scheduling and staffing
- ✓ Monitoring personnel training and development.



MODULE I

- For a PU, its professional people are its greatest asset, perhaps more valuable than any on its balance sheet. The value of this "intellectual property" depends entirely upon investments that the PU makes in appointing and retaining the best people, assigning the right people to each engagement, and making conscious endeavours so that its people develop into better professionals.
- New appointees, at all levels, should be quickly integrated into the PU's work culture, methodologies and professional philosophy. This should be done by conducting orientation programmes and training courses. Again, such efforts should be formally planned, performed and documented in the PU's office records on an on-going basis.



Office Administration

- ✓ Scheduling related to skill and competence
- ✓ Review of work and guidance
- ✓ Monitoring progress of engagement.



- A frequent accusation against the auditor is that its staff did not have the requisite skills to perform the audit engagement. This ground is getting greater prominence as business processes are getting more and more technical and complex. For example, a question could be raised as to how knowledgeable a PU's partners, professionals and assistants are in dealing with a sophisticated computer application system that has been installed by their client for its accounting? And, if they are not, how competent was the PU in having performed the audit? It is thus vital for the PU administration to match skills and competence of its human resources to client requirements.
- Sometimes it is felt that the senior in-charge of the audit or the partner does not guide assistants and monitor their work performance from day to day, nor does he perform an in-depth review of their working papers. Often, this is accompanied by a finding that no documented planning was done before the audit to help the junior staff know why they were doing that. Therefore, it is vital that this quality control be carefully examined by the reviewer.



Evaluation and Purpose

- ✓ Reviewer may ask other questions
- ✓ Size of PU to be considered
- ✓ Review to be mainly by interview and corroboration of representations made
- ✓ Gives overall assessment for engagement sample selection
- ✓ Reviewer to identify controls on which he may rely.

COMPLIANCE REVIEW OF GENERAL CONTROLS

Participant Guide

OVERALL AIM

- To obtain an understanding of expected controls
- To determine whether
 - these controls were established by the practice unit, and
 - were functional during the period of intended reliance

OBJECTIVES

- To understand the context in which the Peer Review Manual introduces the concept of general controls
- To comprehend the areas covered by general controls
- To assess questions answered by practice unit
- To understand the procedures

KNOWLEDGE ASSUMED

- Statement on Peer Review
- Peer Review Manual

SCHEDULE

Description

The Context of General Controls

Areas Covered

Questions to be answered by practice unit

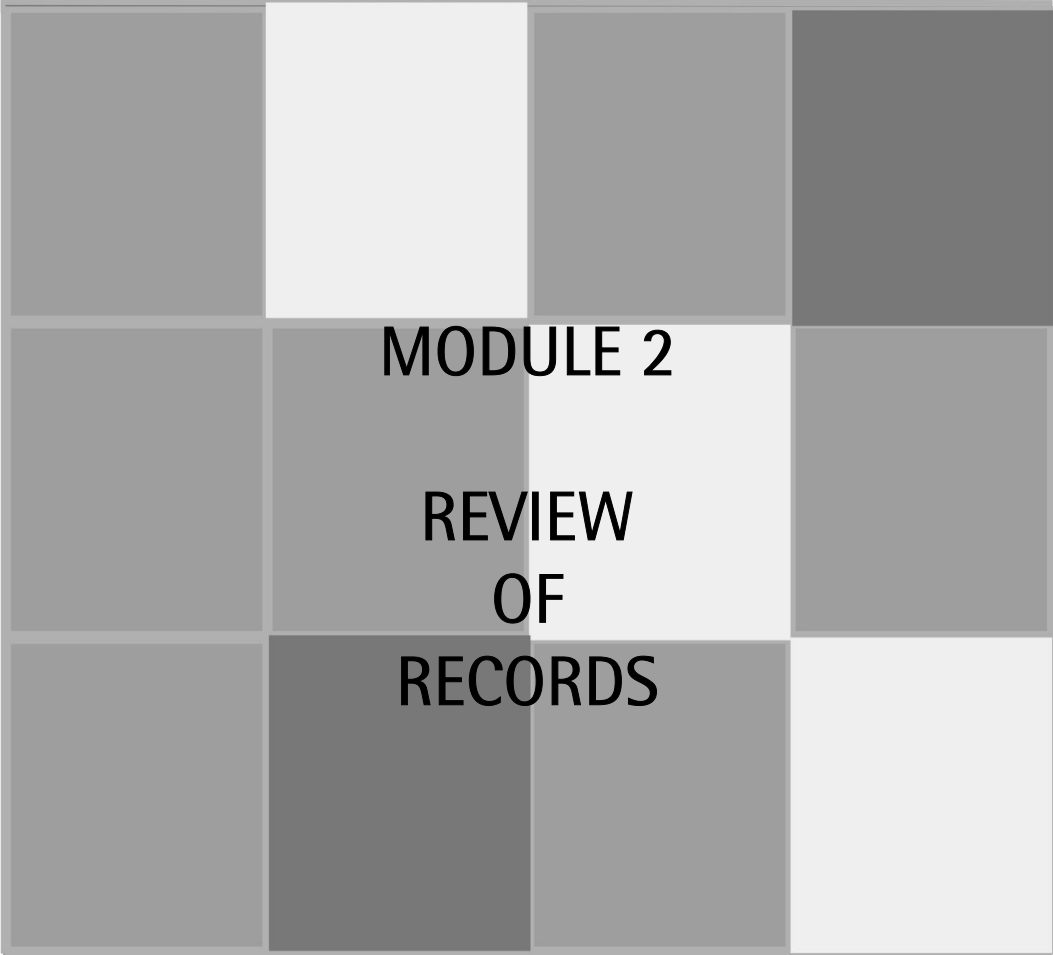
Evaluation and Purpose

KEY TECHNICAL REFERENCES

None

PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS

None.



MODULE 2

**REVIEW
OF**

RECORDS

In this Module...

- Facilitator Guide
- Review Procedure
- Control Testing - Areas
- Control Testing and Evaluation
- Substantive Testing (1 - 8)
- Participant Guide

REVIEW OF RECORDS

Facilitator Guide

OVERALL AIM

- To ensure that the PU, while performing attestation services, complied with technical standards;
- To ensure that the PU has in place proper systems (including documentation systems) for maintaining the quality of attestation services rendered; and
- To ensure that the PU has adhered to relevant statutory and regulatory requirements

OBJECTIVES

- To equip reviewers with a clear understanding of how to perform an on-site review of a PU insofar as review of records is concerned; and
- To provide a checklist of steps that a PU is expected to perform in planning and performing an audit engagement

KNOWLEDGE ASSUMED

- Statement on Peer Review
- Peer Review Manual
- Practical experience in planning and performing audit and other attest engagements
- Knowledge of technical standards

SCHEDULE

- Methodology of conducting a review of records
- Control reliance approach
- Substantive approach

KEY TECHNICAL REFERENCES

None



PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS

The participants should familiarize themselves with the technical standards (Accounting Standards, Auditing and Assurance Standards and the Companies Act, 1956) that contain pronouncements/law dealing with the six controls: (1) audit record administration, (2) financial statement presentation, (3) review and evaluation of the system of internal controls, (4) substantive tests, (5) audit conclusion and (6) audit report

The participants should additionally acquaint themselves with the requirements of auditing and assurance standards in India (Indian GAAS) that lay down pronouncements that reviewers need to be thoroughly conversant with when performing the substantive testing of PU client audit files

FACILITATOR'S PREPARATION BEFORE LEARNING UNIT BEGINS

- The facilitator should familiarize himself with the technical standards (Accounting Standards, Auditing and Assurance Standards and the Companies Act, 1956) that contain pronouncements/law dealing with the six controls: (1) audit record administration, (2) financial statement presentation, (3) review and evaluation of the system of internal controls, (4) substantive tests, (5) audit conclusion, and (6) audit report
- The facilitator should particularly acquaint himself with the requirements of auditing standards in India (Indian GAAS) that lay down pronouncements that reviewers need to be thoroughly conversant with when performing the substantive testing of PU client audit files. While a checklist of items that a reviewer should take care to examine is provided in this module, detailed discussion on Indian GAAS is to be found in Module III

EQUIPMENT REQUIRED

A laptop loaded with Power Point, an LCD slide projector, flip charts, colour markers and a public address system with a mobile mike.



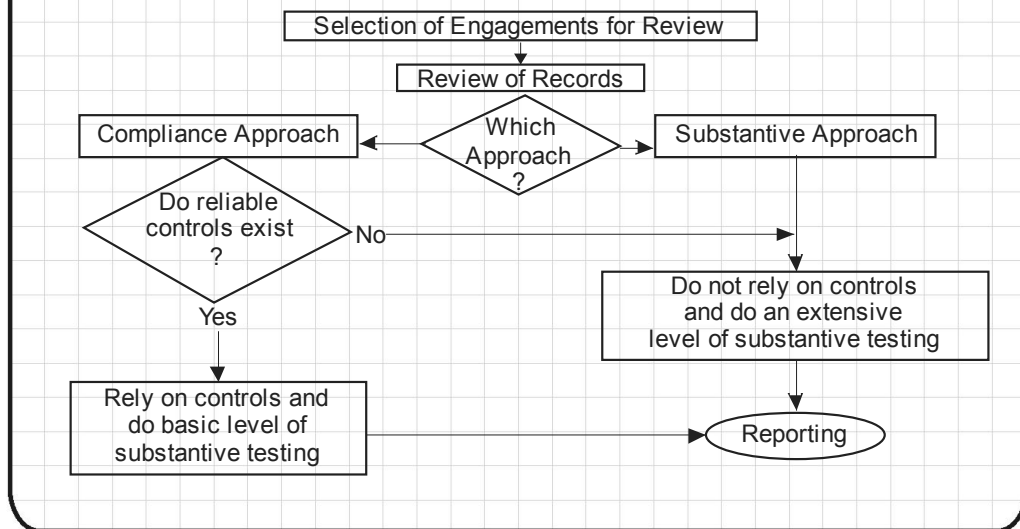
REVIEW

OF

RECORDS



Review Procedure



- When reviewing records of a PU, a reviewer should keep in mind that the extent of his substantive testing of the audit files will depend upon whether, in his opinion based on discussions with the PU and corroborative evidence in support of the assertions made, the PU is in compliance with the controls specified in the following slide.
- If the reviewer is uncomfortable with being able to form such an opinion, he would need to make a more extensive examination of the audit files than otherwise.
- The reviewer's report would be based upon the findings he reaches after a review of the PU's records.



Controls Testing-Areas

Records of one following key controls to be reviewed to ensure compliance with technical standards:

- ✓ Audit record administration
- ✓ Financial statements presentation
- ✓ Review and evaluation of system of internal controls
- ✓ Substantive tests
- ✓ Audit conclusion
- ✓ Audit report.

- The facilitator should have familiarized himself with the technical standards (Accounting Standards, Auditing and Assurance Standards and the Companies Act, 1956) that contain pronouncements/law dealing with (1) audit record administration, (2) financial statements presentation, (3) review and evaluation of the system of internal controls, (4) substantive tests, (5) audit conclusion, and (6) audit report.
- When dealing with this slide, he should question the participants on what they would look for when testing controls under each of the six bullet points. As they make suggestions, he should keep noting them down on a flip chart. He should then applaud the correct answers, even as he adds the few key additional points that the participants' answers have not included, making the whole discussion lively and interactive.



Controls Testing and Evaluation

- ✓ Documentation is of critical importance
- ✓ Smaller PUs may have a lower level of documentation tailored to their clients, provided circumstances therefore are justified to reviewer.

- Module IV details the importance of proper documentation. Unless an auditor documents how he planned and performed an audit, he would find it difficult to convince any skeptic that he in fact did the work at all.
- The Statement on Peer Review acknowledges the fact that smaller firms with mostly small-sized clients might not currently have high quality documentation policies in place. But the fact remains that small firms do not render any lesser quality of professional service to their clients. It is expected that such firms would maintain enough evidence to substantiate that they in fact planned and performed high quality audits. In view of this, all PUs - irrespective of their size - would do well to revisit the quality and extent of documentation as a firm policy and endeavour to bring it in line with best practices prevailing in the profession, because they will find it rather difficult to justify to their reviewer the circumstances under which a lower level of documentation was in order.



Substantive Testing-1

- ✓ Appointment of auditor
- ✓ Terms of engagement
- ✓ Obtaining information
- ✓ List of Accounting records
- ✓ Composition of management
- ✓ Book-keepers & authorised signatories
- ✓ Memorandum / Articles, Prospectus, Partnership Deed.

The following 7 slides including above slide in fact contain a checklist of the aspects a reviewer needs to examine when conducting a PU client's audit file review. This checklist is not exhaustive and reviewers are certainly not precluded from looking into the PU client audit workpapers for evidence of compliance with technical standards outside of this checklist. But, the reviewer is not expected to communicate with or visit the client of the practice unit.

Group Presentations (following 7 slides including above slide)

Time allowed to the groups for discussion and preparation of flip charts: 7 to 10 minutes.

Time allowed for each group presentation: 5 minutes.

Time allowed for facilitator summary of each slide: 1 minute.

To make discussion on these technical issues both interesting and interactive as also to reduce thinking time, facilitators should get the participants to work in groups of 5 or 6. Each group is assigned one slide on which its members should brainstorm and come up with a list of thoughts on what they would want to see documented in a PU client audit file for each one of the bullet points.

Simultaneously, each group is given flip chart paper and colour markers to prepare a five-minute group presentation for the rest of the class, to be delivered by one or more group members. As each slide is displayed on the screen, the group working on that slide will send up its spokesperson(s) on the stage to make the group presentation. After the group presentation, the facilitator summarises the most important points in relation to each bullet point. Then the next slide is displayed, and so on until last slide.



Substantive Testing-2

- ✓ Understanding the client's business
- ✓ Understanding the accounting systems
- ✓ Understanding the controls environment
- ✓ Past financial statements & reports of internal/statutory auditors
- ✓ Evaluation of audit risk, using professional judgement
- ✓ Design of procedures to mitigate risk.



Substantive Testing-3

Perform preliminary analytical procedures to:

- ✓ Identify key account balances
- ✓ Highlight unusual/unexpected amounts and relationships
- ✓ Design appropriate testing procedures
- ✓ Obtain sufficient audit assurance for reducing/eliminating detail testing.



Substantive Testing-4

- ✓ Determine materiality estimate for the audit engagement
- ✓ Plan for account balances to be tested and sampling methodology
- ✓ Selection of samples
- ✓ Perform controls testing and conclude on controls reliability
- ✓ Communicate control weaknesses to management.



Substantive Testing-5

- ✓ Perform substantive analytical testing
- ✓ Perform substantive tests of detail
- ✓ Ensure prevalence of fundamental accounting assumptions consistency, going concern, accrual accounting
- ✓ Examine and report changes in accounting policies and their impact
- ✓ Branch audit reports qualifications, scope limit reservations.



Substantive Testing-6

- ✓ Working Papers to have adequate audit evidence for assertions made in financial statements
- ✓ Working Papers to agree with books of account, financials and are cross-referenced
- ✓ Perform financial statements review
- ✓ Complete lead schedules
- ✓ Prepare audit summary memorandum
- ✓ Review assistants' work.



Substantive Testing-7

- ✓ Ensure updation of permanent file
- ✓ Review individual and aggregate effect of unadjusted errors
- ✓ Check compliance with legal and regulatory requirements
- ✓ Check compliance with ICAI accounting standards
- ✓ Subsequent events review.



Substantive Testing-8

- ✓ Final discussion points
- ✓ Draft audit opinion
- ✓ Prepare management letter
- ✓ Compare budgeted hours to actuals and analyse variances
- ✓ Complete staff evaluation
- ✓ Start next year's planning.



REVIEW OF RECORDS

Participant Guide

OVERALL AIM

- To ensure that the PU, while performing attestation services, complied with technical standards;
- To ensure that the PU has in place proper systems (including documentation systems) for maintaining the quality of attestation services rendered; and
- To ensure that the PU has adhered to relevant statutory and regulatory requirements

OBJECTIVES

- To equip reviewers with a clear understanding of how to perform an on-site review of a PU insofar as review of records is concerned; and
- To provide a checklist of steps that a PU is expected to perform in planning and performing an audit engagement

KNOWLEDGE ASSUMED

- Statement on Peer Review
- Peer Review Manual
- Practical experience in planning and performing audit and other attest engagements
- Knowledge of technical standards

SCHEDULE

Methodology of conducting a review of records

- Control reliance approach
- Substantive approach

KEY TECHNICAL REFERENCES

None



PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS

- The participants should familiarize themselves with the technical standards (Accounting Standards, Auditing and Assurance Standards and the Companies Act, 1956) that contain pronouncements/law dealing with the six controls: (1) audit record administration, (2) financial statement presentation, (3) review and evaluation of the system of internal controls, (4) substantive tests, (5) audit conclusion, and (6) audit report
- The participants should additionally acquaint themselves with the requirements of auditing and assurance standards in India (Indian GAAS)/SA's Standards on Auditing that lay down pronouncements that reviewers need to be thoroughly conversant with when performing the substantive testing of PU client audit files

Group Presentations

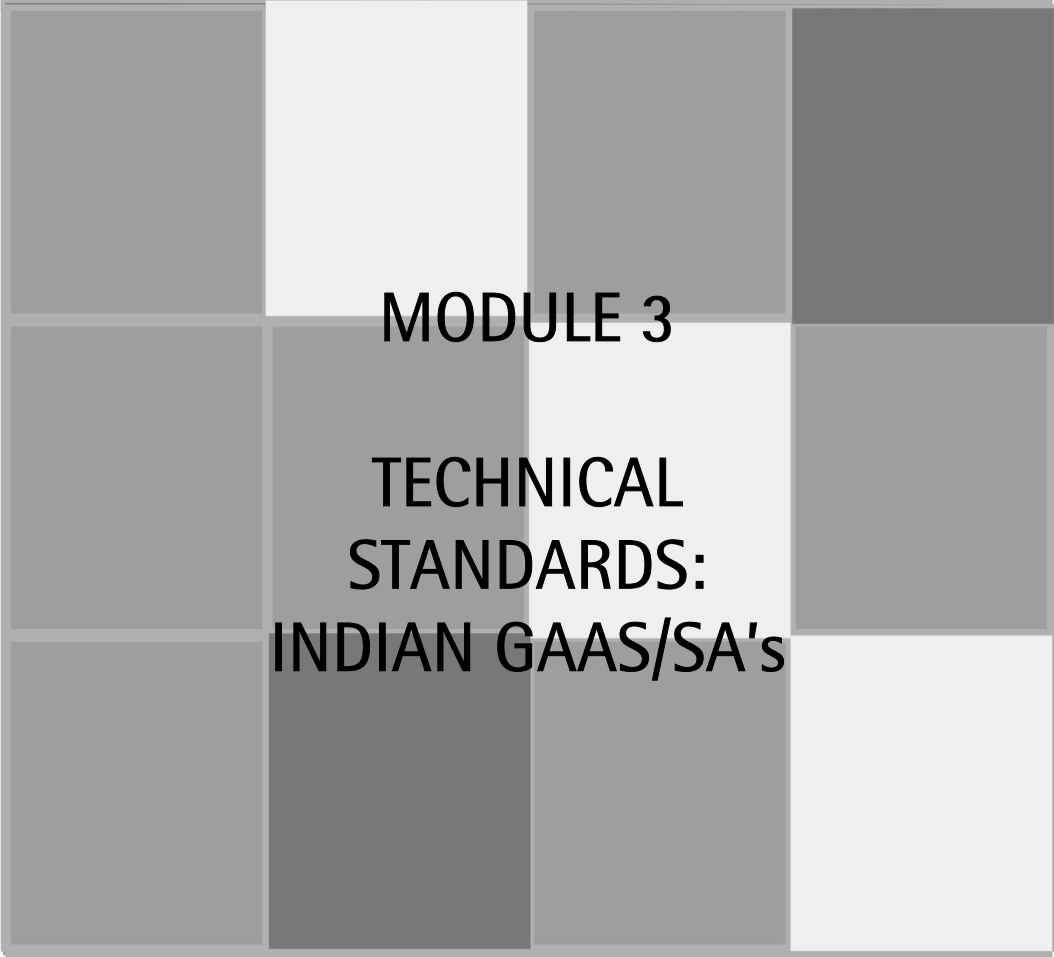
Total time allowed for the preparatory activity, including making of flipcharts (but excluding presentation) to groups: 7 minutes

Time allowed to each group to make their group presentation: 5 minutes.

Participants will be divided into groups and each group given one slide to discuss. These slides comprise a checklist of areas that a reviewer looks at while performing a substantive review of the PU client audit work paper files

Participants are expected to consult relevant technical standards where pronouncements/law/regulations are laid down for the topics mentioned under each bullet point in the slide allocated to the group and come up with a shortlist of key points to be considered by the reviewer.

The group will be provided flipchart paper and colour markers with which its spokesperson(s) will then make a presentation before the class.



MODULE 3
TECHNICAL
STANDARDS:
INDIAN GAAS/SA's

In this Module...

- Facilitator Guide
- Technical Standards in the Context of Peer Review
- Indian GAAS
- Auditing - Related Services
- Basic Principles Governing an Audit
- Objective and Scope of the Audit of Financial Statements
- Documentation
- The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements
- Quality Control for Audit work
- Consideration of the Laws and Regulations in an Audit of Financial Statements
- Terms of Audit Engagements
- Auditing in a Computer Information Systems Environment
- Engagements to Perform Agreed Upon Procedures Regarding Financial Information
- Engagements to Review Financial Statements
- Risk Assessments and Internal Control
- Audit Planning
- Audit Materiality
- Knowledge of the Business
- Audit Considerations Relating to Entities Using Service Organisations
- Audit Evidence



- Representations by Management
- Analytical Procedures
- Audit Sampling
- Auditing of Accounting Estimates
- Subsequent Events
- Initial Engagements - Opening Balances
- Related Parties
- External Confirmations
- Audit Evidence - Additional Consideration for Specific Items
- Relying Upon the Work of an Internal Auditor
- Using the Work of an Expert
- Using the Work of Another Auditor
- Responsibility of Joint Auditors
- Going Concern
- Comparatives
- Communications of Audit Matters to those charged with Governance
- The Auditor's Report on Financial Statements
- List of Guidance Notes
- Participant Guide



TECHNICAL STANDARDS – INDIAN GAAS

Facilitator Guide

OVERALL AIM

To refresh knowledge of Indian GAAS to enable reviewers to perform efficient reviews of technical standards related to auditing

OBJECTIVES

To ensure that reviewers are aware and conversant with the salient features of Indian GAAS as contained in various AASs and relevant Guidance Notes of the Institute so as to help them conduct efficient reviews of compliance by PUs with Technical Standards related to auditing pronouncements

KNOWLEDGE ASSUMED

- Statement on Peer Review
- Peer Review Manual
- Standards on Auditing (SA's) and relevant Guidance Notes

SCHEDULE

Basic Principles Governing an Audit
Objective and Scope of the Audit of Financial Statements
Documentation
The Auditor's Responsibility to Consider Fraud and Error in an Audit of- Financial Statements
Quality Control for Audit work
Consideration of the Laws and Regulations in an Audit of Financial-Statements
Terms of Audit Engagement
Auditing in a Computer Information Systems Environment
Engagements to Perform Agreed-Upon Procedures Regarding Financial-Information
Engagements to Review Financial Statements
Risk Assessments and Internal Control
Audit Planning
Audit Materiality
Knowledge of the Business
Audit Considerations Relating to Entities Using Service Organisations
Audit Evidence



Representations by Management
Analytical Procedures
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Subsequent Events
Initial Engagements - Opening Balances
Related Parties
External Confirmations
Audit Evidence - Additional Consideration for Specific Items
Relying Upon the Work of an Internal Auditor
Using the Work of an Expert
Using the Work of Another Auditor
Responsibility of Joint Auditors
Going Concern
Comparatives
Communications of Audit Matters to those charged with Governance
The Auditor's Report on Financial Statements
List of Guidance Notes

KEY TECHNICAL REFERENCES

- SA's 100 - 999
- Guidance Notes

PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS

- Study of all the above mentioned key technical references

IMPORTANT NOTE TO PARTICIPANTS

While this module and Module IV deal with Technical Standards with which a PU is required to be in compliance, it must be noted that these are not the only Technical Standards with which a reviewer needs to be familiar. Standards dealt with in this training programme are only the Auditing and Assurance Standards. Besides these, reviewers are expected to have knowledge and familiarity in applying the following other Standards:

1. Accounting Standards (AS 1 to AS 29, as of now)
2. Framework in Respect of Accounting and Auditing Statements
3. Notifications/Directions including those of Self-regulatory nature
4. Other Guidance Notes
5. Statements, General Clarifications and Interpretations; and



MODULE III

6. Relevant Legislation, including the Companies Act, 1956 and other laws, rules, notifications, etc., as may affect the type of client whose workpapers are under review

It may be noted that the pronouncements of the Institute like SA's and ASs became applicable and mandatory from different dates. While reviewing the practice unit's records for a particular engagement, the reviewer should examine the applicability of the relevant pronouncement to the particular engagement during the period under review

FACILITATOR'S PREPARATION BEFORE LEARNING UNIT BEGINS

1. Expert knowledge of all SA's and relevant Guidance Notes of the ICAI
2. Prepare topic slips and put them into a box
3. Keep a stop-watch and a bell
4. Keep 4-5 gift-wrapped prizes (depending on the maximum number of presenters for a topic) for the best presentation award

EQUIPMENT REQUIRED

A laptop loaded with Power Point, an LCD slide projector, flip charts, colour markers and a public address system with a mobile mike.



Technical Standards

Indian GAAS/Standards on Auditing (SA's)



Technical Standards in the Context of Peer Review

- ✓ Accounting Standards
- ✓ Standards on Auditing
- ✓ Framework in respect of Accounting and Auditing
- ✓ Statements, General Clarifications & Interpretations
- ✓ Guidance Notes
- ✓ Notifications/Directions including those of Self-regulatory Nature
- ✓ Relevant Legislations.



Indian GAAS

- ✓ All SAs - 100 through 999
- ✓ Guidance Notes

The volume and weight of technical literature contained in Indian GAAS is too bulky for a continuous, normal slide-show presentation by a facilitator to sustain participant interest. An inter-active mode of presenting this module is therefore needed:

Individual/Group Presentations (Slides 4 through 49):

Time allowed:

For research: 10 minutes

For each presentation: 3 minutes per slide

For facilitator summary of each topic: 1 minute

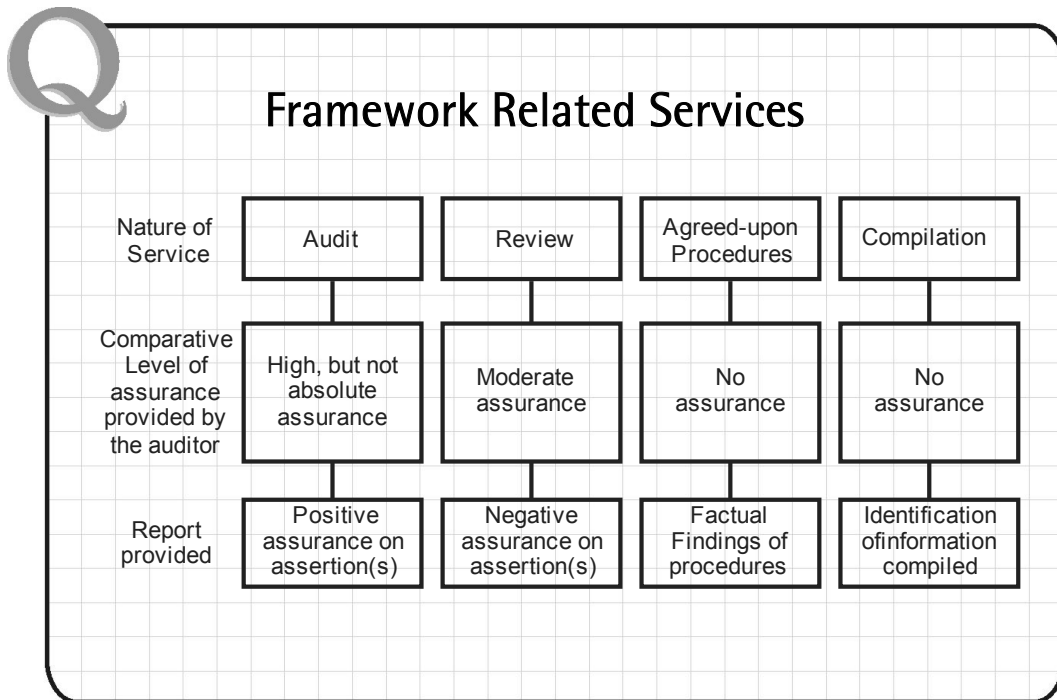
For group discussion of each topic: 3 minutes

Slips with topic names should be put in a box.

- Participants should be asked to pick one slip each.
- Those who have no slips to pick should be allocated topics where there is more than one slide.
- Participants/groups are given 10 minutes to research their topics by looking through the text of the relevant SA or Guidance Note of the Institute and their slide(s).
- No flip-chart preparation by the presenters is required as they are expected to use the slides already available.



- The facilitator announces the topic and calls upon the presenter(s) to make a presentation before the class. The time taken should not exceed 3 minutes per slide.
- The facilitator gives a warning bell 45 seconds before the end of time and then a final bell at the end of time. Presenters should be warned that no extra time shall be allowed.
- After each presentation, the facilitator summarises the topic in a minute, taking care to clear any ambiguities or confusions that the presenter(s) might have created.
- This is followed by a 2-3 minute group discussion on the topic, before the facilitator announces the next topic.
- At the end of all the presentations, each participant should be given a blank slip of paper on which he should be asked to write the name of the topic (other than the one that he himself presented) that in his opinion was best presented. The facilitator then collects and counts the votes. The presenter(s) whose topic gets maximum votes get(s) the prize.





Basic Principles Governing an Audit (SA-200)

- ✓ Integrity, Objectivity and Independence
- ✓ Confidentiality
- ✓ Skills and Competence
- ✓ Work Performed by Others
- ✓ Documentation
- ✓ Planning
- ✓ Audit Evidence
- ✓ Accounting System and Internal Control
- ✓ Audit Conclusions and Reporting



Objective and Scope of the Audit of Financial Statements (SA-200A)

- ✓ Objective of audit is to express an opinion.
- ✓ Auditor's opinion is neither an assurance as to the future viability nor reflects the efficiency or effectiveness with which the Management has conducted the affairs.
- ✓ Scope of Audit.



Documentation (SA-230)

- ✓ Form and content of -
 - Plan, Audit Procedures, Audit Evidence and Conclusions
 - Permanent vs. Current File
- ✓ Ownership – Property of Auditor
- ✓ Custody and Confidentiality



The Auditor's Responsibility to Consider Fraud and Error (SA240)

- ✓ Auditor to consider F&E
- ✓ Management Fraud vs. Employee Fraud
- ✓ Fraudulent Financial Reporting vs. Misappropriations of Assets
- ✓ Primary responsibility with those charged with governance
- ✓ Auditor's responsibility to provide Reasonable Assurance that FSs are free of material misstatements
- ✓ Professional skepticism Inherent Limitations of Audit
 - Judgment

..... continued



The Auditor's Responsibility to Consider Fraud and Error (SA240)

..... continued

- Testing
- Inherent limitations of internal control
- Persuasive vs. Conclusive audit evidence
- ✓ Planning discussions – Inquiries of Management
 - Discussions with those charged with governance
 - Audit Risk
- ✓ Procedures when circumstances indicate a possible misstatement – Confirm or Dispel.
- ✓ Considering whether an identified statement may be indicative of fraud



The Auditor's Responsibility to Consider Fraud and Error (SA240)

..... continued

- Impact on reliability of management representation
- Consider the necessity for disclosure of the fraud in FSs
- Disclosure in Audit Report
- ✓ Documentation
- ✓ Management Representations
- ✓ Communications
 - To Management
 - To Regulators and Enforcement authorities
- ✓ Auditor unable to complete the engagement
- ✓ Communication with incoming auditor



Quality Control for Audit Work (SA220)

- ✓ Quality Control Policies – Audit Firm's Level
 - Professional Requirements
 - Skills and Competence
 - Assignment
 - Delegation
 - Consultation
 - Acceptance and Retention of clients
 - Monitoring
- ✓ Quality control policies – Individual Audit Level
 - Direction
 - Supervision
 - Review



Consideration of Laws & Regulations in an Audit of Financial Statements (SA-250)

- ✓ Auditor to recognise non-compliance may materially affect FSs
- ✓ At planning: understand entity's legal / regulatory framework and compliance
- ✓ Perform procedures to identify non-compliance – inquiry, document exam
- ✓ Auditor to have sufficient understanding of relevant L&R to consider their applicability, impact and disclosure
- ✓ Procedure when Non-compliance discovered

...Continued



Consideration of Laws & Regulations in an Audit of Financial Statements (SA-250)

.....Continued

- ✓ Obtain understanding nature fact
- ✓ Circumstances in which it occurred
- ✓ Evaluate possible effect on FSs
- ✓ Document and discuss with Management
- ✓ If inadequate information, consider effect of lack of evidence in report
- ✓ Non-compliance might arouse skepticism about Management representations
- ✓ Communication/Reporting of Non-compliance



Consideration of Laws & Regulations in an Audit of Financial Statements (SA-250)

.....Continued

- ✓ Non-compliance to be communicated to Audit Committee, Board or Senior Management
- ✓ If committed by Senior Management, communicate to higher level, say, Audit Committee or Board
- ✓ Qualified opinion/disclaimer to be considered if there is material impact on FSs or scope limitation
- ✓ If conclusion of non-compliance cannot be determined, effect on audit report to be considered



Terms of Audit Engagement (SA-210)

.....Continued

- ✓ To agree on the terms of the engagement and changes, if any – Auditor and the client
- ✓ Auditor to send an engagement letter before the commencement of engagement
 - Avoid any misunderstanding between the client and the auditor
 - Provide written confirmation of
- ✓ Acceptance of appointment
- ✓ Scope of Audit
- ✓ Form of Report

.....Continued



Terms of Audit Engagement (SA-210)

.....Continued

- ✓ Nature of Audit
- ✓ Management's responsibility
- ✓ Unrestricted access to records and information
- ✓ Audit Process is subject of Peer Review Process
- ✓ Fees and billing arrangements
- ✓ Planning arrangements
- ✓ Reference to Management representations
- ✓ Arrangements concerning the involvement of:
 - Internal auditors
 - Other auditors and Experts
- ✓ Arrangements with previous auditor

.....Continued



Terms of Audit Engagement (SA-210)

.....Continued

- ✓ Any restriction on auditor's liability.
- ✓ Normally, no need for sending the letter every year. However, annual review is must
- ✓ Factors to be considered for sending a new letter
- ✓ Change in terms of engagement before completion of audit to provide different levels of assurance
 - Change in circumstances
 - Misunderstanding as to the nature of auditor or related service
 - Restriction on scope of the engagement.



Auditing in a CIS Environment (SA401)

- ✓ Consider effect of CIS environment on audit
- ✓ Sufficient knowledge of the CISs required to plan, direct, supervise, control and review the work performed
- ✓ Adequacy of work performed by the expert
- ✓ Obtain an understanding of the accounting & internal control systems sufficient to plan the audit and to determine the nature, timing and extent of the audit procedures
- ✓ Document the audit plan, audit procedures and conclusions drawn from the evidence obtained
- ✓ Electronic evidence should be adequate/safely stored/ easily retrievable.



Risk Assessments & Internal Control (SA400)

- ✓ Obtain understanding of accounting and internal control systems to assess risk and plan and develop an effective audit approach
- ✓ Design of audit procedures should ensure mitigation of risk-use professional judgement
- ✓ Inherent risk to be assessed at FS level, relate assessment material account balances, classes of transactions
- ✓ If inherent risk is judged to be not high, reasons for that assessment to be documented
- ✓ Understanding the accounting system:
 - Major classes of transactions and their initiation

..... Continued



Risk Assessments & Internal Control (SA400)

..... Continued

- Accounting records, supportings, specific accounts
- The accounting/financial reporting process chain
- ✓ Understanding the control environment:
 - Business cycle controls and computer controls installed sufficient to develop audit plan
 - Management's attitude, awareness and action
- ✓ Preliminary assessment of control risk at assertion/account balance level
- ✓ Control risk high unless auditor:
 - Can identify controls that mitigate the risk
 - And plans to test such mitigating controls

..... Continued



Risk Assessments & Internal Control (SA400)

..... Continued

- ✓ Document in working papers the understanding of accounting system/control environment obtained, and why the risk is not high
- ✓ Evidence to be obtained/documentated to support conclusion that risk is low;
- ✓ Based on tests of controls, evaluate whether internal controls are properly designed and operating
- ✓ No reliance on work done in prior periods without evidence to support such reliance
- ✓ Ensure that internal controls were in operation throughout the period of intended reliance

..... Continued



Risk Assessments & Internal Control (SA400)

..... Continued

- ✓ Based on controls testing, preliminary assessment on controls reliability may change – if so, modify substantive audit programme to factor in the new situation
- ✓ Assessed levels of inherent and control risks and determine the nature, timing and extent of substantive testing, to obtain required overall audit assurance
- ✓ Regardless of inherent/control assurance, some substantive work must be done
- ✓ Higher internal/control risk, more audit evidence to be obtained

..... Continued



Risk Assessments & Internal Control (SA400)

..... Continued

- ✓ Where a material detection risk cannot be reduced to acceptable level, qualify opinion or give disclaimer, as appropriate
- ✓ Material weaknesses in design or operation of accounting system/control environment to be communicated to management.



Audit Planning (SA300)

- ✓ Planning necessary for effective, efficient and timely audit, based on knowledge of client
- ✓ Plan to be developed and revised through progress of audit
- ✓ Involves: overall scope + audit program
- ✓ Revisions: changes in conditions/results, reasons to be documented
- ✓ Prior period audit observations to be considered
- ✓ Plan to be appropriately documented
- ✓ Written, detailed, instructional audit programs, setting out area-wise audit objectives, necessary



Audit Materiality (SA320)

- ✓ Materiality to be considered in relation to audit risk
- ✓ Materiality to be considered for –
 - Determining nature, timing and extent of audit procedures
 - Evaluating the effect of misstatements
- ✓ Evaluate whether effect of aggregate uncorrected misstatements (known and likely) on FSs is material
- ✓ If so, and management refuses to adjust the financials, qualified or adverse opinion is required.



Knowledge of the Business (SA 310)

- ✓ Auditor to obtain sufficient knowledge to identify/ understand events, practices & transactions impacting FSs, examination or audit report
- ✓ Obtain preliminary knowledge prior to engagement acceptance
- ✓ Subsequent to acceptance more detailed information to be obtained
- ✓ For continuing engagement, update & re-evaluate
- ✓ Knowledge should be passed on to audit team Knowledge gained should be in synchronisation with assertions in the FSs, and the FSs as a whole.



Audit Considerations relating to Entities Using Service Organisations (SA402)

- ✓ If reliance on work done by a service organisation is significant, obtain sufficient information to evaluate its impact on accounting/control systems
- ✓ Assess control risk as high unless tests of controls allow for a lower risk
- ✓ In using report of service organisation auditor, evaluate his competence if he is not a CA
- ✓ Assess scope of work done by service organisation auditor and nature and content of his report to decide on its usefulness

..... Continued



Audit Considerations relating to Entities Using Service Organisations (SA402)

..... Continued

- ✓ Evaluate whether nature, timing and extent of tests performed by service organisation auditor provide adequate evidence to support (client auditor's) assessed level of control risk
- ✓ No reference to be made of service organisation auditor's report in (client auditor's) audit report



Audit Evidence (SA500)

- ✓ Auditor to evaluate whether he has obtained sufficient appropriate audit evidence before drawing conclusions therefrom
- ✓ Audit evidence should, in total, enable auditor to form an opinion on the FSs
- ✓ The auditor should be thorough in his efforts to obtain evidence and objective in its evaluation
- ✓ The reliability of auditor evidence depends on its source, and in its nature
- ✓ In case an auditor is unable to obtain sufficient appropriate evidence, he should not express an unqualified opinion.



Representations by Management (SA58)

- ✓ Management acknowledges its responsibility for the preparation/presentation of FSs
- ✓ Exercise professional judgment on matters on which to obtain MRs – when sufficient appropriate evidence cannot reasonably be expected to exist.
- ✓ Where MR conflicts with other audit evidence, increase professional skepticism
- ✓ MRs should be documented among the WPs
- ✓ Case of 'scope limitation' where management refuses to provide MR that the auditor considers necessary



Analytical Procedures (SA520)

- ✓ Application
 - At planning stage to understand business and identify potential risks
 - Near end of audit to conclude whether FSs correspond to knowledge of business
- ✓ Includes comparison of financial information & comparison of relationships
- ✓ At planning stage use financial/non-financial information
- ✓ Methods used-simple comparisons/complex analysis using statistical techniques
- ✓ When analytical procedures identify significant variances or inconsistent relationships further investigation/explanations/corroborative evidence needed.



Audit Sampling (SA530)

- ✓ Design and select a representative sample, perform audit procedures thereon, evaluate sample results to provide audit evidence
- ✓ Design - consider specific audit objective, population, sample size
- ✓ Sample size - consider: sampling risk, tolerable error, expected error
- ✓ The auditor should:
 - Analyse errors found in sample
 - Project detected errors into population to estimate likely specific audit objective
 - Reassess the sampling risk, based on aggregate of detected and likely errors.



Auditing of Accounting Estimates (SA540)

- ✓ Examine evidence that estimate is reasonable in the circumstances, and is appropriately disclosed
- ✓ To audit an estimate
 - Review and test process used by client in making estimate; and/or
 - Use an independent estimate to compare with recorded estimate; and/or
 - Review subsequent events that confirm validity of recorded estimate
- ✓ Estimate should be consistent with knowledge of business and audit evidence obtained



Subsequent Events (SA560)

- ✓ Consider effect of subsequent events on FSs & audit report
- ✓ Plan and perform procedures to ensure that all subsequent events that might require adjustments/disclosures are identified
- ✓ If management does not adjust FSs for effects of such events, express qualified/adverse opinion.



Initial Engagements Opening Balances (SA510)

- ✓ For new engagements auditor to ensure:
 - Correct b/f of prior period closing balances
 - Opening balances b/f are free of misstatements
 - Appropriate accounting policies are consistently applied
- ✓ If sufficient appropriate evidence is not obtained for integrity of opening balances, or if effect of any material misstatements therein is not duly accounted/disclosed, express qualified or adverse opinion or disclaimer as considered appropriate



Related Parties (SA550)

- ✓ Perform the following audit procedures on RPs and transactions disclosed by management:
 - Review prior year's working papers for names of related parties
 - Review client's procedures for identifying RPs
 - Inquire about affiliation of directors/key management personnel with other entities
 - Review shareholder records for names of principal shareholders
 - Review memorandum, articles, minutes, statutory records
 - Enquire from past auditors, review their reports
 - Review client's tax returns, information given to other regulators



Related Parties (SA550)

- Review JV and other key agreements
- ✓ RP disclosure should be adequate in terms of requirements of AS-18
- ✓ Consider adequacy of controls in relation to RP transactions and carefully audit selections for validity, proper recording and disclosure
- ✓ Obtain written management representation:
 - About completeness of RP information provided
 - Adequacy of RP disclosures in FSs
- ✓ If unable to obtain sufficient appropriate audit evidence or if disclosure is inadequate, express qualified opinion or disclaimer of opinion.



External Confirmations (SA505)

- ✓ Determine whether external confirmations is necessary to obtain sufficient appropriate audit evidence to support certain FS assertions
- ✓ Consult management for employing external confirmation procedures
- ✓ Assess whether such evidence reduces audit risks for the related assertions to an acceptably low level
- ✓ Design confirmation requests to the specific audit objective
- ✓ To decide about the information to be included in the request for confirmation, obtain an understanding of client's transactions/third parties arrangements

..... Continued



External Confirmations (SA505)

..... Continued

- ✓ Consider information from earlier years audits
- ✓ Maintain control over the selection process those to whom a request will be sent/preparation & sending of confirmation requests/responses
- ✓ In case of no response to positive external confirmation request, perform alternative procedures
- ✓ Consider any indication on non-reliability of external confirmations
- ✓ Undertake additional procedures, if not satisfied
- ✓ Consider the causes & frequency of exceptions reported

..... Continued



External Confirmations (SA505)

..... Continued

- ✓ If indication of misstatements, reassess inherent & control risk/effect on audit procedures
- ✓ Evaluate if results of external confirmation process/other procedures performed, provide sufficient appropriate audit evidence
- ✓ If management requests not to confirm certain balances/ other information, consider if there are valid grounds & obtain evidence
- ✓ In case of, agreement/disagreement to management's request not to seek external confirmation regarding a

..... Continued



External Confirmations (SA505)

..... Continued

particular matter, document the reasons & apply alternative procedures

- ✓ There is scope limitation, in case of non acceptance of the validity of management's request & prevention from carrying out the confirmations & impact on the report should be considered.



Audit Evidence Additional Consideration for Specific Items (SA501)

- ✓ Attendance at Physical Inventory Counting
 - Primary responsibility of Management
 - Attend unless impracticable due to nature and location
 - Unable to attend due to unforeseen circumstances – Observe physical count on alternative date and perform alternative procedures
 - Management Representation
 - Scope limitation in case of existence / qualified opinion in case of improper disclosure.

..... Continued



Audit Evidence Additional Consideration for Specific Items (SA501)

..... Continued

- ✓ Inquiry Regarding Litigation and Claims
 - Obtain awareness of any litigation and claim involving the entity.
 - Communication of entity's lawyers directly with the auditor.
 - Meeting with the lawyer – Disagreement between the Management and lawyer
 - Management Representation
- ✓ Valuation and Disclosure of Long-Term Investment

..... Continued



Audit Evidence Additional Consideration for Specific Items (SA501)

..... Continued

- Valuation and disclosure
 - Management Representation
 - Qualified / Disclaimer of opinion
- ✓ Segment Information
- ✓ Appropriate disclosure of segment information as per the financial reporting framework.
 - Management Representation
 - Qualified/Disclosure



Relying Upon the Work of an Internal Auditor (SA610)

- ✓ External auditor to evaluate adequacy of internal audit and document his conclusions
- ✓ General Evaluations-Organisational Status/Scope/Technical Competence/Due Professional care
- ✓ Also relevant from viewpoint of planning, nature, timing and extent of his own testing and, if appropriate, reducing extensiveness thereof by relying on internal audit.
- ✓ Review/test the internal auditor's work on which he relies, and document his conclusions thereon



Using Work of an Expert (SA620)

- ✓ Work done by other auditors/experts (other than accounting and auditing/ should be adequate
- ✓ To decide whether to use work of expert, to consider
 - Materiality, nature and complexity of item – including risk of error
 - Other audit evidence available
- ✓ To get satisfaction about expert's skill
 - Consider professional qualifications
 - Experience and reputation
- ✓ Source data appropriateness:
 - Inquiries with expert as to how he satisfied himself

..... Continued



Using Work of an Expert (SA620)

..... Continued

- Conducting audit procedures thereon
- ✓ If it is concluded that work of expert is inconsistent with FSs, or is not sufficient appropriate audit evidence, express qualified/adverse opinion or disclaimer, as appropriate
- ✓ If unqualified opinion, no mention of expert's work in audit report
- ✓ Consider expert's objectivity
- ✓ To ensure that the expert's work constitutes appropriate audit evidence, consider
 - the source data used,

..... Continued



Using Work of an Expert (SA620)

..... Continued

- the assumptions and methods used and, if appropriate, their consistency
- the results of the expert's work in the light of the auditor's knowledge of business and testing results
- proper reflection of the expert's findings in the FSs



Using the Work of Another Auditor (SA600)

- ✓ Principal auditor to decide how work of another auditor will affect audit
- ✓ If the other auditor is not a CA, principal auditor to examine his professional competence
- ✓ Principal auditor to perform procedures to ensure that the work of another auditor is adequate for his purposes
- ✓ Significant findings of other auditor to be considered by principal auditor
- ✓ There should be sufficient liaison / coordination between principal and other auditor

..... Continued



Using the Work of Another Auditor (SA600)

..... Continued

- ✓ If principal auditor concludes that he cannot use the work of another auditor and is unable to audit that component, he expresses a qualified opinion / disclaimer, as appropriate – due to scope limitation
- ✓ If principal auditor relies on work of other auditor(s), his report should clearly mention division of responsibility and its extent



Responsibility of Joint Auditors (SA299)

- ✓ Joint auditors to mutually divide areas of work between themselves &/or do it jointly & this is to be documented and communicated to client
- ✓ Findings by one affecting work of others or likely to require discussion/disclosure to be communicated to them in writing before finalisation
- ✓ Each joint auditor responsible only for work allotted to him except for work not divided/procedures decided by all/matters brought to his notice/compliance checking of FS & audit report

..... Continued



Responsibility of Joint Auditors (SA299)

..... Continued

- ✓ If such matters brought to notice after report submitted then others not responsible
- ✓ Each joint auditor determines nature, timing, extent of audit procedures for his area
- ✓ Obtaining/evaluation of information & explanation from management responsibility of all except in specific distribution
- ✓ Each joint auditor may assure that other auditor has worked in accordance with GAAPs
- ✓ If disagreement on report, each should express his own opinion.



Going Concern (SA570)

- ✓ Recognise the risk that GC assumption may no longer be appropriate
- ✓ Such indications may be financial, operating or otherwise
- ✓ When a question arises about the appropriateness of Going Concern, gather sufficient appropriate evidence for the entity's ability to continue in operation for the foreseeable future
- ✓ If GC assumption is appropriate due to mitigating factors eg management's future plans, consider whether such factors need to be disclosed, if not, consider giving qualified/adverse opinion

..... Continued



Going Concern (SA570)

..... Continued

- ✓ If adequate disclosure is made, unqualified opinion is okay, but add paragraph in audit report to highlight problem and draw attention to the disclosure
- ✓ If disclosure is made but assumption is materially and pervasively inappropriate, express qualified/adverse opinion, as appropriate
- ✓ If adequate disclosure is not made, express qualified/adverse opinion, as appropriate.
- ✓ Comparative figures to comply with financial reporting framework
- ✓ Report not to specifically identify comparatives

..... Continued



Going Concern (SA570)

..... Continued

- ✓ If a matter, that caused prior period report to be qualified/adverse or disclaimer, is unresolved:
 - And results in modification of current period report, current period report should also be modified regarding corresponding figures
 - But if does not result in modification of current period report, current period report should only be modified regarding corresponding figures
- ✓ Examine that:
 - Appropriate disclosures are made

..... Continued



Going Concern (SA570)

..... Continued

- If not, issue modified report on current period financials modified with respect to corresponding figures included therein
- If prior period FSs are not audited, incoming auditor should state in his report that corresponding figures are unaudited.



Comparatives (SA710)

- ✓ Comparative figures to comply with financial reporting framework
- ✓ Report not to specifically identify comparative opinion on the current period as a whole
- ✓ If a matter that caused prior period report to be qualified/adverse or disclaimer, is unresolved and results in modification of current period report, current period report should also be modified regarding corresponding figures but does not result in modification of current period report, current period report should only be modified regarding corresponding figures

..... Continued



Comparatives (SA710)

..... Continued

- ✓ Examine that:
 - Appropriate disclosures are madeIf not, issue modified report on current period financials modified with respect to corresponding figures included therein
- ✓ If prior period FSs are not audited, incoming auditor should state in his report that corresponding figures are unaudited



Communications of Audit Matters with Those Charged with Governance (SA260)

- ✓ To communicate audit matters of governance interest arising out of audit of financial statements to those relevant persons who are charged with governance
- ✓ Determination of relevant persons by the auditor as to who are charged with governance
- ✓ Persons responsible for supervision, control and direction
- ✓ To exercise judgement
- ✓ To decide by the process of agreement where entity governance structure is not well defined

..... Continued



Communications of Audit Matters with Those Charged with Governance (SA260)

..... Continued

- ✓ To explain in audit engagement letter
- ✓ General approach and overall scope of the audit including limitation
- ✓ Accounting policies
- ✓ Potential effect of significant risks and exposures
- ✓ Adjustments
- ✓ Material uncertainties
- ✓ Disagreements with the Management resolved or not

..... Continued



Communications of Audit Matters with Those Charged with Governance (SA260)

..... Continued

- ✓ Expected modifications in the audit report
- ✓ Material weaknesses in internal control
- ✓ Questions regarding Management integrity
- ✓ Frauds involving Management
- ✓ Documentation



The Auditor's Report on Financial Statements (AAS-28)

- ✓ This is extensively covered in Module V.



List of Guidance Notes

Provision for Proposed Dividend

Auditing of Accounts of Liquidators

Independence of Auditors

Preparation of Financial Statements on Letter-heads and Stationery of Auditors

Guidance Note on Auditor's Report on Revised Accounts of Companies Before Circulation to Shareholders

Guidance Note on Certificate to be Issued by the Auditor of a Company Pursuant to Companies (Acceptance of Deposits) Rules, 1975

Guidance Note on the Duty Cast on the Auditors under Section 45-MA of the Reserve Bank of India Act, 1934

Guidance Note on Audit Reports and Certificates for Special Purposes

Guidance Note on Accountants' Report on Profit Forecasts and/or Financial Forecasts

Guidance Note on Section 293 A of the Companies Act and the Auditor

Guidance Note on Audit of Fixed Assets

Revision/Rectification of Financial Statements

Guidance Note on Audit of Accounts of Non-Corporate Entities (Bank Borrowers)

Guidance Note on Reports in Company Prospectuses

Guidance Note on Audit of Abridged Financial Statements

Guidance Note on Certification of Documents for Registration of Charges

Guidance Note on Audit of Inventories

Guidance Note on Audit of Investments

Guidance Note on Audit of Debtors, Loans and Advances

Guidance Note on Audit of Cash and Bank Balances

Guidance Note on Audit of Liabilities

Guidance Note on Audit Reports/Certificates on Financial Information in Offer Documents

Guidance Note on Audit of Revenue



MODULE III

Clarification on the Auditor's Rights Where Clients and Others Seek Access to Their Audit Working Papers

Guidance Note on Certificate on Corporate Governance

Guidance Note on Section 227(3)(e) and (f) of the Companies Act, 1956 (Revised)

Guidance Note on Audit of Expenses

Guidance Note on Revision of the Audit Report

Guidance Note on Special Consideration in the Audit of Small Entities

Guidance Note on Audit of Miscellaneous Expenditure [Revised]

Guidance Note on Audit of Consolidated Financial Statements

Guidance Note on Computer Assisted Audit Techniques (CAATS)

Guidance Note on Audit of Banks (Revised)

Guidance Note on Audit of Accounts of Members of Stock Exchanges (Revised)

Guidance Note on Audit of Companies carrying on General Insurance Business (Revised)

Guidance Note on Audit of Companies carrying on Life Insurance Business

Guidance Note on Mode of Valuation of Fixed Assets

Guidance Note on Guarantees & Counter-Guarantees given by Companies

Guidance Note on Treatment of Reserves Created on Revaluation of Fixed Assets

Guidance Note on Accounting for Changing Prices

Guidance Note on Terms Used in Financial Statements

Guidance Note on Accrual basis of Accounting

Guidance Note on Accounting for Depreciation in Companies

Guidance Note on Some important issues Arising from the Amendments in Schedule XIV to the Companies Act, 1956

Guidance Note on Availability of Revaluation Reserve for Issue of Bonus shares

Guidance Note on Accounting for Leases

Guidance Note on Accounting for Corporate dividend Tax

Guidance Note on Accounting Treatment for Excise Duty (Revised in 2000)

Guidance Note on Accounting for Investments in the Financial Statements of Mutual Funds



- Guidance Note on Accounting by Dot Com Companies
- Guidance Note on Accounting for Oil & Gas Producing Activities
- Guidance Note on Accounting for Securitisation
- Guidance Note on Accounting for Equity Index and Equity Stock Futures and Options
- Guidance Note on Accounting for Employee Share-based Payments
- Guidance Note on Accounting for State-level Value Added Tax
- Guidance Note on Accounting for Fringe Benefits Tax
- Guidance Note on Accounting by Schools
- Guidance Note on Accounting for MODVAT/CENVAT
- Guidance Note on Treatment of Expenditure during Construction Period
- Guidance Note on tax audit under section 44AB of the Income-tax Act, 1961
- Guidance Note on Audit of Public Charitable Institutions under the Income-tax Act, 1961
- Guidance Note on report on international transactions under section 92E of the Income-tax Act, 1961 (Transfer Pricing)
- Guidance Note on report under section 115JB of the Income-tax Act, 1961
- Guidance Note on Issue of Bonus Shares.

TECHNICAL STANDARDS – INDIAN GAAS

Participant Guide

OVERALL AIM

- To refresh knowledge of Indian GAAS to enable reviewers to perform efficient reviews of technical standards related to auditing

OBJECTIVES

- To ensure that reviewers are aware and conversant with the salient features of Indian GAAS as contained in various AASs and relevant Guidance Notes of the Institute so as to help them conduct efficient reviews of compliance by PUs with Technical Standards related to auditing pronouncements

KNOWLEDGE ASSUMED

- Statement on Peer Review
- Peer Review Manual
- AASs and relevant Guidance Notes

SCHEDULE

Basic Principles Governing an Audit
Objective and Scope of the Audit of Financial Statements
Documentation
The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements
Quality Control for Audit work
Consideration of the Laws and Regulations in an Audit of Financial Statements
Terms of Audit Engagement
Auditing in a Computer Information Systems Environment
Engagements to Perform Agreed-Upon Procedures Regarding Financial Information
Engagements to Review Financial Statements
Risk Assessments and Internal Control
Audit Planning
Audit Materiality
Knowledge of the Business
Audit Considerations Relating to Entities Using Service Organisations
Audit Evidence
Representations by Management



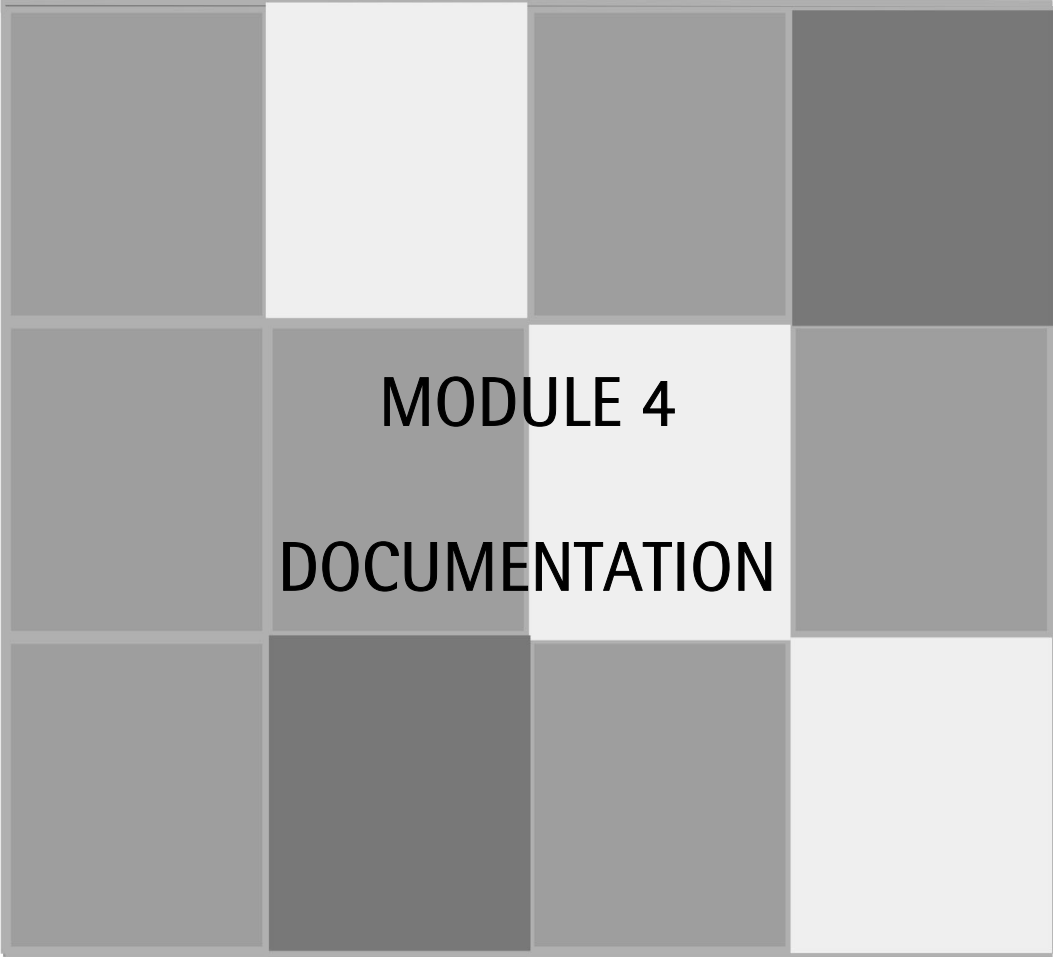
Analytical Procedures
Audit Sampling
Auditing of Accounting Estimates
Subsequent Events
Initial Engagements - Opening Balances
Related Parties
External Confirmations
Audit Evidence - Additional Consideration for Specific Items
Relying Upon the Work of an Internal Auditor
Using the Work of an Expert
Using the Work of Another Auditor
Responsibility of Joint Auditors
Going Concern
Comparatives
Communications of Audit Matters to those charged with Governance
The Auditor's Report on Financial Statements
List of Guidance Notes

KEY TECHNICAL REFERENCES

- SA's 100-99
- Guidance notes

PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS

- Study of all the above mentioned key technical references.



MODULE 4
DOCUMENTATION

In this Module...

- Facilitator Guide
- Importance of Documentation
- Minimum Maintenance of Records/Documentation
- Broad Requirements
- Factors affecting Working Papers
- Principal Requirements
- Qualities of Working Papers
- Permanent File
- Current File
- Recommendatory Records
- Documentation - Nature and Size of Practice Unit
- Working Papers
- Participant Guide



DOCUMENTATION

Facilitator Guide

OVERALL AIM

To understand the quality and quantity of documentation that is required to exist in support of a PU having planned and performed an audit

OBJECTIVES

To understand the requirements for mandatory documentation under SA230
To learn what other recommended records should be maintained by a PU

KNOWLEDGE ASSUMED

Statement on Peer Review
Peer Review Manual

SCHEDULE

The need for adequate documentation
Mandatory documentation requirements under SA230
Other records a PU needs to maintain

KEY TECHNICAL REFERENCE

SA230 - Documentation

PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS

Study AAS3 - Documentation

FACILITATOR'S PREPARATION BEFORE LEARNING UNIT BEGINS

Expert knowledge of AAS3 - Documentation

EQUIPMENT REQUIRED

A laptop loaded with Power Point, an LCD slide projector, flip charts, colour markers and a public address system with a mobile mike.



Documentation



Importance of Documentation

- ✓ "The auditor should document matters which are important in providing evidence that the audit was carried out in accordance with the basic principles" – SA 200
- ✓ In a scenario where the quality of audit work is getting increasingly questioned, documentation is the only way for an auditor to substantiate that he was not negligent.

- The need for detailed and comprehensive documentation was felt in the US and some of the other Western countries many years ago because in those countries auditors were increasingly being hauled up before the Courts of law and threatened with punitive damages where they could not conclusively prove that they had planned and performed their attested function in conformity with the related technical standards.
- It is well known that a big gap exists between the real scope of an audit and the public perception of an audit. When things go wrong, stakeholders question why the auditor had not forewarned them. At such times, the quality of an auditor's work is challenged and the methodology of each and every significant audit procedure that he carried out or failed to carry out comes under close scrutiny.
- In general, the onus in a Court proceeding against an auditor is on him to prove that he was not professionally negligent in the performance of his duties. And the general assumption is that the auditor's work papers should provide documentary evidence of his claim to having performed a given audit procedure or the justification for having reached a particular judgement or opinion. If the work papers do not provide such evidence, the consequential assumption is that the given audit procedure was not performed.
- Documentation is the only way an auditor can prove to outsiders that he planned and performed an effective audit, however good he might himself consider the audit to have been.
- Refer following corresponding existing AAS and New Standards Number containing matters relevant to documentation:



New Standard Number	Standards	Corresponding Existing AAS Number
SA 200	Basic Principles Governing an Audit	1
SA 240 (Revised)	The Auditor's Responsibilities Relating to Fraud In An Audit of Financial Statements	4
SA 400	Risk Assessments and Internal Control	6
SA 610 (Revised)	Using the Work of Internal Auditors	7
SA 300 (Revised)	Planning an Audit of Financial Statements	8
SA 600	Using the Work of Another Auditor	10
SA 580 (Revised)	Written Representations	11
SA 299	Responsibility of Joint Auditors	12
SA 220	Quality Control for Audit Work	17
SA 250 (Revised)	Consideration of Laws and Regulations in an Audit of Financial Statements	21
SA 260 (Revised)	Communication with Those Charged with Governance	27
SA 401	Audit in a Computer Information Systems Environment	29
SA 505	External Confirmations	30
SRS 4400	Engagements to Perform Agreed-upon Procedures Regarding Financial Information	32
SRE 2400	Engagements to Review Financial Statements	33



Minimum Maintenance of Records/Documentation

- ✓ SA 230 requires maintenance of mandatory documentation
- ✓ Additionally, PUs should maintain recommendatory records
- ✓ Mere maintenance of adequate documentation does not, by itself, imply that quality control policies/procedures of PU are adequate.

- Documentation may be divided into two categories viz., mandatory and recommendatory.
- The auditor is expected to be in compliance of a "mandatory" documentation requirement in relation to an audit procedure. However, he should have a very good reason for not being in compliance with a "recommendatory" documentation requirement.



SA-230

Broad Requirements of Working Papers Contents

- ✓ Audit plan
- ✓ Nature, timing and extent of audit procedures performed
- ✓ Conclusions drawn
- ✓ Evidence obtained.

- The planning activity must be detailed and structured to ensure that the auditor "knows" the client and his business and, therefore, is necessary for documenting his understanding of audit risks.
- When relying on the test check approach, an auditor needs to be able to prove how he identified certain areas where he did less work as low-risk areas, and other areas where he did more work as risky areas. He needs to be able to demonstrate that he used his resources judiciously by planning his work so as to be able to perform a "risk-based" audit.
- Documentation of the nature, timing and extent of audit procedures performed is the only proof an auditor can produce to prove that the quality and quantity of work done were adequate for him to be able to reach his audit opinion. If he cannot prove this, he could be accused of not doing enough and the right kind of audit work and face the allegation that he reached his opinion arbitrarily and without properly performing his professional duty.
- Documentation of conclusions drawn and, more importantly, the justification for his having reached those conclusions is essential for an auditor to be able to prove that he applied his mind judiciously and objectively to the situation under report and was not improperly influenced by the management in a manner that might be construed as having impaired his independence.



- Conclusions about controls needs to be documented so that audit programmes for substantive testing can get modified in tune with control risks assessed. Conclusions drawn after substantive testing are documented and get summarised in order to enable drafting of the audit opinion.
- An auditor relies almost entirely on tests of evidence in support of assertions made or not made in the financial statements that he reports on. Documentation of the evidence he tested and a written discussion of how and why he considered that evidence to be adequate in supporting his audit conclusions are therefore crucial for an auditor to prove the quality and objectivity of his decision-making vis-à-vis the transactions and assertions that his audit validates.



SA-230: Factors Affecting Form & Content of Working Papers

- ✓ Nature of engagement
- ✓ Form of audit report
- ✓ Nature/complexity of client's business
- ✓ Nature/condition of client's records
- ✓ Degree of reliance on internal controls
- ✓ Need for direction, supervision and review of work done by assistants.



Principal requirements of WPs as per SA-230

- ✓ Design/organisation tailored to circumstances and needs of engagement
- ✓ Standardised (checklists, specimens)
- ✓ Sufficiently complete and detailed for auditor to obtain overall understanding
- ✓ Significant matters requiring exercise of audit judgement must be included, along with auditor's conclusions
- ✓ Audit procedures applied/documentated on client-prepared schedules.



Qualities of Working Papers

- ✓ Working papers to have adequate audit evidence for assertions made in financial statements
- ✓ Working papers to agree with books of accounts, financials and are cross referenced
- ✓ Analysis of FSs review
- ✓ Complete lead schedules
- ✓ Audit summary memorandum
- ✓ Evidence of Review of assistants' work
- ✓ Each audit working paper should be headed with the following information:
 - Name of the client

..... Continued



Qualities of Working Papers

..... Continued

- Period covered by the audit
- Subject matter
- File-reference
- Initials of the member of the audit team who prepared it and the date on which it was prepared
- In case of a working paper prepared by the client, the date of receipt and the initial of the audit team member who carried out the audit work thereon
- Initials of the member of the audit team who reviewed the working paper.



SA-230: Contents of Permanent File

- ✓ Information about legal/organisational structure
- ✓ Extracts of legal documents, agreements, minutes
- ✓ Record of study/evaluation of internal controls
- ✓ Past audited financial statements
- ✓ Analysis of significant ratios/trends
- ✓ Copies of management letters
- ✓ Record of communication with retiring auditor
- ✓ Notes regarding significant accounting policies
- ✓ Significant past audit observations.



Permanent File: Reviewer's Notes

- ✓ Does the file contain all SA 230 requirements?
- ✓ Is it regularly updated?
- ✓ Does it contain:
 - PU's assessment of inherent/control risks?
 - Has PU assessed inherent risk as high; if so, why?
 - Has PU assessed control risk as low; if so, why?
- ✓ If risk profile has changed during the year, reasons for change

- The permanent file, apart from being a repository of documents of an enduring nature (like contracts or arrangements entered into by the client), is also meant to maintain a record of the auditor's assessment of the inherent and control risk environments of his client. The reason for this is that a client's risk profile does not usually undergo drastic changes from period to period, and the outcome of a determination of engagement risk or tests of controls performed in one year might still hold good in the following year, in the absence of any other contrary circumstances.
- The clarification between what documents are expected to be found in a permanent file and what in the current file is not cast in stone, and it is for the PU to decide it, provided all required documents are found in one file or the other.
- Detailed documentation needs to be available to provide written justification of where, how and why the auditor evaluated inherent and/or control risks as either high or low. Risk assessment is a key planning process without evidence of which an effective and efficient audit cannot be said to have been performed. If this risk profile changed during the period under audit, the reasons for such change and how the auditor addressed the new risk profile in terms of modifications to his audit programmes must be documented.



SA-230: Contents of Current File (1)

- ✓ Acceptance of appointment letters
- ✓ Minute book extracts
- ✓ Evidence of planning process and audit programme
- ✓ Analysis of transactions and balances
- ✓ Record of nature, timing and extent of audit work performed & results thereof
- ✓ Evidence of supervision of assistants' work.



SA-230: Contents of Current File (2)

- ✓ Communication with other auditors, experts and third parties
- ✓ Letters of representation/confirmation received from management
- ✓ Conclusions about significant audit issues, including how exceptions/unusual matters were resolved/treated
- ✓ Copies of financial information under report and related audit reports.



Current File: Reviewer's Notes

- ✓ Matters evidencing carrying out of engagement as per SA 200 principles
- ✓ General and specific evaluation of internal audit function; conclusions thereon
- ✓ Audit programme, changes thereto and reasons for change
- ✓ Auditing procedures performed and conclusions drawn by PU on work of other auditor used
- ✓ How were qualifications of other auditor dealt with?
- ✓ Division of work on joint audits and its communication to auditee
- ✓ Evidence of review of assistants' work
- ✓ Non-compliance of laws/regulations by auditee.

- SA 200 gives the basic principles governing an audit in a nutshell. The facilitator should study SA 200 before presenting this slide.
- The reviewer is expected to examine documentation of how the PU evaluated the efficiency or otherwise of his client's internal audit function and whether it tested the quality of the internal auditor's work to arrive at such conclusion.
- The reviewer is also expected to examine the audit programme used on the engagement and, if any modifications were made thereto in the course of the audit, the reasons why such modifications were necessitated. For example, a change might have been detected in the client's control risk profile, based on tests of controls carried out by the auditor that might justify an increase in the extent of substantive testing in the audit programme. This would be evidence that good audit procedures were in place. Alternatively, where certain work planned in the audit programme had to be abandoned due to lack of time in meeting the client's sign-off deadlines, it would be evidence of either poor engagement management or even a lack of independence or both.
- SA 600 states that when an auditor uses and relies upon the work of another auditor, he needs to assure himself about the quality of the other auditor's work, especially where such other auditor is not a member of the ICAI. Documentation of how the principal auditor obtained such assurance needs to be included in the current file. Besides, if the other auditor's report included any qualifications, the



manner in which the principal auditor dealt with those qualifications needs to be documented along with reasons for the treatment given. For example, the other auditor might have found an error material in nature from the limited vista of the business unit or component that he was auditing. In the context of the financial statements of the entity as a whole, the said error might not be material at all. The principal auditor may, therefore, justifiably choose to ignore the qualification, provided he documents his reasons for doing so in the current audit file.

- SA 299 deals with the responsibilities of joint auditors. It requires the joint auditors to mutually decide as to how the work would be divided among them and then communicate this work division to the client. Documents evidencing such mutual division of work and its communication to the client before start of the audit should be found in the current file.
- SA 220 Quality Control for Audit Work, emphasise review of assistants' work. Where no documentary proof of assistants' work being supervised and reviewed exists, the auditor could be throwing himself open to an accusation that he did not take due care in the performance of his professional duties.
- SA 250 deals with Considerations of Law and Regulations in an Audit of Financial Statements. Facilitators need to study these requirements before presenting this slide.



Recommendatory Records

- ✓ Profile of PU
- ✓ List of clients
- ✓ Staff files
- ✓ Manual of policies and procedures for:
 - Acceptance of engagement
 - Skills and competences required
 - Manner of assignment/delegation of authority and responsibility
 - Consultation procedure
 - Client retention policy
 - Engagement monitoring guidelines
 - Direction/supervision policies.

Manual not required for small PUs
i.e. PUs not covered by Stage I, II & III
of Peer Review implementation





MODULE IV

- While the first three recommended records are administrative in nature and ought to be generally found in PUs of any size, a policy manual containing documents as listed in the slide might not be readily found in smaller PUs. In large audit firms, such policies and procedures as well as many others are generally found in a well-documented professional practice manual.
- It may, therefore, be noted that if a practice unit has even one audit engagement of the size of a branch of a private/public sector bank or an NBFC, it would not qualify for the exemption and would be required to have a manual of policies and practices in place.



Documentation Nature and Size of PU

- ✓ Large practice units which have extensive documentation regarding their practice and procedures (i.e. formal office procedure manuals and audit manuals) will find it unnecessary to document all the controls and will be expected to cross reference the Questionnaire to the relevant sections of their manuals. For practices like these an additional planning visit will be arranged before the on-site review to review the relevant manuals
- ✓ Small size Practice Units may find some of the documentation too elaborates for most of their clients and so should tailor their attestation services documentation to suit their particular circumstances with justification for doing so provided to the reviewer.



Working Papers

- ✓ Property of auditor
- ✓ Custody and confidentiality
- ✓ Retention
- ✓ Proper filing – for easy retrieval
- ✓ Permanent and current audit files.



Documentation Essentials

- ✓ Adopt a policy on documentation procedures that is supported by management and routinely followed by all staff.
- ✓ Develop a preprinted form or computerized system for capturing all documentation and make it accessible to all firm members.
- ✓ Document all client interactions, except those that are strictly perfunctory.
- ✓ Make documentation notes contemporaneously with client interactions.
- ✓ Retain all documentation for ten years.



DOCUMENTATION

Participant Guide

OVERALL AIM

To understand the quality and quantity of documentation that is required to exist in support of a PU having planned and performed an audit

OBJECTIVES

- To review the requirements for mandatory documentation under SA 230
- To learn what other recommended records should be maintained by a PU

KNOWLEDGE ASSUMED

- Statement on Peer Review
- Peer Review Manual

SCHEDULE

To appreciate the need for adequate documentation
To become familiar with mandatory documentation requirements under SA 230
To know what other records a PU needs to maintain

KEY TECHNICAL REFERENCE

SA 230 - Documentation

PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS

SA 230 - Documentation.



MODULE 5
QUALITY
OF
REPORTING



In this Module...

- Facilitator Guide
- Desired Quality
- Level of Supervision
- Working Papers
- Compliance
- Specific Disclosures
- Basic Elements of a Report
- Matters that Do Not Affect the Auditor's Opinion
- Matters that Do Affect the Auditor's Opinion
- Reporting on Engagements to Perform Agreed-upon Procedures regarding Financial Information
- Reporting on Engagements to Review Financial Statements
- Participant Guide



QUALITY OF REPORTING

Facilitator Guide

OVERALL AIM

To ensure high quality of reporting by PU

OBJECTIVES

Reviewers to be aware of requisites of a high quality audit report

KNOWLEDGE ASSUMED

Extensive prior experience in drafting audit/attest reports

SCHEDULE

Desired quality

Level of supervision

Working Papers

Compliance

Specific disclosures

Basic Elements of a report

KEY TECHNICAL REFERENCES

- Statement on Qualifications in Auditor's Report
- Reporting standards prescribed under Companies Act, 1956

PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS

- Statement on Peer Review
- Peer Review Manual
- Statement on Qualifications in Auditor's Report
- Reporting standards prescribed under the Companies Act, 1956

FACILITATORS' PREPARATION BEFORE LEARNING UNIT BEGINS

- Statement on Qualifications in Auditor's Report
- Reporting standards prescribed under the Companies Act, 1956

EQUIPMENT REQUIRED

A laptop loaded with Power Point, an LCD slide projector, flip charts, colour markers and a public address system with a mobile mike.



Quality of Reporting

- If an auditor were a manufacturer, his finished product would have been his audit opinion. Just as a manufacturer's finished product is judged prima facie by its the quality and looks, an auditor's work is judged prima facie by the layout and contents of his audit report. It is therefore necessary for the auditor to take much care in ensuring that this document measures up to a high quality benchmark.
- The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for the expression of an opinion on the financial statements.



Desired Quality

- ✓ Audit Report to contain a clear written expression of opinion on the financial information
- ✓ PU should have policies and procedures to provide reasonable assurance that the reports issued are supported by conclusions reached at each stage of audit
- ✓ Conclusions are adequately referenced
- ✓ Form and content of report comply with expectations.

- When discussing the documentation of conclusions in module IV, we said...
- "Conclusions about controls need to be first documented at the business cycle level and then translate down to the account balance level so that audit programmes for substantive testing get modified in tune with control risks assessed. Conclusions drawn after substantive testing are documented at each account balance level and, from there, get summarised at the overall financial statement level in order to enable drafting of the audit opinion."
- Proper documentation involves detailed cross-referencing of numbers from their source to their target destination in order that the auditor gets assurance about the integrity of the numbers in the financial statements that he is reporting upon. Suppose Rs 5600.00 moved from document 4976 (source) to document 7689 (target), the usual way to cross-reference this is as under:

Document # 7689
⁴⁹⁷⁶5600.00

Document # 4976
 5600.00⁷⁶⁸⁹



Level of Supervision

Reviewer to determine level of supervision of engagement under review:

- ✓ Complexity of subject matter
- ✓ Qualifications of audit team
- ✓ Extent of consultation available & used
- ✓ Degree of authority delegated to assistants
- ✓ Performance of audit team
- ✓ Risks inherent in the engagement.

The questions that a reviewer asks himself are:

- Was complex subject matter (such as planning an audit or determining materiality level) left to junior staff instead of being performed by seniors?
- Where the staff on the audit team were not qualified, whether there was a greater amount of supervision/consultation with them and review of their work by senior members of the team?
- On complex, technical matters, did the audit partner avail of consultation with other partners within the firm or take advice of expert consultants with the permission of the client?
- Was junior, unqualified staff empowered to take decisions or draw conclusions at a level of authority not commensurate with their qualifications or experience?
- Was the audit team up to the mark in terms of quality of work expected, were they alert to pick up cues and, if not, could this have jeopardised the issuance of an opinion based on their work?
- Were all members of the audit team fully aware of the risks inherent in the engagement, and if not, did they have any chance to be able to test if those risks were mitigated?



Working Papers

- ✓ Must contain adequate evidence to support audit opinion
- ✓ Work of other auditors used
- ✓ When reviewing working papers, reviewer to examine them from this viewpoint too.



Compliance

- ✓ PU to comply with reporting standards prescribed under law
- ✓ Comply with applicable form and content requirements under statute, regulation or contract
- ✓ Comply with ICAI's Statement on Qualifications in Auditor's Report.



Specific Circumstances to be Mentioned in Report

- ✓ Scope limitation
- ✓ Use of work of other auditor
- ✓ Departure from acceptable accounting principles
- ✓ Inadequate disclosures
- ✓ Material future event uncertainties
- ✓ Any other matter that the auditor wants to emphasise.



Basic Elements of a Report

- ✓ Title
- ✓ Addressee
- ✓ Opening paragraph
- ✓ Scope paragraph
- ✓ Opinion paragraph
- ✓ Date of report (as of completion date of audit)
- ✓ Place of signature
- ✓ Auditor's signature (Membership No.).



- The facilitator may keep copies of auditor's reports issued as samples to be given to the participants when discussing the following slides. One should be a clean report and the other should be a qualified report to show up the difference.



Opening Paragraph

- ✓ Identify Financial Statements (FSs) audited, including date and period covered
- ✓ Statement that the FSs are the responsibility of the management
- ✓ Statement that auditor's responsibility is to express an opinion on the FSs, based on the audit.



Scope Paragraph

- ✓ Describe scope of audit - as per AASs/SA's of ICAI
- ✓ Planned and performed to get reasonable assurance of freedom from material misstatements
- ✓ Describe what audit includes
- ✓ Audit provides reasonable basis for opinion.



Opinion Paragraph

- ✓ The financial reporting framework used to prepare FSs
- ✓ State whether FSs give a true and fair view, in accordance with financial reporting framework
- ✓ Whether FSs comply with statutory requirements.



Different Kinds of Reports

- ✓ Unqualified or clean report
- ✓ Qualified Reports
 - i) Matters that do not affect the auditor's opinion
 - ii) Matters that do affect the auditor's opinion
 - Qualified opinion
 - Disclaimer of opinion
 - Adverse opinion



Unqualified Opinion

- ✓ FSs give true & fair view in accordance with financial reporting framework
- ✓ Acceptable accounting policies, consistently applied
- ✓ Complies with relevant statutory/regulatory requirements
- ✓ Adequate disclosure of all material matters relevant to proper presentation, subject to statutory requirements, where applicable.
- ✓ The view presented by the FSs is consistent with the auditor's knowledge of business of entity.
- ✓ No significant limitations affect the performance of the audit.



Matters That Do Not Affect the Auditor's Opinion

- ✓ Modify audit report by adding a para
 - Going Concern Question not resolved but adequate disclosure made in the FSs
 - Significant uncertainty, resolution of which dependent upon future events and may affect the FSs
- ✓ Qualified Opinion
 - Effect of disagreement with the management (selection of accounting policies; method of application; adequacy of disclosures) is not so material and pervasive as to require an adverse opinion

..... Continued



Matters That Do Not Affect the Auditor's Opinion

..... Continued

- Scope limitation (imposed by management; circumstances) is not so material and pervasive as to require a disclaimer of opinion
- ✓ Disclaimer of Opinion
 - Limitation on scope-Material and pervasive, auditor is unable to obtain sufficient and appropriate audit evidence
 - Describe limitation and indicate possible adjustments to the FSs

..... Continued



Matters That Do Not Affect the Auditor's Opinion

..... Continued

- ✓ Adverse Opinion
 - Disagreement is so material and pervasive – Qualification is not adequate to disclose the misleading or incomplete nature of the FSs.



Reporting on Engagements to Perform Agreed-upon Procedures regarding Financial Information

- ✓ Describe purpose & agreed-upon procedures of the engagement in sufficient detail
- ✓ Clearly mention that no audit or review performed
- ✓ Report should contain:
- ✓ Title
 - Addressee (ordinarily, appointing authority)
 - Identification of specific financial or non-financial information
 - A statement-procedures performed were those agreed-upon

..... Continued



Reporting on Engagements to Perform Agreed-upon Procedures regarding Financial Information

..... Continued

- Engagement performed as per AAS/SA
- Description of the auditor's factual findings including detail of errors & exceptions
- A statement if auditor performed additional procedures/audit/review, other matters have been reported
- Restricted to parties that have agreed to the procedures to be performed
- Report does not extend to the entity's FSs as a whole
- Date of report/Place of signature/Auditor's signature (Membership No.).



Reporting on Engagements to Review Financial Statements

- ✓ Clear written expression of negative assurance
- ✓ FSs do not give true & fair view/matters exist that impair true & fair view
 - Quantification of possible effects
 - Qualification of negative assurance or adverse statement
- ✓ Material scope limitation
 - Qualification of negative assurance or no assurance
- ✓ Report should ordinarily contain:
 - Title
 - Addressee

..... Continued



Reporting on Engagements to Review Financial Statements

..... Continued

- Opening para (identification of FSs)
 - Management & Auditor responsibility statement)
 - Scope para (AAS, relevant laws or regulations applicable/Review limited to inquiries & analytical procedurs/ No audit performed/No audit opinion expressed)
 - Date of report/Place of signature/ Auditor's signature (Membership No.)
- ✓ Not to be dated earlier than date of approval of FSs by management.



QUALITY OF REPORTING

Participant Guide

OVERALL AIM

To ensure high quality of reporting by PU

OBJECTIVES

Reviewers to be aware of requisites of a high quality audit report

KNOWLEDGE ASSUMED

- Statement on Peer Review
- Peer Review Manual
- Extensive prior experience in drafting audit/attest reports

SCHEDULE

Desired quality
Level of supervision
Working Papers
Compliance
Specific disclosures
Basic Elements of a report

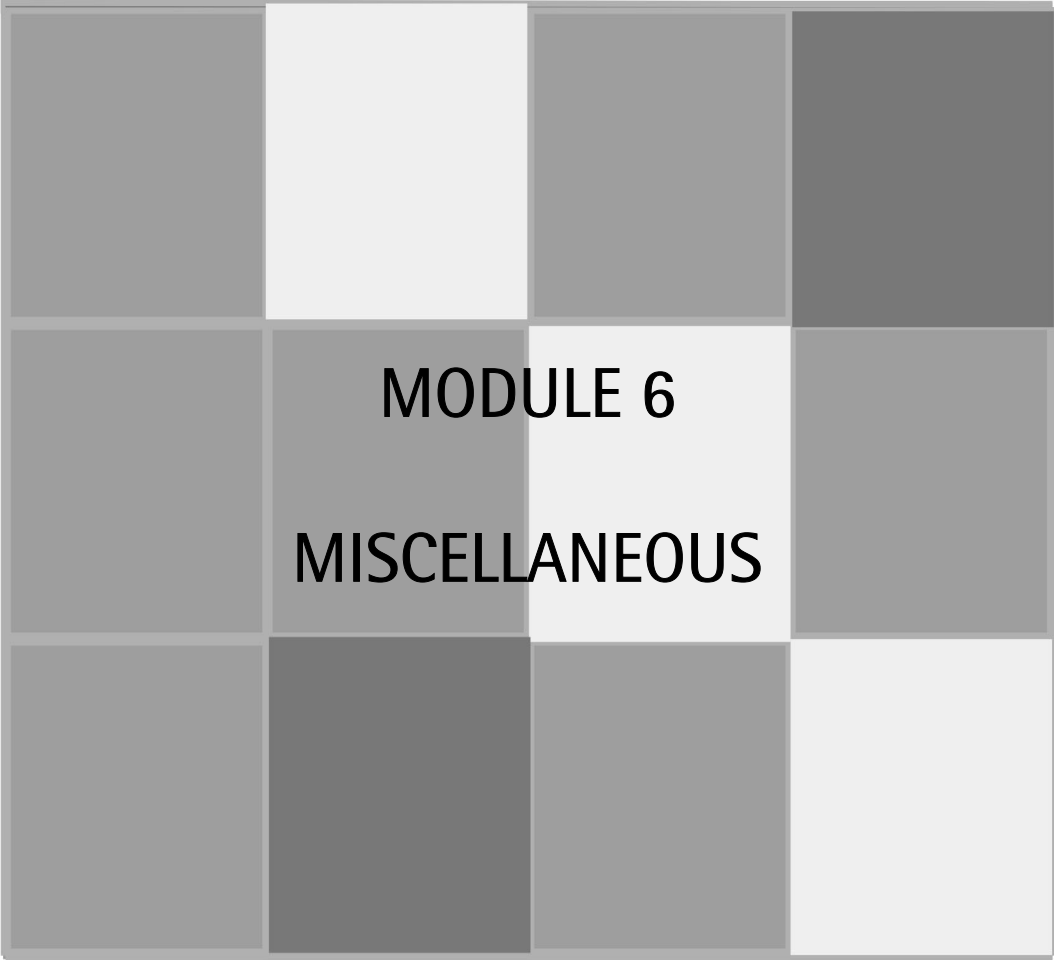
KEY TECHNICAL REFERENCES

- Statement on Qualifications in Auditor's Report
- Reporting standards prescribed under the Companies Act, 1956

PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS

Revise:

- Statement on Qualifications in Auditor's Report
- Reporting standards prescribed under the Companies Act, 1956.



MODULE 6
MISCELLANEOUS



MODULE VI

In this Module...

- Facilitator Guide
- Office Systems and Procedures
- Time Budgeting and Staffing
- Professional Development
- Training
- Participant Guide



MISCELLANEOUS

Facilitator Guide

OVERALL AIM

To acquaint the reviewers with expectations they should have when reviewing:

- Office Systems and Procedures
- Training and Office Administration

OBJECTIVES

To equip reviewers with a background on what to look for when examining a PU's office set-up, quality controls, personnel training and engagement management

KNOWLEDGE ASSUMED

- Statement on Peer Review
- Peer Review Manual

SCHEDULE

PU's policies, procedures, time budgeting and staffing
Training and professional development of personnel
Working Papers

KEY TECHNICAL REFERENCES

None

PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS

None

EQUIPMENT REQUIRED

A laptop loaded with Power Point, an LCD slide projector, flip charts, colour markers and a public address system with a mobile mike.



MODULE VI

Miscellaneous:

- ✓ Office Systems & Procedures
- ✓ Training Programmes for Staff
- ✓ Office Administration.

The slides in this module are self-explanatory. No supplementary facilitator comments are therefore required.



Office Systems and Procedures: Focus of Review

- ✓ Effectiveness of implementation of systems and procedures
- ✓ Applicability will vary with the size and level of PU.



PU Policies - may include...

- ✓ Implementation of PU's quality (QC) control policies and procedures; all audits conducted as per AASs
- ✓ Communication of PU's QC policies and procedures ensures awareness, understanding and implementation by all levels of staff
- ✓ Implementation of those PU's QC policies and procedures appropriate to audit.



Office Procedures - include...

- ✓ Organisation and delegation of field work to competent personnel
- ✓ Decisions on direction, supervision and review of work to be appropriate to their professional competence
- ✓ Assistants to be given proper directions, – responsibilities, and objectives of what they are doing
- ✓ Use of audit programmes
- ✓ Partner monitoring of audit
- ✓ Review of work of assistants.



Time Budget & Staffing

- ✓ Partners and managers to closely control time spent by audit team
- ✓ Professional competence to be commensurate with responsibility
- ✓ New appointee orientation
- ✓ Periodic performance appraisals.



Professional Development

- ✓ Establishment and communication of PU's independence policies
- ✓ In-house CPE
- ✓ Access to libraries, internet, other sources of updated technical knowledge
- ✓ Designation of experts available for consultation in area of expertise.



Training of Articled/Audit Assistants: Objectives

- ✓ Acquisition of adequate theoretical knowledge
- ✓ Development of skills to apply theory to practice
- ✓ Inculcating disciplined attitude
- ✓ Imbibing due professional orientation
- ✓ Developing ethical values.



Training Programme of Articled/Audit Assistants

- ✓ Assignments corresponding to their expanding abilities
- ✓ Designing study plan for exams
- ✓ Work experience backed by practical instructions and on-the-job briefings
- ✓ In-house theoretical training matched to practical experience
- ✓ Development of personal/managerial skills
- ✓ Development of professional attitude and professional ethics.



MISCELLANEOUS

Participant Guide

OVERALL AIM

To acquaint the reviewers with expectations they should have when reviewing:

- Office Systems and Procedures
- Training and Office Administration

OBJECTIVES

To equip reviewers with a background on what to look for when examining a PU's office set-up, quality controls, personnel training and engagement management.

KNOWLEDGE ASSUMED

- Statement on Peer Review
- Peer Review Manual

SCHEDULE

PU's policies, procedures, time budgeting and staffing
Training and professional development of personnel
Working Papers

KEY TECHNICAL REFERENCES

None

PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS

None.



MODULE 7
REPORTING
BY
REVIEWERS



In this Module...

- Facilitator Guide**
- Preliminary Report**
- Final Report**
- Basic Elements of a Report**
- Guidelines for Qualifying Review Report**
- Illustrative Reports**
- Annexure to the Final Report**
- Participant Guide**



REPORTING BY REVIEWERS

Facilitator Guide

OVERALL AIM

To acquaint reviewers with reporting process

OBJECTIVES

To acquaint reviewers with basic elements and guidelines of reporting process

KNOWLEDGE ASSUMED

- Statement on Peer Review
- Peer Review Manual

SCHEDULE

Preliminary Review
Qualified Report
Basic Elements of a Report
Guidelines for Qualifying Review Report
Illustrative Reports

KEY TECHNICAL REFERENCES

None

PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS

Study flow-chart in the ICAI's Peer Review Manual Annexure I - Stage III Reporting

EQUIPMENT REQUIRED

A laptop loaded with Power Point, an LCD slide projector, flip charts, colour markers and a public address system with a mobile mike.



Reporting by Reviewers



Preliminary Report

- ✓ After on-site review, reviewer may communicate with PU and seek clarifications and consider sending a preliminary report if replies not found satisfactory
- ✓ After on-site review, in case of deficiencies in systems and procedures or non-compliances, the reviewer to issue preliminary report to PU immediately
- ✓ Reviewer to take care not to mention any names
- ✓ Scope of review performed and scope limitations, if any, to be mentioned
- ✓ Prepare report on letterhead of reviewer (individual)
- ✓ Dated/signed (Membership No. and Reviewer Code No.)
- ✓ PU to reply in writing within 10 days of receipt of preliminary report on areas mentioned in it.



Final Report

- ✓ Reviewer to submit Final Report to the Board with a copy to the PU
- ✓ Final Report should incorporate the findings as discussed with the PU
- ✓ Final report to be submitted to the Board should be accompanied by an Annexure, together with copy of Preliminary Report, if any, issued and PU's response thereto
- ✓ Reviewer may issue
 - a clean report, if he is of the opinion that PU is conducting its affairs in a manner that ensures quality of services rendered by it
 - a qualified report

..... Continued



Final Report

..... Continued

- ✓ A qualified report may be issued in case of:
 - Non-compliance with technical standards
 - QC system design deficiency
 - Non-compliance with QC policies and procedures
 - Non-existence of adequate staff training programmes
 The deficiencies are not of such serious nature as to vitiate the efficacy of the key control objectives
- ✓ The Board shall consider the report and if satisfied, will issue Peer Review Certificate
- ✓ If not satisfied, the Board may issue recommendations to the PU and direct the new reviewer appointed by the Board for follow-up review.



Basic Elements of Reviewer's Report

- ✓ Title
- ✓ Scope Paragraph
- ✓ Opinion Paragraph
- ✓ Limitations
- ✓ Suggestions
- ✓ Reference to preliminary report
- ✓ Date of the report.

- The report should contain:
- An indication of what a system of quality control encompasses and a reference to the quality control standards.
 - A statement indicating that the system of quality control is the responsibility of the reviewed firm.
 - A reference to the description of the scope of the peer review conducted.
 - Existence of limitation, if any, on the review conducted with reference to the scope envisaged in the Statement of Peer Review.
 - A statement indicating that the review did not necessarily disclose all instances of lack of compliance with technical standards.
 - An opinion on whether the reviewed firm's system of quality control has been designed to meet the requirements of the quality control standards for attestation services and whether it was complied with during the year reviewed to provide the reviewer with reasonable assurance of complying with technical and ethical standards in all material respects.
 - Where the reviewer concludes that a modification in the report is necessary, a description of the reasons is necessary for modification. The report should also contain the suggestions.



- A reference to the preliminary report.
 - An attachment which describes the peer review conducted, including an overview and information on planning and performing the review.
- The peer review report should be issued on the reviewer's (individual) letterhead and signed by the reviewer. The report should be addressed to the Peer Review Board with a copy to the PU and should be dated as of the date of the conclusion of the review.



Guidelines for Qualifying Review Report

- ✓ Compliance with technical standards
- ✓ Compliance with quality control policies
- ✓ Compliance with documentation
- ✓ Compliance with relevant regulations



MODULE VII

- In deciding on the type of report to be issued, a reviewer should consider the evidence obtained and should document the overall conclusions with respect to the year being reviewed.
- Whether the policies and procedures that constitute the reviewed practice unit's system of quality control for its attestation services have been designed to ensure quality control to provide the practice unit with reasonable assurance of complying with technical standards.
 - Whether personnel of the reviewed practice unit complied with such policies and procedures in order to provide the practice unit with reasonable assurance of complying with technical standards.
 - Whether the practice unit has initiated adequate mechanism for training of staff.
 - Whether the practice unit ensures the availability of expertise and/or experienced individuals for consultation, with the consent of the auditee.
 - Whether the skill and competence of assistants is considered before assignment on an attestation engagement.
 - Whether the progress of attestation service is monitored and work performed by each assistant is reviewed by the service incharge and necessary guidance is provided to assistants.
 - Whether the practice unit has established procedure to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained.
 - Whether the practice unit maintains the permanent file and the current file as per the standards laid down by the ICAI.
 - Whether the practice unit verifies compliance with laws and regulations to the extent it has material effect on financial statements.
 - Whether the internal controls within the practice unit contribute towards maintenance of quality of reporting.



Illustrative Reports

- ✓ See ICAI's Peer Review Manual
- ✓ Appendices

Facilitator may allow participants sometime to examine the annexures. This may be followed by discussion if there are any questions.



MODULE VII

Annexure to the Final Report of M/s _____

General instructions: Tick 'Yes' / 'No', wherever applicable.

Sl. No.	Particulars	Observations	
1	Date on which questionnaire is received		
2	Number of initial samples selected for review		
3 (a)	Was there any change made in initial sample selected by the Reviewer?		
(b)	If 'Yes', specify the number selected, after change		
4	Name of the qualified assistant (if any) and membership number who helped in the conduct of review		
5 (a)	Whether general controls are in existence and operating effectively during the period under review?	Yes	No
(b)	If 'No', please specify areas:		
	(i) Independence		
	(ii) Professional Skills and Standards		
	(iii) Outside Consultation		
	(iv) Staff Supervision and Development		
	(v) Office Administration		
6	Whether audit records administration is satisfactory?		
7	Whether working papers are properly maintained?	Yes	No
8	Whether review of internal control systems was carried out properly in performing attestation engagement?	Yes	No
9 (a)	Whether proper systems and procedures exist within the PU to ensure compliance with technical standards?	Yes	No
(b)	If 'No', specify areas:		
	(i) Accounting Standards including Interpretations thereof		
	(ii) Auditing and Assurance Standards including General Clarifications thereof		
	(iii) Statements		
	(iv) Guidance Notes		
	(v) Institute's Notifications/ Directions		



	(vi) Self Regulatory Measures			
10	Whether overall presentation of financial statements conforms to statutory requirements of presentation under various Statutes?	Yes	No	
11	Whether audit conclusions drawn are duly supported by audit queries/observations?	Yes	No	
12	Whether the quality of audit reports in respect of format and content found proper?	Yes	No	
13 (a)	Whether the Reviewer has issued preliminary report?	Yes	No	
(b)	Whether the preliminary report issued by the Reviewer contained any deficiencies?	Yes	No	NA
(c)	If 'Yes', please specify the areas of deficiencies			
14 (a)	Whether PU has responded to the preliminary report?	Yes	No	NA
(b)	Whether the Reviewer is satisfied with the response received from the PU on the Preliminary Report issued by you?	Yes	No	NA
15	If the Reviewer is not satisfied with the response of the PU, whether qualified report has been issued?	Yes	No	NA
16 (a)	Is the Final Report qualified?	Yes	No	NA
(b)	If 'Yes', specify the reasons			
17	Whether the Reviewer received full co-operation from the PU during review?	Yes	No	



MODULE VII

18	Is there any point which the Reviewer wants to bring to the notice of the Board? If yes, please elaborate separately.
----	--

Date:

Signature

Name of the Reviewer

RE No.



REPORTING BY REVIEWERS

Participant Guide

OVERALL AIM

To acquaint reviewers with reporting process

OBJECTIVES

To acquaint reviewers with basic elements and guidelines of reporting process

KNOWLEDGE ASSUMED

- Statement on Peer Review
- Peer Review Manual

SCHEDULE

Preliminary Review
Qualified Report
Basic Elements of a Report
Guidelines for Qualifying Review Report
Illustrative Reports

KEY TECHNICAL REFERENCES

None

PARTICIPANTS' PREPARATION BEFORE LEARNING UNIT BEGINS

Study flow-chart in ICAI's Peer Review Manual

OBJECTIVE OF PEER REVIEW

The preliminary objective of peer review is not to find out deficiencies but to improve the quality of services rendered by members of the profession. Such an objective of the peer review process makes it amply clear that the reviewer is not going to sit in judgment of the PU while rendering attestation services but to evaluate the procedure followed by the PU in rendering such service. Accordingly, where a PU is not following technical standards, the reviewers are expected to recommend measures to improve the procedures. Therefore, the objective is to maintain and enhance the quality of



attestation services by providing appropriate guidelines rather than simply pointing out deficiencies and penalizing the PU

To elaborate further, the key objective of peer review exercise is not to identify isolated cases of engagement failure, but to identify weaknesses that are pervasive and chronic in nature. For instance, absence of formal planning on an audit represents a serious deficiency that needs to be remedied by the PU. An instance of the auditor not carrying out physical verification of cash may not attract the same comment. However, certain items of assets are best verified through the physical verification process and not following the same may rightly be viewed as a systemic failure.