

## 21. Peer Review

### Important Point of this chapter

1.

### Introduction

The term “peer” means a person of similar standing. The term “review” means conduct of re-examination or retrospective evaluation of the subject matter. In general, for a professional, the term “peer review” would mean review of work done by a professional, by another professional of similar standing.

### Objectives

The main objective of peer review is to ensure that in carrying out the assurance service assignments, the members of the institute

- a. Comply with technical, professional and ethical standards as applicable including other regulatory requirements thereto and
- b. Have in place proper systems including documentation thereof, to amply demonstrate the quantity of the assurance service.

### Scope

The peer review shall apply to all the assurance services provided by a practice unit.

1. Once a practice unit is selected for review, its assurance engagement records pertaining to the peer review period shall be subjected to review.
  2. The review shall cover:
    - a. Compliance with technical, professional and ethical standards
    - b. Quality of reporting.
    - c. Systems and procedures for carrying out assurance service.
    - d. Training programmes for staff concerned with assurance functions, including availability of appropriate infrastructure.
    - e. Compliance with directions and/ or guidelines issued by the council to the members, including fees to be charged, number of audits undertaken, register for assurance engagements conducted during the year and such other related records.
    - f. Compliance with directions and/ or guidelines issued by the council in relating to article assistants and / or audit assistants, including attendance register, work diaries, stipend payments, and such other related documents.
- Hear, in above term assurance service not include:
- ✓ Management consultancy engagements;
  - ✓ Representation before various authorities;
  - ✓ Engagements to prepare tax returns or advising client in taxation matters;
  - ✓ Engagements for the compliance of financial statements;
  - ✓ Engagements solely to assist the client in preparing, compiling or collection information other than financial statements;
  - ✓ Testifying as an expert witness;
  - ✓ Providing expert opinion on points of principle, such as accounting standards or the applicability of certain laws, on the basis of facts provided by the client; and
  - ✓ Engagement for Due diligence.

- The 'assurance service' is used interchangeably with audit services, attestation function, and audit functions.

## **Applicability**

- Every practice unit, base on their category as determined below will be subject to peer review in accordance with the statement.

### **Level I**

A practice unit which has undertaken any of the under-mentioned work in the period in review:

- i. Central statutory audit of Public sector banks, private sector banks, foreign banks, cooperative banks and public financial institutions.
- ii. Central or statutory audit if public sector undertakings.
- iii. Central statutory audit of insurance companies.
- iv. Statutory audit of assets management company or mutual funds
- v. Statutory audit of listed companies
- vi. Statutory audit of entities which have risen funds form public or banks over rupee fifty crore. Or also such entities which have risen donation from public over rupee fifty crore.
- vii. Statutory audit of entities having net worth of more than rupees five hundreds crore at any time during period of review.
- viii. Statutory audit of entities which have been funded by central and/ or state government scheme of over rupees fifty cores during the period under review.

### **Level II**

- i. Statutory/internal/concurrent/systems/tax audit and or departmental review of branches/ office of
  - a. Public sector or private sector or foreign banks;
  - b. Insurance companies;
  - c. Co-operative banks;
  - d. Statutory audit of regional rural banks;
  - e. Statutory audit of NBFC
- ii. Statutory audit of entities having net worth of over Rs. Five cores or an annual turnover of more than Rs. Fifty crores during the period under review;

### **Level III**

Any other practice unit providing assurance service not covered in Level I and Level II.

### **Periodicity of peer review**

Level I Practice units – once in 3 years

Level II Practice units – once in 4 years

Level III practice units - once in 5 years

## **Eligibility of Peer reviewer**

1. A peer reviewer shall:-
  - a. Be a member with at least 10 years of experience in practice;
  - b. Is in practice as per the CA act, 1949.
  - c. Should have undergone the requisite training as prescribed by the board.

- d. Should furnish a declaration as prescribed by the board, at the time of acceptance of appointment.
  - e. Should have signed the declaration of confidentiality as prescribe by the board.
  - f. Should have conducted audit of Level I entities for at least 7 years to be eligible for conduction peer review of Level I entities as referred in above.
2. For being a member should not have:
    - a. Disciplinary action/ proceedings pending against him
    - b. Been found guilty by the council or the disciplinary board or committee at any time;
    - c. Been convicted by a competent court whether within or outside India.
    - d. Any obligation or conflict of interest in the practice unit or its partners/ personnel.
  3. A reviewer shall not accept any of professional assignment from the practice unit for a period two years from the date of appointment.

### **The peer review process**

- a. Selection of practice unit and appointment of reviewer;
  - b. Planning
  - c. Execution and
  - d. Reporting
- Strict confidentiality shall be maintained by all those involved in the Peer review process, namely, reviewers, member of the board, any qualified-assistants or Practice unit.

### **Approach of the reviewer**

- The reviewer should gain an understanding of the engagement letter since an assurance engagement or for that matter any kind of engagement should begin with an engagement letter.
- The number of assurance engagements to be selected requires the exercise of judgement by the reviewer based on the evaluation of replies given in questionnaire and the size of practice unit.
- The practice unit may have policies and procedures for accepting a particular engagement. These policies and procedures may not exist in the form of records in each practice unit. In such a case the reviewer should consider enquiring from the concerned persons about such policies and procedures.
- The reviewer may follow a combination of compliance procedures and substantive procedures throughout the peer review process. The reviewer may consider the following:
- ✓ In carrying out the compliance tests, the reviewer may evaluate whether the policies and procedures of the practice unit are sufficient to ensure compliance of technical standards and whether theses policies and procedures are adequately communicated to all staff who is involved in carrying out the assurance work.
  - ✓ In performing substantive tests, he should evaluate whether the practice unit's workings paper relating to the client adequately document the findings and conclusion and whether report of practice unit is in consonance with the findings and conclusion drawn.
- Determine that any significant issues, matter, problems that arising during the course of engagement have been appropriately considered and resolved and documented.

- Determine the evidence and other relevant document which are collected during engagement are preserving and conclusion is based upon such document.
- Determine the significant decisions relating to the engagement, use of professional judgement, resolution of significant matters have been properly documented.

**Inherent limitations of review**

- The reviewer conducts the review in accordance with the statement on peer review.
- The review would not necessarily disclose all weakness in compliance of technical standards and maintenance of quality of assurance service since it would be based on selective tests.
- As there are inherent limitation is effectiveness of any system of quality control which happens to be subject-matter of review, departure form the system may occur and may not be detected.