



Rationale, significance of & Process of Peer Review

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What is Peer Review?

- ▶ The term 'peer' means a person of **similar standing** and 'review' means **re-examination** or retrospective evaluation of the subject matter.
- ▶ An **examination and review of the systems and procedures** to determine whether the same have been put in place by the Practice Unit.
- ▶ **Ensuring the quality of assurance services** as envisaged by the **Technical, Professional and Ethical Standards** including Audit Quality Maturity Model (**AQMM**) wherever applicable
- ▶ Any other **regulatory requirements** as may be prescribed by the Council or any Committee and whether the same were **consistently applied** during the period under review;
- ▶ Ensures that the **quality** of audits and related services **meets the standards** established by ICAI.

Rationale of the Peer Review

- ▶ The concept of peer review, *inter alia*, is being used by all accountancy bodies **as a tool for enhancing the quality of services** being rendered by professional accountants.
- ▶ Institute has been striving hard to formulate **Standards, Statements, Guidance notes, industry-specific publications, research studies**, monographs etc. to **ensure, enhance and sustain the quality** of audit and assurance services
- ▶ To **discharge their duties** in the most **efficient and effective** manner as the **quality of the services** has always been on the "**priority list**" of the Institute.

Rationale of the Peer Review

- ▶ The Institute, **Recognizing the need** to observe best international practices, has **established a system of Peer Review** to be **at par with the other developed countries** of the world in so far as quality of assurance services is concerned.
- ▶ The Peer Review mechanism was introduced by the Council of the ICAI, with the setting up of Peer Review Board in **March 2002**.
- ▶ Afterwards with a view to cater to the **needs of the profession** and **meet the challenges of the everchanging environment**, the Council has brought out the **Peer Review Guidelines, 2022** applicable w.e.f. 1st October 2022. These Guidelines **lays down the framework to conduct peer reviews** and other matters related or incidental thereto.

Rationale of the Peer Review

- ▶ The Peer Review Board has **truly lived up to ICAI's vision** as partner-in-nation building by **responding to the expectation of the regulators, the stakeholders and the society in working** towards improvement of the assurance services. (Ind AS & SA for Preparation & PR Assured best engagement performance to prepare that Statement)
- ▶ To **increase the basis of reliance placed** by users of financial statements for economic decision making by the stake holders, investors & concern authorities. (Eg. Credibility as the Price Movement after financial results)
- ▶ To **ensure better quality and consistency** in auditing services across cross-section of auditing firms at large.
- ▶ To **ensure adherence** to various statutory and other regulatory requirements.

Objective of Peer review

Ensuring

- Ensuring Quality of Assurance Services

Assessing

- Assessing whether engagements are conducted in accordance with applicable standards and regulatory requirements.

Enhancing

- Enhancing Public Confidence on financial reporting

Reinforcing

- Reinforcing the credibility of financial information provided by companies.

Facilitating

- Facilitating Continuous Improvement

Encouraging

- Encouraging a culture of quality and adherence to best practices among Chartered Accountants (CAs).

Objective of Peer review

- ▶ The main objective of Peer Review is **to ensure** that **in carrying out the assurance service assignments**, the members of the Institute
 - (a) comply with **Technical, Professional and Ethical Standards** as applicable including other regulatory requirements thereto
and
 - (b) have in place proper systems including **documentation** thereof, to amply **demonstrate the quality** of the assurance services.
- ▶ Peer Review process is based on the **principle of systematic monitoring** of the **procedures adopted** and **records maintained** while carrying out audit & assurance services.

Objective of Peer review

- ▶ Intended to **review the quality control framework** of the Practice Unit as well as **proper and consistent application** of such control frameworks across engagement samples selected for review.
- ▶ Herewith the Reviewer may note that the **primary objective** of Peer Review is to **improve the quality of services** "does not seek to redefine the scope and authority of the Technical, Professional and Ethical Standards" specified by the Council but seeks to enforce them within the parameters prescribed.
- ▶ Peer Review process makes it amply clear that the **Reviewer is not going to sit on judgment** of the Practice Unit while rendering assurance services **but to evaluate the procedures followed** by the Practice Unit in rendering such a service.

Objective of Peer review

- ▶ Where a PU is **not following the prescribed Standards**, the Reviewers are expected to **recommend measures to improve** the procedures to be followed by **providing them appropriate guidance** rather than simply pointing out deficiencies of the PU.
- ▶ **For instance**, absence of formal planning of an audit represents a serious deficiency that needs to be remedied by the Practice Unit. An instance of the auditor not carrying out physical verification of furniture and fixture may not attract the same comment.
- ▶ Hence, The conclusion is that the Peer Review seeks to **identify and address patterns of non-compliance** with quality control standards.

Applicability

Category of firm covered for Mandatory Peer Review	Date from which Peer Review is Mandatory
<p>Phase – I: PU Undertaking Statutory Audit of enterprises whose equity or debt securities are listed in India or abroad as defined under SEBI Regulations, 2015.</p>	1 st April, 2022
<p>Phase – II: Statutory Audit of unlisted public companies with paid-up capital of not less than 500 cr. or annual turnover of not less than 1000 cr. or in aggregate, outstanding loans, debentures and deposits of not less than 500 cr. as on the 31st March of immediately preceding financial year OR Firm having 5 or more partners and rendering assurance services.</p>	1st July, 2024

Applicability

Category of firm covered for Mandatory Peer Review	Date from which Peer Review is Mandatory
<p><u>Phase – III :</u> Statutory Audit of entities which have raised funds from public or banks or financial institutions of over 50 cr. during the period under review or of any body corporate including trusts which are covered under public interest entities: OR Firm rendering attestation services and having 4 or more partners</p>	1 st January, 2025
<p><u>Phase – IV :</u> Conducting Audits of branches of Public Sector banks OR Firms having 3 or more partners and rendering assurance services.</p>	1 st April, 2025

Significance of Peer Review

- ▶ As **SEBI has Mandated** a statutory requirement by whereby the **limited review/statutory audit reports** submitted to the concerned stock exchanges by the listed entities shall be given only **by those auditors who holds a valid Peer Review certificate.**
- ▶ Also, SEBI has required that any **report or prospectus issued** by any Corporate entities has to be given only by a Peer Reviewed Audit firm.
- ▶ Multiple Empanelment Form (MEF) specifically asked for the details of Peer Review Certificate. Thus **Bank Audits eligibility** depends on Peer Review.

Significance of Peer Review

- ▶ Comptroller & Auditor General of India (C&AG) has **recognized** PRB's work as it has decided to allocate **substantial points** to the Peer Reviewed firms **for allotment of audit for Public Sector Undertakings**.
- ▶ Comptroller & Auditor General (CAG) has mandated that only Peer Reviewed CA Firms will be given **PSU and Government Company Audits**.
- ▶ The issuance of an unqualified Peer Review Report will **avoid Disciplinary action** by ICAI.

Significance of Peer Review

- ▶ Lead to **knowledge improvement** for both the Reviewed Firm as well as the Reviewer.
- ▶ Lead to **experience sharing** between the Peer Reviewer and the Peer Reviewed Firm. This may lead to **exchange of best practices**.
- ▶ The Peer Review **brings fellow** professionals **in close contact** with each other. This results in **networking and recognition of mutual strengths for collaboration**.

Coverage

The Peer Review Guidelines lays down the coverage of review to be conducted as under:

- ▶ Once a Practice Unit is subjected to Peer Review, its **assurance engagement records** pertaining to the Peer Review Period shall be **subject to examination and review** by the Peer Reviewer.
- ▶ Review period usually of **three financial years** preceding the year in which the Practice Unit is selected/ has applied or such other period as may be prescribed by the PRB in a specific case.
- ▶ A Practice Unit having **one or more branches** at various locations in India may opt to **get the Peer Review of any branch** or branches **conducted by a Branch Peer Reviewer**. The **Reviewer of the Head Office** shall consider the report of the Branch Peer Reviewer and shall **issue a consolidated report** for the Practice Unit.

Coverage

► *The Peer Review shall cover:*

- a) Compliance with Technical, Professional and Ethical Standards
- b) Quality of reporting
- c) Systems and procedures for carrying out assurance services
- d) Self evaluation under AQMM or any other guideline issued by the Centre for Audit Quality.
- e) Training programme for staff (including article and audit assistants) concerned with assurance functions, including availability of appropriate infrastructure.

Coverage

- ▶ The **assurance services** which may be **used interchangeably as audit services, attestation function or audit functions** of a practice unit.
- ▶ **Assurance engagements** means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users but does not include:
 - a) Management consultancy engagements;
 - b) Representation before various Authorities;
 - c) Engagements for the compilation of financial statements;
 - d) Engagements to prepare tax returns or advising clients in taxation matters;

Coverage

- e) Engagements solely to assist the client in preparing, compiling or collating information other than financial statements;*
- f) Testifying as an expert witness;*
- g) Providing expert opinion on points of principle, such as Accounting Standards or the applicability of certain laws, rendered, facts provided by the client; and*
- h) Engagement for Due diligence*
- i) Any other service rendered or function performed by practitioner not prescribed by the Council to be 'Assurance Engagement.'*

Process of Peer Review

- ▶ The **process is initiated by ICAI – PRB** by intimating the Practice unit (PU) about its selection for peer review & then PU submits Form 1 to PRB.
- ▶ Alternatively, PU itself may **voluntarily initiate** the process by sending Application cum questionnaire to PRB in Form 1.
- ▶ **Names of Peer Reviewers** – On receipt of Form 1, PRB sends the names of 3 Peer reviewers – one of which is to be selected by PU.
- ▶ **Selection of Peer Reviewer (RE)** – PU selects the RE and intimates PRB.

Process of Peer Review

- ▶ **Intimation to RE** – PRB intimates the selected Reviewer about –
 - ✓ His selection by PU along with PU details.
 - ✓ The documents checklist to be submitted at the time of report.
 - ✓ Fees for Peer Review to be paid by PU as per Schedule.
 - ✓ Time schedule for Peer Review.
 - ✓ Sample selection criteria.
- ▶ The RE intimates to PRB about the acceptance of the assignment.
- ▶ PRB intimates the PU about the acceptance of Peer review assignment by the selected RE.

Process of Peer Review

- ▶ The declaration of confidentiality is to be submitted by the RE to PU which will be acknowledged by PU. (one CA assistant is permitted).
- ▶ PU submits the Questionnaire in Form 1 to RE.
- ▶ RE selects sample from the data in Annexure A of Form 1.
- ▶ The sample selection is as per the criteria provided by PRB.
- ▶ The sample selected by the RE should be intimated to PU in Form 5.
- ▶ The RE may seek additional information from the PU in Form 6.
- ▶ The RE shall plan “on site review” to verify the sample selected.
- ▶ The initial sample selected may be enlarged if required.
- ▶ The review of the sample should be completed within 6 days.

List of Forms under PR

Form 1	Application cum Questionnaire	To be submitted by PU seeking review
	Name of three reviewers to PU by Board	Within 3 working days
	PU to select Reviewer (RE) and intimate Board	.. 1 working day
	Board to inform Reviewer along with Form 1. Form 1 by PU to RE	.. 2 working days
Form 2	Declaration of Confidentiality - By Reviewer to PU	.. 2 working days
Form 3	Application cum Declaration for Empanelment as Reviewer	
Form 5	By Reviewer to PU & Board – Proposed visit date and Samples Selected	.. 5 days
Form 6	Additional Clarifications from PU by RE	.. PU to reply in one day
	Submission by PU to RE	.. 2 days
Form 7	Extension of time jointly by PU & RE. (<i>before the last date for furnishing Form 9</i>)	(on site review not to extend beyond six working days)
Form 8	Extension of Validity of Certificate by PU to Board (not beyond 6 months)	
Form 9	Report by RE – Covering Letter	
	Payment of Fee	.. 7 days, otherwise no certificate.
Form 10	Revocation of Certificate by Board to PU	PU to reply in 7 days

Peer Review Report

- The Final Report of the Peer Review is to be submitted to PRB as per the Model Final Report format of PRB.
- **Annexure I, II** are required to be attached.
- **Annexure III** is applicable w.e.f. 1st April 2023 in respect of PU's carrying out the audit of Listed entities, Banks other than co-operative banks (except multistate co-operative) and Insurance companies. It is recommendatory for other PU.
- In case the RE observes any **deficiencies in the system of quality control** for assurance services by PU, he has to issue a **Preliminary Report** addressed to PU asking for the representation from PU on the observations.
- If the **representation** received from PU is **satisfactory**, RE may issue Final Report.

Peer Review Report

- If the **representation** received from the PU is **not satisfactory**, the RE may issue **Qualified Final Report** as per the format provided by PRB.
- Such Qualified Report becomes necessary –
 - ✓ When the **weakness** in the control or engagement performance deficiencies are **pervasive and of chronic nature**.
 - ✓ The financial statements of the client of PU did **not include** of the **disclosures required** by technical, professional and ethical standards.
- Along with the Final Report, the RE has to attach following documents –
 - ✓ **Annexure A** – checklist of the documents submitted and compliance checklist.
 - ✓ **Annexure I** – comprising of 24 questions to be answered in “Yes/ No/ NA” format.

Peer Review Report

- **Annexure II** – Compliance according to SQC 1 – 36 questions with many sub points under each question to be answered elaborately wherever necessary.
- **Annexure III** – AQMM V 1.0 – self assessment by PU and assessment by RE in 3 parts – Total 600 marks.
- **Final bill** of the RE along with **receipt** for payment received from PU.
- **Copy of Form 1** – questionnaire received from PU.
- **List of sample** selected by RE along with the **basis** for selection.
- **Form 9** - Letter of submission of report by RE to PRB along with confirmation of the receipt of the report by PU.
- **Copy of Preliminary Report** – if any – along with PU’s submissions on the same.

Questionnaire ... PART A

1. Firm Details along with the period for which would like to apply for Peer Review.
2. **Reason** for applying for Peer Review.
3. Declaration of Reports signed during the period under review – **Type of Client** to which assurance services provided.
4. **Statutory Audit of enterprise Listed** in India or abroad
5. Option for **appointment of Reviewer** – Same city or another city
6. **Address & Mail id** for communication & sending the Peer Review Certificate.

Questionnaire ... PART A

6. **Details of the assurance clients** in format for Head office and branch separately for the period of review year wise – Below **format** provided under Clause 22 A to K of Part A – of the Questionnaire.

Sr. No.	Category of Client* / Name or code of client	Name of Branch/ HO of PU	Name of Signing Partner	Type of Engagement ** (Year 1, 2, 3)	Whether Engagement Quality review done?	Turn over Rs. Lakhs	Borrowing Rs. Lakhs	Net worth Rs. Lakhs
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*Serial No A to K (Total 11 categories + Tender)

**Type of engagement (1) Central Statutory Audit (CSA), (2) Statutory Audit (SA), (3) Tax Audit (TA)(4) Internal Audit (IA), (5) GST Audit (6) Others

Questionnaire ... PART B & C

- Part B – on General Controls based on SQC with VI sub parts:
 - ✓ Leadership Responsibilities For Quality Within The Firm (10 points)
 - ✓ Ethical Requirements (15 points)
 - ✓ Acceptance and Continuance of Client Relationships and Specific Engagements (7 points)
 - ✓ Human Resources (10 points)
 - ✓ Engagement Performance (20 points)
 - ✓ Monitoring (6 points)

- Part C on AQMM with 3 Sections:
 - ✓ Practice Management Operational
 - ✓ Human Resource Management
 - ✓ Practice Management – Strategic/Functional

AUDIT QUALITY MATURITY MODEL (AQMM) - Self Evaluation of Firm

- ▶ Newly introduces w.e.f. 1st April 2023 applicable to the PU conducting statutory audit of listed entities (Other than Bank Branch & Insurance Companies) and recommendatory for other PU.
- ▶ Comprises of 3 sections **to assess competency basis** – each having self assessment and marks for the same.
- ▶ RE also awards the marks and has to **explain the reason for difference** in self assessment by PU and RE's assessment.
- ▶ In some case **negative marks** are also awarded.
- ▶ Depending upon the marks obtained, the **AQMM level is decided** as under –

AUDIT QUALITY MATURITY MODEL (AQMM)

SELECTION REFERENCE	TOTAL POSSIBLE POINTS	% in each Selection	Level of Firm	Interpretation
Selection 1 : Practice Management Operations	280	Upto 25 %	Level 1	Very Nasty – Immediate Upgradation Required
Section 2 : Human Resource Management	240	Upto 25% to 50%	Level 2	Firm Made some progress – Fine Tuning Required
Section 3 : Practice Management – Strategic/Functional	20	Upto 50% to 75%	Level 3	Firm Made substantial progress
Total	600	Upto 75% to 100%	Level 4	Significant adoption of Standards and Procedures

Eligibility of Reviewer

- ▶ A **member in practice** shall be eligible to be enrolled as a Peer Reviewer if:
 - He is a member **in practice** having **at least seven years** of assurance practice experience or
 - A member **in employment** who has **subsequently obtained a Certificate of Practice**, having **at least ten years of experience in employment** and **at least three years audit experience in practice** and is **in whole time practice** at the time of enrolment and appointment as Peer Reviewer.

Eligibility of Reviewer

- ▶ A member shall **not be eligible** for being appointed as a Reviewer of a Practice Unit, if –
 - any **disciplinary action / proceeding** is pending against him
 - he has been **found guilty of professional or other misconduct** by the Council or the Board of Discipline or the Disciplinary Committee at any time
 - he has been **convicted by a competent court** whether within or outside India, of an offence involving moral turpitude and punishable with imprisonment,

Eligibility of Reviewer

- ▶ A Peer Reviewer shall **not accept any professional assignment from the Practice Unit** for a period of **two years from the date of appointment**. Further, he should **not have accepted any professional assignment** from the Practice Unit for a period of **two years prior to the date of appointment** as a Peer reviewer of that Practice Unit or its partners in case of a firm.
- ▶ A Reviewer shall be **de-empanelled** by the Board **if his name is removed from the register of members** or if he **surrenders his Certificate of Practice**.
- ▶ Reviewer shall be required to furnish **Declaration of Confidentiality** to the Practice Unit as per **Form 2** while giving consent for appointment as a Peer Reviewer

Obligation of the Peer Reviewer

- ▶ Reviewer shall **comply with** the provisions of the **Peer Review Guidelines**. In case of **non-compliance** the Board is empowered to initiate appropriate **action as per law**.
- ▶ Reviewer shall **not take any extracts** of the Practice Units' **clients' files or records** made available to him while conducting Peer Review.
- ▶ Reviewer shall **complete the Review within the prescribed time frame** unless extended in concurrence with the Practice Unit.
- ▶ The Peer Reviewer shall **submit the Peer Review report** to the Board **within the time allowed**.

Obligation of the Peer Reviewer

- ▶ The Reviewer shall document all his working papers and submit a copy of his working papers to the Board, if so directed by the Board. The Board can so direct within eighteen months of submission of the Peer Review Report.
- ▶ A Peer Reviewer can appoint an assistant for conduct of Peer Review. However, such an assistant should be a Chartered Accountant in Practice.
- ▶ Wherever the Reviewer **seeks the assistance of a qualified assistant** the said qualified assistant is **under all the obligations as applicable to the Peer Reviewer.**

Confidentiality

- ▶ Strict **confidentiality** shall be maintained by all those **involved in the Peer Review process**, namely, Reviewers, members of the Board, Peer Review Secretariat, qualified assistants and the Practice Unit.
- ▶ All persons **governed by the secrecy provisions** shall, at all times, preserve and aid in preserving secrecy with regard to any **matter arising in the performance or in assisting in the performance of any function, directly or indirectly** related to the process and conduct of Peer Reviews

Confidentiality

- ▶ The Reviewer shall **not make use of or disclose the contents of Review report or any confidential information** about the process of Review except as required by the Board or the Council.
- ▶ **Non-compliance** with the secrecy provisions in the above clause shall **amount to professional misconduct** as defined under Section 22 of the Chartered Accountants Act, 1949.

Revocation of Peer Review Certificate

- ▶ The Board may, subject to the principle of natural justice, revoke the Peer Review Certificate of the Practice unit during its currency, if-
 - I. The Practice Unit has **not complied with the order or advisory** issued by the PRB;
 - II. The Peer Review Board **receives any Directions** from the **Secretary, ICAI, Disciplinary Directorate** or directions from any Regulator through Secretary, ICAI or the **Council**.
 - III. The **Practice Unit or any of its partners** of are held **guilty** by the Disciplinary Committee or the Court within one month of the final order issued by the DC/ Court as the case may be.
 - IV. **Change of one half or more of the partners** of Practice Unit , the Certificate shall be revoked on the expiry of six months from the date of such change or shorter period in case the change has occurred during the last six months of the validity of the certificate.

Q & A ...?



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Thank You...

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