
Peer Review – A Value Addition to Firm



Presentation By:
CA Vijay Joshi

Contents -

- What is Peer Review?
- History of Peer Review
- Peer Review in India – Peer Review Board
- Objects of Peer Review
- Peer Review Process – Overview
- Compliance Review Procedures
- Some Illustrative Qualifications
- Peer Review – Is it a Value Addition or . . . ?
- Experiences in Other Countries

Peer Review

- Peer Review is the evaluation of work by one or more people of similar competence to the producers of work.
- A Peer Review means an examination and review of the systems and procedures to determine whether they have been put in place by the practice unit for ensuring the quality of attestation services envisaged and implied/mandated by the Technical Standards and whether these were effective or not during the period under review.

[Statement of Peer Review by ICAI]

Peer Review

- Peer :
 - Equal
 - Colleague
 - Contemporary
 - Friend
 - Cohort
- Peer Review is a review done of a professional by another professional of similar standing

Services Covered

- Statutory Audit
- Tax Audit
- VAT Audit
- Internal Audit
- Concurrent Audit
- Certification
- Any other attestation function which provides an element of assurance to users

When did peer review start?

Some would say that “Peer Review” goes back as far as the 17th century, when it was known as “The Inquisition of the Holy Roman and Catholic Church”. Scholars’ works were examined for any hints of “heresy”.



Galileo

Wikipedia

http://en.wikipedia.org/wiki/Peer_review

Peer Review - History

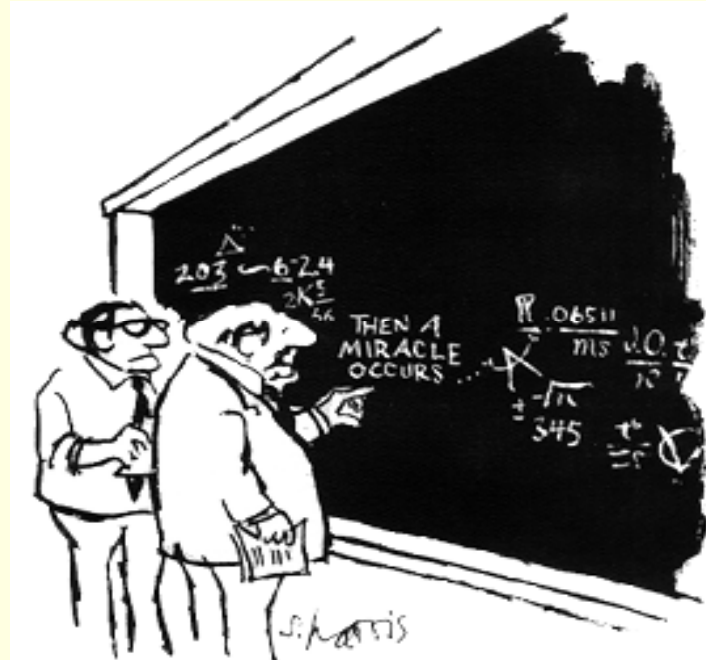
- The first recorded editorial pre-publication peer review process was at the Royal Society of London in 1665 by the founding editor of Philosophical Transactions of the Royal Society, Henry Oldenburg.
- Today, the Peer Review is common process in every field of science, economics and accountancy.

Peer review in “modern times”

Peer review (known as refereeing in some academic fields) is used in:

1. Publication process
2. Awarding of funding for research
3. Patents
4. Standards
5. Accountancy

Each of these involve slightly different practices, but ultimately colleagues are evaluating each other.



"I think you should be more explicit here in step two."

ICAI - Peer Review Board

- The Peer Review Board has been established in terms of the Statement on Peer Review issued by the Institute of Chartered Accountants of India (ICAI) in March, 2002.
- Since then, it has been marking its presence and has been duly acknowledged.
- The SEBI has mandated listed entities to appoint their auditors who have been Peer reviewed.

ICAI - Peer Review Board

- The Board, in order to guide the members in the process of peer review, had brought out a comprehensive Peer Review Manual providing an insight into various aspects of peer review process.
- Peer Review Board of the ICAI has revised the 'Peer Review Manual' to provide updated information to the reviewers incorporating the recent updates and changes

Objectives of Peer Review

- To ensure that in carrying out the assurance service assignments, the members of the Institute comply with Technical, Professional and Ethical Standards including other regulatory requirements thereto.
- To ensure that such a member has in place proper system (including documentation system) to amply demonstrate the quality of assurance services.

Objectives of Peer Review

- To ensure adherence to various Statutory and Other Regulatory Requirements
- To enhance the reliance placed by the users of financial statements for economic decision making.
- Peer review does not seek to redefine the scope and authority of any of the Technical, Professional and Ethical Standards but only seeks to ensure that they are implemented both in letter and spirit.

Objectives of Peer Review

- Key objective of peer review 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 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. However, certain items of assets are best verified through the physical verification process and not adopting the same procedure may rightly be viewed as a systemic failure.

Need for Peer Review

- Even the best of Professionals need and deserve the approbation of their abilities.
- Confirmation is needed that the narrow path that they are following is the one which others like them subject themselves to with the same code of ethics and behavior with firmness values which support his stance.
- Intention of Peer Review is to provide value addition for further elevating the Quality of Service rendered by Chartered Accountants.

Need for Peer Review

- Presently a self regulatory mechanism by ICAI for its members in order to:
 - Ensure standardised process while rendering assurance services to society
 - Ensure high standards of audit by ensuring compliance with various regulatory requirements
 - Improve the skills of members as well as their associates and staff members
 - Improve professionalism

Need for Peer Review

- Failure of large accounting firms in detecting and reporting signs of large businesses
- Apathy to changes occurring in the economic world and regulatory requirements
- Increased vulnerability of profession in view of new laws like RTI, Consumer Protection Act as well as amendments in Companies Act, SEBI Regulations and so on.
- General hue and cry by stakeholders in cases of large defaults in financial segments

Changes in Peer Review - 2014

- Initially, the Statement provided support to the CA fraternity for a period of more than 11 years to educate the members to have in place the working process and document as required for various procedures of the assurance services as concerned.
- With a view to cater to the needs of the profession and meet the challenges of the ever changing environment the Council revised the Statement on Peer Review in December 2011.

Changes in Peer Review - 2014

- To ensure and sustain the quality, the Revised Statement provides for **disciplinary proceeding in appropriate cases, effective from year 2014.**
- This would arise in case of Practice Units which are found to be deficient in complying with the technical, professional and ethical standards and do not have in place proper systems including documentation thereof to amply demonstrate the quality of the assurance services.

Process of Peer Review

- Selection of Practice Unit (PU)
- Intimation to PU
- Choice of Peer Reviewer
- Intimation and selection of peer reviewer
- Questionnaire and list of clientele
- Selection of sample
- Site visit
- Accuracy of Questionnaire

Process of Peer Review (Contd.)

- Review of General Controls
- Final selection of sample
- Review of records
- Preliminary report to PU
- PU's response thereof to the Reviewer
- Interim/Final Report
- Issue of Certificate

Obligations of the PU

- Selection of Independent peer reviewer(PR)
- Maintain a list of all attestation services
- Provide a list to PR for sample selection
- Fill the Questionnaire with factual details
- Provide Documents/files for selected samples and provide information and explanations
- Allow abstracts of records maintained by PU
- Reply to the Preliminary Report of PR
- Issue Compliance Letter
- Adhere Time Frame [171 days]
- Pay the cost of Peer Review to the PR as prescribed by the Institute

Peer Review Process

- **Stage-I: Planning –**
- PEER REVIEW BOARD SELECTS THE PRACTICE UNIT (PU) FOR PEER REVIEW OR PU VOLUNTARY APPLIES FOR UNDERGOING PEER REVIEW.
- PU WILL BE NOTIFIED BY THE BOARD AND WILL BE SENT A QUESTIONNAIRE FOR COMPLETION ALONGWITH THE PANEL OF ATLEAST THREE REVIEWERS.
- PU SELECTS & INFORMS THE NAME OF REVIEWER TO BOARD WITHIN 7 DAYS.
- A COMPLETED QUESTIONNAIRE ENCLOSING A COMPLETE LIST OF ASSURANCE SERVICES CLIENTS SENT TO SELECTED REVIEWER WITHIN 15 DAYS.
- PU TO PROVIDE ANY OTHER INFORMATION WHICH THE REVIEWER MAY SEEK.
- AN INITIAL SAMPLE IS SELECTED BY THE REVIEWER, REPRESENTATIVE OF PU'S CLIENT PORTFOLIO.

Peer Review Process

- **STAGE – II EXECUTION BEGINS**
- PU WILL BE NOTIFIED OF THE SELECTION OF INITIAL SAMPLE TWO WEEKS IN ADVANCE OF COMMENCEMENT OF REVIEW
- FIXATION OF DATE OF INITIAL MEETING
- INITIAL MEETING BETWEEN PU AND REVIEWER
- COMPLIANCE REVIEW OF GENERAL CONTROLS
- FIVE KEY CONTROLS-
 - INDEPENDENCE,
 - MAINTENANCE OF PROFESSIONAL SKILLS & STANDARDS
 - OUTSIDE CONSULTATION,
 - STAFF SUPERVISION & DEVELOPMENT AND
 - OFFICE ADMINISTRATION
- FINAL SELECTION OF ASSURANCE SERVICES ENGAGEMENTS & CLIENT FILES TO BE REVIEWED ON RANDOM SELECTION BASIS

Peer Review Process

- **STAGE – II EXECUTION BEGINS**
- A REVIEW OF RECORDS WHICH APPROACH TO ADOPT
 - SUBSTANTIVE APPROACH
 - COMPLIANCE APPROACH
- CONSIDER EFFECTIVENESS AND EFFICACY OF CONTROL PROCEDURES
 - PERFORM SUBSTANTIVE PROCEDURES - LESS EXTENSIVE
 - PERFORM SUBSTANTIVE PROCEDURES - MORE EXTENSIVE
- DETERMINE NATURE TIMING AND EXTENT OF SUBSTANTIVE PROCEDURES – MORE EXTENSIVE

Peer Review Process

■ Stage– III: Reporting

- REVIEWER SENDS A PRELIMINARY REPORT TO PU.
- THE PU SUBMIT ITS REPRESENTATION ON DEFICIENCIES/ NON – COMPLIANCE, IF ANY, TO REVIEWER WITHIN 15 DAYS OF RECEIPT OF PRELIMINARY REPORT
- IF REVIEWER IS SATISFIED WITH SYSTEMS AND PROCEDURES OF PU, THEN HE SUBMITS FINAL REPORT TO BOARD.
- OTHERWISE REVIEWER SUBMITS FINAL REPORT TO BOARD INCORPORATING REASONS FOR DIS - SATISFICATION ALONGWITH PRELIMINARY REPORT AND PU'S SUBMISSIONS
- (Remember the 2014 amendment for Disciplinary Proceedings in the Revised Statement by Peer Review Board)

Compliance Review Procedures

- It is the first stage of applying review procedures to ascertain whether the practice unit has been observing the systems as contemplated by it in the questionnaire.
- The Statement requires the reviewer to consider the 'general controls' which comprise of five controls, viz.,
 - Independence
 - Maintenance of professional skills and standards
 - Outside consultation
 - Staff supervision and developments
 - Office administration

Compliance Review Procedures

- The Statement makes it imperative that all practice units are expected to address each of the five key control areas.
- However, the reviewer shall have regard to the size of the practice unit while evaluating such controls.
- It also envisages that the reviewer may have certain supplementary questions to consider and evaluate whether such controls are in place and are operational within the practice unit.

Compliance Review Procedures

■ Independence

- PU is expected to have policy for Does the practice unit have a policy to ensure independence, objectivity and integrity, on the part of partners and staff and indicate as to Who is responsible for this policy?
- PU should communicate these policies and the expected standards of professional behaviour to all staff.
- PU should monitor compliance with policies and procedures relating to independence and periodically review the PU's association with clients to ensure objectivity and independence.

Compliance Review Procedures

■ Professional Skills and Standards

- PU should have an established plan for personnel needs at all levels, based on current and anticipated clientele, business growth, impending retirements, etc.
- PU should have an established recruitment policy and all applicants and new personnel be informed of the personnel policies and procedures relevant to them.
- PU should have continuing education programmes for partners and staff and allow easy access to current and relevant professional literature, including accounting and auditing standards and pronouncements by professional bodies
- PU should conduct programmes for developing expertise in specialised areas and industries

Compliance Review Procedures

■ Outside Consultation

- PU should have a policy for consulting experts (both internal and external) and should have built up a network of other accountants, solicitors and advocates and technical consultants in industries in which its clients operate.
- This will ensure easy access to expertise in other fields and ensure high standards in service.

Compliance Review Procedures

■ **Staff Supervision and Development -**

- PU should have written guidelines on the responsibility at each level, and on the expected performance and qualifications necessary for advancement to the next level.
- PU should also have a system for gathering and evaluating information on the performance of personnel, have a system of periodically counseling personnel on performance and career opportunities.
- PU should have a system of assigning an audit to the most appropriate personnel with requirements of specialized expertise and personnel skills given due consideration in appropriate casers.
- PU should have written guidelines for maintaining working papers (form and content) standardised forms, checklists, and questionnaires to assist in the conduct of audit.

Compliance Review Procedures

■ **Office Administration –**

- PU should have established procedures for record retention, including security aspects.
- PU should maintain a record containing particulars such as client name, nature of engagement, particulars regarding date of commencement of audit, date of audit report, billing, etc.
- PU should maintain staff register, should have a proper library containing relevant books and all publications of Institute of Chartered Accountants of India as well as other relevant publications on professional subjects.

Review-Compliance Approach

- At the first stage compliance approach is applied where the records in respect of following key controls are to be reviewed to ensure compliance with technical, professional and ethical standards :-
 - Assurance services records administration
 - Review and evaluation of system of internal controls
 - Substantive tests
 - Financial statement presentation
 - Assurance services conclusions
 - Assurance services reporting

Review-Substantive Approach

- The substantive approach involves application of such review procedures that provide the reviewer evidence as to the appropriateness of the factors on which the review is required to be focused on.
- The reviewer establishes the appropriateness of factors by reviewing the documentation available within the practice unit.
- This approach establishes the extent of compliance and finally determines whether assurance work was done as per the technical, professional and ethical standards.

Review-Substantive Approach

- Finally, the reviewer may decide to employ substantive procedure only if he is unable to place reliance on specific control procedures.
- The application of substantive review procedures would involve inspection of working papers of the assurance engagement.

Review-Quality of Reporting

- The reviewer should verify whether the practice unit has in place policies and procedures to provide reasonable assurance that the reports issued are supported by conclusions reached at each stage of audit and are adequately referenced.
- The quality of report encompasses, apart from what is stated in the preceding sentence, the form and contents of the report also.
- Many a differences have been noticed in simple compliance with Report as per SA-700 (Rev).

Illustrative Qualifications

- The PU does not have any documented policies for its system of quality control in accordance with SQC 1, Standard on Quality Control.
- On an overall basis, it was found that policies implemented were rudimentary and not commensurate with the size of the PU and the nature of its practice.
- There were particular deficiencies in establishing and implementing quality control policies and procedures in the areas of -
 - Ethical requirements, and
 - Acceptance and continuance of client relationships and specific engagements.

Illustrative Qualifications

- While the PU has documented policies for independence, there was no evidence on record to show that the said policies or the related quality controls were implemented.
- The engagement files examined also contained no evidence that any engagement specific procedures were followed to ensure that the engagement teams were independent of the client.
- The PU does not have a practice of obtaining engagement letters as required under SA 210, Agreeing the Terms of Audit Engagement.

Illustrative Qualifications

- It was observed during examination of engagement files that the staff deployed lacked industry expertise and was, in general, inexperienced.
- The PU does not have a system of supporting and encouraging its resources to undergo relevant professional education necessary to execute audits of entities in specialised industries.
- Moreover, there was no evidence in the working papers prepared by articled assistants of any review performed by a senior resource.

Illustrative Qualifications

- The PU does not have any standard documented policy or procedure for planning and performing audits.
- Nor does it have any standard checklists to ensure that resources performing the engagement have ensured compliance with relevant technical standards, either accounting or auditing.
- There is also no standard documentation policy, with the result that engagement files lack consistency and file contents vary significantly from one file to another.

Illustrative Qualifications

- Working papers were found to have no supporting documentation to demonstrate that a risk-based audit was performed.
- There were no documents in the audit files to show that the engagement partner and his team had done any planning at all.
- There were no audit programmes at the account balance level to guide/ instruct the resources performing the audit on what procedures they should follow.
- There were no working papers to establish that audit risks were duly responded to in accordance with SA 330, The Auditor's Response to Assessed Risks.

Illustrative Qualifications

- The PU was found to have complied with none of the requirements of SA 240, The Auditor's Responsibilities Relating to Fraud.
- The PU does not perform any controls evaluation or testing. It performs only a substantive audit for which there are no planning documents available in the audit files except standard, non-tailored audit programmes.
- In performing tests of details for transactions, the PU does not follow any stated methodology in accordance with SA 530, Audit Sampling, in terms of sample design, sample size or sample selection.
- Samples selected are not free from bias.

Illustrative Qualifications

- The PU has no practice of documenting the samples selected for tests of details, what audit procedures were applied to test the samples, or the outcome of such testing, if performed.
- The only document that evidences performance of tests of details are query sheets.
- In several instances it was observed that queries were raised but there is nothing to evidence how they were solved or disposed of.

Illustrative Qualifications

- During review of one of the audit files it was found that the entity's current liabilities were in excess of its current assets by several multiples, the entity had made cash losses during the last three years and its accumulated losses were five times its share capital.
- In spite of this, there was no evidence in the audit file of the engagement team's evaluation of the management's assessment of going concern in accordance with SA 570, Going Concern, while the financial statements were prepared on a going concern basis.

Peer Review – A Value Addition

- Many PUs find the Peer Review as mere burden of compliance apart from unnecessary evil of expenditure of resources.
- Few PUs opine that Peer Review is mere documentary compliance necessitating the increased documentation for file and record purpose.
- PUs also find an excuse to avoid the Peer Review under the pretext of either office renovation, shifting or absence of concerned partner etc. or seek compliance expecting active participation from reviewer.

Peer Review – A Value Addition

BUT
ALL THE PREVIOUS
EXCUSES
ARE
ILL FOUNDED
AND
FOUND ILLOGICAL.



Peer Review – A Value Addition

- Many PUs have expressed satisfaction after completion of Peer Review.
- There is an improvement in documentation after Peer Review.
- Establishment of evidence for having conducted and completed various assurance services is necessary since there is growing awareness amongst stakeholders making professional accountants vulnerable for penal action.
- Increased expertise of staff and associates results in overall improvement in standard service to client.

Peer Review – A Value Addition

- Standardisation of various forms and documentation procedures has eased compliance and saved time and resources for many PUs.
- Preparation of Audit Programme, Audit Plans and checklists has eased burden of supervision and identification of responsibilities of relevant staff member.
- Partners could focus on development of clients as well as Professional commitments.
- This has further benefitted their clients with improved service.

Peer Review – A Value Addition

- One window service has been realised for clients with expertise in other fields being available through the PU.
- Staff members have expressed satisfaction since transparency has helped them in improving their personal capabilities.
- Improved office administration has helped better communication with staff, partners as well as clients.
- Increased involvement of staff has helped access various developments in areas of specific interests speedily and dissemination of knowledge easier.

Peer Review – A Value Addition

- Since Peer Review does not seek to redefine the scope and authority of any of the Technical, Professional and Ethical Standards but only seeks to ensure that they are implemented both in letter and spirit.
- The level of friendly approach helps many Practising Units in identifying and establishing their house in order.
- Apart from cost saving, increased standard of service and improved satisfaction has helped practice unit better overall turnover thus proving win-win situation for them.

Peer Review – A Value Addition

- Improved documentation has raised confidence while facing various enquiries, litigations etc.
- Better environment and availing advanced technological facilities has helped face competition for practice units.
- These and many such invisible benefits have been possible only after undergoing Peer Review.
- All these indicate value addition to Practice Unit as a result of Peer Review.

PEER REVIEW MESSAGE

Together, we can build a constructive and honest community of Chartered Accountants that fulfills the promise of Peer Review by making it integral to the conversation of profession, rather than simply a judge over it.



THANK YOU

- **All ownership and credits for pictures, logos, copyright and trademarks rests with the owners. We thank all of them for the use of their material in this presentation to educate users.**