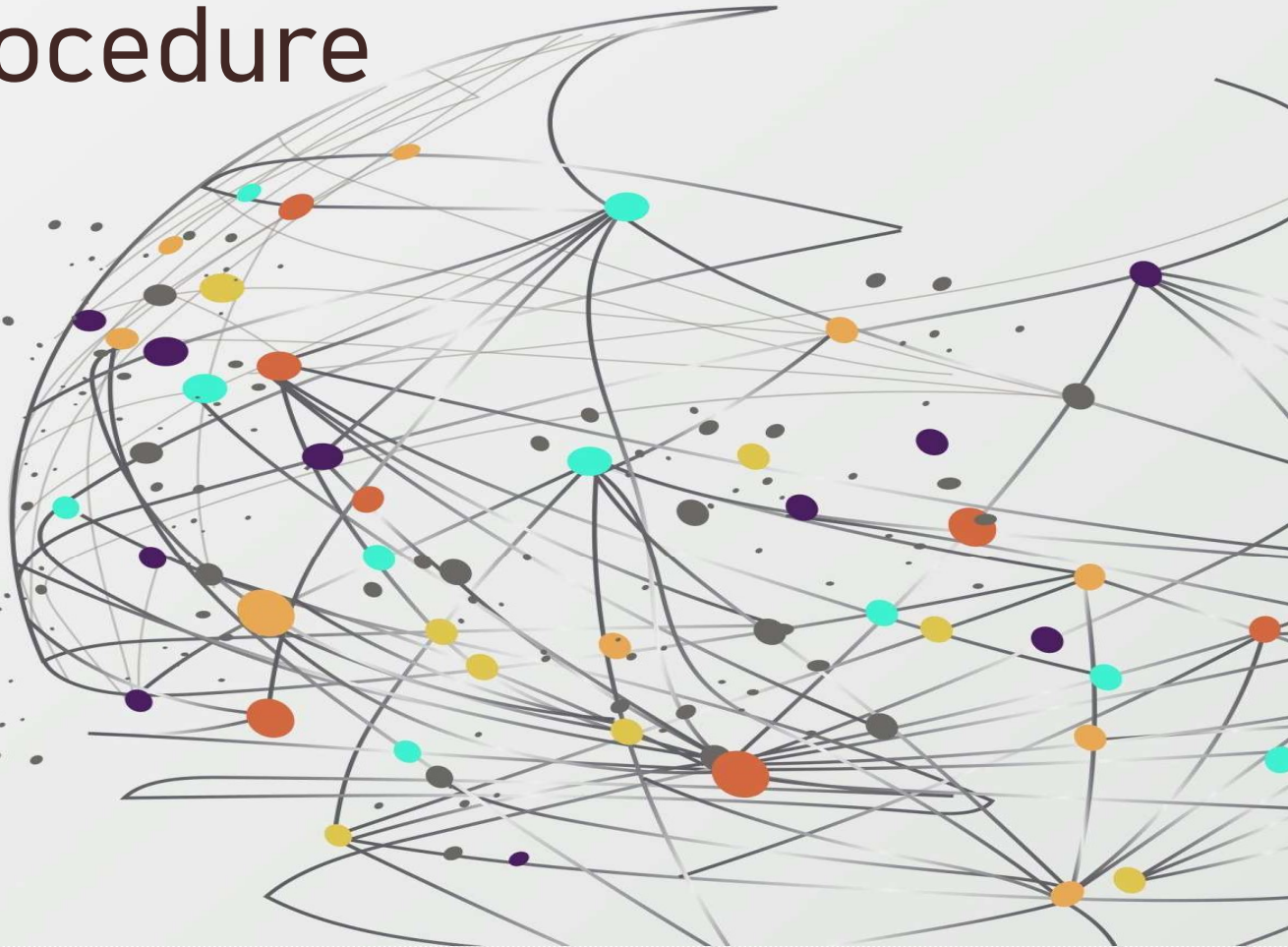


# Peer Review – Mandates & Procedure

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# New Changes in Peer Review

- Introduction of Various Standardised forms
- Procedural Changes of Review
- AQMM Questionnaire – Mandated for Statutory Audit of Listed entities
- Timelines Reduced- 20 days
- Separate Branch Level Peer Reviewer Introduced
- Fees of Peer Review- Minimum criteria based
- Sample Selection Criteria also updated – <https://resource.cdn.icai.org/72066prb57994.pdf>
- Guidelines empower PRB to revoke Peer Review Certificate of PU under various circumstances by issuing notice to the PU in form
- Criteria of Empanelment of Peer Reviewers modified
- Concept of Level I, Level II and Level III withdrawn – with introduction of new peer review mandate – for various firms in a phased manner depending upon their size, number of partners and the nature of assurance services provided by the PU etc

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- The entire Peer Review process is directed at the assurance services which may be used interchangeably as audit services, attestation function or audit functions of a practice unit
- Assurance services which shall be subjected to peer review *means assurance engagements as defined in the Framework For Assurance Engagements issued by the Institute of Chartered Accountants of India and as may be amended from time to time, means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria **but does not include:***
  - i. Management consultancy engagements;
  - ii. Representation before various Authorities;
  - iii. Engagements to prepare tax returns or advising clients in taxation matters;
  - iv. Engagements for the compilation of financial statements;
  - v. Engagements solely to assist the client in preparing, compiling or collating information other than financial statements;
  - vi. Testifying as an expert witness;
  - vii. Providing expert opinion on points of principle, such as Accounting Standards or the applicability of certain laws, on the basis of facts provided by the client; and
  - viii. Engagement for Due diligence
  - ix. Any other service rendered or function performed by practitioner not prescribed by the Council to be 'Assurance Engagement'

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# Criteria

## Mandatory

Peer Review can be mandated for such Practice Units as may be decided by the Council

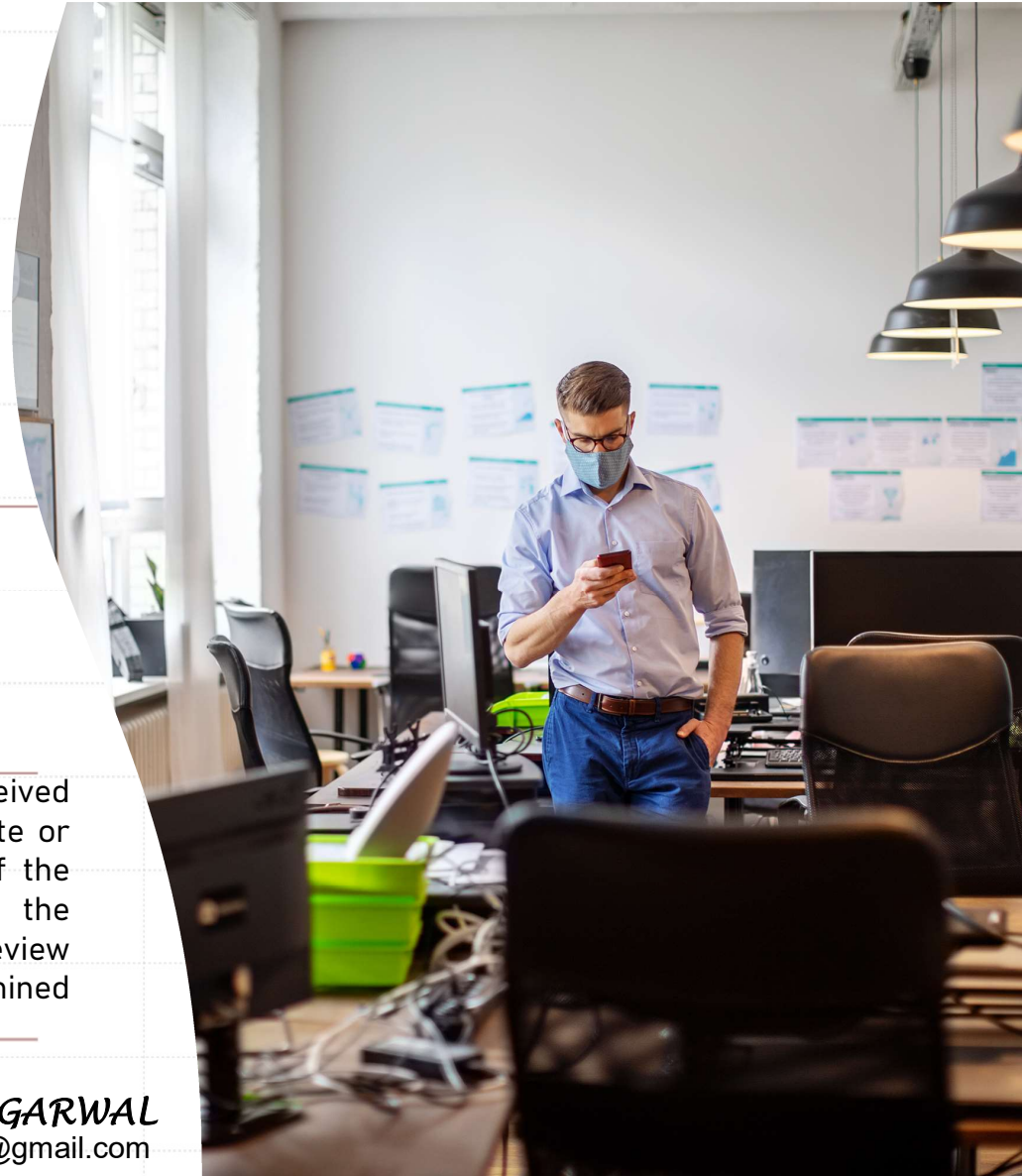
## Voluntary

Any Practice Unit may, suo-motu, apply to the Board for the conduct of its Peer Review

## Special Case

The Board, based on specific information received from Secretary, ICAI or Disciplinary directorate or any other Regulator, which in the opinion of the Board requires a special Peer Review of the Practice Unit, may conduct a special Peer Review of the Practice Unit for such a period determined by the Board

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# New Unit-

Date of establishment is less than twelve months immediately preceding the date of receipt of application of Peer Review or

A Practice Unit in existence for a period exceeding twelve months but not rendering any assurance services may also apply for Peer Review

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# Peer Review Mandate by ICAI

Phase	Category of firms covered for Mandatory Peer Review	Date from which Peer Review is Mandatory
I	Practice Units which propose to undertake Statutory Audit of enterprises whose equity or debt securities are listed in India or abroad as defined under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015: For these Practice Units, there is a pre-requisite of having Peer Review Certificate.	1st April 2022  <b>for auditors from this category, Peer Review is already mandatory by SEBI, this mandate is further requirement stipulated by the ICAI</b>
II	Practice Units which propose to undertake Statutory Audit of unlisted <b>public companies having paid-up capital of not less than rupees five hundred crores or having annual turnover of not less than rupees one thousand crores</b> or having, in aggregate, outstanding <b>loans, debentures and deposits of not less than rupees five hundred crores</b> as on the 31st March of immediately preceding financial year: For these Practice Units, there is a pre-requisite of having Peer Review Certificate.  <b>OR</b> Practice Units rendering attestation services and <b>having 5 or more partners</b> : For these Practice Units, there is a pre-requisite of having Peer Review Certificate before accepting any Statutory audit.	1st April 2023 (Old)  1 <sup>st</sup> Extension upto 30 <sup>th</sup> June 23  2 <sup>nd</sup> Extension upto 31 <sup>st</sup> March 24  <b>3<sup>rd</sup> Extension upto 30<sup>th</sup> June 24</b>

# Peer Review Mandate by ICAI

Phase	Category of firms covered for Mandatory Peer Review	Date from which Peer Review is Mandatory
III	<p>Practice Units which propose to undertake the Statutory Audit of entities which have <b>raised funds from public or banks or financial institutions of over Fifty Crores rupees</b> during the period under review or of anybody corporate including trusts which are covered under public interest entities : For these Practice Units, there is a pre-requisite of having Peer Review Certificate</p> <p style="text-align: center;"><b>OR</b></p> <p>Practice Units rendering attestation services and <b>having 4 or more partners</b>: For these Practice Units, there is a pre-requisite of having Peer Review Certificate before accepting any Statutory audit</p>	<p>1st April 2024</p> <p>Extended upto 31<sup>st</sup> December 2024</p>
II	<p>Practice Units which propose to undertake <b>audits of branches of Public Sector banks</b> : For these Practice Units, there is a pre-requisite of having Peer Review Certificate</p> <p style="text-align: center;"><b>OR</b></p> <p>Practice Units rendering attestation services and having <b>3 or more partners</b>: For these Practice Units, there is a pre-requisite of having Peer Review Certificate before accepting any Statutory audit.</p>	<p>1st April 2025</p>



# Mandate

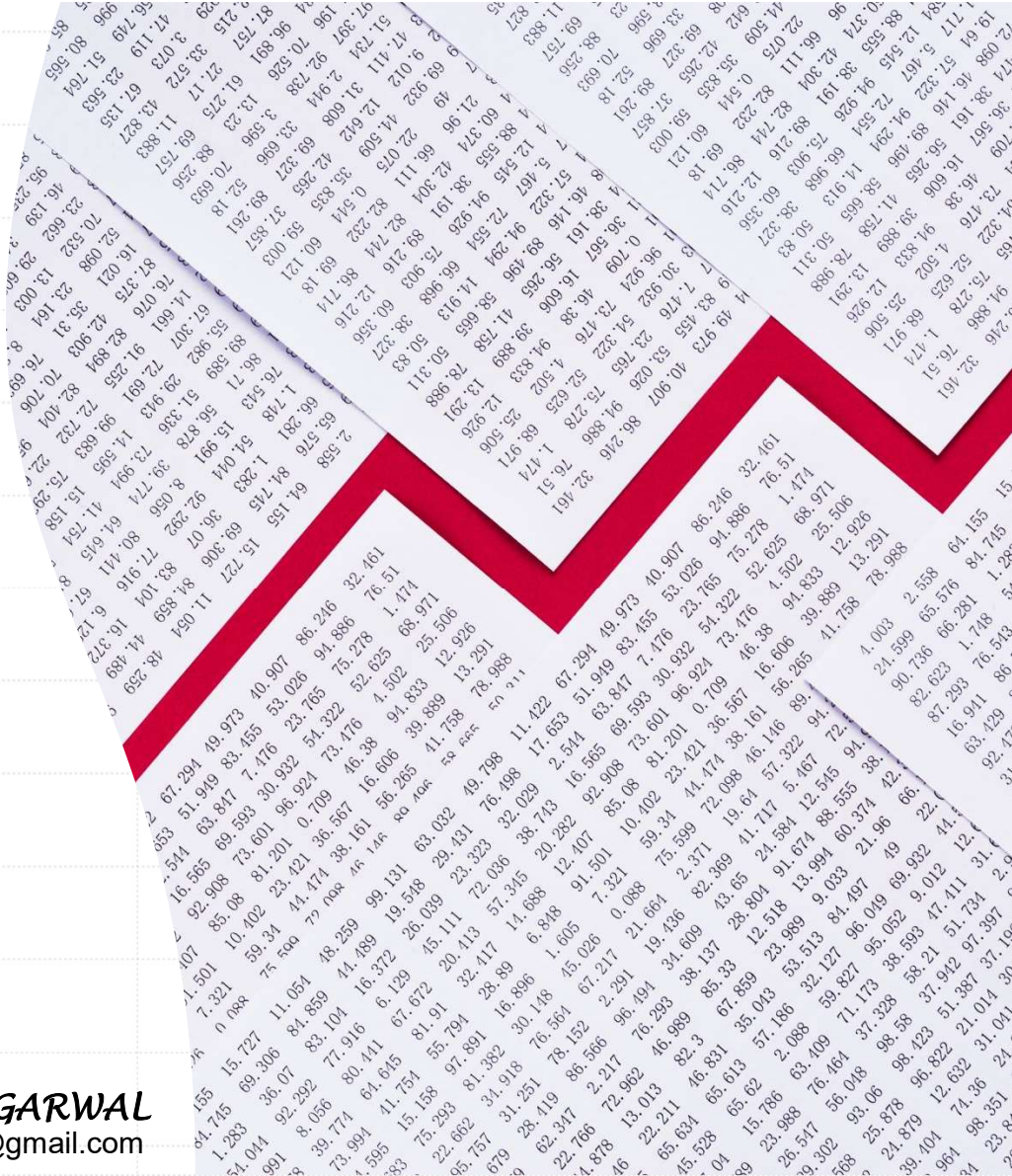
- Thus, at each phase, before undertaking statutory audit the concerned Practice Unit should possess Peer Review Certificate
- **As per ICAI Announcement dt 19.7.23 – for extension of Time lines of Phase II period upto 31<sup>st</sup> March 2024 – It was stated that**
- **Practice Units which accept Statutory audits on or before 31 March 2024 (read now 30<sup>th</sup> June 24) should ensure that they have a Peer Review Certificate at the time of signing**



# Validity of Peer Review Certificate

- The Peer Review Certificate issued to a PU shall be valid for a **period of three years** or such other period as may be decided by the Board commencing from the date of receipt of Peer Review report by the Board.
- Provided that if the **Peer Review Report has been received before the expiry of the earlier Peer Review Certificate**, the date of commencement of the Certificate shall be the date **following the date of expiry of the earlier Peer Review Certificate**
- The validity of the Peer Review Certificate issued to **New Units shall be decided by the Board**

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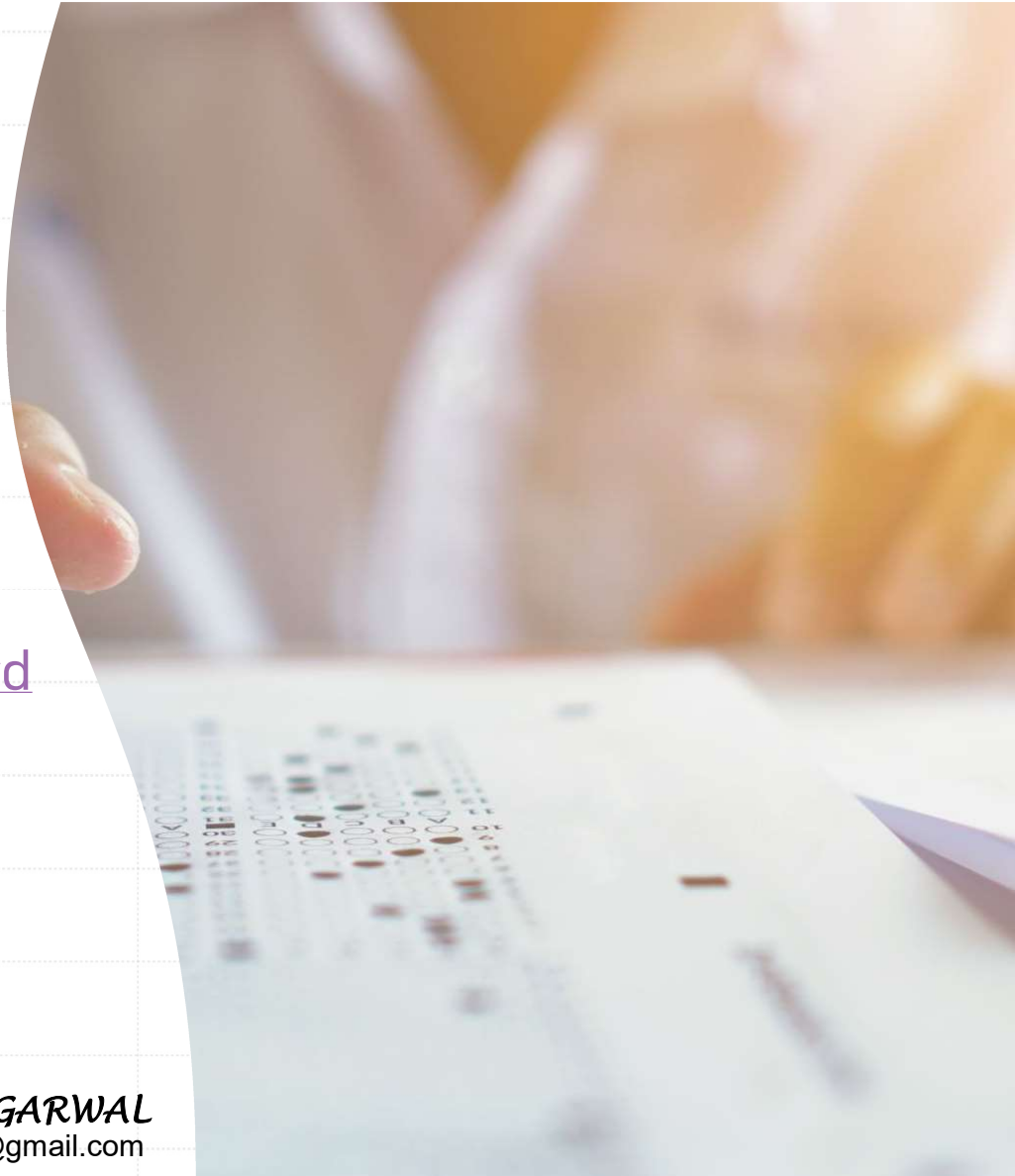




## Website – PRB

- <https://icai.org/post/peer-review-board>

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## Objective.....



comply with Technical, Professional and Ethical Standards as applicable including other regulatory requirements thereto and



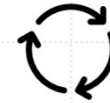
have in place proper systems including documentation thereof, to amply demonstrate the quality of the assurance services

# Peer Review Limitation

- Review would not necessarily disclose all weaknesses in the compliance of technical standards.
- Any system of quality control has certain inherent limitations - Departures from the system may not be detected.

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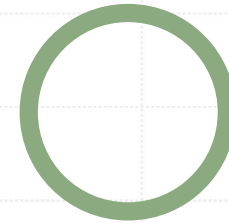
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# In Details



Practical  
Discussion

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# AQMM

The AQMM mandatorily applies to the **firms auditing** the following entities from the 1<sup>st</sup> April 2023:

## STATUTORY AUDIT

- (a) A listed entity; or
- (b) Banks other than co-operative banks (*except multi-state co-operative banks*); or
- (c) Insurance Companies

However, firms doing only branch audits are not covered.



# Practical Discussion

- INDEPDT PRACTICAL DISUSSION on
  - ❖ Peer Review Process
  - ❖ FORM 1- QUESTIONNAIRE ON PEER REVIEW – Practical Guidance on filling up the same and some caution
  - ❖ Sampling Requiriements
  - ❖ Preparation of List of Assurance Engagemetn-annexure to Clause 22
  - ❖ Discussion on SQC policy , Implementation Guide
  - ❖ Independence Policy- Confirmation and Declaration

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- Procedural Changes

W.e.f. 01st October 2022, PU has to initially on Day 1 has to fill up the application cum detailed questionnaire including AQMM questionnaire (if applicable) in form 1 and send the request to the Board for getting Peer Reviewed.

Thereafter, the PU is sent a list of three name of the reviewer by the PRB, out of which PU has to choose one reviewer and inform the PRB

W.e.f. 01<sup>st</sup> October 2022, with New Peer Review Guidelines being issued, various new forms and formats has been notified by the Council, which facilitates in standardising the correspondences between the Board and the PU, as well as the PU and the Peer Reviewer

Form	Nature	Given by
Form 1	Application cum Questionnaire to be submitted by the Practice Unit	PU
Form 2	Acceptance cum Declaration of Confidentiality to be Submitted to the Practice Unit	Reviewer
Form 3	Application cum Declaration for Empanelment as a Peer Reviewer	Reviewer
Form 4	Declaration Form to be submitted by Board members and Secretariat	PRB Members
Form 5	Notice by Peer Reviewer for visiting the office of the Practice Unit	Reviewer
Form 6	Format for seeking additional information from the Practice Unit by the Reviewer	Reviewer
Form 7	Joint application to be made by PU and Peer Reviewer for seeking additional time for completion of Peer Review process	PU & Reviewer
Form 8	Letter seeking extension to the validity of Peer Review Certificate	PU
Form 9	Letter for submission of report by the Peer Reviewer to the Peer Review Board	Reviewer
Form 10	Notice to be given to the Practice Unit by the Board in case of revocation of Peer Review Certificate	PRB

PRB= Peer Review Board; Reviewer= Peer Reviewer; PU = Practice Unit

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# Timeline reduced

- The Revised Peer Review Guidelines stipulates that the entire peer review including submission of report by the peer reviewer to the board be completed **within a period of 20 days** from the date in which the PU send the application to the PRB in form 1 requesting for Peer Review. Further, the said 20 days schedule is further broken into various time frames- refer revised peer review timelines at <https://resource.cdn.icaai.org/72016prb57960-itsprp.pdf>
- 
- However, in case of delay in the Peer Review process beyond the timeframe prescribed under the Peer Review Guidelines, the Practice Unit and the Reviewer, shall make an intimation to the Board in Form 7 seeking extension of time giving reasons for the delay in the process and submission of report to the Secretariat
- *Erstwhile the peer review procedure had to be completed within a span of 45 days*

Practise Unit applies to Peer Review Board for undergoing peer review  
(voluntarily or otherwise- refer New Mandate for undergoing Peer Review)

Alternatively the Peer Review Board may select the Practise Unit (PU) for undergoing Peer Review

Peer Review Board asks the PU to submit to the Board the duly filled up Application cum  
Questionnaire in Form 1 (including annexure)

Earlier the Questionnaire was prepared by the PU once the Peer Reviewer was appointed

Practice Unit:

1. Fills Form 1 'Application cum Questionnaire'
2. Attaches the List of Assurance service Clients, and
3. Sends Form 1 to the Peer Review Board

Board will send a panel of 3 Reviewers to Practice Unit to select 1  
Reviewer. Then Board will intimate to Reviewer about his selection  
and direct him to submit Form-2 to the Practice Unit.

Reviewer furnishes Form 2 'Declaration of Confidentiality' to  
Practice Unit within 2 working days of his appointment by the  
Peer Review Board

Practice Unit, on receipt of Form 2 from the Reviewer,  
will send copy of Form 1 'Application cum Questionnaire'  
to the Reviewer.

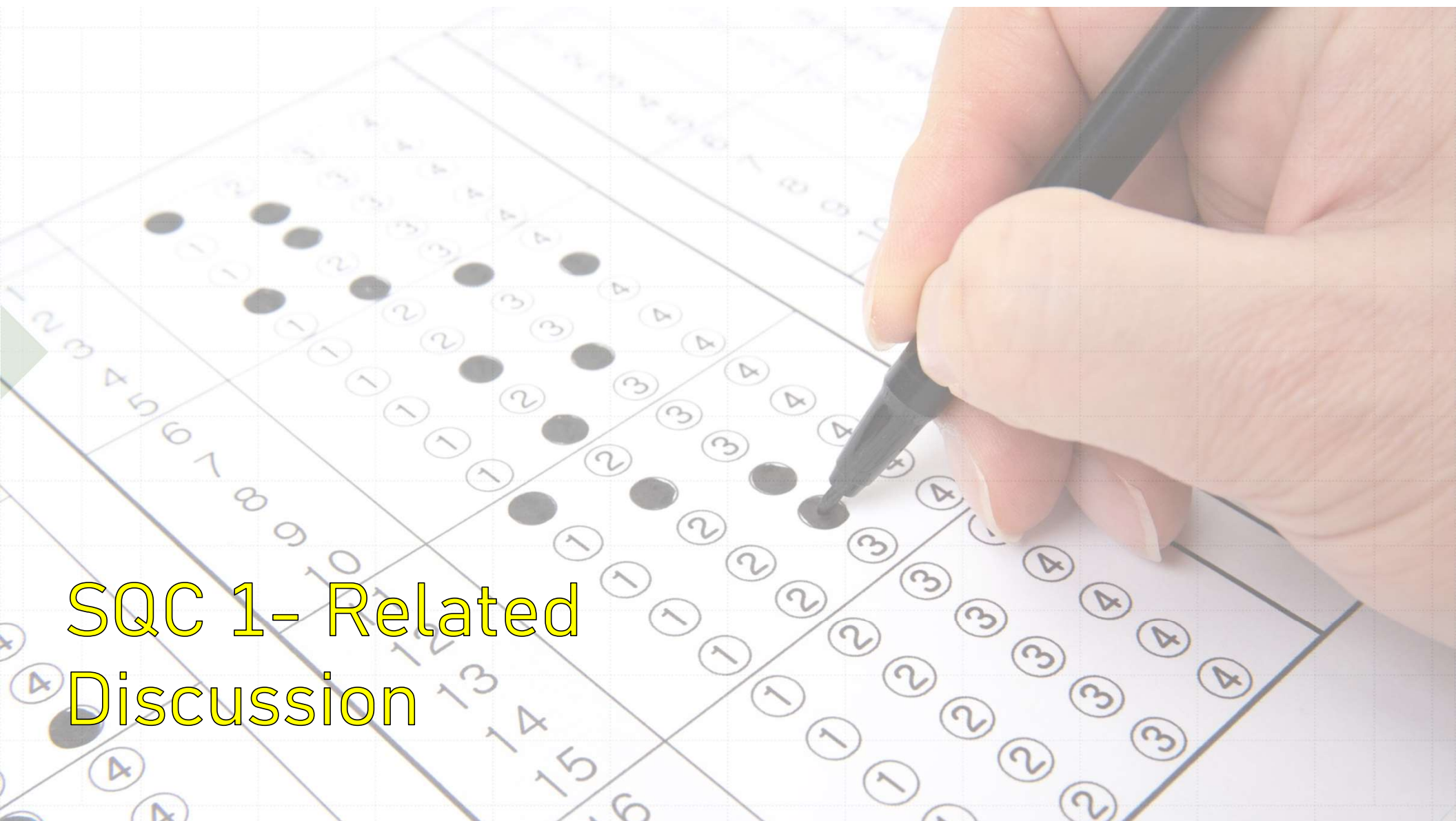
Reviewer:

1. Evaluates Form 1 'Application cum Questionnaire,
2. Determines the Samples from List of Assurance service clients,
3. Intimates to Practice Unit the List of Samples selected by him & Proposed date of visit in Form 5 within 2 working days
4. Intimates to Practice Unit in Form 6 for seeking any additional Information, if required.



# The 1<sup>st</sup> Step

1. Take the client register and map the list of engagements which are within the purview of Peer Review.  
The data of Peer review covered clients has to be provided for three years
2. Classify them in the format required in Form I
3. Obtain a list of all UDIN's generated by the partners of the firm and try to map with client register
4. Prepare and submit Form I
5. Ensure that work paper files for all engagements covered under the Peer review process are maintained properly and easily locatable
6. Enable the Peer review to obtain comfort on Compliance procedures
7. Get aligned with the relevant working papers for the samples listed by the Reviewer
8. Provide documents for the samples as requested by the Peer reviewer
9. Provide all records and information as requested by the Reviewer



# SQC 1- Related Discussion



*Standard on Quality Control (SQC) 1*  
Quality Control for Firms that Perform Audits &  
Reviews of Historical Financial Information, and  
Other Assurance & Related Services  
Engagements-

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# Objective of SQC 1

Firm's responsibility for its system of quality of control for:

- audits and reviews of historical financial information
- Other assurance and related services engagements

*Note:*

*Quality control responsibility of firm personnel for specific engagements set out in other Standards, eg SA 220.*



# Why SQC1

All firms to have system of quality control that provides reasonable assurance that :

- Firm & personnel comply with professional standards, regulatory & legal requirements, and
- Reports issued by firm or partners are appropriate in the circumstances.

# Applicability

This standard will be applicable to all the professional firms that performs :

- *Audit* of Historical Financial Information.
- *Review* of Historical Financial Information.
- *Assurance* and other Related Services Engagements.



## Elements of System of Quality Control

- I. Leadership responsibilities for QC
- II. Ethical requirements
- III. Client acceptance/ continuance
- IV. Human resources
- V. Engagement performance
- VI. Monitoring

## Elements of System of quality control

The firm should Document and Communicate the Quality Control Policies & Procedures (QC P&P) to the firms' personnel. Firm should also

- Review QC P&P periodically
- Monitor it & get the feedback on QC P&P from it's personnel;
- update it's QC P&P, if required.
- Make sure its operations.
- Put in the place crises management system (i.e course of action ,in case of non-compliance)

## I. Leadership Responsibilities for QC

- Promote internal culture w.r.t. :
  - ✓ essential of quality in engagements.
  - ✓ Compliance with professional standards, regulatory/ legal requirements.
  - ✓ Issue of reports appropriate in circumstances.
  
- Require CEO/ managing partner to assume ultimate responsibility for QC.
  
- Recognise & reward high quality work.



## I. Leadership Responsibilities for QC

- Leaders to recognise quality precedes business objectives:
  - ✓ Assign management responsibilities appropriately
  - ✓ HR policies to demonstrate firm's QC commitment
  - ✓ Sufficient resources for development, documentation & support of
  - ✓ QC policies & procedures
  
- Person delegated the QC responsibility by CEO/ Managing partner to have sufficient appropriate experience & ability, & necessary authority to assume responsibility

## I. Leadership Responsibilities for QC

Saying something is very easy but implementation of the same would be difficult. Therefore the next big Question, which cropped up in the mind is :

**How to promote & take lead ?**

Reply :

- ❖ Leaders must set example by their own conduct.
- ❖ Communicate System of QC to the firm's personnel by way of organizing Training, workshops, formal newsletters etc.

## II. Ethical Requirements

Establish policies & procedures to reasonable assure that Firm & personnel comply with relevant ethical requirements of :

- Integrity
  - Objectivity
  - Professional competence and due care
  - Confidentiality ; and
  - Professional behavior
- \* Ethical requirements en shrine **INDEPENDENCE**

## II. Ethical Requirements

Independence: The firm must establish P&P, which should enable the firm to:

- Communicate its independence requirements to its personnel and, where applicable to others;
- Evaluate the circumstances and relationships that create threats to independence;
- Take appropriate action to eliminate those threats or reduce them to an acceptable level.
- For all these Independence matters, this SQC-1 has put lot of responsibilities on the shoulders of “Engagement Partner”



## Independence

- Establish policies & procedures → reasonable assurance that
  - ✓ Maintenance of independence by relevant personnel
  - ✓ Firm notified of breaches of independence requirements
  
- Policies & Procedure should enable:
  - ✓ Communication of independence requirement to personnel & others
  - ✓ Identification & evaluation of circumstances/ relationships threatening independence
  - ✓ Take appropriate action for elimination/ reduction of threats/ withdrawal from engagement
  - ✓ Resolution of breaches of independence

## Independence (contd.,)

*Policies / procedure should require:*

<b>Maintenance of independence of personnel</b>	<b>Breach of independence</b>
<ul style="list-style-type: none"><li>➤ Engagement partners to provide firm with relevant information about client</li><li>➤ Prompt notification of threats to independence</li><li>➤ Accumulation &amp; communication of relevant to appropriate personnel</li></ul>	<ul style="list-style-type: none"><li>➤ All subjected to independence to promptly notify breach of independence</li><li>➤ Prompt communication of identified breaches</li></ul>

## Independence (Contd.)

- Firm should obtain Annual written confirmation as to compliance with independence requirements.
  
- Create Policies & procedure :
  - ✓ Firm has to update its records (preferably annually) relating to independence; and also design policies to make sure that it would get notified of breaches of independence.
  
  - ✓ Audit of FS of listed entities – rotation of engagement partner – at least every 7 years

### **III. Acceptance and Continuance of Client Relationships and Specific Engagements**

Establish policies/ procedures to reasonable assure that clients are accepted/ continued only where :

- ✓ Client integrity has been considered.
- ✓ Firm is competent to perform engagement with respect to capability, time & resources.
- ✓ firm can comply with ethical requirements.

### **III. Acceptance and Continuance of Client Relationships and Specific Engagements (*Contd.*)**

- ✓ If any issue raised, document how it resolved.
- ✓ Establish Policies w.r.t. withdrawal from engagement and communication requirements, if circumstances warrant.



### **III. Acceptance and Continuance of Client Relationships and Specific Engagements (*Contd.*)**

#### ***Withdrawal from Engagement:***

Policies to address following issues:

- Discussion with appropriate level of management & those charged with governance
- If withdrawal necessary, discuss with management & those charged with governance
- Professional/ regulatory requirement to:
  - Not to withdraw, or
  - Report withdrawal from engagement and / or client relationship
- Documentation of significant issues, consultations , conclusions ,basis fir conclusion.

## IV. Human Resources

The firm should establish P&P to provide reasonable assurance that:

- It has sufficient personnel with the
  - Capabilities
  - Competence
  - Commitment to ethical principal
- Issues to be addressed by HR policies:
  - ✓ Recruitment
  - ✓ Performance evaluation
  - ✓ Capabilities
  - ✓ Competence
  - ✓ Career development
  - ✓ Promotion
  - ✓ Compensation
  - ✓ Estimation of personnel needs

## IV. Human Resources (*Contd.*)

The Capabilities & Competence are developed through:

- Professional education
- Continuing professional development, including training
- Work experience
- Coaching by senior partners of the firm.

SQC-1 has also emphasis on the matter that:

*“Where internal technical & training resources are unavailable, the firm may use a suitably qualified external person for that purpose.”*

## IV. Human Resources (*Contd.*)

### Assignment of Engagement Teams

- The firm should assign responsibility for each engagement to an “**ENGAGEMENT PARTNER (EP)**” .
- The firm should establish the Policies & procedure requiring that:
  - Identity & role of engagement partner communicated to key personnel of client management & those charged with governance.
  - Engagement partner is capable & competent & has time & authority for engagement.
  - Responsibility of engagement partner clearly defined & communicated to him/ her.
- Assign appropriate staff
- Assessment of staff capability & competence

## V. Engagement Performance

Establish policies/ procedures to reasonable assure w.r.t.:

- ✓ Compliance with professional standards.
- ✓ Compliance with laws/ regulations.
- ✓ Engagement partner issues reports appropriate in the circumstances.



## V. Engagement Performance (contd.)

Important aspects of engagement performance :

- ✓ Supervision
- ✓ Review
- ✓ Consultation
- ✓ Differences of opinion
- ✓ Engagement Q. C. review
- ✓ Engagement documentation

## V. Engagement Performance (contd.)

This section of the SQC-1 emphasis on establishment of P&P by the firm which should address the following matters:

- How the assignment is to be performed?
- How engagement team would be briefed about the objectives of the assignment to be achieved?
- How engagement team would be briefed about the objectives of the assignment to be achieved?
- When & how to take Consultation, in case it requires to resolve the complicated issues?
- How to resolve the difference of opinion?

## V. Engagement Performance (contd.)

**Difference of opinion** could exist between:

- Engagement partner & Reviewer;
- Engagement partner & Quality Control Reviewer
- Engagement partner & Audit staff
- Engagement partner & Independent consultants.

In that case it is **mandatory** as per SQC-1 to document those matters, where the difference of opinion exist and **firm should not issue report until matter is resolved.**

## V. Engagement Performance (contd.)

Other matters to be taken care of includes:

**Engagement of Quality Control Reviewer (QCR):** The P&P in this regard should address the issues like:

- How to appoint QCR ?
- What precautions to be taken while appointing QCR?
- Who should be QCR? I.e. Internal or External
- Decide about the nature, extent and timing of his Review.
- What should be the contents of QCR's Report?

## V. Engagement Performance (contd.)

Other matters to be taken care of includes:

- **Assembly of Final Engagement Files:** The P&P of the firm ensure the assembly of engagement files after the issue of engagement reports. Ordinarily **within 60 days** after the date of the auditor's report this work should be completed.
- **Confidentiality, Safe Custody, Integrity, Accessibility and Retrievability of Engagement Documentation:** The P&P of the firm should ensure that the confidentiality of information as contained in the "Engagement Letter" must be maintained unless client or law of the land permits otherwise.



## V. Engagement Performance (contd.)

Other matters to be taken care of includes:

**Retention of Engagement Documents** : The P&P of the firm should ensure that engagement documents should retain for a period sufficient to meet the needs of the firm or as required by law or regulation.

SQC-1, in this regard says that “The retention period ordinarily is **no shorter than 10 years** from the date of the auditor’s report, in case of Audit engagement.”

Unless otherwise specified by law or regulation, engagement documentation is the property of the firm

## VI. Monitoring

The firm should establish P&P to ensure that the System of QC are :

- Relevant
- Adequate
- Operating Effectively and
- Complied with in practice by firm & its personnel.

## VI. Monitoring (Contd.)

Ongoing consideration and evaluation of the system of QC includes matters such as:

- Analysis of new developments in professional standards
- Determination of corrective actions to be taken and improvements to be made.
- Communication to appropriate firm personnel of weaknesses identified in the system.
- Follow-up by appropriate personnel of the firm to make sure the modifications are made in the QC.

## Documentation

The firm should establish the P&P requiring appropriate documentation to provide evidence of the operation of each element of its system of Quality Control, i.e.

- Leadership responsibilities for quality within the firm;
- Ethical Requirements
- Acceptance and continuance of client relationships
- Human Resources.
- Engagement Performance.
- Monitoring.

*Contd./.....*

## ■ For network firms:

- Monitoring system to be in accordance with SQC
- At least annually, the network communicates the overall scope, extent and results of the monitoring process to appropriate individuals within the network firms;
- The network communicates promptly any identified deficiencies in the quality control system to appropriate individuals within the relevant network firm or firms so that the necessary action can be taken; and
- Engagement partners in the network firms are entitled to rely on the results of the monitoring process implemented within the network, unless the firms or the network advises otherwise.

*Contd./...*



## VII. Documentation

- Policies/ procedures for documentation to provide evidence of operation of each element of QC system
- **Form & content** – *factors to consider*
  - size of the firm and the number of offices.
  - degree of authority both personnel and offices have.
  - nature and complexity of the firm's practice and organization.
- **Retention**
  - Time period sufficient to permit evaluation of firm's compliance with QC system.
  - Longer period, if required by law.



## Compliances of Practice Unit (PU) regarding Audit Documentation

- Practicing unit should have the details of
  - Staff
  - Assignment details
  - Training details



Documentation

## SCOPE...

- 1. The Peer Review process shall apply to all the assurance engagements signed by a Practice Unit during the period under review.*
- 2. Once a Practice Unit is subjected to Peer Review, its assurance engagement records, working papers, pertaining to the Peer Review Period shall be subject to examination and review by the Peer Reviewer.*
- 3. 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 conducting the Peer Review of the Head Office shall consider the report of the Branch Peer Reviewer and shall issue a consolidated report for the Practice Unit*

SCOPE...

*4. The Peer Review shall cover:*

- i. Compliance with **Technical, Professional and Ethical Standards***
- ii. Quality of reporting*
- iii. Systems and procedures for carrying out assurance Services*
- iv. Self evaluation under Audit Quality Maturity Model or any other guideline issued by the Centre for Audit Quality*
- v. Training programmes for staff (including article and audit assistants) concerned with assurance functions, including availability of appropriate infrastructure*
- vi. Compliance with directions and / or guidelines issued by the Council to its Members, including fees to be charged, number of audits undertaken, register for assurance engagements conducted during the year and such other related records.*
- vii. Compliance with directions and / or guidelines issued by the Council in relation to article assistants and / or audit assistants, including attendance register, work diaries, stipend payments, and such other related records.*

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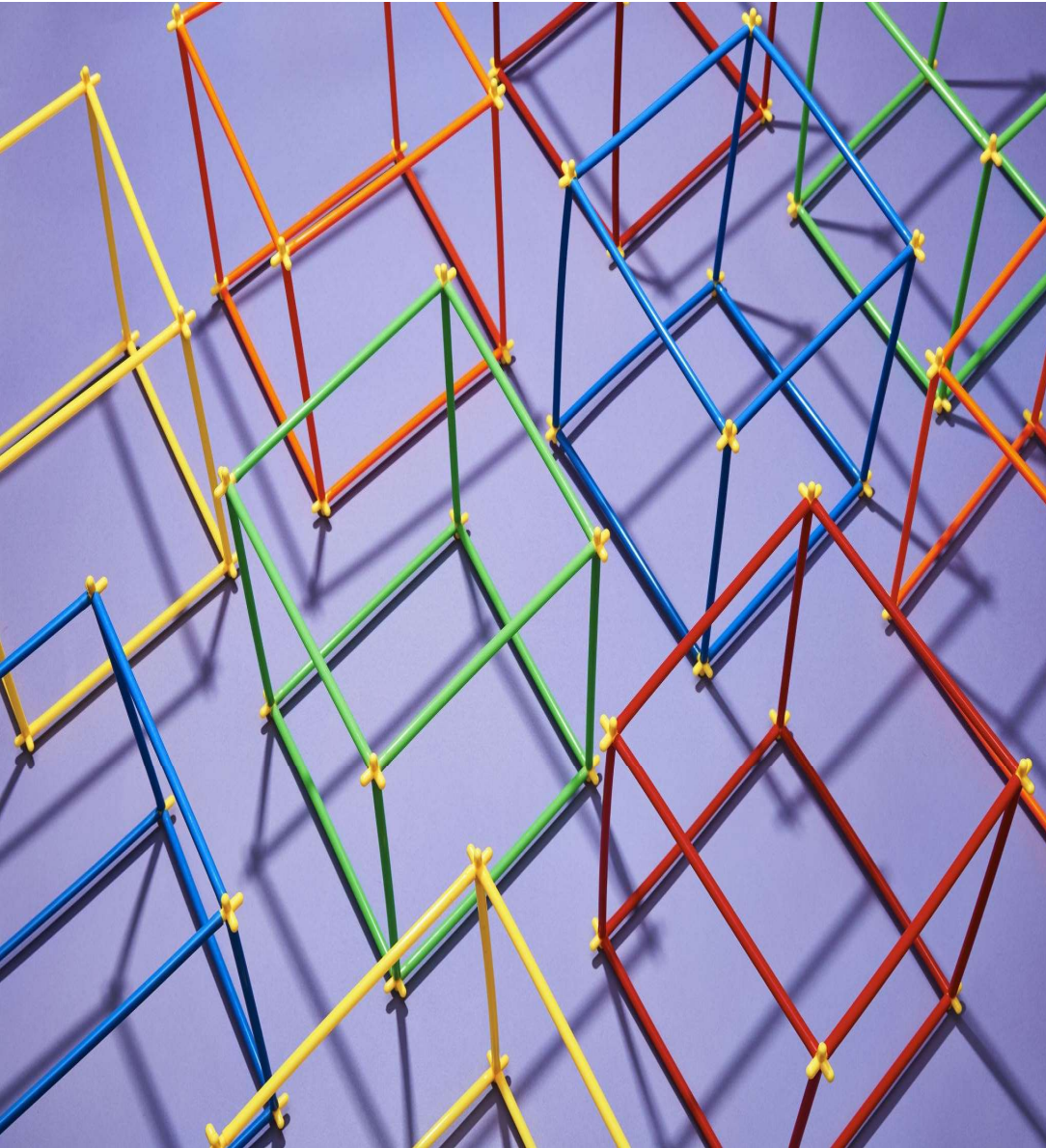




As per Clause 2 (23) of the Guidelines, the term *Technical, Professional and Ethical Standards* mean

- (i) **Accounting Standards** issued by ICAI that are applicable for entities other than companies under the Companies Act, 2013;
- (ii) **Accounting Standards** prescribed under section 133 of the Companies Act, 2013 by the Central Government based on the recommendation of ICAI and in consultation with and after examination of the recommendations made by the National Financial Reporting Authority (NFRA);
- (iii) **Ind AS**-(Indian Accounting Standards) prescribed under section 133 of the Companies Act, 2013 by the Central Government based on the recommendation of ICAI and in consultation with and after examination of the recommendations made by the National Financial Reporting Authority (NFRA);
- (iv) Standards issued by the Institute of Chartered Accountants of India including
  - a) Engagement and Quality Control Standards (**Standard on Auditing + SQC**)
  - b) **Statements**
  - c) **Guidance notes**
  - d) **Standards on Internal Audit**
  - e) **Guidelines / Notifications / Directions / Announcements / Pronouncements / Professional Standards** issued from time to time by the Council or any of its Committees.


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- As per Clause 2 (23) of the Guidelines, the term *Technical, Professional and Ethical Standards* mean.....
- (v) *Framework for the preparation and presentation of financial statements, Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and Framework for Assurance engagements;*
- (vi) *Provisions of the relevant statutes and / or rules or regulations which are applicable in the context of the specific engagements being reviewed including instructions, guidelines, notifications, directions issued by regulatory bodies as covered in the scope of assurance engagements.*
- (vii) *Any other Technical, Professional, Ethical Standards and other Standards issued by any authority governing the profession of Chartered Accountancy*

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No one will believe you did  
something on an audit if  
there is nothing in your  
working papers file to show  
for it !!!

# Definition

---

## Audit Documentation

### Record of:

- audit procedures performed (including audit planning)
- relevant audit evidence obtained and
- conclusions reached the auditor reached

Also known as “working papers”, “work papers”

## Audit File

- one or more folders or other storage media
- in physical or electronic form
- containing records that comprise audit documentation for a specific engagement

## Experienced Auditor

An individual (whether internal or external to firm) having practical audit experience, and a reasonable understanding of:

- audit processes
  - SAs and applicable L&R requirements
  - business environment in which the entity operates; and
  - auditing and financial reporting issues relevant to the entity’s industry
-

## **Documents before Review –**

- Procedures
- Procedure for audit delegation
- Procedure for scheduling and staffing of audits
- Procedures for review of audit process
- Procedures for supervision of audit process
- Procedure for Engagement letters
- Procedure for documentation



## Documents before Review –

- Policies
- Independence Policy and procedures – for partners as well as employees
- Continuing Professional Education Programme Policy for Partners, Employees and Articles Trainees.
- Employment Policy
- Training Policy

## **Documents before Review –**

- Other Documents
- Audit Plans
- Use of Audit programmes
- Procedure for review
- Maintenance and retrievability of Audit records
- Compilation of Clients' business
- Procedure for compliance and substantive tests
- Staff files and records

## **Documents before Review –**

- Checklists for Accounting Standards
- Checklists for Auditing Standards
- Procedure for arriving at an opinion
- Review of opinion
- Drafting of Report
- Fully filled up questionnaire
- Records of sample clients selected by PR

## Documentaton - Form & Content

- *The factors that determine the form and content of documentations for a particular engagement are:*
  - ✓ *The nature of the engagement*
  - ✓ *The nature of the business activity of the client*
  - ✓ *The status of the client*
  - ✓ *Reporting format*

## Documentation - Form & Content (Contd.)

- *The factors that determine the form and content of documentations for a particular engagement are:*
  - ✓ *Relevant legislations applicable to the client*
  - ✓ *Records maintained by the client*
  - ✓ *Internal controls in operation*
  - ✓ *Quality of audit assistants engaged in the particular assignment and the need to direct and supervise their work*



## Purpose

- To assist audit team to plan and perform the audit
- To enable supervision and quality control of work
- To demonstrate accountability of the audit team for its work
- To retain a record of matters of continuing significance to future audits
- To withstand the test of an independent experienced auditor review (including peer review) to comply with SQC 1.
- To enable an experienced auditor to conduct external reviews in accordance with applicable legal, regulatory or other requirements

## Extent

- Documentation should enable an experienced auditor, having no previous connection with the audit, to understand:
- Audit evidence obtained
- Conclusions reached on significant matters
- In relation to audit procedures designed to address identified risks of material misstatement, conclusions that are not otherwise readily determinable from the documentation of the procedures performed or audit evidence obtained

## Accountability

- The auditor should record
  - Who performed the audit work and the date of such work
  - Who reviewed specific audit documentation and the date of such review

## Significant matters

- Matters that give rise to significant risks
- Results of audit procedures indicating
  - Possibility of material misstatement
  - Need to revise the auditor's risk assessment and responses thereto
- Circumstances that cause the auditor significant in applying necessary audit procedures that could result in a modification to the report

# Nature of Documentation

- ▶ Can be electronic, manual, or other media
- ▶ Examples include:
  - Audit programs
  - Emails with the client
  - Analyses
  - Evidence of test of details on samples of items
  - Letters of confirmation and representation
  - Abstracts or copies of the entity's records (e.g., significant and specific contracts and agreements)
  - Substantive analytical procedures, including development of expectations and investigation of differences

## Checklist

Extracts of important documents

Schedules of work the auditor performed



# Stages



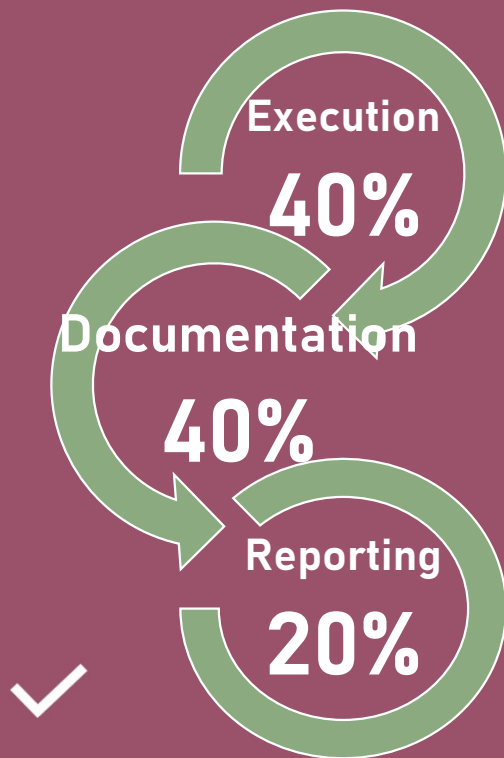
## Specific Documentation Requirements

SA	Title	Paragraphs
210	Agreeing the Terms of Audit Engagements	10-12
220	Quality Control for an Audit of Financial Statements	24-25
230	Audit Documentation	Entire Standard
240	The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements	44-47
250	The Auditor's Responsibilities relating to Laws and Regulations in an Audit of Financial Statements	29
260(R)	Communications with Those Charged with Governance	23
300	Planning and Audit of Financial Statements	11

<b>SA</b>	<b>Title</b>	<b>Paragraphs</b>
315	identifying and Assessing the Risks of Material Misstatement through understanding the Entity and its Environment	32
320	Materiality in Planning and performing an audit	14
330	The Auditor's Responses to Assessed Risks	28-30
450	Evaluation of misstatements identified during the audit	15
540	Auditing Accounting Estimates, including fair value estimates, and related disclosures	23
550	Related Parties	28
610(R)	Using the Work of Internal Auditor	36-37
701	Communicating Key Audit Matters in the Independent Auditor's Report	18
720(R)	Auditor's Responsibility in Relation to Other Information in Documents containing Audited Financial Statements	25

# Audit documentation as per Methodology

## Right Approach



## Wrong Approach



1. SAs for planning & risk assessment- Series of 200, 300 & 400

2. SAs for Execution- Series of 500 & 600

3. SAs for Reporting- Series of 700

## The Need for Working papers

- They aid in the planning and performance of the audit;
- They aid in the supervision and review of the audit work and to review the quality of work performed, in accordance with AAS 17 “Quality Control for Audit Work”;
- They provide evidence of the audit work performed to support the auditor’s opinion
- They document clearly and logically the schedule, results of test, etc.
- The working papers should evidence compliance with technical standards
- They document that Internal control has been appropriately studied and evaluated; and
- They document that the evidence obtained and procedures performed afford a reasonable basis for an opinion.



# Discrepancies in documentation, noted by ICAI in Disciplinary Proceedings

Documents verified but nowhere reference made in working papers.

Conduct of an Audit without checking documents.

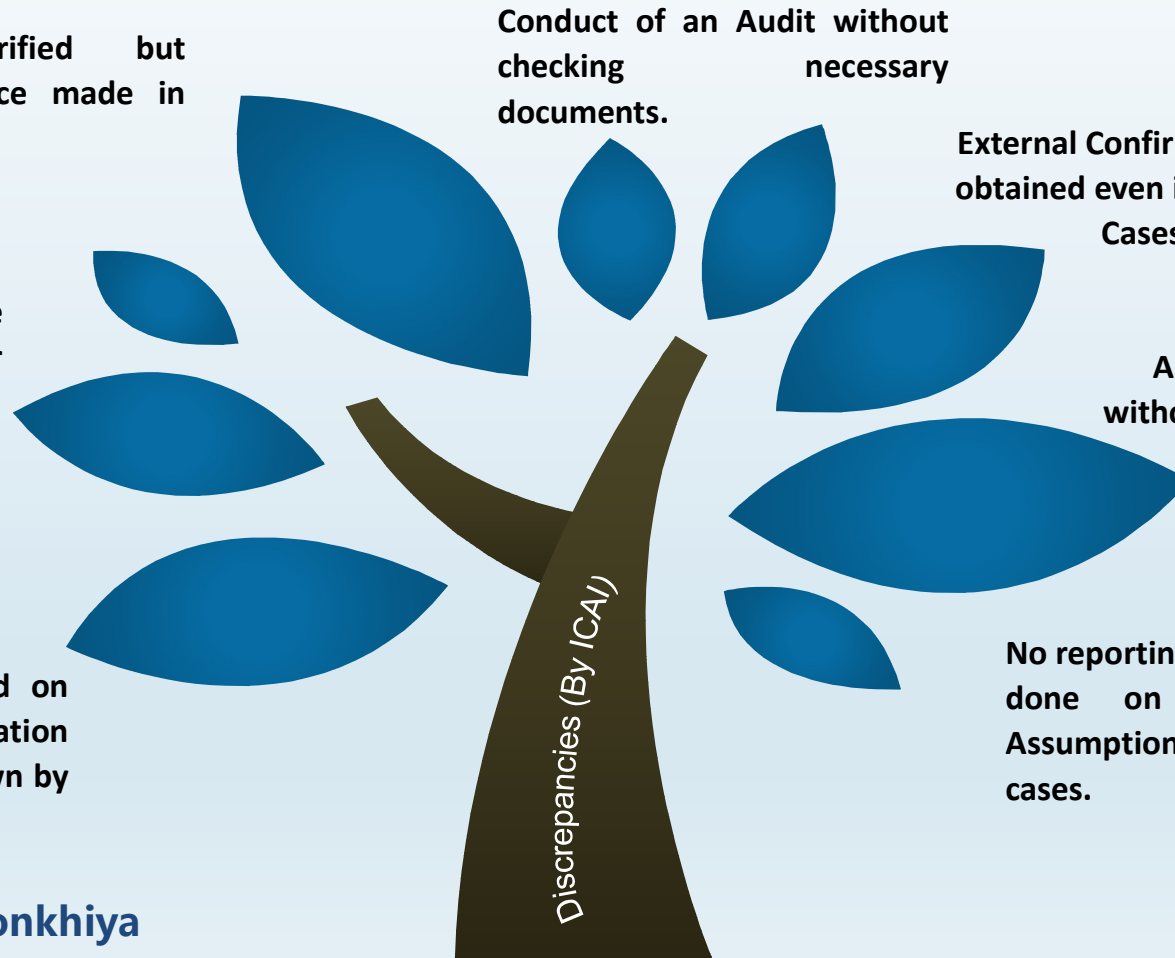
External Confirmation not obtained even in Doubtful Cases.

No sufficient and appropriate Audit Evidence obtained for expressing Opinion.

Audit Evidences obtained without Sampling Methodology.

No documentation based on which legal opinion evaluation done and conclusion drawn by Auditor.

No reporting & documentation done on Going Concern Assumption even in doubtful cases.



# The Need

- They retain a record of matters of continuing significance to future audits of the entity;
- They enable an experienced auditor to conduct quality control reviews in accordance with Statement on Peer Review issued by the Institute of Chartered Accountants of India;
- The process of preparing sufficient audit documentation contributes to the quality of an audit
- They fulfil the need to document oral discussions of significant matters and communicate to those charged with governance, as discussed in SA260.

# Compliances of Practice Unit (PU) regarding Audit Documentation

## **Independence**

- The practice unit have a policy to ensure independence, objectivity and integrity, on the part of partners and staff
- Communicate these policies to all staff
- Monitors compliance with policies and procedures
- Periodically review the association with clients to ensure objectivity and independence

# Compliances of Practice Unit (PU) regarding Audit Documentation

- **ILLUSTRATIVE CHECKLIST OF AUDIT PROGRAMME OF PRACTICE UNIT:**
- A checklist which illustrates the contents of the audit programme of a review practice unit for the guidance of the reviewer is given hereunder:
- Appointment letter and the relevant resolution for the appointment.
- Terms of the engagement including reports required and manner of determining audit fees.
- System of book-keeping and the list of the books of accounts maintained by the entity.
- Particulars of the promoters, directors and their powers.
- Names of persons who write the books of accounts and other authorised officers.
- Memorandum and Articles of Association, Partnership Deed as applicable.
- Details of business of client and its accounting systems by reviewing and assessing information on:

# Compliances of Practice Unit (PU) regarding Audit Documentation (Contd.)

- Nature of business of the entity
- Internal control system including owner/manager controls
- Statement of profit and Loss account, Balance sheet, Auditors and Directors reports of the previous year and the reports of the internal auditor.
- Analytical review procedures in order to:
  - Identify areas of accounts which are important because of their size
  - Highlight unusual or unexpected figures or relationships in the accounts
  - Design audit test which concentrates on important and unusual items
  - Obtain sufficient audit assurance to allow the reduction or even elimination of detailed testing in some areas.
  - Assessment of audit risk by using the professional judgement and audit procedures to ensure that it is reduced to an acceptable low level.
  - Preliminary estimates of materiality for the audit as a whole.
  - Class of accounting transactions which are relevant and to decide the type of testing and samples.



# Requirements of Audit Documentation

- Selection of representative samples.
- Compliance tests to evaluate the reliability of key controls.
- Material weaknesses in the operation of key controls of management.
- Performance of analytical review procedures, substantive tests of detail to obtain sufficient, relevant and reliable audit evidence for each audit objective.
- Fundamental accounting assumptions, i.e., consistency, going concern and accrual basis of accounting are followed by the client in the preparation and presentation of financial statements.
- Disclosure of change in an accounting policy which has material effect.
- Audit report is received from all the Branch Auditors and any reservation made by the branch auditor is appropriately dealt with in the finalisation of the accounts.

# Requirements of Audit Documentation (Contd.)

- Working papers contain all audit evidence, and are cross- referenced.
- Summary of work done, problems, important judgements and audit conclusions.
- Review by Senior incharge of work of all assistants, audit programme followed and work performed as per time schedule.
- Updation of working papers including permanent records.
- Review of unadjusted errors to determine whether individual and aggregate effect is material.
- Compliance with legal and regulatory requirements.
- Compliance with all mandatory Accounting Standards issued by the Institute.
- Post balance sheet events.
- Formulation of draft audit opinion.
- Comparison of budgeted time to actual and reasons for major variations.
- Complete staff evaluation forms.
- Planning of next year's audit.

## Working Paper Contents (Illustrative)- Permanent & Current Files

Engagement Letter

Independence as per Code of Ethics

Planning documents including resource allocation

Working Paper of Sampling and Materiality level

Control questionnaires, flowcharts, checklist, narratives & audit programs

Testing plan with summary page and results of evaluations, discussions with audit team

Results of Analytical Procedures

Management Representation Letter

Working Papers of significant matters observed during the course of Audit

Correspondence and Basis of Communication with TCWG

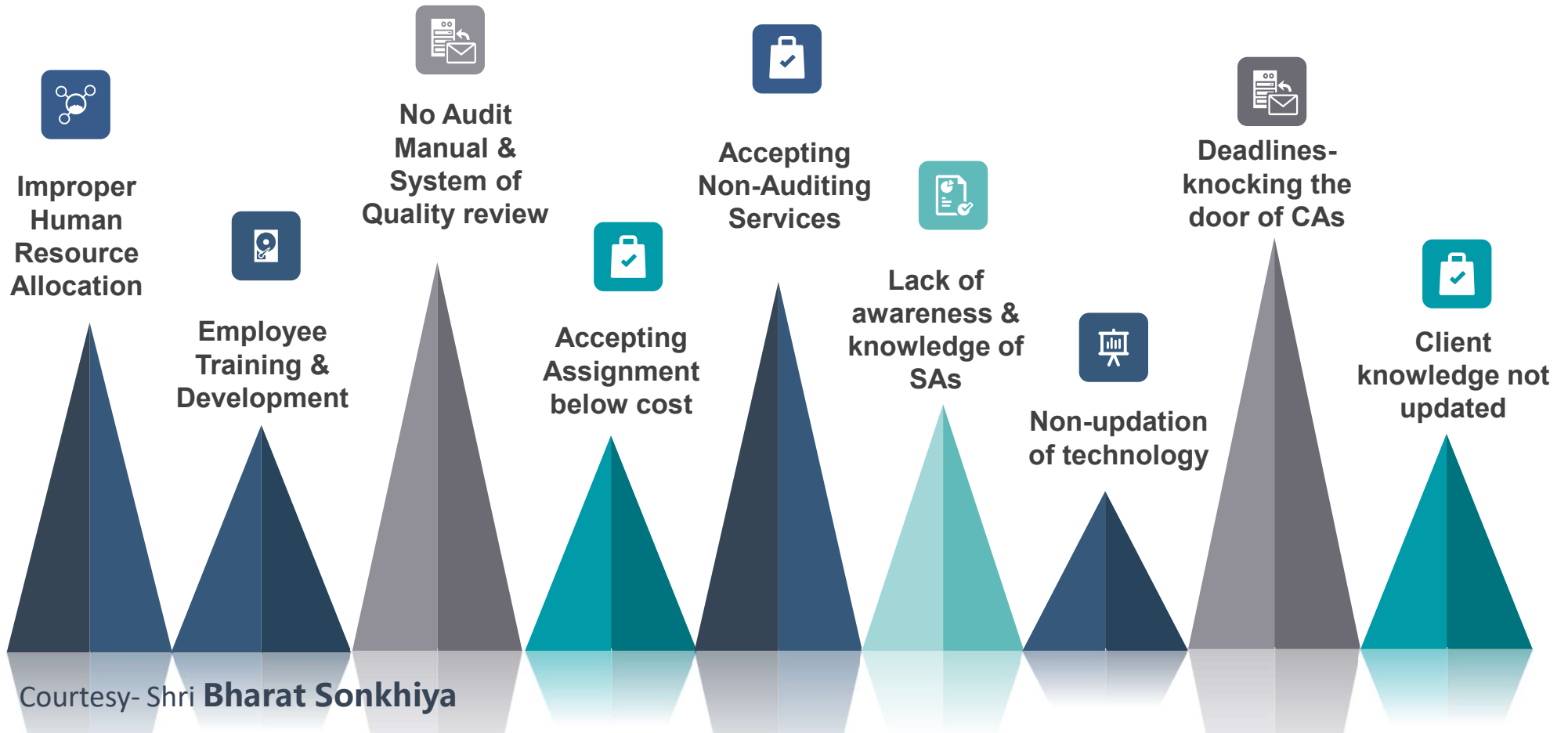
Compliance with Accounting Standards and Standards on Auditing

Organizational data, such as organization charts and job descriptions

Analysis and tests of transactions, processes and account balances

External Confirmations, Minutes of meetings

# Lack of Documentation & Audit Quality- Key Root Cause



# Common lapses in Audit Documentation

- working papers not properly tagged/referenced/ prepared for others to understand.
- No references to supporting documentation in the audit programme.
- Not documenting Risk assessment, materiality, fraud risk assessment, analytical procedures
- Not communicating significant deficiencies or material weaknesses to TCWG in written form.
- Performing walkthroughs at the end of an engagement rather than the beginning.
- Bulky client's documents attached in file without corresponding reference/purpose.
- Audit Notebook/rough noting being reported as only working paper.
- Reliance on management representation without applying professional skepticism.
- Testing of applicability of CARO, IFC & other compliances- no documentation



# Common lapses in Audit Documentation

- Not documenting Inputs of Manager/Partner before commencement of Audit
- Non-performance of final Review of the Audit undertaken at the time of Completion
- Not documenting study material and sources referred during the course of Audit
- Not performing walkthroughs or any other risk assessment procedures
- Going concern indicators are present but no documentation regarding substantial doubt
- Not inquiring of those charged with governance about fraud
- No documentation of Sampling & Materiality
- Not documenting basis for qualification made in Audit Report/CARO.
- Audit Methodology and sequence thereof not documented.
- No Engagement and Management Representation Letter in Audit File.
- Knowledge of Businesses-Not Documented and Evaluated.
- Skipped to generate UDIN

# Mandatory Permanent File Contents

- 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 the retiring auditor
- Notes regarding significant accounting policies
- Significant past audit observations

# Permanent File : Reviewer Notes

- Does the file contain all documents as per SA 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

# Mandatory Current Files Contents

- Acceptance of appointment letters & Engagement Letter
- Minute book extracts
- Evidence of planning process and audit program - Audit Plan, Strategy, Summary Memorandum
- Risk Assessment, Evaluation etc
- Internal Control Testing Docs
- Materiality Calculation Docs, Fraud Risk Assessment
- Analysis of transactions and balances
- Working papers containing information like groupings, audit programmes, Queries raised, and explanations received,
- Third party confirmations and other documents
- Record of nature, timing and extent of audit work performed & results thereof
- Evidence of supervision of assistants' work
- Communication with TCWG/management letter
- 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 Notes

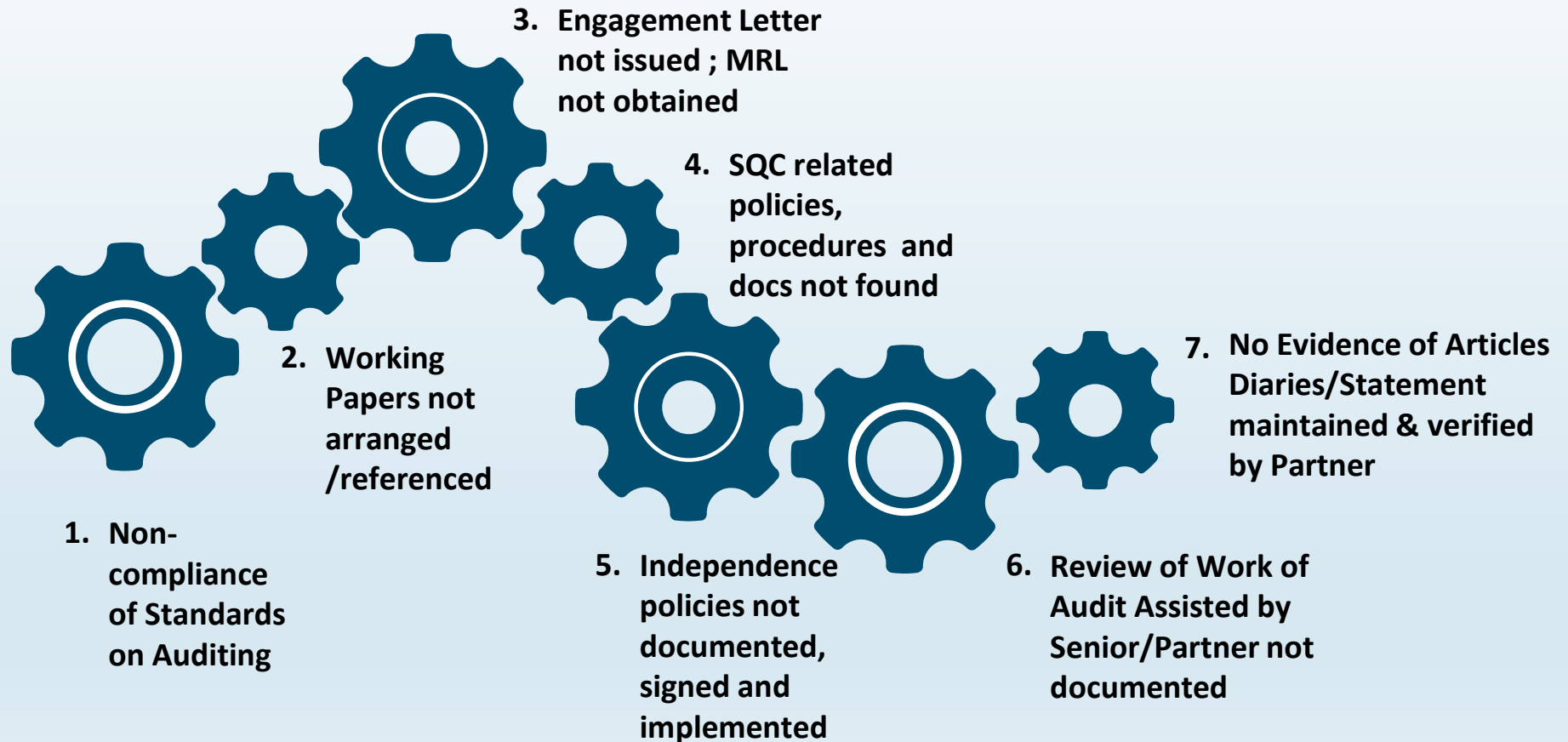
- Matters evidencing carrying out of engagement per SA
- General and specific evaluation of internal audit function; conclusions thereon
- Audit program, changes thereto and reasons for change
- Auditing procedures performed and conclusions drawn by PU on the work of other auditor used
- How were qualifications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



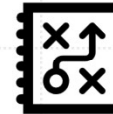
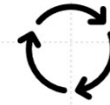
# Other Records.....

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

# Some issues in documentation, observed by Peer review board



# ?? DO YOU ??



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# Retention of Working Papers

“Auditor shall not discard the Audit Documentation of any nature before the expiry of its retention period, which shall not be shorter than seven years from the date of Auditor’s Report”.

# Ownership of working papers

As per SQC 1, Audit Documentation is the property of the Auditor. He may at his discretion, make portions of, or extracts from, audit documentation available to clients, provided the same shall not undermine the validity of work performed.



# Subsequent changes/ updation in Audit Documentation

- Assembly of the final audit file within 60 days from audit report.
- The auditor must document the specific reasons for making the modifications or additions, as well as when and by whom they were made and reviewed.

# Auditor's Responsibility\_ Enhanced

## Need of Documentation of Audit Trail

The Ministry of Corporate Affairs (MCA) vide its notification No. GSR 206(E) dated March 24, 2021 has issued the Companies (Audit and Auditors) Amendment Rules, 2021 (hereinafter referred as “the Audit Rules”) read with sub-section 3 of Section 143 of the Companies Act, 2013 introducing a new rule 11(g).

Rule 11(g) casts responsibility on the auditor in terms of reporting on audit trail by making specific assertion in the audit report under the section ‘Report on Other Legal and Regulatory Requirements’

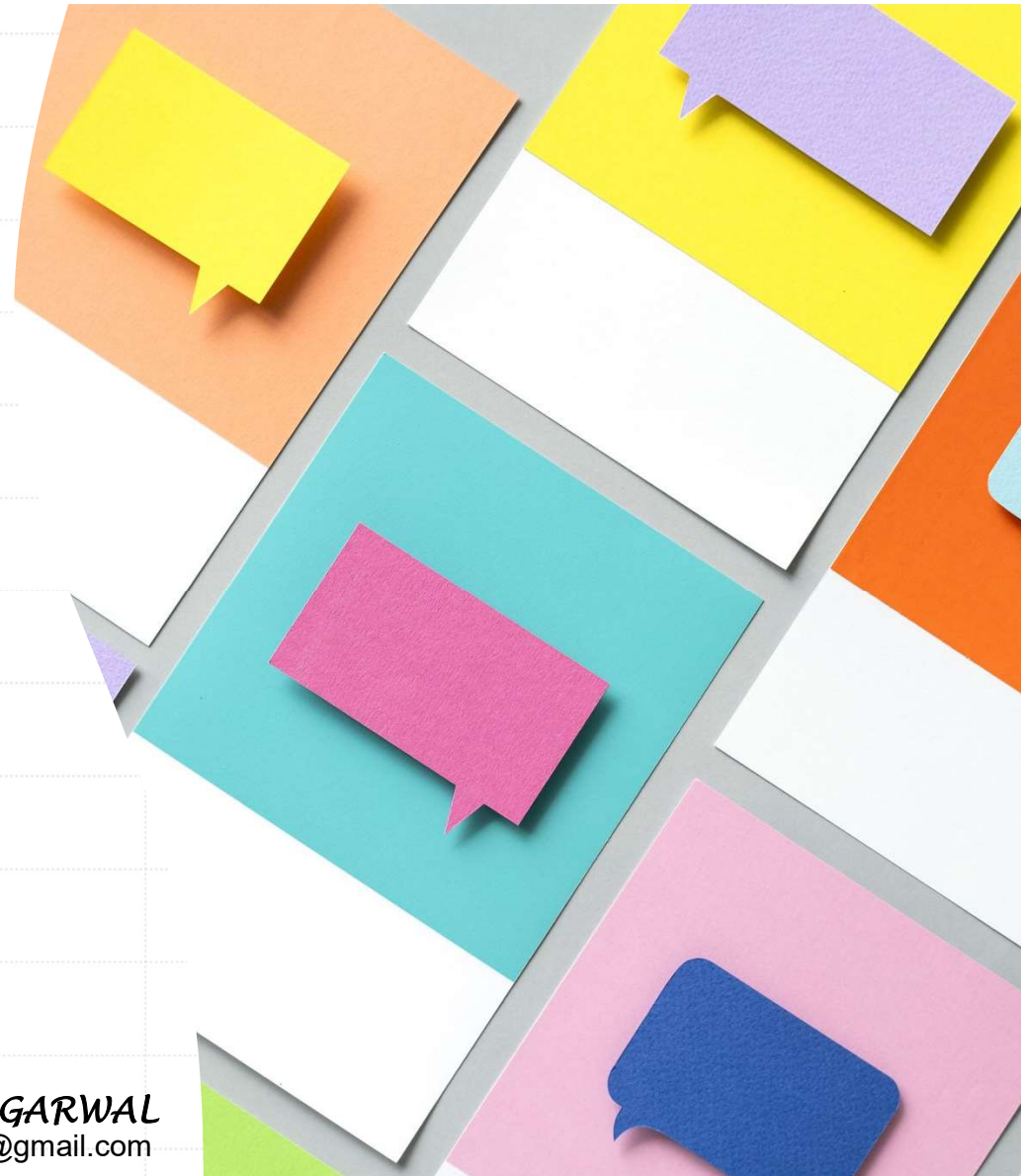
# Helpful Resources

- Practitioners' Guide Audit of Small Entities (Revised 2020 Edition)
- Ready Reference on Engagement & Quality Control Standards
- Implementation Guide on SA 230 (2022 edition)
- MCQ on Engagement & Quality Control Standards
- Working Paper Template ICAI
- Materiality Template
- Engagement Letter template
- SA, SA, IndAs, internal Audit, tax Audit Checklist – ICAI
- Excel – Standards on Auditing – Review

# Further Information

- For further details and information on the peer review aspect , refer to the below mention link for New updated publication, application forms etc issued by Peer Review Board

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# Further Information

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Particulars	Web Link
ICAI Peer Review Board	<a href="https://www.icai.org/post/peer-review-board">https://www.icai.org/post/peer-review-board</a>
Peer Review Guidelines 2022	<a href="https://resource.cdn.icai.org/72010prb57960-peer-review-guidelines-2022.pdf">https://resource.cdn.icai.org/72010prb57960-peer-review-guidelines-2022.pdf</a>
Peer Review Manual Volume I	<a href="https://resource.cdn.icai.org/60103prb48957peer-review-manual.pdf">https://resource.cdn.icai.org/60103prb48957peer-review-manual.pdf</a>
Peer Review Manual Volume II	<a href="https://resource.cdn.icai.org/73049peer-review-manual-v2.pdf">https://resource.cdn.icai.org/73049peer-review-manual-v2.pdf</a>
Handbook on Peer Review Forms	<a href="https://resource.cdn.icai.org/73050prb48957handbook-advisories-new.pdf">https://resource.cdn.icai.org/73050prb48957handbook-advisories-new.pdf</a>
Illustrative Time Schedule - Revised - 20 days time period	<a href="https://resource.cdn.icai.org/72016prb57960-itsprp.pdf">https://resource.cdn.icai.org/72016prb57960-itsprp.pdf</a>
Cost/Fees of Peer Review- Revised	<a href="https://resource.cdn.icai.org/72015prb57960-cpr.pdf">https://resource.cdn.icai.org/72015prb57960-cpr.pdf</a>
Sample Selection Criteria	<a href="https://resource.cdn.icai.org/72066prb57994.pdf">https://resource.cdn.icai.org/72066prb57994.pdf</a>
Peer Review of New Units	<a href="https://www.icai.org/post/peer-review-of-new-units">https://www.icai.org/post/peer-review-of-new-units</a>
Applicable forms of Peer Review- Pdf and word File version with certain clarifications	<a href="https://www.icai.org/post/prb-applicable-forms">https://www.icai.org/post/prb-applicable-forms</a>
Peer Review Mandate dt 11 <sup>th</sup> April 2022	<a href="https://www.icai.org/post/peer-review-mandate-roll-out-revised">https://www.icai.org/post/peer-review-mandate-roll-out-revised</a>
Further Deferment of 2 <sup>nd</sup> Phase of Peer Review Mandate dt 19 <sup>th</sup> July 2023-	<a href="https://www.icai.org/post/further-deferment-of-second-phase-of-peer-review-mandate">https://www.icai.org/post/further-deferment-of-second-phase-of-peer-review-mandate</a>



# Further Information

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Particulars	Web Link
Peer reviewer Final Report and annexure, other than New units, (Revised) – <ul style="list-style-type: none"><li>• Annexure I;</li><li>• Annexure II;</li><li>• Annexure III ; &amp;</li><li>• Model Final Report/</li></ul>	<a href="https://www.icai.org/post/prb-formats-annexures-mfr-its-cpr">https://www.icai.org/post/prb-formats-annexures-mfr-its-cpr</a>
Implementation Guide SQC 1	<a href="#">Click Here</a>
AQMM Guidance Note	<a href="#">Click here</a>
Implementation Guide SA 230 (Revised 2022)	<a href="#">Click here</a>
Sample Working Paper- Illustrative Formats- ICAI	<a href="#">Click here</a>
Practitioners' Guide Audit of Small Entities (Revised 2020 Edition)	<a href="#">Click here</a>
Ready Reference on Engagement & Quality Control Standards	<a href="#">Click here</a>
DCMM Guidance Note	<a href="#">Click here</a>

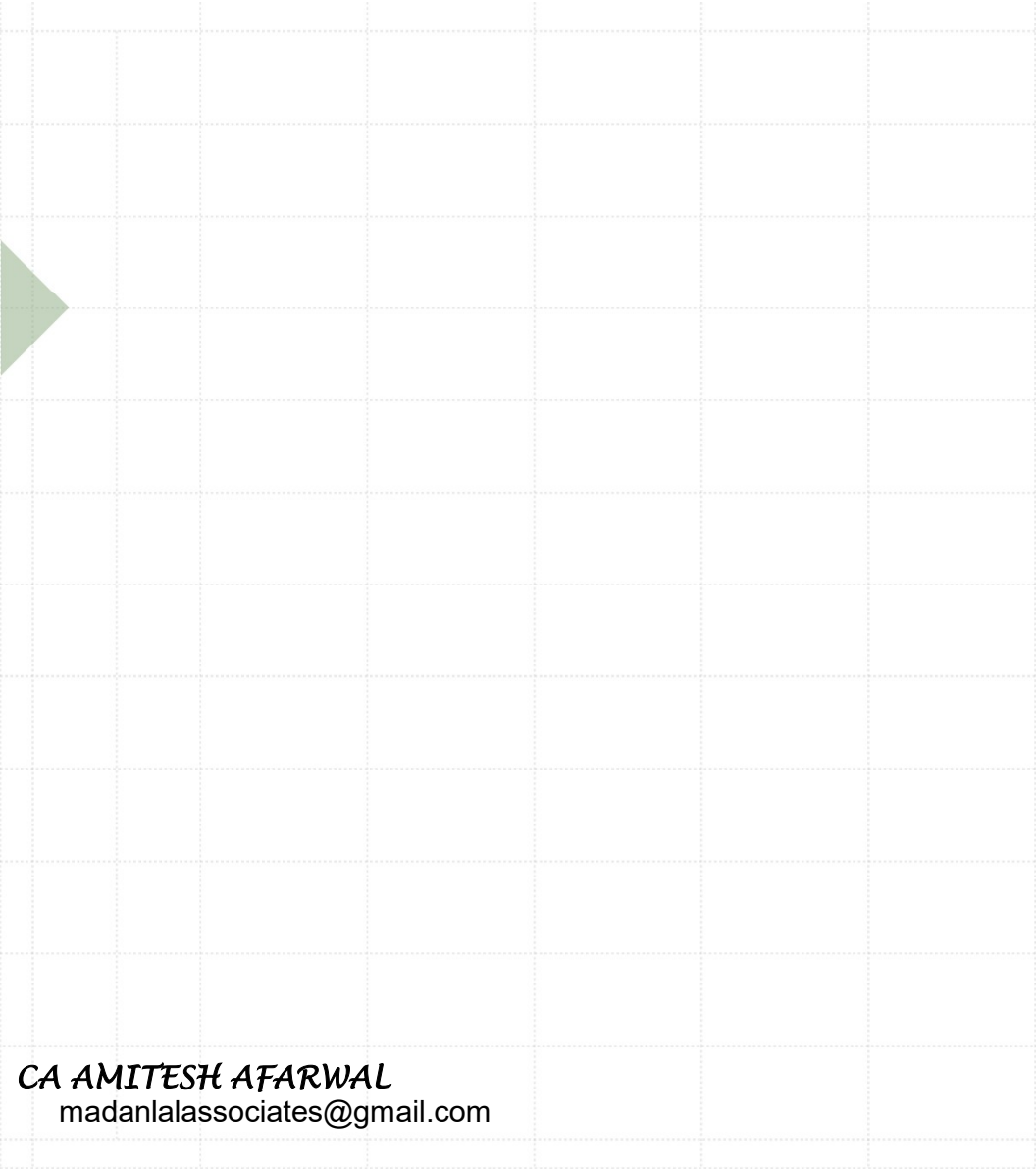


# Website – Peer Review Board

- <https://icai.org/post/peer-review-board>

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# Thank You

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