

UNIT 2: QUALITY REVIEW

1. INTRODUCTION

Quality means doing it right when no one is looking. Every audit firm is required to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements and that reports issued by the firm or engagement partner(s) are appropriate in the circumstances.

Standard on Quality Control (SQC) 1 requires that every firm's system of quality control should include policies and procedures addressing each of the following elements:

- (a) Leadership responsibilities for quality within the firm
- (b) Ethical requirements
- (c) Acceptance and continuance of client relationships and specific engagements
- (d) Human resources
- (e) Engagement performance

2. OBJECTIVES OF QUALITY REVIEW

Quality review is directed towards evaluation of audit quality and adherence to various statutory and other regulatory requirements. They are designed to identify and address weaknesses and deficiencies related to how the audits were performed by the audit firms. To achieve that goal, quality reviews included reviews of certain aspects of selected statutory audits performed by the firm and reviews of other matters related to the firm's quality control system.

In the course of reviewing aspects of selected audits, a review may identify ways in which a particular audit is deficient, including failures by the firm to identify, or to address appropriately, aspects in which an entity's financial statements do not present fairly the financial position or the results of operations in conformity with the applicable Generally Accepted Accounting Principles (GAAP) and other technical standards. **It is not the purpose of a review, however, to review all of a firm's audits or to identify every aspect in which a reviewed audit is deficient.** Accordingly, a review should not be understood to provide any assurance that the firm's audits, or its clients' financial statements or reporting thereon, are free of any deficiencies.

3. SCOPE OF QUALITY REVIEW

The scope of the quality review includes:

- (a) Examining whether the Engagement Partner has ensured compliance with the applicable technical standards in India and other applicable professional and ethical standards and requirements.
- (b) Examining whether the Engagement Partner has ensured compliance with the relevant laws and regulations.
- (c) Examining whether the Audit firm has implemented a system of quality control as envisaged in line with the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

As per the QRB, the term “Technical Standards” in the context of the Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006 includes:

-  The Accounting Standards notified under section 133 of the Companies Act, 2013;
-  The Accounting Standards issued by the Institute of Chartered Accountants of India;
-  The Framework for the Preparation and Presentation of Financial Statements issued by the Institute of Chartered Accountants of India;
-  The applicable Quality Control and Engagement Standards issued by the Institute of Chartered Accountants of India;
-  The Statements on Auditing issued by the Institute of Chartered Accountants of India;
-  The Guidance Notes on accounting and auditing matters issued by the Institute of Chartered Accountants of India;
-  The Notifications/Directions/Guidelines issued by the Institute of Chartered Accountants of India including those of a self-regulatory nature.
-  The Code of Ethics issued by the Institute of Chartered Accountants of India.

Presently, the review undertaken by QRB covers statutory audit services only and does not extend to internal audit services provided by the members of the Institute. These are proposed to be covered by the Board at a later stage. Further, this review also does not extend to services provided by the members of the Institute, in employment.



4. THE QUALITY REVIEW BOARD (QRB)

4.1 Constitution and Composition of Quality Review Board

The Quality Review Board (hereinafter “QRB”/ “the Board”) has been set up by the Central Government under section 28A of the Chartered Accountants Act, 1949 (hereinafter “the Act”). The first Quality Review Board was constituted by the Central Government, in exercise of the powers conferred by section 28A of the Chartered Accountants Act, 1949, *vide* Notification GSR. 448 (E) dated 28th June, 2007.

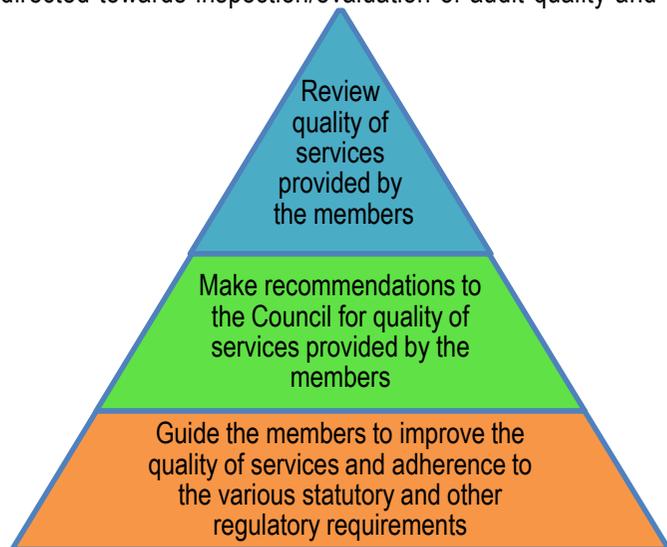
In terms of section 28A of the Chartered Accountants Act, 1949, **the Board comprises of a Chairperson and ten other members.** Sub-section (2) of section 28A of the aforesaid Act requires that the Chairperson and members of the Board shall be appointed from amongst the persons of eminence **having experience in the field of law, economics, business, finance or accountancy.**

With a view to provide a fair balance between the interests of the external stakeholders *vis a vis* audit Profession in the Board’s functioning, sub-section (3) of section 28A of the Act provides that five members of the Board shall be nominated by the Central Government and other five members shall be nominated by the Council of the Institute of Chartered Accountants of India (**hereinafter “ICAI”/“the Institute”**).

4.2 Functions of Quality Review Board

A quality review carried by the QRB is directed towards inspection/evaluation of audit quality and adherence to various statutory and other regulatory requirements. It involves inspection and assessment of the work of the practitioner¹ while carrying out their audit function so as to enable QRB to assess:

- the quality of compliance with the accounting standards and disclosure requirements followed by the entity on which the audit report is issued;
- the quality of audit and reporting by the practitioner; and the quality control framework adopted by the practitioner/audit firms in conducting audit.



¹ The term “practitioner” used in the Technical Guide has the same meaning as in the ICAI Code of Ethics.

4.3 Powers of Quality Review Board

The Government of India has, in exercise of the powers conferred by clauses (f) and (g) of Sub-section (2) of Section 29A read with Section 28C and Sub-section (1) of Section 28D of the Chartered Accountants Act, 1949 (38 of 1949), made '*Chartered Accountants Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board Rules, 2006*'.

To facilitate the discharge of its functions, Rule 6 of aforesaid rules provides:

- 6. Procedures to be followed by the Board.**— In the discharge of its functions, the Board may,—
- (a) on its own or through any specialized arrangement set up under the Institute, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide;
 - (b) lay down the procedure or evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review;
 - (c) call for information from the Institute, the Council or its Committees, Members, Clients of members or other persons or organisations in such form and manner as it may decide, and may also give a hearing to them;
 - (d) invite experts to provide expert/technical advice or opinion or analysis or any matter or issue which the Board may feel relevant for the purpose of assessing the quality of work and services offered by the members of the Institute;
 - (e) make recommendations to the Council to guide the members of the Institute to improve their professional competence and qualifications, quality of work and services offered and adherence to various statutory and other regulatory requirements and other matters related thereto.

The Rules also provide that where the Board does not receive the information called for by it from any member of the Institute, the Board may request the Institute to obtain the information from the member and furnish the same to the Board. Similarly, if the Board does not receive the information called for by it from any company registered under the Companies Act, 1956/Companies Act, 2013, the Board may request the Central Government through the Ministry of Corporate Affairs for assistance in obtaining the information.

5. SELECTION OF AUDIT FIRMS

The quality review has been introduced in stages, with firms selected from different classes or types of audit firms being subjected to review at each stage. The selection of an audit firm for review can be either based on the financial statements of the enterprise/s audited by it or certain other factors identified by the QRB.

(a) **Selection of Audit Firm based on the Financial Statements of the Enterprise/s Audited by the latter:** Under this category, in the initial stage, the audited accounts of companies having wider public interest, such as listed companies, insurance companies, NBFCs, unlisted public sector undertakings, asset management companies may be selected by QRB on the basis of one or more of the following:

- suo moto or random selection from particular class of enterprises/audit firms;
- on account of being a part of a sector otherwise identified as being susceptible to risk on the basis of market intelligence reports;
- regulatory concerns pointing towards stakeholder risks;
- reported fraud or likelihood of fraud;
- serious accounting irregularities reported in media or other reports;
- major non-compliances with provisions relating to disclosures under relevant statutes;
- reference made to it by any regulatory body such as Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs, etc.

The criteria for selection of general purpose financial statements of the Public Sector Undertakings may be separately determined by the Board.

The Secretariat of QRB places the details of the enterprises selected for review before the Board for its consideration. The Board may consider whether the case warrants a review by a Quality Review Group constituted for this purpose and may refer the cases selected for review to the relevant Quality Review Group. The Board may obtain the Annual Report of the company concerned.

(b) **Criteria based on Audit Firms Auditing the Accounts:** Selection of audit firms may also be made for review of their work on random basis, the volume of work handled by them represented by the number and nature of clients, their involvement in sectors that may be identified as facing high risk, as well as on account of their reported involvement in fraud or likelihood of fraud. Audit firms auditing large as well as mid-cap/small cap companies may be selected for the purpose.



6. THE QUALITY REVIEW PROCESS



A quality review is an engagement that needs to be carried out in a manner that ensures that the work performed by the Technical Reviewer appointed for the review and the review team meet the professional standards established by ICAI. Any shortcomings in the quality of the quality review would defeat the very purpose of the process of a quality review established by the Quality

Review Board. It is, therefore, of utmost importance that ensuring quality in a quality review remains a priority for a technical reviewer.

In so far as the technical reviewer is concerned, the quality of a quality review is directly affected by factors such as:

- Knowledge and experience of the technical reviewer;
- Time devoted by the technical reviewer;
- Composition of the quality review team;
- Understanding of the objective and scope of work;
- Monitoring, direction and supervision of the quality review team by the technical reviewer.

In fact, maintaining the quality in a quality review as also the final report of the quality review is and remains the responsibility of the technical reviewer.

6.1 Various Stages involved in the Conduct of the Quality Review Assignments

The following table describes the various stages involved in the conduct of the quality review assignments:

Selection of Audit Firm and Technical Reviewer to conduct Quality Review and sending Offer Letter of Engagement to the Technical Reviewer.
Technical Reviewer to convey his acceptance of Letter of Engagement by sending necessary declarations for meeting eligibility conditions and furnishing statement of confidentiality by the Technical Reviewer and his assistant/s, if any.
Intimation to the Audit Firm about the proposed Quality Review and acceptance of the assignment by the Technical Reviewer. Also marking a copy of the intimation to the Technical Reviewer.
Technical Reviewer to send the specified Quality Review Program General Questionnaire to the Audit firm for filling-up and call for additional information from the Audit Firm, if required.
Technical Reviewer to carry out the Quality Review by visiting the office of the Audit Firm by fixing the date as per mutual consent.
Technical Reviewer to send the preliminary report to Audit firm.
Audit firm to submit representation on the preliminary report to the Technical Reviewer.
Technical Reviewer to submit final report alongwith a copy of Annual report of the company/entity for the year, to the Board in the specified format, on their (individual) letterhead, duly signed and dated within 45 days from the date of acceptance of the assignment.
Technical Reviewer should also send a copy of their final report to the Statutory Auditor/Audit firm, requesting the firm to send their submissions thereon to the Board within 7 days of receipt

of the final report with a copy to Technical Reviewer. Upon receipt of their final submission, Technical Reviewer shall submit within next 7 days a summary of their findings, reply of the audit firm thereon alongwith their final comments in the specified format.

Quality Review Group to consider the report of the Technical Reviewer and responses of the Audit firm and make recommendations to Quality Review Board.

Quality Review Board to consider the report of the Quality Review Group and decide the final course of action.

6.2 Objective of Technical Review

The objective of the technical review in conducting the quality review is to obtain sufficient appropriate evidence to support the conclusion in the quality review report to be issued pursuant to the Review. **As per the Reporting Guidelines issued by the Board, the technical reviewer is required to examine the procedures and implementation thereof in the Audit firm under review (AFUR) for ensuring:**

- (a) compliance with the applicable technical standards in India, other applicable professional and ethical standards and relevant laws and regulations;
- (b) implementation of a system of quality control with reference to the applicable quality control standards;
- (c) consideration of SA 240, "The Auditors' Responsibilities relating to Fraud in an Audit of Financial Statements" issued by The Institute of Chartered Accountants of India (ICAI); and
- (d) whether there is no material misstatement of assets and liabilities as at the reporting date in respect of the Company/entity audited by the AFUR.

A quality review of the audit services of the firm in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB ("the Procedures") involves interviewing, making enquiries and performing such other procedures to examine whether the Firm has complied with the applicable technical standards relating to the audit of the financial statements, the professional and ethical standards as issued by the Institute of Chartered Accountants of India (ICAI) including whether the Firm has considered SA 240 "The Auditors' Responsibilities relating to Fraud in an Audit of Financial Statements" issued by ICAI and considered relevant laws and regulations. It also includes review of the system of quality control which the Firm has implemented as required by such technical standards.

In order to effectively discharge the responsibilities, the Technical reviewers are expected to have the knowledge of inter alia, SQC 1, Standards on Auditing issued by the Institute of Chartered Accountants of India, the applicable financial reporting framework and the applicable laws and regulations. The reviewer is also expected to have knowledge about the independence and ethical requirements.

6.3 Independence and Qualifications of Technical Reviewers

While assigning the quality review work to the respective Technical Reviewers, in order to ensure independence and avoid conflict of interest, the following eligibility conditions were specified for carrying out the specified quality review assignment to the Technical Reviewers who were required to submit a declaration of eligibility before starting the assignment. **For being a technical reviewer:**

A member should not have disciplinary proceeding under the Chartered Accountants Act, 1949 pending against him/her or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against you during last three financial years and/or thereafter.

A member or his/her firm or any of the network firms or any of the partners of the firm or that of the network firms should not have been the statutory auditor of the company, as specified, or have rendered any other services to the said company/entity during last three financial years and /or thereafter.

A member or his/her firm or any of the network firms or any of the partners of the firm or that of the network firms should not have had any association with the specified statutory audit firm, during the last three financial years and /or thereafter.

A member to comply with all the eligibility conditions laid down for appointment as an auditor of a company u/s 141(3) of the Companies Act, 2013 which apply mutatis mutandis in respect of the review of the quality of statutory audit of the company/entity, as specified, so far as applicable.

6.4 Empanelment of Technical Reviewers

Further to the above, with a view to further augment the number of Technical Reviewers empanelled with the Board, the Board decided the following criteria for empanelment of Technical Reviewers with the Board during the financial year 2015-16:

- Reviewer should have minimum fifteen years of post qualification experience as a chartered accountant and be currently active in the practice of accounting and auditing.
- Reviewer should have handled as a signing partner/proprietor at least three statutory audit assignments as a Central Statutory Auditor of Banks/Public Limited Companies/Government Companies/Private Limited Companies having annual turnover of rupees fifty crores and above during the last ten financial years; Provided that out of the aforesaid three statutory audit assignments, at least one must be in respect of entities other than Private Limited Companies.

- Reviewer should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against you or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against you during last three financial years and/or thereafter.
- Reviewer should not currently be a Member of the QRB or ICAI's Central Council/Regional Council/Branch level Management Committee.

6.5 On-site Visit and Qualified Assistant

The technical reviewers for carrying out the quality review assignment, could undertake a maximum of one on-site visit to the Statutory Audit firm which shall not extend beyond seven days or, in exceptional circumstances, such other extended period, for specific reasons to be recorded in writing, with the prior approval of the Chairperson, Quality Review Board, which shall not, in any case, extend beyond fourteen days. **For this purpose, they could also take the assistance of not more than three assistants who:**

- (a) shall be chartered accountant;
- (b) do not attract any of the disqualifications prescribed under the Chartered Accountants Act, 1949;
- (c) shall also have to sign the statement of confidentiality in a prescribed format;
- (d) shall have no direct interface either with the audit firm under review or the Board;
- (e) should have been working with them for atleast one year as a member/a partner in the CA firm with them;
- (f) should not have been associated with the Statutory auditor/audit firm under review and the company/ entity selected during last three financial years and/or thereafter.

6.6 Confidentiality

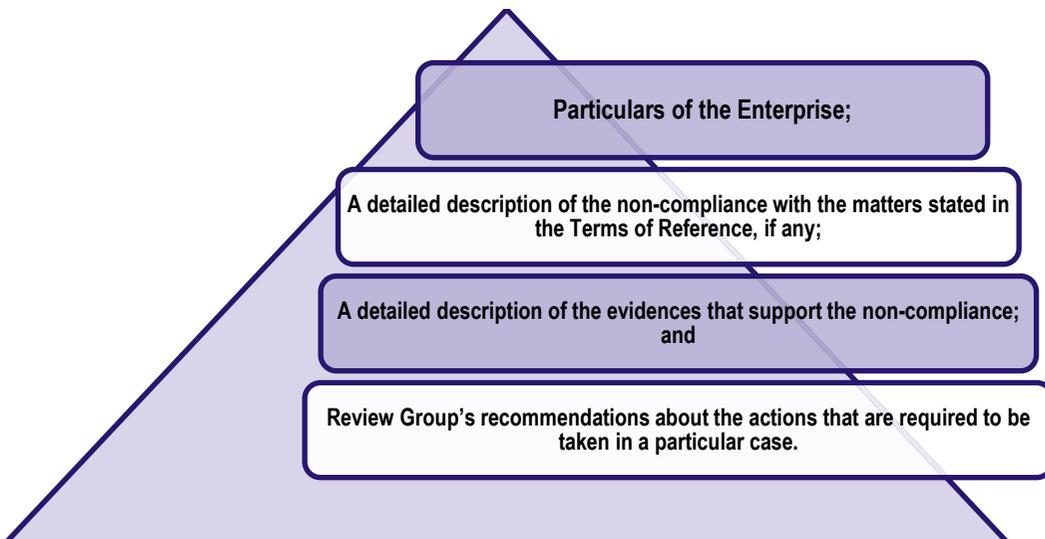
Confidentiality of information pertaining to the quality review assignments is of paramount importance. Technical Reviewers should ensure that all information, papers, materials, documents etc. relating to the company/audit firm, as selected and assigned to them, that they will gain during the course of assignment are kept in strict confidence. They are required to send duly signed statement of confidentiality including by each one of their assistants in a prescribed format. There should be no conflict of interest of all those connected with the entire review process. All persons involved with the entire review process including members of Board/Group, Technical Reviewers, his/her assistants and QRB secretariat shall maintain confidentiality of information obtained during reviews and also appropriately disclose to the Board, from time to time, their interests or that of the partners of their firm or their relatives, if any, in relation to statutory audit firm being reviewed by Board or entity concerned whose audit was selected for review.

6.7 Stage-wise Approach of Quality Review Process

- (i) The Board may constitute one or more Quality Review Groups (hereinafter referred to as Review Groups) to conduct preliminary reviews of the general purpose financial statements, with a view to assessing the quality of audit and reporting by the auditors, in consultation with the Board. There could be two categories of the Review Groups:
 - (a) Industry Specific (for reviewing general purpose financial statements of enterprises associated with a particular industry, for example, banking, insurance, electricity, mutual funds, merchant bankers, etc.
 - (b) Generic.
- (ii) Each of the Review Group would be assisted by Technical Reviewer(s), who may be an outsourced service provider. The job of the Technical Reviewer(s) would be to prepare a report on the review of general purpose financial statements, with a view to assessing the quality of audit and reporting by the auditors, and the review of quality control framework adopted by the auditors/audit firms in conducting audit.
- (iii) The report, so prepared by the Technical Reviewer, may be considered at the meetings of the Review Group. The Review Group may also consult the Board on any issue, on which the Group feels that the guidance of the Board is necessary.

The Review Group may complete the review of cases referred to it and submit its report on the same to the Board within the specified period of time. The Board may, however, extend this time limit for submission of reports by the Review Group.

- (iv) The report of the Review Group shall expressly state the following:



- (v) The Technical Reviewer, after completion of his review, is required to submit a preliminary report to the audit firm on the review of the quality of audit and reporting by the auditors in the general purpose financial statements within the specified period of time before submitting the final report to the Board. The Board may, however, extend the time limit for submission of preliminary review report.

6.8 Evaluation of Findings

The Technical reviewer or Quality review team may note a non-compliance with one or more standards on auditing or accounting standards or disclosure requirements as may be applicable to the engagement. Whenever such a finding is noted, the Technical reviewer/ Quality reviewer's team are required to evaluate the finding in the light of the following considerations:

- (a) The responses given by the engagement team;
- (b) Materiality of the items of the financial statements involved;
- (c) Accounting and auditing practices under the legal and regulatory framework applicable to the industry to which the audit client belongs; and
- (d) If the findings are related to non-compliance with the procedures required to be performed in accordance with the Standards on Auditing, whether the engagement team carried out alternative procedures to obtain sufficient appropriate audit evidence in relation to the financial statement assertion under question.

The responses given by the engagement team are also important to determine the extent of non-compliance. The Technical reviewer must consider the responses provided by the engagement team. These responses may help the Technical reviewer in understanding the perspective and the circumstances in which the audit procedures were carried out. As mentioned earlier, the Technical reviewer should evaluate the findings of quality review and the responses given by the engagement team based on the facts and circumstances that existed at the time when the AFUR issued the audit opinion.

7. REPORTING AND OTHER PROCEDURES

The reviewer, after completion of his review, is required to submit a preliminary report to the audit firm on the review of the quality of audit and reporting by the auditors in the general purpose financial statements within the specified period of time before submitting the final report to the Board. The Board may, however, extend the time limit for submission of preliminary review report. The reviewer, based upon his satisfaction from the representation by the audit firm, may decide to issue either an interim report or a final report to the Board. The purpose is to establish the guidelines on the form and contents of the reviewer's report issued pursuant to review of the quality of audit services of an audit firm.

The reviewer should adhere to the principle requirements mentioned while preparing his report. It may be noted that the requirements mentioned apply to the interim as well as the final reports of the reviewer.

Reviewers, based on the conclusions drawn from the review, shall issue a preliminary report and subsequently the final report. A clean report indicates that the reviewer is of the opinion that the affairs are being conducted in a manner that ensures the quality of services rendered. However, a **reviewer may qualify the report due to one or more of the following:**

- ◆ non-compliance with technical standards;
- ◆ non-compliance with relevant laws and regulations;
- ◆ quality control system design deficiency;
- ◆ non-compliance with quality control policies and procedures; or
- ◆ non-existence of adequate training programmes for staff.

Basic Elements of the Reviewer's Report:

<u>The report should contain:</u>	
(a)	<p>Elements relating to audit quality of companies:</p> <ul style="list-style-type: none"> i. A reference to the description of the scope of the review and the period of review of audit firm conducted alongwith existence of limitation(s), if any, on the review conducted with reference to the scope as envisaged. ii. A statement indicating the instances of lack of compliance with technical standards and other professional and ethical standards. iii. A statement indicating the instances of lack of compliance with relevant laws and regulations.
(b)	<p>Elements relating to quality control framework adopted by the audit firm in conducting audit:</p> <ul style="list-style-type: none"> i. An indication of whether the firm has implemented a system of quality control with reference to the quality control standards. ii. A statement indicating that the system of quality control is the responsibility of the reviewed firm. iii. An opinion on whether the reviewed firm's system of quality control has been designed to meet the requirements of the quality control standards for attestation services and whether it was complied with during the period reviewed to provide the reviewer with reasonable assurance of complying with technical standards in all material respects. iv. Where the reviewer concludes that a modification in the report is necessary, a description

of the reasons for modification. The report of the reviewer should also contain the suggestions.

- v. A reference to the preliminary report.
- vi. An attachment which describes the quality review conducted including an overview and information on planning and performing the review.

The Quality Review Report should be issued on the reviewer's (individual) letterhead and signed by the reviewer. The report should be addressed to the Board and should be dated as of the date of the conclusion of the review.

Type of Report to be issued: In deciding on the type of report to be issued, a reviewer should consider the evidence obtained and should document the overall conclusions with respect to the year being reviewed in respect of following matters:

- (a) whether the policies and procedures that constitute the reviewed firm's system of quality control for its attestation services have been designed to ensure quality control to provide the firm with reasonable assurance of complying with technical standards.
- (b) whether personnel of the reviewed firm complied with such policies and procedures in order to provide the firm with reasonable assurance of complying with technical standards.
- (c) whether independence of audit firm/ auditors is maintained in conducting audit.
- (d) whether the firm has instituted adequate mechanism for training of staff.
- (e) whether the audit firm ensures the availability of expertise and/or experienced individuals for consultation with the consent of the auditee.
- (f) whether the skill and competence of assistants are considered before assignment of attestation engagement.
- (g) whether the progress of attestation service is monitored and work performed by each assistant is reviewed by the service incharge and necessary guidance is provided to assistants.
- (h) whether the audit firm has established procedure to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained.
- (i) whether the audit firm maintains the permanent file and the current file as per the standards laid down by the ICAI.
- (j) whether the audit firm verifies compliance with laws and regulations to the extent it has material effect on financial statement.
- (k) whether the internal controls within the audit firm contribute towards maintenance of quality of reporting.

Illustrative Qualifications – Non –compliance with Standards on Auditing

Independence declaration from audit members received on sign off date of auditors report. Independence confirmation not received from all members.

No process of maintaining standard checklists, manuals, working papers to ensure consistency in the quality of each engagement.

No audit evidences for evaluation of estimates made by the management.

No presentations were made to the Audit Committee about the audit plan, audit strategy and the audit findings.

It was difficult to conclude whether fraud risk factors were considered during the audit of the Company's financial statements. Audit process in relation to fraud inquiry procedures were not performed and hence not documented.

As envisaged by Para 13 of SA 250 that the firm shall obtain sufficient appropriate audit evidence, however no copy of legal advice was available in auditor's file with regard to the legal advice obtained against crystallization of liability on account of demand raised by fiscal authorities which had been disputed.

There was no documentation to substantiate communication by the auditor with management in writing, about significant deficiencies in internal control that the auditor has communicated or intends to communicate to those charged with governance, unless it would be inappropriate to communicate directly to management in the circumstances.

No hard copies were kept for identification to obtain sufficient and appropriate audit evidence for all subsequent events up to the date of the auditor's report that requires adjustments/disclosures in the financial statements.

No confirmations of balances have been obtained pertaining to parties to Debtors, Creditors, Advances and related party balances.

Management representation letter had been obtained for the general points covering the financial statements not on other specific items of the financial statements.

Provisions of AS-10 and AS-16 had not been complied with, however, the auditor in their audit report under the head Basis for Qualified opinion and in addition to this para 2(d) of report on other legal and regulatory requirements had stated that qualification constitutes departure from accounting standards but in the report there was no clear mention of which AS were not complied with.

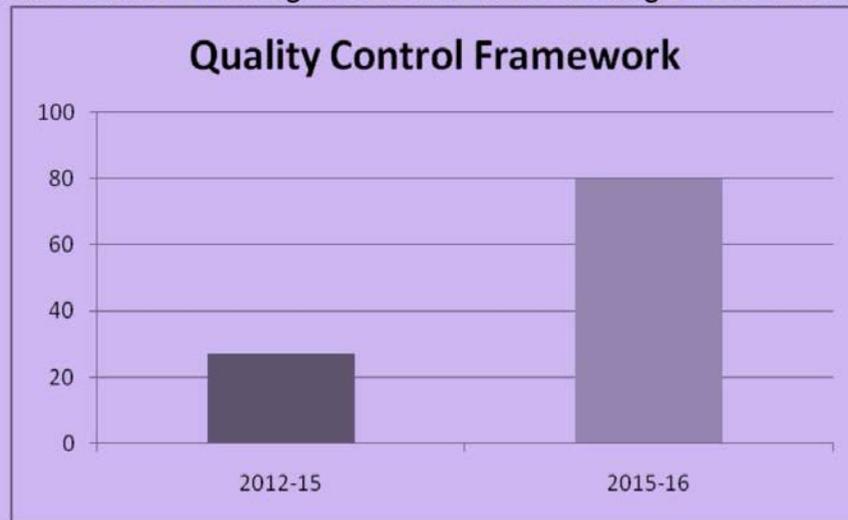
Illustrative Qualifications – Non –compliance with Accounting Standards

Significant Accounting Policies did not include disclosures of policies in respect of:

- Recognition of Insurance claims.

- Accounting of Leases.
- Treatment of IPO Expenses.
Inventory of traded goods was not shown separately from that of finished goods.
Method of preparation of cash flow statement had not been disclosed in standalone financial statements and consolidated financial statements. Company had not disclosed the components of Cash and Cash Equivalent in the Cash Flow Statement in consonance of the AS 3.
Accounting policy on revenue recognition did not capture the point of recognition where significant risks and rewards were transferred.
In respect of derivative contracts, premium paid, gain/losses on settlement and provision for losses on restatement were recognized along with the underlying transactions and charged to statement of profit and loss which was not in accordance with AS 11.
Amount provided for diminution in value of investments was not disclosed.
AS 15 detailed disclosures like assumptions, movements in P&L, movements in Balance sheet had not been provided.
Disclosures relating to previous year figures in regard to related parties were not given.
Basic & Diluted Earnings per share had not been separately disclosed on the face of the Statement of Profit and Loss as per AS-20, even though both were same.
Measurement of Deferred tax assets and liabilities was on the basis of effective tax rate instead of the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.
There was no distinction between internally generated intangible assets and other intangible assets. Non-disclosure & policy was not in line as per AS-26.
AS-29 Disclosure for claim against the Bank had not been disclosed in Schedule of Contingent Liabilities.

Quality Control Framework (SQC-1): Failure to implement various elements of the system of quality control was the most common finding. Other findings included failure to set out criteria for determining the need for safeguards to reduce the familiarity threat to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; failure to establish policies and procedures designed to provide reasonable assurance that the firm and its personnel comply with relevant ethical requirements; failure to establish policies and procedures designed to provide with reasonable assurance that firm has sufficient personnel with the capabilities, competence and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements.

Comparative number of findings in reviews conducted during 2012-15 and 2015-16:

Consideration of the Reports of the Review Groups: The Review Group's Report on the quality of audit by the auditor of a Public Sector Undertaking (PSU) should be furnished to the Office of Comptroller and Auditor General of India (C&AG), on case to case basis, and the C&AG's views, if any, shall be put-up before the Board along with the Report (on the particular PSU) of the Review Group. In all other cases, the Review Group's Report alongwith the decision of the Board on the quality of audit by the auditor of a PSU should be furnished to the Office of the C&AG for information.

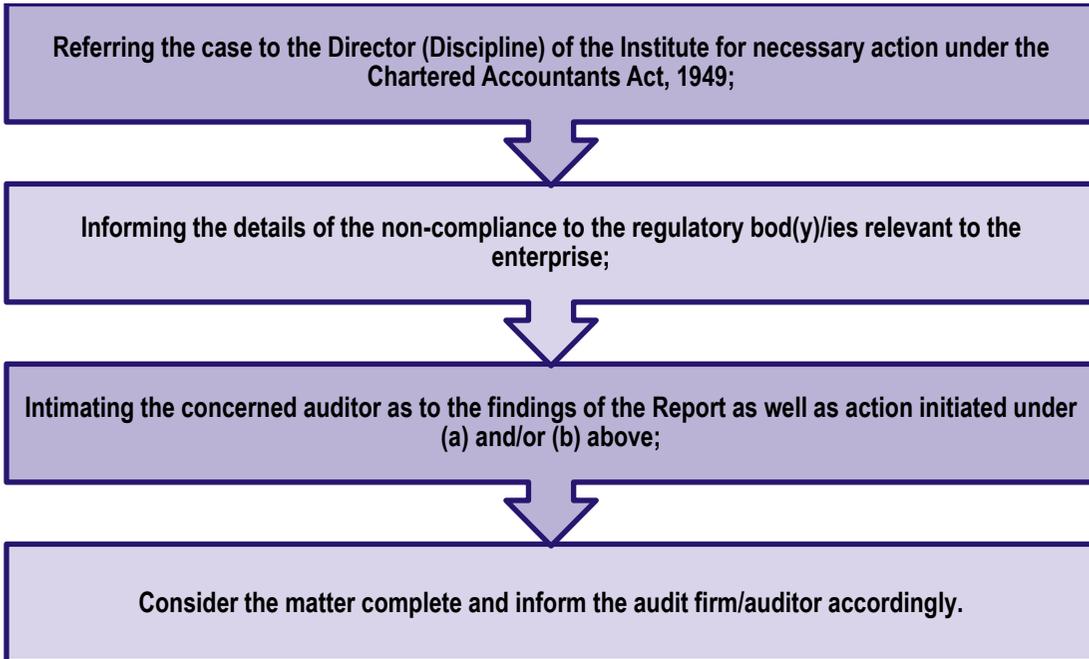
The reports of the Review Groups on the quality of audits by the auditors of enterprises (other than those covered above) shall be placed before the Board for its consideration directly.

The Board may, after due consideration of the report and comments of Office of C&AG, wherever applicable, decide whether the recommendation made by the Review Group should be accepted or otherwise. The Board may, suo moto, take such further action, as it may deem appropriate. If the Board decides against the recommendations made by the Review Group in its report, the Board shall record the reasons for doing so. Actions to be recommended by the Board.

The Board had specified the format for the Final Report, and the Quality Review Program General Questionnaire containing questions concerning various aspects of an audit firm such as Quality control, ethical requirements & audit independence; leadership and responsibilities; assurance practices; client relationships & engagements; human resources, consultation; differences of opinion; engagement quality control review; engagement documentation; audit planning & risk assessment; materiality; audit sampling & other selective testing procedures; audit documentation; audit evidence; written representations; and Auditor's report.

8. ACTIONS THAT MAY BE RECOMMENDED BY THE QUALITY REVIEW BOARD

The actions that may be recommended by the Board include one or more of the following:



9. QUALITY REVIEW CHECKLIST

In addition to compliance with the statutory provisions and technical standards, the following checklist should be used for quality reviews:

Question	Response
Whether the company has prepared and presented the financial statements in the format relevant to it?	
Are all the accounting policies in accordance with the requirements of the applicable accounting standards and Guidance Notes, issued by the ICAI?	
Whether all significant accounting policies that should have been disclosed are disclosed?	
Whether the auditor has appropriately dealt with in his report the deviations from accounting standards?	
Verify whether the disclosures required by the law/regulations, requirements prescribed by the regulations and those required by the accounting standards	

have been made.	
<p>Where the audit report is qualified:</p> <ul style="list-style-type: none"> • Whether the qualifications have been made in a clear and unambiguous manner; • Whether the qualifications made have been quantified? If not, whether adequate justification is provided for the same; • Whether the auditor has considered the overall effect of the qualifications on the true and fair view presented by the financial statements. 	
Whether the auditor has complied with the requirements of the Auditing Standard SA-700, The Auditor's Report on Financial Statements, and the Statement on Qualifications in Auditor's Report, in the preparation of audit report.	
Examine the financial statements with a view to ascertain whether there is any unusual accounting treatment/accounting entry? If yes, comment on how it has been dealt with in the financial statements.	
Does the auditor/audit firm has a policy to ensure independence, objectivity and integrity, on the part of partners and staff? Who is responsible for this policy?	
Does auditor monitor compliance with policies and procedures relating to independence?	
Does the auditor/audit firm has an established recruitment policy? Does the auditor conduct programmes for developing expertise in specialised areas and industries?	
Does auditor/audit firm has established procedures for record retention, including security aspects?	
<p>Does the auditor/audit firm evaluate the accounting and internal control systems of the auditee?</p> <p>Whether the procedures followed ensure that audit report is in accordance with the relevant authoritative requirements or technical standards including accounting standards?</p>	

TEST YOUR KNOWLEDGE

Theoretical Questions

1. A, a practicing Chartered Accountant is appointed to conduct the peer review of another practicing unit. What areas A should review in the assessment of independence of the practicing unit?
2. What are the areas excluded from the scope of peer reviewer?
3. Write short notes on the following:
 - (a) Scope of Peer Review.
 - (b) Technical, ethical and professional standards as per Statement on Peer Review.
4. What are the objectives of the Quality review?
5. What are the reporting responsibilities of the technical reviewer while carrying out a Quality review assignment?
6. Give examples of areas on which the reviewer may qualify the report?
7. What are the consequences if the Quality review board notices major non-compliances with the requirements of the Standards on quality control or standards on auditing or accounting standards?

Multiple Choice Questions

1. ICAI is responsible for monitoring the quality of the work of its members for performing audits of financial statements?
 - (a) Yes - for all audits of financial statements
 - (b) Yes - for all audits except those of listed entities
 - (c) No, responsibility for quality assurance for all audits rests with another body
 - (d) Yes - for all audits except those of unlisted entities
2. What types of engagements are not included in the scope of the quality assurance review program?
 - (a) Financial statement audit - listed entities (minimum requirement)
 - (b) Financial statement audit - audit of other than listed entities
 - (c) Other services (e.g., review, compilation)
 - (d) Insolvency

Case Study based MCQ

Shivam & Co LLP is a large firm of Chartered Accountants based out of Delhi-NCR. The firm has 6 offices in India – Delhi, Noida, Bangalore, Kolkata, Chennai and Chandigarh. The firm has 35 partners across various offices. The staff size of firm is 250 approximately.

The firm is offering various services to its clients and has accordingly set up separate departments for those services which are headed by the Partners. The firm has clients as both listed and unlisted companies to whom services include statutory audit, internal audit, risk advisory, due diligence, tax support etc. The firm also has a Managing Partner who sits in Chandigarh office. All in all one can say it's an all solutions firm as far as services of a CA are concerned.

The firm focuses significantly on its quality and accordingly has set up various controls in place. The firm ensures that the engagements of each partners are reviewed in terms of quality of work by other partner of the firm independently every year. For this purpose, firm has set up a process and one or two engagement file of a partner is selected. Quality assessment also carries weight in terms of assessment of profit sharing of the partners.

The firm has been subject to peer review which was last conducted 3 years back.

During the financial year ended 31 March 2019, the firm got an intimation for the peer review on 1 July 2018, with which it was not fine considering that it was done only 3 years back and was not due. The firm discussed this matter with the relevant authorities but that did not work. The process of peer review got started and completed on 15 September 2018 which included the on-site review from 1 August 2018 to 16 August 2018.

Since the firm was not fine with its selection and also faced some problems during the peer review process, it also consulted another firm of his friend, Shubham, Shubham & Associates. One of the engagements of Shubham & Associates was picked up for quality review by the Quality Review Board and this firm also faced various challenges during that process in terms of the selection criteria and also the observations of the reviewer.

Considering the above mentioned facts, you are required to advise on the following matters:

- (i) Shivam & Co LLP submitted a list of its assurance and due diligence services in respect of selection of the engagement for the peer review.
 - (a) Peer reviewer may select any sample out of assurance and due diligence engagement.
 - (b) Peer reviewer may select any sample out of assurance engagement.
 - (c) Peer reviewer may select any sample out of due diligence engagement.
 - (d) Peer reviewer may select an engagement on a piecemeal basis covering any service - assurance or due diligence.

- (ii) The concern of Shivam & Co LLP regarding its selection of peer review arose because it assessed itself as Level III entity which was different from assessment by the Peer Review Board.
- (a) The firm should be Level I based on criteria of Level 1, 2 and 3 given by ICAI regarding applicability of Accounting Standards.
 - (b) The firm should be Level II based on criteria of Level 1, 2 and 3 given by ICAI regarding applicability of Accounting Standards.
 - (c) The firm should be Level I based on its engagements/services.
 - (d) The firm should be Level II based on criteria of Level 1, 2 and 3 given by ICAI regarding applicability of Accounting Standards and its engagements/services.
- (iii) Shivam & Co LLP also objected to the time taken by the Peer reviewer on site, however, as per Peer Reviewer, the entire review process got completed within 90 days from the date of notifying the firm about its selection for review.
- (a) The time for onsite review should not have extended beyond 7 working days.
 - (b) The time for onsite review should not have extended beyond 10 working days.
 - (c) The time for complete review should be completed within 120 days.
 - (d) The time for complete review should be completed within 60 days.
- (iv) The peer reviewer did not share any of his observations with Shivam & Co LLP as draft and final report was submitted to the firm.
- (a) Peer reviewer need not share any draft report with the firm if there are no observations.
 - (b) Even the final report is not required to be submitted to the firm.
 - (c) Peer reviewer needs to share draft report with the firm before finalisation.
 - (d) There are no reports in case of peer review. On completion, a certificate to that effect is issued.
- (v) In case of Shubham & Associates, to improve upon the quality and strengthen the base, the Board took the current member of the Regional Council of the ICAI as a technical reviewer.
- (a) The Reviewer should not currently be a member of the Regional Council.
 - (b) If the reviewer is a member of the Regional Council then the time allotted for review should be 60 days.
 - (c) If the reviewer is a member of the Regional Council then the time allotted for review would be 30 days.

- (d) If the reviewer is a member of the Regional Council then he can not accompany any staff with him for the purpose of the review.
- (vi) In case of Shubham & Associates, the reviewer raised an observation that one of the audit team member (when the team on the audit engagement was large) signed the independence confirmation dated 1 August 2016 when the audit report was signed on 1 August 2016. This was objected by Shubham & Associates because the audit team completed the documentation as required by the auditing standard.
 - (a) Observation of reviewer was correct.
 - (b) Observation of reviewer was not correct.
 - (c) Observation of reviewer was correct but when only one audit member has not complied then it should have been dropped.
 - (d) Observation of reviewer was not correct and also the fact that out of a large team, it involved only one audit member.

Answers to Theoretical Questions

1. **Review in the Assessment of Independence of the Practising Unit** – The reviewer should carry out the compliance review of the five general controls, i.e., independence, maintenance of professional skills and standards, outside consultation, staff supervision and development and office administration and evaluate the degree of reliance to be placed upon them. The degree of reliance will, ultimately, affect the attestation service engagements to be reviewed.

A, a practicing Chartered Accountant should review following controls in respect of assessment of independence of the practicing unit:

 - (i) Does the practice unit have a policy to ensure independence, objectivity and integrity, on the part of partners and staff? Who is responsible for this policy?
 - (ii) Does the practice unit communicate these policies and the expected standards of professional behaviour to all staff?
 - (iii) Does the practice unit monitor compliance with policies and procedures relating to independence?
 - (iv) Does the practice unit periodically review the practice unit's association with clients to ensure objectivity and independence?
2. Refer Para 3 of Peer Review.
3. (a) Refer Para 3 of Peer Review.
(b) Refer Para 3 of Peer Review.
4. Refer Para 2 of Quality Review.

5. The Technical Reviewers expresses an opinion on whether the system of quality control for the attestation services of the firm under review has been designed so as to carry out professional attestation services assignments in a manner that ensures compliance with the applicable Technical standards and maintenance of the quality of attestation service work they perform. The Technical Reviewer's review would not necessarily disclose all weaknesses in the quality of attestation work or all instances of lack of compliance with applicable Technical Standards. As there are inherent limitations in the effectiveness of any system of quality control, departure from the system may occur and not be detected. Also, projection of any evaluation of system of quality control to future periods is subject to the risk that the system of quality controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. In the process, the Technical Reviewers also identified what they considered to be deficiencies and any defects in, or criticisms of the firm's quality control system.
6. Refer Para 7 of Quality Review.
7. Refer Para 8 of Quality Review.

Answers to Multiple Choice Questions

1. (a) 2. (d)

Answer to Case Study based MCQ

- (i) (b) (ii) (c) (iii) (a) (iv) (c) (v) (a) (vi) (a)