

Constraints in Peer Review System : A Study



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The Concept of Peer Review

The term 'peer' means a person of similar standing. The term 'review' means reexamination or retrospective evaluation of the subject matter. In generality, for a professional, the term "peer review" would mean review of the work done by a professional, by another member of the same profession with similar standing. The Peer Review Board (the Board) was established in March, 2002 in terms of Paragraph 6.1 of the Statement on Peer Review (hereinafter referred to as the 'Statement' unless otherwise mentioned) issued by the Institute of Chartered Accountants of India (hereinafter referred to as "the Institute" or 'ICAI'). Apart from providing for setting up of the Board, the Statement also lays down the framework to conduct peer reviews and other matters related or incidental thereto. The Statement has been revised in Dec 2011, which is reproduced in Appendix I to this Manual. The revised Statement envisages disciplinary action in certain cases apart from partially revising the coverage of Practice Units, Scope of Peer Review, Powers of the Peer Review Board, Reviewer's Role, Practice Unit's responsibilities etc. The Board has also issued several notifications and circulars for the smooth conduct of peer review process. The text of Notification(s) and Circular(s) are reproduced in Appendix II to this Manual.

The quality of the services rendered by Chartered Accountants has always been on the "priority list" of the Institute. Towards this end, the Institute has been striving hard to formulate Standards, Statements, Guidance notes, industry-specific publications, research studies, monographs etc. to ensure, enhance and sustain the quality of audit and assurance services and provide guidance to auditors and enable them to discharge their duties in the most efficient and effective manner. Throughout the world, the concept of peer review, inter alia, is being used by all accountancy bodies as a tool for enhancing the quality of services being rendered by professional accountants. The Institute, recognising the need to observe best international practices, has established a system of Peer Review to be at par with the other developed countries of the world in so far as quality of assurance services is concerned.

Scope of Peer Review

The Statement on Peer Review lays down the scope of review to be conducted as under: "7.1 The Peer Review process shall apply to all the assurance services provided by a Practice Unit. 7.2 Once a Practice Unit is selected for Review, its assurance engagement records pertaining to the Peer Review Period shall be subjected to Review. 7.3 The 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) Training programmes for staff (including articled and audit assistants) concerned with assurance functions, including availability of appropriate infrastructure. (v) Compliance with directions and / or guidelines issued by the Council to the Members, including fees to be charged, number of audits undertaken, register for assurance engagements conducted during the year and such other related records. (vi) Compliance with

directions and / or guidelines issued by the Council relating to article assistants and / or audit assistants, including attendance register, work diaries, stipend payments, and such other related records."

We, the Chartered Accountants Fraternity, are all aware of the peer review process undertaken by the Peer Review Board of ICAI for the practicing member. With recent development in the reporting requirement of the financial statements, the peer review exercise helps the members of the profession at large on the following fronts:

1. Ensure compliances with the recent amendments in The Companies Act, 2013.
2. Ensure compliances of TDS, Service Tax and other Tax Laws which have become part of reporting by practicing Chartered Accountants.
3. Adherence of the Auditing and Accounting Standards which is mandatory for preparation and presentation of financial statements.
4. In meeting pre-selection criteria for allotment of audit by various public sector undertakings (PSUs), banks and other institutions and audit by way of open tender process by public sector undertakings.
5. In complying with the circular issued by the Securities & Exchange Board of India (SEBI) for audit of listed companies' requirements and C&AG of India for Statutory Audit of Public Sector Companies.

At the end of each working period, the accumulated evidence and performance evaluation should be reviewed to assess scope for improving efficiency or effectiveness for the next auditing period.

"Audit is an independent examination of financial information of an entity, whether profit oriented or not, irrespective of the size or legal form, when such an examination is conducted with a view to expressing an opinion thereon" (SA 200, Auditing and Assurance, ICAI).

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria (Arens & Loebbecke, 2000, Auditing: An Integrated Approach). Normally independent auditors, also known as Chartered Accountants (CAs) in India, conduct audit work to ascertain whether the overall financial statements of a company are, in all material respects, in conformity with the generally accepted accounting principles (GAAP). Financial statements include position statement, Income Statement, Statements of Cash Flow and Statements of Retained Earning.

In other world's auditor's report assures the financial statements users, which are normally the external parties such as shareholders, creditors and financial institutions of the reliability of financial statements, which are prepared by the management of the company.

As per the discussion with the Reviewers and on the basis of their exercise a broad summary of description of the reason for issuing the Interim/Qualified Report by Reviewers is given below. The reason put forward by Reviewers have been classified in four broad headings in terms of Para 7.0 "Scope of the Peer Review" of the Statement on Peer Review, viz;

The Review shall focus on:

- ❖ Compliance with Technical Standards.
- ❖ Quality of Reporting.
- ❖ Office system and procedure with regard to compliance of attestation services systems and procedures.

- ❖ Training programs for staff (including Articled and Audit clerks) concerned with attestation functions, including appropriate infrastructure."

While classifying different reasons stated by Reviewers in respect of each PU under distinct headings, all care has been taken to eliminate duplicate comments but certain repetitive comments still appear with a view to retain distinct flavour of remarks/observations of different Reviewers.

Members may note that the purpose of making available this analysis is to share information for the guidance of Practice Units at large. Further, these comments are not exhaustive and are only illustrative in nature.

AAS 5 (Audit Evidence):

- ❖ PU does not always follow the procedure of collection of audit evidence for performing substantive test and results obtained thereat not properly documented.
- ❖ The unit does not obtain direct evidence from parties and business associates of the clients.
- ❖ Audit plan, nature of work, timing and extent of audit procedure performed, conclusion drawn there on, not found in a large audit assignment.

Quality Control of Audit Work:

- ❖ System for scheduling and staffing for carrying out the audit engagement needs to be established.
- ❖ No system to lay down qualifications deemed necessary for various levels of responsibility to ensure the technical standards and professional competence required to enable them to fulfil their responsibility with due care.
- ❖ The unit does not have a written manual for policy of review of audit work.
- ❖ Review of work done by assistants and supervisions, directions given or any observation are not found in view files particularly in large audit.
- ❖ Work assigned to staff is regardless of the qualification required.

Generally, several CAs join together to practice as partners of the auditing firm, offering auditing and other related services including auditing and other reviews to interested parties. The partners normally hire professional staffs and form an audit team to assist them in the audit engagement. It is to clarify that the Peer Review Exercise is never a burden on the practicing member/CA firm in view of the following:

1. Peer Review is done by the member itself of same standing and mostly from the same area/city in which the auditee firm is located.
2. The consolidated fees for 3 years' peer review exercise is very nominal which is given below:

Total Revenue from Attestation service clients of practice unit (Per Annum)	Cost
Less than Rs 10 lacs p.a.	Rs 15,000/-
From Rs 10 lacs to 50 Lacs p.a.	Rs 25,000/-

From Rs 50 lacs to 1 crore p.a.	Rs 40,000/-
From Rs 1 crore to 3 crore p.a.	Rs 60,000/-
From Rs 3 crore to 5 crore p.a.	Rs 75,000/-
Above Rs 5 crore p.a.	Rs 1,00,000/-

The fees for peer review per year comes only 1/3rd of the above in case selection is made by the peer review board for a normal peer review cycle of three years as per para 3.3 of The Statement on Peer Review. The above said fees is including honorarium and TA/DA for reviewer and his/her qualified assistant as provided in the notification no. PRB/Notfn./008/11-12, issued on August 2011. The above fee is per review in case of those firms who voluntary request for Peer Review of their firms to the Board.

1. The deficiencies pointed out and rectified in the course of peer review are not part of the final report by the peer reviewer.
2. For any firm, it is very difficult to review its own work and get the file updated which now-a-days is required to have the records for reference and evidence for any further enquiries/investigations/cases whenever and wherever it takes place.

The Board also undertakes the workshop on Technical Standards, The Companies Act, 2013, Tax Laws and other applicable laws to update the members in general for timely compliance and quality of reporting.

You are requested to spare some time and also post your suggestions to make Peer Review exercise more meaningful and beneficial to the members.

Peer Review System is an effective mode to monitor the Auditors' workings and integrity and whether it is futile and non-economical may be concluded on the basis of whole study that peer review system is not futile rather it helps as an effective mode to monitor the auditors' workings and integrity and obviously it is economical too as the review charge is nominal and as prescribed by the institute.

References:

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3. Committee of Sponsoring Organizations (COSO) 1992, Internal Control-Integrated Framework.
4. Lee, Sang Jun & Keng Siau (2001), A Review of Data Mining Techniques, Industrial Management & Data Systems.
5. Peer Review Board, Training modules for Peer Reviewers, May, 2010.
6. Peer Review Board, Peer Review: Enhancing Audit Quality: The Chartered Accountant, August, 2012, 145-147.