

MOCK TEST PAPER - 2
FINAL (OLD) COURSE: GROUP – I
PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS
SUGGESTED ANSWERS/HINTS

DIVISION A - MCQs (30 Marks)

Questions no. (1-10) carry 1 Mark each and Questions no. 11-20 carry 2 Marks each.

1. (c)
2. (b)
3. (d)
4. (b)
5. (c)
6. (b)
7. (b)
8. (d)
9. (c)
10. (c)

Questions (11-20) carry 2 Marks each

11. (b)
12. (a)
13. (c)
14. (d)
15. (d)
16. (c)
17. (d)
18. (a)
19. (c)
20. (b)

DIVISION B - DESCRIPTIVE QUESTIONS (70 Marks)

1. (a) **Examples of Amounts or Other Items that May Be Included in the Other Information:** As per SA 720 "The Auditor's Responsibility in Relation to Other Information", the following are examples of amounts and other items that may be included in other information. This list is not intended to be exhaustive.

Amounts

- (i) Items in a summary of key financial results, such as net income, earnings per share, dividends, sales and other operating revenues, and purchases and operating expenses.
- (ii) Selected operating data, such as income from continuing operations by major operating area, or sales by geographical segment or product line.

- (iii) Special items, such as asset dispositions, litigation provisions, asset impairments, tax adjustments, environmental remediation provisions, and restructuring and reorganization expenses.
- (iv) Liquidity and capital resource information, such as cash, cash equivalents and marketable securities; dividends; and debt, capital lease and minority interest obligations.
- (v) Capital expenditures by segment or division.
- (vi) Amounts involved in, and related financial effects of, off-balance sheet arrangements.
- (vii) Amounts involved in guarantees, contractual obligations, legal or environmental claims, and other contingencies.
- (viii) Financial measures or ratios, such as gross margin, return on average capital employed, return on average shareholders' equity, current ratio, interest coverage ratio and debt ratio. Some of these may be directly reconcilable to the financial statements.

Other Items

- (i) Explanations of critical accounting estimates and related assumptions.
 - (ii) Identification of related parties and descriptions of transactions with them.
 - (iii) Articulation of the entity's policies or approach to manage commodity, foreign exchange or interest rate risks, such as through the use of forward contracts, interest rate swaps, or other financial instruments.
 - (iv) Descriptions of the nature of off-balance sheet arrangements.
 - (v) Descriptions of guarantees, indemnifications, contractual obligations, litigation or environmental liability cases, and other contingencies, including management's qualitative assessments of the entity's related exposures.
 - (vi) Descriptions of changes in legal or regulatory requirements, such as new tax or environmental regulations, that have materially impacted the entity's operations or fiscal position, or will have a material impact on the entity's future financial prospects.
 - (vii) Management's qualitative assessments of the impacts of new financial reporting standards that have come into effect during the period, or will come into effect in the following period, on the entity's financial results, financial position and cash flows.
 - (viii) General descriptions of the business environment and outlook.
 - (ix) Overview of strategy.
 - (x) Descriptions of trends in market prices of key commodities or raw materials.
 - (xi) Contrasts of supply, demand and regulatory circumstances between geographic regions.
 - (xii) Explanations of specific factors influencing the entity's profitability in specific segments.
- (b) Reporting by the User Auditor:** As per SA 402, "Audit Considerations Relating to an Entity Using a Service Organisation", the user auditor shall modify the opinion in the user auditor's report in accordance with SA 705, "Modifications to the Opinion in the Independent Auditor's Report", if the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organisation relevant to the audit of the user entity's financial statements.

The user auditor shall not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the user auditor's report shall indicate that the reference does not diminish the user auditor's responsibility for the audit opinion.

Thus, in view of above, contention of CA. Param in removing reference of the work done by service auditor is in order as in case of unmodified audit report, user auditor cannot refer to the work done by service auditor.

- (c) **Compliance with Other Laws:** As per SA 250, "Consideration of Laws and Regulations in an Audit of Financial Statements", the auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements including tax and labour laws.

Further, non-compliance with other laws and regulations may result in fines, litigation or other consequences for the entity, the costs of which may need to be provided for in the financial statements, but are not considered to have a direct effect on the financial statements.

In the instant case, major portion of the labour employed in the company was child labour. While questioning by auditor, reply of the management that it was outside his scope of financial audit to look into the compliance with other laws is not acceptable as it may have a material effect on financial statements.

Thus, auditor should ensure the disclosure of above fact and provision for the cost of fines, litigation or other consequences for the entity. In case if the auditor concludes that non-compliance has a material effect on the financial statements and has not been adequately reflected in the financial statements, the auditor shall express a qualified or adverse opinion on the financial statement as per SA 705 "Modifications to the Opinion in the Independent Auditor's Report".

2. (a) As per SEBI - LODR Regulation 24(1), at least one independent director on the board of directors of the listed entity shall be a director on the board of directors of the unlisted material subsidiary, whether incorporated in India or not.

For the purpose of Regulation 24(1), notwithstanding anything to the contrary contained in Regulation 16, the term 'material subsidiary' means a subsidiary, whose income or net worth exceeds 20% of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.

In the given case, the fact that both the subsidiaries are unlisted and incorporated outside India is irrelevant. From the above case we have the following details:

- 20% of consolidated net worth of BN Limited = $350 \times 20\% = \text{Rs. } 70$ crore.
- Net worth of BUS Limited = Rs. 36 crore.
- Net worth of ROBUS Limited = Rs. 80 crore.

Accordingly, it is clear that out of the two subsidiaries, the net worth of only one subsidiary (ie. ROBUS Limited) exceeds 20% of the consolidated net worth of BN Limited and all its subsidiaries. Therefore, the change in the composition of board of directors needs to be made only for ROBUS Limited and not both the subsidiaries.

Thus, contention of senior manager regarding change in composition of board of directors in BUS Limited is not in order as per Regulation 24(1). However, change in composition of board of director is required for ROBUS Limited.

Further, as per Regulation 24 (1) of LODR Regulation, 2015 one of the independent directors present in the board of director of BN Limited should also be made as a director in the board of directors of ROBUS Limited.

- (b) Disclosure in Audit Report:** The auditor is required to specifically include certain matters as per CARO, 2016 under section 143 of the Companies Act, 2013.

According to clause (i) (a) of CARO, 2016 the auditor has to comment whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets; and as per clause (i) (b) whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;

In the given case, Peer Ltd. has intention to sale its earth removing machines of outdated technology which had been retired from active use and had been kept for disposal after knock down and these assets are appearing at residual value. Further, inspection of such machines (though it is a retired machine, however value is 39.61 crore which is material amount) was done seven years back, is not in compliance with CARO, 2016.

Hence, this fact needs to be disclosed in the Audit Report as per clause (i) (a) and (b) of Paragraph 3 of CARO 2016.

- (c) Using Designation Other Than a CA and Providing Details of Services Offered:** Clause (6) of Part I of the First Schedule to the Chartered Accountants Act, 1949 states that a Chartered Accountant in practice shall be deemed to be guilty of misconduct if he solicits clients or professional work either directly or indirectly by a circular, advertisement, personal communication or interview or by any other means. Such a restraint has been put so that the members maintain their independence of judgment and may be able to command respect from their prospective clients.

Section 7 of the Chartered Accountants Act, 1949 read with Clause (7) of Part I of the First Schedule to the said Act prohibits advertising of professional attainments or services of a member. It also restrains a member from using any designation or expression other than that of a chartered accountant in documents through which the professional attainments of the member would come to the notice of the public. Under the clause, use of any designation or expression other than chartered accountant for a chartered accountant in practice, on professional documents, visiting cards, etc. amounts to a misconduct unless it be a degree of a university or a title indicating membership of any other professional body recognised by the Central Government or the Council.

Member may appear on television and films and agree to broadcast in the Radio or give lectures at forums and may give their names and describe themselves as Chartered Accountants. Special qualifications or specialized knowledge directly relevant to the subject matter of the programme may also be given but no reference should be made, in the case of practicing member to the name and address or services of his firm. What he may say or write must not be promotional of his or his firm but must be an objective professional view of the topic under consideration.

Thus, it is improper to use designation "Management Expert" since neither it is a degree of a University established by law in India or recognised by the Central Government nor it is a recognised professional membership by the Central Government or the Council. Therefore, CA. Sudhir is deemed to be guilty of professional misconduct under both Clause (6) and Clause (7) as he has used the designation "Management Expert" in his speech and also he has made reference to the services provided by his firm of Chartered Accountants at reasonable rates. Distribution of cards to audience is also a misconduct in terms of Clause (6).

- 3. (a) Commission:** The commission is the consideration payable for getting the insurance business. The term 'commission' is used for the payment of consideration to get Direct business. Commission received on amount of premium paid to a re-insurer is termed 'Commission on reinsurance accepted' and is reduced from the amount of commission expenditure. The internal

control with regard to commission is aimed at ensuring that commission is paid in accordance with the rules and regulations of the company and in accordance with the agreement with the agent, commission is paid to the agent who brought the business and the legal compliances, for example, tax deduction at sources, GST on reverse charge mechanism and provisions of the Insurance Act, 1938 have been complied with.

Role of Auditor: The auditor should, *inter alia*, do the following for verification of commission:

- ❖ Ensure that commission/brokerage is not paid in excess of the limits specified by IRDAI
 - ❖ Ensure that commission/brokerage is paid as per rates with the agent and rates filed with IRDAI
 - ❖ Ensure that commission/brokerage is paid to the agent/broker who has solicited the business
 - ❖ Ensure that the agent/broker is not blacklisted by IRDAI and is not terminated for fraud etc.
 - ❖ Vouch disbursement entries with reference to the disbursement vouchers with copies of commission bills and commission statements.
 - ❖ Check whether the vouchers are authorised by the officers-in-charge as per rules in force and income tax is deducted at source, as applicable.
 - ❖ Test check correctness of amounts of commission allowed.
 - ❖ Scrutinise agents' ledger and the balances, examine accounts having debit balances, if any, and obtain information on the same. Necessary rectification of accounts and other remedial actions have to be considered.
 - ❖ Check whether commission outgo for the period under audit been duly accounted.
- (b) (i) The management contention is correct. The auditor has only a recommendatory power, for recommendations given by the auditor may or may not be acceptable to the registered person. The registered person has the option to accept, reject or partially accept the recommended additional tax liability. In line with such recommendations, though not explicitly stated anywhere in the relevant Form or GST law –
- ❖ the registered person can choose to make the payment of the additional tax liability in full or in part;
 - ❖ the registered person can even choose to reject the complete recommendations of the auditor and not make the payment at all.
- (ii) In terms of section 15(2)(d) while computing value of taxable supply the transaction value shall include interest or late fee or penalty for delayed payment of any consideration for any supply. Since, Mr. Bahubali did not pay tax on interest component, he made violation of valuation provisions. Mr. Bahubali was having option to discharge such liability at the time of filing of Form GSTR-9, which he did not avail. Therefore, the GST auditor may recommend him to discharge such liability at the time of making reconciliation statement in Form GSTR-9C.
- (c) As per Clause (4) of Part I of the Second Schedule of the Chartered Accountants Act, 1949, a Chartered Accountant in practice is deemed to be guilty of professional misconduct if he expresses his opinion on financial statements of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest.

Section 141 of the Companies Act, 2013 specifically prohibits a member from auditing the accounts of a company in which he is an officer or employee. Although the provisions of the aforesaid section are not specifically applicable in the context of audits performed under other

statutes, e.g. tax audit, yet the underlying principle of independence of mind is equally applicable in those situations also. Therefore, the Council's views are clarified in the following situations.

As per the clarifications issued by the Council, a member shall not accept the assignment of audit of a Company for a period of two years from the date of completion of his tenure as Director, or resignation as Director of the said Company.

In the instant case, Mr. Dhawal, a practicing CA, is appointed as a Director Simplicitor in Gautam Pvt. Ltd. After three year of appointment, Mr. Dhawal resigned as the Director and accepted the Statutory Auditor position of the Company. In view of above provisions Mr. Dhawal can accept the Directorship of the company as tenure of two years after his resignation is completed.

Thus, CA, Dhawal would not be held guilty of professional misconduct under clause 4 of Part 1 of Second Schedule of the Chartered Accountants Act, 1949.

4. (a) Differences between Division II (Ind- AS- Other than NBFCs) and Division III (Ind- AS- NBFCs) of Schedule III: The presentation requirements under Division III for NBFCs are similar to Division II (Non NBFC) to a large extent except for the following:
- (i) NBFCs have been allowed to present the items of the balance sheet in order of their liquidity which is not allowed to companies required to follow Division II. Additionally, NBFCs are required to classify items of the balance sheet into financial and non-financial whereas other companies are required to classify the items into current and non-current.
 - (ii) An NBFC is required to separately disclose by way of a note any item of 'other income' or 'other expenditure' which exceeds 1 per cent of the total income. Division II, on the other hand, requires disclosure for any item of income or expenditure which exceeds 1 per cent of the revenue from operations or Rs.10 lakhs, whichever is higher.
 - (iii) NBFCs are required to separately disclose under 'receivables', the debts due from any Limited Liability Partnership (LLP) in which its director is a partner or member.
 - (iv) NBFCs are also required to disclose items comprising 'revenue from operations' and 'other comprehensive income' on the face of the Statement of profit and loss instead of showing those only as part of the notes.
 - (v) Separate disclosure of trade receivable which have significant increase in credit risk & credit impaired
 - (vi) The conditions or restrictions for distribution attached to statutory reserves have to be separately disclose in the notes as stipulated by the relevant statute.
- (b) **Direct Assistance from Internal Auditor:** As per SA 610 "Using the Work of Internal Auditor", the external auditor shall not use internal auditors to provide direct assistance to perform procedures that involve making significant judgments in the audit.

Since the external auditor has sole responsibility for the audit opinion expressed, the external auditor needs to make the significant judgments in the audit engagement.

Significant judgments include the following:

- ◆ Assessing the risks of material misstatement;
- ◆ Evaluating the sufficiency of tests performed;
- ◆ Evaluating the appropriateness of management's use of the going concern assumption;
- ◆ Evaluating significant accounting estimates; and
- ◆ Evaluating the adequacy of disclosures in the financial statements, and other matters affecting the auditor's report.

In view of above, Mr. Sheetal cannot ask direct assistance from internal auditors regarding evaluating the sufficiency of tests performed and the adequacy of disclosures in the financial statements and other matters affecting the auditor's report.

- (c) **Permission from the Council:** As per Clause (11) of Part I of First Schedule to the Chartered Accountants Act, 1949, a Chartered Accountant in practice will be deemed to be guilty of professional misconduct if he engages in any business or occupation other than the profession of Chartered Accountant unless permitted by the Council so to engage.

However, the Council has granted general permission to the members to engage in certain specific occupation. In respect of all other occupations specific permission of the Institute is necessary.

In the instant case, CA. Rani accepted editorship of a journal for which she did not take any permission from the Council. In this context, it may be noted that the editorship of professional journals is covered under the general permission and specific permission is not required.

Therefore, CA. Rani shall not be held guilty of professional misconduct in terms of Clause (11) of Part I of First Schedule to the Chartered Accountants Act, 1949.

5. (a) **Separation of Investment Functions:** The auditor needs to examine whether the bank, as required by the RBI, is maintaining separate accounts for the investments made by it on their own Investment Account, PMS clients' account, and on behalf of other Constituents (including brokers). As per the RBI guidelines, banks are required to get their investments under PMS separately audited by external auditors.

Thus, in the instant case, SSP Bank is required to prepare separate records for PMS and as per RBI guidelines PMS investments need to be audited separately by the external auditors and the auditors are required to give a certificate separately for the same. So, in the above case the auditor should not verify the PMS transactions and advise the bank to segregate the PMS transactions from its own investments and provide the certificate of external auditor as described above. In case SSP Bank does not provide the same the auditor may report accordingly.

- (b) In the given scenario, the auditors noted numerous purchase entries without valid purchase orders during the process of extracting the exception reports. Further, in terms of percentage, about 40% of purchases were made without valid purchase orders and also few purchase orders were validated after the actual purchase. Also there was no reconciliation between the goods received and the goods ordered.

Audit Procedures: The following procedures may address the validity of the account balance:

- Make a selection of the purchases, review correspondence with the vendors, purchase requisitions (internal document) and reconciliations of their accounts.
 - Review Vendor listing along with the ageing details. Follow up the material amounts paid before the normal credit period and analyse the reasons for exceptions.
 - Meet with the company's Purchase officer and obtain responses to our inquiries regarding the purchases made without purchase orders.
 - Discuss the summary of such issues with the client.
- (c) In the instant case, Mr. R is holding appointment in 4 companies, Mr. A is holding appointment in 5 companies, Mr. J is holding appointment in 6 companies, whereas Mr. U is having appointment in 10 Companies and Mr. L is having appointment in 15 Companies. In aggregate all five partners are having 40 audits.

Provisions and Explanations: As per section 141(3)(g) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor if he is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the

date of such appointment or reappointment holding appointment as auditor of more than twenty companies other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than Rs. 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar).

As per section 141(3)(g), this limit of 20 company audits is per person. In the case of an audit firm having 5 partners, the overall ceiling will be $5 \times 20 = 100$ company audits. Sometimes, a Chartered Accountant is a partner in a number of auditing firms. In such a case, all the firms in which he is partner or proprietor will be together entitled to 20 company audits on his account.

Conclusion:

(i) Therefore, RAJUL & Co. can hold appointment as an auditor of 60 more companies:

Total Number of Audits available to the Firm	$= 20 \times 5$	= 100
Number of Audits already taken by all the partners		
In their individual capacity	$= 4+5+6+10+15$	= 40
Remaining number of Audits available to the Firm		= 60

(ii) With reference to above provisions, an auditor can hold more appointment as auditor = ceiling limit as per section 141(3)(g)- already holding appointments as an auditor. Hence (1) Mr. R can hold: $20 - 4 = 16$ more audits. (2) Mr. A can hold: $20 - 5 = 15$ more audits. (3) Mr. J can hold: $20 - 6 = 14$ more audits. (4) Mr. U can hold $20-10 = 10$ more audits and (5) Mr. L can hold $20-15 = 5$ more audits.

(iii) In view of above discussed provisions, RAJUL & Co. can hold appointment as an auditor in all the 80 private companies having paid-up share capital less than Rs. 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar), 2 small companies and 1 dormant company as these are excluded from the ceiling limit of company audits given under section 141(3)(g) of the Companies Act, 2013.

(iv) As per fact of the case, RAJUL & Co. is already having 40 company audits and they can accept only 60 more company audits. In addition, they can also conduct the audit of one person companies, small companies, dormant companies and private companies having paid up share capital less than Rs. 100 crores (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar). In the given case, out of the 80 private companies RAJUL & Co. is being offered, 65 companies have paid-up share capital of Rs. 115 crore each.

Therefore, RAJUL & Co. can accept the appointment as an auditor for 2 small companies, 1 dormant company, 15 private companies having paid-up share capital less than Rs. 100 crore (private company which has not committed a default in filing its financial statements under section 137 of the said Act or annual return under section 92 of the said Act with the Registrar.) and 60 private companies having paid-up share capital of Rs. 115 crore each in addition to above 40 company audits already held.

6. (a) Matters covered in Reporting in case of Comprehensive Audit are: To facilitate a proper consideration, the reports of the C&AG on the audit of PSUs are presented to the Parliament in several parts consisting of results of comprehensive appraisals of selected undertakings conducted by the Audit Board etc. Some of the issues examined in comprehensive audit are:

(i) How does the overall capital cost of the project compare with the approved planned costs? Were there any substantial increases and, if so, what are these and whether there is evidence of extravagance or unnecessary expenditure?

- (ii) Have the accepted production or operational outputs been achieved? Has there been under-utilization of installed capacity or shortfall in performance and, if so, what has caused it?
 - (iii) Has the planned rate of return been achieved?
 - (iv) Are the systems of project formulation and execution sound? Are there inadequacies? What has been the effect on the gestation period and capital cost?
 - (v) Are cost control measures adequate and are there inefficiencies, wastages in raw materials consumption, etc.?
 - (vi) Are the purchase policies adequate? Or have they led to piling up of inventory resulting in redundancy in stores and spares?
 - (vii) Does the enterprise have research and development programmes ? What has been the performance in adopting new processes, technologies, improving profits and in reducing costs through technological progress?
 - (viii) If the enterprise has an adequate system of repairs and maintenance?
 - (xi) Are procedures effective and economical?
 - (x) Is there any poor or insufficient or inefficient project planning?
- (b) 10% Voting Power and Control over the composition of Board of Directors:** In this case, Atishaya Ltd. holds only 10 percent of the voting power but has control over the composition of the Board of Directors of Neenu Ltd.

In such a case, Atishaya Ltd shall be considered as a parent of Neenu Ltd and, therefore, it would consolidate Neenu Ltd in its consolidated financial statements as a subsidiary.

The auditor should verify Atishaya Ltd's management's assessment of having control in Neenu Ltd despite having only 10% voting power as per the requirements of Ind AS 110. Auditor would need to verify as to how Atishaya Ltd controls the composition of the Board of Directors or corresponding governing body of Neenu Ltd.

There can be various means by which such kind of control can be established. In this regard, the auditor may verify the minutes of Board meetings, shareholder agreement entered into by the parent, agreements with Neenu Ltd to which the parent might have provided any technology or know how, enforcement of statute, etc.

Further, the auditor should verify that the adjustments warranted by Ind AS 110 have been made wherever required and have been properly authorised by the management of the parent. The preparation of consolidated financial statements gives rise to permanent consolidation adjustments and current period consolidation adjustments. The auditor should make plan, among other things, for the understanding of accounting policies of the Atishaya Ltd and Neenu Ltd and determining and programming the nature, timing, and extent of the audit procedures to be performed etc.

Further, the duties of an auditor with regard to reporting of transactions with any other related parties are given in SA 550 on Related Parties. As per SA 550 on, "Related Parties", the auditor should review information provided by the management of the entity identifying the names of all known related parties. A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity are considered as Related Party.

In forming an opinion on the financial statements, the auditor shall evaluate whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with Ind AS 110 and Schedule III and whether the effects of the related party relationships and transactions prevent the financial statements from achieving true and fair

presentation (for fair presentation frameworks) or cause the financial statements to be misleading (for compliance frameworks).

- (c) As per **SA 540 “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures”**, the auditor shall obtain an understanding of the following in order to provide a basis for the identification and assessment of the risks of material misstatements for accounting estimates:
- (i) The requirements of the applicable financial reporting framework relevant to the accounting estimates, including related disclosures.
 - (ii) How Management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed, in the financial statements. In obtaining this understanding, the auditor shall make inquiries of management about changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.
 - (iii) The estimation making process adopted by the management including-
 - (1) The method, including where applicable the model, used in making the accounting estimates.
 - (2) Relevant controls.
 - (3) Whether management has used an expert?
 - (4) The assumption underlying the accounting estimates.
 - (5) Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates, and if so, why; and
 - (6) Whether and, if so, how the management has assessed the effect of estimation uncertainty.

Or

Difference Between Peer Review and Quality Review: Peer review is a review of the systems and procedures of an audit firm. Although sample audit files are inspected by the peer reviewer, it is done for the purpose of testing the effectiveness of the systems and procedures. The intention is to not to find faults but to help the firm develop effective systems. It is a kind of mentoring process. Peer review is a part of the activities of ICAI aimed at improving the quality of service.

In contrast, a quality review is supposed to act as a deterrent. Quality Review Board (QRB) is constituted by the Central Government and is independent of ICAI. As per Section 28A of the Chartered Accountant’s Act, the Central Government has the authority to constitute a Quality Review Board. QRB carries out supervisory and disciplinary functions. A quality review normally pertains to one particular audit conducted by an audit firm. The main objective quality review is to find errors or inadequacies, if any, committed by the auditor while conducting the audit. Serious errors detected in quality review lead to disciplinary action against the member.