

PEER REVIEW MANUAL

Published By:
Peer Review Board
The Institute of Chartered Accountants of Nepal
BabarMahal, Kathmandu
P.O. Box 5289
Phone: 4258569, 4269130, 2030021
Website: www.ican.org.np

PEER REVIEW MANUAL

**Peer Review Board
The Institute of Chartered Accountants of Nepal**

CONTENTS

Foreword	i
Preface	ii
CHAPTER 1 -INTRODUCTION.....	1
The Concept.....	1
Scope of Peer Review.....	1
Objectives of Peer Review	2
Scope of the Manual.....	3
CHAPTER 2 -PEER REVIEW PROCESS.....	4
Empanelment of Reviewers	4
Selection of the Practice Unit	5
Intimation to the Practice Unit.....	5
Initial Communications by the Practice Unit.....	5
Selection of Sample Attestation Services Engagements	6
Communication of Sample Selection	6
Confirmation of Visit	6
Initial Meeting.....	6
Compliance Review	6
Selection of Attestation Service Engagements	7
Review of Records -Compliance and Substantive Approach.....	7
Obligations of the Practice Unit.....	8
Discussion/Communication of Findings	8
Reply to Communication of Findings	8
Peer Review Report of the Reviewer	8
Approach of the Reviewer.....	9
Inherent Limitations of Review	10
Annexure-I.....	11
An Illustrative Time Schedule of Peer Review Process.....	11
CHAPTER 3 - QUESTIONNAIRE FOR PRACTICE UNITS.....	12
Questionnaire	13
Part A - Profile of Practice Unit.....	13
Part B - General Control.....	16
Part C-Performance of Attestation Engagements.....	18
CHAPTER 4 – REVIEW PROCEDURES	20
Off-Site Procedures	20
On-Site Procedures.....	20
Compliance Review Procedures	21
Review of Records - Compliance/Substantive Review Procedures.....	23
Illustrative Checklist of Audit Programme of a Reviewee.....	24
Compliance with Technical Standards	25
Quality of Reporting.....	25
Office Systems and Procedures	27
Training and Office Administration.....	29
Annexure	30
Guidance Notes on Independence of Auditors	33
CHAPTER 5 – DOCUMENTATION	34
Recommendatory Records.....	34
Mandatory Documentation	35
Permanent File	36

Current File	37
Working Papers Guidelines	39
Review of Working Papers	40
Reviewer's Working Papers	40
CHAPTER 6 - TECHNICAL STANDARDS: AN OVERVIEW	40
Technical Standards	41
CHAPTER 7 – REPORTING.....	42
Basic Elements of the Reviewer's Report.....	42
Guidelines for Grading the Report.....	43
Illustrative Reports	44
APPENDIX I	45
STATEMENT ON PEER REVIEW	45
Statement of Confidentiality	56
APPENDIX II.....	57
APPLICATION FORMAT FOR EMPANELMENT AS A REVIEWER	57
APPENDIX III	61
Model Letter to the Practice Unit Informing Selection of Sample	61
APPENDIX IV Model Letter to the Practice Unit Communicating Findings of Review...	62
APPENDIX V	63
Annexure to the Peer Review Report of M/s.....	64
APPENDIX VI	67
Model Recommendation by the Board.....	67
A. Non-Compliance with Technical Standards	67
B. Deficiency in Internal Quality Control System.....	67

Foreword

.....
.....
.....
.....
.....
.....

Preface

.....
.....
.....
.....
.....
.....

CHAPTER 1 -INTRODUCTION

The Concept

- 1.01 The term "peer" means a person of similar standing. The term "review" means conduct of re-examination or retrospective evaluation of the subject matter. In generality, for a professional, the term "peer review" would mean review of work done by a professional, by another professional of similar standing.
- 1.02 The quality of services rendered by members of the Institute has always been on the "priority list" of the Institute of Chartered Accountants of Nepal (hereinafter referred to as the "Institute"). Towards this end, the Institute has always been striving hard to formulate standards, statements, guidance notes, etc. to provide guidance to auditors to 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 be at par with the other developed countries of the world in so far as quality of attestation services is concerned, has established the Peer Review Board (hereinafter referred to as the "Board"). The Board has been established 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. Apart from providing for setting up of the Board, the Statement also lays down the framework for conduct of peer reviews and other matters related or incidental thereto. The Statement has been reproduced in Appendix I.
- 1.03 The Statement defines the "Peer Review" as under:
- "3.4 Peer Review means an examination and review of the systems and procedures to determine whether they have been put in place by the practice unit for ensuring the quality of attestation services as envisaged and implied/mandated by the Technical Standards and whether these were effective or not during the period under review".
- 1.04 The examination and review of a practice unit would be carried out by a "reviewer", i.e., a member, selected from a panel of reviewers maintained by the Board. The term "practice unit" means members in practice, whether practising individually or in a trade name (either as a sole proprietor or as a firm).

Scope of Peer Review

- 1.05 The Statement on Peer Review lays down the scope of review to be conducted as under:
- "7.1 The peer review process is directed at the attestation services of a practice unit.
- (1) Once a practice unit is selected for review, its attestation engagement records pertaining to the immediately preceding three completed financial years shall be subjected to review. Provided that the records of audit reports/attestation services relating to years prior to the accounting year beginning 1 Srawan 2062 (15.07.2005) shall not be subjected to review.
 - (2) The Review shall focus on:
 - (i) Compliance with Technical Standards.
 - (ii) Quality of Reporting.
 - (iii) Office systems and procedures with regard to compliance of attestation services systems and procedures.
 - (iv) Training Programs for staff (including Articled Trainees) concerned with attestation functions, including appropriate infrastructure."
- 1.06 As is clear from the above, the first part of paragraph (7) of the Statement aims to confine the scope of review to preceding three years since this would establish the consistency or deviations, if any, in respect

of procedures followed by the practice unit. The tenure of immediately three financial years, perhaps, has been envisaged since all practice units would not be subjected to mandatory annual review. However in the first year of its implementation, it provides clearly that records of attestation services relating to the accounting year beginning 1 Srawan 2062 (15.07.2005) shall only be subjected to review.

- 1.07 The second part of paragraph(7) of the Statement indeed defines the scope of peer review which revolves around compliance with technical standards; quality of reporting; office systems and procedures with regard to compliance of attestation engagements; and, training programmes for staff including articled trainee involved in attestation engagements.
- 1.08 The reviewers may note that the entire peer review process is directed at the attestation services which may be used interchangeably as audit services, attestation function or audit functions of a practice unit. The attestation services which shall be subjected to peer review include auditing or verification of financial transactions, book of accounts, records, or verification or certification of financial statements. Thus, the term attestation services include all those services such as statutory audit, internal audit, etc., which involve provisions of some kind of element of assurance to users. Specifically, the services which have been excluded from the scope of attestation services are all management consulting engagements, representing a client before the authorities, preparing tax returns and providing tax advice, compilation services, testifying as expert witness and providing expert opinions based on facts. It may be noted that while reviewing office systems and procedures and training programmes for the staff, the reviewer shall focus on such areas which may affect the quality of attestation services performed.
- 1.09 It is also quite important for a reviewer to understand the scope of review with reference to compliance with technical standards because the said term has been defined in an inclusive manner in the Statement on Peer Review. As per the Statement, the term "Technical Standards" includes accounting standards; auditing standards; framework in respect of accounting and auditing; statements; guidance notes; self-regulatory measures; and, relevant legislation in the context of specific engagement. Therefore, the reviewer shall have to concentrate on compliance with all standards, statements, guidance notes, notifications and relevant legislative requirements in respect of services rendered by the practice unit while performing a particular attestation engagement.

Objectives of Peer Review

- 1.10 The Statement specifies the main objectives of peer review as under:
- ◆ To ensure that members while performing attestation services comply with technical standards laid down by the Institute;
 - ◆ To ensure that such a member has in place proper system (including documentation system) for maintaining the quality of attestation services performed by him;
 - ◆ To ensure adherence to various statutory and other regulatory requirements; and
 - ◆ To enhance the reliance placed by the users of financial statements for economic decision making.
- 1.11 In view of the above, the reviewer may note that the primary objective of peer review is not to find out deficiencies but to improve the quality of services rendered by members of the profession. In the same vein, the Statement also makes it clear that peer review, "does not seek to redefine the scope and authority of the Technical Standards specified by the Council but seeks to enforce them within the parameters prescribed by the Technical Standards". The peer review is directed towards maintenance as well as enhancement of quality of attestation services and to provide guidance to members to improve their performance and adherence to various statutory and other regulatory requirements. Such an

objective of the peer review process makes it amply clear that the reviewer is not going to sit on the judgement of the practice unit while rendering attestation services but to evaluate the procedure followed by the practice unit in rendering such a service. Accordingly, where a practice unit is not following technical standards, the reviewers are expected to recommend measures to improve the procedures. Therefore, the objective is to maintain and enhance the quality of attestation services by providing appropriate guidance rather than simply pointing out deficiencies and penalising the practice unit. To elaborate further, the key objective of peer review exercise is not to identify isolated cases of engagement failure, but to identify weaknesses that are pervasive and chronic in nature. For instance, absence of formal planning of an audit represents a serious deficiency that needs to be remedied by the practice unit. An instance of the auditor not carrying out physical verification of furniture and fixture may not attract the same comment. However, certain items of assets are best verified through the physical verification process and not adopting the same procedure may rightly be viewed as a systemic failure. The conclusion, therefore, is that the peer review seeks to identify and address patterns of non-compliance with quality control standards.

Scope of the Manual

- 1.12 The manual is intended to assist the reviewers in carrying out the peer review of the practice units as envisaged in the Statement on Peer Review. It may be noted that the manual is in no way substitute for the Statement on Peer Review. Reviewers are expected to read the manual in conjunction with the Statement on Peer Review. The manual explains in brief the process of peer review in a simplified manner for easy understanding of all concerned. Apart from this, a questionnaire for evaluating the practice unit's internal controls has been designed and forms part of the manual, followed by the review procedures to be adopted by the reviewer. The reporting aspects to be considered by the reviewer are also dealt with in the manual. The manual also lays down an illustrative checklist of audit programme of a reviewee, insight into the documentation requirements applicable to practice unit and a brief overview of technical standards which would be of great help both to the reviewer and also to the practice unit. The manual also provides guidance to the reviewers about the form and content of reports to be issued by them in connection with the review.
- 1.13 This manual has primarily been designed to assist the reviewers in performing their work but suggested policies, processes and procedures described herein would also assist the members, i.e., practice unit in enhancing the quality of the work. Such a description has been made only with a view to ensuring reasonable assessment by the reviewer that the work has been carried out and documented in the manner prescribed by the Institute in its various statements and guidance notes for adherence to quality of work by the reviewee.

CHAPTER 2 -PEER REVIEW PROCESS

- 2.01 The objective of this chapter is to explain the process of peer review as stipulated in the Statement on Peer Review. This would help the reviewer to understand the process and plan the peer review accordingly. The subsequent paragraphs of this chapter would discuss the process of peer review step-by-step. The clarification(s) issued by the Board, if any, have also been dealt with at appropriate places. An illustrative time schedule for carrying out the peer review process is given in Annexure I to this Chapter.

Empanelment of Reviewers

- 2.02 The process of peer review begins with the empanelment of an individual to act as the reviewer. A panel of reviewers is maintained by the Peer Review Board, satisfying the qualification requirements laid down in the Statement, i.e., an individual should be a member of the Institute; possess at least 10 years experience of audit; be currently in full time practice; have particular experience in areas pertinent to the scope of review; and should be free from any obligation to, or interest in, the reviewed firm or its personnel. It is also provided that in the case of review of CA firms (including individual practitioner, proprietorship and partnership firm), the reviewer shall be a chartered accountant. In this context, the Board decided to clarify that 10 years experience of audit should not necessarily be continuous but cumulative experience of 10 years. Any period of audit experience of less than two years shall not be counted for this purpose. Also mere membership of 10 years would not be enough to be empanelled as a reviewer. It has to be 10 years experience of audit.
- 2.03 For the purpose of maintaining the panel, the Board invites applications in the prescribed format from members desirous of empanelment. The form of application requires the applicants to furnish such particulars as would enable the Board to assess the core competence of the applicants for conducting peer review. A copy of the form of application is enclosed as Appendix III. In order to ensure that there is no mis-match between the audit experience of the reviewer and the practice unit, the Board decided to clarify that the selection of reviewer for allotment of review would be based on his experience vis-à-vis the attestation functions performed by a practice unit. The panel of reviewers is reviewed by the sub-group formed for this purpose by the Board from time to time by suitably matching the reviewer's experience with the practice unit's attest engagements. Empanelment as a reviewer is no guarantee that the applicants empanelled would be eligible for allotment of peer review work.
- 2.04 A reviewer who is allotted peer review assignment may wish to decline the assignment.
- In this regard Board has clarified that a reviewer may decline the assignment in case of a situation of conflict of interest between the reviewer and the practice unit, after informing the Board and stating reasons why he cannot take up the assignment. Such a situation may arise when the reviewer's independence is likely to be impaired due to any reason, including his past association with the persons connected with the practice unit to be reviewed. A reviewer may also decline the assignment on account of ill-health and/or his other pre-occupations etc.
- 2.05 The Statement provides that the reviewer may take the help of an assistant while carrying out peer review. In this context, the Board decided to clarify that a reviewer is permitted to take the assistance of only one assistant who shall be a member of the Institute and a person who does not attract any of the disqualifications prescribed under Section 18 of the Nepal Chartered Accountants Act, 1997. The name of the assistant which the reviewer would like to assist him shall be identified and intimated to the Board as well as the practice unit before the commencement of the peer review. Such an assistant shall also have

to sign the declaration of confidentiality as annexed to the Statement. He shall have no direct interface either with the practice unit or the Board. Further the person chosen for assisting the reviewer shall be from the firm of the reviewer and should have been working with him for atleast one year as a member in practice.

Selection of the Practice Unit

2.06 Peer review is to be introduced in three stages with different types of practice units being included at each stage. At each stage, certain practice units, satisfying the criteria laid down in the Statement, are selected for peer review on a random sample basis. The Board is empowered to decide the proportion of practice units to be included in the selection during each phase of implementation. Practice units falling under Stage-I and Stage-II (Refer para 11.2 of the Statement) would be subjected to peer review at least once in three years. While practice units falling under Stage III may not be subjected to review every three years. However, if the Board so decides or, otherwise, at the request of the practice unit, the peer review for a practice unit can be conducted at shorter intervals. Therefore, the Statement provides that a practice unit may also, suo motu, apply to the Board for conducting its peer review. Such a provision has been included in the Statement to ensure that all practice units may like to undergo periodic review in view of the benefit accruing out of such a process. Similarly, an auditee concern may also request the Board for the conduct of peer review of its auditor, i.e., practice unit (Refer paras 11.3 and 11.4 of the Statement).

Intimation to the Practice Unit

2.07 Once a practice unit has been selected for peer review, intimation in writing is sent by the Board to the practice unit informing of its selection for peer review. Alongwith the intimation, the following documents shall also be sent to the practice unit:

- (i) A copy of the Statement on Peer Review.
- (ii) A panel of three reviewers suggested by the Board or Sub-Committee constituted by it for this purpose.
- (iii) A copy of the questionnaire.

Initial Communications by the Practice Unit

2.08 After receipt of the intimation from the Board, as mentioned in paragraph 2.07 above, the practice unit is required to communicate to the Board, its choice of the reviewer from the above mentioned panel within a period of fifteen days from the receipt of intimation.

2.9 The practice unit is also required to complete and send the questionnaire to the reviewer selected by it within fifteen days of the receipt of the intimation, alongwith a complete list of its attestation service engagement clients. Attention is invited to question number twelve in the questionnaire dealing with the manner of providing the list of attestation service clients. It may, however, be noted that the practice unit may not provide the names of all such clients but instead provide code numbers alongwith other relevant details provided the practice unit has been maintaining register allotting the code numbers to all its clients. It is quite possible that a practice unit may have more than one office and its branch office(s) may spread over more than one District. In that eventuality, the reviewer is expected to take cognizance of the same and obtain additional information from the practice unit. Ascertaining such information would be quite crucial while selecting sample of attestation services in an objective manner.

2.10 It may be noted that apart from the information given in the questionnaire, the reviewer is entitled to seek such other information as the reviewer considers necessary to facilitate selection of sample of attestation services engagements, which appropriately represents the practice unit's client portfolio.

Selection of Sample Attestation Services Engagements

- 2.11 The reviewer, on the basis of the information given in the questionnaire or after seeking such other information as mentioned in paragraph 2.10 above, selects a sample of attestation service engagements on random basis for review. It is clarified that the selection of a sample for review out of the complete list of attestation service clients is at the discretion of the reviewer. However, the reviewer is required to select a sample that is representative of the practice unit's client portfolio.

Communication of Sample Selection

- 2.12 After the selection of sample of attestation service engagements for review, the reviewer sends a written intimation to the practice unit about the sample selected by the reviewer, two weeks in advance, from the date the reviewer intends to begin the review. The intimation also contains a request for ready availability of the relevant records relating to the attestation service engagements selected for review. The format of intimation by reviewer to practice unit is given in Appendix IV.

Confirmation of Visit

- 2.34 The reviewer, in consultation with the practice unit, is required to fix the date(s) for on-site review. While fixing the date for on-site review, both the practice unit and the reviewer should bear in mind that date(s) are to be fixed in a manner so that the peer review process is completed within three months of the receipt of intimation (refer paragraph 2.07 above) by the practice unit.
- 2.14 At the execution stage, it is important for the reviewer to note that such visits will be conducted at the practice unit's head office. Therefore, it is suggested that the reviewer at the planning stage should identify the sample clearly. However, it may also be possible that if a practice unit happens to be quite a big outfit and has several branches, the reviewer may have to visit more than once. The Board decided to clarify that the reviewer may not visit a branch (outside the city/town limits from head office) of practice unit unless the turnover of attestation functions of that branch is more than one million rupees. In such a case, he may instruct the practice unit to get documents and relevant records in respect of attestation engagement performed by such branch office to the head office. Where the Reviewer decides to visit a branch/ office whose turnover from attestation engagements is more than one million rupees, the rate of TA/DA of the reviewer for both the stages shall be as may be decided by the Board from time to time.

Initial Meeting

- 2.15 Before the commencement of the review, an initial meeting should be held between the reviewer and the partner (designated by the practice unit for the purpose) or the sole proprietor of the practice unit. The primary purpose of the meeting is to confirm the accuracy of responses to the questionnaire. The reviewer should be able to understand the system prevailing at the practice unit in order to form a preliminary evaluation of its adequacy.

Compliance Review

- 2.16 The reviewer should carry out the compliance review of the five general controls, i.e., independence, maintenance of professional skills and standards, consultation, staff selection and supervision and office administration.

- 2.17 The reviewer should review these general controls to gain an understanding of the working of the practice unit and specific control procedures existing at the practice unit. This helps the reviewer in making an identification and evaluation of those control procedures on which it might be effective and efficient to rely in conducting the review. The review of these general controls would consist mainly of inquiries from the partner (designated by the practice unit for the review) or the sole proprietor of the practice unit with reference to the responses by the practice unit to the questions given in the questionnaire.
- 2.18 Apart from making inquiries with the personnel concerned, the reviewer may adopt other procedures to establish the fairness of the responses by the practice unit to the questions. Selection of other procedures or techniques is a matter of the reviewer's judgment.

Selection of Attestation Service Engagements

- 2.19 The number of attestation service engagements to be reviewed depends upon, inter alia, the number of practising members involved, degree of reliance to be placed on general controls and the total number of engagements undertaken by the practice unit during the period under review. The reviewer may modify the initial sample selected for review in consultation with the practice unit at the execution stage. This further refinement of initial sample is done by the reviewer on the basis of information and knowledge that he gains during the course of initial meeting and by performance of compliance review of the key controls within the practice unit. It may, however, be noted that the reviewer should neither review those attestation services engagements of the practice unit which have been the subject matter of disciplinary proceedings nor should the practice unit, in any way, influence the reviewer to select such engagements for review.

Review of Records -Compliance and Substantive Approach

- 2.20 The reviewer may adopt the compliance approach that helps in determining the nature, timing and extent of the substantive review procedures to be applied in review. The reviewer should conduct adequate compliance procedures to gain an evidence that those general controls on which the reviewer intends to rely operate generally as identified by the reviewer and they have been functioning effectively throughout the period of reliance. Based on the results of compliance procedures, the reviewer concludes either to rely or not to rely on the general controls. In case the reviewer decides to rely on the general controls, he would also need to determine the extent of reliance to be placed on such controls. In such a situation, the nature, timing and extent of substantive procedures would be, normally, less extensive and vice-versa. The compliance approach may not be warranted if the size of the firm is small or medium or the kind of attestation services rendered by the practice unit does not warrant elaborate controls within the firm. In such a case, the reviewer may adopt only substantive approach for conduct of review.
- 2.21 The substantive approach involves application of such review procedures that provide the reviewer evidence as to the appropriateness of the factors on which the review is required to be focused on (refer paragraph 7 of the Statement on Peer Review). The reviewer establishes the appropriateness of factors by reviewing the documentation available within the practice unit. For example, review of working papers related to an attestation engagement would provide the reviewer evidence that the attestation services have been undertaken in accordance with the prescribed technical standards. The details of the execution of the peer review are given in the Statement on Peer Review. Reviewers are also advised to refer to the Statement for a detailed description of the execution stage of the peer review.
- 2.22 An overview of the relevant technical standards, both auditing and accounting, is given in Chapter 6. It may be used as a checklist when reviewing a practice unit's methodology.

Obligations of the Practice Unit

- 2.23 In order to carry out the compliance and substantive procedures, the reviewer is required to access the records or documents related to attestation services of the practice unit. The Statement as per paragraph 12.1, requires the practice unit to produce to the reviewer or afford him access to, any record or document which contains or is likely to contain information relevant to the peer review. The practice unit is also expected to provide all assistance by way of providing explanations and further particulars as may be required with reference to documentation. If the information or matter recorded is not in a legible form, the practice unit shall provide and present to the reviewer a reproduction of such information or matter, or of the relevant part of it in a legible form, with a suitable translation in English if the matter is in any other language. The reviewer may inspect all the documents relevant to his review in one or more offices of the practice unit but under no circumstances he shall communicate with or visit the client of the practice unit. It is important to note that as per paragraph 12.4 of the Statement, the reviewer may have access to, or take the abstracts of the records and documents maintained by the practice unit in order to carry out the review work at practice unit's office, but in order to ensure the confidentiality of client's file with the practice unit, the reviewer shall not carry extracts of the client's files or records acquired by him while conducting peer review, as part of his working papers.

Discussion/Communication of Findings

- 2.24 At the end of the on-site review, the reviewer, shall before making his report to the Board, communicate his findings to the practice unit if systems and procedures had been found to be deficient, non-compliance with reference to any other matter has been noticed by him or there are matters where he wants to seek clarification. However, no such communication is required in case no case no deficiencies or non-compliances are noticed by the reviewer and there are no matters regard to which reviewer wants to seek clarification.
- 2.25 The reviewer while preparing such communication should analyse the conclusions drawn from the review and communicate his findings on the deficiencies noted on the systems and procedures and non compliance with reference to any other matters requiring attention of the practice unit. . The reviewer should prepare such communication on his letterhead and address to the practice unit. The document should be dated and also contain the reviewer's signature and membership number and reviewer's code number allotted by the Board.

Reply to Communication of Findings

- 2.26 The practice unit shall respond to the findings of the reviewer, within 21 days from the receipt of the findings and to make any submissions or representations, in writing to the reviewer, concerning the findings.

Peer Review Report of the Reviewer

- 2.27 Based on the reply received from the practice unit, the Reviewer shall submit a Peer Review Report to the Board. Review report submitted by the reviewer shall only include peer review methodology adopted and the appropriate grading recommended for the practicing unit.
- 2.28 The Board may suggest a follow up review after a period of one year from the date as per the Board's direction. The reviewer shall not name any individual in his report unless it is essential to bring out the meaning of the report.

- 2.29 The report, should also contain a paragraph that discusses the scope of the review performed by the reviewer. If the reviewer draws a conclusion that there existed a limitation on scope of review, the fact, alongwith such limitation on the scope of the review, should also be communicated to the Board through the report.
- 2.30 The reviewer should prepare the report on his letterhead. The report should be dated and also contain the reviewer's signature and membership number and reviewer's code number allotted by the Board. The reviewer shall not name any individual in his report unless it is essential to bring out the meaning of the report. The reviewer shall not communicate any Report(s) unless the examination of such Report(s) and related records has been made by him or by a partner or an employee of his firm.
- 2.31 Chapter 7 provides guidance on the form and contents of the Peer Review Report to be submitted to the Board.

Approach of the Reviewer

- 2 Briefly, the stepwise approach which may be adopted by the reviewer is discussed in the following paragraphs:
- (a) The reviewer should gain an understanding of the engagement letter since an attestation engagement or for that matter any other kind of engagement should begin with an engagement letter. Engagement letter is an important document as it defines the nature and scope of the attestation engagement, practice unit's responsibilities with regard to the engagement. This understanding would help him in planning the review of documentation. The reviewer should focus the review primarily on the key engagement matters. The reviewer should also consider the materiality of the matter while planning the review.
 - (b) The number of attestation engagements to be selected requires the exercise of judgement by the reviewer based on the evaluation of replies given in the questionnaire and the size of the practice unit. The objective is to obtain a reasonable cross-section of the practice unit's clients although greater weight may be given to large clients.
 - (c) The practice unit may have policies and procedures for accepting a particular engagement. These policies and procedures may not exist in the form of records in each practice unit. In such a case the reviewer should consider enquiring from the concerned persons about such policies and procedures. The reviewer should, wherever possible, examine that the policies and procedures for acceptance of audit have been complied with and necessary documentation with regard to the same exists.
 - (d) The reviewer may follow a combination of compliance procedures and substantive procedures throughout the peer review process. The mix of compliance and substantive procedures depends upon the professional judgement of the reviewer. The reviewer may consider the following:
 - In carrying out the compliance tests, the reviewer may evaluate whether the policies and procedures of the practice unit are sufficient to ensure compliance of technical standards and whether these policies and procedures are adequately communicated to all staff who are involved in carrying out the attestation work.
 - In performing substantive tests, the reviewer should evaluate whether the practice unit's working papers relating to the client adequately document the findings and conclusions and whether the report of practice unit is in consonance with the findings and conclusions drawn.
 - (e) Finally, the reviewer while evaluating records may consider the following:
 - (i) determine that any significant issues, matters, problems that arose during the course of the engagement have been appropriately considered, resolved and documented;
 - (ii) determine that adequate audit evidence or other relevant evidence in relation to the engagement is obtained to support the reasonableness of the conclusions drawn;

- (iii) determine that significant decisions relating to the engagement, use of professional judgement, resolution of significant matters have been properly documented.

Inherent Limitations of Review

- 2.33 The reviewer conducts the review in accordance with the Statement on Peer Review. The review would not necessarily disclose all weaknesses in compliance of technical standards and maintenance of quality of attestation services since it would be based on selective tests. As there are inherent limitations in the effectiveness of any system of quality control which happens to be subject matter of review, departure from the system may occur and may not be detected.

Annexure-I**An Illustrative Time Schedule of Peer Review Process**

Sr. No	Review Process	Time Schedule	Cumulative Days
1.	Peer Review Board notifies the selection of PU for Review. The Questionnaire and a Panel of three reviewers to be sent to PU.		Day-1
2.	PU to give the choice of the reviewer.	Within 7 days	Day-8
3.	Board to notify the reviewer as per the choice given by PU.	Reviewer should receive the communication within 7 days	Day-22
	PU to complete the Questionnaire and send to reviewer.	Within 7 days	
4.	Reviewer to call for any other information if required after evaluation of the Questionnaire sent by the PU.	Within 7 days	Day-29
5.	PU to provide the additional information asked by the reviewer.	Within 7 days	Day-36
6.	Reviewer to decide on the initial sample from the client list of the PU.	Within 7 days	Day-43
7.	PU to be notified about the sample selected by the reviewer.	15 days advance notice before visit of reviewer to PU's office.	Day-58
8.	Reviewer to carry out the review by visiting the office of PU after fixing the date as per the mutual consent.	Within 3 months from date of notification to PU	Day-90
9.	Reviewer to send the findings to PU for comments.	Within 10 days after completion of review.	Day-100
10.	PU to submit representation to reviewer.	Within 10 days	Day-110
11.	Reviewer to submit Peer Review Report to the Peer Review Board.	Within 10 days	Day-120
12.	Board to consider and give the recommendations to PU and give instructions for follow-up review as the case may be.	In the next Board meeting to be held in every Quarter.	

Please Note:

- 1 The time period mentioned includes the transit time for sending the reports/communication etc.
- 2 A month as per the Statement has been considered to be of 30 days.

CHAPTER 3 - QUESTIONNAIRE FOR PRACTICE UNITS

- 3.01 As a part of the peer review process, each practice unit is required to complete the questionnaire designed by the Board, within seven days of receipt and send the same to the reviewer (refer paragraphs 2.10 and 2.11 of the Manual).
- 3.02 The questionnaire has been designed to establish the existence of internal controls within a practice unit that ensure the quality of attestation services rendered by it. The questionnaire is split up into different sections which deal with various aspects of the internal controls within the practice unit.
- 3.03 While the questionnaire has been prepared in a manner requiring practice units to answer in Yes/No, wherever necessary, the practice unit may give a descriptive answer to one or more questions. It may also be noted that in case a practice unit selects "Not Applicable" (NA) as answer to any of the questions, it is required to give reasons for the same.
- 3.04 The questionnaire has been prepared in such a manner that the responses to the questionnaire help in identifying the controls that would normally be existing in a practice unit although it is not intended to be exhaustive. It is possible that some practice units may not have some of these controls considering the level of practice. Non-existence of some of the controls by itself need not be construed as a deficiency in the quality of systems prevalent in the practice unit. The reviewer would use the responses to the questionnaire to plan the review.
- 3.05 During his visit to the practice unit, the reviewer evaluates the reasonableness and accuracy of the responses to the questions contained in the questionnaire. The reviewer, based on his evaluation of the responses to the questionnaire, may feel that the system adopted by the practice unit is not adequate. It is, however, also possible that the system of practice unit is considered satisfactory for its type of practice, even though the same has not been adequately explained in the questionnaire.
- 3.06 Attention of the reviewer is also invited to paragraph 2.11 of the Manual. It is reiterated that apart from the information given in the questionnaire, the reviewer is entitled to seek such other information as the reviewer considers necessary to facilitate the random selection of sample of attestation services engagements, which appropriately represents the practice unit's client portfolio.
- 3.07 It is also quite probable that large practice units while responding to the questionnaire may simply make a cross-reference to their own internal control manuals. In such a case, the reviewer shall have to consider the need for an additional visit to the practice unit before actually planning the on-site review of controls. Such additional visit would enable the reviewer to understand the prevalent controls in operation while performing attestation services.
- 3.08 The Board recognises that the responses to the questions may contain confidential information. The reviewer, therefore, should take appropriate measures to ensure that such information is not made available or known to any other person. Attention is also invited to paragraph 19 of the Statement on Peer Review which lays down the confidentiality requirements related to the process of peer review.

Questionnaire

Part A - Profile of Practice Unit

1. Name of the practice unit/individual practitioner:
2. Status: Partnership ☐ Proprietorship ☐ Individual Practitioner ☐
3. Date of establishment of firm/Date since practicing in individual name --
4. Firm registration number/Membership number in case of individual practitioner
5. Period under review¹ -- to --
6. Particulars about the constitution of the practice unit as on last day of the financial year under review (as per last Form filed with ICAN):

Name(s)	Membership Number	Association with the practice unit (in years)	Experience (in years)

7. Particulars of members of the Institute employed:

Name(s)	Membership Number	Association with the practice unit (in years)	Experience (in years)

8. Furnish details of change in constitution (partners/chartered accountants/members of the Institute employed), if any, during the year(s) under review:

Name(s)	Membership Number	Date of Joining the firm	Date of Leaving

9. Number of other staff employed

- ▶ Articled Trainees
- ▶ Other audit staff
- ▶ Other professional staff

(Also mention the professional qualification)

10. Does the practice unit have any branch offices? (Please tick in the relevant box)

Yes ☐

No ☐

¹ Refer **Para 7.2** of the Statement on Peer Review issued by the Institute.

11. If yes, please give the name(s) of member(s) incharge of each branch, their location, membership number, address and turnover from attestation services of branch(es):

S. No.	Member Incharge	M. No.	Location	Address	Turnover (Rs. in Thousands)

12. Total turnover of the Practice Unit [both H.O. and branch(es)] from attestation functions: Rs in Thousand

13. Please provide list of attestation clients in the following format (Wherever space is insufficient, please use additional sheets):

Sr No.	Name of Clients ¹	Type of Audits ²			Turnover	Paid up Capital
		Statutory	Tax	Internal & Other	(Rs in Thousand) ³	
1.	Listed Companies					
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="text" value=""/>	<input type="text" value=""/>
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="text" value=""/>	<input type="text" value=""/>
2.	Non-Listed					
2(a)	Public Sector Undertakings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="text" value=""/>	<input type="text" value=""/>
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="text" value=""/>	<input type="text" value=""/>
2(b).	Insurance Companies					
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="text" value=""/>	<input type="text" value=""/>
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="text" value=""/>	<input type="text" value=""/>

¹ (a) For the period under review (refer para 7.2 of the Statement on Peer Review).

(b) The practice unit may mention the unique code number instead of client name as per the client register maintained by it.

² Tick appropriate Box.

³ As at the balance sheet date of the latest financial period under review.

2©	Banks and Financial Institutions-					
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
3.	NGO/INGO.					
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
4.	Other Entities ⁴					
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

Part B - General Control

Independence

Sr. No	Questions	Yes	No	N.A ¹	Remarks
14.	Does the practice unit have any laid down policies and procedures relating to independence? If yes, enclose a copy thereof.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
15.	Are the practice unit's policies and procedures relating to independence communicated to all personnel:				
	▶ At the time of joining?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	▶ Subsequently on periodical basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
16.	Has the practice unit designated an individual who is responsible for providing guidance and to resolve issues on independence policies?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
17.	Does the practice unit monitor compliance with policies and procedures relating to independence by way of sending the Memorandum of inquiry or receiving written representation or by any other method from personnel on regular basis?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Maintenance of Professional Skills and Standards

18.	Has the practice unit established guidelines and requirements for continuing professional education?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
19.	Does the practice unit have any in-house mechanism for continuing professional education?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
20.	Does the practice unit monitor the continuing professional education by way of maintaining records thereof?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

¹ Please attach additional sheet(s), if necessary.

Outside Consultation

21.	Does the practice unit provide access to reference libraries and other authoritative sources by way of:				
	■ Providing with copies of Technical material issued by the Institute, from time to time, thereby ensuring that they are made aware of changes taking place in Accounting and Auditing Standards?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	■ Providing with copies of appropriate Rules, Regulations and Directives of Regulatory Authorities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
22.	Does the practice unit ensure availability of expertise and/or experienced individuals for consultation with the consent of the auditee by way of:				
	■ Maintenance of records of outside consultation or consultation within the firm?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	■ Documenting the procedure for resolution of differences of opinion related to accounting and auditing problems associated with an audit engagement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Staff Supervision And Development

23.	Are there any introductory procedures established for new employees like:				
	■ Orientation to the practice unit and the profession?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	■ Discussion of office procedures including: a. Distribution of technical material; b. Requirements of the ICAN; c. Continuing Professional Education; and d. Independence.	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	
24.	Is there a system for scheduling and staffing for carrying out an engagement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
25.	Does the practice unit maintain staff files having the necessary information including:				
	■ Details of training programmes undergone during employment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	■ Periodic developments?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Office Administration

26.	Whether the skill and competence of assistants are considered before assignment of attestation engagement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
27.	Whether the progress of the attestation services is monitored by the service incharge?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

28.	Is the work performed by each assistant reviewed by the engagement incharge and wherever necessary, guidance is provided to assistants?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
-----	---	--------------------------	--------------------------	--------------------------	--

Part C-Performance of Attestation Engagements

Audit Record Administration

29.	Does the practice unit issue engagement letters?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
30.	Does the practice unit have appropriate procedures for planning engagements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
31.	Does the practice unit make use of audit programmes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
32.	Are there any procedures established to ensure proper documentation with regard to attestation services?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
33.	Does the practice unit have an established system for second person review?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
34.	Does the practice unit maintain records in a manner so that the records are easily retrievable, as and when required?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Review and Evaluation of System of Internal Controls

35.	Does the practice unit obtain the knowledge of the business of the client in performing an attestation engagement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
36.	Does the practice unit obtain and evaluate the accounting and internal control systems of its clients?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
37.	Where reliance is to be placed on internal controls, does the practice unit perform compliance tests?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
38.	Does the practice unit assess the audit risk and its components - inherent risk, control risk and detection risk?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
39.	Does the practice unit obtain an understanding of the control environment of the client?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
40.	Does the practice unit conduct test of controls to obtain audit evidence to support any assessment of control risk?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Substantive Tests

41.	Does the practice unit consider the assessed and inherent levels of control risk in determining the nature, timing and extent of substantive procedures required to reduce audit risk to an acceptably low level?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
42.	Does the practice unit employ documentation to assist in determining that the results of the evaluation and testing of the internal control systems are taken into account in determining the nature, timing and extent of substantive procedures?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

43.	Does the practice unit obtain sufficient and appropriate audit evidence through substantive tests?				
	■ All substantive tests performed and results thereof are properly documented.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	■ The substantive tests are reviewed before and after execution by experienced staff.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
44.	Does the practice unit use either statistical or non-statistical sampling methods to design and select an audit sample?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
45.	While designing an audit sample, does the auditor consider the specific audit objectives, the population from which the auditor wishes to sample and the sample size?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
46.	While determining the sample size, does the auditor consider the sampling risk, the tolerable error, and the expected error?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
47.	Does the practice unit perform analytical review?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
48.	Does the practice unit obtain representation from the management on matters material to the financial information?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Financial Statements Presentation

49.	Does the practice unit have system to ensure that disclosure requirements related to the attestation engagement have been fulfilled?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
50.	Does the practice unit make use of a checklist to ensure that pronouncements of the institute to the extent it has effect on the Financial statements have been complied with? If any other method is followed, provide a description of the method used.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
51.	Does the practice unit verify compliance with laws and regulations to the extent it has material effect on the financial statement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
52.	Does the practice unit conduct the audit of specialised industries in accordance with the relevant Guidance Notes?, if any	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Audit Conclusions and Reporting

53.	Does the practice unit document the basis for arriving at audit conclusions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
54.	Does the practice unit ensure that the reporting requirements related to the engagement are complied with?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
55.	Whether the procedures followed ensure that audit report is in accordance with the relevant authoritative requirements or technical standards?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
56.	Does the practice unit state the reasons wherever any qualified, adverse or disclaimer of opinion is given or the reservation on any matter is made?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

CHAPTER 4 – REVIEW PROCEDURES

4.01 A reviewer, based on the information and explanation obtained during the course of review, has to assess the evidence obtained and formulate his opinion on the compliance with technical standards and the internal controls within the practice unit that contribute towards maintenance of the quality of reporting. This chapter outlines the procedures that may be adopted by the reviewer in achieving the very object of the review. The word "should" used in this Chapter could be read as "would" also, wherever the context so requires.

Off-Site Procedures

4.02 The reviewer would start his review procedures as soon as response of the practice unit to the questionnaire is received. The reviewer should examine the response given by the practice unit. This examination is done with a view, among other things:

- ◆ to determine initial sample of the clients to whom attestation services have been rendered ; and
- ◆ to obtain basic understanding of the broad framework of quality control policies and procedures under which the practice unit operates.

4.03 The above examination would provide the reviewer with the knowledge about the practice unit, which would ultimately help the reviewer in developing an appropriate plan for the review. Accordingly, the reviewer would be able to conduct the review in an effective, efficient and timely manner.

4.04 The reviewer may also, based on his evaluation of the responses given in the questionnaire, frame further questions to seek replies from the practice unit or determine the additional information that may be required for the review. The reviewer would also determine the relevant records/ documentation that may be required to be examined during the course of the review.

4.05 While conducting off-site reviews, the reviewer would select an initial sample from the complete list of attestation services. This initial assessment of selection of sample may either be further reduced or increased at the execution stage in consultation with the practice unit.

On-Site Procedures

4.06 The on-site procedures would begin with the initial meeting with the practice unit. The Statement makes it abundantly clear that a reviewer must fix the date(s) for on-site review in consultation with the practice unit. While flexibility is built-in in this process, the reviewer must fix-up the date by mutual consent so that he can conduct the review within specified time.

4.07 The primary purpose of the initial meeting with the practice unit is to determine the accuracy of the responses given in the questionnaire and seek additional information in respect of those questions which fail to explain all relevant procedures. For example, the reviewer, in order to verify the accuracy of particulars filled in Part A of the questionnaire (Profile of the Practice Unit) examines the file containing the particulars. Similarly, the practice unit may have written policies and procedures which may corroborate the responses given in the questionnaire. It may, however, be noted that absence of such written policies and procedures does not necessarily mean that the policies and procedures followed by the practice unit are not adequate for maintaining the quality of service being rendered. The reviewer should obtain sufficient appropriate evidence to ensure that the responses to the questions are accurate. The manner of obtaining the evidence is discussed later in this chapter.

- 4.08 Based on the above procedures, i.e., initial examination of the responses given in the questionnaire, additional information sought by the reviewer on inspection of internal manuals, if any, in case of large practice units, responses to further questions posed by him and after establishing the accuracy of the responses, the reviewer should be able to have a thorough understanding of the policies and procedures followed by the practice unit.
- 4.09 Once the reviewer identifies the policies and procedures followed by the practice unit, the reviewer's next task is to perform compliance testing or compliance review. The primary purpose of the compliance review is to make an evaluation and identification of those control procedures on which it might be efficient to rely upon. Then the reviewer applies substantive procedures. The compliance and substantive review procedures have already been discussed in paragraphs 2.21 to 2.23 of the Manual.
- 4.10 The reviewer should obtain sufficient appropriate review evidence through the performance of compliance and substantive review procedures to enable him to draw reasonable conclusion that the policies and procedures adopted by the practice unit under review have been designed to carry out professional attestation service engagements in a manner that ensure compliance with the technical standards as defined in paragraph 3.7 of the Statement on Peer Review.
- 4.11 The reviewer obtains sufficient appropriate review evidence by applying one or more of the following methods:
- ◆ Inspection;
 - ◆ Observation; and
 - ◆ Inquiry;
- 4.11.1 Inspection mainly consists of examination of documentation (working papers) and other records maintained by the practice unit.
- 4.11.2 Observation consists of witnessing a procedure or process being performed by others. For example, while conducting on-site review, the reviewer may review the performance of internal control.
- 4.11.3 Inquiry consists of seeking appropriate information from the partner (designated by the practice unit for the purpose)/sole proprietor or other knowledgeable persons within the practice unit. The inquiries may originate from the responses to the questions given in the questionnaire. The inquiries may also arise from the inspection of documentation maintained by the practice unit.
- 4.12 While observation and inquiry may be considered as external independent sources of review evidence, inspection remains the most significant method for confirming the effective observance of control procedures in the practice unit. Observation and inquiry may also corroborate the evidence provided by inspection. The reviewer, in order to carry out the review effectively, should have an understanding of the documentation maintained by the practice unit.

Compliance Review Procedures

- 4.13 It is the first stage of applying review procedures to ascertain whether the practice unit has been observing the systems as contemplated by it in the questionnaire. The Statement requires the reviewer to consider the 'general controls' which comprise of five controls, viz., Independence, Maintenance of Professional Skills and Standards, Outside Consultation, Staff Supervision and Development and Office Administration. The Statement makes it imperative that all practice units are expected to address each of the five key control areas. However, the reviewer shall have regard to the size of the practice unit while evaluating such

controls. It also envisages that the reviewer may have certain supplementary questions to consider and evaluate whether such controls are installed and are operational within the practice unit. A checklist which is illustrative in nature for the guidance of reviewers in respect of each five general controls is given hereunder:

Independence

- ◆ 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?
- ◆ Does the practice unit communicate these policies and the expected standards of professional behaviour to all staff?
- ◆ Does the practice unit monitor compliance with policies and procedures relating to independence?
- ◆ Does the practice unit periodically review the practice unit's association with clients to ensure objectivity and independence?

Professional Skills and Standards

- ◆ Does the practice unit have an established plan for personnel needs at all levels, based on current and anticipated clientele, business growth, impending retirements, etc.?
- ◆ Does the practice unit have an established recruitment policy?
- ◆ Are applicants and new personnel informed of the personnel policies and procedures relevant to them?
- ◆ Does the practice unit have continuing education programmes for partners and staff?
- ◆ How easily are current and relevant professional literature, including accounting and auditing standards and pronouncements by professional bodies (including Directives of Regulatory Authorities), available to partners and staff?
- ◆ Does the practice unit conduct programmes for developing expertise in specialised areas and industries?

Outside Consultation

- Is there any policy for consulting experts (both internal and external)?
- Has the practice unit built up a network of other accountants, solicitors and advocates, and technical consultants in industries in which its clients operate?

Staff Supervision and Development

- ◆ Does the practice unit have written guidelines on the responsibility at each level, and on the expected performance and qualifications necessary for advancement to the next level?
- ◆ Does the practice unit have a system for gathering and evaluating information on the performance of personnel?
- ◆ Does the practice unit have a system of periodically counselling personnel on performance and career opportunities?

- ◆ Does the practice unit have a system of assigning an audit to the most appropriate personnel? Are requirements of specialised expertise and personnel skills given due consideration?
- ◆ Does the practice unit have written guidelines for maintaining working papers (form and content)?
- ◆ Does the practice unit have standardised forms, checklists, and questionnaires to assist in the conduct of audit?

Office Administration

- ◆ Does the practice unit have established procedures for record retention, including security aspects?
- ◆ Does the practice unit maintain a record containing particulars such as client name, nature of engagement, particulars regarding date of commencement of audit, date of audit report, billing, etc?
- ◆ Does the practice unit maintain staff register?
- ◆ Does the office have a proper library containing relevant books and all publications of Institute of Chartered Accountants of Nepal, Standard Boards & Directives of the Regulatory Authorities?

- 4.14 As stated in paragraph 2.18 of the Manual, evaluation of general controls by the reviewer would help him in determining the appropriate selection of sample. It is expected that the reviewer shall aim to draw a sample comprising of clients of varying size representing cross-section of the industry so that it reflects the overall performance of a practice unit.

Review of Records - Compliance/Substantive Review Procedures

- 4.15 After evaluating general controls by performing compliance procedures, the Statement envisages that a reviewer should actually review the records of the practice unit. Such review may either be conducted by compliance approach or substantive approach or a combination of both. At the first stage, the records in respect of following key controls are to be reviewed to ensure compliance with technical standards:
- ◆ Audit Record Administration
 - ◆ Review and Evaluation of System of Internal controls
 - ◆ Substantive Tests
 - ◆ Financial Statements Presentation
 - ◆ Audit Conclusion
 - ◆ Audit Report.
- 4.16 The above key controls required to be evaluated by the reviewer actually represent the logical sequence in which an audit ought to have been conducted by the reviewer. At this stage, as far as reviewer is concerned, the documentation aspect shall be of critical importance. Accordingly, the Statement makes it amply clear that "members in smaller practices may find some of the documentation too elaborate for most of their clients and so should tailor their attestation services documentation to suit their particular circumstances with justification for doing so provided to the reviewer". Reviewers are expected to take note of this while reviewing records of smaller-sized practice units.

Illustrative Checklist of Audit Programme of a Reviewee

4.17 A checklist which illustrates the contents of the audit programme of a reviewee for the guidance of the reviewer is given hereunder:

- ◆ Appointment and the relevant resolution about the appointment.
- ◆ Terms of the engagement including reports required and manner of determining audit fees.
- ◆ System of book-keeping and the list of the books of accounts maintained by the entity.
- ◆ Particulars of the promoters, directors and their powers.
- ◆ Names of persons who write the books of accounts and other authorised officers.
- ◆ Memorandum and Articles of Association, Partnership Deed as applicable.
- ◆ Details of business of client and its accounting systems by reviewing and assessing information on:
 - nature of business of the entity; and
 - the internal control system including owner/manager controls.
- ◆ Profit and loss account, balance sheet, auditors' and directors' reports of the previous year and the reports of internal auditor.
- ◆ Analytical review procedures in order to:
 - identify areas of accounts which are important because of their size;
 - highlight unusual or unexpected figures or relationships in the accounts;
 - design audit test which concentrates on important and unusual items; and
 - obtain sufficient audit assurance to allow the reduction or even elimination of detailed testing in some areas.
- ◆ Assessment of audit risk by using the professional judgement and audit procedures to ensure that it is reduced to an acceptably low level.
- ◆ Preliminary estimates of materiality for the audit as a whole.
- ◆ Class of accounting transactions which are relevant and to decide the type of testing and samples.
- ◆ Selection of representative samples.
- ◆ Compliance tests to evaluate the reliability of key controls.
- ◆ Material weaknesses in the operation of key controls to management.
- ◆ Performance of analytical review procedures, substantive tests of detail to obtain sufficient, relevant and reliable audit evidence for each audit objective.
- ◆ Fundamental accounting assumptions, i.e, consistency, going concern and accrual basis of accounting are followed by the client in the preparation and presentation of financial statements.
- ◆ Any change in an accounting policy which has a material effect have been disclosed.
- ◆ Audit report is received from all the Branch Auditors and any reservation made by the branch auditor is appropriately dealt with in the finalisation of accounts.
- ◆ Working papers contain all audit evidence, and are cross-referenced.
- ◆ Summary of work done, problems, important judgements and audit conclusions.

- ◆ Review by Senior incharge of work of all assistants, audit programme followed and work performed as per time schedule.
- ◆ Permanent file updated throughout the audit.
- ◆ Review of unadjusted errors to determine whether individual and aggregate effect is material.
- ◆ Compliance with Companies Act, 2006 and other relevant statutory requirements.
- ◆ Compliance of all mandatory Accounting Standards specified by the Institute.
- ◆ Post balance sheet events.
- ◆ Formulation of draft audit opinion.
- ◆ Comparison of budgeted time to actual and reasons for major variations.
- ◆ Complete staff evaluation forms.
- ◆ Planning of next year's audit and including it in the permanent audit file.

4.18 Finally, the reviewer may decide to employ substantive procedure only in case he is unable to place reliance in specific control procedures. The application of substantive review procedures would involve inspection of working papers of the attestation engagement.

Compliance with Technical Standards

- 4.19 The Statement identifies the following components to be part of technical standards:
- Nepal Accounting Standards issued by the Accounting Standards Board (ASB), including the framework for the preparation and presentation of the financial statements;
 - Nepal Standards on Auditing issued by the Auditing Standards Board (AuSB), including preface and framework for assurance engagements, Statements and Guidance Notes;
 - Statements and guidance notes issued by the Institute of Chartered Accountants of Nepal;
 - Notifications/Directions/Announcements issued by the Institute of Chartered Accountants of Nepal including those of self-regulatory nature; and
 - Provisions of the various relevant Statutes and/or Regulations which are applicable in the context of the specific engagements being reviewed including instructions/guidelines/notifications/directions issued by the regulatory bodies.
- 4.20 A complete list of Statements, Guidance Notes, notifications/directions issued by the Standard Boards and the Institute of Chartered Accountant of Nepal is given as Annexure to this chapter.

Quality of Reporting

- 4.21 The reviewer should verify whether the practice unit has policies and procedures to provide reasonable assurance that the reports issued are supported by conclusions reached at each stage of audit and are adequately referenced. The quality of report encompasses, apart from what is stated in the preceding

sentence, the form and contents of the report also. This section aims at providing some procedures that should be followed by the reviewer to verify that the reporting done by the practice unit is of desired quality.

- 4.22 The reviewer should determine the level of supervision of the engagement under review. In determining the level(s) of supervision required for a particular engagement, the reviewer should examine the following:
- ◆ Complexity of the subject matter;
 - ◆ Qualifications of persons performing the work;
 - ◆ Extent of consultation available and used;
 - ◆ Degree of authority delegated to assistants on an engagement;
 - ◆ Performance of personnel assigned to an engagement; and
 - ◆ Risk inherent in the engagement.
- 4.23 The working papers of the practice unit must contain adequate evidence to support the audit opinion including full information on work carried out by other auditors. This will normally include copies of the audit programme, particulars of audit tests carried out, copies of the principle working papers and a letter of representation or copy, if addressed to the other auditors. The reviewer should examine the working papers from this angle also.
- 4.24 When preparing the auditor's report, the practice unit should comply with the reporting standards prescribed under the Companies Act 2006 and/or other applicable laws, Nepal Standards on Auditing, and other relevant reporting guidance issued by the Institute.
- 4.25 The auditor's report should contain a clear written expression of opinion on the financial information and if the form or content of the report is laid down or prescribed under any agreement or statute or regulation, the audit report should comply with such requirement.
- 4.26 The following specific circumstances should be referred to in the report issued by a practice unit:
- ◆ The scope of the auditor's examination is affected by conditions that preclude the application of one or more auditing procedures considered necessary in the circumstances.
 - ◆ The financial statements are affected by a departure from acceptable accounting principle.
 - ◆ Inadequate disclosure in the financial statements of a material nature.
 - ◆ The financial statements are affected by material uncertainties concerning future events, the outcome of which is not reasonably determinable at the date of the auditor's report.
 - ◆ The auditor wishes to emphasize a matter regarding the financial statements.
- 4.27 The auditor's report includes the following basic elements, ordinarily in the following layout:
- a) Title: The auditor's report should have an appropriate title.
 - b) Addressee: The auditor's report should be appropriately addressed as required by the engagement and regulations, if any.
 - c) Opening or Introductory Paragraph:
 - i) The auditor's report should identify the financial statements of the entity that have been audited, including the date of and period covered by the financial statements.

- ii) The report should include a statement that the financial statements are the responsibility of the entity's management and a statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.
 - d) Scope paragraph:
 - i) The auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with NSAs issued by the Auditing Standard Board.
 - ii) The report should include a statement that the audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement.
 - iii) The auditor's report should describe the audit as to include the examination of evidence on test basis, assessing the accounting principles used, assessing the significant estimates made by the management and evaluating the overall financial statement presentation.
 - iv) The report should also include a statement by the auditor that the audit provides a reasonable basis for the opinion.
 - e) Opinion Paragraph: The opinion paragraph of the auditor's report should clearly indicate the financial reporting framework used to prepare the financial statements and state the auditor's opinion as to whether the financial statements give a true and fair view in accordance with that financial reporting framework and, where appropriate, whether the financial statements comply with statutory requirements.
 - f) Date of Report: The auditor should date the report on which the auditor signs the report expressing an opinion on financial statement.
- 4.28 An unqualified opinion indicates the auditor's satisfaction in all material respects with the following matters or as may be laid down or prescribed under the relevant agreement or statute or regulation, as the case may be:
- ◆ The financial information has been prepared using acceptable accounting policies, which have been consistently applied;
 - ◆ The financial information complies with relevant regulations and statutory requirements; and
 - ◆ There is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.
- 4.29 When a qualified opinion, adverse opinion or a disclaimer of opinion is to be given or reservation of opinion on any matter is to be made, the audit report should state the reasons therefor.
- 4.30 The reviewer should, particularly, ascertain that principles relating to manner of qualifying the audit report as laid down in the NSA _700_ The Independent Auditor's Report on Complete Set of General Purpose Financial Statements and other relevant pronouncements of the Institute have been complied.

Office Systems and Procedures

- 4.31 This section of the chapter provides an insight of office systems and procedures and training and office administration of the practice unit. The reviewer should focus on the implementation of these systems and procedures during the course of review. The reviewer may, however, note that applicability of these may vary with the size and level of practice unit.
- 4.32 Practice Unit's policies may include:

- ◆ The implementation of quality control policies and procedures by the practice unit, designed to ensure that all audits are conducted in accordance with Nepal Standards on Auditing.
- ◆ The practice unit's general quality control policies and procedures communicated to its personnel in a manner that provides reasonable assurance that the policies and procedures are understood and implemented.
- ◆ The implementation of those quality control procedures which are, in the context of the policies and procedures of the firm, appropriate to the individual audit.

4.33 Office procedures include:

- ◆ The organisation of the field work of audit and delegation of the work to assistants in a manner that provides reasonable assurance that the work would be performed with due care by the person having the degree of professional competence required in the circumstances.
- ◆ The auditor while performing supervisory responsibilities should consider the professional competence of assistants performing work delegated to them when deciding the extent of direction, supervision and review, appropriate for each assistant.
- ◆ Assistants to whom work is delegated should be given appropriate directions. Direction involves informing assistants of their responsibilities and the objectives of the procedures they are to perform.
- ◆ The audit programme is an important tool for communication of audit directions.
- ◆ The partner should monitor the progress of audit to consider whether the assistants have necessary skill and competence, they understand the audit directions and the work is carried out in accordance with the overall audit plan and audit programme.
- ◆ The work performed by each assistant should be reviewed by personnel of at least equal competence.

4.34 **Time Budget:** Time is of vital importance in all audit work. The partner must control it firmly, as assistants are generally liable to take up more time than originally scheduled. Many precious man-hours are lost if a busily occupied senior staff member fails to note that an assistant is wasting time on non-essentials. Again, a senior may lose control by failing to compare the schedule with the complete item of work. In the olden days, such lapses would be covered up by night work but now a days client's staff are generally not too happy to keep the office open at nights to accommodate the auditors.

4.35 **Staffing:** The requirement of proper staff is a critical component of the practice unit. In this context, the following may be noted:

- ◆ The practice unit should have laid down qualifications deemed necessary for various levels of responsibility. This is to ensure that the firm is staffed by personnel who have attained and maintain the Technical Standards and professional competence required, to enable them to fulfil their responsibilities with due care.
- ◆ There should be introductory procedures for the new employees like orientation programme, discussion of office procedures, etc.
- ◆ The performance of each staff should be evaluated and communicated to the staff on periodical basis and should be filed in the staff file.

4.36 **Professional development of staff:** All big or medium size practice units or progressive small practice units should have the system of continuous professional development of its staff:

- ◆ Laid down policies and procedures of the practice unit relating to independence and the system to

communicate them to the staff at the time of joining and subsequently on periodic basis.

- ◆ In-house mechanism for continuous professional development education.
- ◆ Provide access to libraries and other authoritative sources to its staff; provide copies of Technical material specified by the Institute & other applicable laws, from time to time, thereby ensuring that they are aware of changes taking place in Accounting and Auditing Standards.
- ◆ Designating the expert/experienced individuals as available for consultation and their area of expertise.

Training and Office Administration

4.37 The training programme of the articulated trainees is a significant component to ensure the availability of a proper manpower. The objectives of such training programme¹ include:

- ◆ Acquisition of adequate theoretical knowledge.
- ◆ Developing skills in applying theoretical knowledge to practical situations.
- ◆ Inculcating a disciplined attitude.
- ◆ Imbibing due professional orientation.
- ◆ Developing ethical values.

4.38 While designing the training programme of articulated trainees, the practice unit should consider the following elements:

- ◆ Assigning progressive work experience commensurate with the expanding abilities of the trainees.
- ◆ Designing a study plan to ensure that trainees are fully prepared to take examinations at the earliest opportunity for which they are eligible.
- ◆ Ensuring that work experience is preceded and backed by practical instructions, including briefing before each assignment to ensure that the application of practical techniques to the circumstances of individual clients is properly understood.
- ◆ Ensuring in-house theoretical training is integrated with practical work experience.
- ◆ Assigning higher levels of technical and supervisory responsibility and client contact designed to ensure that personal and managerial skills are developed.
- ◆ Ensuring that professional attitude and an understanding of professional ethics are developed.

4.39 **Audit working papers:** The working papers are the property of the auditor and the auditor should adopt reasonable procedures for custody and confidentiality of his working papers and should retain them for a period of time sufficient to meet the needs of his practice and satisfy any pertinent legal or professional requirement of record retention.

4.40 **Filing of working papers:** The working papers should be properly filed in order to ensure that they are easily retrievable. In case of recurring audits, some working paper files may be classified as permanent audit files and the current file. To the extent possible the records related to permanent files should be kept in bound manner, duly numbered. Attention is invited to chapter 5 on "Documentation" in this context.

Annexure
List of Technical Standards¹
(w.r.t. paragraph 3.7 of the Statement on Peer Review)

(Prepared on the basis of data available with us - May be changed to match own requirements)

I Nepal Accounting Standards

NAS 1	Presentation of Financial Statements	Mandatory Compliance
NAS 2	Accounting Policies, Changes in Accounting Estimates and Errors	Mandatory Compliance
NAS 3	Cash Flow Statements	Mandatory Compliance
NAS 4	Inventories	Mandatory Compliance
NAS 5	Events After the Balance Sheet Date	Mandatory Compliance
NAS 6	Property, Plant and Equipment	Mandatory Compliance
NAS 7	Revenue	Mandatory Compliance
NAS 8	Borrowing Costs	Mandatory Compliance
NAS 9	Income Taxes	Mandatory Compliance
NAS 10	Accounting for Government Grants and Disclosure of Government Assistance	Mandatory Compliance
NAS 11	The Effects of Changes in Foreign Exchange Rates	Mandatory Compliance
NAS 12	Provisions, Contingent Liabilities and Contingent Assets	Mandatory Compliance
NAS 13	Construction Contract	Mandatory Compliance
NAS 15	Leases	Mandatory Compliance
NAS 16	Related Party Disclosures	Mandatory Compliance
NAS 17	Interim Financial Reporting	Mandatory Compliance
NAS 18	Impairment of Assets	Mandatory Compliance
NAS 19	Investment Property	Mandatory Compliance
NAS 20	Non-current Assets Held for Sale and Discontinued Operations	Mandatory Compliance
NAS 14	Employee Benefits	Voluntary Compliance
NAS 21	Business Combination	Voluntary Compliance
NAS 23	Segment Reporting	Voluntary Compliance
NAS 24	Accounting and Reporting by Retirement Benefit Plans	Voluntary Compliance
NAS 25	Investment in Associates	Voluntary Compliance
NAS 26	Earnings per share	Voluntary Compliance
NAS 27	Intangible Assets	Voluntary Compliance

¹Reviewers are expected to refer to relevant standards, notifications, etc. applicable to the practice unit with reference to the time period under review.

II Nepal Standards on Auditing

NSQC	Nepal Standards on Quality Control (NSQC)
200-299	General Principles and Responsibilities
NSA 200	Objectives and General Principles Governing an Audit of Financial Statements
NSA 210	Terms of Audit Engagements
NSA 220	Quality Control for Audits of Historical Financial Information
NSA 230	Audit Documentation
NSA 240	The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements
NSA 250	Consideration of Laws and Regulations in an Audit of Financial Statements
NSA 260	Communication of Audit Matters with Those Charged with Governance
300-499	Risk Assessment and Response to Assessed Risk
NSA 300	Planning and Audit of Financial Statements
NSA 315	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
NSA 320	Audit Materiality
NSA 330	The Auditor's Procedures in Response to Assessed Risks
500-599	Audit Evidence
NSA 500	Audit Evidence
NSA 505	External Confirmations
NSA 510	Initial Engagements-Opening Balances
NSA 520	Analytical Procedures
NSA 530	Audit Sampling and Other Selective Testing Procedures
NSA 540	Audit of Accounting Estimates
NSA 550	Related Parties
NSA 560	Subsequent Events
NSA 570	Going Concern
NSA 580	Management Representations
600-699	Using Work of Others
NSA 600	Using the Work of Another Auditor
NSA 610	Considering the Work of Internal Auditor
NSA 620	Using the Work of an Expert
700-799	Audit Conclusions and Reporting
NSA 700	The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements
NSA 701	Modifications to the Independent Auditor's Report

NSA 710	Comparatives
NSA 720	Other Information in Documents Containing Audited Financial Statements
800-899	Specialised Areas
NSA 800	The Independent Auditor's Report on Special Purpose Audit Engagements
2000-2699	Nepal Standards on Review Engagements (NSREs)
NSA 2400	Engagements to Review Financial Statements
4000-4699	Nepal Standards on Related Services (NSRSs)
NSA 4400	Engagements to Perform Agreed-Upon Procedures Regarding Financial Information
NSA 4410	Engagements to Compile Financial Information
NAPS 101	Audits of the Financial Statements of Banks

III Framework

1. Nepal Framework for Assurance Engagements
2. Framework of Nepal Standards on Auditing
3. Framework for the preparation and presentation of the financial statements

IV Preface

1. Preface to Nepal Standards on Auditing

V Statements

1. Statement on Peer Review

VI Guidance Notes

201	Guidance Notes on Independence of Auditors
-----	--

CHAPTER 5 – DOCUMENTATION

- 5.01 The Statement does not lay down any documentation requirements for the practice units. However, it suggests, on a comprehensive reading, that the practice unit should maintain certain minimum records/documentation that represents the adequacy of quality control policies and procedures followed by the practice unit. This chapter aims at providing an insight into the documentation requirements applicable to the practice units and the procedures or areas on which the reviewer should concentrate to form his opinion on the policies and procedures followed by the practice unit.
- 5.02 The maintenance of adequate documentation does not necessarily mean that the quality control policies and procedures of the practice unit are adequate. The other factors that should be considered are the audit procedures, summarisation of observations and translation of those observations into the peer review report. Further, the Institute has issued the Nepal Standard on Auditing (NSA 3) on “Documentation”. The mandatory nature of the standard implies that while discharging their attest function, it is the duty of the members of the Institute to ensure that the NSAs are followed in the audit of financial information covered by their audit reports. If, for any reason, a member has not been able to perform an audit in accordance with the NSAs, his peer review report should draw attention to the material departures therefrom.
- 5.03 From the above, it is clear that the records maintained by the practice units fall into two categories, i.e., mandatory records and recommendatory records. Working papers maintained by the practice units pursuant to the requirements of NSA 230 are mandatory records. The other records are recommendatory records.

Recommendatory Records

- 5.04 This sub-heading would describe the minimum requirements of keeping the recommendatory records. The practice units should maintain adequate records for the following:
- (i) **Profile of the Practice Unit:** These records should contain the relevant documents that corroborate the information provided by the practice unit in response to the questionnaire. These records may be bifurcated into three sections that deal with:
- ◆ information related to partners and constitution of firm;
 - ◆ staff including qualified members of the Institute and other professional bodies; and
 - ◆ articulated trainees.
- The reviewer while performing the review should examine whether the file is maintained properly and is regularly updated for any changes.
- (ii) **List of Clients:** Every practice unit should maintain a register containing the list of clients. The register should be able to provide information about the kind of services being rendered to the client, among other things. It is advisable to maintain such register in a manner wherein a unique code number has been allotted since it would facilitate the submission of information to the reviewer as and when asked. The register may also include the contact details and brief profile of the client for ready reference. The reviewer should also examine the register, apart from the list of clients provided by the practice units, in response to the questionnaire. This would help the reviewer in modifying the initial sample selected for peer review.
- (iii) **Staff Files:** Each practice unit should maintain files containing particulars of each employee, e.g., application/curriculum vitae, appointment letter, details of training programmes undergone during employment, periodic evaluation of performance, etc.

- (iv) **Manual of Policies and Procedures:** A manual of policies and procedures should be maintained by each practice unit. The manual should incorporate the practice unit's policies and procedures relating to:
- ◆ acceptance of an engagement;
 - ◆ skills and competence for particular type of engagement;
 - ◆ the manner of assignment and delegation of authority and responsibility for different kinds of engagement;
 - ◆ the procedure for consultation;
 - ◆ policy for retention of clients;
 - ◆ guidelines for monitoring the engagement; and
 - ◆ policies regarding direction and supervision of the engagement.
- 5.05 The manual of policies and procedures may not be required for small-sized practice units. Small-sized practice units could be those practice units where the number of overall staff working (including partners) is small and are not covered under Stage I or Stage II of the implementation of the peer review.
- 5.06 The reviewer should establish the existence of such a manual in the practice units. If such a manual does not exist, the responses to the questionnaire would form the basis for reviewer to establish the existence of such policies and procedures. The reviewer, while examining the attestation services working papers, should consider whether the policies and procedures mentioned in the manual or the information provided by the practice unit in the questionnaire are being complied with in practice.

Mandatory Documentation

- 5.07 Principal requirements of documentation as envisaged in NSA 230 on "Audit Documentation" are:
- ◆ Working papers should record the audit plan, the nature, timing and extent of auditing procedures performed, and the conclusions drawn from the evidence obtained.
 - ◆ Working papers should be designed and properly organised to meet the circumstances of each audit and the auditor's needs in respect thereof.
 - ◆ Working papers should be sufficiently complete and detailed for an auditor to obtain an overall understanding of the audit.
 - ◆ All significant matters which require the exercise of judgement, together with the auditor's conclusion thereon, should be included in the working papers.
 - ◆ The auditor should adopt reasonable procedures for custody and confidentiality of his working papers and should retain them for a period of time sufficient to meet the needs of his practice and satisfy any pertinent legal or professional requirements of record retention.
- 5.08 The reviewer should review the working papers of the practice unit to establish compliance by the practice unit with the technical standards. The reviewer is concerned with establishing that the procedures used by the practice units are sufficient and appropriate, that the procedures are properly effected in an attestation engagement. The reviewer is also concerned with verifying that the procedures used by the practice units generate sufficient appropriate evidence to support the

conclusions arrived at in relation to the attestation engagement being reviewed. In other words, the logic of conclusions drawn in relation to the engagement should flow from the working papers. The working papers should also disclose that no significant points or issues remained unresolved.

- 5.09 All working papers must be prepared in a manner so that they clearly and logically show the schedule, results of test, etc. Working papers must depict the clients name, file number, accounting period, subject of working paper, reference of working paper with current or permanent file, initials of preparer, and date of preparation, and reviewer (principal or supervisor and the date of such review).

Permanent File

- 5.10 The reviewer, after obtaining an understanding of the engagement letter, should examine the permanent file with regard to the engagement. The reviewer should verify that the permanent file contains, at least, the information stipulated in NSA 230. The reviewer should also verify that the permanent file is updated regularly to reflect the changes in the information contained in the file. For example, the reviewer may observe that since computerisation by the client, the auditor's understanding of the accounting and internal control has been reflected in the permanent file.

- 5.11 In the case of the review of an audit engagement, the reviewer should also verify that the permanent audit file contains the following documentation:

- ◆ the auditor's (practice unit) assessment of inherent risk and control risk;
- ◆ where the auditor (practice unit) has made an assessment that inherent risk is high, the reasons for such assessment; and
- ◆ where the auditor (practice unit) has made an assessment that the control risk is less than high, the basis for such assessment made by the auditor.

If in any year there is a change in the above, the change should also be reflected in the permanent audit file alongwith the reasons for change.

- 5.12 The following table illustrates contents of a permanent file:

Title	Information Contained
Engagement	<ul style="list-style-type: none"> ◆ Letter of engagement ◆ Correspondence with retiring auditor.
Constitution	<ul style="list-style-type: none"> ◆ Copies of Memorandum and Articles of Association in case of corporate entities or ◆ Partnership agreement in case of partnership firm or ◆ Act, Regulation, bye-laws, trust deeds, as applicable under which the entity functions.
Background and Organisation Structure	<ul style="list-style-type: none"> ◆ Nature and history of the business ◆ Profile of ownership ◆ Registered office details ◆ Management structure including organisation chart ◆ Industry specification with reference to client's size, economic factors affecting the industry, seasonal fluctuations and demands ◆ Facility locations, plant capacity, owned or leased, age, capital expenditure budget, etc. Products specifying diverse range alongwith

	classification <ul style="list-style-type: none"> ◆ Purchase volumes, main suppliers, policies ◆ Inventory norms, inventory levels during last five years and related ratios ◆ Sales volumes including exports, main customers, methods of distribution, pricing policies, credit policy ◆ Personnel showing numbers, analyses by departments or function, method of remuneration, contracts, union agreements, HR policy ◆ Copy of audited financial statement for previous five years, if it exist ◆ Study and evaluation of internal controls related to accounting system ◆ Significant audit observations of past ◆ Statistical information showing 5 years comparison of performance indicators (major accounting ratios) Industry statistics
Systems (For larger audits this section could be held on a separate file)	<ul style="list-style-type: none"> ◆ Details of methods of accounting including cost accounting, flowcharts, specimens of accounting documents, code structure and list of accounting records ◆ EDP - systems security, source code security, authorisation and back up policy
Contracts, Agreements, Minutes	<ul style="list-style-type: none"> ◆ Leases agreements photocopies/extracts of the same ◆ Title deeds inspected annually by auditor ◆ Royalty agreements ◆ Minutes of continuing importance such as Directors' meeting, Members' meeting
Group	<ul style="list-style-type: none"> ◆ Group structure - subsidiaries, associates ◆ Joint venture ◆ Names of auditors
Other Professional Advisor's List	<ul style="list-style-type: none"> ◆ Bankers ◆ Solicitors ◆ Investment Analysts ◆ Registrars ◆ Credit Rating Agency
Miscellaneous	<ul style="list-style-type: none"> ◆ Details of other client information of a permanent nature

Current File

5.13 The reviewer should examine the current file with regard to the engagement for compliance with the requirements of NSA 233, "Audit Documentation". The reviewer should also verify the documentation of the following:

- ◆ matters which are important in providing evidence that the engagement was carried out in accordance with the basic principles mentioned in NSA 200, 'Objectives and General Principles Governing an Audit of Financial Statements'.
- ◆ general and specific evaluation of the internal audit function and conclusions in this respect (relevant only in case of audit and other functions of similar nature).
- ◆ the audit programme, significant changes in the audit programme and the reasons for such changes;
- ◆ in the case of an audit, when other auditor's work has been used in relation to the components of the client of the practice unit whose financial information were audited by other auditors, their significance

to the financial information of the entity (client of the practice units) as a whole, the auditing procedures performed and conclusions drawn by the practice unit with regard to the use of the work of another auditor; where the other auditor's report was qualified, the manner in which the qualifications made by other auditors are dealt with;

- ◆ in case the engagement under review was executed jointly with another practice unit(s), the division of work amongst the practice units and other joint auditor(s) as well as the areas of work covered by all of them;
- ◆ communication of division of work to the client;
- ◆ the evidence that the work performed by assistants has been reviewed; and
- ◆ non-compliance of laws and regulations by the entity (client of the practice unit).

5.14 The following table illustrates contents of current file:

Title	Information Contained
Engagement	<ul style="list-style-type: none"> ◆ Acceptance of annual reappointment
Accounts	<ul style="list-style-type: none"> ◆ Copy of draft financial statement ◆ Copy of final signed financial statement
Reports and final papers	<ul style="list-style-type: none"> ◆ Copies of all draft and final reports issued to client ◆ Correspondence with other auditors and experts ◆ Comments received from client and letter of representation ◆ Observations on accounts and points carried forward to next year ◆ Final journal entries ◆ Company accounts checklist - directors' report ◆ Audit completion report
Audit Plan	<ul style="list-style-type: none"> ◆ Planning programme ◆ Time and cost summary ◆ Briefing notes ◆ Copy of planning letter to client ◆ Points carried forward from previous year
Balance sheet, profit and loss account and cash flow statement audit - systems testing	<ul style="list-style-type: none"> ◆ Lead schedules ◆ Audit programmes ◆ Detailed working papers and conclusions ◆ Company accounts and accounting standard, if any, checklists ◆ Queries raised and explanations received ◆ Third party confirmations and certificates ◆ Weaknesses identified and copy of Letter of Weaknesses sent to client
Accounts preparation	<ul style="list-style-type: none"> ◆ Schedules ◆ Trial balance ◆ Cross-reference to audit work performed
Audit Programme	<ul style="list-style-type: none"> ◆ Audit procedure (compliance and substantive) ◆ Detailed working papers and conclusions ◆ Queries raised and explanations received

Extracts from minutes relating to accounting	<ul style="list-style-type: none"> ◆ Directors' meetings ◆ Members' meetings ◆ Audit committee meetings ◆ Investment and other Board committee meetings
Statistical information	<ul style="list-style-type: none"> ◆ Performance indicators collected which have a bearing on the extent, nature, timing of substantive tests

5.15 Schedules supporting a figure in the balance sheet or profit and loss account may have:

- a) a summarised schedule (a lead schedule) showing the make-up of the figure in the balance sheet, and be supported by back-up schedules showing the make-up of those figures on the lead schedule;
- b) extensive cross-referencing between the back-up schedules, lead schedules and the accounts themselves to facilitate explanation of any figure in the accounts or working papers; and
- c) comparative figures for the previous year so that the auditor can explain and satisfy himself on movement/differences between the years.

Working Papers Guidelines

5.16 Normally speaking the content of working papers be guided by amongst other factors, completeness and accuracy, clarity and understanding, and legibility and neatness. Generally, each individual assigned to an audit engagement should prepare working papers in such a manner that any professional not connected with the engagement may later examine such working papers and be able to determine that the work was performed in accordance with generally accepted auditing standards. The use of standardized working papers (for example, checklists, preprinted forms, questionnaires, specimen letters, and standard organization of working papers) may improve the efficiency with which they are prepared and reviewed. Practice Units may also have pre determined numbering system and section dividers for each item of financial statements to ensure uniformity of working papers.

5.17 All working papers must be prepared in a manner so that they clearly and logically show the schedule, results of test, etc. Working papers must depict the client's name, file number, accounting period, subject of working paper, reference of working paper with current or permanent file, initials of preparer and date of preparation and reviewer (principal or supervisor and the date of such review). The working papers may be classified as "permanent files" as distinct from "current files". It is not important that the classification of working papers is done on the basis of "Permanent vs. Current". The moot point is that the information is recorded somewhere. Whatever may be the format, each audit working paper should be headed with the following information:

- Name of the client
- Period covered by audit
- Subject matter
- File-reference
- Initials of the member of the audit team who prepared it and the date on which it was prepared.
- In case of a working paper prepared by the client, the date of receipt and the initial of the audit team member who carried out the audit work thereon.
- Initials of the member of the audit team who reviewed the working paper.

- 5.18 The largest portion of working papers includes the detailed schedules prepared by the client or the auditors in support of specific amounts on the financial statements. The major types of supporting schedules are account analysis, list schedules, reconciliation of amounts, tests of reasonableness, procedures description, informational and outside documentation. The auditor uses several working paper schedules. An account analysis schedule, normally used for fixed assets, liabilities and equity accounts, shows the activity in a general ledger account during the entire period under audit, typing together the beginning and ending balances. The list schedule shows the details of those items that make up an end-of period balance in a general ledger account. A reconciliation relates a specific amount in the accounting records to another source of information, e.g., a reconciliation of accounts payable balances with vendor's statements. The test of reasonableness schedule contains information that enables the auditor to evaluate whether the client's balance appears to include a misstatement considering the circumstances. A summary of procedures description schedule summarizes the result of audit procedures performed. Information schedules contain non-audit information such as tax information, regular information and time budgets. External documentation includes confirmation replies, copies of client agreements, etc.

Review of Working Papers

- 5.19 All audit work papers should be reviewed to evaluate the work done and the conclusions reached. However, when the reviewer goes about this task, the review should have an analysis of the facts developed in the course of the audit and a method of determining whether the work performed meets the firm's internal standards. The purpose of the review is to correlate the working papers with the financial statements, assess whether adequate evidence has been obtained, determine whether significant matters or problems have been properly considered and resolved, and, in general provide assurances upon which the firm may assume responsibility for the work done by its professional personnel.

The reviewer should review the working papers of the practice unit to establish compliance by the practice unit with the technical standards. The reviewer is concerned with establishing that the procedures used by the practice units are sufficient and appropriate, that the procedures are properly effected in an attestation engagement. The reviewer is also concerned with verifying that the procedures used by the practice units generate sufficient appropriate evidence to support the conclusions arrived at in relation to the attestation engagement being reviewed. In other words, the logic of conclusions drawn in relation to the engagement should flow from the working papers. The working papers should also disclose that no significant points or issues remained unresolved.

Reviewer's Working Papers

- 5.20 The reviewer should document the working papers of the review performed and their findings, including matters that indicate deficiencies in the firm's policies and procedures relating to quality control and significant lack of compliance therewith.

CHAPTER 6 - TECHNICAL STANDARDS: AN OVERVIEW

- 6.01 The scope of peer review has been discussed in paragraph 1.5 of the Manual. Among other things, the reviewer is also required to focus on compliance with technical standards by the practice unit in

performing the attestation engagements..

Technical Standards

- 6.02 Paragraph 3.7 of the Statement defines the term "Technical Standards". Broadly, the technical standards can be classified into Nepal Accounting Standards, Nepal Standards on Auditing, Statements, Guidance Notes, Nepal Standards on Quality Control and other related aspects.
- 6.03 The Standards have been published by the Institute of Chartered Accountants of Nepal or the Accounting and Auditing Standard Board.

CHAPTER 7 – REPORTING

7.01 As mentioned in paragraphs 2.24 and 2.25 of the Manual, the reviewer, after completion of his review, is required to communicate his findings to the practice unit before submitting the peer review report to the Board. The reviewer, on representation by the practice unit, shall submit its report to the Board. The purpose of this Chapter is to establish the guidelines on the form and contents of the reviewer's report issued pursuant to review of the practice unit. The reviewer should adhere to the principle requirements mentioned in this Chapter while preparing his report.

7.02 A reviewer, based on the conclusions drawn from the review record the findings and subsequently the peer review report. A peer review report shall indicate the grading of the practice unit based on the review conducted. The grading shall be as follows:

- **Satisfactory**
- **Moderately satisfactory**
- **Not Satisfactory –**
- **Poor**

Reviewer is of the opinion that the practice unit is conducting its affairs in a manner that ensures the quality of services rendered by it can provide a satisfactory grading. However, a reviewer may downgrade the grading of the report due to one or more of the following: -

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

7.03.a The reviewer should review and assess the conclusions drawn from the review, as the basis for the appropriate grading on the factors mentioned above on system of quality control in the practice unit. The grading of the report by the reviewer should be based on the guidance provided in paragraph 7.06.

Basic Elements of the Reviewer's Report

7.04 The report should contain:

- (a) An indication of what a system of quality control encompasses and a reference to the quality control standards.
- (b) A statement indicating that the system of quality control is the responsibility of the reviewed firm.
- (c) A reference to the description of the scope of the peer review conducted.
- (d) Existence of limitation(s), if any, on the review conducted with reference to the scope as envisaged in the Statement on Peer Review.
- (e) A statement indicating that the review did not necessarily disclose all instances of lack of compliance with technical standards.
- (f) Grading 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 year reviewed to provide the reviewer with reasonable assurance of complying with technical standards in all material respects.

- (g) 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.
- (h) A reference to the communication of findings.
- (i) An attachment which describes the peer review conducted including an overview and information on planning and performing the review.

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

Guidelines for Grading the Report

7.06 In deciding on the grading of the 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:

- ◆ 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.
- ◆ 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.
- ◆ whether the firm has instituted adequate mechanism for training of staff.
- ◆ whether the practice unit ensures the availability of expertise and/or experienced individuals for consultation with the consent of the auditee.
- ◆ whether the skill and competence of assistants are considered before assignment of attestation engagement.
- ◆ 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.
- ◆ whether the practice unit 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?
- ◆ whether the practice unit maintains the permanent file and the current file as per the standards laid down by the Auditing Standard Board.
- ◆ whether the practice unit verifies compliance with laws and regulations to the extent it has material effect on financial statement.
- ◆ whether the internal controls within the practice unit contribute towards maintenance of quality of reporting.

The guidance for grading criteria would be done as follows:

- **Satisfactory** - Processes and controls are effective to avoid or to identify and correct/mitigate the risks faced by the practice unit and services are delivered in compliance with the policy and applicable regulatory or professional standards in all material respects.
- **Moderately satisfactory** - Processes and controls are moderately effective to avoid or to identify and correct/mitigate the risks faced by the practice unit and services are delivered in compliance

with policy and applicable regulatory or professional standards in all material respects, but either of the following apply:

- The design or implementation of processes or controls could be improved. There are one or more issues that may not be acute today but have the potential to become serious issues and need prompt pre-emptive action.
- Improvements are required in the application of non-critical procedures or guidance; or
- Improvements are required in workpaper documentation.

■ **Unsatisfactory** - Processes and controls are not satisfactory to avoid or to identify and correct/mitigate the risks faced by the practice unit and services are delivered in compliance with policy and applicable regulatory or professional standards in all material respects, but either of the following apply:

- The design or implementation of processes or controls is not satisfactory and there are more than one issues that are deficient and could impact on the quality of the service delivery and compliance with the applicable regulatory or professional standards.
- Immediate attention is required in the application of non-critical procedures or guidance; or
- Lapses have been noted in workpaper documentation in drawing conclusions and immediate attention is required.

■ **Poor** - Processes and controls cannot be relied upon to avoid or to identify and correct/mitigate the risks faced by the practice unit. There are one or more issues that constitute significant problems today and need addressing urgently. Among others, indicators are:

- financial statements or reports issued contain material errors;
- financial statement or report disclosures are significantly deficient;
- independent auditors' report not adequately supported or is materially deficient, or the wrong report was issued (attestation reports);
- significant (audit) procedures, which are required by practice unit policy or by generally accepted auditing (or other) standards, have been omitted; and/or
- material inadequacies exist in the work performed and/or documentation of (audit) procedures or other significant matters.

Illustrative Reports

7.07 Appendix VI to this manual contains a model clean peer review report and model qualified peer review report to be issued for non-compliance with technical standards and for deficiency(ies) in internal quality control systems. Appendix VII contains model recommendation by the Board.

STATEMENT ON PEER REVIEW

1.0 Introduction

- 1.1 The Council of the Institute of Chartered Accountants of Nepal (hereinafter referred to as “the Institute”) has been constituted under the Nepal Chartered Accountants Act, 1997 (hereinafter referred to as “the Act”) for the management of the affairs of the Institute and for discharging the functions assigned to it under the Act. Section 7 of the Act provides that “the duties of carrying out the provisions of this Act shall be vested in the Council” and Section 11 of the Act enumerates various duties of the Council. With a view to regulating the profession of Chartered Accountants and in terms of the powers vested, the Council is thus authorised to issue this Statement on Peer Review. This Statement serves as a mechanism intended to further enhance the quality of professional work of practising Chartered Accountants over a period of time, thereby ensuring that the profession of chartered accountants continues to serve the society in the manner envisaged.

2.0 Objectives

- 2.1 The main objective of Peer Review is to ensure that in carrying out their attestation services assignments; the members of the Institute (a) comply with the Technical Standards made mandatory for application by the Institute and (b) have in place proper systems (including documentation systems) for maintaining the quality of the attestation services work they perform. The Council has specified in this Statement on Peer Review, the Technical Standards in relation to which peer reviews are to be carried out. Peer review does not seek to redefine the scope and authority of the Technical Standards promulgated by the respective Standards Boards but seeks to ensure their implementation both in letter and spirit.
- 2.2 Peer Review is directed towards maintenance as well as enhancement of quality of attestation services and to provide guidance to members to improve their performance and adhere to various statutory and other regulatory requirements. Essentially, through a review of attestation services engagement records, peer review identifies the areas where a practising member may require guidance in improving the quality of his/her performance and adherence to various requirements as per applicable Technical Standards.
- 2.3 This Statement provides a framework of the Peer Review process and the requirements of what is expected of a member during the conduct of a peer review.

3.0 Definitions of Terms

For the purpose of this Statement,

- 3.1 **Attestation Services** - Means services involving the auditing or verification of financial transactions, book of accounts, records, or verification or certification of financial statements, but does not include:
- (i) Management Consultancy Engagements;
 - (ii) Representing a client before various Authorities;
 - (iii) Engagements to prepare tax returns or advising clients in taxation matters;
 - (iv) Engagements for the compilation of financial statements;
 - (v) Engagements solely to assist the client in preparing, compiling or collating information other than financial statements;
 - (vi) Testifying as an expert witness; and
 - (vii) Providing expert opinion on points of principle, such as Accounting Standards or the applicability of certain laws, on the basis of facts provided by the client.

The phrase 'Attestation Services' is used in this Statement interchangeably with Audit Services, Attestation Functions, and Audit Functions.

- 3.2 **Member** - Means a member of the Institute of Chartered Accountants of Nepal.
- 3.3 **Practice Unit** - Means a member in practice, whether practising individually or in a trade name (either as a sole proprietor or as a firm).

- 3.4 **Peer Review** - Means an examination and review of the systems and procedures to determine whether they have been put in place by the practice unit for ensuring the quality of attestation services as envisaged and implied/mandated by the Technical Standards and whether these were effective or not during the period under review.
- 3.5 **Peer Review Board** - Means the Board established by the Council in terms of this Statement, to conduct peer review. The expression "Peer Review Board" is hereinafter referred to as "Board".
- 3.6 **Reviewer** - Means a member fulfilling the qualifications prescribed for a Reviewer (Para 10.0).
- 3.7 **Technical Standards** - Mean and include:
- (i) Nepal Accounting Standards issued by the Accounting Standards Board (ASB), including the framework for the preparation and presentation of the financial statements;
 - (ii) Nepal Standards on Auditing issued by the Auditing Standards Board (AuSB), including preface and framework for assurance engagements, Statements and Guidance Notes;
 - (iii) Statements and guidance notes issued by the Institute of Chartered Accountants of Nepal;
 - (iv) Notifications/Directions/Announcements issued by the Institute of Chartered Accountants of Nepal including those of self-regulatory nature; and
 - (v) Provisions of the various relevant Statutes and/or Regulations which are applicable in the context of the specific engagements being reviewed including instructions/guidelines/notifications/directions issued by the regulatory bodies.
- 3.8 Words and expressions used and not defined in this Statement shall have the meanings assigned to them under the Nepal Chartered Accountants Act, 1997 and Nepal Chartered Accountant Regulations 2004.

3.9 In this Statement, singulars imply plurals, and vice versa, when applied to terms defined as above.

4.0 Authority of the Statement on Peer Review

- 4.1 The Statement on Peer Review applies to all members of the Institute in practice, either individually or as proprietor or as partners of a firm.
- 4.2 The Statement on Peer Review issued in relation to conduct of members in performance of attestation services intends to:
- (i) Promulgate an appropriate mechanism for ensuring the quality of attestation services and guide the members to conduct themselves in a manner that the Council considers appropriate;
 - (ii) Provide guidance in relation to the statutory powers and obligations with respect to the parties involved in peer review;
 - (iii) Prescribe the scope of peer review and the procedures to be adopted during the conduct of a peer review; and
 - (iv) Establish the expected conduct of members during a peer review.

5.0 Powers of the Council

- 5.1 To constitute and empower the Peer Review Board and to fill the vacancies arising in the Board from time to time.
- 5.2 To partially or substantially modify this Statement governing the structure of the peer review process and the procedures framed thereunder governing the review process and/ or the roles of the Board and/ or Reviewer(s).
- 5.3 To decide upon, periodically, the Technical Standards the implementation of which falls within the purview of the peer review process.

5.4 To approve/decide upon the procedures and prescriptions governing the peer review process, as put up to it from time to time by the Board.

5.5 To refer such matters to the Board in relation to Peer Review as the Council may deem fit.

5.6 To approve the Annual Budget of the Board.

6.0 Peer Review Board

6.1 Establishment and Appointment

- (a) The Peer Review Board shall be established by the Council.
- (b) The Peer Review Board shall consist of a maximum of 5 members to be appointed by the Council.
- (c) The Council shall appoint the Chairman and members of the board amongst from the members who are in full time practice. However this provision shall not applicable in the case of Government Nominee.
- (d) The term of a member shall be for two year, or such period as may be prescribed by the Council.
- (e) Casual vacancies on the Board shall be filled by the Council.
- (f) Members of the Disciplinary Committee and Code of Ethics Committee of the Institute shall not be members of the Board.

6.2 Meetings

- (a) No business shall be transacted at a meeting of the Board unless there is presence of at least 2 members including the Chairman
- (b) If there is no quorum within half an hour of the time fixed for the meeting, the meeting shall stand adjourned to a date, time and place fixed by the Chairman
- (c) The Board shall meet not less than four times in a year.

6.3 Reporting

The Board shall submit (at least) six monthly reports on its functioning to the Council.

7.0 Scope of Peer Review

7.1 The peer review process is directed at the attestation services of a practice unit.

7.2 Once a practice unit is selected for review, its attestation engagement records pertaining to the immediately preceding three completed financial years shall be subjected to review. Provided that the records of audit reports/attestation services relating to years prior to the accounting year beginning 1 Srawan 2062 (15.07.2005) shall not be subjected to review.

7.3 The Review shall focus on:

- (i) Compliance with Technical Standards.
- (ii) Quality of Reporting.
- (iii) Office systems and procedures for carrying out attestation services
- (iv) Training Programs for staff (including Articled Trainees) concerned with attestation functions, including availability of appropriate infrastructure thereof.

8.0 Powers of the Board

8.1 The duty of carrying out the provisions of this Statement shall be vested in the Board.

8.2 In particular, and without prejudice to the generality of the foregoing powers, the duties of the Board shall include:

- (a) To call for information from practice units/reviewers in such form and manner as may be prescribed;
- (b) To maintain a panel of Reviewers satisfying the qualifications for Reviewers as laid down in this Statement;

- (c) To clearly define the terms of appointment of the reviewers based on specific criteria;
 - (d) To send a Panel of at least three reviewers (from the Board's own panel) to the practice unit, allow the practice unit to choose any one reviewer from the panel so forwarded to it and appoint the reviewer as per the choice of the practice unit;
 - (e) To examine the aspects of basis of selection of records pertaining to the attestation services in terms of the appropriate Technical Standards and the prescriptions as given by the Council;
 - (f) To arrange for such training programmes for reviewers as may be deemed appropriate;
 - (g) To prescribe the practice and procedure to be observed in relation to peer reviews;
 - (h) To review the work performed by a reviewer; and
 - (i) On considering the Report of a reviewer, to do the following:
 - i. Issue recommendations to the practice unit;
 - ii. Order a further peer review to be carried out;
 - iii. Issue Peer Review Certificate.
- 8.3 Where deemed appropriate, after the conclusion of a cycle of reviews or at the end of each such period as may be determined, the Board shall have the powers to make a Special Report to the Council on:
- (i) General issues regarding the level of implementation and adherence to Technical Standards amongst practice units and
 - (ii) Its own suggestions for further improvement in quality of attestation services.
- 8.4 The Board may perform any other function or act as may be incidental to, or, which it considers necessary or expedient for the performance of its functions, or exercise of its powers as delegated to it by the Council, including the formation of sub-committees for specific tasks.

9.0 Compliance with the Statement on Peer Review

- 9.1 Practice units are required to comply with the provisions of this Statement. Practice units failing in this regard will be required to undergo appropriate review or follow up of their quality controls by the Board in terms of such specific directions as may be notified to the members by the Board itself or through the Institute

10.0 Qualifications of the Reviewer

- 10.1 The nature and complexity of peer review require the exercise of professional judgement. Accordingly, an individual serving as a reviewer shall:
- (a) Be a member;
 - (b) Possess at least ten years' experience of audit;
 - (c) Be currently in full time practice;
 - (d) Have particular experience in areas pertinent to the scope of review; and
 - (e) Should be free from any obligation to, or interest in, the reviewed firm or its personnel.

Provided that in the case of review of CA firms (including individual practitioner, proprietorship and partnership firm), the reviewer shall be a chartered accountant.

- 10.2 For allotment of review work, a reviewer:
- (a) Should have undergone the requisite training imparted by the Board;
 - (b) Should have furnished a declaration to the effect that no disciplinary action is pending against him
 - (c) Should have signed the Statement of Confidentiality.

11.0 Practice Units Subject to Review

- 11.1 Peer review will be introduced in three stages with different types of practice units being included in each stage.

- 11.2 Implementation will proceed on the basis of random selections from the practice units included in each stage. The Board shall decide the proportion of practice units to be included in the selection during each phase of implementation. Practice units, which shall be covered under each stage, are listed below:

Stage – I

In this stage, peer review will be made for Practice Unit engaged in attestation services of companies listed in security exchange. The peer review will be limited to review of such companies attestation services only.

The implementation of this stage will be initiated from 15th May 2007.

Stage – II

In this stage, peer review will be made for Practice Unit engaged in attestation services of companies listed in security exchange, Bank, Insurance Companies and Public Sector Undertakings.

The implementation of this stage will be initiated from 1st January 2009.

Stage III

In this stage, peer review will be made voluntary for all Practice Units.

The implementation of this stage will be initiated from 1st January 2011. The Peer Review Board may select Practice Unit (PU) for peer review, if peer review in any financial year is less than 20% of total number of Practice Unit.

- 11.3 A practice unit not selected in any of the above stage I & II, may suo motu apply to the Board for the conduct of its peer review, and the Board shall take due cognizance of such request.
- 11.4 An auditee may request the Board for the conduct of peer review of its auditor (practice unit), the Board shall take due cognizance of such request and in that case the cost of the peer review shall be borne by such auditee concern.
- 11.5 The Peer Review Board may modify any of the above criteria with prior approval of the Council.

12.0 Obligations of the Practice Unit

- 12.1 Any person to whom this clause applies, and who is reasonably believed by a reviewer to have in his possession or under his control any record or other document which contains or is likely to contain information relevant to the peer review shall:
- (i) Produce to the reviewer or afford him access to, any record or document specified by the reviewer or any other record or document which is of a class or description so specified, and which is in his possession or under his control, being in either case a record or other document which the reviewer reasonably believes is or may be relevant to the peer review, within such time as the reviewer may reasonably require;
 - (ii) Afford and provide to the reviewer such explanation or further particulars in respect of anything produced in compliance with a requirement under sub clause (i) above, as the reviewer shall specify; and
 - (iii) Provide to the reviewer all assistance in connection with peer review which he is expected to provide.
- 12.2 Where any information or matter relevant to a practice unit is recorded otherwise than in a legible form, the practice unit shall provide and present to the reviewer a reproduction of any such information or matter, or of the relevant part of it in a legible form, with a suitable translation in English if the matter is in any other language, and such translation is requested for by the reviewer.
- 12.3 The practice unit shall ensure that the reviewer is given access to all documents relevant to his review no matter which office of the practice unit these documents may be available in, in case the practice unit has more than one office.
- 12.4 A practice unit shall allow the reviewer to inspect, examine or take any abstract of or extract from a record or document of the practice unit which may be required by the reviewer. However, the reviewer

shall not carry extracts of the client's file or records examined by him while conducting peer review, as a part of his working papers.

- 12.5 For the purpose of this clause a person means a Partner/Sole Proprietor/member (practising in own name) of the practice unit to which the particular review relates or any person employed by or whose services are engaged by such unit.

13.0 Periodicity of Peer Review

- 13.1 The peer review of the Practice Unit under stage I will be done at the request of the Practice Units. The peer review of the various practice units falling under Stages I and II should be mandatorily carried out at least once in a block of three years. For practice units falling under Stage III, the periodicity of review shall be as may be decided by the Board. However, if the Board so decides or otherwise at the request of the practice unit, the peer reviews for a practice unit can be conducted at shorter intervals.

14.0 Cost of Peer Review

- 14.1 The cost of peer review including honorarium and TA/DA for reviewer and his qualified assistant(s) as may be decided by the Board from time to time, shall be borne by the practice unit. In case reviewer has to conduct follow-up review, the same rate would apply to the follow-up review also.
- 14.2 Each branch under review would be considered separately for the purpose of peer review.

15.0 Training and Development

- 15.1 To ensure that the objective of peer review is attained in letter and spirit, adequate training facilities shall be provided, from time to time, to the Reviewer(s) and other persons who assist the Board as and when and in the manner considered appropriate by the Board. Reviewers shall be expected to be fully familiar with all procedures, announcements, guidance and notifications as may be issued by the Board from time to time.

16.0 Review Framework

The methodological approach involved in peer review can be defined in terms of three stages viz., planning, execution and reporting, which are summarized below:

16.1 Planning

- (i) Notification
A practice unit will be notified in writing about an impending peer review and will be sent a Questionnaire for completion together with the name of the reviewer.
- The Board shall seek the consent of the reviewer for carrying out peer review assignment, alongwith the Statement of Confidentiality.
- (ii) Sending the completed Questionnaire to the reviewer
The practice unit shall have to complete and send the Questionnaire to the reviewer within 15 days of intimation by the Board. The information will be used for the planning of the review. In addition, practice units will be required to enclose a complete list of their attestation services clients as required by the stages of the peer review implementation, and to provide any other information the reviewer considers necessary to facilitate the selection of a sample of attestation services engagements, representative of the practice unit's client portfolio, for review. However, the practice unit may not provide the names of all such clients but instead provide code numbers alongwith other relevant details provided the practice unit has been maintaining register allotting the code numbers to all its clients.
- (iii) Sample of Attestation Services Engagements
a) From the complete attestation services client list, an initial sample will be selected by the reviewer. Practice units will be notified of the selection in writing about two weeks

- in advance, requesting the relevant records of the selected attestation services clients to be made available for review.
- b) At the execution stage, the initial sample may be reduced to a smaller actual sample for review. However, if the reviewer considers that the actual sample does not cover a fair cross-section of the practice unit's attestation services engagements, he may make further selections.

(iv) Confirmation of visit

In consultation with the practice unit date(s) will be set for the on-site review to be carried out. Flexibility will be permitted to ensure that members are not inconvenienced at especially busy periods. The on-site review date(s) will be arranged by mutual consent such that the review is conducted within four months of notification.

16.2 Execution

- (i) Peer review visits will be conducted at the practice unit's head office or branch(es). The complete on-site review of a practice unit may take at least a full day depending upon the size of the practice unit. This is based on the assumption that the practice unit concerned has made all the necessary information and documentation available to the reviewer for his review. However, in any case this on-site review should not extend beyond 4 working days.
- (ii) An initial meeting will be held between the reviewer and the proprietor/partner of the practice unit designated to deal with the review (designated partner). The primary purpose of this meeting is to confirm the accuracy of the responses given in the Questionnaire. The description of the system in the Questionnaire may not fully explain all the relevant procedures and policies adopted by the practice unit and this initial meeting can provide additional information. The reviewer should have a full understanding of the systems and procedures and be able to form a preliminary evaluation of its adequacy at the conclusion of the meeting.
- (iii) Large practice units which have extensive documentation regarding their practice and procedures (i.e. formal office procedure manuals and audit manuals) will find it unnecessary to document all the controls and will be expected to cross reference the Questionnaire to the relevant sections of their manuals. For practices like these an additional planning visit will be arranged before the on-site review to review the relevant manuals.
- (iv) Practice units should have procedures and documentation sufficient to cover each of the key control areas. Members in smaller practices may find some of the documentation too elaborate for most of their clients and so should tailor their attestation services documentation to suit their particular circumstances with justification for doing so provided to the reviewer.
- (v) Compliance Review-General Controls
- (a) The reviewer may carry out a compliance review of the General Controls and evaluate the degree of reliance to be placed upon them. The degree of reliance will, ultimately, affect the attestation services engagements to be reviewed. The following five key controls will be considered as General Controls:
- Independence
 - Maintenance of Professional Skills and Standards
 - Outside Consultation
 - Staff Supervision and Development
 - Office Administration

Practice units are expected to address each of the five key control areas.

- (b) In each key control area there shall be supplementary questions and matters to consider. These are intended to ensure that the kind of controls that are expected to be maintained, are installed and operated within practice units.
- (c) All questions in the questionnaire may not necessarily be relevant to particular types of practice units because of their size and nature of work etc. However, practice units

should still assess their internal control systems to ascertain whether they address the objectives under the five key control areas.

- (vi) Selection of attestation services engagements for review
- a) The number of attestation services engagements to be reviewed depends upon:
- The number of practising members involved in attestation services engagements in the practice unit;
 - The degree of reliance placed, if any, on general quality controls; and
 - The total number of attestation services engagements undertaken by the practice units for the period under review.
- b) From the initial sample selected at the planning stage, the reviewer, in consultation with the practice unit, may reduce the initial sample to a smaller actual sample of attestation services engagements for review. The engagements reviewed should be a balanced sample from a variety of different sized clients covering various industries so that they reflect the overall performance of a practice unit. Accordingly, if the reviewer considers that the actual sample is not representative of the practice unit's attestation services client portfolio, he may make further selections from the initial sample or from the complete attestation services client list.
- (vii) Review of records
- The reviewer may adopt a compliance approach or substantive approach or a combination of both in the review of attestation services engagement records.
- (A) Compliance approach Attestation services Engagements
- The compliance approach is to assess whether proper control procedures have been established by the practice unit to ensure that attestation services are being performed in accordance with Technical Standards.
- The following six key controls shall be considered:
- Audit Record Administration
 - Review and Evaluation of System of Internal controls
 - Substantive Tests
 - Financial Statements Presentation
 - Audit Conclusion
 - Audit Report
- (B) Substantive approach Attestation services Engagements
- A substantive approach will be employed if the reviewer chooses not to place reliance on the practice unit's specific controls on attestation engagements or is of the opinion that the standard of compliance is not satisfactory. This approach requires a review of the attestation working papers in order to establish whether the attestation work has been carried out as per norms of Technical Standards.

16.3 Reporting

The Peer review report should categorically state that the system of quality control for the attestation services of the practice unit for the period under review has been designed so as to carry out the attestation services in a manner that ensures compliance with technical standards made mandatory for application by the Institute and maintenance of the quality of attestation services they perform.

- (i) Discussion/Communication of Findings
- (a) At the end of an on-site review, the reviewer, if satisfied, shall submit Peer Review Report to the Board or before making his report to the Board, communicate his findings to the practice unit if systems and procedures had been found to be deficient, non-compliance with reference to any other matter has been noticed by him or there are matters where he wants to seek clarification.

- (b) The practice unit shall have 21 days after the day the findings are received by the practice unit from the reviewer, to make any submissions or representations, in writing to the reviewer, concerning the findings.
- (ii) **Peer review Report of Reviewer**
Based on the reply received from the practice unit, the Reviewer shall submit a Peer review Report to the Board. Review report submitted by the reviewer shall only include peer review methodology adopted and the appropriate grading recommended for the practicing unit.
 - (a) The Board may suggest a follow up review after a period of one year from the date as per the Board's direction.
 - (b) The reviewer shall not name any individual in his report unless it is essential to bring out the meaning of the report.
 - (c) The reviewer shall not communicate any Report(s) unless the examination of such Report(s) and related records has been made by him or by a partner or an employee of his firm.
- (iii) **Working papers**
The reviewer shall document all his working papers and submit such working papers, including his communications with Practice Unit, to the Board in a sealed envelope. Such working papers shall be destroyed within 3 month from the date of issuance of grading certificate to the practice unit, in the presence of both peer reviewer and practice unit or their authorized representative(s).

The Board, if considers necessary shall, open the sealed envelope containing working papers in the presence of the Peer Reviewer/Practice Unit or both to ascertain appropriateness of the grading given by the Peer Reviewer. After review and/or enquiry the Board can determine the grading to be given and issue its Peer Review Report.
- (iv) **Peer Review Certificate**
On receiving the Peer review report, the Board may issue Peer Review Certificate to the practice unit provided that the Certificate should be issued within 15 days from the date of the Board's decision with regard to such issuance. It is to be ensured by the PU that a reference of the peer review done should only be mentioned in its business proposals without giving reference to the grading or otherwise of the peer review report. Moreover the PU shall ensure that the Peer Review Report is kept confidential and reproduction and distribution of copies in whatsoever form should not be done. Failing which the Board or the Disciplinary committee of the Institute may take appropriate action.

17.0 Referral of Disputes and Appeal

- 17.1 Where a dispute arises over the powers of reviewers or the process or conclusions reached after the review or to any other matter related to the review, the practice unit, the reviewer or both may refer the dispute, in writing, to the Board. Such referral shall have to be made in such manner and within such time as may be prescribed by the Board in these regards.
- 17.2 Where a dispute is referred, after considering any submissions or representations (which shall be made in writing) made by the relevant practice unit and/or the relevant reviewer, the Board-
 - (a) Shall decide the dispute by itself or constitute a Special Committee for the purpose and communicate its decision to each of the parties to the dispute;
 - (b) May issue directions relating to the matter in dispute to such practice unit or the reviewer concerned and require such unit or reviewer to comply with them;
 - (c) Shall convey its decision in these regards to the appellant within 15 days from the date of the decision, so as to provide the appellant sufficient time to respond.
- 17.3 Where a practice unit is dissatisfied with the decision of the Board or its committees, it may refer the matter to the Council in such manner and within such period of time as may be prescribed.

18.0 Immunity

- 18.1 A practice unit, which makes available records or documents to a reviewer, shall not incur any liability under the Code of Ethics under the Nepal Chartered Accountants Act, 1997 by reason of compliance with this Statement.
- 18.2 The reviewer, by virtue of carrying out the peer review shall not incur any liability other than the liability arising out of his own conduct under the Code of Ethics under the Nepal Chartered Accountants Act, 1997 as well as under the relevant clauses of this Statement.
- 18.3 The members of the Peer Review Board or its committee shall not incur any liability by virtue of their having discharged the responsibilities as given in this Statement and/or as may in future be specified by the Council, other than the liability arising out of their own conduct under the Code of Ethics under the Nepal Chartered Accountants Act, 1997 as well as under the relevant clauses of this Statement.

19.0 Confidentiality

- 19.1 Strict confidentiality provisions shall apply to all those involved in the peer review process, namely, reviewers, members of the Board or its committee, or any person who assists any of these parties.
- 19.2 Those persons subject to the secrecy provision:
- (a) Shall at all times after his/ their appointment preserve and aid in preserving secrecy with regard to any matter coming to his/ their knowledge in the performance or in assisting in the performance of any function, directly or indirectly related to the process and conduct of peer reviews;
 - (b) Shall not make use of or disclose the contents of any review report or any working paper file, document or other material, or any confidential information concerning the affairs of any practising unit except to the Peer Review Board.
 - (c) Shall not at any time permit any other person to have any access to any record, document or any other material in any form which is in his/their possession or under his/their control by virtue of his/their being or having been so appointed or his/their having performed or having assisted any other person in the performance of such a function.
- 19.3 Non-compliance with the secrecy provisions in the above clause shall amount to professional misconduct as defined under Section 34 of the Nepal Chartered Accountants Act, 1997.
- 19.4 A Statement of Confidentiality (appended as Annexure 'A') shall be signed by the persons who are responsible for the conduct of peer review i.e., reviewers, members of the Board and by assistants in cases where the Board has permitted an assistant and filed with the Board.

20.0 Procedural Departures

- 20.1 Where the persons who are responsible for the conduct of peer review (reviewers, the members of the Board and others who assist them) have not followed the prescribed procedures, they shall have to justify significant departures and such justification shall have to be mandatorily made known to the Council in the periodic reports of the Board to the Council.

21.0 Budget and Finance

- 21.1 The Council shall approve the Annual Budget of the Board.
- 21.2 The Board shall have the autonomy to administer its budget after the approval as above. For this purpose, the Executive Director of the Institute shall act as authorised officer of the Board till the Secretariat of the Board is fully functional.

- 21.3 Norms and procedures of financial administration as per current practice in the Institute of Chartered Accountants of Nepal shall be followed by the Board.

22.0 Secretariat

- 22.1 The Council may set up an appropriate and independent Secretariat to assist the Board in the discharge of its functions. The Chairman shall be the Chief Executive Authority of the Board. The Executive Director of the Institute shall act as Secretary of the Board till the Secretariat of the Board is fully functional.
- 22.2 The Secretariat personnel shall be subject to the same norms of confidentiality and immunity as shall apply to Board members and Reviewer(s).
- 22.3 Appropriate arrangements for training of personnel of the Secretariat shall be made from time to time.

Statement of Confidentiality

[In accordance with the Statement on Peer Review, this statement of confidentiality is to be filled in by the persons who are responsible for the conduct of peer review i.e., reviewers, members of the Board and others who assist them, individually. The Reviewer shall be responsible for taking this undertaking from all those persons who assist him or are likely to assist him in conducting peer reviews, and shall send the same to the Board. This statement of Confidentiality should be renewed every year.]

To
The Chairman,
Peer Review Board,
The Institute of Chartered Accountants of Nepal
Kathmandu.

Sir,

I hereby declare that my attention has been drawn to the need for confidentiality in the conduct of peer reviews. I therefore undertake and assure that in so far as any or all of the following relate to me or are brought to my knowledge/attention, in any manner whatsoever, whensoever, I will ensure that on my part

- Working papers shall always be kept securely for a period of 5 years so that unauthorised access is not gained by anyone.
- The practice unit's attestation services procedures shall not be disclosed to third parties.
- Any information with regard to any matter coming to my knowledge in the performance or in assisting in the performance of any function during the conduct of peer reviews shall not be disclosed to any person.
- Access to any record, document or any other material, in any form which is in my possession, or under my control, by virtue of my being or having been so appointed or my having performed or having assisted any other person in the performance of such a function, shall not at any time be permitted to any other person.

I understand that any breach of the provisions regarding confidential information contained in the Statement on Peer Review will be considered as gross negligence and, subject to investigation, will result in appropriate action.

Signature :

Name :

Designation :

Date :

Place :

APPENDIX II

Photograph

- [illegible]

	Name of Course	Year of Completion
A		<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
B		<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>
C		<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/>

12. Any Major achievement (during education)

13. **Audit** working Experience (since enrolment as a member):(starting from last to first) ¹

a. Firm Name and Address

[illegible]Date of Constitution --Number of Partners Number of Paid Chartered Accountants Number of Paid members of the institute

Working as [Please specify the Position held in the firm of Chartered Accountant(s)]

[illegible]

[Please specify the Period of Working in the firm]

Working since

b. Firm Name and Address

[illegible]Date of Constitution --Number of Partners Number of Paid Chartered Accountants Number of Paid members of the Institute

Worked as [Please specify the Position held in the firm]

[Please specify the Period of Working in the firm]

From To

(Specify years only)

¹ Use additional sheet, if required

14. Major Attestation Work handled¹:

Name of Client	Level of Responsibility ²	Turnover ³	Audit Fees ⁴	Type of Audits (Tick appropriate Box)		
	(mention appropriate code)			Statutory	Tax	Internal/ other
Banks						
1.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial Institutions						
1.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Insurance Companies						
1.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Companies						
• Public						
1.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Private						
1.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Government						
1.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
NGO/INGOs						
1.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
s						
1.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Others						
1.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

15. Professional Achievements:

16. Details of CPE Programmes attended:

¹Use additional sheet, if required

²Please specify the level of responsibility as: Audit assistant-AS and Supervisory-SP.

³Please specify the Code for Turnover (per annum in rupees) as 1 to 50 crores-1; 50 to 200 crore-2 and above 200 crores-3.

⁴Specify code for Audit fees per annum in rupees: upto 50 thousand-1; 51000 to 2 lacs- 2; 2 to 5 lacs-3 and more than 5 lacs-4.

17. Whether any Disciplinary action is pending against you (referred to Disciplinary Committee for enquiry)?

Yes ☐ No ☐

If Yes, please give details

I hereby declare that

- a. I am a member of the Institute
- b. I Possess minimum ten years experience of audit and am currently in full time practice (**Note: 10 years' audit experience need not be continuous but cumulative; but any block of less than 2 years' experience in determining cumulative experience shall not be counted**); and
- c. The information given above is true and correct and nothing has been concealed therefrom.

Name

Date

(Signature)

For Office Use Only:

1. Whether applicant:

- a. Is member of the Institute Yes ☐ No ☐
- b. possess atleast 10 years' audit experience Yes ☐ No ☐
- c. is currently active in the practice of accounting and auditing Yes ☐ No ☐

2. Whether complete information in the prescribed format is given in respect of points:

13. Audit Working experience: Yes ☐ No ☐
14. Major Attestation Work handled: Yes ☐ No ☐

3. Whether all other applicable points of the form have been filled

Yes ☐ No ☐

If No, Points

4. Whether any Disciplinary action is pending

Yes ☐ No ☐

5. RE No. allotted

Model Letter to the Practice Unit Informing Selection of Sample

Letter No.

Date

{Name and address of the practice unit selected for review }

Dear Sir/Madam,

Subject: Information for Selection of Sample Attestation Service Engagements.

This is with reference to the letter no. _____ dated _____ issued by the Peer Review Board regarding carrying out peer review of your firm, in response to which you have selected me as a reviewer, for the purpose.

I hereby acknowledge the receipt of the duly filled in questionnaire. Based on the analysis of the said questionnaire, I have selected sample attestation services and clients for review as per the enclosed list. You are requested to ensure the ready availability of the relevant records related to the attestation services rendered to these clients for carrying out peer review.

I plan to visit your office for the review on {mention the proposed date(s)}. You are requested to confirm your convenience for above mentioned date(s).

Thanking you,

Yours faithfully,

-Sd-

(Name of the Reveiwer)

Membership No.

Reviewer's Code No.

Place:

Encl.: as above

Copy to: Peer Review Board

APPENDIX IV Model Letter to the Practice Unit Communicating Findings of Review

Letter No.

Date

{Name and address of the practice unit selected for review }

Dear Sir/Madam,

This is with reference to the peer review of your firm carried out by me on { mention the date } for the period(s) {mention the period(s)}. My findings regarding the deficiencies observed by me in the system of quality control/matters in respect of which non-compliances observed for the attestation services of your firm and matters with regard to which clarification is required are enclosed as Appendix. You are requested to send your representation/comments on the findings, so that the report may be submitted to the Peer Review Board.

Thanking you,

Yours faithfully,

-Sd-

(Name of the Reveiwer)

Membership No.

Reviewer's Code No.

Place:

Encl.: as above

Copy to: Peer Review Board

Model Report on Peer Review

The Peer Review Board
 The Institute of Chartered Accountants of Nepal
 Babar Mahal, Kathmandu
 Nepal

We have reviewed the documentation and control procedures that have been established by (referred to as the practice unit hereinafter) to ensure that attestation services are being performed in accordance with Technical Standards, in specific consideration of attestation services performed by the practice unit during for publicly listed companies/public sector entities/all types of attestation services performed.

We have performed our review and assessment in accordance with the Statement on Peer Review issued by the Institute of Chartered Accountants of Nepal dated 20 May 2007 and as per the terms of the appointment as Peer Reviewer dated

We selected a sample of attestation services performed by the practice unit during the period under review on the basis of information provided in the Peer Review Questionnaire, performed compliance review of the general controls on each of the key control areas and/or substantive approach to obtain required level of assurance on the compliance with the technical standards. We believe that our approach and techniques used provide us sufficient basis to provide our opinion on the level of compliances.

On the basis of our review and information provided by the practice unit, we are of the view that the system of quality control for the attestation services of the practice unit for the period under review has been designed:

A	Satisfactory
B	Moderate Satisfactory
C	Unsatisfactory
D	Poor

so as to carry out the attestation services in a manner that ensures compliance with technical standards made mandatory for application by the Institute and maintenance of the quality of attestation services they perform.

This report has been issued to and for the purpose and use of the Peer Review Board and is kept confidential. Reproduction and distribution of copies in whatsoever form should not be done by any person.

Signed/

Code:

Date:

Type:

Cc: The Practice Unit

Place:

Annexure I to Peer Review Report

1. On several of the engagements reviewed, it was noticed that the working papers were not properly organised to meet the circumstances of each audit and the need of practice unit in respect thereof. The standardisation of working papers like checklists, specimen letters, standard organisation of working papers was also missing. Even in one of the cases, the working papers do not provide the evidence that the audit work was performed in order to support the audit opinion.

- 2 It was noticed that in number of instances, the representation from the Management was not received in spite of the fact that sufficient appropriate audit evidence could not be expected to exist. Even in one of the case, it was noticed that the representation was not received though the knowledge of the fact was confined to the management only.
- 3 On several of the engagements reviewed, it was noticed that sufficient audit evidence was not received regarding the identification and disclosure of related parties and the related parties transactions that are material to financial information. Even in one of the cases, it was observed that the written representation was not received from the management regarding completeness of information provided for identification of related parties and adequacy of related party disclosure in the financial statements.
- 4 On several of the attestation engagements reviewed, it was noticed that the management was not communicated on timely basis in spite of the fact that Unusual transactions which have a significant effect on earning and with related parties was noticed by the practice unit during the course of audit. Even in one of the cases the management was not informed when the adequate records and documents were not available in respect of significant transactions. This type of transactions may increase the possibility of Fraud and the management should be informed by the auditor.

Annexure to the Peer Review Report of M/s_____

General instructions: Tick 'Yes' / 'No', wherever applicable.

Sl. No.	Particulars	Observations
1	Date on which questionnaire is received	
2	Number of initial samples selected for review	
3 (a)	Was there any change made in initial sample selected by the Reviewer?	
(b)	If 'Yes', specify the number selected, after change	

4	Name of the person (if any) who helped in the conduct of review		
5 (a)	Whether general controls are in existence and operating effectively during the period under review?	Yes	No
(b)	If 'No', please specify areas:		
	(i) Independence		
	(ii) Professional Skills and Standards		
	(iii) Outside Consultation		
	(iv) Staff Supervision and Development		
	(v) Office Administration		
6	Whether audit records administration is satisfactory?		
7	Whether working papers are properly maintained?	Yes	No
8	Whether review of internal control systems was carried out properly in performing attestation engagement?	Yes	No
9 (a)	Whether proper systems and procedures exist within the PU to ensure compliance with technical standards?	Yes	No
(b)	If 'No', specify areas:		
	(i) Nepal Accounting Standards		
	(ii) Nepal Standards on Auditing		
	(iii) Statements		
	(iv) Guidance Notes		
	(v) Institute's Notifications/Directions/Announcements		
	(vi) Self Regulatory Measures		
10	Whether overall presentation of financial statements conforms to statutory requirements of presentation under various Statutes?	Yes	No
11	Whether audit conclusions drawn are duly supported by audit queries/observations?	Yes	No
12	Whether the quality of audit reports in respect of format and content found proper?	Yes	No
13 (a)	Whether the Reviewer has issued a letter to the PU communicating his findings of review?	Yes	No
(b)	Whether the communication of findings issued by the Reviewer contained any deficiencies/non-compliances?	Yes	No
(c)	If 'Yes', please specify the areas of deficiencies/non-compliances 		
14 (a)	Whether PU has responded to the letter communicating findings of review?	Yes	No
(b)	Whether the Reviewer is satisfied with the response received from the PU?	Yes	No
15 (a)	If the Reviewer is not satisfied with the response of the PU, whether peer review report has been issued?	Yes	No
(b)	Is the Peer Review Report other than Satisfactory grading?	Yes	No

(c)	If 'Yes', specify the reasons 		
16	Whether the Reviewer received full co-operation from the PU? during review	Yes	No
17	Is there any point which the Reviewer wants to bring to the notice of the Board? If yes, please elaborate separately. 		

Model Recommendation by the Board

A. Non-Compliance with Technical Standards

Letter No. Date

{Name of practice unit}

Dear Sir/Madam,

This is with reference to the report no_____ dated_____ submitted by the reviewer after completion of the Peer Review of your firm. As per the opinion of the reviewer, except for the effect of deficiency discussed below, the system of quality control for the attestation services of your firm for the period under review has been designed so as to carry out professional attestation services assignments in a manner that ensures compliance with technical standards laid down by the Institute and maintenance of the quality of attestation work performed.

Recommendation

The Board considered the report and it is recommended that the practice unit should obtain or develop comprehensive financial statement disclosure and reporting checklists and revise its policies and procedures to require the in-charge accountant to complete these checklists and file them with the working papers. In addition, a procedure should be added to the firm's engagement review checklist requiring the engagement partner to document his or her review of these checklists.

The Board also directed the reviewer to carry out the further review of your firm after three months from the receipt of the suggestion from Board but not later than six months. The next review would lay emphasis on the implementation of Technical Standards in carrying out the attestation work carried by your firm.

Secretary

Peer Review Board

B. Deficiency in Internal Quality Control System

Letter No. Date

{Name of practice unit}

Dear Sir/Madam,

This is with reference to the report no_____ dated_____ submitted by the reviewer after completion of

the Peer Review of your firm. As per the opinion of the reviewer, except for the effect of deficiency discussed below, the system of quality control for the attestation services of your firm for the period under review has been designed so as to carry out professional attestation services assignments in a manner that ensures compliance with technical standards laid down by the Institute and maintenance of the quality of attestation work performed.

Recommendation

The Board considered the report and it is recommended that the practice unit should comply with its policies of review of audit work performed by each assistant in order to ensure that the work has been performed as per the audit programme, the results obtained have been adequately documented, all significant audit matters have been resolved and the objective of audit procedures have been achieved.

Secretary

Peer Review Board