

# **Technical Guide** **on** **Conducting Quality Review**



**QUALITY REVIEW BOARD**

**(Established under an Act of Parliament)**

**In Pursuit of Professional Excellence of Chartered Accountants in India**

# Technical Guide on Conducting Quality Review



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**In Pursuit of Professional Excellence of Chartered Accountants in India**

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# Preface

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With a view to improving the quality of audit services in India, the Ministry of Corporate Affairs, Government of India has established Quality Review Board (the “Board”/ “QRB”), under Section 28A of the Chartered Accountants Act, 1949 consequent to the Chartered Accountants (Amendment) Act, 2006 as an independent body to review the quality of services rendered by chartered accountants in the country and its review process contributes towards an increasingly robust and transparent financial reporting system in the country. The Board has been set-up to:

- (a) make recommendations to the Council with regard to the quality of services provided by the members of the Institute;
- (b) review the quality of services provided by the members of the Institute including audit services; and
- (c) guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

Since FY 2012-13, QRB has formalised a distinct and strong system of independent review of statutory audit services of the audit firms auditing accounts of top listed and other public interest entities in India. QRB's reviews involve assessment of the work of statutory auditors while carrying out their statutory audit function so that QRB is able to assess (a) the quality of audit and reporting by the statutory auditors; and (b) the quality control framework adopted by the audit firms in conducting audit. The major focus of the reviews is on compliance with technical standards, relevant laws & regulations, quality of reporting and firm's quality control framework.

The whole review mechanism is a strong deterrent to errant audit practices. Also, a huge number of audit firms have reacted responsibly by taking action to improve compliance and overall audit quality. Overall, the practice of quality audit and audit quality review conducted by QRB will usher in greater reliability and transparency and increase confidence in audits in the country.

It gives me immense pleasure to place in your hands this Technical Guide for conducting Quality Reviews. This Technical Guide deals in great detail about practical aspects of conducting quality reviews by the Technical Reviewers (TRs) such as basic principles of conducting the review, terms of review, quality control in a review, planning, conducting and reporting aspects of the review. For the benefit of the Technical

Reviewers, the Appendices of the Technical Guide provide specified formats of Final Report, Summary Report and quality Review Program General Questionnaire. It also gives templates of Engagement Letter for TRs and Audit firms apart from prescribed formats for submission of declarations on confidentiality requirements and eligibility by the TRs and his/her Assistant(s).

On behalf of the entire Quality Review Board and on my personal behalf, I wish to place on record my sincere gratitude to CA. Shyam Lal Agarwal, Chairman and CA. Sanjay Vasudeva, Vice Chairman, Auditing and Assurance Standards Board of the ICAI for their role in bringing out this Technical Guide. I also compliment CA. Lalit Kumar, all the other Members of the Auditing and Assurance Standards Board of the ICAI and all the Officers and staff of the AASB of the ICAI for their contribution in developing this Technical Guide.

I also express my thanks to Mr. Injeti Srinivas, Secretary, Ministry of Corporate Affairs, Mr. K. V. R. Murty, Joint Secretary (Corporate Affairs), CA. Naveen N. D. Gupta, President, ICAI, CA. Prafulla P. Chhajed, Vice-President, ICAI and Mr. V. Sagar, Secretary, ICAI for their overall guidance and support to the activities of the Board.

I also wish to place on record my appreciation for all the Members and Special invitees of the Quality Review Board for their suggestions, support and guidance in finalising this Guide. I also wish to thank CA. Mohit Baijal, Secretary, QRB and all other staff of the QRB Secretariat for their contribution in finalising this Technical Guide.

I am sure all the Technical Reviewers and other concerned stakeholders would find this Technical Guide highly useful.

March 1, 2018  
NOIDA.

**Dr. Parvinder Sohi Behuria**  
Chairperson  
Quality Review Board

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# Chapter 1

## Introduction

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### The Quality Review Board

1.1 The Quality Review Board (hereinafter “QRB”/ “the Board”) has been set up by the Central Government under section 28A of the Chartered Accountants Act, 1949<sup>1</sup> (hereinafter “the Act”). The first Quality Review Board was constituted by the Central Government, in exercise of the powers conferred by section 28A of the Chartered Accountants Act, 1949, *vide* Notification GSR. 448 (E) dated 28th June, 2007.

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

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

1.4 The functions of the Board have been laid down in section 28B of the Act and are as follows:

- a) Making recommendations to the Council of ICAI with regard to the quality of services provided by the members of the Institute;
- b) Reviewing the quality of services provided by the members of the Institute including audit services; and
- c) Guiding the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

1.5 To facilitate the discharge of its functions, Rule 6 of *the Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and*

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<sup>1</sup> As amended from time to time.

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*Members of the Board) Rules, 2006*<sup>2</sup>(hereinafter “the Rules”), provides that the Board may:

- (a) on its own or through any specialized arrangement set up under the Institute, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide;
- (b) lay down the procedure of evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals<sup>3</sup> and firms<sup>4</sup> rendering such services for review;
- (c) call for information from the Institute, the Council or its Committees, Members, clients of members or other persons or organizations, in such form and manner as it may decide, and may also give a hearing to them;
- (d) invite experts to provide expert/technical advice or opinion or analysis on any matter or issue which the Board may feel relevant for the purpose of assessing the quality of work and services offered by the members of the Institute;
- (e) make recommendations to the Council to guide the members of the Institute to improve their professional competence and qualifications, quality of work and services offered and adherence to various statutory and other regulatory requirements and other matters related thereto.

1.6 The Rules also provide that where the Board does not receive the information called for by it from any member of the Institute, the Board may request the Institute to obtain the information from the member and furnish the same to the Board. Similarly, if the Board does not receive the information called for by it from any company registered under the Companies Act, 1956 (1 of 1956) (now Companies Act, 2013), the Board may request the Central Government through the Ministry of Corporate Affairs for assistance in obtaining the information. It is noted that the rules specifically provide that the Board may approach the Ministry of Corporate Affairs for seeking the information that it needs from any

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<sup>2</sup> Issued by the Ministry of Corporate Affairs, *vide* notification no. GSR.735(E) dated 27<sup>th</sup> November 2006 and amended from time to time.

<sup>3</sup> The term “individual” may be construed to have the same meaning as assigned to the term “professional accountant in public practice (practitioner)” in the ICAI’s Code of Ethics.

<sup>4</sup> The term “firm” may be construed to have the same meaning as assigned to the term “firm” in the ICAI’s Code of Ethics.

company registered under the Companies Act, 1956 (now, Companies Act, 2013).

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

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

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

### **Selection of Audit Firms for Quality Review**

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

#### ***(a) Criteria based on companies whose accounts have been audited***

1.10 Under this category, in the initial stage, the audited accounts of companies having wider public interest, such as listed companies, may be selected by QRB on the basis of one or more of the following:-

- *suo moto* or random selection from particular class of enterprises/audit firms.
- on account of being a part of a sector otherwise identified as being susceptible to risk on the basis of market intelligence reports.
- regulatory concerns pointing towards stakeholder risks.
- reported fraud or likelihood of fraud.
- serious accounting irregularities reported in media or other reports.

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- major non-compliances with provisions relating to disclosures under relevant statutes.
- reference made to it by any regulatory body such as Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs, etc.

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

1.12 The Secretariat of QRB places the details of the enterprises selected for review before the Board for its consideration. The Board may consider whether the case warrants a review by a Quality Review Group (discussed in subsequent paragraphs) constituted for this purpose and may refer the cases selected for review to the relevant Quality Review Group. The Board may obtain the Annual Report of the company concerned in terms of the 'Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006'.

### ***(b) Criteria based on Audit Firms auditing the accounts***

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

## **Constitution of Quality Review Groups**

1.14 The Board constitutes Quality Review Groups (hereinafter "QRGs") to conduct preliminary reviews of the general purpose financial statements with a view to assessing the quality of audit and reporting by the practitioners. There are two categories of the Review Groups, viz., industry specific and generic. Industry-specific Review Groups are constituted for reviewing general purpose financial statements of enterprises associated with a particular industry, for example, banking, insurance, electricity, mutual funds, merchant bankers, etc.

## **Appointment of Technical Reviewers**

1.15 Each QRG is assisted by Technical Reviewer/s (hereinafter "TRs") to prepare a report on the review of general purpose financial statements, with a view to assessing the quality of audit and reporting by

the practitioner, and the review of quality control framework adopted by the practitioner/ auditing firms in conducting audit.

1.16 Board has laid down eligibility conditions for appointment of TRs. While only a chartered accountant can be appointed as a TR, one of the eligibility conditions is that there should not be any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against the TR or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against the TR during the period specified by the Board in the engagement letter. There are three more eligibility conditions to be fulfilled by the TRs. These relate to their professional association with or financial interests in the audit firm under review or the company whose audited financial statements' engagement is under review. These conditions are aimed at ensuring independence and objectivity of the TR and have been given in **Chapter 2** of the Technical Guide. A TR, before accepting the appointment, is required to submit a declaration (in the prescribed format) to the Board that he/she has fulfilled all the eligibility conditions.

### **Functioning of Quality Review Groups**

1.17 The report, so prepared by the Technical Reviewer, is considered at the meetings of the concerned QRG. The QRG may also consult the Board on any issue, on which the former feels that the guidance of the Board is necessary.

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

1.19 The report of the QRG should expressly state the following:

- (a) Particulars of the Audit Firm under Review (hereinafter "AFUR");
- (b) A detailed description of the non-compliance/s, if any, with the matters stated in the Terms of Reference of the Board;
- (c) A detailed description of the evidences that support the non-compliance/s; and
- (d) QRG's recommendations about the actions that are required to be taken in a particular case.

### **Submission of Report**

1.20 The TR, after completion of his review, is required to submit, within the specified time, a preliminary report to the audit firm on the review of the quality of audit and reporting by the auditors in the general purpose

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financial statements. The Board may, however, extend the time limit for submission of preliminary review report. The TR, based upon his consideration of the responses received from the AFUR, may decide to issue either an interim report or a final report to the Board.

### **Consideration of the Reports of the Quality Review Groups**

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

1.22 The reports of the QRGs on the quality of audits by the auditors of enterprises (other than those covered under paragraph 1.21 are placed before the Board for its consideration directly).

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

## Chapter 2

# Basic Principles of Conducting a Quality Review

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2.1 The basic principles of conducting a quality review have been stated in this Chapter. These principles have been derived based on the scope of reviews and the responsibilities of the Technical Reviewer as specified by the QRB. A quality review of the audit services of the audit firms involves interviewing, making enquiries and performing such other procedures to examine whether the Firm has complied with the applicable technical standards relating to the audit of the financial statements, the professional and ethical standards as issued by the Institute of Chartered Accountants of India (ICAI) and considered relevant laws and regulations. It also includes review of the system of quality control which the Firm has implemented as required by such technical standards. The Technical Reviewer's examination and review is limited to procedures and implementation thereof, adopted by the Audit Firm for ensuring the compliance with:

- Whether the Statutory Auditor has ensured compliance with the applicable technical standards in India, other applicable professional and ethical standards and relevant laws and regulations;
- whether the Statutory Auditor/ Audit Firm has implemented a system of quality control with reference to the applicable quality control standards; and
- Whether there is no material misstatement of assets and liabilities as at the reporting date in respect of the company/entity concerned.

The Technical Reviewer is also required to conclude that nothing has come to his attention that causes him to believe that the Audit Firm has not complied with the aspects covered.

### Objective of the Technical Reviewer

2.2 The objective of the Technical Reviewer (TR) in the conduct of a quality review has to be within the overall scope of the functioning of the Quality Review Board. Accordingly, the objective of a Quality Review is to enable the TR to report on:

- (a) The quality of audit and reporting by the auditor; and
- (b) The quality control framework adopted by the auditor/ audit firm in conducting audit.

## **Independence Requirements**

2.3 Independence of the TR and also the members of the review team *vis a vis* the AFUR as well as the auditee is imperative. Accordingly, as per the eligibility conditions for appointment of TR laid down by the Board, a person is eligible to be appointed as a TR only if he/she fulfils the following conditions:

- a) TR or his/her firm or any of its network firms or any of the partners of TR's firm or that of the network firms should not have been the statutory auditor of the company/entity under review or have rendered any other services to the said company/entity during the last three financial years and/or thereafter.
- b) TR or his/her firm or any of its network firms or any of the partners of TR's firm or that of the network firms should not have had any association with the audit firm under review, during the last three financial years and /or thereafter.
- c) TR complies with all the eligibility conditions laid down for appointment as an auditor of the company/entity under review under section 141(3) of the Companies Act, 2013 so far as applicable.

The Board requires a TR to submit a declaration in the prescribed format that he/she fulfils the aforesaid eligibility conditions.

## **Confidentiality Requirements**

2.4 As a part of his/her review, both the TR as well as the members of the TR's team, would have access to the AFUR's working papers relating to the audit engagement under review. These may include originals/ copies of critical documents such as, auditee's product/service pricing policies, contracts with vendors, communications with lawyers/bankers, minutes of meetings of board meetings, say, regarding, strategic potential acquisitions/ divestitures, etc. Much of such information is critical in terms of its impact on price of the securities of the auditee, market competition, market reputation, etc.

2.5 The TR and the review team would, similarly, also have access to internal policy and procedures documents, such as the AFUR's quality control manual or equivalent document/s. These documents might contain sensitive information, such as that related to AFUR's risk appetite in relation to client acceptance/retention, appointment, remuneration and severance of partners and senior staff members, recovery rates on different engagements, communications with legal counsels/ regulatory authorities on disciplinary matters, internal/external investigations against

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partners/ senior staff members, reports of internal quality control reviews, etc.

2.6 The TR and members of the review team need to be sensitive to the implications of their being privy to such sensitive documents. They should ensure that they do not share with any third party, including their social acquaintances, any information procured by them in the course of their review as also the results of the review. The QRB also recognises the paramount importance of maintaining confidentiality of such information by the TR and the members of review team. Accordingly, as a part of the acceptance of the engagement as a TR, the latter as well as all the members of the review team are required to submit a confidentiality declaration in the format prescribed by the Board. The format of this declaration is given in **APPENDIX1** to this Technical Guide.

### **Knowledge of Relevant Legal and Regulatory Requirements**

2.7 The TR and the other members of the QR team should have adequate knowledge of the legal and regulatory requirements governing the AFUR as well as the auditee whose audited financial statements are under review. This includes knowledge of:

- (i) Audit processes;
- (ii) Applicable Standards on Auditing (SAs) and other generally accepted auditing practices;
- (iii) The financial reporting framework applicable to the auditee;
- (iv) Relevant pronouncements and publications of ICAI, issued from time to time;
- (v) Legal and regulatory requirements applicable to the AFUR, such as the Chartered Accountants Act, 1949 and Regulations thereunder, the ICAI Code of Ethics, etc.;
- (vi) Legal and regulatory requirements applicable to the auditee, for example, the Companies Act, 1956/2013 and the Rules thereunder, industry specific laws, for example, the Banking Regulation Act, 1949 in case the auditee is a bank, requirements of the applicable financial reporting framework;
- (vii) Auditing and financial reporting issues relevant to the auditee's industry.

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In the above context, reading the publications/ guidance issued by the Quality Review Board from time to time would also be of help to the TR<sup>5</sup>. For example, reading through the published QRB reports would provide information in respect of the type of observations noted across other reviews. Similarly, reading the reports of the International Forum of Independent Audit Regulators, provided by QRB from time to time can help understand, for example, the general approach and focus areas of quality reviews, internationally. Similarly, TR should also obtain publicly available information including the relevant financial statements of the company whose audit is under review.

2.8 It is also important for the TR to understand that “*professional judgment*”, as defined in SA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing” is an integral concept in the context of an audit and application of SAs in real life audit scenarios. SA 200 defines professional judgment as “*the application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.*”

2.9 The concept of “*professional judgment*” underscores the fact that Standards, particularly, Standards on Auditing are written to lay down the fundamental principles that would apply to an audit situation, in general. It is neither practical nor possible for Standard to envisage or deal with all the circumstances that may be encountered in real life audit situations. Hence, no Standard can have straight jacketed application/solutions for all audit scenarios. Above all, the Standards on Auditing issued by the Institute of Chartered Accountants of India<sup>6</sup> are principle based rather than rule based. Hence, almost all the SAs envisage exercise of professional judgment by the auditor in their application in real life audit scenarios. Professional judgment is thus essential to the proper conduct of an audit and ensures that informed decisions are taken throughout the audit on the basis of application of relevant knowledge and experience to the facts and circumstances. In fact, the distinguishing feature of the professional judgment expected of an auditor is that it is exercised by an auditor whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.

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<sup>5</sup> TRs can visit QRB’s website <http://www.qrbca.in> for this purpose.

<sup>6</sup> In case of Companies, the Standards on Auditing are as specified under section 143(10) of the Companies Act, 2013.

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2.10 An auditor would, thus, exercise professional judgment in relation to aspects that are very critical to an audit, such as:

- Materiality and audit risk.
- Application and interpretation of the accounting standards, as specified in the applicable financial reporting framework applicable to the audit client.
- Nature, timing, and extent of audit procedures to be employed to meet the requirements of the SAs and gathering audit evidence.
- Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more needs to be done to achieve the objectives of the SAs and thereby, the overall objectives of the auditor.
- Evaluating of management's judgments in applying the entity's applicable financial reporting framework.
- Drawing conclusions based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements.

2.11 SAs require the auditors to exercise professional judgment throughout the planning and performance of the audit and, among other things:

- Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, including the entity's internal control.
- Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
- Form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained.

2.12 Following are some examples of specific areas for exercise of professional judgment envisaged in various SAs:

### ***SA 240, The Auditor's Responsibilities relating to Fraud in An Audit of Financial Statements***

- Determination of matters relating to frauds that need to be communicated to those charged with governance.
- Determination of whether a fraud risk factor is present and whether it is to be considered in assessing the risks of material misstatement of the financial statements due to fraud.

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- Determining the nature, timing and extent of testing of journal entries and other adjustments.
- Determining which particular trends and relationships may indicate a risk of material misstatement due to fraud, when applying analytical procedures for overall review of the financial statements.
- Determination of which level of management is the appropriate for auditor's communication of existence of an actual/ possible fraud.

### ***SA 250, Consideration of Laws and Regulations in An Audit of Financial Statements***

- Determining whether the effect of a suspected non-compliance would be material on the financial statements.
- Determining whether a non-compliance is intentional and material.

### ***SA 260, Communication With Those Charged With Governance<sup>7</sup>***

- Determining such additional matters (other than those listed in paragraph 12(b) and 12(c) of SA 260) to be communicated to those charged with governance which are significant to the oversight of the financial reporting process.
- Determining all such relationships and other matters between the firm, network firms, and the entity that may reasonably be thought to bear on independence.
- Determining when mere oral communication of significant matters that arose during the audit to those charged with governance may not suffice.

### ***SA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management***

- Determining which deficiency or combination of deficiencies in internal control is/are significant deficiency/ies.
- Determining deficiency/ies (other than significant deficiency/ies) in internal control that are of sufficient importance to merit management's attention.
- Where the jurisdiction has established specific terms for the types of deficiency in internal control to be communicated but has not defined such terms, to determine the matters to be communicated further to the legal or regulatory requirement.

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<sup>7</sup>Revised SA 260, "Communication with Those Charged with Governance" whenever applicable.

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- The level of detail at which to communicate significant deficiencies.
- Determining whether the deficiency(s) other than significant deficiency/ies communicated by the auditor to the management in the prior period, that remained unrectified by the management, has/have become significant deficiency in the current period.

### **SA 300, *Planning an Audit of Financial Statements***

- While establishing the overall audit strategy, considering what factors are significant in directing the engagement team's efforts.

### **SA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment***

- Determining what risks are significant risks requiring special audit consideration.
- Determining who in the entity (other than management) should be approached for inquiries regarding information that is likely to assist in identifying risks of material misstatement due to fraud or error.
- Determining whether a control, individually or in combination with others, is relevant to the audit.
- Determining the extent required of the understanding of the entity and its environment.
- Determining whether the entity's risk assessment process is appropriate to the circumstances.
- Determining the control activities that are relevant to audit.

### **SA 320, *Materiality in Planning and Performing an Audit***

- Determining audit materiality.
- Deciding on the size of misstatements that would be considered material.
- Determining a percentage to be applied to a chosen benchmark.

### **SA 330, *The Auditor's Responses to Assessed Risks***

- Deciding on whether to rely on audit evidence obtained in previous audits for controls that have not changed since they were last tested and are not controls that mitigate a significant risk.
- Deciding on the length of time between retesting of aforesaid controls.

### **SA 450, *Evaluation of Misstatements Identified during the Audit***

- Such adjustments of amounts, classifications, presentation, or

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disclosures that are necessary for the financial statements to give a true and fair view or present fairly, in all material respects.

- Deciding whether an omission of information which is not specifically required by the applicable financial reporting framework is important to the users' understanding of the financial position, financial performance or cash flows of the entity.

### **SA 520, *Analytical Procedures***

- Determining what audit procedures to perform, including whether to use substantive analytical procedures, at the assertion level.

### **SA 530, *Audit Sampling***

- Deciding on whether to use a statistical or non-statistical sampling approach.
- Determining the sampling size.

### **SA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures***

- Determining whether any of those accounting estimates that have been identified as having high estimation uncertainty give rise to significant risks.
- Determining whether the management has adequately addressed the effects of estimation uncertainty on the accounting estimates that give rise to significant risks.
- When the applicable financial reporting framework does not prescribe the method of measurement, evaluating whether the method used, including any applicable model, is appropriate in the circumstances.
- Determining the extent of audit evidence to be obtained about management's intent and ability for carrying out certain courses of action relating to the assumptions underlying the management's accounting estimates.
- Determining whether sufficient appropriate audit evidence has been obtained through the auditor's evaluation of how management has addressed the effects of estimation uncertainty.
- Determining whether it is necessary to explore further the degree of estimation uncertainty associated with an accounting estimate.
- Determining whether it is unlikely that other audit evidence can be obtained.

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- Evaluating possible existence of the indicators of management bias in the making of accounting estimates.

### **SA 570, *Going Concern*<sup>8</sup>**

- Concluding whether based on the audit evidence obtained a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.
- Determining whether management's use of going concern in the preparation of the financial statements is inappropriate.

### **SA 620, *Using the Work of an Auditor's Expert***

- Determining whether a particular area is a specialised area of accounting or auditing or another field.
- Considering how the requirements of this SA are affected by the fact that an auditor's expert may be either an individual or an organisation.

### **SA 705, *Modifications to the Opinion in the Independent Auditor's Report***

- In evaluating whether a misstatement has a pervasive effect on the financial statements:
  - Whether effect/s is/are confined to specific elements, accounts or items of the financial statements.
  - Where so confined, whether the effect/s represent/s or could represent a substantial proportion of the financial statements.
  - Whether the effect/s in relation to disclosures, is/are fundamental to the users' understanding of the financial statements.
- In determining the disclosures regarding the omitted information in the basis of modification paragraph, whether the disclosures would be unduly voluminous in relation to the auditor's report.

### **SA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report***

- In determining, in the context of an Emphasis of Matter paragraph, what matter is of such importance that it is fundamental to users' understanding of the financial statements.
- In determining, in the context of an Other Matter paragraph, what

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<sup>8</sup>Revised SA 570, "Going Concern", whenever applicable.

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matter is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

2.13 The TR would need to appreciate that the exercise of professional judgment in any particular case is based on the facts and circumstances that are known to the auditor as at the time of exercising that professional judgment. Normally, exercise of professional judgment by an auditor is preceded by consultation on the relevant matters both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm.

2.14 In evaluating the professional judgment exercised by the auditor, the TR should consider the following factors:

- whether the judgment reached reflects a due consideration and application of the relevant auditing and accounting principles; and
- whether the judgment is appropriate in the light of, and consistent with, the facts and circumstances that were known to the auditor up to the date of the auditor's report.

Hence, the TR and the QR Team should not, under any circumstance, use "hindsight" (i.e. perception or retrospection) in their evaluation of exercise of professional judgment by the auditor.

2.15 Since the auditor needs to exercise professional judgment throughout the audit, the latter also needs to be appropriately documented. Hence, the TR can expect to find such audit documentation as a part of the audit engagement file. It is important to note that professional judgment cannot be used by an auditor as a justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate audit evidence.

## Chapter 3

# Terms of Quality Review

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### Scope of Quality Review as per QRB

3.1 The scope of the quality review carried out by the TR includes:

- (a) Examining whether the Engagement Partner<sup>9</sup> has ensured compliance with the applicable technical standards in India and other applicable professional and ethical standards and requirements.
- (b) Examining whether the Engagement Partner has ensured compliance with the relevant laws and regulations.
- (c) Examining whether the Audit firm has implemented a system of quality control as envisaged in line with the SQC 1.

3.2 The term “Technical Standards” in the context of the Procedure for Quality Review of Audit Services of Audit Firms issued by QRB includes:

- Preface to the Statements of Accounting Standards.
- Preface to the Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.
- The Accounting Standards notified under section 133 of the Companies Act, 2013;
- The Accounting Standards issued by the Institute of Chartered Accountants of India;
- The Framework for the Preparation and Presentation of Financial Statements issued by the Institute of Chartered Accountants of India;
- The applicable Quality Control and Engagement Standards issued by the Institute of Chartered Accountants of India;
- The Statements on Auditing issued by the Institute of Chartered Accountants of India;
- The Guidance Notes on accounting and auditing matters issued by the Institute of Chartered Accountants of India;

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<sup>9</sup> As defined in SQC 1.

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- The Notifications/Directions/Guidelines issued by the Institute of Chartered Accountants of India including those of a self-regulatory nature.
- The Code of Ethics issued by the Institute of Chartered Accountants of India.
- Other Legal and Regulatory Requirements.

Various Technical Boards/Committees of Council of ICAI also issue Technical Guides and other technical publications. It may be noted that while these technical documents are not issued under the authority of the Council of ICAI, these technical documents contain the views of the concerned Board/Committee of the Council of ICAI. Therefore, it is important that TRs may also consider referring to such technical documents in determining the technical standards as may be applicable in the review assigned to TR.

3.3 The QRB sends an offer letter to the TRs selected for carrying out quality reviews. This offer letter, among other things describes:

- Context of the quality review
- Scope and objective of the quality review
- On site visit requirements
- Confidentiality requirements
- Conditions relating to members of the TR's review team
- Honorarium
- Expenses reimbursement guidelines
- Timelines
- Reporting requirements and guidelines

A TR is required to submit the offer letter to QRB alongwith prescribed declarations as a token of his/her acceptance of the offer. The format of offer letter is given in **APPENDIX 1** to this Technical Guide.

### **Communication with Audit Firm Under Review (AFUR)**

3.4 The QRB sends an intimation to the audit firm under review (AFUR) regarding the impending review prior to the commencement of the same. The format of intimation letter is given in **APPENDIX 2** to this Technical Guide.

## **Terms of Quality Review**

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3.5 For a better understanding and coordination between the TR and the AFUR, it is advisable that the TR also sends a communication to the AFUR specifying aspects such as:

- Date of commencement of the review
- Expected date of completion of review
- Documents required for review
- Identification and contact details of the TR (Lead Reviewer)
- Composition of the review Team, if any

3.6 It is also advisable that for a smooth conduct of the review, the TR and the AFUR reach an understanding on the following matters:

- Main contact person/s in the AFUR for TR's requirements relating to the review.
- Normal lead time required for production of documents, resolution of queries, etc.
- Logistical arrangements, as available within the AFUR, for conduct of review.
- Any other support/coordination required by TR from AFUR and *vice versa*.
- The frequency and timing of communications related to issues or findings noted by the TR.

## Chapter 4

# Quality Control in a Quality Review

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### Responsibility of the Lead TR

4.1 A quality review is an engagement that needs to be carried out in a manner that ensures that the work performed by the TR and the review team meet the professional standards established by ICAI. Any shortcomings in the quality of the QR would defeat the very purpose of the process of a quality review established by the Quality Review Board. It is, therefore, of utmost importance that ensuring quality in a QR remains a priority for a TR. In so far as the TR is concerned, the quality of a QR is directly affected by factors such as:

- Knowledge and experience of the TR
- Time devoted by the TR
- Composition of the QR team
- Understanding of the objective and scope of work
- Monitoring, direction and supervision of the QR team by the TR

In fact, maintaining the quality in a QR as also the final report of the QR is and remains the responsibility of the TR.

### Deciding on the Composition of the QR Team

4.2 The selection and appointment process of the QRB is designed to ensure that the TR has sufficient and appropriate knowledge and experience to carry out the review of the AFUR. In so far as the QR team is concerned, the QRB has set a restriction of a maximum of three assistants that can accompany the TR on a QR engagement for an on-site visit to the AFUR. The QRB has also laid out eligibility and other conditions for the assistants. The eligibility conditions require that an assistant:

- (i) should be a member of the Institute of Chartered Accountants of India;
- (ii) should not have attracted any disqualifications under the Chartered Accountants Act, 1949;
- (iii) should have no direct interface either with the AFUR or the Board;

## **Quality Control in a Quality Review**

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- (iv) should have been working with the lead TR for at least one year as a member of the ICAI or is a partner in the TR's firm for at least one year;
- (v) should not have been associated with the Statutory auditor/Audit firm under review or the company/entity under review during last three financial years and/or thereafter;
- (vi) should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against him/her or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against him/her during last three financial years and/or thereafter;
- (vii) should not be a member of current QRB Board/ICAI's Central Council/Regional Council/Branch level Management Committee; and
- (viii) should not himself/herself be empanelled as a Technical Reviewer with the Quality Review Board.

The TR should, therefore, exercise due diligence in selecting the assistants that would comprise the QR team to ensure that they meet the aforesaid criteria. Under no circumstances, therefore, the TR should include any person, including an articulated assistant/ semi-qualified personnel, who does not meet the aforesaid eligibility, in the QR team and/or send such person for on-site visit/s. In addition to the above, as mentioned in Chapter 2, QRB requires the assistants also to submit a confidentiality declaration. The TR should, therefore, ensure that all the members of the QR team submit the confidentiality declaration.

4.3 It should also be noted that a quality review is to be performed as an "on-site" engagement. However, sometimes the TR might need to receive or respond to some minor queries relating to the quality review which may be done off site.

4.4 The TR needs to ensure that the composition of the QR team, while it meets the basic eligibility and other conditions laid down by the QRB, is appropriate so as to enable proper conduct of the quality review. Thus, in addition to the criteria set by the QRB, the following factors may also be considered by the TR in making the selection of assistants:

- Post qualification statutory audit experience.
- Knowledge of relevant professional pronouncements.
- Relevant industry experience.
- Any other subject area expertise, e.g., IT, financial instruments.

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- Availability of time *vis a vis* other professional work commitments.
- Results of any internal/external quality review that the TR's firm might have undergone with reference to the engagement/s handled by the assistant/s.
- Communication and inter personal skills.

4.5 The TR would have to use his/her professional judgment to decide on the mix of the QR team so that there is a balance between seniority and expertise of the team members to ensure coordination and cohesion in the QR team.

### **Directing, Supervising and Monitoring the QR Team**

4.6 The QRB prohibits the assistants to have any direct interface with the AFUR or the QRB itself. It is, therefore, very important that the reporting and communication channels and hierarchy is clearly defined among the team members. Also, the TR needs to provide timely direction, supervision and monitoring of the QR team.

4.7 Directing the QR team would involve informing the QR team members of aspects including:

- QRB, its constitution, its past work in terms of past published reports, etc;
- Need to be compliant throughout the review with the eligibility and other conditions laid down by the QRB;
- Objective of the QR to be performed;
- Responsibilities of the respective team members;
- Brief about the AFUR and the specific audit engagement selected for review;
- Probable areas of concern;
- Detailed approach to the performance of the review.

4.8 Supervision of the QR team includes consideration of matters such as:

- Tracking the progress of the review engagement.
- Whether the individual team members are performing the work according to their capabilities and competence.
- Whether the individual team members are devoting sufficient time to the review engagement.

## **Quality Control in a Quality Review**

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- Whether the team members have understood the instructions given by TR properly.
- Whether the review work is being carried out as planned.
- Significant matters arising during the review engagement and whether the planned approach to the review is required to be modified to address such matter/s.

4.9 Monitoring includes consideration of matters such as:

- Whether the QR procedures are relevant to the QR engagement.
- Whether the QR procedures are adequate in the circumstances.
- Whether the QR procedures are implemented effectively.

Consideration of aforesaid matters helps the TR in assessing whether there are any deficiency(s) in QR procedures. Monitoring helps in assessing whether the QR procedures are achieving the desired objectives of the QR or not. Any deficiencies in the QR procedures can lead to problems/issues such as cost and time overruns, underutilisation of QR team members' capabilities and competencies, unnecessary demands on the time and personnel of the AFUR.

### **Documentation**

4.10 The documentation by the lead TR should include:

- Issues identified during the review engagement with respect to compliance with the eligibility and other conditions imposed by the QRB and how these were resolved.
- Significant issues identified during the supervision and direction of the QR engagement and how these were resolved.
- Significant deficiencies noted in the QR procedures and the resultant modifications made thereto.
- Discrepancy(s) noted during QR and recommendations of TR thereon to improve audit quality.

## Chapter 5

# Planning the Quality Review

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### Need for Planning

5.1 A well planned QR engagement ensures that a QR is performed in an effective manner. It involves establishing the overall strategy for the review and developing the review plan. A well planned QR helps the reviewer to, *inter alia*:

- Devote appropriate attention to important areas of review;
- Identify and resolve problems on a timely basis;
- Facilitate direction and supervision of the team members and their work.

5.2 The nature and extent of the planning required for a QR will vary according to the size of the AFUR, nature and complexity of the QC system in AFUR and the audit engagement under review, the experience and competence of the QR team members and any changes that may occur subsequently in the circumstances of the QR.

5.3 Planning is a continuous exercise. It starts when the TR submits his/her acceptance to the QRB and continues till the submission of the final report to QRB by the TR. It involves a careful identification of the activities to be undertaken during the QR, their sequencing, team members' allocation to the activities and the time budget for each of the activities.

5.4 Involving the members of the QR team in planning discussions will help the TR in developing an appropriate plan for effective execution of the QR engagement. The QR plan would normally cover, *inter alia*,

- The nature, timing and extent of planned review activities for understanding the QC system at the AFUR and the audit engagement under review.
- The nature, timing and extent of procedures to be performed to evaluate the design and implementation of the QC system at the AFUR.
- The nature, timing and extent of procedures to be performed to evaluate whether the audit engagement has been carried out in accordance with the requirements of the applicable Standards on Auditing.

## **Planning the Quality Review**

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5.5 The initial planning activities relating to the QR engagement would include:

- Performing procedures regarding the acceptance of the QR engagement;
- Evaluating compliance with independence requirements;
- Establishing an understanding of the terms of the QR engagement.

5.6 The TR should establish an overall QR strategy that would set the scope, timing and direction of the QR, and guide the development of plan to conduct the quality review. In establishing the overall QR strategy, the TR needs to consider the following:

- Characteristics of the QR engagement that would determine the scope of the review, viz., evaluation of design and implementation of systems and evaluation of compliances;
- Reporting objectives of the QR to plan the timing of the review and the nature of the communication required with the AFUR;
- Factors that, in the TR's judgment, are significant in directing the QR team's efforts;
- Results of preliminary engagement activities and, where applicable, knowledge gained on other QR engagements, if any, performed by the engagement partner for the entity is relevant; and
- Ascertain the nature, timing and extent of resources necessary to perform the QR engagement.

5.7 Since quality review is essentially an "on-site" engagement, it is important that the on-site visit to the AFUR is also properly planned. This planning would include:

- Preparing the checklists to be circulated to the AFUR during the visit.
- Preparing a list of documents that would be required from the AFUR for the quality review.
- Coordinating with the AFUR as to the timing of the visit and the authorised coordinating person/s at AFUR.

## Chapter 6

# Conducting the Quality Review

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6.1 The objective of the TR in conducting the quality review is to issue the quality review report as specified by QRB. Therefore, the Technical Reviewer is responsible to design such procedures as may be appropriate to obtain evidence to support the conclusion in the quality review report to be issued pursuant to the quality review. As per the Reporting Guidelines issued by the Board, the TR is required to examine the procedures and implementation thereof in the AFUR for ensuring:

- (a) compliance with the applicable technical standards in India, other applicable professional and ethical standards and relevant laws and regulations;
- (b) implementation of a system of quality control with reference to the applicable quality control standards; and
- (c) whether there is no material misstatement of assets and liabilities as at the reporting date in respect of the Company/entity concerned.

6.2 Based on the procedures performed during the review, the TR also concludes to the effect that nothing has come to the notice of the TR's attention that causes the TR to believe that the AFUR has not complied with the aspects covered in terms of the scope of the Technical Review (as referred to in paragraph 6.1 above).

6.3 A quality review of the audit services of the firm in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB and as amended from time to time ("the Procedures") involves interviewing, making enquiries and performing such other procedures to examine whether the Firm has complied with the applicable technical standards relating to the audit of the financial statements, the professional and ethical standards as issued by the Institute of Chartered Accountants of India (ICAI) and considered relevant laws and regulations. It also includes review of the system of quality control which the Firm has implemented as required by such technical standards. The policies and procedures of the audit firm under review can be examined with reference to the specific engagement and the specific engagement team.

6.4 In order to effectively discharge the responsibilities, the TRs should have the knowledge of *inter alia*, SQC 1, Standards on Auditing issued

by the Institute of Chartered Accountants of India, the applicable financial reporting framework, the applicable laws and regulations and reporting thereunder. The TRs should also have knowledge about the independence and ethical requirements.

6.5 This Chapter provides guidance to the TR in achieving the objectives of the quality review.

### **Obtaining an Understanding of the Audit Engagement**

6.6 In order to achieve the objectives of the review, the Technical Reviewer, should, prior to commencement of on-site review:

- (a) read the financial statements of the entity in respect of which review has been initiated for the period under review and all other financial and non-financial information accompanying the financial statements, which could enhance understanding of the financial statements; and
- (b) obtain the knowledge of industry and the environment, including the applicable laws and regulations, in which the entity operated during the period to which the audit engagement relates.

### **AFUR's Responses to the Quality Review Program General Questionnaire**

6.7 QRB has developed Quality Review Program General Questionnaire for use by TRs. The Questionnaire work as an aid for the TRs and contain questions relevant for determining compliance with the requirements of SQC 1 and the Standards on Auditing (SAs) and Accounting Standards. The TRs are required to document their responses for the questions applicable based upon the review undertaken by them.

6.8 AFURs are also required to submit their responses to each of the questions given in the Quality Review Program General Questionnaire. Prior to commencement of on-site review, TRs must obtain the responses from AFUR for each of the question.

6.9 An AFUR, while responding to the questions related to the elements of SQC 1, should give references to their documented policies which demonstrate compliance with the requirements of SQC 1. The TR should verify whether the policies and procedures as required by SQC 1 have been documented or implemented. Unless these are documented or implemented, the TR may not be in a position to complete the review. Such policies are normally documented in the policy manuals used by the firm personnel. It may also be noted that the AFUR may not have a single document for the policies and procedures. Sometimes, the audit

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firms also communicate policies and procedures through email communications or office circulars to its personnel. The Technical Reviewer should review such communications and office circulars to establish that the Firm has documented policies and procedures as required by SQC 1.

The AFUR, while responding to the questions related to the compliance with auditing and accounting standards must provide reference to the audit documentation where the necessary evidence for compliance with the relevant standards has been documented by the engagement team.

### **Obtaining an Understanding of the AFUR**

6.10 Prior to the commencement of the review, it is important for the TR to obtain an understanding of the AFUR. This involves obtaining an understanding of the aspects including:

- (a) Size of the practice;
- (b) Legal form (sole proprietorship/partnership/LLP);
- (c) Service verticals within the AFUR;
- (d) Geographical spread of AFUR;
- (e) Governance structure in the AFUR, with respective roles and responsibilities of the partners and other staff in the AFUR;
- (f) Policies and procedures designed and implemented by the AFUR to ensure compliance with the requirements of SQC 1;
- (g) The audit methodology being used by the AFUR.

6.11 While TR can obtain the understanding of the AFUR either on site or prior to commencement of the review, it is recommended that the relevant inquiries in this regard are made prior to the commencement of the on-site review.

6.12 Upon reaching on site, the QR Team should obtain and read the policy manual (or equivalent document(s) which contains the quality control policies implemented) of the AFUR. The QR Team should verify that the references to the policies as contained in the responses provided by the AFUR are appropriate. TR/QR team should not insist on retaining a copy of these manual(s) for their records since the intellectual property right for such manuals, methodologies and procedures rest with the AFUR. The TR/QR team should make notes in their working papers to the extent it is necessary to refer back to the manuals, methodologies and procedures performed by the engagement team. The TR's documentation should be sufficient to trail back to the AFUR's documents and to the specific working papers in the audit engagement file. The TR's

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documentation of the quality review should be sufficient to enable understanding of:

- (a) the nature, timing, and extent of the quality review procedures performed to meet the objective of the review as set out by the QRB;
- (b) the results of the review procedures performed, and the evidence obtained; and
- (c) significant matters arising during the review, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

6.13 While preparing the quality review documentation, the TR, therefore, may have regard to the aspects such as:

- a) reference to the source of the quality control policy;
- b) if procedures were implemented, then a walk through, if any, performed to determine implementation;
- c) in respect of the concerned audit engagement, a reference to the relevant audit working papers;
- d) matters examined; and
- e) conclusions reached (duly supported with the basis of conclusion).

6.14 The AFUR should have documented policies and procedures to ensure compliance with the requirements of SQC 1. Any departure/non-existence will cause non-compliance with SQC 1. However, there may be situations where the AFUR has not documented all the policies. In such cases, TRs are expected to use their professional judgement in determining whether non-existence of documented policies would constitute a deficiency in the quality control policies.

6.15 After the understanding of the policies instituted by the AFUR has been obtained, the QR team should make enquiries of the AFUR about the procedures that have been implemented to ensure that policies are complied with in substance. It may be noted that procedures that an audit firm can institute would vary having regard to the size of the audit practice, number of personnel employed and geographical spread. For example, as per SQC 1, "Ethical Requirements" is one of the elements of quality control. This element, *inter alia*, requires that "the firm should establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with the relevant ethical requirements". One of the sub-policies could be that the audit firm should be independent of the financial statement audit client. In order to

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achieve compliance with the stated policy regarding independence, an audit firm is normally expected to have the following procedures in place:

- (a) Requiring the engagement partner to consider relevant information about client engagements, including the scope of services, to enable him to evaluate the overall impact, if any, on independence requirements.
- (b) Providing training to partners and professional staff on what constitutes threats to independence and the nature of safeguards that may be taken to eliminate or reduce the threats to an acceptable level. Such training could include ICAI's responses to matters dealing with ethical conduct.
- (c) Accumulating and communicating relevant information to appropriate personnel so that
  - (i) The Firm, the engagement partner, Firm personnel and others, if any, can readily determine whether they satisfy independence requirements.
  - (ii) The Firm can maintain and update information relating to independence.
  - (iii) The Firm and the engagement partner can take appropriate action regarding identified threats to independence, in consultation with the relevant Independence and Ethics personnel.
- (d) Requiring personnel to promptly report circumstances and relationships that create a threat to independence of which they become aware to the relevant Independence and Ethics personnel so that appropriate action can be taken.
- (e) Establishing criteria to determine the need for safeguards for engagements where the following have taken place:
  - (i) The Firm's monitoring procedures or peer review has identified weaknesses in previous years.
  - (ii) Where the client or those charged with governance at the client are in a dominating position and can exert pressure on the audit engagement partner to take positions which otherwise could not have been taken.
- (f) Promptly communicating identified breaches of these policies and procedures, and the required corrective actions, to the following personnel:

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- (i) The engagement partner who, within the Firm, needs to address the breach.
  - (ii) The relevant Independence and Ethics personnel who should report the breaches to the managing partner for necessary action.
  - (iii) Other relevant personnel in the Firm.
- (g) Requiring the engagement partner and the other individuals referred to in the previous list to confirm to the Firm that the required corrective actions have been taken.
  - (h) Having the relevant Independence and Ethics personnel to provide consultations regarding critical judgments to be made in respect of compliance with independence requirements.
  - (i) Establishing additional procedures that provide safeguards when the Firm performs audit for (a) significant clients; or (b) clients at which partners or other senior personnel are offered key management positions or have accepted offers of employment.

6.16 The above example is intended to provide guidance to the TR about the policies that they should look at and the procedures which the Firm could have put in place. The example given above should not be construed to mean the standard benchmark that each firm must have. The existence and implementation of policies and procedures has to be understood in the overall context of the size of firm and the resources that should have reasonably been committed to ensure compliance with the applicable standards. The TR should use his professional judgement in evaluating the policy for its adequacy and relevance and also to assess the design and implementation of the procedures.

6.17 It is important to note that evidence of design and implementation of most of the policies or elements of SQC 1 can be obtained from the review of the audit working papers related to the audit engagement. However, in certain situations, the TR would need to make separate inquiries of the AFUR about the policies surrounding some of the elements. For example, the leadership responsibilities for quality within the firm, human resources, assignment of engagement teams, monitoring, complaints and allegations, etc. The TR and the QR Team should refer to the Implementation Guide on SQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements" to see illustrative policies and procedures that may be implemented to ensure compliance with SQC 1.

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6.18 In so far as the compliance with the Standards on Auditing and Accounting Standards is concerned, the QR team should corroborate the responses provided by the engagement partner with reference to the audit documentation produced before the QR team. The TR and the QR Team should exercise their professional judgment in evaluating the responses and the audit documentation regarding compliance with accounting and auditing standards.

6.19 It may be noted that in terms of SA 220, "Quality Control for an Audit of Financial Statements" the responsibility for the overall quality on each audit engagement is that of the concerned engagement partner. Under SA 220, the engagement partner is responsible for implementing quality control procedures at the engagement level that provide the auditor with reasonable assurance that:

- (a) the audit complies with professional standards and regulatory and legal requirements; and
- (b) the auditor's report issued is appropriate in the circumstances.

6.20 SA 220 is also based on the following pillars or elements:

- (a) Leadership Responsibilities for Quality on Audits
- (b) Relevant Ethical Requirements
- (c) Acceptance and Continuance of Client Relationships and Audit Engagements
- (d) Assignment of Engagement Teams
- (e) Engagement Performance
- (f) Monitoring
- (g) Documentation

6.21 The procedures performed by the engagement partner/ audit team in respect of the aforesaid elements of SA 220 would be closely integrated to, rather flow from, the quality control system of the AFUR. In fact, SA 220 provides that,

"A2. Unless information provided by the firm or other parties suggest otherwise, the engagement team may rely on the firm's system of quality control in relation to, for example:

- (a) Competence of personnel through their recruitment and formal training.
- (b) Independence through the accumulation and communication of relevant independence information.

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- (c) Maintenance of client relationships through acceptance and continuance systems.
- (d) Adherence to regulatory and legal requirements through the monitoring process.”

6.22 In addition to the above, the following also need to be borne in mind by the TR:

- (a) During the on-site visit, the TR should obtain all the necessary information.
- (b) The TR should make an on-site visit on his own.
- (c) QRB has laid down clear eligibility conditions as to who can assist the TR i.e.be the members of the QR Team. One of these conditions is that such assistants should be a chartered accountant. Accordingly, in no case should an unqualified/semi qualified staff such as articulated assistant should be allowed to visit the AFUR.
- (d) QR Team should refrain from asking information other than that is relevant to the audit of the financial statements that is being reviewed.
- (e) Compliance with other requirements specified in the Technical Guide.

6.23 Working papers in relation to an audit engagement are the property of the AFUR. Under no circumstances, the QR Team should retain copies of the working paper(s) or audit documentation maintained by the audit firm. The QR Team should make notes as may be necessary to corroborate the responses to the questionnaire provided by the AFUR.

6.24 The TR should ensure that the QR Team, at all times, is supervised and monitored by the TR. It is also important that where the QR Team or the TR feels that there is a need to have a discussion with the engagement partner, they should intimate the points on which the discussions are required and allow reasonable time to the engagement partner to respond to those points.

### **Evaluating the Findings of Quality Review**

6.25 The TR is responsible to evaluate whether the evidence obtained during the review is sufficient to support the report to be issued pursuant to the review engagement.

6.26 The review may indicate (a) one or more design deficiencies in the policies and procedures instituted by the AFUR; or (b) the procedures performed by the engagement team were not designed or performed appropriately to provide it with sufficient appropriate audit evidence

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related to one or more assertions contained in the financial statements; or (c) one or more deficiencies in the procedures performed by engagement team to ensure that the audit report issued by the engagement partner was appropriate in the circumstances.

6.27 Therefore, it is important that the TR collates each of the findings and carries out evaluation thereof.

6.28 As and when the QR Team and TR have collated the findings which are required to be evaluated, they should communicate those findings to the engagement partner and allow the engagement partner reasonable time to respond to those queries. It is essential for the QR team to consider the information and explanations made available by the engagement partner in response to the findings.

### **Findings Related to SQC 1**

6.29 A deficiency in the design of a Quality Control (hereinafter "QC") policy exists when a policy/procedure needed to meet a requirement of SQC 1 is missing or when an existing policy is not properly designed such that even if the related procedure operates as designed, the relevant requirement of SQC 1 will not be met.

6.30 The evaluation of whether a particular QC policy is effectively designed includes an assessment of whether the policy:

- (a) is operating as prescribed by the authority possessing the necessary authority and competence to implement the policy effectively; and
- (b) satisfies the objectives.

6.31 QR Team's procedures for assessing whether the QC policies have been appropriately designed would, ordinarily, include consideration of factors including:

- (a) Appropriateness of the purpose of the QC policy and its correlation with the relevant element of SQC 1.
- (b) Competence and authority of the person/s performing the relevant procedure/s put in place by the management.
- (c) Dependency on other QC policies/procedures or information.

6.32 The QR Team would need to evaluate the severity of each deficiency in the QC policy that comes to its attention to determine whether the deficiencies, individually or in combination, would give rise to a QC breach that would not be prevented or detected on a timely basis. A deficiency in the context of the QC policy of the AFUR exists when the design of the QC policy or operation of the related QC procedure does

## **Conducting the Quality Review**

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not allow the concerned partner or staff, in the normal course of performing their functions, to prevent or detect a non-compliance with SQC 1 on a timely basis.

6.33 The QR Team would also need to assess the significance of the deficiency so identified. The significance of a deficiency would depend upon:

- (a) Whether the policy/procedure would fail to prevent or detect a non-compliance with a QC requirement; and
- (b) The magnitude/consequences of the potential non-compliance resulting from such deficiency.

6.34 Further, the severity of a deficiency does not depend on whether non-compliance has actually occurred, rather on whether there is a reasonable possibility that the QC policies will fail to prevent or detect a non-compliance. Thus, based on the above assessment, the QR Team can classify a deficiency as being “material” or “trivial”.

6.35 The risk that a deficiency in a QC policy/procedure or a combination of QC policies/procedures is material is affected by factors including:

- (a) The nature of the QC requirement involved and its susceptibility to non-compliance.
- (b) Susceptibility of the concerned QC requirement to non-compliance.
- (c) Subjectivity, complexity or extent of judgment involved in complying with a QC requirement.
- (d) Interaction of one QC policy with other QC policy/ies.
- (e) Interaction of the deficiencies.
- (f) Possible future outcome of the deficiency.

6.36 Also, presence of one or more of the following events would indicate possibility of existence of a material deficiency in QC policies/procedures:

- (a) Identification of non-compliances, whether or not material, on the part of the senior management of AFUR;
- (b) Non-compliances with the established QC policies/procedures in previous periods;
- (c) Identification by the QR team of a material non-compliance in the current period in the circumstances that indicate that the non-compliance would not have been detected by the AFUR’s QC system; and

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- (d) Ineffective oversight by the senior management of the AFUR's external reporting on compliances with all or some elements of the QC system.

It may be noted that the above is only an inclusive list of such events.

6.37 The QR Team's determination of whether a deviation exists would involve understanding the objective for which the concerned QC policy was established and what constitutes a deviation. Generally, any failure to adhere to the established QC policy/procedure, including failure to comply with a regulatory requirement would constitute a deviation. The following are the instances where the failure of a QC policy/procedure may not be a deviation:

- (a) When the policy operates effectively in mitigating the risk of non-compliances, even though the related procedure does not operate as prescribed.
- (b) When the departure from a policy or procedure is authorised by an appropriate authority in AFUR based on particular circumstances.
- (c) A document selected for testing that has been validly cancelled prior to operation of the policy/procedure.

6.38 In determination of the nature and cause of a deviation, the QR Team may evaluate the following aspects:

- (a) Is the nature of the deviation limited to certain types of policies/procedures?
- (b) Has a change in the roles and responsibilities of the person performing the procedure or monitoring the policy contributed to the deviation?
- (c) Has a lack in the competency of the person performing the procedure resulted in a deviation?
- (d) Have the changes in volume of activities/events relating to the concerned QC policy/procedure contributed to the deviation?

6.39 No system of control (a policy/related procedure) can provide a fool-proof/absolute assurance that no deviations would occur. Deviations from an established policy/procedure may occur due to factors discussed in the preceding paragraph. Thus, existence of deviation/s by itself/themselves does/do not always imply that the established policy or a procedure is not effective and vice versa. The following factors may be evaluated by the QR Team to conclude whether the level of deviations is acceptable or not:

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- (a) **Risk associated with the control** – the higher the risk of non-compliance, the more reliable the policy/procedure needs to be.
- (b) **Extent of reliance on the control**–if the risk of non-compliance is addressed only by one policy/procedure, the latter needs to be more reliable, especially, when the risk being addressed is a significant risk.
- (c) **Nature of control**– the relative importance of the deviations to the overall operation of the QC policies and procedures.

6.40 Based on the above, the QR Team would evaluate the deviations to conclude whether the Firm has been able to demonstrate compliance with the requirements of SQC 1. In case, the AFUR is able to demonstrate sufficient compliance with the applicable requirements, the matter should not be classified as a deficiency. In such a case, the TR, while documenting the finding should document the recommendations for documentation or process improvements to be made by the Firm. In case the AFUR is not able to demonstrate compliance with the applicable requirements, the TR should classify the finding as a deficiency. A deficiency would be a situation where the AFUR has not laid down policy or procedures which are required to comply with the requirements of SQC 1. For example, SQC 1 requires establishment of policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with the professional standards and regulatory and legal requirements, and to enable the Firm or the engagement partners to issue reports that are appropriate in the circumstances. If the AFUR does not have policies and procedures in place to ensure compliance with this requirement, it would lead to a deficiency.

### Findings Related to the Engagement Performance

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

- (a) the responses given by the engagement team;
- (b) materiality of the items of the financial statements involved;
- (c) accounting and auditing practices under the legal and regulatory framework applicable to the industry to which the audit client belongs; and

## **Technical Guide on Conducting Quality Review**

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- (d) if the findings are related to non-compliance with the procedures required to be performed in accordance with the Standards on Auditing, whether the engagement team carried out alternative procedures to obtain sufficient appropriate audit evidence in relation to the financial statement assertion under question.

6.42 The responses given by the engagement team are also important to determine the extent of non-compliance. The TR must consider the responses provided by the engagement team. These responses may help the TR in understanding the perspective and the circumstances in which the audit procedures were carried out. As mentioned earlier, the TR should evaluate the findings of quality review and the responses given by the engagement team based on the facts and circumstances that existed at the time when the AFUR issued the audit opinion. It is not expected that the TR would use hindsight to challenge the procedures that were performed by the engagement team.

6.43 The TR might also be required to evaluate the professional judgements made by the engagement team in performance of the audit. The objective of this evaluation should be to conclude whether the professional judgements made by the engagement team are appropriate in the circumstances. Sound professional judgements demonstrate the following characteristics:

- (a) professional judgements are documented within the audit documentation;
- (b) professional judgements are based on complete and accurate facts and information that was available to the auditor on or before the signing of the audit report; and
- (c) professional judgement is based on reasonable interpretation of the accounting standards or the standards on auditing or the applicable laws and regulations.

Please also refer paragraphs 2.8 to 2.15 of Chapter 2 of this Technical Guide which cover the aspects of professional judgment in detail.

6.44 Professional judgments made by the engagement team that do not demonstrate the above characteristics might indicate a situation where the professional judgement made by the engagement team might not be appropriate.

6.45 While evaluating the responses given by the engagement team including the cases where the engagement team exercised professional judgment, the TR should eliminate personal preferences. Such situation arises when the TR believes that if the TR was in a similar situation what the TR would have done.

## Conducting the Quality Review

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6.46 The TR should also evaluate whether the engagement team obtained the sufficient appropriate audit evidence by performing alternative audit procedures. In such a situation, the TR might be able to conclude that the audit opinion issued by the engagement partner was appropriate in the circumstances.

6.47 Materiality is an important aspect associated with the audit of financial statements. An auditor is required to perform procedures that would provide the auditor with sufficient appropriate audit evidence to form an opinion that the financial statements are free of material misstatement. If the engagement team has complied with the Standard on Auditing that deals with materiality and the finding relates to an item that is below the materiality threshold established by the engagement team or if the engagement team is able to demonstrate that the finding of the TR does not materially affect the financial statements, the TR should not make the finding a subject matter of the report. This, however, requires exercise of professional judgement on the part of TR. An example of such a situation could be where an item was incorrectly classified as a current asset while it should have been classified as non-current. In such a scenario, the TR may consider evaluating the current ratio based on the audited financial statements and current ratio after correcting the misstatement noticed by the TR. If there is no change in the current ratio or the change is so insignificant that it might not affect the decision of the users of the financial statements, the TR may conclude that the finding need not be made a subject matter of final report or the basis of issuing a qualified quality review report.

### Documenting a Finding

6.48 The TR should give attention to the manner in which a finding is documented. The TR should ensure that each of the documented finding has the following characteristics:

- (a) All relevant facts and background information necessary to understand the finding or the issue being raised by the TR are present;
- (b) Requirements of the Standards on Auditing or the Accounting Standards or other relevant laws/regulations that have not been complied with;
- (c) Factors mitigating the effect of the finding, if any;
- (d) Explanations/responses provided by the engagement partner/ AFUR; and
- (e) Conclusions reached by the TR.

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6.49 It has been observed that sometimes there is an inconsistency between the findings reported by the Technical Reviewer and the responses given by the engagement team based on the engagement documentation available with the engagement team. In order to avoid any such situation, the TR and the engagement team should discuss all the issues, make note of all the documentation and working papers available with the engagement team and also minute the discussion which may be signed by both the TR and the engagement partner.

## Chapter 7

# Reporting

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7.1 The TR, after completion of the review, is required to submit a **preliminary report** to the AFUR on the review of the quality of audit and reporting by the auditors in the general purpose financial statements. This preliminary report is to be submitted before submitting the final report to the QRB. It is suggested that any observation indicating a non-compliance with the technical standard(s), arising out of Quality Review Programme General Questionnaire (as developed by QRB), should also be included in the preliminary report for seeking final views/comments of AFUR thereon. The TR, based upon his consideration of the responses received from the AFUR, may decide to issue either an **interim report** or a **final report** to the QRB.

7.2 The TR should adhere to all the prescribed requirements mentioned while preparing the report. It may be noted that the requirements mentioned apply to the interim as well as the final reports of the TR. The TR, based on the conclusions drawn from the review, would issue a preliminary report and, subsequently, the final report. A clean report indicates that the TR is of the view that the affairs are being conducted in a manner that ensures the quality of services rendered. However, a TR may qualify the report due to one or more of the following in respect of the particular engagement:-

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

### **Guidelines issued by QRB for Qualifying Quality Review Report**

7.3 To assist the TR in deciding whether to issue a qualified review report, the QRB has issued certain guidelines. In deciding on the type of report to be issued, QRB requires the TR to consider the evidence obtained and document the overall conclusions with respect to the year being reviewed in respect of following matters with regard to the particular engagement:

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

7.4 The QRB has outlined the following basic elements of a TR's report:

**(a) Elements relating to audit quality:-**

- i. A reference to the description of the scope of the review and the period of review of audit firm conducted alongwith existence of limitation(s), if any, on the review conducted with reference to the scope as envisaged.
- ii. A statement indicating the instances of lack of compliance with technical standards and other professional and ethical standards.

- iii. A statement indicating the instances of lack of compliance with relevant laws and regulations.

**(b) Elements relating to quality control framework adopted by the audit firm in conducting audit:-**

- i. An indication of whether the firm has implemented a system of quality control with reference to the quality control standards.
- ii. A statement indicating that the system of quality control is the responsibility of the reviewed firm.
- iii. A view on whether the reviewed firm's system of quality control has been designed to meet the requirements of the quality control standards for attestation services and whether it was complied with during the period reviewed to provide the reviewer with basis of reporting of complying with technical standards in all material respects.
- iv. Where the reviewer concludes that a modification in the report is necessary, a description of the reasons for modification. The report of the reviewer should also contain the suggestions.
- v. A reference to the preliminary report.
- vi. An attachment which describes the quality review conducted including an overview and information on planning and performing the review.

(c) TR's signatures

(d) Date

(e) Place

7.5 The Quality Review Report has to be issued on the TR's (individual) letterhead and signed by the TR. The report should be addressed to the QRB and should be dated as of the date of the conclusion of the review. QRB has also brought out an illustrative format of the Quality Review Report to be submitted by the TR. The format is given in **APPENDIX 3** to this Technical Guide.

7.6 TR is also required to submit a duly filled in detailed questionnaire given by QRB on SQC 1, Standards on Auditing and accounting standards. The format of the questionnaire has been prescribed by QRB, and contains columns for responses from AFUR, TR's comments and paragraph reference in final report. The format of Questionnaire is given in **APPENDIX 3** to this Technical Guide.

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7.7 The following matters should also be borne in mind by the TR while preparing the quality review report:

- Complete facts and figures should be given in the report to make it more effective.
- General remarks or remarks made over and above the requirements of the Standards or relevant laws and regulations should be avoided.
- The answers to the questions in the Questionnaires should be given suitably instead of simple Yes/No.
- In case the audit engagement under review is a joint audit, the TR should also provide details of work allocation among the joint auditors. The TR should confine himself only to areas of work within the scope of work of AFUR.
- On receiving responses on the final report from AFUR, a summary of the final report should be prepared. Care should be taken by TR that:
  - The format used is that prescribed by the QRB and para references of the observations are properly built in the final report. The formats of Final and Summary Reports are given in **APPENDICES 3 and 4 respectively** to this Technical Guide.
  - The information required to be given in the “Technical Requirements” column of the Summary Report should be duly and correctly filled in. Care should be taken that the name and number of Standard and the concerned paragraph number is correctly mentioned.
  - The observations that have been duly dropped by the TR in the course of the review should not be included in the Summary Report. Thus, only final observations of the TR should find place in the Summary of TR’s Findings.
  - The final report should be made only after due consideration of the responses received from the AFUR.
  - No new observations based on responses from AFUR or otherwise can be added in the final report unless there is additional information available and the same has been discussed with the AFUR and responses from AFUR are duly sought and considered.

7.8 In addition to the above, the TR should also provide the following documents along with the final report as per the requirements of QRB:

- A document providing an overview on the quality review conducted including overview and information on how the QR was planned and performed.
- A brief profile of TR, the AFUR, and the TR's assistants.
- A document containing the observations that were dropped by the TR which were in preliminary report (and hence did not find place in the final report) along with the reasons therefor.
- A copy of the annual report published by the entity under review.

## Appendix 1

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### Format of Engagement Letter including prescribed declarations on confidentiality and eligibility of TRs and his Assistant/s

No. \_\_\_\_\_

Dated: \_\_\_\_\_

(Name & Address of Technical Reviewer)

Dear Sir/ Madam,

**Sub: Quality Review of M/s \_\_\_\_\_ (FRN \_\_\_\_\_) in respect of Statutory Audit of \_\_\_\_\_ for the year ended on \_\_\_\_\_.**

**Ref: Your empanelment as Technical Reviewer with the Quality Review Board.**

Government of India has, in exercise of the powers conferred under Sec. 28A of the Chartered Accountants Act, 1949, constituted the Quality Review Board (the 'Board'/'QRB') to perform the following functions u/s 28B of the Chartered Accountants Act, 1949:-

- (a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute of Chartered Accountants of India ('Institute'/'ICAI');
- (b) to review the quality of services provided by the members of the Institute including audit services; and
- (c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

2. In exercise of the powers conferred by clauses (f) and (g) of Sub-section (2) of Section 29A read with Section 28C of the Chartered Accountants Act, 1949, Government of India has also issued 'Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006'. In terms of its Rule 6, in the discharge of its functions, the Board may, inter alia, evaluate and review the quality of work and services provided by the members of the Institute in such manner as it may decide and also lay down the procedure of

evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review. Pursuant to Rule 6, the Quality Review Board had issued the 'Procedure for Quality Review of Audit Services of Audit Firms' (the 'Procedure') (copy available at <http://www.qrbca.in>) to evaluate and review the quality of work and services provided by the members of the Institute.

3. Based upon your application and subsequent examination, the Quality Review Board is pleased to make an offer to engage you as a Technical Reviewer to conduct quality review as mentioned in the captioned subject, as above, in terms of the aforesaid Procedure issued by the Board and as amended from time to time.

4. In terms of the Procedure, the quality review shall be directed towards inspection/evaluation of audit quality and adherence to various statutory and other regulatory requirements. The review would involve inspection and assessment of the work done by the Statutory Auditors while carrying out their audit function so that the Board is able to assess (a) the quality of audit and reporting by the Statutory Auditors; and (b) the quality control framework adopted by the Statutory Auditors/ audit firm in conducting the audit.

5. (i) The scope & objective of the aforesaid quality review assignment to be conducted by you is as under:-

- (a) the Technical Reviewer has to examine whether the Statutory Auditor has ensured compliance with the applicable technical standards in India and other applicable professional and ethical standards<sup>10</sup>.
- (b) the Technical Reviewer has to examine whether the Statutory Auditor has ensured compliance with the relevant laws and regulations.
- (c) the Technical Reviewer has to examine whether the Statutory Auditor/Audit firm has implemented a system of quality control with reference to the applicable quality control standards.
- (d) the Technical Reviewer has to examine whether there is no material misstatement of assets and liabilities as at the reporting date in respect of the company/entity mentioned in the captioned subject.
- (e) the Technical Reviewer may, within the scope of his review, go beyond the issues covered in the Questionnaire recommended by the Board.

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<sup>10</sup> As defined in the Statement on Peer Review issued by the ICAI.

## **Technical Guide on Conducting Quality Review**

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(ii) Scope of review include the statutory audit of standalone financial statements as well as consolidated financial statements reported upon by the statutory auditor, if any, in respect of the company/entity as mentioned in the captioned subject.

6. (i) The approach to the above stated quality review would be as per the approach set-out in the aforesaid Procedure issued by the Board. In addition, you shall:

- (a) yourself make on-site visit to the Statutory Auditor/Audit firm for conducting the review and reviewing the audit working papers as defined under the relevant standards laid down by the ICAI. The Technical Reviewer will have access to or take abstracts of the records and documents maintained by the audit firm in relation to the review. However, in order to maintain confidentiality, the Technical Reviewer shall not make any copies/extracts of the audit firm's Clients' file or records examined by him while conducting Review, as a part of his working papers;
- (b) furnish an undertaking that you shall not outsource/sub-contract this assignment to any other person (format enclosed);
- (c) follow the guidelines issued by the Quality Review Board, from time to time, including:
  - provide your detailed comments giving proper justification and explanation in respect of the various matters required to be commented upon by you in the Appendix II & III of your final report;
  - refer industry specific Technical Guide/s, if any, brought out by the ICAI while completing your assignment as mentioned in the captioned subject;
  - refer other guidance provided by the Quality Review Board from time to time such as Audit Quality Review Reports of the QRB appearing at the website of the QRB, other reports of international bodies hosted at the QRB website (<http://www.qrbca.in>) or any other guidance as may be provided by the QRB from time to time;
  - segregate your observations into those material and non-material;
  - in respect of a joint audit, provide details of work allocation among the joint auditors and in case any particular area of observation falls under the scope of the other joint auditor, clearly provide the details of such other joint auditor in the report; and

- embrace the digital world and accept documentation maintained in electronic form by the Audit firms in line with the requirements of SA 230.
- (d) follow the approach set out in the Peer Review Manual issued by the ICAI for guidance in respect of the matters not specifically dealt with herein.
- (ii) It may further be mentioned that you may also be required, if needed, to interact with the Board or any other Group constituted by the Board to explain/present/clarify/provide additional details with regard to the findings in your report.
7. The Board shall pay you a sum of Rs. \_\_\_\_\_ /- (Rupees \_\_\_\_\_ only) plus taxes, if any, (net of TDS) towards honorarium for the above stated assignment. This honorarium shall be payable upon the acceptance of your final report by the Board. In addition, you may also be entitled to claim travelling expenses, after completing on-site review, as per specified ceilings and guidelines (**shall be provided separately**) for the above stated assignment for a maximum of one on-site visit to the Statutory Auditor/Audit firm which shall not extend beyond 7 (seven) days or, in exceptional circumstances, such other extended period, for specific reasons to be recorded in writing, with the prior approval of the Chairperson, Quality Review Board, which shall not, in any case, extend beyond 14 (fourteen) days. For this purpose, you may also take the assistance of not more than three assistants who (please furnish a declaration of eligibility of the assistants, if any, in the enclosed format):
- (a) shall be member of the Institute of Chartered Accountants of India;
  - (b) do not attract any of the disqualifications prescribed under the Chartered Accountants Act, 1949;
  - (c) shall also have to sign the statement of confidentiality (format enclosed);
  - (d) shall have no direct interface either with the Audit firm under review or the Board;
  - (e) should have been working with you for atleast one year as a Member of the ICAI/ a Partner in the CA firm with you;
  - (f) should not have been associated with the Statutory auditor/Audit firm under review and the company/entity, as mentioned in the captioned subject, during last three financial years and/or thereafter;
  - (g) should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against him/her or any disciplinary action under the Chartered Accountants Act, 1949 / penal action

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under any other law taken/pending against him/her during last three financial years and/or thereafter;

- (h) should not be a member of current QRB Board/ICAI's Central Council/Regional Council/Branch level Management Committee;
- (i) should not himself/herself be empanelled as a Technical Reviewer with the Quality Review Board; and
- (j) be entitled to claim travelling expenses as per specified ceilings and guidelines (shall be provided separately).

8. The eligibility conditions for carrying out the aforesaid quality review assignment are as under. Please immediately send us a declaration of eligibility(format enclosed):-

- (a) you should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against you or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against you during last three financial years and/or thereafter.
- (b) you or your firm or any of the network firms or any of the partners of your firm or that of the network firms should not have been the statutory auditor of the company/entity, as mentioned in the captioned subject, or have rendered any other services to the said company/entity during last three financial years and /or thereafter.
- (c) you or your firm or any of the network firms or any of the partners of your firm or that of the network firms should not have had any association with the above stated statutory audit firm, during the last three financial years and /or thereafter.
- (d) you comply with all the eligibility conditions laid down for appointment as an auditor of a company u/s 141(3) of the Companies Act, 2013 which apply mutatis mutandis in respect of your review of the quality of statutory audit of the company/entity, as mentioned in the captioned subject, so far as applicable.

9. Confidentiality of information pertaining to this assignment is of paramount importance. You are, therefore, requested to ensure that all information, papers, materials, documents etc. relating to the company/audit firm, as mentioned in the captioned subject, that you will gain during the course of assignment are kept in strict confidence. You are, accordingly, required to send us a duly signed statement of confidentiality including by each of the assistants as stated at Para 7c) above (format enclosed). You and your assistants, as stated at Para 7c) above, shall not publicly disclose your engagement for the assignment nor shall divulge publicly the details of your findings.

## Appendices

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10. Please confirm to us within 7 days of receipt of this letter, acceptance of the assignment by returning the copy of this letter duly signed alongwith all the required declarations. Upon hearing from you, an intimation will be sent to the Statutory Auditor/Audit firm, as mentioned in the captioned subject, enabling you to start the quality review exercise by sending the Quality Review Programme Questionnaire to the concerned Statutory Auditor/Audit Firm and establishing contact with them for fixing-up the date for on-site review so that entire review exercise can be completed within specified time frame. In case you do not wish to carry out the aforesaid assignment or you are ineligible in terms of Para 8, you are requested to return this letter to us, in original, citing the reason/s for refusal.

11. In terms of Para 16 of the Procedure issued by the Board, you are required to issue a preliminary report to the Audit firm also marking its copy to the Board alongwith the response of the Audit firm thereon.

12. You are advised to complete the aforesaid quality review assignment and send us a copy of Annual report of the company/entity for the year as mentioned in the captioned subject alongwith your final report to the Board in the specified format (**specified format shall be sent separately**), which may be based upon the guidelines as provided and, in terms of the requirements of, the Procedure issued by the Board and as amended from time to time, on your (individual) letterhead, duly signed and dated, **within 45 days** from the date of intimation of the assignment to the Audit firm. Your final report alongwith all the Appendices in the specified format may be sent to us in hard as well as soft copy (e-mail at [reviews@qrbca.in](mailto:reviews@qrbca.in)). In addition, you shall also send a copy of your final report to the Statutory Auditor/Audit firm, as mentioned in the captioned subject, requesting them to send their submissions thereon to the Board within 7 days of receipt of the final report with a copy to you. Upon receipt of their reply on the final report, you shall submit within next 7 days by email in MS Word ([reviews@qrbca.in](mailto:reviews@qrbca.in)) a summary of your findings in the specified format (specified format shall be sent separately).

Yours faithfully,

Secretary, Quality Review Board

- Enclosures:**
1. **Statement of Confidentiality**
  2. **Declaration of Eligibility of Technical Reviewer**
  3. **Declaration of Eligibility of Assistant(s).**
  4. **Undertaking as per Para 6(i) (b)**

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### **Statement of Confidentiality**

(To be furnished separately by Technical Reviewer and each one of the Assistant(s), if any)

To

The Chairperson, Quality Review Board

Gr. Floor, Admin. Block, ICAI Bhawan,

A-29, Sector 62, NOIDA– 201309, (U.P.).

Madam/Sir,

**Sub.: Quality Review of M/s \_\_\_\_\_ (FRN\_\_\_\_\_) in respect of Statutory Audit of \_\_\_\_\_ for the year ended on\_\_\_\_\_.**

My attention has been drawn to the need for confidentiality in the conduct of quality review in terms of the 'Procedure for Quality Review of Audit Services of Audit Firms' issued by the Quality Review Board established by the Government of India under the Chartered Accountants Act, 1949. I, therefore, declare 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 so that unauthorised access is not gained by anyone.
- The attestation services procedures of the concerned Statutory Auditor/Audit firm subjected to review shall not be disclosed to any third party/(ies).
- 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 quality review assignment shall not be disclosed to any person.
- Access to any record, papers, documents or any other material, in any form which is received during the course of review or, 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 be kept confidential and shall not, at any time, in any manner whatsoever, be permitted to any other person.
- Engagement for the assignment as well as the details of the findings shall not be publicly disclosed to any person.

## **Appendices**

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I understand that any breach of the provisions regarding confidentiality shall be considered as gross negligence and, may result in appropriate action under the Chartered Accountants Act, 1949.

**Signature :**

**Name :**

**Address :**

**ICAI Membership No. :**

**Date :**

**Place :**

**Mobile/Phone No :**

## Technical Guide on Conducting Quality Review

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### Declaration of Eligibility of Technical Reviewer

Sub.: Quality Review of M/s \_\_\_\_\_  
(FRN \_\_\_\_\_) in respect of Statutory Audit of  
\_\_\_\_\_ for the year ended on \_\_\_\_\_.

I,.....(name) R/o.....(address)  
hereby declare that I comply with the eligibility conditions specified by the  
Quality Review Board, established under the Chartered Accountants Act,  
1949, for carrying out the aforesaid quality review assignment offered  
vide letter No.....dated.....and I  
declare that:

- (a) I do not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against me or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against me during last three financial years and/or thereafter.
- (b) I or my firm or any of the network firms or any of the partners of my firm or that of the network firms have not been the statutory auditor of the company, as mentioned in the captioned subject, or have rendered any other services to the said company/entity during the last three financial years and /or thereafter.
- (c) I or my firm or any of the network firms or any of the partners of my firm or that of the network firms do not have any association with the above stated statutory audit firm during the last three financial years and /or thereafter.
- (d) I comply with all the eligibility conditions laid down for appointment as an auditor of a company u/s 141(3) of the Companies Act, 2013 which apply *mutatis mutandis* in respect of my review of the quality of statutory audit of the company/entity, as mentioned in the captioned subject, so far as applicable.

I understand that any breach of the provisions regarding eligibility shall be considered as gross negligence and, may result in appropriate action under the Chartered Accountants Act, 1949.

**Signature :**

**Name :**

**Address :**

**ICAI Membership No. :**

**Date :**

**Place :**

**Mobile/Phone No :**

**Declaration of Eligibility of Assistants**

**Sub.: Quality Review of M/s \_\_\_\_\_ (FRN \_\_\_\_\_)  
in respect of Statutory Audit of \_\_\_\_\_  
for the year ended on \_\_\_\_\_.**

(To be furnished by the Technical Reviewer)

I,.....(name of TR)  
R/o.....(address of TR)  
for carrying out the aforesaid quality review assignment offered vide  
letter No.....dated..... hereby  
declare that:

a) The following members of the ICAI shall be my assistants, if any, in  
carrying out the aforesaid quality review assignment whose details  
are as below:

Name of Assistant(s)	Address of Assistant(s)	ICAI M.No. of Assistant(s)	Contact Details of Assistant(s)
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- (i) \_\_\_\_\_
- (ii) \_\_\_\_\_
- (iii) \_\_\_\_\_

b) The assistant(s) as at (a) above do not attract any of the  
disqualifications prescribed under the Chartered Accountants Act,  
1949;

c) The assistant(s) as at (a) above have signed the statement of  
confidentiality which is enclosed herewith;

d) The assistant(s) as at (a) above shall have no direct interface either  
with the Audit firm under review as per the captioned subject or the  
Quality Review Board;

e) The assistant(s) as at (a) above have been working with me for  
atleast one year as a member of the ICAI/ a partner in the CA firm  
with me; and

f) The assistant(s) as at (a) above have not been associated with the  
Statutory auditor/Audit firm under review and the company/entity,  
as mentioned in the captioned subject, during last three financial  
years and/or thereafter.

g) The assistant(s) as at (a) above do not have any disciplinary  
proceeding under the Chartered Accountants Act, 1949 pending  
against them or any disciplinary action under the Chartered  
Accountants Act, 1949 / penal action under any other law

## **Technical Guide on Conducting Quality Review**

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taken/pending against them during last three financial years and/or thereafter;

- h) The assistant(s) as at (a) above are not currently a member of current QRB Board/ICAI's Central Council/Regional Council/Branch level Management Committee; and
- i) The assistant(s) as at (a) above are not empanelled as a Technical Reviewer with the Quality Review Board.

I understand that any breach of the provisions regarding eligibility shall be considered as gross negligence and, may result in appropriate action under the Chartered Accountants Act, 1949.

**Signature :**

**Name of TR:**

**Address of TR:**

**ICAI Membership No. of TR :**

**Date :**

**Place :**

**Mobile/Phone No of TR:**

**Undertaking as per Para 6(i) (b)**

(To be furnished by the Technical Reviewer)

**Sub.:** Quality Review of M/s \_\_\_\_\_ (FRN \_\_\_\_\_)  
in respect of Statutory Audit of \_\_\_\_\_  
for the year ended on \_\_\_\_\_.

I,.....(name)

R/o.....

(address) hereby undertake that I shall not outsource/sub-contract the captioned assignment to any other person and that I alongwith my assistant/s, if any, shall complete the assignment.

I understand that any breach of the provisions shall be considered as gross negligence and, may result in appropriate action under the Chartered Accountants Act, 1949.

**Signature :**

**Name :**

**Address :**

**ICAI Membership No. :**

**Date :**

**Place :**

**Mobile/Phone No :**

## Appendix 2

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### Format of Intimation Letter to Audit Firm under Review

No. QRB/

Dated:

M/s

(FRN )

Address

Phone No.:

Dear Sirs,

**Sub: Quality Review of M/s (FRN ) in respect of  
Statutory Audit of for the year ended on**

Government of India has, in exercise of the powers conferred under Sec. 28A of the Chartered Accountants Act, 1949, constituted the Quality Review Board (the 'Board') to perform the following functions u/s 28B of the Chartered Accountants Act, 1949:-

- (a) to make recommendations to the Council with regard to the quality of services provided by the members of the Institute of Chartered Accountants of India ('Institute' or 'ICAI');
- (b) to review the quality of services provided by the members of the Institute including audit services; and
- (c) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

2. In exercise of the powers conferred by clauses (f) and (g) of Sub-section (2) of Section 29A read with Section 28C of the Chartered Accountants Act, 1949, Government of India has also issued 'Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006'. In terms of its Rule 6, in the discharge of its functions, the Board may, inter alia, evaluate and review the quality of work and services provided by the members of the Institute

in such manner as it may decide and also lay down the procedure of evaluation criteria to evaluate various services being provided by the members of the Institute and to select, in such manner and form as it may decide, the individuals and firms rendering such services for review. Pursuant to Rule 6, the Quality Review Board had issued the 'Procedure for Quality Review of Audit Services of Audit Firms' (the 'Procedure') (copy available at <http://www.qrbca.in>) to evaluate and review the quality of work and services provided by the members of the Institute.

3. The Board has decided to engage CA. \_\_\_\_\_, ICAI M. No. \_\_\_\_\_, as a Technical Reviewer (TR) to conduct quality review as mentioned in the captioned subject, as above, in terms of the aforesaid Procedure issued by the Board and as amended from time to time. Copy of the engagement letter issued to CA. \_\_\_\_\_ vide No. QRB/ dated \_\_\_\_\_ is enclosed herewith for information who has already conveyed to us his acceptance of the assignment.

4. In terms of the aforesaid Procedure issued by the Board, the quality review shall be directed towards evaluation of audit quality and adherence to various statutory and other regulatory requirements. The review would involve assessment of the work done by the Statutory Auditors while carrying out their audit function so that the Board is able to assess (a) the quality of audit and reporting by the Statutory Auditors; and (b) the quality control framework adopted by the Statutory Auditors/ audit firm in conducting audit.

5. We have advised the TR to issue a preliminary report to you and upon completion of the aforesaid quality review assignment, send his final report to the Board, also sending a copy to you, **within 45 days** from the date of intimation of the assignment to you. **You are requested to enable the Technical Reviewer to conduct the on-site review immediately.** You are also requested to provide your response on the Quality Review Program Questionnaire (to be sent by the TR) and on the preliminary report to the Technical Reviewer and **send your submissions on the TR's final report directly to the Board (email at [reviews@qrbca.in](mailto:reviews@qrbca.in)) with a copy to the Technical Reviewer as well within 7 days of receipt of the final report. The Board seeks your co-operation in these respects so as to complete the aforesaid review exercise within the specified time frame of 45 days from the date of intimation of the assignment to you. Further, post completion of review, you are also requested to send us your feedback on the review in the enclosed form.**

## **Technical Guide on Conducting Quality Review**

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6. **Please note that cost of the review shall be borne by the Quality Review Board.** Please also quote your complete postal address and other contact details (contact point, Ph. No. /Fax No./Mobile/Email Id) in your future correspondence with the Board.

Yours faithfully,

Secretary, Quality Review Board

Encl : As above.

Copy to:

1. (Name & Address of TR alongwith Mobile No. & Email id).
2. Secretary,  
The Institute of Chartered Accountants of India,  
ICAI Bhawan, P.B. No. 7100, Indraprastha Marg,  
New Delhi-110002 – For kind information please.

**Feedback Form<sup>11</sup>**

<b>S. No.</b>	<b>Particulars</b>	<b>Response of Audit Firm</b>
1.	Details of Audit Firm: a. Name of Firm b. FRN No./LLP No. c. Address d. Contact details (Name of contact person, Ph. No., Email Id)	
2.	Details of Technical Reviewer (TR): a. Name of TR b. ICAI M. No.	
3.	Details of Audit engagement selected for review (Name of the Company/Audit file and the year):	
4.	Was sufficient time provided by the TR for submitting Quality Review Program General Questionnaire: a. Date of Receipt of Questionnaire b. Date of Reply	
5.	How much time taken in initiating On-site Review: a. Date of receipt of Email from QRB intimating about the review b. Starting date of on-site review c. If the gap between a & b is more than 30 days, please explain reason/s thereof	
6.	How much time did you take to respond to Preliminary Report: a. Date of Receipt of Preliminary Report b. Date of Reply c. If the gap between a & b is more	

<sup>11</sup> Audit firm under review is required to complete this feedback form post completion of review and send this to the Secretary, Quality Review Board, Gr. Floor, Admin Block, ICAI Bhawan, A-29, Sector 62, NOIDA – 201309 or alternatively over email at [reviews@qrbca.in](mailto:reviews@qrbca.in) .

## Technical Guide on Conducting Quality Review

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	than 7 days, please explain reason/s thereof	
7.	How much time did you take to respond to Final Report: a. Date of Receipt of Final Report b. Date of Reply c. If the gap between a & b is more than 7 days, please explain reason/s thereof	
8.	Were the behavior of TR and his/her team during the entire process of review cordial, professional and positive?	
9.	Did the TR provide sufficient opportunity for discussing his/her findings?	
10.	Do you think the observations made by the TR were relevant, disclosed all the facts required & also duly contain your views on those observations?	
11.	Was the review helpful in improving the quality of audit & overall quality control framework in your Firm?	
12.	What your overall experience of review by the TR was during on-site as well as offsite review?	
13.	Is there any other matter/aspect which you would like to highlight to the Quality Review Board for further improvement.	

Signature of Partner of the Audit Firm:

Name of Partner of the Audit Firm:

ICAI M. No.:

Place:

Date:

## Appendix 3

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### Format of Technical Reviewer's Final Report

Date:

Ref: *(Reference number to be mentioned for future correspondence)*

To

The Chairperson  
Quality Review Board (QRB)  
(Insert address)

**Sub:** Quality review of *(M/s XYZ & Co – Mention the Firm Name with the Firm Registration Number (the "Statutory Auditor" / the "Firm"/ the "Audit Firm"))* in respect of Statutory Audit of ABC Company Limited (*"the Company"/ "Entity"*) for the year ended *(As applicable)*

**Ref:** No. XXX, dated Month XX, 20XX

#### **Final Report on the Quality Review of the Audit Services of the Firm**

With reference to your letter no XXX dated XXXX, I have conducted the Quality Review of M/s XYZ & Co (Firm Registration No...../Membership Number.....) (*"the Audit Firm"*) in respect of the Statutory Audit of ABC Company Limited (*"the Company"/"Entity"*), for the year ended .....in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB and as amended from time to time (*"the Procedure"*).

#### **Brief Profile of the Audit firm**

M/s XYZ & Co. (*"the Audit Firm"*) was established in the year xxxx. It operates with \_\_\_ (update as applicable) branches across India.

As informed to me, currently there are xx partners, xxxx professional and other staff including articles and semi-qualified (amend suitably based on information available).

#### **Audit Firm's Responsibility**

The compliance of conditions with applicable technical standards in India and other applicable professional and ethical standards, relevant laws

## **Technical Guide on Conducting Quality Review**

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and regulations, implementation of a system of quality control with reference to the applicable quality control standards, standards on auditing etc., is the responsibility of the Audit Firm and, the compliance with the accounting standards and the generally accepted accounting principles while preparation and presentation of financial statements is that of the Management of the Company.

The Audit Firm's responsibility is to express an opinion on the financial statements of the Company/entity for the year ended.....based on its audit. The Audit Firm is required to conduct their audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that they comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

### **Technical Reviewer's Responsibility**

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

My examination and review was limited to procedures and implementation thereof, adopted by the Audit Firm for ensuring the compliance of:

- Whether the Statutory Auditor has ensured compliance with the applicable technical standards in India, other applicable professional and ethical standards and relevant laws and regulations;
- whether the Statutory Auditor/ Audit Firm has implemented a system of quality control with reference to the applicable quality control standards; and
- Whether there is no material misstatement of assets and liabilities as at the reporting date in respect of the Company/entity concerned.

It is neither an audit nor an expression of opinion on the financial statements of the Company/entity. I further state that such compliance is

## Appendices

neither an assurance as to the future viability of the Audit Firm / Company/entity nor of the efficiency or effectiveness with which the Audit Firm has conducted the audit of the Company/entity.

### Basis for Qualified Report

According to the Procedure for Quality Review of Audit Services of Audit Firms issued by the Quality Review Board and as amended from time to time, the report is being qualified in respect of the following matters which represent deviations/non-compliances:

Background/ Technical Standards requirement	Deficiencies	Reference to the Appendix
<b>Example:</b>		
<b>SA 505 Revised – External Confirmations</b>	It was noted that the Firm did not circularize requests for confirmations of vendor and customer balances as at March 31, 201x. I have been informed that the Management refused the auditor in terms of authorizing them to seek such confirmations of balances.  The Firm has not documented the reasons for Management's refusal and also not performed any procedures as required by paragraph 8 of SA 505 (Revised).	<b>C-2</b>

### Other matters for improvement

Certain areas for improvement in terms of strengthening of policies and certain aspects relating to planning, risk assessment / documentation and certain disclosure requirements in relation to the financial statements of the Company/entity for the year ended March 31, 20xx (please add any other relevant areas) have been detailed as under :

Background/ Technical Standards requirement	Deficiencies	Reference to the Appendix
<b>Example:</b>		
SQC -1	The Firm has an overall Policy document	<b>C-1</b>

## Technical Guide on Conducting Quality Review

Background/ Technical Standards requirement	Deficiencies	Reference to the Appendix
	<p>dealing with the aspects covered by SQC-1 including the personnel matters. Whilst, there is another detailed policy to address the following personnel issues:</p> <ul style="list-style-type: none"> <li>(a) Recruitment;</li> <li>(b) Performance evaluation;</li> <li>(c) Capabilities;</li> <li>(d) Competence;</li> <li>(e) Career development;</li> <li>(f) Promotion;</li> <li>(g) Compensation; and</li> <li>(h) Estimation of personnel needs.</li> </ul> <p>It is noted that there is no systematic manner of implementation of certain aspects of the Policy in terms of competencies, career development, evaluation etc.</p>	

### Report

In issuing the report, I have considered the size of the Audit Firm (Refer the brief profile of the Audit Firm stated above), the extent of the applicability of Standard on Quality Controls and the relevant documentation to be maintained by the Audit Firm.

I enclose in the Final Report (Appendix – I) certain findings/observations viz., Elements relating to audit quality of companies/entities, Elements relating to quality control framework adopted by the Audit Firm in conducting the aforesaid audit and other matters which include my comments arising out of the examination of the audited financial statements of the Company/entity for the year ended XXXX in terms of my scope. Such matters, along with my comments / recommendations thereon have been discussed with the Audit Firm during the course of my review and their responses have been included insofar as my observations are concerned.

Based on my review conducted and subject to the weaknesses and deficiencies stated under the paragraph 'Basis for Qualified Report' and read with my comments under the paragraph 'Other matters for improvement' and our findings/observations stated in Appendix I, nothing

## Appendices

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has come to my attention that causes me to believe that the Audit Firm has not complied with the aspects covered in terms of my scope mentioned in the "Technical Reviewer's Responsibility" paragraph.

QRB reviews are designed to identify and address weaknesses and deficiencies related to how a firm performs audit work. To achieve that goal, QRB reviews include reviews of certain aspects of selected audit work performed by the firm and certain aspects of the firm's quality control system. It is not the purpose of a review, however, to review all of a firm's audit work or to identify every respect in which reviewed audit work is deficient. Accordingly, a Technical Reviewer's report should not be understood to provide any assurance that the firm's audit work, or the relevant Company's/entity's financial statements or reporting on internal control, are free of any deficiencies not specifically described in a review report.

QRB Reviews encompass, among other things, whether the firm has failed to identify financial statement misstatements, including failures to comply with disclosure requirements, in its audits of financial statements. This report's descriptions of any such auditing failures necessarily involve descriptions of the apparent misstatements or disclosure departures. The QRB, however, has no authority to prescribe the form or content of the Company's/entity's financial statements. That authority, and the authority to make binding determinations concerning whether a Company's/ entity's financial statements are misstated or fail to comply with the disclosure requirements, rests with the relevant authority under the Companies Act or under the Listing Agreements with the Stock exchanges, SEBI or any other applicable Authority. Any description, in this report, of financial statement misstatements or failures to comply with such disclosure requirements should not be understood as an indication that the relevant Authority has considered or made any determination regarding these issues unless otherwise expressly stated.

I am also enclosing the Appendix II and III as required by the QRB, which is an attachment to the Final Report. In Appendix IV, I have enclosed an overview and information on planning and performing the review. In Appendix V, I have enclosed brief profile of myself and each one of my assistants who assisted me in carrying out the above Quality Review assignment.

I would like to take this opportunity to thank the Partners, Managers and other personnel of the Audit Firm who have assisted me in carrying out my review.

*Technical Reviewer*  
Chartered Accountant

## **Technical Guide on Conducting Quality Review**

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Membership Number

Signature

(Name of the Member Signing the Report)

### Enclosures:

1. Appendix I
2. Appendix II
3. Appendix III
4. Appendix IV - Overview and information on planning and performing the review
5. Appendix V Profile of Technical Reviewer and Assistants on the engagement

Final Report  
Appendix - I  
Under the cover of the letter No. xxxxx dated July xx, 201x

<b>C-1</b>	<b>Quality Control, Ethical requirement and Audit Independence</b>	
	<p><b>Example:</b></p> <p><b>Background:</b> Paragraph 36 of SQC -1 on Quality control for firms that perform audits and reviews of historical financial information, and other assurance and related services engagements (herein after referred as "SQC 1") states: "<i>The firm should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</i>"</p> <p><b>Comment:</b> The Firm has an overall Policy document dealing with the aspects covered by SQC-1 including the personnel matters. Whilst, there is another detailed policy to address the following personnel issues:</p> <ul style="list-style-type: none"> <li>(a) Recruitment;</li> <li>(b) Performance evaluation;</li> <li>(c) Capabilities;</li> <li>(d) Competence;</li> <li>(e) Career development;</li> <li>(f) Promotion;</li> <li>(g) Compensation; and</li> <li>(h) Estimation of personnel needs.</li> </ul> <p>It is noted that there is no systematic manner of implementation of the professional education, continuing</p>	<p><b>Recommendation:</b> The implementation of the detailed policies and procedures in respect of personnel matters needs improvement.</p> <p><b>Firm's Response:</b> We have noted the comments made by the reviewer and his recommendations. We shall improve the implementation process as suggested.</p>

**Technical Guide on Conducting Quality Review**

	professional development, training aspects of the Policy in terms of competencies.	
C-2	<b>SA 505 Revised – External Confirmations</b>	
	<p><b>Background:</b>  <i>Paragraph 8 of SA 505 states that - If management refuses to allow the auditor to send a confirmation request, the auditor shall:</i></p> <p><i>(a) Inquire as to management’s reasons for the refusal, and seek audit evidence as to their validity and reasonableness;</i></p> <p><i>(b) Evaluate the implications of management’s refusal on the auditor’s assessment of the relevant risks of material misstatement, including the risk of fraud, and on the nature, timing and extent of other audit procedures; and</i></p> <p><i>(c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence.</i></p> <p><b>Comment:</b>  <i>It was noted that the Firm did not circularize requests for confirmations of vendor and customer balances as at March 31, 201x. We have been informed that the Management refused the auditor in terms of authorizing them to seek such confirmations of balances.</i></p> <p><i>The Firm has not documented the reasons for Management’s refusal and also not performed any procedures as required by paragraph 8 of SA 505 (Revised).</i></p>	<p><b>Recommendation:</b>  The Firm has to mandatorily comply with the requirements of the Standards on Auditing and where departures are made, should document such circumstances and perform alternative procedures in accordance with the requirements of the Standards.</p> <p><b>Firm’s Response :</b>  Noted.</p>

**Appendix-II**

Name of Technical Reviewer (TR) & ICAI M. No.:

TR No.:

Reviewed Audit Firm:

Reviewed Audit Firm Registration No.:

Quality Review (QR) Assignment:

<b>1</b>	<b>General</b>	<b>Technical Reviewer's Comments</b>
	(i) Whether Final report is issued on TR's (individual) letterhead.	
	(ii) Whether Final report has been signed and dated and addressed to the Chairperson, Quality Review Board.	
	(iii) Whether copy of Final Report was sent to the reviewed Audit Firm. If yes, please mention date of sending.	
	(iv) Whether an attachment which describes the quality review conducted including an overview and information on planning and performing the review has been enclosed with the Final Report.	
-	(v) Whether Final report makes a reference to the preliminary report. Whether comments on this included in the Final Report.	-
	(vi) Whether preliminary report issued by the TR contained any deficiencies? If yes, please specify the areas of deficiencies?	
	(vii) Whether audit firm has responded to the preliminary report?	
	(viii) Whether copy of preliminary report issued and the response of the audit firm thereon has been sent to the Quality Review Board.	
	(ix) a. Whether TR is satisfied with the response of the audit firm on the preliminary report. If the preliminary report contained any areas of deficiencies and the TR is satisfied with the response	

## Technical Guide on Conducting Quality Review

		of the audit firm, please also enclose a statement justifying the reasons for such satisfaction in respect of each of the matters stated in the preliminary report.	
		b. If the TR is not satisfied with the response of the audit firm, whether interim report or qualified report has been issued?	
	(x)	Where the TR concludes that a modification in the report is necessary, a description of the reasons for modification.	
	(xi)	Is the Final Report qualified? If yes, please specify.	
	(xii)	Whether Quality Review Program Questionnaire with the audit firm's response and the TR's comments thereon enclosed with the Final Report?	
	(xiii)	Whether brief profile of the Technical Reviewer and each one of the assistants has been enclosed alongwith the Final Report?	
	(xiv)	Whether brief profile of the audit firm reviewed, giving details such as its constitution, structure etc. has been enclosed alongwith the Final Report?	
<b>2 (a)</b>	<b>Elements relating to audit quality of companies</b>		
	(i)	A reference to the description of the scope of the review and the period of review of audit firm conducted alongwith existence of limitations.	
	(ii)	A statement indicating the instances of lack of compliance with technical standards and other professional and ethical standards.	
	(iii)	A statement indicating the instances of lack of compliance with relevant laws and regulations.	
	(iv)	Whether review of internal control systems was carried out properly in performing attestation engagement?	

## Appendices

	(v)	Whether the quality of audit reports in respect of format and content found proper? If no, please specify.	
<b>(b)</b>	<b>Elements relating to quality control framework adopted by the audit firm in conducting audit</b>		
	(i)	An indication of whether the firm has implemented a system of quality control with reference to the quality control standards.	
	(ii)	A statement indicating that the system of quality control is the responsibility of the reviewed firm.	
	(iii)	An opinion on whether the reviewed firm's system of quality control has been designed to meet the requirements of the quality control standards for attestations services and whether it was complied with during the period reviewed to provide the reviewer with reasonable assurance of complying with technical standards in all material respects.	
	(iv)	Whether general controls are in existence and operating effectively during the period under review? If no, please specify areas:	
		a. Independence	
		b. Professional Skills and Standards	
		c. Outside Consultation	
		d. Staff Supervision and Development	
		e. Office Administration	
	(v)	Whether proper systems and procedures exist within the audit firm to ensure compliance with technical standards? If no, please specify areas:	
		a. Accounting standards including interpretations thereof	
		b. Standards on Auditing including general clarifications thereof	
		c. Statements/ Guidance Notes/ICAI's notifications/directions etc.	

## Technical Guide on Conducting Quality Review

		d. Self regulatory measures.	
<b>3</b>	<b>Other matters:</b>		
	(i)	Whether independence of audit firm/ auditors is maintained in conducting audit.	
	(ii)	Whether the firm has instituted adequate mechanism for training of staff.	
	(iii)	Whether the audit firm ensures the availability of expertise and/or experienced individuals for consultation with the consent of the auditee.	
	(iv)	Whether the skill and competence of assistants are considered before assignment of attestation engagement.	
	(v)	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.	
	(vi)	Whether the audit firm has established procedure to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained.	
	(vii)	Whether the audit firm maintains the audit working papers as per the standards laid down by the ICAI	
	(viii)	Whether audit records administration is satisfactory?	
	(ix)	Whether the audit firm verifies compliance with laws and regulations to the extent it has material effect on financial statements.	
	(x)	Whether the internal controls within the audit firm contribute towards maintenance of quality of reporting.	
	(xi)	Whether the audit conclusions drawn are duly supported by audit queries/observations?	

## Appendices

<b>4</b>	<b>Broad Checklist for Quality Reviews:</b>	
	(i)	Whether the company has prepared and presented the financial statements in the format relevant to it?
	(ii)	Examine the accounting policies of the enterprise.
		(a) Are all the accounting policies in accordance with the requirements of the applicable AS and Guidance Notes.
		(b) Whether all significant accounting policies that should have been disclosed are disclosed.
		(c) Whether the auditor has appropriately dealt with in his report the deviations from accounting standards.
	(iii)	Whether the disclosures required by the law/ regulations, requirements prescribed by the regulations and those required by the AS have been made.
	(iv)	Where the audit report is qualified:
		(a) whether the qualifications have been made in a clear and unambiguous manner.
		(b) Whether the qualifications made have been quantified? If not, whether adequate justification is provided for the same.
		(c) Whether the auditor has considered the overall effect of the qualifications on the true & fair view presented by the financial statements.
	(v)	Whether the auditor has complied with the requirements of the Auditing Standard SA-700, The Auditor's Report on Financial Statements, and the Statement on Qualifications in Auditor's Report, in the preparation of audit report.
	(vi)	Examine the financial statements with a view to ascertain whether there is any unusual accounting treatment/ accounting entry? If yes, comment on how it has been dealt with in the financial statements.

## Technical Guide on Conducting Quality Review

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	(vii)	Does auditor monitor compliance with policies and procedures relating to independence?	
	(viii)	Does the auditor/audit firm has an established recruitment policy? Does the auditor conduct programmes for developing expertise in specialised areas and industries?	
	(ix)	Does auditor/audit firm has established procedures for record retention, including security aspects?	
	(x)	Does the auditor/audit firm evaluate the accounting and internal control systems of the auditee?	
<b>5</b>	(i)	Whether the TR received adequate co-operation from the audit firm during QR.	
	(ii)	Is there any other issue/matter which the TR wants to bring to the notice of the quality Review Board? If yes, please specify.	

Appendix - III

PART - A

QUALITY REVIEW PROGRAM GENERAL QUESTIONNAIRE

Questions	Audit Firm's Response	Technical Reviewer's Comments	Paragraph reference in the Final Report
	(Workpaper/section reference relates to the Electronic Audit File unless otherwise stated)		
<b>Quality Control, Ethical Requirement &amp; Audit Independence</b>			
<p>1. How has the firm established and maintained a system of quality control in accordance with the objective Standard on Quality Control-1 (SQC 1). SA 220. <b>Note:</b> This SQC is to be read in conjunction with the requirements of the Chartered Accountants Act, 1949, the Code of Ethics and other relevant pronouncements of the Institute of Chartered Accountants of India (hereinafter referred to as "the Code").</p>			
<p>2. Do the personnel responsible for establishing and</p>			

**Technical Guide on Conducting Quality Review**

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maintaining the firm's system of quality control have an understanding of the entire text of SQC 1.			
3. Has the firm complied with each requirement of SQC 1 unless, in the circumstances of the firm, the requirement is not relevant to the services provided by the firm?			
4. Are there any particular matters or circumstances that require the firm to establish policies and procedures in addition to those required by SQC 1.			
5. Has the firm established and maintained a system of quality control that includes policies and procedures addressing each of the six elements of quality control, as identified by SQC 1.			
6. Has the firm documented its policies and procedures? (SQC 1).			
<b>Leadership &amp; Responsibilities</b>			
7. What policies and procedures have been established to promote that quality is essential in performing engagements? [SQC 1. SA 220]			

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<p>8. What policies and procedures have been established to ensure that those who have been assigned responsibility for the quality control system have sufficient and appropriate experience ability? [SQC 1. SA 220]</p>			
<p><b>Relevant ethical requirements</b></p>			
<p>9. What policies and procedures do you implement to ensure that you and your staff are free of any self interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity? [SQC 1. SA 220]</p>			
<p>10. What policies and procedures do you implement to ensure you and your staff adhere to the other ethical standards outlined by ICAI, being professional competence and due care, confidentiality, and professional behaviour? [SQC 1. SA 220]</p>			
<p><b>Independence</b></p>			
<p>11. Has the firm established policies and procedures designed to provide it with reasonable assurance that the</p>			

**Technical Guide on Conducting Quality Review**

<p>firm, its personnel and, where applicable, others subject to independence requirements maintain independence where required by relevant ethical requirements? [SQC 1. SA 220] [Guidance Note on Independence of Auditor]</p>			
<p><b>Assurance Practices only</b></p>			
<p>12. How does the firm evaluate the impact of client engagements, circumstances or relationships on independence requirements and what action is taken to reduce threats to an acceptable level? [SQC 1. SA 220]</p>			
<p>13. What policies and procedures exist to notify the firm of breaches of independence requirements, to enable it to take appropriate actions to resolve such situations? [SQC 1. SA 220]</p>			
<p>14. Does the firm, at least annually, obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be</p>			

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independent by relevant ethical requirements? [SQC 1. SA 220]			
15. What safeguards are applied where the firm uses the same senior personnel on assurance engagements over a long period of time? [SQC 1. SA 220]			
<b>Client Relationships &amp; Engagements</b>			
16. With regards to accepting and continuing client relationship and specific engagements, how does the firm ensure that it :			
a. is competent and capable ?			
b. complies with relevant ethical requirement ?			
c. appropriately assesses the integrity of the client?			
d. How does the firm obtain the necessary information before accepting an engagement with a new client, when deciding whether to continue an existing engagement and when considering acceptance of new engagement			

**Technical Guide on Conducting Quality Review**

with an existing client			
<p>17. How does your firm ensure there is a clear understanding with the client regarding the terms of the engagement?  <b>Note</b> :Engagement document/s are necessary under Revised Standard on TERMS OF AUDIT ENGAGEMENT 210 (Engagement documents may include letters, agreements or any other appropriate means in writing).</p>			
<p>18. Does each engagement document adequately cover the following common elements?  <b>Note:</b> If the firm does not include these in their engagement documents, this does not constitute a breach of the professional/legislative standard(s). However, it is recommended they be incorporated in future. Further guidance on preparing an engagement document is found in SA 210</p>			
<p>a. an introduction explaining that the purpose of the engagement document is to confirm the</p>			

**Appendices**

member's understanding of the terms of the engagement?			
b. the purpose of the engagement?			
c. the scope of the engagement, including the period of appointment and time schedules, the applicability of any legislation and professional standards relevant to the engagement, information required of the client or any other pertinent matter?			
d. for taxation engagements, a description of the self-assessment rules which informs clients of their responsibilities and the penalties relating to any tax shortfall?			
e. for taxation engagements, a statement in writing that the responsibility for the accuracy and completeness of the particulars and information provided by the client rests with the client.			

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<p>That any advice given to the client is only an opinion based on your knowledge of the client's particular circumstances.          Finally that a taxpayer has obligations under self assessment to keep full and proper records in order to facilitate the preparation of accurate returns  <b>Note:</b> It is not compulsory to be included in the engagement document. Where this is not please advise what other document you are providing to your clients with the statement in writing.</p>			
<p>f. for compilation engagements, a reference to an appropriate disclaimer of liability and the limitations of the engagement?</p>			
<p>g. the client's responsibility for the completeness and accuracy of the financial information/repor?  <b>Note:</b> It is not compulsory to be included in the engagement</p>			

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document. Where this is not please advise what other document you are using to obtain the client's acknowledgement.			
h. the form of report you will issue (if applicable)?			
i. for audit engagements, the objective of the audit, the scope of the audit and an explanation as to the extent to which an audit can be relied on to detect material misstatements?			
j. the request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement document?			
19. How does the firm deal with potential conflicts of interest that have been identified prior to, or during, an engagement? What documentation is kept on file in such situations? [SQC 1]			
20. How does the firm deal with situations where new information at hand would have caused the firm to decline an			

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engagement? [SQC 1]			
21. Do you require management representation letters from clients?			
22. How does the client acknowledge responsibility for the accuracy of the accounts and the various reports?			
23. How is the client made aware that where no audit or review has been carried out, no assurance is expressed in the engagement?			
24. Is the former Auditor of each new client contacted by letter requesting appropriate information to assist the firm in deciding whether to accept the appointment? <b>Note:</b> This is required as per the guidelines laid down by the Council in code of ethics for the acceptance of audit engagements.			
25. How does the firm deal with being asked to provide a second opinion on behalf of a company or an entity that is not an existing client?			
<b>Human resources</b>			
26. How does the firm ensure that sufficient			

**Appendices**

<p>policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</p>			
<p><b>Consultation</b></p>			
<p>27. Are the firm's policies and procedures designed to ensure appropriate consultation takes place, with either internal or external professionals possessing the relevant expertise, to resolve difficult or contentious matters including to:</p> <ul style="list-style-type: none"> <li>• appropriate consultation takes place on difficult or contentious matters</li> <li>• sufficient resources are available to enable appropriate</li> </ul>			

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<p>consultation to take</p> <ul style="list-style-type: none"> <li>• document and agree conclusions (Assurance Practices only); and</li> <li>• document reasons why alternative courses of action were undertaken; (Assurance practices only)</li> <li>• implement conclusions? [Quality Control -1 (SQC). SA 220]</li> </ul>			
<p>28. Are standard checklists, manuals, working papers and/or other appropriate methods used for client engagements to ensure consistency in the quality of each engagement performance and to provide guidance to new or junior staff</p>			
<p><b>Differences of opinion</b></p>			
<p>29. How does the firm deal with and resolve differences of opinion regarding the performance and outcomes of an engagement</p>			
<p><b>Engagement quality control review</b></p>			
<p>30. How are engagement quality control reviews (i.e. second partner reviews) conducted for</p>			

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appropriate engagements in order to meet the requirements of [SQC 1. SA 220]?			
31. How does the firm establish the eligibility, and maintain the objectivity, of engagement quality control reviewers?			
<b>Engagement documentation</b>			
32. What policies and procedures exist to: a. complete the assembly of final engagement files on a timely basis? [SQC 1. SA 220] b. maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation? [SQC 1. SA 220] c. retain engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation?[SQC 1. SA 220]			
33. Are file-notes maintained to document issues which are not addressed in the standard working papers?			

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<p>34. Are carry-forward working papers maintained?  <b>Note:</b> This should include file-notes which document issues for future periods.)</p>			
<p>35 Do you have procedures in place to avoid the submission of misleading or incorrect information to the authorities or to the client? Please describe.</p>			
<p><b>Monitoring</b></p>			
<p>36. Has the firm designed policies and procedures to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice?</p>			
<p>37. Does the firm communicate, at least annually, the results of the monitoring of its quality control system to engagement partners and other appropriate individuals within the firm, including the firm's chief executive officer or, if appropriate, its managing partner(s)?</p>			
<p><b>Complaints and Allegations</b></p>			

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38 Has the firm designed policies and procedures to provide it with reasonable assurance that it deals appropriately with: (a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements; and (b) Allegations of non-compliance with the firm's system of quality control. .			
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**PART - B**

**QUALITY REVIEW PROGRAM GENERAL QUESTIONNAIRE**

Name of Technical Reviewer (TR) & ICAI M. No.:

TR No.:

Reviewed Audit Firm:

Reviewed Audit Firm Registration No.:

Quality Review (QR) Assignment:

Questions	Audit Firm's Response	Technical Reviewer's Comments	Paragraph reference in the Final Report
	(Workpaper/section reference relates to the Electronic Audit File unless otherwise stated)		
<b>Audit Planning and Risk Assessment</b>			
39. Does the file contain an audit strategy? (SA 300) If so, does it consider/contain evidence that the audit firm has obtained a general understanding of the applicable financial reporting framework, and the legal and regulatory framework applicable to the entity?			
40. Is the audit firm's audit strategy designed to provide an understanding of whether the entity's selection and application of accounting policies are appropriate for its business (including their internal controls) and			

**Appendices**

<p>consistent with the applicable financial reporting framework and accounting policies used in the relevant industry? [SA 300 ]</p>			
<p>41. Does the file contain an audit plan that includes, at a minimum, a description of the nature, timing and extent of planned risk assessment procedures as well as further audit procedures at the assertion level? (SA 300)</p>			
<p>42. Has the audit firm performed the following risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial report and assertion levels: (SA 315 and 300,320,330)</p> <p>(a) Inquiries of management and others within the entity;</p> <p>(b) Analytical procedures; and</p> <p>(c) Observation and inspection?</p>			
<p>43. Has the audit firm demonstrated an understanding of control activities necessary to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks? (SA 315,320,300,330) And</p>			

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where applicable, has there been discussions within the team regarding the susceptibility of the financial reports to material misstatement? [SA 330]			
44. Has the audit firm identified and assessed the risks of material misstatement at the financial report level, and at the assertion level for classes of transactions, account balances, and disclosures to provide a basis for designing and performing further audit procedures? (SA 315) Has the audit firm documented these risks? (SA 315)			
45. As part of the risk assessment, has the audit firm determined whether any of the risks identified are, in the audit firm's judgement, significant risks (i.e. risks requiring special audit consideration)? (SA 315,330)			
46. Does the audit plan include evidence that the audit firm has identified and assessed risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment? [ SA 300,315,320,330]			
47. Does the audit plan outline the nature, timing and extent of direction			

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and supervision of engagement team members and the review of their work? [SA 300]			
48. Where the audit firm used information obtained from previous experience with the entity and from previous audits, did the audit firm determine whether changes had occurred since the previous audit that may have affected its relevance to the current audit? (SA 300)			
49. Has the audit firm performed audit procedures and related activities to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions? [ SA 550]			
50. Is there evidence that the audit firm remained alert, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the audit firm? [SA 550]			
51. If expertise in a field other than accounting or auditing was necessary to obtain sufficient audit evidence, did the audit firm consider using the			

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work of an expert, including the work of an actuary? [SA 620 ]			
52. Where a component\branch auditor has performed work, has the audit firm obtained a sufficient understanding of, among other things, the capabilities, competence and independence of that component\branch auditor? [SA 600]			
53. As the external\Statutory auditor, has the audit firm considered whether the work of the internal auditors has an affect on the external\Statutory audit procedures? (SA 610)			
54. In performing risk assessment procedures to understand the entity and its environment, has the audit firm considered whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern? (SA 570)			
55. Is there evidence that the audit firm has planned and performed the audit with professional scepticism and using professional judgement? (SA 200, SA 240)			
<b>Materiality</b>			
56. (a) Has the audit firm determined:			

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<p>(i) materiality for the report as a whole, and if applicable classes of transactions, balances and disclosures (SA 320); and</p> <p>(ii) performance materiality for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures? (SA 320)</p>			
<p>(b) Where management refused to correct some or all of the misstatements communicated by the audit firm, did the audit firm:</p> <p>(i) determine whether such uncorrected misstatements were material, individually or in aggregate? (SA 450)</p> <p>(ii) evaluate whether the financial report as a whole was free from material misstatement? (SA 450)</p>			
<p><b>Audit Sampling and Other Selective Testing Procedures</b></p>			
<p>57. (a) Has the audit firm designed and performed further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material</p>			

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misstatement at the assertion level? (SA 330)			
(b) Has the audit firm designed and performed tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls where: (SA 330)			
(c) In the design of tests of control and tests of details, has the audit firm determined appropriate means of selecting items for testing that are effective in meeting the purpose of the audit procedure? (SA 500, SA 530) Examples include:			
(i) selecting all items (100% examination);			
(ii) selecting specific items; and			
(iii) audit sampling.			
(d) Has the audit firm designed and performed appropriate substantive procedures for each material class of transactions, account balance, and disclosure? (ASA 330 and SA 520 ,SA 320 & 315)			
(e) Did the audit firm's substantive procedures include the following audit procedures related to the financial report closing process: (SA 330)			
(a) agreeing or reconciling the financial report with the underlying accounting records; and			

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(b) examining material journal entries and other adjustments made during the course of preparing the financial report?			
(f) If the audit firm has identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, has the audit firm obtained sufficient appropriate audit evidence to determine whether or not a material uncertainty exists through performing additional audit procedures, including consideration of mitigating factors? [SA 570 ]			
g) When undertaking an audit sample, did the member:			
(i) determine a sample size sufficient to reduce sampling risk to an acceptably low level? (SA 530)			
(ii) select items for the sample in such a way that each sampling unit in the population had a chance of selection? (SA 530)			
<b>Audit Documentation</b>			
58. (a) Has the audit firm documented discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussion took place?			

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(SA 230)			
(b) When information has been identified that is inconsistent with the audit firm's final conclusion regarding a significant matter, has the audit firm documented how the inconsistency was addressed? (SA 230)			
c) Has the audit firm prepared documentation that provides a sufficient and appropriate record of the basis for the auditor's report and evidence that the audit was planned and performed in accordance with Auditing Standards and applicable legal and regulatory requirements? (SA 230)			
(d) Has the audit firm prepared audit documentation:			
(i) on a timely basis; and (SA 230)			
(ii) that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (a) nature, timing and extent of audit procedures performed to comply with SAs and applicable legal and regulatory requirements; (b) results of the audit procedures performed, and the audit evidence obtained; and (c) significant matters arising during the audit, conclusions reached			

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thereon and significant professional judgements made in reaching those conclusions. (SA 230)			
(e) When existing audit documentation has been modified, or new audit documentation has been added after the assembly of the final audit file has been completed, has the audit firm, regardless of the nature of the modifications or additions, documented: <b>(SA 230)</b>			
(a) the specific reasons for making them; and			
(b) when and by whom they were made and reviewed?			
(f) Has the audit firm adopted appropriate procedures for maintaining the confidentiality, safe custody, integrity, accessibility and retrievability of the audit documentation and the needs of the practice in accordance with legal requirements of record retention? (SA 230,200)			
<b>Audit Evidence</b>			
59. (a) Has the audit firm considered whether external confirmation procedures are to be performed as substantive audit procedures? [ SA 500,501,505 ]			
(b) Has the audit firm designed and performed audit procedures in order to identify litigation and			

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<p>claims involving the entity which may give rise to a risk of material misstatement. [SA 501]</p>			
<p>(c) For initial audit engagements, has the audit firm obtained sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial report? (SA 510)</p>			
<p>(d) Has the audit firm obtained an understanding of the following in order to provide a basis for the identification and assessment of the risks of material misstatement for accounting estimates: (SA 540)</p>			
<p>(i) the requirements of the applicable financial reporting framework relevant to accounting estimates, including related disclosures;  (ii) how management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in the financial report, and  (iii) how management makes the accounting estimates, and an understanding of the</p>			

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data on which they are based?			
(e) Has the audit firm determined whether the financial report includes the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified? (SA 710)			
(f) Has the audit firm obtained sufficient appropriate audit evidence about whether:			
+ management's decision to recognise, or to not recognise, the accounting estimates in the financial report;			
+ the selected measurement basis for the accounting estimates, and			
+ the disclosures in the financial report related to accounting estimates, are in accordance with the requirements of the applicable financial reporting framework?			
(g) Has the audit firm obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the audit firm to draw reasonable conclusions on which to base their opinion? (SA 200)			
(h) Has the audit firm			

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evaluated, based on the audit evidence, whether the accounting estimates in the financial report are either reasonable in the context of the applicable financial reporting framework, or are misstated? (SA 540)			
(i) If the audit firm has used an expert, has the audit firm evaluated:			
+ whether the expert has the necessary competence, capabilities and objectivity for the audit firm's purposes? (SA 620)			
+ the adequacy of the expert's work for the audit firm's purposes? (SA 620)			
(j) Has the audit firm communicated in writing any significant deficiencies in internal control identified during the audit to those charged with governance and, where appropriate, to management, on a timely basis? (SA 265)			
(k) Has the audit firm maintained control over external confirmation requests, ensuring that, among other things, return information for responses are sent directly to the audit firm? (SA 505]			
(l) Has the audit firm obtained an understanding of the services provided by a			

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service organisation to the client, and has the audit firm evaluated the design and implementation of the client's internal control relating to these services?(SA 402)			
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**PART - C**

**QUALITY REVIEW PROGRAM GENERAL QUESTIONNAIRE**

**Name of Technical Reviewer (TR) & ICAI M. No.:**

**TR No.:**

**Reviewed Audit Firm:**

**Reviewed Audit Firm Registration No.:**

**Quality Review (QR) Assignment:**

<b>Questions</b>	<b>Audit Firm's Response (Workpaper/section reference relates to the Electronic Audit File unless otherwise stated)</b>	<b>Technical Reviewer's Comments</b>	<b>Paragraph reference in the Final Report</b>
<b>Written Representations</b>			
60. Has the firm obtained appropriate written representations from management, and where appropriate, from those charged with governance:			
(i) that management has fulfilled its responsibility for the preparation of the financial report in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement? (SA 580)			
(ii) that (a) it has provided the firm with all relevant information and access as agreed			

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<p>in the terms of the audit engagement; and (b) all transactions have been recorded and are reflected in the financial report? <b>(SA 580)</b></p>			
<p>(iii) where the firm determines that such written representations are necessary to support other audit evidence relevant to the financial report or one or more specific assertions in the financial report? <b>(SA 580)</b></p>			
<p>(iv) regarding its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud?</p>			
<p>(v) stating whether they have disclosed to the firm the results of management's assessment of the risk that the financial report may be materially misstated as a result of fraud? <b>(SA 240)</b></p>			
<p>(vi) stating whether they have disclosed to the member their knowledge of fraud, suspected fraud, or any allegations of fraud or suspected fraud, affecting the entity? <b>(SA 240)</b></p>			
<p>(vii) whether they believe significant</p>			

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assumptions used in making accounting estimates are reasonable? (SA 540)			
<b>Auditors' Report</b>			
61. (a) Where the financial report is prepared in accordance with a fair presentation framework, does the firm's audit report complies with the requirements of SA 700? And where the Auditor is also required to report on other legal and regulatory requirements, whether the Auditor has complied with the relevant requirements?			
(b) Where it provides a modified opinion, does the firm's audit report ensures compliance with SA 705?			
(c) When the auditor refers to a fact which is of such importance that it is fundamental to users' understanding of the financial statements (Emphasis of Matter - EOM), does the firm's audit report ensures compliance with SA 706?			
(d) Has the firm represented compliance with Auditing Standards in the audit report in cases where he/she			

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<p>has not complied fully with ALL of the Auditing Standards relevant to the audit? (SA 200)</p>			
<p>e) When forming an opinion and reporting on financial Statements, has the firm applied the requirements in SA 700 Forming an Opinion and Reporting on a Financial Statement, including that the audit report states whether the firm believes that the audit evidence is sufficient and appropriate to provide a basis for the opinion? (SA 700 and SA 200 )</p>			
<p>(f) Has the firm read the other information (e.g. management report, financial summaries) to identify material inconsistencies, if any, with the audited financial report? (SA 720)</p>			
<p>(g) Where the firm has identified a fraud or has obtained information that indicates that a fraud may exist, has the firm communicated these matters on a timely basis to the appropriate level of management or, where applicable, to those charged with</p>			

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governance in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities? (SA 240)			
(h) Whether audit report states that the Company has adequate IFC system in place and the operative effectiveness of such controls? Does the audit report ensures compliance with the Section 143 of the Companies Act, 2013? AND Whether the Audit firm has documented the process / working papers in support of its report on IFC in accordance with the Guidance Note of the Institute.			

**PART - D**  
**QUALITY REVIEW PROGRAM - QUESTIONNAIRE ON**  
**FINANCIAL STATEMENTS REVIEW**

Name of Technical Reviewer (TR) & ICAI M. No.:

TR No.:

Reviewed Audit Firm:

Reviewed Audit Firm Registration No.:

Quality Review (QR) Assignment:

Questions	Audit Firm's Response	Technical Reviewer's Comments	Paragraph reference in the Final Report
	(Workpaper/ section reference relates to the Electronic Audit File unless otherwise stated)		
62. Has the audit firm evaluated and documented, the applicable accounting standards for the entity?			
63. (a) Whether the audit firm has verified the applicable significant accounting policies for the purpose of disclosure in line with the requirements of AS - 1?			
(b) Has the audit firm evaluated and documented, whether the going concern assumption is appropriate?			
64. Whether the audit firm has verified the compliance with the requirements of AS 2 in respect of inventories ? (if applicable)			
65. Whether the audit firm has verified the compliance with the requirements of AS 3, for preparation of Cash Flow Statements ?			

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66. Has the audit firm performed review of events occurring after the Balance Sheet Date as per AS 4 ? Does the documentation demonstrate the procedures carried out ?			
67. Whether the audit firm has verified the compliance with the requirements of AS 5?			
68. Whether the audit firm has verified the compliance relating to depreciation and disclosures thereof in the financial statements as per AS 6?	-		
69. Whether the audit firm has verified the compliance with the requirements of as per AS 7? (if applicable)			
70. Whether the audit firm has verified and documented that the Revenue recognised is in line with the guidance in Accounting Standard 9 - Revenue Recognition and the accounting policy stated in the financial statements.? (AS 9)			
71. Has the audit firm verified the compliance with the requirements of AS 10 ?			
72. Has the compliance with the requirements with AS 11 been evaluated and documented?			
73. Whether the entity has complied with the requirements of AS 12 in respect of grants ? (if applicable)			
74. Whether the audit firm has evaluated the compliance with requirements of AS 13, for investments ?			
75. In case of any amalgamation, has the audit			

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firm evaluated the compliance with the requirements of AS 14 ?			
76. Has the audit firm verified the assumptions used by actuary for recognition and measurement of employee benefits? Have the necessary disclosures been made in the financial statements as per AS 15?			
77. Whether the entity has complied with the requirements of AS 16 ? (if applicable)			
78. Has the audit firm verified the details of the segment reporting and whether the necessary disclosures with regard to segments as per the requirements of AS 17 have been made ?			
79. Has the audit firm performed and documented procedures to verify compliance with the requirements of AS 18 ?			
80. Whether the audit firm has evaluated the compliance with requirements of AS 19 in respect of Leases ?			
81. Whether the presentation and disclosure of the EPS (basic and diluted, where applicable) is in accordance with AS 20 - Earnings per share			
82. Whether the audit firm has verified and documented that the Consolidated Financial Statements comply with the requirements of AS 21 ?			
83. Whether the audit firm has verified that, the computation of deferred tax			

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and disclosure of asset / liability is as per requirements of AS 22 ?			
84. Whether the entity has complied with the requirements of AS 23? (if applicable)			
85. In case of any discontinuing operations, has the audit firm evaluated the compliances with the requirements of AS 24 and whether the disclosures in the financial statements have been made as per the standard ?			
86. Whether the entity has complied with the requirements of AS 25 in case of interim financial reporting ?			
87. Whether the entity has complied with the requirements of AS 26 with respect to intangible assets			
88. Whether the entity has complied with the requirements of AS 27? (if applicable)			
89. whether the audit firm evaluated, if any assets of the entity require to be impaired ? Whether the compliance with requirements of AS 28 have been verified?			
90. Has the audit firm verified the provisions, contingent liabilities and contingent assets? Does the documentation of procedures carried out demonstrate the verification of compliance with AS 29			

**Appendices**

91. Has the entity complied with the requirements of AS 30, 31 and 32 with respect to financial instruments (if adopted) ?			
92. Has the audit firm evaluated that whether the disclosure requirements as per the applicable accounting standards have been complied with ?			
93. Has the audit firm evaluated compliance with the applicable requirements of relevant laws and regulations applicable to the entity? Does the documentation of procedures carried out demonstrate the verification of compliance with the relevant applicable requirements to the entity.			

**Technical Guide on Conducting Quality Review**

**Appendix - IV**  
**Under the cover of the letter No. xxxx dated xx, 201x**

**Overview and information on planning and performing the review**

<p><b>Information on Planning the review</b></p>	<p>The following steps were taken in planning the whole review:-</p> <ul style="list-style-type: none"> <li>-</li> <li>-</li> <li>-</li> </ul>												
<p><b>Information on Performing the review</b></p>	<p>a) Quality review program General Questionnaire was sent to the Audit firm on_____.</p> <p>b) Reply of the Audit firm on Questionnaire was received on_____.</p> <p>c) On-site review of the Audit firm was conducted as:</p> <table border="1" data-bbox="662 981 1209 1285"> <thead> <tr> <th>S. No.</th> <th>Names</th> <th>Dates of on-site visit</th> <th>Place of visit</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>Name of TR</td> <td></td> <td></td> </tr> <tr> <td>2.</td> <td>Names of Assistant/s, if any</td> <td></td> <td></td> </tr> </tbody> </table> <p>d) Preliminary report was issued to Audit firm on_____.</p> <p>e) Reply of Audit firm to Preliminary report was received on_____.</p> <p>f) Final report sent to QRB and Audit firm on _____.</p>	S. No.	Names	Dates of on-site visit	Place of visit	1.	Name of TR			2.	Names of Assistant/s, if any		
S. No.	Names	Dates of on-site visit	Place of visit										
1.	Name of TR												
2.	Names of Assistant/s, if any												
<p><b>Any other information, as may be considered relevant</b></p>													

**Appendix - V**  
**Under the cover of the letter No. xxxx dated July xx, 201x**

**Brief profile of the Technical Reviewer and assistants assisted in carrying out the Quality Review assignment**

	<b>CA A.....</b> <b>Membership No - xxxxxx</b>
Qualified in Nov 200x, A..... is a .....	
	<b>CA S.....</b> <b>Membership No – xxxxxx</b>
Qualified in May 199x, S..... is a .....	

## Appendix 4

### Format of Summary of Final Report

**Sub:** Final Report of (Name of Technical Reviewer) in respect of Quality Review of (M/s XYZ & Co., FRN..... – Mention the Firm Name with the Firm Registration Number (the “Statutory Auditor” / the “Firm”/ the “Audit Firm”)) in respect of Statutory Audit of ABC Company Limited (“the Company”) for the year ended (As applicable).

S. No.	Observation of the Technical Reviewer	Para Ref. in Final Report/ Appendices	Technical Requirement	Final Reply of the Audit	Final Comments of the Technical Reviewer
(1)	(2)	(3)	(4)	(5)	(6)
	<p>(Please mention briefly the observation of the TR giving exact non-compliance on each of the matters stated in the final Report/Appendices including adverse observations appearing in QR Program General Questionnaire in Appendix-III as well as areas of deficiencies in the Preliminary report on which TR is not satisfied)</p> <p>(Please segregate your observations into material and non-material categories and further mention the observations under different categories such as:</p> <p>A. Issues on Audit</p>	<p>(Please provide relevant Para references in the Final Report/ Appendices.)</p>	<p>(Please provide Technical requirement giving exact provision which is purported to be not complied with alongwith the legal text giving Sec./Clause/Para No.)</p>	<p>(The TRs are advised to send a copy of their final report to the Statutory Auditor/Audit firm requesting them to send their submissions thereon to the Board within 7 days of receipt of the final report with a copy to the TR. Please provide</p>	<p>(Please provide the final observations/ comments of the TR in the light of the final reply of the Audit firm as mentioned in column 5.)</p>

## Appendices

	<p>of Financial Statements</p> <ul style="list-style-type: none"> <li>i) Accounting Standards</li> <li>ii) Schedule III to the Companies Act, 2013</li> <li>iii) CARO</li> <li>iv) Other relevant laws and regulations</li> <li>v) Guidance Notes/other pronouncements of the ICAI, as applicable</li> <li>vi) Other matters</li> </ul> <p>B. Issues on Quality Control &amp; Ethical standards</p> <ul style="list-style-type: none"> <li>i) Standards on Auditing</li> <li>ii) Guidance Notes/other pronouncements of the ICAI, as applicable</li> <li>iii) Ethical Standards</li> </ul> <p>These categories are indicative only and may be suitably amended as considered appropriate.)</p>			<p>briefly the gist of the final reply of the audit firm on the relevant observation of the TR as contained in the reply of the audit firm on final report of the TR.)</p>	
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