

No. QRB/1-12/2017
Quality Review Board

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Announcement

Sub.: Procedure for Quality Review of Audit Services of Audit Firms (Revised) issued by the Quality Review Board established under the Chartered Accountants Act, 1949.

Central Government has constituted a Quality Review Board as an independent body under the Chartered Accountants Act, 1949 to review the quality of services provided by the Chartered Accountants in India including audit services.

2. U/s 28B of the Chartered Accountants Act, 1949, the Board is authorized to perform the following functions, namely:-
 - 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;
 - c) guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements; and
 - d) forward cases of non-compliance with various statutory and regulatory requirements by the members of the Institute or firms, noticed by it during the course of its reviews, to the Disciplinary Directorate for its examination.

3. Government of India has also issued 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'. In terms of 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.

4. Pursuant to this Rule 6, the Board had issued the detailed 'Procedure for Quality Review of Audit Services of Audit Firms' providing the necessary system for conducting audit quality reviews of audit firms in India. In discharge of its mandate, the Board has been carrying out review of statutory audit services of the Audit firms in India in accordance with this Procedure since 2012.

5. Keeping in view the experience gained during the process of reviews being carried out by the QRB, Quality Review Board has now decided to issue the enclosed Procedure for Quality Review of Audit Services of Audit Firms (Revised) making amendments in Para 8(a), 12 and 25A of the Procedure ***(in bold and italics)***.

Yours sincerely,

Sd/-

Secretary, Quality Review Board

Encl.: As above.

Procedure for Quality Review of Audit Services of Audit Firms (Revised)

Introduction

1. In exercise of the powers conferred by Section 28A of the Chartered Accountants Act, 1949, consequent to the Chartered Accountants (Amendment) Act, 2006, the Central Government, by notification, constituted a Quality Review Board consisting of a Chairperson and ten other members. Central Government nominates the Chairperson and 5 members. Remaining 5 members are nominated by the Council of the ICAI. 6 out of 11 Members of the Board, including Chairperson, are nominated by the Central Government. Members are nominated from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy. Chairperson and all the Members of the Board have tenure of 3 years. The Quality Review Board initiated the system of quality review of statutory audits with effect from financial year 2012-13.

Definitions

2. In this Procedure, unless the context otherwise requires:-

(a) "Audit Firm" shall mean a firm (including a limited liability partnership) registered with the Institute of Chartered Accountants of India under the Chartered Accountants Act, 1949 and the Regulations framed thereunder.

(b) "Audit Firm Under Review" means the audit firm whose quality of statutory audit services is under review by the Quality Review Board [hereinafter referred to as 'AFUR'].

(c) "Board" means the Quality Review Board constituted under Section 28A of the Chartered Accountants Act, 1949 [hereinafter referred to as 'QRB' / 'Board'].

(d) "Council" means the Council of the Institute of Chartered Accountants of India.

(e) "Institute" means the Institute of Chartered Accountants of India constituted under the Chartered Accountants Act, 1949 (38 of 1949) [hereinafter referred to as 'ICAI' / 'Institute'].

(f) "Member" means a member of the Institute of Chartered Accountants of India.

(g) "Notification" means a notification published in the Gazette of India.

(h) "Stakeholders" in respect of an entity may include shareholders, investors, creditors, suppliers, customers, Government, regulators, employees, trade unions and society.

(i) "Technical Reviewer" means a member empanelled with the Quality Review Board to conduct the quality review [herein after referred to as "TR"].

(j) "Technical Standards" include:-

- 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 Standards on Auditing issued by the Institute of Chartered Accountants of India and those notified under the relevant statute;
- The Statements on Auditing issued by the Institute of Chartered Accountants of India;
- The Notifications/Directions/Guidelines issued by the Institute of Chartered Accountants of India including those of a self-regulatory nature;
- Other relevant legal and regulatory requirements.

(k) “Other Relevant Guidance” include:-

- The Guidance Notes on accounting and auditing matters issued by the Institute of Chartered Accountants of India;
- The Code of Ethics issued by the Institute of Chartered Accountants of India.

(l) “Non-Compliance” means situation where financial statements are not materially prepared in accordance with the requirements of the applicable financial reporting framework considering qualitative aspects of the entity’s accounting practices as would affect the truth and fairness of the financial statements and auditor has not reported accordingly as per applicable standard on auditing; or auditor has not obtained reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error; or auditor does not express a modified opinion when, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually, or in aggregate, are material; or in other cases of non-compliances of technical standards or other relevant guidance or other relevant laws and regulations as would materially affect the truth and fairness of the financial statements.

3 (a) Words and expressions used and not defined in this Procedure but defined in the Companies Act 2013 (18 of 2013) or Chartered Accountants Act, 1949 (38 of 1949), shall have the same meanings respectively assigned to them in those Acts.

(b) All personal pronouns used in this Procedure, whether used in the masculine, feminine or other gender, shall include all other genders, and the singular shall include the plural and vice versa unless a different meaning is plainly required by the context.

Legal Framework

4. Section 28B of the Chartered Accountants Act, 1949 provides that:
 “The Board shall perform the following functions, namely:-

- (a) to make recommendations to the Council with regard to the quality of services provided by the members of Institute;
- (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.
- (d) to forward cases of non-compliance with various statutory and regulatory requirements by the members of the Institute or firms, noticed by it during the course of its reviews, to the Disciplinary Directorate for its examination².”

5(a) The Ministry of Corporate Affairs vide letter F.No.7/1/2019-CL-I dated 30th January, 2019 has clarified to the Quality Review Board that in view of Sec.132(2) of the Companies Act, 2013 r/w Rule 9(4) of NFRA Rules, 2018, the issue of QRB reviewing audits of the companies/bodies corporate specified under rule 3 of the above referred rules will only arise in case a reference is so made to QRB by NFRA, and not otherwise.

(b) Rule 3 (1) of National Financial Reporting Authority Rules, 2018, as notified by Central Government on 13 November, 2018, and as further amended, specifies that “The Authority shall have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service under sub-section (2) of section 132 or undertake investigation under sub-section (4) of such section of the auditors of the following class of companies and bodies corporate, namely:-

(a) companies whose securities are listed on any stock exchange in India or outside India;

(b) unlisted public companies having paid-up capital of not less than rupees five hundred crores or having annual turnover of not less than rupees one thousand crores or having, in aggregate, outstanding loans, debentures and deposits of not less than rupees five hundred crores as on the 31st March of immediately preceding financial year;

(c) insurance companies, banking companies, companies engaged in the generation or supply of electricity, companies governed by any special Act for the time being in force or bodies corporate incorporated by an Act in accordance with clauses (b), (c), (d), (e) and (f) of sub-section (4) of section 1 of the Act;

Explanation- For the purpose of this clause, “banking company” includes ‘corresponding new bank’ as defined in clause (d) of section 2 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970) and clause (b) of section 2 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980) and ‘subsidiary bank’ as defined in clause (k) of section 2 of the State Bank of India (Subsidiary Bank) Act, 1959 (38 of 1959).

(d) any body corporate or company or person, or any class of bodies corporate or companies or persons, on a reference made to the Authority by the Central Government in public interest; and

² Inserted by the Chartered Accountants, the Cost and Works Accountants and the Company Secretaries (Amendment) Act, 2022 with effect from 10.05.2022 vide notification No. S.O. 2184 (E) dated 10.05.2022 issued by the Ministry of Corporate Affairs.

(e) a body corporate incorporated or registered outside India, which is a subsidiary or associate company of any company or body corporate incorporated or registered in India as referred to in clauses (a) to (d), if the income or networth of such subsidiary or associate company exceeds twenty percent of the consolidated income or consolidated networth of such company or the body corporate, as the case may be, referred to in clauses (a) to (d).”

- (c) Accordingly, QRB can now initiate review of quality of audit services provided by the members of the Institute in respect of:-
- (i) entities other than those specified under Rule 3(1) of NFRA Rules, 2018, namely, private limited companies, unlisted public companies below the thresholds specified under Rule 3(1) of NFRA Rules, 2018 and other entities not specified under Rule 3(1) of NFRA Rules, 2018; and
 - (ii) entities referred to QRB by NFRA under Rule 9(4) of NFRA Rules, 2018.

6. In exercise of the powers conferred by clauses (f) and (g) of Sub-section (2) of Section 29A read with Section 28C and Sub-section (1) of Section 28D of the Chartered Accountants Act, 1949, the Central Government has made ‘Chartered Accountants (Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board) Rules, 2006’. Rule 6 specifies that the Board may, in discharge of its functions: –

(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 and firms rendering such services for review;

(c) call for information from the Institute, the Council or its Committees, Members, Clients of members or other persons or organizations, in such form and manner as it may decide, and may also give a hearing to them;

Provided 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.

Provided further that where the Board does not receive the information called for by it from any company registered under the Companies Act, 1956 (now Companies Act, 2013), the Board may request the Central Government in the Ministry of Corporate Affairs for assistance in obtaining the information.

(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.

Coverage of Services for Quality Review

7. Pursuant to 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 Members of the Board) Rules, 2006', the Board is issuing this 'Procedure for Quality Review of Audit Services of Audit Firms' (the 'Procedure') providing for various matters, adopting best practices, in laying down the necessary system for conducting recurring quality reviews of audit firms in India. It is felt that the broad contours and requirements of review and the manner in which such review would be carried out, should not only be made known to users, stakeholders and service providers, in advance, but should also be transparent. Quality Review in terms of the provisions under the Chartered Accountants Act, 1949 is directed towards review of audit quality and adherence to various statutory and other regulatory requirements. Accordingly, the Quality Review would involve assessment of the work of statutory auditors while carrying out statutory audit so that the Board is able to assess:-

- (a) Quality of statutory audit and reporting by statutory auditors; and
- (b) Quality control framework adopted by the AFUR in conducting statutory audit.

Exclusions:

This Procedure would not extend to:

- (i) Review of internal audit, tax audit and other such special purpose audits conducted by the members of the Institute which may be covered by the Board at a later stage or unless otherwise specified; and
- (ii) Review of services provided by the members of the Institute in employment.

Engagement of Technical Reviewers (TRs)

8. The Board has specified the following basic minimum criteria for empanelment of Technical Reviewers with the Board, applications in respect whereof are invited through an on-line empanelment process at the website of QRB (www.qrbca.in):-

- (a) He should have minimum ten years of post qualification experience as a chartered accountant in the practice of accounting and auditing and be currently active in practice;**
- (b) He should have handled as a signing partner/proprietor at least three statutory audit assignments as a Central Statutory Auditor of Banks/Public Limited Companies/Government Companies/Private Limited Companies having annual turnover of rupees fifty crores and above during the last ten financial years; Provided that out of the aforesaid three statutory audit assignments, at least one must be in respect of entities other than Private Limited Companies;
- (c) He should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against him or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against him during last three financial years and/or thereafter; and
- (d) He should not currently be a Member of the QRB or ICAI's Central Council/Regional Council/Branch level Management Committee.

9. The Board may specify any other criteria, from time to time, apart from the aforesaid basic minimum criteria for empanelment of TRs with the Board. The Board reserves the right to reject any application for empanelment as TR without assigning any reason whatsoever.

10. The empanelment of TRs, so made, shall be for the on-going block period of three years subject to obtaining annual declarations from each of the empanelled TR for continuing to meet the basic criteria of empanelment. However, it may be noted that empanelment as a TR with the Quality Review Board does not, in any way, guarantee allotment of quality review work to TR which shall be at the sole discretion of the Quality Review Board.

11. TRs shall be required to undergo training on emerging areas such as Ind-AS, Amendments in Companies Act, other technical standards, Valuation Standards, other relevant laws and regulations etc. TRs shall regularly participate in training workshops/programmes organized by various POUs on the aforesaid areas and will update their knowledge. Further, they shall submit annual declarations alongwith relevant evidences, to the QRB regarding their participation in such training workshops/programmes.

12. After completion of the initial block period of empanelment, the Board may decide to offer renewal of empanelment to TR, subject to his consent, for another block period and so on based upon assessment of the quality of review work performed by the TR, ***as per the Parameters for Assigning Rating to Technical Reviewers (TRs) issued by the Quality Review Board as given in Annexure A and as further amended from time to time***, and timely completion of review work during the period, if any, his meeting the basic minimum criteria for empanelment, participation in training workshops and other such factors as may be considered appropriate by the Board.

Criteria for Selection of Audit Firms for Quality Review

13. Quality review may be 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. Such selection of audit firms for review may be made on the basis of one or more of the following criteria:-

(a) Criteria based on entities audited:

- (i) The entities other than those specified under Rule 3(1) of NFRA Rules, 2018 may be selected on the basis of one or more of the following:-
 - risk based selection including regulatory concerns pointing towards stakeholder risks.
 - on account of being part of a sector otherwise identified as being susceptible to risk on the basis of market intelligence reports.
 - reported fraud or likelihood of fraud.
 - serious accounting irregularities in the financial statements highlighted by the media and other reports.
 - major non-compliances under relevant statutes highlighted in past reviews.
- (ii) In case of joint audits, if required, all joint auditors may be reviewed, as may be decided by the Board on case to case basis.
- (iii) The Board may also review the quality of the statutory audit services of AFUR with a view to assessing the quality of statutory audit and reporting by the statutory auditors and their quality control framework on a reference made to it by any regulatory body like Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority, Ministry of Corporate Affairs, National Financial Reporting Authority (NFRA) under Rule 9(4) of NFRA Rules, 2018 etc.
- (iv) The Board shall not consider cases of complaints received from individuals, firms, companies, other entities and their partners, directors and other officers etc. which shall be continued to be dealt with in accordance with the mechanism available under the Chartered Accountants Act, 1949. Cases of complaints from only regulatory bodies and other media reports involving serious accounting irregularities shall be considered by the Board for the purpose of initiating the review.
- (v) The selection for *suo moto quality* reviews may, however, be done using methods such as random sampling, selection of particular class or classes of entities/audit firms, in the manner as specified at (i) above.
- (vi) The QRB secretariat should place the details of the entities and audit firms, which may be selected for quality review before the Board for its consideration. The Board, at this stage, may consider whether the case warrants a quality review by a TR and may refer the cases selected for quality review to the relevant TRs. The Board will obtain the Annual Report of the entity 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:

Selection of audit firms should also be made for quality review of their statutory audit work on random basis, the volume of work handled by them represented by the number and nature of clients, sectors that may be identified as facing high risk, or on account of fraud or likelihood of fraud.

(c) Quality Review Cycle:

(i) The following quality review cycle of Audit firms may be followed generally or as may be decided by the Board:

- Once in 3 years for Audit firms having 20 or more Partners
- Once in 4 years for Audit firms having 10 or more but less than 20 Partners
- Once in 5 years for Audit firms having less than 10 Partners.

(ii) Upto 3 audit engagements of an AFUR may be selected by the Board, as may be considered appropriate, during a particular quality review cycle covering entities of varied industries, size, geographical spread and regulatory concerns. However, in the absence of any adverse finding in a past review, not more than one audit engagement of the same engagement partner/ proprietor of an AFUR may be selected for quality review by the Board during a particular quality review cycle.

(iii) However, in case of any adverse findings in past review/s or in any other situation, QRB may conduct quality review of any particular audit firm or of a particular engagement partner at more frequent interval and/or select more than 3 audit engagements.

Scope of Quality Review

14. The scope & objective of the quality review shall be as under:-

- (a) whether the Statutory Auditor has ensured compliance with the applicable technical standards in India and other applicable professional and ethical standards and other relevant guidance.
- (b) whether the Statutory Auditor has ensured compliance with the relevant laws and regulations as required under applicable auditing standard.
- (c) whether the AFUR has implemented a system of quality control with reference to the applicable quality control standards.
- (d) whether there is no material misstatement of assets and liabilities as at the reporting date in respect of the selected entity.

15. The major focus of the reviews is on compliance with technical standards, other relevant guidance, relevant laws & regulations as required under applicable auditing standard, quality of reporting and firm's quality control framework. The focus areas for quality

reviews for any particular class or classes of Audit firms / entities may be such as specified by the Board, from time to time.

16. The review would encompass AFUR's working papers of selected audit file/s to assess quality of their audit and to ensure that financial statements are free of material mis-statement/s; internal quality controls placed within AFUR, including assessment of how internal controls impact audit quality; AFUR's independence; compliance with technical standards, other relevant guidance and relevant laws and regulations; on-site-reviews; and discussion of findings with senior management of AFUR.

Quality Review Process

17. The Board may constitute one or more Quality Review Groups (hereinafter referred to as QRG) to examine final reports of Technical Reviewers (TRs), with a view to assessing the quality of audit and reporting by the AFUR, in consultation with the Board. There could be two categories of the QRGs:

- (a) Industry Specific; and
- (b) Generic.

18. Each of the QRG would be assisted by TRs. The job of the TRs would be to prepare a report on the review of statutory audit function of AFUR, with a view to assessing their quality of audit and reporting, and the review of quality control framework adopted by them in conducting audit.

19. The TR, after completion of his on-site review, is required to submit a preliminary report to the AFUR on the review of the quality of audit and reporting by the AFUR on the financial statements and the AFUR's quality control framework. After obtaining comments of AFUR on his preliminary report, TR would submit his final report to the Board in a specified format and within specified period of time. The Board may, however, extend the time limit for submission of final report. Report should be issued on the TRs (individual) letterhead and duly signed by the TR. The report should be addressed to the Chairperson of the Board and should be dated as of the date of the conclusion of the review. The TR, based upon his satisfaction from the representation by the AFUR, may decide to issue either an interim report or a final report to the Board. TR shall also forward a copy of his final report to the AFUR requesting them to submit to the Board their final comments on the observations made by him in the Final Report.

20 (a) The report, so prepared by the TR, and the AFUR's final comments on the observations made by TR in the Final Report shall be considered by the QRG. QRG may issue such directions to the TRs as may be considered necessary enabling QRG to make recommendations to the Board on the review. The QRG may also consult the Board on any issue, on which QRG feels that the guidance of the Board is necessary.

(b) QRG may also call for additional details/ information from the concerned TR and/or Audit Firm, if needed.

(c) QRG may also interact with the concerned TR, if needed, and request him to explain/present his final report to the QRG in certain

circumstances including:

- Where interaction with the TR is necessarily warranted to seek clarifications/further details on certain issues in the report enabling the QRG to make necessary recommendations to the QRB.
- Where there are complete differences between the observations of the TR and the views of the AFUR to the extent that an interaction with the TR and/or AFUR is considered necessary.
- Where the QRG is dissatisfied with the quality of the review report of the TR enabling the TR to have a better understanding of the expectations from him.

(d) QRG may also interact with the AFUR, if needed, in certain special circumstances and request the AFUR to explain/present their views enabling the QRG to make necessary recommendations to the QRB.

21 (a) Generally, review reports in respect of all the joint auditors of an entity should be considered together by the QRG, as far as practicable.

(b) In view of SA 299 'Responsibility of Joint Auditors', if TR finds that response of other joint auditor is required on any particular observation(s) as the concerned area was allocated to them, he may, through the office of QRB, communicate with the concerned audit firm. TR shall submit his final report after giving reasonable opportunity to the requisite audit firm for obtaining their response.

22. QRG shall consider the reports of TRs in respect of the quality reviews referred to it and submit its recommendations on the same to the Board within a reasonable period of time. The recommendations of the QRG may expressly state the following:

- (a) Particulars of the enterprise and AFUR;
- (b) A detailed description of the non-compliance with the matters stated in the terms of engagement to TRs, if any;
- (c) A detailed description of the evidences that support the non-compliance;
- (d) QRG's recommendations about the actions that are required to be taken in a particular case; and
- (e) QRG's recommendations on the general guidance that needs to be issued to the Audit firms/ members at large.

23. QRG may consider the following broad parameters for determining the action to be recommended to the Board upon consideration of the observations of the TRs:-

(a) In cases involving non-compliance by the members of the Institute or firms, the matter may be forwarded to the Disciplinary Directorate of ICAI for its examination u/s 28B(d) of the Chartered Accountants Act, 1949.

(b) In other cases involving matters of improvement an advisory/guidance to the AFUR may be issued by the QRB in terms of the requirements of Sec. 28B(c) of the Chartered Accountants Act, 1949.

(c) In respect of the matters involving general guidance that needs to be issued to the Audit firms/ members at large, the recommendation may be made to the Council in an aggregated manner at such interval as may be considered appropriate by the Board under Sec. 28B(a) of the Chartered Accountants Act, 1949.

(d) In respect of other observations of trivial nature, and where the AFUR has also agreed to take effective corrective steps in future or has already taken corrective steps, the report may be taken on record and the matter may be closed.

24. The members of the QRB/QRG may be entitled for sitting fees and reimbursement of travelling expenditure incurred in connection with the meetings of the QRB/QRG in terms of 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. TRs who incurred travelling expenditure in connection with the meetings of the QRB/QRG would be eligible for reimbursement at such rates as may be fixed by the Board from time to time in this regard. However, members of the QRB/QRG, nominated by the Council of the ICAI, will not be entitled for any sitting fees for attending meetings.

25. Various stages involved in the quality review process are as described below:-

(a)	QRB selects Audit Firm and the audit file for review and identifies TR to conduct Quality Review.
(b)	QRB sends Offer Letter of Engagement to TR.
(c)	TR conveys his acceptance of Letter of Engagement to QRB by sending necessary declarations for meeting eligibility conditions and furnishing statement of confidentiality by himself and his assistant/s, if any.
(d)	QRB intimates AFUR about the proposed Quality Review. QRB also sends a copy of this intimation letter to TR and provides them contact details of each other for further communication.
(e)	TR sends the specified Quality Review Questionnaire to the AFUR for filling-up. He also calls for additional information from the AFUR, if required.
(f)	TR & his team carry out the Quality Review by starting their off-site review by making proper planning for the review and then visiting the office of the AFUR by fixing the date as per mutual consent ensuring that review exercise gets completed within specified time frame.
(g)	On completion of on-site review, TR to send the preliminary report to AFUR. TR shall send a copy of preliminary report to QRB as well.
(h)	AFUR to submit representation on the preliminary report to the TR and TR to immediately send the reply of the AFUR to QRB.
(i)	TR to submit final report alongwith a copy of Annual report of the entity for the year under review, to the QRB in the specified format, on his (individual) letterhead, duly signed and dated within specified time frame or as extended by the

	QRB. In addition, he shall also send a copy of the final report to the AFUR, requesting them to send their final reply thereon to the QRB within 7 days of receipt of the final report. AFUR shall also send a copy of their final reply to TR.
(j)	AFUR to submit to QRB their reply on the final report and feedback, in prescribed format, regarding their experience of the quality review.
(k)	Upon receipt of the final reply from the AFUR, TR shall submit to QRB within next 7 days a summary of his findings, in the specified format, containing his findings, technical requirements, final reply of the AFUR and his final comments thereon.
(l)	QRG to consider the report of the TR and responses of AFUR and make recommendations to QRB. QRG may also call for additional details/information/explanations, if required, from TR/AFUR or issue such directions to TR, as it may deem appropriate, enabling it to assess the quality of audit and reporting by the AFUR.
(m)	QRB to consider report and recommendations of QRG and decide further course of action.

25A. The entire quality review process shall be conducted as per the Standard Operating Procedure (SOP) for conducting Quality Reviews (QRs) issued by the Quality Review Board as given in Annexure B and as further amended from time to time.

Composition of the Review Team

26. The composition of the review team would depend on the size of the AFUR/entity/(ies) under review. The composition of the team, mandatorily headed by a TR empanelled with the Quality Review Board, may also include upto 3 Assistants engaged by the TR, as may be fixed by the Board in each case on need basis. However, no firm of Chartered Accountants may be included as a member of the review team.

27. The QRB, from time to time, shall specify the requirements to ensure independence of TRs and avoid conflict of interest including:-

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

28. The QRB, from time to time, shall specify the requirements for engaging Assistants by the TR for ensuring their independence and avoiding conflict of interest including:-

- (a) He shall be member of the Institute of Chartered Accountants of India;
- (b) He does not attract any of the disqualifications prescribed under the Chartered Accountants Act, 1949;
- (c) He shall have to sign the statement of confidentiality in the prescribed format;
- (d) He shall have no direct interface either with the AFUR or the Board;
- (e) He should have been working with TR for atleast one year as a Member of the ICAI/ a Partner in the CA firm with him;
- (f) He should not have been associated with the AFUR and the concerned entity, whose audit is being reviewed, during last three financial years and/or thereafter;
- (g) He should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against him or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against him during last three financial years and/or thereafter;
- (h) He should not be a member of current QRB/ICAI's Central Council/Regional Council/Branch level Management Committee; and
- (i) He should not himself be empanelled as a TR with the Quality Review Board.

29. The Board may also obtain services of relevant industry experts, if needed, on such criteria as may be specified by the Board. These industry specific experts may provide guidance/ advice to the TRs, as may be required.

30. These TRs and industry experts shall be entitled to payment of honorarium and reimbursement of travelling expenses, including for their assistants, if any, at such rates as may be decided by the Board from time to time.

Guidelines for the Technical Reviewers

31. TR should adhere to the principle requirements mentioned while preparing his report. It may be noted that the requirements mentioned apply to the interim as well as the final reports of the TR. TR should also adhere to the various guidelines given to him by the Board, from time to time, including:-

- (a) TR shall himself make on-site visit, alongwith his Assistant/s, if any, to the AFUR for conducting the review of audit working papers as defined under the relevant standards;
- (b) TR shall follow Technical Guide on conducting Quality Review as brought out by the QRB while conducting the review;
- (c) TR, including his Assistant/s, will have access to or take abstracts of the records and documents maintained by the AFUR in relation to the review; However, in order to maintain confidentiality, the TR, including his Assistant/s, shall not make any copies/extracts of the AFUR's Clients' file or records examined by them while conducting review, as part of their working papers;

- (d) TR shall provide detailed comments giving proper justification and explanation in respect of the various matters required to be commented upon by TRs in the final report including its Appendices;
- (e) TR shall also 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, reports of other bodies or any other guidance as may be provided by the QRB from time to time as well as industry specific Technical Guide/s, if any, brought out by the ICAI while conducting the review;
- (f) TR shall be required to prepare his final report as per the reporting format specified by the Board as amended from time to time; and
- (g) TR should build in a review process to be able to review audit documentation maintained by the AFUR in electronic form in line with the requirements of SA 230.

32. TR, based on the conclusions drawn from the review, shall issue a preliminary report and subsequently the final report. The final report shall be issued in the format as may be specified by the Board from time to time. A clean report indicates that the TR is of the opinion that the statutory audit is being conducted in a manner that ensures the quality of audit services rendered. However, TR may qualify the report due to one or more of the following:-

- (a) non-compliance with technical standards and other relevant guidance;
- (b) non-compliance with relevant laws and regulations as required under applicable auditing standard;
- (c) quality control system design deficiency; or
- (d) non-compliance with quality control policies and procedures.

33. The report should contain:-

(a) Elements relating to audit quality of entities:-

- (i) A reference to the description of the scope of the review and the period of review of AFUR 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 non-compliance.
- (iii) A statement indicating the instances of matters of improvement.
- (iv) A statement highlighting the general guidance that needs to be issued to the Audit firms/ members at large.

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

- (i) An indication of whether the AFUR 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 AFUR.
- (iii) An opinion on whether the AFUR's system of quality control has been designed to meet the requirements of the quality control standards for attestation services and whether it was complied with during the period reviewed to provide the

reviewer with reasonable assurance of complying with technical standards, other professional and ethical standards, other relevant guidance and relevant laws and regulations in all material respects.

- (iv) Where the TR concludes that a modification in the report is necessary, a description of the reasons for modification. The report of the TR 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.

34. In deciding on the type of report to be issued, TR should consider the evidence obtained and should document the overall conclusions with respect to the year being reviewed in respect of following matters:-

- (a) Whether the policies and procedures that constitute the AFURs system of quality control for its attestation services have been designed to ensure quality control to provide with reasonable assurance of complying with technical standards, other relevant guidance and other relevant laws and regulations.
- (b) Whether personnel of the AFUR complied with such policies and procedures in order to provide the firm with reasonable assurance of complying with technical standards, other relevant guidance and other relevant laws and regulations.
- (c) Whether independence of AFUR is maintained in conducting audit.
- (d) Whether the AFUR has instituted adequate mechanism for training of staff.
- (e) Whether the AFUR ensures the availability of expertise and/or experienced individuals for consultation.
- (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 AFUR has established procedure to record the audit plan, the nature, timing and extent of auditing procedures performed and the conclusions drawn from the evidences obtained.
- (i) Whether the AFUR maintains the audit documentation as per the relevant standards.
- (j) Whether the AFUR verifies compliance with relevant laws and regulations to the extent it has material effect on financial statements.
- (k) Whether the internal controls within the AFUR contribute towards maintenance of quality of reporting.

Changes to the Reporting Formats/ Questionnaire

35. Whenever the Quality Review Board is of such a view, in the light of the new emerging paradigm, changes in domestic laws & regulations and through experience gained, it may, amend, or modify the Quality Review Questionnaire/ reporting formats, from time to time, as it may deem appropriate.

Manner of consideration of Recommendations of QRG by the Board

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

37. The recommendations of the QRG on the quality of statutory audits by the auditors of entities (other than those covered under Para 36) shall be placed before the Board for its consideration directly.

38. The Board may, after due consideration of the recommendations and comments of Office of the 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 shall record the reasons for doing so.

39. The actions that the Board may take, based upon consideration of recommendations of the QRG, include one or more of the following:-

- (a) Forward the non-compliance by the members of the Institute or firms to the Disciplinary Directorate for its examination u/s 28B(d) of Chartered Accountants Act, 1949.
- (b) Make recommendations to the Council of ICAI with regard to the quality of services provided by the members of the Institute in respect of matters involving general guidance that needs to be issued to the Audit firms/ members at large in an aggregated manner at such interval as may be considered appropriate by the Board u/s 28B(a) of Chartered Accountants Act, 1949 .
- (c) Issue advisory and guidance to the AFUR for improvement in the quality of services u/s 28B(c) of Chartered Accountants Act, 1949 . A copy of such advisory may also be sent to the ICAI for information.
- (d) Inform the details of the non-compliance to the regulatory bod(y)/ies relevant to the entity as may be decided by the Board.
- (e) Intimate the AFUR as to the findings of the Report as well as action initiated as above.
- (f) In case of review arising out of a reference received from a regulatory body, inform the results of review and the details of action taken to the concerned regulatory body.
- (g) Consider the matter complete and inform the AFUR accordingly.

Mechanism for Follow-up of Review Findings

40. Quality Review Board shall require AFUR to submit a compliance report to the Board within specified period for adopting necessary measures to avoid recurrence/corrective steps in respect of advisories and guidance issued to AFUR by the QRB u/s 28B(c) of

Chartered Accountants Act, 1949 for improvement in the quality of services.

41. Quality Review Board may follow-up and review effectiveness of corrective actions taken by AFURs. The results of reviews shall be used for off-site monitoring as well as for next on-site review. In case of lack of effective corrective actions by AFURs, next on-site review might be organized earlier. Horizontal and in-depth analysis of results of individual off-site monitoring and on-site review will be conducted to identify industry-wide issues across audit firms. Quality Review Board may also share results of such analysis with relevant stakeholders, as may be decided by the Board.

Confidentiality

42. The Board shall be bound to keep all the matters referred to it as well as any other information, papers, documents, etc. received during the course of the review confidential except as and when may be required by any law for the time being in force. Similar confidentiality conditions shall also apply to the members of the QRGs and the TRs and their assistants, if any, and the secretariat associated with the Board.

Measures to avoid Conflict of Interest

43. The following declarations have been identified as particularly relevant:-
(a) the term “conflict of interest” would be defined/spelt out clearly without any ambiguity;
(b) appropriate declaration be obtained from the TR and his team with reference to his / their/ their Audit firm including its Partners “interest”, if any, respectively on the concerned entity and AFUR.

Publication of Review Findings

44. With a view to apprising the stakeholders and others concerned about the findings observed during the review, the Board may publish the same in the manner considered appropriate by it.

Modification of Procedure

45. These operating procedures have been prepared by the Board to provide a broad framework for its functioning. It is recognised that the procedures to be followed by the Board might require modification/amendment for the efficient and effective functioning of the Board. Wherever the Board is of the view that these operating procedures require modification in the light of the experience gained or due to change in circumstances, it may amend or modify these operating procedures as it may deem appropriate.

Parameters for Assigning Rating to Technical Reviewers (TRs)

S. No.	Parameters	Maximum Marks
1.	Draw-up the final report alongwith all its appendices, responses in Questionnaire, summary of final report, report on focus areas for review as per required format/s in a comprehensive manner covering all aspects as per scope of review in the terms of engagement.	05
2.	Quality of in-depth coverage of the requirements of technical standards in the review encompassing aspects of applicable AS/Ind AS, SAs, SQC-1, CARO, Sch. III requirements and other relevant laws and regulations including coverage of any additional aspects/questions within the scope of review and quality of evidence generated.	02
3.	Quality of presentation of report / summary of observations (well explaining the observation/s providing all facts and figures, technical requirements and final opinion given etc.).	02
4.	Timely completion of review.	01
5.	Non-compliance of the terms of engagement/ directions issued by the QRB/ non-provision of clarification sought by QRB/QRG-I: <ul style="list-style-type: none"> • 1st non-compliance • 2nd non-compliance • 3rd non-compliance 	(-2) (-2) (-2)

Rating scores:

S. No.	Rating	Marks Obtained
1.	Excellent	More than 8 to 10
2.	Good	More than 6 to 8
3	Average	More than 4 to 6
4	Below Average	Upto 4

Standard Operating Procedure (SOP) for conducting Quality Reviews (QRs)

1.	The review shall start from the date of issuing letter for initiating QR by the Quality Review Board (QRB) to Audit Firm Under Review (AFUR).	Day 1
2.	Technical Reviewer (TR) shall start the review process:- <ul style="list-style-type: none"> • establish contact with AFUR; • send Questionnaire (Appendix III) to AFUR for filling-up; • call for additional information from AFUR, if required; • start off-site review by making proper planning for the review • fix-up the date for starting on-site review. 	
3.	TR & his team shall visit the office of AFUR by fixing the date as per mutual consent. Maximum one on-site visit for 7 days. Can be extended upto 14 days subject to prior approval of Chairperson, QRB.	
4.	Upon completion of on-site review, Technical Reviewer shall issue preliminary report to AFUR with a copy to QRB.	
5.	AFUR to submit reply on the preliminary report to TR within reasonable time. TR to immediately forward the reply of AFUR to QRB.	
6.	TR to submit Final Report to QRB in the prescribed format within 45 days from the date of intimation of the assignment to AFUR. <ul style="list-style-type: none"> • TR to submit hard copy and soft copy of his Report to QRB. • TR to also send a copy of Annual report of the company/entity for the year. 	Day 45

	<ul style="list-style-type: none"> • TR is also required to enclose a copy of the Preliminary report and the reply of AFUR on the preliminary report. • TR shall also send a copy of the final report to AFUR. 	
7.	<p>In case review report is delayed for whatever reason (whether on account of TR or AFUR), TR is required to seek extension of time from the QRB secretariat.</p> <ul style="list-style-type: none"> - Upto 45 days extension can be given by the QRB Secretariat on case to case basis. - Upto 90 days extension (in total) can be given by the Chairperson, QRB on case to case basis. 	
8.	<p>In case, final review report is not received within the stipulated period or extended period, as above, and in cases where TR/AFUR do not comply with the requirements asked for by the QRB or do not supply information called for by the QRB, clarification may be sought from the TR/AFUR concerned (who is responsible for the delay or who has not complied with the requirements/supplied information), as per following:-</p> <ul style="list-style-type: none"> - 1st communication may be sent, by way of letter by speed post/registered post and e-mail, seeking clarification for non-compliance within 30 days. The letter will clearly state the requirement/information asked for, non-compliance from the TR/AFUR, as the case may be, and the action which may be initiated in terms of the requirements of Clause (2) of Part III of First Schedule of the Chartered Accountants Act, 1949 in respect thereof. - In case of no response/ no satisfactory response on the 1st communication, a reminder may be issued, in the same manner as the 1st letter, seeking reply within 15 days. 	

	<ul style="list-style-type: none"> - In case still no response is received to the above two communications, a 2nd reminder may be issued, in the same manner as the 1st letter, seeking reply within 7 days. - In case satisfactory reply is received after any of the above 3 stages, the matter shall be dealt with in accordance with the manner specified in this SOP. - In case of no response/ no satisfactory response to the above, matter may be placed before Quality Review Board through QRG-I for its consideration. 	
9.	<p>AFUR to send their submissions on the Final Report to QRB within 7 days of receipt of the final report.</p> <p>AFUR to also mark a copy of their submissions to TR.</p>	Day of receipt of report as above + 07 days
10.	In case of delay in receipt of the reply from AFUR, the procedure as specified at serial numbers 7 and 8 may be followed.	
11.	Upon receipt of the reply of AFUR on the Final Report, TR shall submit to QRB within next 7 days a summary of his findings in the specified format incorporating reply of AFUR on the final report and his final comments.	Day of receipt of reply from AFUR as above + 07 days
12.	In case of delay in receipt of the inputs from TR, the procedure as specified at serial numbers 7 and 8 may be followed.	

13.	Consideration of the final report of TR alongwith the reply of the AFUR on the final report and the summary from TR at the meeting of the QRG-I. In case of a joint audit, review reports of all the joint auditors, subjected to review, should be considered together, as far as possible.	
14.	QRG-I may call for additional details/ information from the concerned TR and/or AFUR, if needed.	
15.	<p>QRG-I may also interact with the concerned TR, if needed, at a meeting and request him/her to explain/present his/her final report to the QRG-I in certain circumstances, by recording reasons for doing so, including:</p> <ul style="list-style-type: none"> • Where interaction with the TR is necessarily warranted to seek clarifications/further details on certain issues in the report enabling the QRG-I to make necessary recommendations to the QRB. • Where there are complete differences between the observations of the TR and the views of the AFUR to the extent that an interaction with the TR and/or AFUR is considered necessary. • Where the QRG-I is dissatisfied with the quality of the review report of the TR enabling the TR to have a better understanding of the expectations of the QRB from him/her. 	
16.	QRG-I may also interact with the concerned AFUR, if needed, at a meeting in certain special circumstances and request the AFUR to explain/present their views enabling the QRG-I to make necessary recommendations to the QRB.	
17.	In case of delay in receipt of detail/information/clarification from TR/AFUR or in case	

	TR/AFUR do not provide the details/information/clarification asked for by the QRG-I, the procedure as specified at serial numbers 7 and 8 may be followed.	
18.	Upon consideration of the reports, QRG-I may also seek guidance of the QRB on any matter, if considered necessary, before making its recommendations to the QRB.	
19.	QRG-I to make its recommendations to the QRB for its consideration.	
20.	QRG-I's recommendations on the quality of audit by the auditor of a Public Sector Undertaking (PSU) should be furnished to the Office of the Comptroller and Auditor General of India (C&AG), on case to case basis, and the O/o the C&AG's views, if any, shall be put-up before the QRB along with the recommendations of the QRG-I. In all other cases, decision of the QRB on the quality of audit by the auditor of a PSU shall be furnished to the Office of the C&AG for information in accordance with the requirements of Para 36 of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB.	
21.	QRB to consider the recommendations of the QRG-I alongwith the final report of the TR, the reply of the AFUR thereon and additional details/information submitted, if any and the O/o the C&AG's views, if any, in respect of the report on the quality of audit by the auditor of a PSU.	
22.	<p>QRB may, after due consideration of the report of QRG-I and comments of the Office of the C&AG, if any wherever applicable, decide whether QRG-I's recommendation may be accepted or otherwise. The QRB may, suo moto, take such further action, as it may deem appropriate including:</p> <ul style="list-style-type: none"> • Issuing necessary instructions to the QRG-I to re-consider the matter and place its recommendations again after calling more details from the TR/AFUR, if needed; • Such further action as may be considered appropriate. 	

	If the QRB decides against the recommendations made by the QRG-I in its report, the QRB shall record the reasons for doing so.	