

# Technical Guide on Conducting Quality Review (Revised 2024 Edition)



**QUALITY REVIEW BOARD**

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

**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. QRB is structured as a robust set-up where the Central Government nominates the Chairperson and five members consisting of senior/retired officials from the CBDT, MCA, CAG, SEBI etc. ICAI also nominates five members. Majority of members of QRB are independent of the accounting profession. Sec. 28B of the Chartered Accountants Act, 1949 authorises the Quality Review Board to perform the following functions:

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

In the year 2012-13, QRB formalised its system of independent review of statutory audits of the audit firms in India. QRB reviews all aspects of how an audit was performed in entities selected for review. QRB's reviews involve assessment of the work of statutory auditors so that QRB is able to assess (a) quality of audit and reporting by the statutory auditors; and (b) 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, statutory and regulatory requirements, quality of reporting, ethical standards and firm's quality control framework. However, after constitution of National Financial Reporting Authority (NFRA), QRB is now able to initiate reviews of the quality of audit services provided by the members of the Institute only in respect of entities other than those specified under Rule 3(1) of NFRA

Rules, 2018; and those referred to QRB by NFRA under Rule 9(4) of NFRA Rules, 2018.

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

On behalf of the entire Quality Review Board and on my personal behalf, I wish to place on record my sincere gratitude to all the members of the Expert Group of QRB namely, CA. Pramod Jain, CCM, ICAI, CA. Chandrashekhar V. Chitale, CCM, ICAI and Shri Rajesh Kumar Bhoot, Pr. Commissioner of Income Tax for their role in bringing out the revised edition of this Technical Guide.

I also express my thanks to Dr. Manoj Govil, Secretary, Ministry of Corporate Affairs, Shri Inder Deep Singh Dhariwal, Joint Secretary (Corporate Affairs), CA. Ranjeet Kumar Agarwal, President, ICAI, CA. Charanjot Singh Nanda, Vice-President, ICAI and CA. (Dr.) Jai Kumar Batra, 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 other Members and Special invitees of the Quality Review Board namely, Shri Deepak Kapoor, DG, C&AG, Shri Deep Mani Shah, CGM, SEBI, CA. Durgesh Kumar Kabra, CCM, ICAI, CA. Dayaniwas Sharma, CCM, ICAI, CA. Abhay Kumar Chhajed, CCM, ICAI and Shri Chandra Wadhwa, CCM, ICAI for their suggestions, support and guidance in finalising this Guide. I also wish to thank CA. Mohit Baijal, Secretary, QRB, CA. Rahul Dayal and all other staff of the QRB Secretariat for their contribution in finalising the revised edition of this Technical Guide.

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

February 15, 2024  
NOIDA

**Shefali Shah, IRS (Retd.)**  
Chairperson  
Quality Review Board

# Contents

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<b>Chapter</b>	<b>Title</b>	<b>Page No.</b>
	Preface	
1	Introduction	1-12
2	Basic Principles of Conducting a Quality Review	13-24
3	Terms of Quality Review	25-27
4	Quality Control in a Quality Review	28-31
5	Planning the Quality Review	32-33
6	Conducting the Quality Review	34-50
7	Reporting	51-56
<b>Annexures</b>		
1	Parameters for Assigning Rating to Technical Reviewers (TRs)	57
2	Standard Operating Procedure (SOP) for Conducting Quality Reviews (QRs)	58-62
3	Format of Engagement Letter including prescribed declarations on confidentiality and eligibility of TRs and his Assistant/s	63-77
4	Format of Intimation Letter to Audit Firm under Review	78-83
5	Format of Final Report of Technical Reviewer including Quality Review Program Questionnaire	84-90
6	Formats prescribed by Quality Review Board	91



# 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. Chairperson and all the Members of the Board have tenure of 3 years.

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;
- c) Guiding the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements; and
- d) Forwarding cases of non-compliance with various statutory and regulatory requirements by the members of the Institute or firms,

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

## Technical Guide on Conducting Quality Review

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noticed by it during the course of its reviews, to the Disciplinary Directorate for its examination.

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 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;

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;

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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.



- 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 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 statutory auditor while carrying out their statutory 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 statutory audit and reporting by the statutory auditor; and
- c) the quality control framework adopted by the auditor/ audit firms in conducting statutory audit.

1.8 Presently, the review undertaken by QRB covers statutory audit only and does not extend to internal audit, tax audit and other such special purpose audits conducted 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

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

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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**

(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 Audit firm under review (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 Technical Reviewer (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 auditing the accounts***

(i) Selection of audit firms may also be made for review of their statutory audit 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.

### ***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 past review/s, 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.

## **Constitution of Quality Review Groups**

1.10 The Board constitutes Quality Review Groups (hereinafter "QRGs") to examine final reports of Technical Reviewers (TRs) with a view to assess the quality of audit and reporting, and the review of quality control framework adopted by them in conducting audit. 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.

## **Appointment of Technical Reviewers**

1.11 Each QRG is assisted by Technical Reviewer/s to prepare a report on the review of statutory audit function of AFUR, with a view to assessing the quality of audit and reporting, and the review of quality control framework adopted by them in conducting audit.

1.12 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.grbca.in](http://www.grbca.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.

1.13 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.

1.14 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 planning 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.

1.15 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 evidence, to the QRB regarding their participation in such training workshops/programmes.

1.16 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 1 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.

1.17 Board has also laid down eligibility conditions for undertaking Quality Review for ensuring independence of TR. While only a chartered accountant can be 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 four 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. 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.

### **Submission of Report**

1.18 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 TR's (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

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

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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. The Board has issued Parameters for assigning rating to TRs and Standard Operating Procedure for conducting Quality Reviews, a copy of which are enclosed as ANNEXURE 1 and ANNEXURE 2.

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

1.19 The report, so prepared by the Technical Reviewer and the AFUR's final comments on the observations made by TR in the Final Report, 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. QRG may also call for additional details/information from the concerned TR and/or Audit Firm, if needed.

1.20 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:

- a) 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.
- b) 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.
- c) 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.

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.

1.21 Generally, review reports in respect of all the joint auditors of an entity should be considered together by the QRG, as far as practicable. In view of SA 299 (Revised) 'Joint Audit of Financial Statements', 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.

1.22 A QRG is required to complete the review of cases referred to it and submit its recommendation on the same to the Board within a reasonable period of time.

1.23 The recommendations of the QRG may expressly state the following:

- a) Particulars of the enterprise and Audit Firm under Review;
- b) A detailed description of the non-compliance/s, if any, with the matters stated in the Terms of engagement to TRs;
- c) A detailed description of the evidences that support the non-compliance/s;
- 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.

1.24 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.

### **Consideration of the Recommendations of the Quality Review Group/s**

1.25 The QRG's recommendations on the quality of statutory 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, shall be put-up before the Board along with the recommendations of the QRG. In all other cases, the QRG's

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

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recommendations along with 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.

1.26 The recommendations of the QRGs on the quality of statutory audits by the auditors of entities (other than those covered under paragraph 1.25) shall be placed before the Board for its consideration directly.

1.27 The Board may, after due consideration of the recommendations 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, the Board is required to record the reasons for doing so.

1.28 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.

1.29 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.

1.30 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.

**1.31 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

## Technical Guide on Conducting Quality Review

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	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)	QRB to consider the report of the TR and responses of AFUR and make recommendations to QRB. QRB 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 QRB and decide further course of action.

1.32 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 2 and as further amended from time to time.

## 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:

- compliance with the applicable technical standards in India, other applicable professional and ethical standards and other relevant guidance.
- compliance with the relevant laws and regulations as required under SA 250.
- implementation of a system of quality control with reference to the applicable quality control standards; and
- no material misstatement of assets and liabilities as at the reporting date in respect of the selected entity.

The Technical Reviewer is also required to conclude that based on his review conducted and subject to the weaknesses and deficiencies stated under the paragraph 'Basis for Qualified Report' and read with his comments under the paragraph 'Other matters for improvement' and his findings/observations stated in Appendix I, nothing has come to his attention that causes him to believe that the Audit Firm has not complied with the aspects covered in terms of his scope mentioned in the "Technical Reviewer's Responsibility" paragraph in the final report..

### **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

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

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Quality Review Board. Accordingly, the objective of a Quality Review is to enable the TR to report on:

- a) The quality of statutory audit and reporting by the statutory auditors; and
- b) The quality control framework adopted by the AFUR in conducting statutory 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 entity as specified or have rendered any other services to the said 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 specified AFUR, 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 under section 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, so far as applicable.
- d) 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.
- e) He does not belong to the city/region of head office of the AFUR.

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

## **Basic Principles of Conducting a Quality Review**

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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 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 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 **ANNEXURE 3** 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:

- a) Audit processes;
- b) Applicable Standards on Auditing (Sas) and other generally accepted auditing practices;
- c) The financial reporting framework applicable to the auditee;
- d) Relevant pronouncements and publications of ICAI, issued from time to time;

## Technical Guide on Conducting Quality Review

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- e) Legal and regulatory requirements applicable to the AFUR, such as the Chartered Accountants Act, 1949 and Regulations thereunder, the ICAI Code of Ethics, etc.;
- f) Legal and regulatory requirements applicable to the auditee, for example, the Companies Act, 2013 and the Rules thereunder, industry specific laws, requirements of the applicable financial reporting framework;
- g) Auditing and financial reporting issues relevant to the auditee's industry.

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

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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.

## **Basic Principles of Conducting a Quality Review**

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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.

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.
- 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 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 230, *Audit Documentation***

- Determining the form, content and extent of audit documentation of significant matters.

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

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- Determining how the information that is inconsistent with the auditor's final conclusion regarding a significant matter is to be documented.

### ***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.
- 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.

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



**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.
- 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 299 (Revised), *Joint Audit of Financial Statements***

- Determining the division of audit areas and common audit areas amongst the joint auditors that define the scope of the work of each joint auditor.

**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

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

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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 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 500, *Audit Evidence***

- Determining whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion.

### **SA 505, *External Confirmations***

- Determining the information to be confirmed or requested.
- Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor.

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

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

## **Basic Principles of Conducting a Quality Review**

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

### **SA 550, *Related Parties***

- Determining the audit procedures to be performed to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

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

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### **SA 570 (Revised), *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 580, *Written Representations***

- Determining the effects of the concerns that the auditor may have on the reliability of representations (oral or written) and audit evidence in general.

### **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 700 (Revised), *Forming an Opinion and Reporting on Financial Statements***

- Forming an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- Concluding as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

### **SA 701, *Communicating Key Audit Matters in the Independent Auditor's Report***

- Determining which, and how many, of those matters that required significant auditor attention were of most significance in the audit of the financial statements of the current period.
- Determining the order of presentation of individual matters within the Key Audit Matters section.
- Determining the amount of detail to be provided in the auditor's report to describe how a key audit matter was addressed in the audit.

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

## **Basic Principles of Conducting a Quality Review**

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### **SA 705 (Revised), *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 not 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 (Revised), *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 matter is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

### **SA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information***

- Determining the nature and extent of other procedures the auditor may perform to conclude whether a material misstatement of the other information exists.
- Determining the actions, the auditor takes if the other information is not corrected after communicating with those charged with governance.

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 judgement 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

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

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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 other relevant guidance.
- b) Examining whether the Engagement Partner has ensured compliance with the relevant laws and regulations as required under SA 250.
- c) Examining whether the Audit firm has implemented a system of quality control with reference to the applicable quality control standards.
- d) Examining whether there is no material misstatement of assets and liabilities as at the reporting date in respect of the selected entity.

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

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

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

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- 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.

The term “Other Relevant Guidance” in the context of the Procedure for Quality Review of Audit Services of Audit Firms issued by QRB 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;

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 acceptance of 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 **ANNEXURE 3** 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 **ANNEXURE 4** to this Technical Guide.

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 (Technical 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 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 meets the applicable professional standards. 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:

- a) should be a member of the Institute of Chartered Accountants of India;
- b) should not have attracted any disqualifications under the Chartered Accountants Act, 1949;
- c) should have to sign the statement of confidentiality in the prescribed format.
- d) should have no direct interface either with the AFUR or the Board;

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

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- e) should have been working with the TR for at least one year who is a member of the ICAI or is a partner in the TR's firm for at least one year;
- f) should not have been associated with the Statutory auditor/Audit firm under review or the company/entity proposed to be assigned to TR under review 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 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; and
- i) 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 articled 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.
- Availability of time *vis a vis* other professional work commitments.

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

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- 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 interpersonal 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.
- Whether the team members have understood the instructions given by TR properly.

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

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- 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 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 other relevant guidance;
- b) compliance with the relevant laws and regulations as required under SA 250;
- c) implementation of a system of quality control with reference to the applicable quality control standards; and
- d) no material misstatement of assets and liabilities as at the reporting date in respect of the selected entity.

6.2 Based on the procedures performed during the review, the TR is also required to conclude that based on his review conducted and subject to the weaknesses and deficiencies stated under the paragraph 'Basis for Qualified Report' and read with his comments under the paragraph 'Other matters for improvement' and his findings/observations stated in Appendix I nothing has come to his attention that causes him to believe that the AFUR has not complied with the aspects covered in terms of his scope mentioned in the "Technical Reviewer's Responsibility" paragraph in the final report.

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 as per SA 250. It also includes review of the system of quality control which the Firm has implemented as required by such technical standards. The policies



## **Conducting the Quality Review**

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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 Questionnaire**

6.7 QRB has developed Quality Review Program Questionnaire for use by TRs. The Questionnaire works as an aid for the TRs and contain questions relevant for determining compliance with the requirements of SQC 1, Standards on Auditing (SAs), Accounting Standards, and other relevant laws and regulations. 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 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

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

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been documented and implemented. Unless these are documented and 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 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

## Conducting the Quality Review

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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 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 deficiency 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 polices 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

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

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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 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.

## Conducting the Quality Review

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- f) Promptly communicating identified breaches of these policies and procedures, and the required corrective actions, to the following personnel:
  - (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

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

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Services Engagements” to see illustrative policies and procedures that may be implemented to ensure compliance with SQC 1.

6.18 In so far as the compliance with the Standards on Auditing, Accounting Standards and other relevant laws and regulations are 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. The TR and the QR Team may also refer to Checklist on Standards on Auditing, Overview of Indian Accounting Standards, Implementation Guide to SA 230 (Audit Documentation), Audit working paper templates and any other implementation guide/s issued by the ICAI.

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,

## **Conducting the Quality Review**

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“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.
- 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 TR should also examine the definition of Non-Compliance as defined under Para 2(l) of Procedure for Quality Review of Audit Services of Audit Firms (Revised) which states as follows:

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.

6.27 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 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.

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

6.29 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**

6.30 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.

6.31 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.

6.32 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.

6.33 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 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.

6.34 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.

6.35 Further, the severity of a deficiency does not depend on whether non-compliance has actually occurred, rather on whether there is a reasonable

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

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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”.

6.36 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.

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

6.38 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.

## Conducting the Quality Review

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- 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.

6.39 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?

6.40 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:

- 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.

6.41 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

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

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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**

6.42 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
- 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.

6.43 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.

## Conducting the Quality Review

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6.44 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.

6.45 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.

6.46 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.

6.47 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.

6.48 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

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

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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 non-compliance in the final report. The elements of materiality can be found under various rules and standards as given below:

- As per the Framework for the Preparation and Presentation of Financial Statements in accordance with Accounting Standards the relevance of information is affected by its materiality. Information is material if its misstatement (i.e., omission or erroneous statement) could influence the economic decisions of users taken on the basis of the financial information. Materiality depends on the size and nature of the item or error, judged in the circumstances of its misstatement. Materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which the information must have if it is to be useful.
- As per Para 3 of General Instructions of Annexure to the Companies (Accounting Standards) Rules 2021, Accounting Standards are intended to apply only to items which are material.
- As per Conceptual Framework for Financial Reporting under IND AS Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the ICAI cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.
- As per the Companies (Indian Accounting Standards) Rules 2015 and further as per IND AS 1 Presentation of Financial Statements, material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

- As per Guidance Note on Division II – IND AS Schedule III to the Companies Act, 2013 a general Instruction on ‘Materiality’ has been included in Note 7 to General Instructions for Preparation of Financial Statements and a revision made by Notification No. GSR 463(E) dated 24th July, 2020, requires Financial Statements to disclose items/information that could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Such influence arises from information being omitted, misstated or obscured (i.e., communicated in a way that has a similar effect of omitting or misstating it). Materiality depends on the size or nature of the item or a combination of both, to be judged based on particular facts and in particular circumstances.
- As per Guidance Note on CARO 2020 (Revised 2022), Where a requirement of the Order is not complied with but the auditor decides not to make an unfavourable comment, in view of the materiality of the item, he should record rationale for the same in his working papers. It may be noted that while reporting on matters specified in the Order, the auditor should consider the materiality, in accordance with the principles enunciated in SA 320, “Materiality in Planning and Performing an Audit”. The auditor obtains reasonable assurance by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. Materiality and audit risk are considered throughout the audit, in particular, when determining the nature, timing and extent of further audit procedures to be performed. For example, in case of clause 3(iii) of the Order, while reporting, on the repayment schedule of various loans granted by the company, the auditor examines the loan documentation of all large loans and conducts a test check examination of the rest, having regard to the materiality.

### Documenting a Finding

6.49 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;

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

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- c) Factors mitigating the effect of the finding, if any;
- d) Explanations/responses provided by the engagement partner/ AFUR;  
and
- e) Examination of materiality of the item so as to determine whether it would be considered as non-compliance or a matter of improvement in terms of the definition of non-compliance in Para 2(l) of the Procedure issued by the Board.
- f) Conclusions reached by the TR.

6.50 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 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. 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 Questionnaire (as developed by QRB), should also be included in the preliminary report for seeking final views/comments of AFUR thereon. 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 TR's (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 QRB. 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.

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. 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, 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 and other relevant guidance;
- non-compliance with relevant laws and regulations as required under SA 250;
- quality control system design deficiency;
- non-compliance with quality control policies and procedures; or

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

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7.3 QRB has already defined the term “non-compliance” in the Procedure issued by the Board as already provided in chapter 6 (Para 6.26). TRs are required to examine the deficiency in terms of this requirement.

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

7.4 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:

- a) whether the policies and procedures that constitute the AFUR’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, 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 evidence obtained.
- i) whether the AFUR maintains audit documentation as per the relevant Standards.
- j) whether the AFUR verifies compliance with 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.
- 7.5 The QRB has outlined the following basic elements of a TR's report:
- 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 Technical Reviewer concludes that a modification in the report is necessary, a description of the reasons for modification. The report of the Technical 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

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

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### e) Place

7.6 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 **ANNEXURE 5** to this Technical Guide.

7.7 TR is also required to submit a duly filled in detailed questionnaire given by QRB on SQC 1, Standards on Auditing, Accounting standards, Indian accounting standards, Companies Auditor's Report Order (CARO), and Schedule III of the Companies Act, 2013. The format of the questionnaire has been prescribed by QRB and contains columns for responses from AFUR, TR's comments and paragraph reference in Appendix-III of the final report. The format of Questionnaire is given in **ANNEXURE 6** to this Technical Guide. The QRB has also specified certain Focus Areas for Reviews. TRs are required to give a separate report on these focus areas as amended from time to time. An illustrative format of the Report on Areas of Focus for Reviews is specified in Annexure 6 to this Guide.

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

- 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.
- TR shall be required to prepare his reports as per the reporting format specified by the Board as amended from time to time. Format provided by QRB must be adhered to and should not be altered/changed except as advised.
- 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.
- 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 Technical 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/No comments/Agreed etc.
- In case the audit engagement under review is a joint audit, the TR should also provide details of work allocation among the joint auditors.
- 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.
- 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
- 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;
- 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 section/sub-section/para/clause /notes of the observations are properly built in the final report to support the observations. The formats of Final Report and Summary are given in **ANNEXURES 5 and 6** 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.
  - Reference (section/sub-section/para/clause /notes) should be provided from the main standards/law (i.e. from where it is actually originated) instead of providing reference of guidance notes/technical guide. Reference of guidance notes/technical guide can be provided in addition to the main provision.

## Technical Guide on Conducting Quality Review

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- Applicability of technical requirement (section/sub-section/para/clause /notes) to the entity & to that particular year must be ensured.
- Observation should not be vague or contain any ambiguity. It should be self-explanatory along with all facts and figures and technical requirements.
- While drawing observations accurate facts & figures along with the inter-linkage in the financial statements/notes to financial/audit report/board report or any other documents etc. (from where it can be inspected) must be provided.
- If TR drops any observation of the preliminary report from the final report, proper justification (Appendix-V) should be provided. If TR drops any observation from the final report to summary report, proper justification for doing so under column “Final Comment of TR” in the summary report should be provided.
- The final report should be made only after due consideration of the responses received from the AFUR. The firm responses reproduced in the summary report by TR should be the same as provided by 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.

## Annexure 1

### 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"> <li>• 1st non-compliance</li> <li>• 2<sup>nd</sup> non-compliance</li> <li>• 3<sup>rd</sup> non-compliance</li> </ul>	(-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

## Annexure 2

### 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"><li>• establish contact with AFUR;</li><li>• send Questionnaire (Appendix III) to AFUR for filling-up;</li><li>• call for additional information from AFUR, if required;</li><li>• start off-site review by making proper planning for the review;</li><li>• fix-up the date for starting on-site review.</li></ul>	
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"><li>• TR to submit hard copy and soft copy of his Report to QRB.</li><li>• TR to also send a copy of Annual report of the company/entity for the year.</li></ul>	Day 45



	<ul style="list-style-type: none"> <li>• TR is also required to enclose a copy of the Preliminary report and the reply of AFUR on the preliminary report.</li> <li>• TR shall also send a copy of the final report to AFUR.</li> </ul>	
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"> <li>- Upto 45 days extension can be given by the QRB Secretariat on case-to-case basis.</li> <li>- Upto 90 days extension (in total) can be given by the Chairperson, QRB on case-to-case basis.</li> </ul>	
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"> <li>- 1<sup>st</sup> 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.</li> <li>- In case of no response/ no satisfactory response on the 1<sup>st</sup> communication, a reminder may be issued, in the same manner as the 1<sup>st</sup> letter, seeking reply within 15 days.</li> <li>- In case still no response is received to the above two communications, a 2<sup>nd</sup> reminder may be</li> </ul>	

## Technical Guide on Conducting Quality Review

	<p>issued, in the same manner as the 1<sup>st</sup> letter, seeking reply within 7 days.</p> <ul style="list-style-type: none"> <li>- 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.</li> <li>- 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.</li> </ul>	
9.	<p>AFUR to send their submissions on the Final Report to QRB within 7 days of receipt of the final report. AFUR to also mark a copy of their submissions to TR.</p>	<p>Day of receipt of report as above + 07 days</p>
10.	<p>In case of delay in receipt of the reply from AFUR, the procedure as specified at serial numbers 7 and 8 may be followed.</p>	
11.	<p>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.</p>	<p>Day of receipt of reply from AFUR as above + 07 days</p>
12.	<p>In case of delay in receipt of the inputs from TR, the procedure as specified at serial numbers 7 and 8 may be followed.</p>	
13.	<p>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.</p>	

**Annexures**

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"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul>	
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.	

**Technical Guide on Conducting Quality Review**

20.	<p>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&amp;AG), on case to case basis, and the O/o the C&amp;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&amp;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.</p>	
21.	<p>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&amp;AG's views, if any, in respect of the report on the quality of audit by the auditor of a PSU.</p>	
22.	<p>QRB may, after due consideration of the report of QRG-I and comments of the Office of the C&amp;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"> <li>• 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.</li> <li>• Such further action as may be considered appropriate.</li> </ul> <p>If the QRB decides against the recommendations made by the QRG-I in its report, the QRB shall record the reasons for doing so.</p>	

## Annexure 3

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

**By E-mail**

No. QRB \_\_\_\_\_  
Quality Review Board

Gr. Floor, Admin. Block, ICAI Bhawan,  
A-29, Sector 62, NOIDA– 201309, (U.P.).  
Ph: 0120-3045983; Telefax: 0120 – 3045984  
Email: [reviews@qrbca.in](mailto:reviews@qrbca.in);  
Website: <http://www.qrbca.in>

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

CA.  
ICAI M. No.  
Address  
Phone/ Mobile No.:  
Email Id:

Dear Sir,

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

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;

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

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- (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 examination.

2. The Ministry of Corporate Affairs, Government of India, vide letter F.No.7/1/2019-CL-1 dated 30<sup>th</sup> 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 NFRA Rules, 2018 will only arise in case a reference is so made to QRB by NFRA, and not otherwise.

3. Accordingly, QRB can now initiate reviews of quality of audit services provided by members of the Institute only in respect of 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 those referred to QRB by NFRA under Rule 9(4) of NFRA Rules, 2018. **Therefore, you are requested to verify that captioned entity does not fall under Rule 3(1) of NFRA Rules, 2018.**

4. 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 this Rule 6, the Quality Review Board has issued the 'Procedure for Quality Review of Audit Services of Audit Firms, as amended from time to time, (please refer <http://www.qrbca.in>)

to evaluate and review the quality of work and services provided by the members of the Institute.

5. 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.

6. In terms of the Procedure, 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 Audit Firm Under Review (AFUR) in conducting statutory audit.

7. (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 AFUR has ensured compliance with the applicable technical standards in India and other applicable professional and ethical standards and other relevant guidance.
- (b) the Technical Reviewer has to examine whether the AFUR has ensured compliance with the relevant laws and regulations as required under SA 250.
- (c) the Technical Reviewer has to examine whether the AFUR 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 selected 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.

(ii) The major focus of the reviews is on compliance with technical standards, other relevant guidance, relevant laws & regulations as

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

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required under applicable auditing standard, quality of reporting and firm's quality control framework. The focus areas for quality reviews may be such as specified by the Board, from time to time.

(iii) The review would encompass AFUR's working papers of selected audit file to assess quality of their audit. It would also ensure that financial statements are free of material misstatement/s in compliance with IFC framework; 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-inspections; and discussion of findings with senior management of AFUR.

(iv) Scope of review includes the statutory audit of standalone financial statements as well as consolidated financial statements reported upon by the AFUR, if any, in respect of the entity as mentioned in the captioned subject.

8 (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 AFUR for conducting the review and reviewing the audit working papers as defined under the relevant standards laid down by the ICAI. There is NO OPTION to conduct it on an on-line basis. The Technical Reviewer 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 Technical Reviewer shall not make any copies/extracts of the AFUR'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 and Areas of Focus 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 or any other guidance as may be provided by the QRB from time to time such as “Technical Guide on conducting Quality Review”, as amended from time to time;
- prepare the final report in the prescribed format, as amended;
- in respect of a joint audit, if any, 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 AFUR in line with the requirements of SA 230.

(ii) It may further be mentioned that you may also be required, if needed, to interact with the Quality Review Board or any other Group constituted by the Board to explain/present/clarify/provide additional details with regard to the findings in your report or any other matter as may be considered appropriate.

9. The Board shall pay you a sum of Rs. \_\_\_\_\_/- (Rupees \_\_\_\_\_) 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 (alongwith for your assistants, if any) may also be entitled to claim reimbursement of travelling expenses for on-site review, as per specified ceilings and guidelines (**shall be provided separately**), for the above stated assignment. The payment for travelling expenses shall be made only after receipt of your final report. There shall be a maximum of one on-site visit to the AFUR 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 subject to approval by the Board in each case on need

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

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basis 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 AFUR or the Board;
- (e) should have been working with you for at least one year as a Member of the ICAI/ a Partner in the CA firm with you;
- (f) should not have been associated with the AFUR 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 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; and
- (i) should not himself/herself be empanelled as a Technical Reviewer with the Quality Review Board.

10. Your 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 AFUR, 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.
- (e) you are not from the city/region of head office of AFUR.

11. 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 entity/AFUR, 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 one of the assistants as stated at Para 9c) above (format enclosed). You and your assistants, as stated at Para 9c) above, shall not publicly disclose your engagement for the assignment nor shall divulge publicly the details of your findings.

12. Please confirm to us within 7 days of receipt of this e-mailed 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 AFUR, as mentioned in the captioned subject, enabling you to start the quality review exercise by sending the Quality Review Programme Questionnaire to the concerned AFUR 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 10, you are requested to return this letter to us, in original, citing the reason/s for refusal.

13. In terms of Para 19 of the Procedure issued by the Board, you are required to issue a preliminary report to the AFUR also marking its copy to the Board alongwith the response of the AFUR thereon.

14. You are advised to complete the aforesaid quality review assignment and send us a copy of Annual report of the 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)**. Your final report, based upon the guidelines as provided

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

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and, in terms of the requirements of, the Procedure issued by the Board and as amended from time to time, may be submitted to us on your (individual) letterhead, duly signed and dated, **within 45 days** from the date of intimation of the assignment to the AFUR. **Any cases of delay in submission of final report are viewed seriously by the Board. Requests for extension in submission of final report, if any, shall be entertained only in exceptional circumstances in terms of the Standard Operating Procedure (SOP) for conducting Quality Reviews issued by the Board (copy shall be provided separately).** Your final report alongwith all the Appendices in the specified format and report on areas of focus may be sent to us in hard as well as soft copy (MS Word/Excel/Searchable PDF) (E-mail at [reviews@qrbca.in](mailto:reviews@qrbca.in)). In addition, you shall also send a copy of your final report to the concerned AFUR, 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 (Email: [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 8(i) (b)**

**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 \_\_\_\_\_) ('AFUR')  
in respect of Statutory Audit of \_\_\_\_\_  
for the year ended on DD.MM.YYYY.**

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 (Revised)' 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 unauthorized access is not gained by anyone.
- The attestation services procedures of the concerned AFUR 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.

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.

**Technical Guide on Conducting Quality Review**

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**Signature:**

**Name:**

**Address:**

**ICAI Membership No.:**

**Date:**

**Place:**

**Mobile/Phone No:**

**Declaration of Eligibility of Technical Reviewer**

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

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 not 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 AFUR 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.
- (e) I am not from the city/region of head office of the AFUR.

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.:**

**Technical Guide on Conducting Quality Review**

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**Date:**

**Place:**

**Mobile/Phone No:**



**Declaration of Eligibility of Assistants**

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

(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. The justification for their need is enclosed separately:

Name	Address	ICAI M.No.	Contact Details
(i)			
(ii)			
(iii)			
(iv)			
(v)			

- 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 AFUR 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;
- f) The assistant(s) as at (a) above have not been associated with AFUR 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

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

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under any other law 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 empaneled 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 8(i) (b)**

(To be furnished by the Technical Reviewer)

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

I,.....(name of TR)  
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:**

## Annexure 4

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

**By Speed Post/Email**

No.QRB/

Dated:

M/s  
(FRN \_\_\_\_\_ )  
Address  
Phone No.:  
Email Id:

Dear Sirs,

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

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: -

- (e) 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');
- (f) to review the quality of services provided by the members of the Institute including audit services;
- (g) to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements;
- (h) 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 examination.

2. However, Ministry of Corporate Affairs, Government of India, vide letter F.No.7/1/2019-CL-1 dated 30<sup>th</sup> 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 NFRA Rules, 2018

will only arise in case a reference is so made to QRB by NFRA, and not otherwise.

3. 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 has issued the 'Procedure for Quality Review of Audit Services of Audit Firms (the 'Procedure'), as amended from time to time, (available at <http://www.qrbca.in>) to evaluate and review the quality of work and services provided by the members of the Institute.

4. 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 as amended from time to time. It has already been confirmed by you that the statutory audit as mentioned in the captioned subject, as above, does not fall in any of the categories under Rule 3(1) of NFRA Rules, 2018. Copy of the engagement letter issued to CA. \_\_\_\_\_ vide No. QRB/ dated \_\_\_\_\_ is enclosed herewith for information who has already conveyed to us his/her acceptance of the assignment.

5. 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) Quality of statutory audit and reporting by statutory auditors; and (b) Quality control framework adopted by the Audit Firm Under Review (AFUR) in conducting statutory audit.

6. 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 [support@qrbca.in](mailto:support@qrbca.in)) with a copy to the**

## Technical Guide on Conducting Quality Review

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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. Any cases of delay in the review process are viewed seriously by the Board. Requests for extension, if any, shall be entertained only in exceptional circumstances in terms of the Standard Operating Procedure (SOP) for conducting Quality Reviews issued by the Board (copy enclosed). Further, post completion of review, you are also requested to send us your feedback on the review in the enclosed form.

7. 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).

Feedback Form<sup>10</sup>

S. No.	Particulars	Response of Audit Firm
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 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	

<sup>10</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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	<ul style="list-style-type: none"> <li>b. Date of Reply</li> <li>c. If the gap between a &amp; b is more than 7 days, please explain reason/s thereof</li> </ul>	
7.	<p>How much time did you take to respond to Final Report:</p> <ul style="list-style-type: none"> <li>a. Date of Receipt of Final Report</li> <li>b. Date of Reply</li> <li>c. If the gap between a &amp; b is more than 7 days, please explain reason/s thereof</li> </ul>	
8.	Were the behaviour 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.	



**Annexures**

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Signature of Partner of the Audit Firm:

Name of Partner of the Audit Firm:

ICAI M. No.:

Place:

Date:

## Annexure 5

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### Format of Technical Reviewer's Final Report

#### TECHNICAL REVIEWER'S REPORT

Date:

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

To  
The Chairperson  
Quality Review Board (QRB)  
ICAI Bhawan, Admin Block, Ground Floor,  
A-29, Sector 62, NOIDA – 201 309 (U.P.)

**Sub:** Quality review of (M/s XYZ & Co – Mention the Firm Name with the Firm Registration Number (the "AFUR")) in respect of Statutory Audit of ..... ("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 \_\_\_\_\_ of M/s XYZ & Co (Firm Registration No..... /Membership Number.....) ("AFUR") in respect of the Statutory Audit of ..... ("the Company"/ "Entity"), for the year ended .....in terms of the Procedure for Quality Review of Audit Services of Audit Firms (Revised) issued by the QRB and as amended from time to time ("the Procedure").

#### Brief Profile of the AFUR

M/s XYZ & Co. ("AFUR") 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).

#### AFUR's Responsibility

The compliance of conditions with applicable technical standards in India and other applicable professional and ethical standards, relevant laws 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 AFUR 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 AFUR's responsibility is to express an opinion on the financial statements of the Company/entity for the year ended.....based on its audit. The AFUR 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 (Revised) 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 AFUR for ensuring:

- compliance with the applicable technical standards in India, other applicable professional and ethical standards, other relevant guidance;
- compliance with the relevant laws and regulations as required under SA 250;
- implementation of a system of quality control with reference to the applicable quality control standards;
- no material misstatement of assets and liabilities as at the reporting date in respect of the selected entity; and
- all provisions in the relevant standards on auditing that have a bearing on the premature termination of an engagement have been complied with or not (**wherever applicable**).

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 neither an

## Technical Guide on Conducting Quality Review

assurance as to the future viability of the AFUR / Company/entity nor of the efficiency or effectiveness with which the AFUR has conducted the audit of the Company/entity.

### Basis for Qualified Report – Non-compliances

According to the Procedure for Quality Review of Audit Services of Audit Firms (Revised) 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 **non-compliances, as defined in the Procedure for Quality Review of Audit Services of Audit Firms (Revised) (while identifying the non-compliances, cognizance may also be taken of the requirements of SA 250 Consideration of Laws and Regulations in an Audit of Financial Statements)**:

Background/ Technical Standards requirement to be reproduced (alongwith section/sub- section/para/cla use /notes etc.)	Refer to Para no. of Appendi x-I	Non- complianc es (as defined in the Procedure for Quality Review of Audit Services of Audit Firms (Revised))	Whether Material/ Non- material	Key reason attributed to Non- compliance
			Please state materialit y threshol d as decided for the audit/ specific item and state the amounts involved in the non-	State the reason for non- compliances:  1. Auditor failed to obtain sufficient audit evidence  OR  2. Auditor failed to identify material

**Annexures**

			<p>compliance and determine whether non-compliance is material / non-material for the audit.</p>	<p>misstatement in the financial statements</p> <p>OR</p> <p>3. Auditor breached independence requirements</p> <p>OR</p> <p>4. Incorrect audit opinion was issued</p> <p>OR</p> <p>5. Other non-compliances of technical standards or statutory or regulatory requirements (please specify)</p>
<p>Please determine whether non-compliances, in aggregate, are material or not by stating all facts and figures.</p>				

## Technical Guide on Conducting Quality Review

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### 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 to be reproduced (alongwith section/sub-section/para/clause /notes etc.)	Deficiencies	Refer to Para no. of Appendix-I

### Matters of General Guidance to Audit Firms/ Members

On the basis of my review, I recommend that following are the matters of general guidance, if any, that needs to be issued to the Audit firms/ members at large: -

#### Report

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

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 AFUR 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 20XX in terms of my scope. Such matters, along with my comments / recommendations thereon have been discussed with the AFUR 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 has come to my attention that causes me to believe that the AFUR 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 (General Overview), Appendix III (Quality Review Program – Questionnaire), Appendix IV (Report on Areas of Focus) & Appendix V (Justification on findings /observations dropped from Preliminary Report) as required by the QRB, which is an attachment to the Final Report. In Appendix VI, I have enclosed an overview and information on planning and performing the review. In Appendix VII, 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 AFUR who have assisted me in carrying out my review.

*Technical Reviewer*  
Chartered Accountant  
Membership Number  
Signature

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

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(Name of the Member Signing the Report)  
(Email Id)  
(Phone No)

### Enclosures:

1. Appendix I - Findings/Observations
2. Appendix II - General Overview
3. Appendix III - Quality Review Program – Questionnaire
4. Appendix IV - Report on Areas of Focus for Review
5. Appendix V - Justification on findings/observations dropped from Preliminary Report
6. Appendix VI - Overview and information on planning and performing the review
7. Appendix VII - Profile of Technical Reviewer and Assistants on the engagement

### **Copy to:**

M/s..... (FRN.....) ('AFUR)



## Annexure 6

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### Reporting Formats prescribed by the Quality Review Board for the Technical Reviewers

**Weblink:** <https://www.qrbca.in/reporting-formats-prescribed-by-the-quality-review-board-for-the-technical-reviewers/>

<b>Contents</b>
Format of Final Report
Appendix I – Findings/ Observations
Appendix II - General Overview
Appendix III - Quality Review Program Questionnaire
Appendix IV – Report on Areas of Focus for Review
Appendix V - Justification on findings/observations dropped from preliminary report
Appendix VI - Overview and information on planning and performing the review
Appendix VII - Profile of Technical Reviewer and Assistants on the engagement
Specified Format for the Summary of TR's Findings