

Review Plan and Documentation

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Peer Review System - Perspectives

- Peer Review System (PRS) is a mechanism of **evaluating** the process of cost audit carried out by a Firm by peers by looking into the **systems and procedures adopted and records maintained** while carrying out cost audit with the objective to **evaluate and suggest improvements** of systems, procedures and quality of reporting.
- The purpose of PRS is to improve the quality of service rendered by Firms by way of enhancing **credibility, transparency and adopting best practices** and imparting knowledge and skills
- The **main objective** of Peer Review System is to ensure that in carrying out the Cost audit, the members of the Institute
 - (a) comply with Technical, Professional and Ethical Standards as applicable including compliance of other regulatory provisions and requirements thereto
 - b) have in place **proper systems including documentation** thereof, to adequately exhibit the quality of the cost audit process

Peer Review System enables to ensure that the process of cost audit carried out by a Firm is in alignment with various statutory requirements issued from time to time by The Institute of Cost Accountants of India including the following:

- Companies Act 2013
- Companies (Cost Record & Audit) Rules, 2014,
- The Cost & Works Accountants Act, Rules & Regulations
- Standards on Cost Auditing (SCAs)
- Cost Accounting Standards (CAS)
- Guidance Notes
- Generally Accepted Cost Accounting Principles (GACAP)
- Cost Audit Orders o Notifications & Circulars

Review Plan by the Reviewer

- Once the Reviewer has an access to the relevant information through the PU Questionnaire, the Reviewer can develop a review plan, in consultation with the PU.
- The review plan shall include the **schedule of the meetings** with the PU partners/ personnel at different levels, on-site and off-site review.
- While preparing the review plan, the Reviewer shall finalize the **scope, extent, time plan and schedule** of his engagement.
- The factors such as **size and complexity** of the PU's activities, the number of units it has the **number of products and services** it covers and the processes and operations it carries shall be instrumental in designing the Review Plan.
- In the Review Plan, the Reviewer finalizes the **sample size of the PU's engagements to be reviewed**.
- He finalizes the **additional information, documents** and records that the he would like to review during the engagement.
- The same is then **communicated to the PU**, so that the PU accordingly submits all the information, documents and records to the Reviewer in a timely manner and also arrange for the review of the sample engagements mentioned

Selecting the sample for review

- Reviewer should select the initial **sample size** for Review on **random basis** from the complete list of service engagements of the PU.
- He can select the sample on the basis of information given in the questionnaire of PU.
- **Number of cost audits to be reviewed** depends upon the **size** of the PU, total number of engagements of PU during the period under review etc.,
- Reviewer should select **balanced sample** from the variety of samples in a way that overall performance of the PU can be represented by the samples.
- The Reviewer may **modify the initial sample** selected for review, in consultation with the PU, at the execution stage.
- This further refinement of initial sample is done by the reviewer **on the basis of information and knowledge that he gains during the course of initial meeting** and by performance of compliance review

- Sample chosen should compulsorily include assignments which have the highest turnover among the population
- The Reviewer has to **inform the PU** about the selection of samples of Cost audit before his visit to the PU office so that the PU gets ample time to collect or make available the sample files to be used by the Reviewer.
- The PU must be given **atleast 30 days'** time to get ready with the sample files as selected by the Reviewer.
- The PU should not, in any way, **influence the Reviewer** in selecting engagements for review.

Fixing the date for onsite review

- Once the Review Plan is in hand, **the blue print** for carrying out the engagement is ready the Reviewer has to **fix the date for the initial meeting** with the designated officer / representative at the PU.
- The **schedule** of this initial meeting has to be decided by the Reviewer with **mutual consent** of the designated officer / representative of the PU.
- While deciding upon this meeting schedule, the Reviewer must have gone through the **filled in questionnaire** submitted by the PU and should be clear of the **purpose** of the meeting.
- The purpose of the meeting may include any kind of **doubts** that the Reviewer may have on the questionnaire responses; the **topics** on which he would like to sought further clarity;
- any **query** over the submitted documents / information / records by the PU;
- the existence and **working of the quality and other controls** in the PU etc.

- The main focus of the Reviewer has to be on ascertaining whether the PU **complies with the Technical & Professional Standards and Code of Ethics** of the Institute during its engagements with its various clients and also whether there are adequate and efficient controls in the operations and procedures followed by the PU.
- **Technical, Professional and Ethical Standards - Mean and include:**
 - (a) Standards on Cost Auditing, Cost Accounting Standards & GACAP issued by the Institute of Cost Accountants of India, wherever mandatory;
 - (b) Guidance Notes on Cost Accounting Standards, Standards on Cost Auditing issued by the Institute of Cost Accountants of India;
 - (c) Compliance of the Guidance Notes issued by the Institute of Cost Accountants of India;
 - (d) Cost Reporting Framework for the Preparation and presentation of cost statements, and Cost Accounting Standard, Standards on Cost Auditing, and Guidance Notes on related services issued, from time to time, by the Institute of Cost Accountants of India;
 - (e) Notifications/Directions issued by the Council of Institute of Cost Accountants of India; and
 - (f) Compliance of the provisions of the various relevant Notifications, Statutes and/or Regulations, issued by MCA, Government, State Governments, which are applicable in the context of the specific engagements being reviewed

- The Reviewer has to ascertain the areas where he shall use **on-site** review procedures and the areas where he shall use **off-site** review procedures.
- The Reviewer also has to ascertain his choice for using **substantive/ compliance tests** on the various operational aspects of the PU depending upon the **reliability of controls**.
- For instance, if the Reviewer is of the opinion that the **PU has adequate and efficient quality controls**, the Reviewer may prefer to perform only compliance test on the quality aspects rather than substantive tests.

On-Site Review Procedures

- The need for **on-site review** may initiate at or after the initial meeting of the Reviewer with the designated official from the PU, or at any subsequent stage.
- If the Reviewer feels that he needs **more visits** to the PU the Reviewer has to do the same with **prior intimation** to the PU and in accordance with a **mutually convenient** schedule.
- The **number of on-site** reviews a Reviewer may wish to have should depend on the **size** of the PU;
- the nature and **array of services** it offer to its clients
- and the **level of complexity** of the operations it provides to its clients;
- for example, the different kind of products that the client manufactures, the number of industries to which the PU services cater and the clientele across these industries etc.

Tests for Review

- Whether on-site or off-site, the objective of a Peer Review Engagement is to ensure that the PU is operating in accordance with the **Technical & Professional Standards and Code of Ethics** of the Institute. (Living the code of conduct)
- For this the Reviewer shall assess whether the PU operates **strictly (in letter and spirit)** in accordance with the Technical & Professional Standards and Code of Ethics of the Institute.
- Whether the PU has laid down **adequate and efficient quality controls** in its systems and units to **red alert any deviation** from these standards and guidelines.
- For the above purpose, during the Review Process, a Reviewer may make use of the three fundamental test approaches:
 - **Walk Through** during On-Site visits:
 - The Reviewer may simply **go through** and witness the **SOPs** of the PU that its officials comply with during an on-site review to gather evidence on the **adequacy of controls** and efficiency of the services the PU offers.
 - While doing so, the Reviewer can have a **fair judgement** on the compliance/ deviation (if any) of SOPs in the PU operations.

Compliance Tests

Compliance tests are used by the Reviewers to test whether the PU officials are complying with the embedded internal controls.

Substantive Tests: Substantive Tests are employed when the compliance tests indicate weak controls or when the chances of deviation are high.

- These tests are employed to test and validate whether a sample of reports generated by the PU have covered all the expected aspects and areas;
- and, do they actually report in the **form and the spirit** as prescribed by our standards.

Documentation

- Documentation includes all **essential engagement work papers** compiled from the stage of review planning to the finalization of report.
- The documentation process should be **completed within a reasonable time** after the submission of the report by the Reviewer, not beyond 30 days.

Documentation by Reviewer

- Documentation includes all **essential engagement work papers** compiled from the stage of review planning to the finalization of report.
- The **documentation policies and formats** may vary from one Reviewer to another; but the objective of documentation shall always remain the same:
- To complete the documentation process in a timely manner & to ensure that the review working papers are:
 - **Complete:** The review working papers should be complete; i.e. they should enlist the **scope, the approach, the review findings**, the **recommendations** (if any), the **PU feedback** and response to the same.
- It should be ensured that there should not remain any question or any issue raised by the Reviewer that shall remain unanswered by the PU.

- **Comprehensive:** The working papers of the Reviewer should be comprehensive i.e. they shall be so compiled that they are easily understandable by any other person apart from the Reviewer himself.
- For ensuring comprehensiveness, the Reviewer should correctly **index** and **arrange the working papers in a logical sequence**.
- The **abbreviations or symbols** or jargons used are either self-explanatory or are indicated with their actual meaning at some place.
- **Relevant and Simple:** The documentation should be kept as **relevant** as possible.
- Only **contextual information** and documents should be compiled in the documentation process.
- This information should be compiled in such a **simple manner** that if any person goes through the same, he shall be able to understand the review process at different stages easily and shall be able to infer all information correctly.
- The **results/ recommendations/ findings** should also be recorded in the working papers.
- At the end of the review period, the Reviewer should also mention the **PU's response** to the **recommendations made** (if any).
- **Electronic Working papers:** As a matter of good practice, the Reviewer should prefer to maintain the review working papers electronically.
- The documentation process should be **completed within a reasonable time** after the submission of the report by the Reviewer, not beyond 30 days.

Documentation by the Practice Unit

As per the Standard on Cost Auditing (SCA 102) Audit Documentation means the records, in physical or electronic form, including working papers prepared by and for, or obtained and retained by the Cost auditor, in connection with the performance of the audit.

Audit documentation serves a number of additional purposes like assisting the audit team to

- plan and perform the cost audit,
- assisting members of the audit team responsible for supervision to direct and supervise the audit work,
- to discharge their review responsibilities,
- enabling the audit team to be accountable for its work,
- retaining a record of matters of continuing significance to future audits,
- enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

Quality Control and relevant Documentation

- The objective of any firm is to establish and maintain a system of quality control to provide it with **reasonable assurance that the firm and its personnel comply with professional standards and applicable legal and regulatory requirements**; and Reports issued by the firm or engagement partners are appropriate in the circumstances.
- The PU should maintain a system of quality control that includes **policies and procedures** that address each of the following elements:
 - a. Leadership **responsibilities** for quality within the firm.
 - b. Relevant **ethical requirements**.
 - c. Acceptance and continuance of client relationships and specific engagements.
 - d. Human resources.
 - e. Engagement performance.
 - f. Monitoring.

The firm should establish **policies and procedures** requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.

Engagement Documentation

- Whether engagement documentation is in paper, electronic or other media, **the integrity, accessibility or retrievability** of the underlying data may be compromised if the documentation could be altered, added to or deleted without the firm's knowledge, or if it could be permanently lost or damaged.
- Accordingly, controls that the firm designs and implements to **avoid unauthorized alteration** or loss of engagement documentation may include the following:
- Determine when and by whom engagement documentation was **created, changed or reviewed**;
- Protect the **integrity of the information** at all stages of the engagement, when the information is shared within the engagement team or transmitted to other parties via the Internet;
- Prevent **unauthorized changes** to the engagement documentation;
- **Allow access** to the engagement documentation by the engagement team and other authorized parties **as necessary to properly discharge their responsibilities**.

Controls that the firm designs and implements to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation may include the following:

- The use of a **password** among engagement team members to **restrict access** to electronic engagement documentation to **authorized users**.
- Appropriate **back-up** routines for electronic engagement documentation at appropriate stages during the engagement.
- Procedures for properly **distributing engagement documentation** to the team members at the start of the engagement, **processing** it during engagement, and **collating** it at the end of engagement.
- Procedures for **restricting access** to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation.

- For practical reasons, original paper documentation may be electronically scanned for inclusion in engagement files.
- In such cases, the firm's procedures designed to maintain the integrity, accessibility, and retrievability of the documentation may include requiring the engagement teams to:
 - a) Generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross-references and annotations;
 - b) Integrate the scanned copies into the engagement files, including indexing and signing off on the scanned copies as necessary;
 - c) Enable the scanned copies to be retrieved and printed as necessary.

There may be legal, regulatory or other reasons for a firm to retain original paper documentation that has been scanned.

Retention of Engagement Documentation

- The needs of the firm for retention of engagement documentation, and the **period of such retention, will vary** with the nature of the engagement and the firm's circumstances,
- for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements.
- The retention period may also depend on other factors, such as provisions for retention of records contained in Companies Act 2013.

Ownership of engagement documentation

- Unless otherwise specified by law or regulation, engagement **documentation is the property of the firm.**
- The firm may, at its discretion, make portions of, or extracts from, engagement documentation **available to clients**, provided such disclosure does not undermine the validity of the work performed,
- or, in the case of assurance engagements, the independence of the firm or its personnel.

Form and Content of Documentation .

The PU shall prepare audit documentation that is sufficient to enable another competent person, having no previous connection with the said audit, including person undertaking peer review to understand:

- Conformance of audit procedures performed with legal and regulatory requirements;
- Conformance to Cost Auditing Standards.
- The results of audit procedures performed
- The audit evidence obtained
- Significant matters arising during the audit,
- the conclusions reached thereon,
- and significant professional judgments made in reaching those conclusions.

The Cost Audit documentation usually contains:

- **Checklists:** Checklist of compliance with the Rules, regarding maintenance of Cost Records, as prescribed under the Companies Act, Cost Accounting Standards (CAS) and the Generally Accepted Cost Accounting Principles (GACAP) as prescribed by the Institute Audit programs:
- **Audit Program** for Material Cost, Employee Cost and others
- **Audit Query List:** Contains a log of audit queries raised and their resolution
- **Letter of Representation from Management** concerning significant matters. Correspondence regarding terms of supply of goods and services.

- The Reviewer shall **assemble** the audit documentation in an audit file.

The documentation must include at the minimum the following:

- A **description of the entity, the products** produced, services provided and other activities
- An **organization Chart** showing the responsibility centres and the person responsible
- A description, preferably a **flow chart** of the manufacturing process
- **Internal controls** over material cost, labor cost and expenses
- The **risks of material misstatement** assessed, for example, in respect of scrap recovery and disposal
- Tests of **materiality** used
- The overall **audit strategy** and audit plan
- **Significant matters** noted during the audit,
- and **conclusions reached**.

Can a Reviewer challenge the judgment exercised by a PU in conducting an audit?

No, a Reviewer cannot challenge the professional judgment exercised by a PU in conducting an audit, unless such judgment clearly contradicts the position stated in a technical standard.

What are the minimum recommendatory records that may be maintained by a PU?

The PUs may maintain minimum recommendatory records for the following:

(i) Profile of the PU should be bifurcated into information relating to, (a) Partners and constitution of the firm; (b) Staff including qualified members of the Institute and other professional bodies; and The reviewer while performing the review should examine whether the file is maintained properly and is regularly updated for any changes.

- List of Clients
- Staff Files Manual of Policies and Procedures for: (a) acceptance of an engagement and appointment letter duly authorized in writing is received
- skills and competence for particular type of engagement
- the manner of assignment and delegation of authority and responsibility for different kinds of engagement
- guidelines for monitoring the engagement;
- and policies regarding direction and supervision of the engagement.

What are the liabilities of a Reviewer?

- The Reviewer, by virtue of carrying out the peer review shall not incur any liability other than the liability arising out of his own conduct under the Code of Ethics under the Act and Regulations framed thereunder as well as under the relevant clauses of the Statement on Peer Review.

Procedural deviations

- Where the Reviewer has not followed the prescribed procedures, they shall have to justify significant deviation or departure and such justification shall have to be mandatorily made known to the board within reasonable time.

Limitations

- There are inherent limitations in the effectiveness of any system and, therefore, noncompliance with the system may occur and not be detected.
- A peer review is based on **selective tests**, directed to assess whether the design of and compliance with the firm's system provides the firm with **reasonable, not absolute, assurance** of performing and reporting in conformity with applicable professional standards in all material respects.
- Consequently, the peer review **would not necessarily detect all weaknesses in the design of or compliance with the system.**

Thank You