

# Reviewers' Training Manual

Developed and issued by

## The Peer Review Board

### The Institute of Cost Accountants of India



**The Institute of Cost Accountants of India**  
(Statutory Body under an Act of Parliament)  
CMA Bhawan, 3, Institutional Area, Lodhi Road,  
New Delhi - 110003

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## Module 1: Overview of the Peer Review Process

*Duration 30 minutes*

### Introduction

The Peer Review System (PRS) is a mechanism of evaluating the professional/audit and assurance activities/services carried out by a Firm, by the Peers by looking into the systems and procedures adopted and records maintained while carrying out professional / audit and assurance activities 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 Peer Review process shall not only cover technicalities like adherence to Standards / Acts and Rules etc. but also to qualitative aspects like quality of assistants, outsourcing standards etc.

Peer Review Process is an evaluation of the standard of performance of professionals engaged in audit and assurance services. The sole purpose of PRP is to improve quality of deliverables and to ensure compliance with Technical & Professional Standards and 'Code of Ethics' of the Institute as well as regulatory bodies.

### Definitions

The PRS as approved by the Council of the Institute has following terms and definitions:

- (i) **Assistant** – means a person assisting the reviewer who has undergone adequate training in the manner considered appropriate by the Board.
- (ii) **Audit and Assurance Services** - Means services that are provided under legislation and other regulatory requirements including the for assignments or engagements relating to the cost audit and issuance of various certificates, but do not include:
  - a) Management consulting Engagement;
  - b) Representing a client before the Authorities;
  - c) Testifying as expert witness; and
  - d) Providing expert opinion on points of principles, such as cost accounting standards and standards on cost auditing or the applicability of certain laws, on the basis of facts provided by the client.

The phrase 'Audit and Assurance Services' is used in the statement interchangeably with Cost Audit or Compliance Report or Certificate, Attestation Functions and Cost Audit or Maintenance of Cost Records Functions.

- (iii) A “**Conflict of Interest**” occurs when a reviewer’s private interest or consideration interferes, or appears to interfere or has a likelihood of interference, with the interest of the PU. Conflicts of interest are manifest in those instances where the actions or activities of a reviewer also involve the reviewer’s obtaining of an improper personal gain or advantage or an adverse effect upon the interest of the PU; or the obtaining by a third party of an improper or illegal gain or advantage to the detriment of the PU or a competitor of such third party.
- (iv) **Firm**- Firm means a sole practitioner, partnership including LLP or any other entity of professional cost accountants as may be permitted by law and constituted under the Cost Accountants Act, 1959 and Regulations framed thereunder.
- (v) **Member** - Means a member of the Institute of Cost Accountants of India who has no membership dues against his name as on date of empanelment.
- (vi) **Partner** – Means the partner of the firm or LLP as per the records of the Institute as on date.
- (vii) **Peer Review** - means an examination and review of the systems, procedures and practices to determine whether they have been put in place by the practicing firm for ensuring the quality of audit and assurance services as envisaged and implied/mandated by the Technical & Professional Standards and Code of Ethics of the Institute and whether the same were effectively and constantly applied during the period under review.
- (viii) **Peer Review Board** - means a Board established by the Council of the Institute of Cost Accountants of India in terms of these Guidelines to conduct peer review. The expression “Peer Review Board” is hereinafter referred to as “Board”.
- (ix) **Peer Review Period** - means generally 3 years preceding the year in which the Firm is selected or such other period or any period as may be prescribed by the Peer Review Board for conducting a Peer Review.
- (x) **Practice Unit** - Means a sole practitioner, partnership including LLP or any other entity of professional cost accountants, whether practicing individually or as a firm of Cost Accountants.
- (xi) **Regulator** - means Government or any regulatory body constituted by the Parliament or State Legislature who is/are empowered to regulate the Acts which



include various professional/audit services which the Council may, from time to time, prescribe to cover as professional/audit services for the purpose of peer review.

(xii) **Reviewer** - means any individual from a panel of Reviewers engaged to carry out peer review of a Firm under review.

(xiii) **Technical & Professional Standards and Code of Ethics of the Institute** - mean and include:

- (a) Standards on Cost Auditing, Cost Accounting Standards & GACAP issued by the Institute, wherever mandatory;
- (b) Cost Reporting Framework for the Preparation and presentation of cost statements, and
- (c) Notifications/Directions issued by the Council of Institute; and
- (d) Compliance of the provisions of the various relevant Notifications, Statutes and/or Regulations, issued by Ministry of Corporate Affairs, Government, State Governments, which are applicable in the context of the specific engagements being reviewed.

(xiv) **Year** – year means the period of twelve months commencing on 1<sup>st</sup> day of April any year and ending on the 31<sup>st</sup> day of March of the succeeding year.

Words and expressions used and not defined in this manual shall have the meanings assigned to them under the Cost Accountants Act, 1959 and the Cost and Works Accountants Regulations, 1959 as amended from time to time and other rules framed thereunder.

### **Scope of Peer Review**

Scope of PRS covers the following:

- (i) The Peer Review mechanism shall apply to all audit and assurance services, other regulatory service and certification services, requiring the members to have Certificate of Practice. **At present the Peer Review will be applicable to the Cost Audit assignments only and the same shall continue during the first three years of the Implementation.**
- (ii) Once a Firm is assigned for Review, its audit and assurance services engagement records pertaining to the review period shall also be part of the subject matter for Review.
- (iii) The Peer Review shall cover:



- a) Compliance with Technical & Professional Standards and Code of Ethics of the Institute;
- b) Audit & Assurance services, Certification and other professional services, requiring the members to have Certificate of Practice.
- c) Quality of Reporting
- d) Training programs for staff (including cost trainees and audit assistants) concerned with audit and assurance function and other defined services, including availability of appropriate infrastructure.
- e) Compliance with guidelines and/or direction issued/given by the Council to the members, including fees to be charged, document collected and record maintained during his cost audit and assurance services, other regulatory and certification services, professional misconduct, register for assurance engagements conducted during the year and such related records.
- f) Compliance with directions and / or guidelines issued by Council relating to cost trainees and / or audit assistants, including attendance register, work diaries, stipend payments, engagement / transfer of cost trainee / audit assistant and such related records.
- g) The Peer Review may be carried out as per the duration prescribed by the board based on the category of the firms or at any time when the Board feel appropriate and the areas of practice that may be covered under Peer Review System.

### Peer Review Process

The Peer Review Process of the institute follows a definitive, time-bound procedure from its initiation to the submission of the final report. The Peer Review Process as prescribed by the Institute is as follows.

- a) Selection of Practicing Unit (PU) for Review; **at present the Peer Review is voluntary and will continue to be the same during the first three years of implementation.**
- b) Informing PU about Review along with PU Questionnaire and details of 3 suggested Reviewers;
- c) Submission of filled in Questionnaire and Choice of Reviewer to be sent to the Board; Board to inform the PU about the selected Peer Reviewer.
- d) Reviewer to be informed about his selection and seeking consent within 7 days;
- e) Appointment Letter to Reviewer along with the filled in Questionnaire;



- f) Informing the PU about the selected sample of assignments (from audit and assurance Services rendered by the PU) prior to onsite visit;
- g) Deciding mutually agreed date for onsite visit by Reviewer and PU;
- h) Onsite visit by the Reviewer; Onsite review in maximum three working days;
- i) Meeting between Reviewer and PU to ensure correctness of the responses;
- j) Reviewer to do compliance review of the General Controls; Review of Records by the Reviewer;
- k) Reviewer's Preliminary Report to the PU for deficiencies, if any;
- l) PU to respond to the Preliminary Report to the Reviewer;
- m) If satisfied, Final Report by the Reviewer to the Board with a copy to the PU;
- n) If not satisfied, Qualified Final Report by the Reviewer to the Board with a copy to the PU;
- o) Examination of the report by the Board;
- p) Board to issue instructions to the PU for making corrections;
- q) Issue of PR Certificate to the PU by the Board, after receipt of clean report.

### Time Schedule of Peer Review Process

Sl.	Steps in Peer Review Process	Days to cover	Total Days
1.	Selection of PU for Review and Intimation to PU for Review along with PU Questionnaire and Details of 3 suggested Reviewers; <ul style="list-style-type: none"><li>• Submission of filled in Questionnaire by PU;</li><li>• Choice of Reviewer to be intimated by PU;</li></ul>	15	15
2.	<ul style="list-style-type: none"><li>• Reviewer to be informed about his selection as Reviewer by the PU;</li><li>• Consent of Reviewer to be received;</li><li>• Appointment Letter to be issued to Reviewer;</li></ul>	5	20
3.	<ul style="list-style-type: none"><li>• Selection of Sample by the Reviewer;</li><li>• Informing the PU about the sample by Reviewer prior to his visit;</li></ul>	10	30
4.	<ul style="list-style-type: none"><li>• PU to intimate its preparedness for Peer Review to the Reviewer</li></ul>	30	60



Sl.	Steps in Peer Review Process	Days to cover	Total Days
5.	<ul style="list-style-type: none"><li>• Onsite visit and review by the Reviewer;</li><li>• Meeting between Reviewer and representative of PU;</li><li>• Reviewer to do compliance review of the General Controls;</li><li>• Review of Records by the Reviewer;</li></ul>	3	63
6.	Preliminary Report of Reviewer to the PU for deficiencies, if any;	7	70
7.	PU to submit response in writing to the Reviewer on the Preliminary Report;	15	85
8.	Final Report by the Reviewer to the Board with a copy to the PU;	7	92
9.	<ul style="list-style-type: none"><li>• Examination of the report by the Board;</li><li>• Board to issue instructions to the PU for making corrections;</li></ul>	6	98
10.	Issue of PR Certificate to the PU by the Board, after receipt of clean report.	10	108





## Module 2: All about the Peer Reviewers

*Duration 30 minutes*

### Empanelment of Reviewers

The Board shall maintain a region wise panel of Reviewers. Each year, applications will be invited from the members to register themselves to empanel as Reviewers. The Board prescribes a pre-determined form in which the potential Reviewers can apply.

The Peer Review Board maintains a panel of Reviewers having the following qualifications:

- a. Be a member of the Institute; and
- b. Be currently in the practice and possess at least ten years' experience in practice; and
- c. Furnish a declaration as may be prescribed by the Board, at the time of acceptance of Peer Review appointment; and
- d. Sign the declaration of confidentiality as prescribed by Board.

### Disqualification

Reviewer should not have been suffering from any of the following disqualifications:

- a) Been found guilty by the Council or the Disciplinary Board or Committee in the matter of professional misconduct at any time;
- b) Been convicted by a Court;
- c) Any conflict of interest with the Firm or its Partners/ Personnel.

*A "Conflict of Interest" occurs when a reviewer's private interest or consideration interferes, or appears to interfere or has a likelihood of interference, with the interest of the PU. Conflicts of interest are manifest in those instances where the actions or activities of a reviewer also involve the reviewer's obtaining of an improper personal gain or advantage or an adverse effect upon the interest of the PU; or the obtaining by a third party of an improper or illegal gain or advantage to the detriment of the PU or a competitor of such third party.*

**Declaration of No Conflict of Interests  
(By Reviewer)**

To  
The Chairman,  
Peer Review Board,  
The Institute of Cost Accountants of India



4<sup>th</sup> Floor, "CMA Bhawan", 3 Institutional Area  
Lodhi Road, New Delhi- 110003

Dear Sir,

I, \_\_\_\_\_ hereby declare that I have no pecuniary or other personal interest, in any form or in any capacity, directly or indirectly, in any matter related with M/s \_\_\_\_\_ (PU) that raises or may raise a conflict with my nomination as a Reviewer to carry out the Peer Review of the PU in terms of the definition of the Conflict of Interest as prescribed in the Peer Review System of the Institute of Cost Accountants of India.

I also acknowledge that I shall duly inform about the change in any matter contained in this declaration till the close of the above mentioned Peer Review and shall provide further information on the particulars contained in this declaration if so required by the Peer Review Board of the Institute of Cost Accountants of India.

**(Signature)**

**Reviewer Name:**

**Reviewer No.:**

**Date:**

**Place:**

**Contact No:**

**Email ID:**

### **Elected Members of the Institute**

Existing members on the Council, Regional Council and Managing Committee of the Chapter(s) of the Institute shall not act as Reviewers. Following declaration is to be given by the reviewers at the time of empanelment:

#### **Declaration for not being an elected member**

*[As prescribed by the Peer Review Board of the Institute, this declaration is to be sent to the Board duly filled in and signed by the Reviewer. The Reviewer shall be under the obligation of immediately informing the Board if his status in terms of this declaration undergoes any change at any time during his empanelment as a Reviewer with the Peer Review Board of the Institute.]*

To,  
The Secretary,  
Peer Review Board,  
The Institute of Cost Accountants of India  
4<sup>th</sup> Floor, CMA Bhawan, 3, Institutional Area,  
Lodhi Road, New Delhi- 110003

Dear Sir,

I hereby declare that I am not an existing member on the Council, Regional Council and Managing Committee of any Chapter of the Institute of Cost Accountants of India.



I hereby acknowledge that I shall duly inform the Board in case my status in terms of this declaration undergoes any change during my empanelment as a Reviewer with the Peer Review Board of the Institute.

I understand that any breach of this declaration shall immediately revoke my empanelment as a Reviewer with the Peer Review Board of the Institute.

**(Signature of Reviewer)**

**Reviewer Name:**

**Membership No.:**

**Date:**

**Contact No:**

**Place:**

**Email ID:**

### **Declaration of confidentiality**

Reviewer shall furnish a declaration of confidentiality as prescribed hereunder at the time of acceptance of Peer Review assignment. Copy of the declaration shall also be shared with the PU.

#### **Declaration of Confidentiality**

[In accordance with the Peer Review System of the Institute, this declaration of confidentiality is to be filled in by the persons involved with the conduct of Peer Review namely Reviewer, Members of the PRB, Secretariat and others who assist them, individually. The Reviewer shall be responsible for taking this undertaking from all those persons who assist him or are likely to assist him in conducting Peer Review, and shall send the same to the Board. This statement of Confidentiality shall be renewed every year.]

To  
The Chairman,  
Peer Review Board,  
The Institute of Cost Accountants of India  
4<sup>th</sup> Floor, CMA Bhawan, 3, Institutional Area  
Lodhi Road, New Delhi- 110003

Dear Sir,

I hereby declare that I shall at all times abide by the confidentiality policy during the conduct of peer review. Under the confidentiality policy, I further declare that, I:

- Shall at all times preserve and aid in preserving secrecy with regards to any matter arising in the process followed for Review or performance or in assisting in the performance of any function, directly or indirectly related to the process, conduct, report and point of dispute (if any) of peer reviews;
- Shall not make use of or disclose the contents of Review working papers, report or any confidential information about the process of peer review unless as required by the Board, Disciplinary Committee of the Institute or the Council;
- Shall by all means ensure that the privacy of the functionality or/ and transactions or/and clients of the Practicing Unit remain intact;



- Shall by all means restrict any kind of unauthorized access to any record(s) and/or document(s) that I am a custodian of, by virtue of being the Reviewer of a Practicing Unit.

I understand that any breach or non-compliance with the confidentiality policy of the Peer Review Board of the Institute shall amount to professional misconduct as defined under the Cost Accountants Act, 1959 and shall make me liable for appropriate disciplinary action.

**(Signature of Reviewer)**

**Reviewer Name:**

**Membership No.:**

**Date:**

**Contact No:**

**Name of PU to be reviewed:**

**Reviewer Registration No:**

**Place:**

**Email ID:**

### Engagement of Assistant

In case a Reviewer wants to engage an assistant to help him carrying out the review assignment, such an assistant must be a partner or employed as a paid assistant in the reviewer's firm who shall have undergone practical training as prescribed by the ICAI. He shall also be signing the declaration of confidentiality as prescribed by the Board. The Reviewer should inform the Board about such an engagement.

### Declining the assignment

In case the Reviewer is not able to take up or carry on with an assignment due to some unavoidable circumstances or professional compulsions like conflict of interest etc., he may decline the assignment by responding to the communication of the Board seeking his consent.

#### Format of Seeking Consent from Reviewer

Letter No.:

Date:

Name and address of the Reviewer Selected to conduct the peer review

Subject: Seeking consent to carry out Peer Review

Dear Sir,

On behalf of the Peer Review Board (PRB) of the Institute we are pleased to inform you that with reference to the written consent received from M/s **(Name of PU)** for conducting its Peer Review in terms of the provisions of the Peer Review System of the Institute of Cost Accountants of India, the PRB of the Institute seeks your consent to be the Reviewer to carry out Peer Review of the M/s **(Name of PU)** for the period **(Years)**.

We also wish to inform you that you are eligible to receive remuneration of INR \_\_\_\_\_ for carrying out this review as per the prescribed norms of the PRB of the Institute.

If you are willing to accept this offer, please send your consent in this regard to the PRB of the Institute within 5 days of this communication. In case you are unable to accept this offer, please so inform us about the same immediately.



Thanking you,  
Yours faithfully,  
Chairman, Peer Review Board  
The Institute of Cost Accountants of India

### **Restriction on reviewers**

Reviewer shall not be eligible for taking up peer review of any firm if he had taken up any assignment in any form or in any capacity, directly or indirectly, from the PU for a period of three years prior to the date of appointment as a Reviewer. Similarly he should not take up any assignment from a PU for a period of one year from the date of appointment as Reviewer of that PU.

### **Restriction on number of PR Assignment**

Reviewer should not be having more than two peer review assignments at any point of time and not more than 20 assignments in a financial year.

### **Required skills**

- (i) In order to carry out the Peer Review, the reviewer should have good understanding of the Technical & Professional Standards and Code of Ethics of the Institute which include Standards on Cost Auditing, Cost Accounting Standards & GACAP issued by the Institute, wherever mandatory; Cost Reporting Framework for the Preparation and presentation of cost statements, and notifications/Directions issued by the Council of Institute.
- (ii) The Reviewer should have an attitude of professional diligence wherein he makes a practical assessment of the evidence with an inquisitive approach during the assignment. An attitude of professional diligence requires the Reviewer critically assess, with a questioning mind, the validity of evidence obtained with an eye for any evidence that contradicts or brings into question the reliability of documents and responses to queries and other information obtained from the PU.
- (iii) In order to proceed further to carry out the assignment successfully and fruitfully, the Reviewer should:
  - a. Project himself as a consultant and a mentor engaged to make helpful and positive suggestions in the areas of quality improvement of the PU;
  - b. Follow the approach to add value to the systems and procedures of the PU;



- c. Have knowledge about the industry best practices in the field of cost and management accountancy and should be capable of recommending and implementing the same in PUs to the extent possible;
- d. Have effective communication Skill to provide assurance about adherence to statutory and regulatory requirements while carrying out the Peer Review;
- e. Understand and respect the scope of the engagement in hand;
- f. Have good writing and drafting skills for effective reporting; and
- g. Be courteous while dealing with PU during the engagement tenure.



## Module 3: Overview of the Technical and Professional Standards

*Duration 45 minutes*

### Summary of Technical and Professional Standards

In order to carry out the Peer Review, the reviewer should have good understanding of the Technical & Professional Standards and Code of Ethics of the Institute which include Standards on Cost Auditing, Cost Accounting Standards & GACAP issued by the Institute, wherever mandatory; Cost Reporting Framework for the preparation and presentation of cost statements, and notifications/Directions issued by the Council of Institute.

#### (A) Code of Professional Ethics of the Institute

As professionals in the field of Cost and Management Accounting, the members of the Institute are bound by code of professional ethics. This code stipulates and binds them to the highest level of care, duty and responsibility to their employers and clients, the fellow professionals, the stakeholders and the society at large.

The Guidelines of the Institute of Cost Accountants of India shall set Standards for Code of Ethics of Cost Accountants such that a member will:

- (i) maintain at all times independence of thought and action;
- (ii) not express an opinion on cost / financial reports or statements without first assessing her or his relationship with her or his client to determine whether such Member might expect her or his opinion to be considered independent, objective and unbiased by one who has knowledge of all the facts;
- (iii) When preparing cost / financial reports or statements or expressing an opinion on cost / financial reports or statements, disclose all material facts known to such Member in order not to make such cost / financial reports or statements misleading, acquire sufficient information to warrant an expression of opinion and report all material misstatements or departures from generally accepted accounting principles;
- (iv) not disclose or use any confidential information concerning the affairs of such Member's employer or client unless acting in the course of his or her duties or except when such information is required to be disclosed in the course of any defense of himself or herself or any associate or employee in any lawsuit or other legal proceeding or against alleged professional misconduct by order of lawful authority or any committee of the Society in the proper exercise of their duties but only to the extent necessary for such purpose;



- (v) inform his or her employer or client of any business connections or interests of which such Member's employer or client would reasonably expect to be informed;
- (vi) not, in the course of exercising his or her duties on behalf of such Member's employer or client, hold, receive, bargain for or acquire any fee, remuneration or benefit without such employer's or client's knowledge and consent;
- (vii) take all reasonable steps, in arranging any engagement as a consultant, to establish a clear understanding of the scope and objectives of the work before it is commenced and will furnish the client with an estimate of cost, preferably before the engagement is commenced, but in any event as soon as possible thereafter;
- (viii) conduct himself or herself toward other Members with courtesy and good faith;
- (ix) not accept any engagement to review the work of another Member for the same employer except with the knowledge of that Member, or except where the connection of that Member with the work has been terminated, unless the Member reviews the work of others as a normal part of his or her responsibilities;
- (x) not attempt to gain an advantage over other Members by paying or accepting a commission in securing management accounting work;
- (xi) not to act maliciously or in any other way which may adversely reflect on the public or professional reputation or business of another Member;
- (xii) at all times maintain the standards of competence expressed by the Institute from time to time;
- (xiii) Undertake only such work as he or she is competent to perform by virtue of his or her training and experience and will, where it would be in the best interests of an employer or client, engage, or advise the employer or client to engage other specialists.

These Guidelines recognize that the objectives of the accountancy profession are to work to the highest standards of professionalism, to attain the highest levels of performance and generally to meet the public interest requirement. These objectives require four basic needs to be met:

- a) Credibility in information and information systems;
- b) Professionalism identified by employers, clients and other interested parties;





- c) Quality of service carried out to the highest standards of performance; and
- d) Confidence that there is a framework of professional ethics to govern the provision of services.

In order to achieve the objectives of the accountancy profession, cost accountants have to observe **fundamental principles**, which are:

- (a) **Integrity:** A cost accountant should be straightforward and honest in performing his services.
- (b) **Objectivity:** A cost accountant should be fair and should not allow prejudice or bias or the influence of others to override objectivity.
- (c) **Competence:** A cost accountant must refrain from performing any service which he is not competent to carry out unless proper advice and assistance is obtained to ensure that the service is performed to the satisfaction.
- (d) **Confidentiality:** A cost accountant must not disclose information acquired during the course of his engagement and should not use or disclose any such information without proper and specific authority or unless there is a legal or professional right or duty to disclose.
- (e) **Professional Behavior:** A cost accountant should act in a manner consistent with the good reputation of the profession.

In addition to the fundamental principles above a cost accountant in practice, should be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity and independence.

### **The Cost and Works Accountants Act, 1959**

A cost accountant whether in practice or not shall comply with the provisions of the First Schedule and Second Schedule of the Cost and Works Accountants Act, 1959. Failure to comply with these provisions will attract the relevant provisions of the CWA Act, 1959.

### **Section 22 - [Professional or other misconduct defined]**

For the purposes of this Act, the expression “professional or other misconduct” shall be deemed to include any act or omission provided in any of the Schedules but nothing in this section shall be construed to limit or abridge in any way the power conferred or duty cast on the Director (Discipline) under sub-section (1) of section 21 to inquire into the conduct of any member of the Institute under any other circumstances.]

**(B) Cost Accounting Standards issued by the Institute**

1. **CAS-1 on Classification of Cost:** Classification of cost is the arrangement of items of costs in logical groups having regard to their nature (subjective classification) and purpose (objective classification).
2. **CAS-2 on Capacity Determination:** This standard deals with the principles and methods of classification and determination of capacity of an entity for ascertainment of the cost of product or service, and the presentation and disclosure in cost statements. This standard shall be applied to the cost statements, including those requiring attestation, which require determination of capacity for assignment of overheads. The standard may be applied for determination of capacity for any other purpose.
3. **CAS-3 on Production and Operation Overheads:** This standard deals with the principles and methods of classification, measurement and assignment of Production or Operation Overheads, for determination of the cost of goods produced or services provided and for the presentation and disclosure in cost statements. This standard shall be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Production or Operation Overheads including those requiring attestation.
4. **CAS-4 on Cost of Production / Acquisition / Supply of Goods / Provision of Services:** This Standard deals with the principles and methods of classification, measurement and assignment for the determination of cost of production or acquisition or supply of goods or provision of services as required under the provisions of GST Acts/Rules. This standard should be applied to cost statements which require classification, measurement, assignment, presentation, and disclosure of related costs for determination of the following under the relevant provisions of GST Acts/Rules.
  - (i) Determination of cost of production of goods;
  - (ii) Determination of cost of acquisition of goods;
  - (iii) Determination of cost of supply of goods;
  - (iv) Determination of cost of provision/supply of services; and
  - (v) Determination of value of supply of goods or services as per open market value or as per goods or services of like kind and quality.
5. **CAS-5 on Average (equalized) Cost of Transportation:** This standard should be applied for calculation of cost of transportation required under any statute or regulations or for any other purpose. For example, this standard can be used for

- (i) Determination of average transportation cost for claiming the deduction for arriving at the assessable value of excisable goods
  - (ii) Insurance claim valuation
  - (iii) Working out claim for freight subsidy under Fertilizer Industry Coordination Committee
  - (iv) Administered price mechanism of freight cost element
  - (v) Determination of inward freight costs included or to be included in the cost of purchases attributable to the acquisition.
  - (vi) Computation of freight included in the value of inventory for accounting on inventory or valuation of stock hypothecated with Banks / Financial Institution, etc.
6. **CAS-6 on Material Cost:** This standard deals with the principles and methods of classification, measurement and assignment of material cost, for determination of the Cost of product or service, and the presentation and disclosure in cost statements. The Standard deals with the following issues.
- (i) Principle of Valuation of receipt of materials.
  - (ii) Principle of Valuation of issue of materials.
  - (iii) Assignment of material cost to cost objects.
7. **CAS-7 on Employee Cost:** This standard deals with the principles and methods of classification, measurement and assignment of Employee cost, for determination of the Cost of product or service, and the presentation and disclosure in cost statements. This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Employee cost including those requiring attestation.
8. **CAS-8 on Cost of Utilities:** This standard deals with the principles and methods of classification, measurement and assignment of cost of utilities, for determination of the cost of product or service, and the presentation and disclosure in cost statements. This standard shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of cost of utilities including those requiring attestation. This standard shall not be applicable to the organizations primarily engaged in generation and sale of utilities. This standard does not cover issues related to the ascertainment and treatment of carbon credits, which shall be dealt with in a separate standard.
9. **CAS-9 on Packing Material Cost:** This standard deals with the principles and methods of classification, measurement and assignment of Packing Material Cost, for determination of the cost of product, and the presentation and disclosure in

cost statements. This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Packing Material Cost including those requiring attestation.

10. **CAS-10 on Direct Expenses:** This standard deals with the principles and methods of classification, measurement and assignment of Direct Expenses, for determination of the cost of product or service, and the presentation and disclosure in cost statements. This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Direct Expenses including those requiring attestation.
11. **CAS-11 on Administrative Overheads:** This standard deals with the principles and methods of classification, measurement and assignment of administrative overheads, for determination of the Cost of product or service, and the presentation and disclosure in cost statements This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of administrative overheads including those requiring attestation.
12. **CAS-12 on Repairs And Maintenance Cost:** This standard deals with the principles and methods of classification, measurement and assignment of repairs and maintenance cost, for determination of the Cost of product or service, and the presentation and disclosure in cost statements. This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of repairs and maintenance cost including those requiring attestation.
13. **CAS-13 on Cost of Service Cost Centre:** This standard covers the Service Cost Centre and excludes Utilities and Repairs & Maintenance Services dealt with in CAS- 8 and CAS-12 respectively. This standard should be applied to the preparation and presentation of cost statements, which require classification, measurement and assignment of Cost of Service Cost Centre, including those requiring attestation.
14. **CAS-14 on Pollution Control Cost:** This standard deals with the principles and methods of classification, measurement and assignment of pollution control costs, for determination of Cost of product or service, and the presentation and disclosure in cost statements. This standard should to be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Pollution Control Costs including those requiring attestation

15. **CAS-15 on Selling and Distribution Overheads:** This standard deals with the principles and methods of classification, measurement and assignment of Selling and Distribution Overheads, for determination of the cost of sales of product or service, and the presentation and disclosure in cost statements. This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Selling and Distribution Overheads including those requiring attestation.
16. **CAS-16 on Depreciation and Amortisation:** This standard deals with the principles and methods of measurement and assignment of Depreciation and Amortisation for determination of the cost of product or service, and the presentation and disclosure in cost statements. This standard shall be applied to cost statements which require measurement, assignment, presentation and disclosure of Depreciation and Amortisation, including those requiring attestation.
17. **CAS-17 on Interest and Financing Charges:** This standard deals with the principles and methods of classification, measurement and assignment of Interest and Financing Charges. This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Interest and Financing Charges including those requiring attestation. This standard does not deal with costs relating to risk management through derivatives.
18. **CAS-18 on Research and Development Costs:** This standard deals with the principles and methods of determining the Research, and Development Costs and their classification, measurement and assignment for determination of the cost of product or service, and the presentation and disclosure in cost statements. This standard should be applied to cost statements that require classification, measurement, assignment, presentation and disclosure of Research, and Development Costs including those requiring attestation.
19. **CAS-19 on Joint Costs:** The standard deals with the principles and methods of measurement and assignment of Joint Costs and the presentation and disclosure in cost statement. The standard shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Joint Costs including those requiring attestation.
20. **CAS-20 on Royalty and Technical Know-How Fee:** This standard deals with the principles and methods of classification, measurement and assignment of the amount of Royalty and Technical Knowhow Fee, for determination of the cost of

product or service, and their presentation and disclosure in cost statements. This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of the amount of Royalty and Technical Know-how Fee including those requiring attestation.

21. **CAS-21 on Quality Control:** The standard deals with the principles and methods of measurement and assignment of Quality Control cost and the presentation and disclosure in cost statement. The standards shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Quality Control cost including those requiring attestation.
22. **CAS-22 on Manufacturing Cost:** This standard deals with the principles and methods of classification, measurement and assignment for determination of the Manufacturing Cost of excisable goods and the presentation and disclosure in cost statements. This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Manufacturing Cost of excisable goods.
23. **CAS-23 on Overburden Removal Cost:** The standard deals with the principles and methods of measurement and assignment of Overburden Removal Cost and the presentation and disclosure in cost statements. The standard shall be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Overburden Removal Cost including those requiring attestation.
24. **CAS-24 on Treatment of Revenue in Cost Statements:** This standard deals with the principles and methods of classification, measurement, treatment and assignment of revenue and its presentation and disclosure in cost statements. This standard shall be applied to cost statements which require classification, measurement, treatment, assignment, presentation and disclosure of revenue including those requiring attestation.

**(C) Standards of Cost Auditing issued by the Institute with the approval of the Central Government**

1. **SCA-101 on 'Planning an audit of Cost Statements':** The SCA 101 prescribes that in establishing the overall audit strategy, the cost auditor shall
  - (a) Identify the characteristics of the engagement that define its scope and reporting objectives of the engagement;
  - (b) Plan the timing of the audit of cost statements and the nature of the communications required;



- (c) Consider the factors that, in the cost auditor's professional judgement, are significant in directing the audit team's efforts;
- (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the audit partner for the entity is relevant; and
- (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.

As per the SCA 101, Audit planning and strategy enable a cost auditor to

- (i) Properly manage and organize the cost audit engagement;
- (ii) Obtain reasonable assurance about whether the cost statements as a whole are free from material misstatement, whether due to fraud or error.
- (iii) Depute his / her resources in an optimum manner and devise his / her audit schedule as well as methodology such as extent of checking etc. accordingly.
- (iv) Accomplish the audit objectives and determine 'which', 'how much' and 'when' aspects of the resource utilization viz., engagement team; and
- (v) Complete the audit in a time bound manner.

2. **SCA-102 on 'Audit Documentation'**: 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. The nature of audit documentation should be such that meets the requirement of Standards on Cost Auditing issued by the Institute and is enable to provide:

- a) Evidence of the cost auditor's basis for a conclusion about the achievement of the overall objectives of the audit: and
- b) Evidence that the audit was planned and performed in accordance with Standards on Cost Auditing (SCAs) and applicable legal and regulatory requirements.

The purpose of audit documentation is to enable another competent person, having no previous connection with the audit, including person undertaking peer review, to understand that the cost audit conforms and has been performed as per legal and regulatory requirements prescribed in the cost reporting frame

work for obtaining sufficient appropriate audit evidence to draw reasonable conclusions on which to base the cost auditor's opinion.

The Cost Audit documentation will usually contain:

- (a) **Checklists:** Checklist of compliance with:-
    - (1) The Rules, regarding maintenance of Cost Records, as prescribed under the Companies Act,
    - (2) The Cost Accounting Standards (CAS) and Guidance Notes as prescribed by the Institute
    - (3) The Generally Accepted Cost Accounting Principles (GACAP) as prescribed by the Institute
  - (b) **Audit programs:** Audit Program for Material Cost, Employee Cost and others
  - (c) **Analysis:** Cost Audit relies more on analytical review than on substantive testing to establish true and fair view. Like Calorific value of different fuels used and average Cost per unit of calorific value and Specific Heat Consumption.
  - (d) **Audit Query List:** A log of audit queries raised and their resolution
  - (e) **Abstracts of significant contracts relating to the cost audit:** Supply of materials indicating price, quality terms, O&M contracts, Terms of supply of contract labour and others
  - (f) **Letters of confirmation:** Stock of materials with subcontractors.
  - (g) **Letter of Representation from Management Correspondence (including e-mail) concerning significant matters:** Correspondence regarding terms of supply of goods and services.
  - (h) **Abstract or copies of the entity's records.**
  - (i) **Minutes of the meetings with the auditee**
  - (j) **Resolutions pertaining to the related parties**
  - (k) **Various reconciliation statements including GST**
3. **SCA-103 on Overall objectives of the independent cost auditor** prescribes that independence of a cost auditor can be compromised due to existence of self-interest, self-review, holding position of advocacy, over-familiarity, professional



insecurity or intimidation. Actual threats need to be considered, and situations that might be perceived as threats by a reasonable and informed observer.

Where such threats exist, the cost auditor must put in place safeguards that eliminate them or reduce them to clearly insignificant levels. Safeguards apply at three levels: safeguards in the work environment, safeguards that increase the risk of detection, and specific safeguards to deal with particular cases. The cost auditor should ensure that all the safeguards are in place before taking up the assignment.

A cost auditor is to document the following to show the compliance to independence requirements:

- (i) That relevant ethical requirement as per Code of Ethics issued by the Institute of Cost Accountants of India has been complied with.
- (ii) The cost audit is carried out as per the provisions of the Company Law; document to show that qualification criteria provided in the Law is satisfied.
- (iii) Document that shows that the Cost Auditor has not rendered any service that he cannot render by virtue of holding office as a cost auditor, either directly or indirectly to the company or its holding company or subsidiary company.

4. **SCA-104 on Knowledge of business, its processes and the business environment** prescribes that the cost auditor should refer to all the possible resources and materials to gather knowledge about the entity and its environment. Some ways to get the general information about the entity are Annual Report of the entity, Process Study, Plant Visits, Supply Chain, Company's website, Discussion with management and HODs to have a basic understanding of the Business, strategies as well as operational aspects.

Some ways to get the information about the economic environment of the entity are Annual Report of Competitor/s, Internet, Newspapers, Journals, Relevant Ministerial reports, Reports of Centre for Monitoring Indian Economy (CMIE) and Research Papers Published etc.

### **Compliance with Technical & Professional Standards and Code of Ethics**

Based on the above mentioned Standards, the reviewer has to check the following points in order to ensure that the Standards have been followed by the PU while rendering the



services to the clients. The given points are for the purpose of listing and the Reviewer can use his own points to check whether the Standards are complied with or not.

1. Compliance with the Framework for the preparation and presentation of Cost Statements issued by Institute as well as well as prescribed under the relevant statutory provisions followed by the PU;
2. Consideration of relevant notifications and advisories issued by the Institute;
3. Whether samples collected by the PU are sufficient and appropriate to draw conclusions or form an opinion;
4. Appropriate disclosure of material facts by PU in case of any Audit client;
5. Maintenance of proper working papers by the PU;

### **Code of Ethics**

1. Adherence by the PU to the code of ethics of the Institute
2. Compliance with professional ethics by the PU such as independence, integrity, confidentiality, objectivity etc.
3. Any professional misconduct by the PU till date
4. Status of independence of PU due to having interest in the clients business or with any of its officers
5. Any association of PU with its client posing a threat to its independence
6. Has the PU withdrawn from any engagement to protect its independence
7. Crossing of prescribed limit of maximum clients by the PU
8. To check whether the website of the PU follows the guidelines/ directions as prescribed by the Institute
9. To confirm whether PU is complying with the requirements of QRB of the Institute
10. To confirm whether PU has exercised care and diligence before performing audit and assurance services
11. To check whether PU maintains the norms of confidentiality engagement documents
12. To check whether PU has properly responded to the cases of conflict of Interest



### **Cost Accounting Standards (CASs)**

1. To check whether the PU has ensured the mandatory compliance of Cost Accounting Standards / GACAP by the entity / client while preparing and maintaining Cost Records under the Companies (Cost Records and Audit) Rules, 2014.

### **Standards on Cost Auditing (SCA)**

1. Has the audit / assignment been planned by the PU and discussed with the management?
2. Does the PU have the engagement letter for the assignment clearly mentioning the scope and fees quoted and in case of Cost Audit Form CRA-2 with Board resolution?
3. Has the PU gathered adequate knowledge and understanding of the client's business, its processes and environment?
4. Has the PU followed the Standards on Cost Auditing issued by the Institute while conducting audit of cost records?
5. In case of Cost Audit assignment, reviewer has to check the following points and record in his report:
  - Check the date of Board meeting approving the Annexures to Cost Audit Report
  - Check date of Signing of Cost Audit Report
  - Check UDIN and date on generation



## Module 4: Understanding the Practice Unit

*Duration 45 minutes*

The PRS as approved by the Council of the Institute prescribes that each Practice Unit selected for Peer Review, shall be submitting certain information about its constitution, profile and assignments carried out in form of responses to the Questionnaire developed by the Board, within 15 days of receipt to the Board, which in turn will be shared with the reviewer by the Board.

1. The responses to the questionnaire provide the Reviewer necessary information to assess the viability of key controls as applied by the PU and enable the Reviewer to judge the degree of reliance that can be placed on the internal control mechanism and records maintained by the PU.
2. The questions appearing in the questionnaire are a mix of objective type and explanatory questions. It is expected that the PU has placed the internal control mechanism contained in the questionnaire as a measure of good practice. The PU should respond to the questions very carefully, since the Reviewer will rely on the responses provided by the PU in the questionnaire while designing review plan.
3. Apart from the information given in the Questionnaire, the Reviewer is entitled to seek such other information as he considers necessary to facilitate the selection of sample of audit and assurance services engagements, which appropriately represents the practice unit's client portfolio.
4. The responses to the questionnaire would be kept strictly confidential by the Reviewer and his team and no information contained therein would be shared with any third party.
5. The PU shall provide the list of clients specifying the following:
  1. Client / file reference number
  2. Industry/Sector of the client
  3. Nature of assignment
  4. Turnover of Client (for the immediate preceding year)

along with the details of any disciplinary / legal proceedings against the PU, any of its partners or assistants. The PU shall also share the procedures and practices followed by the PU for executing such services to its clients. Other pertinent information sought by the Reviewer to do justice to the assignment shall be shared by PU.



6. The purpose of sharing relevant information and data with the Reviewer by the PU is to let the Reviewer have the knowledge about the PU and its control procedures. However a PU may or may not part with any information or data of proprietary nature in the questionnaire. This information or data, may be made available to the Reviewer during physical visit, as long as the Reviewer conveys in writing that such information is necessary for proper completion of the review assignment.

**Format of Appointment Letter as Reviewer**

Letter No.:

Date:

Name and address of the Reviewer Selected to conduct the peer review

Subject: Appointment as Reviewer to carry out Peer Review

Dear Sir,

On behalf of the Peer Review Board (PRB) of the Institute we are pleased to inform you that with reference to the written consent received from M/s **(Name of PU)** for conducting its Peer Review in terms of the provisions of the Peer Review System of the Institute of Cost Accountants of India and also your consent to accept this offer, the PRB of the Institute has appointed you as Reviewer to carry out Peer Review of the M/s **(Name of PU)** for the period **(Years)** and to submit your review report to the PRB with a copy marked to the PU under review. The duly filled in Questionnaire by the PU is attached herewith for your information.

We wish to inform you that you are eligible to receive remuneration of INR \_\_\_\_\_ for carrying out this review as per the prescribed norms of the PRB of the Institute. To guide you through the Peer Review process a Peer Review Manual, developed and issued by the PRB of the Institute, is available at: **(Web Link)**.

We wish you best of luck and look forward to your following the deadlines of the Peer Review as prescribed by the PRB.

Thanking you,

Yours faithfully,

Chairman, Peer Review Board  
The Institute of Cost Accountants of India  
**Encl: Duly filled in Questionnaire by the PU**

**Analysis of the Questionnaire for Practice Unit**

**PART A - PROFILE OF PRACTICE UNIT (PU)**

*Question no 1 to 18 are self-explanatory and need no description.*

1.	Name of the Practice Unit (PU)	
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2.	Status (Please tick)		Proprietorship	Partnership	LLP		
3.	PU Registration No.		Date of establishment				
4.	Address of the PU						
	City:		State:	Pin:			
5.	Telephone:		Mobile:				
6.	Website Address & Email ID						
7.	Permanent Account Number (PAN) of PU						
8.	GSTN of the PU						
9.	Contact Person for Peer Review (along with membership No., mobile number and e-mail)						
10.	Number of partners including self						
11.	Details of Branches:						
	Address of Branch		Member In-Charge	Membership No.			
	a)						
	b)						
11a.	Particulars about the Constitution of the PU during the period under review (as on the last day of the financial year under review)						
	Name of the Partner	Membership No. of Partner	Association with PU (in years)	Professional Experience in Practice	Predominant function (e.g. Cost Audit, Internal Audit, Certification, Consulting, Others (please specify))	Details of Changes	
						Joined (Year)	Left (Year)
11b.	Particulars of CMAs Employed						
	Name	Membership No.	Association with the PU (in years)	Experience (in years)			
12.	Details of Other Employees/ Trainees			Number			
	a)	Semi-Qualified Assistants (pursuing CMA course)					
	b)	CMA trainees					
	c)	Administrative Staff					



	d)	Others			
13.	Stipend being paid to CMA trainees (whether as per the Institute's standards)  <i>If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</i>	Yes	No		
14.	(a) Indicate the annual turnover of the PU.				
	<b>Amount (Rs.)</b>	<b>Previous Year 1 2022-23</b>	<b>Previous Year 2 2021-22</b>	<b>Previous Year 3 2020-21</b>	
	Less than 25 Lakh				
	Between 25 to 50 Lakh				
	More than 50 Lakh				
	(b) Indicate percentage of fees earned from different services rendered by the PU. <i>(Indicate in aggregate for the period under review)</i>				
	<b>Type of Service</b>	<b>% of Fees</b>	<b>Remark, if any</b>		
i)	Audit and Assurance Services				
ii)	Other Certification Services				
iii)	Consultancy Services				
iv)	Others, please specify				
	<b>Total</b>				
15.	If the PU renders cost audit services, does it provide any service specified under Section 144 of the Companies Act, 2013 to the same company?  <i>If the answer is YES, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</i>	YES	NO		
16.	Industry/ Sector in which the PU is rendering services				
<b>DISCIPLINARY PROCEEDINGS</b>					
17.	Whether any proceedings relating to matters of professional or other misconduct referred to in any of the Schedules of the Cost Accountants Act, 1959 (as amended) are pending against any of the	YES	NO		



	partners/proprietor of the PU.		
18.	If disciplinary proceedings of the Institute have been initiated against any partner/employee of the PU, and remains unresolved, furnish details with case reference.		

**PART B**

**Leadership Responsibilities**

*(The PU should assign responsibility for each assignment to one of its partners or the team leader who shall be responsible for overall quality of such assignment.)*

19.	<p>A) Has the PU assigned the responsibility for developing, implementing and operating its Quality Control system for each of its assignments?</p> <p><i>Quality Control System covers the policies, procedures and systems that are set in an audit firm (PU) to assure that it renders professional services consistently of high quality.</i></p> <p><b>If the answer is Yes, the PU has assigned this responsibility to one of the partners, employees or other staff members. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
	<p>B) Describe how the authorised person has sufficient appropriate experience, ability and authority within the PU to assume the above responsibility?</p> <p><i>Details of the person responsible for developing, implementing and operating its Quality Control System is given in response to this question.</i></p> <p><b>The Reviewer can get in touch with this person for more information in the matter.</b></p>		
20.	<p>A) Are the quality control policies and procedures well communicated to all team members/ relevant personnel in the PU?</p> <p><i>The PU is responsible for communicating the quality control policies and procedures to all the team members and staff.</i></p> <p><b>If the answer is YES, the PU has communicated the quality control policies and procedures to all the team members. The reviewer may look for such a communication. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
	<p>B) What are the methods used for this communication?</p> <p><i>The mode of communication used by the PU will be mentioned herein.</i></p>		
	<p>C) What is the frequency of sending this communication?</p> <p><i>The frequency of sending the communication by the PU will be given herein such as monthly,</i></p>		





	<p>quarterly, yearly or any other periodicity.</p>		
	<p>D) What is the scope of this communication?</p> <p><b>Response to this question will define the scope of such communication. Ideally it should be to educate all the team members and staff about the quality control policies and procedures adopted by the PU. Reviewer should go through the response and may like to comment on its effectiveness in its report.</b></p>		
21.	<p>A) Are the quality control policies and procedures of the PU documented?</p> <p><i>In order to ensure &amp; achieve the quality control, it is necessary to set a procedure for documentation covering quality control policies and procedures of the PU and its circulation to all relevant personnel.</i></p> <p><b>If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
	<p>B) Are the same circulated amongst all relevant personnel?</p> <p><i>If the answer to the Q 21(A) is yes, It means it is circulated amongst all the team members.</i></p> <p><b>If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
22.	<p>Is there an established process in the system that encourages the personnel to communicate their views or concerns on quality control matters?</p> <p><i>Quality Control System covers establishing a process that encourages team members and staff to communicate their views or concerns on quality control matters.</i></p> <p><b>If the response is YES it means that the process is established within the PU. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
23.	<p>A) Does there exist clear responsibilities of the proprietor/ partners of the firm and other senior personnel for quality control?</p> <p><i>Quality Control System covers establishing responsibilities of the proprietor of the entity or partners of the firm and other senior personnel for quality control.</i></p> <p><b>If the response is YES it means that the responsibilities are established within the PU. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
	<p>B) Are these responsibilities adequately documented?</p> <p><b>If the response is YES it means that the same is well documented. If the</b></p>	Yes	No



	<b>answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b>		
	<p>C) Is this responsibility document circulated amongst concerned personnel?</p> <p><b>If the response is YES it means that the same is circulated to all the team members and staff. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
24.	<p>Does your PU provide practical guidance in quality control and also covering professional development programs? If yes, enlist the initiatives</p> <p><i>Quality Control System covers provisions of related practical guidance to all the team members including coverage in professional development programs.</i></p> <p><b>The initiatives should be evaluated by the Reviewer for their effectiveness. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
25.	<p>Does your PU promote an internal culture of quality? If yes, enlist the initiatives.</p> <p><i>The firm, its partner or the team leader should promote an internal culture for quality and impress on the team members that quality is essential in performing any audit assignment.</i></p> <p><b>If the response is YES it means that the process is established within the PU. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
<b>ETHICAL REQUIREMENTS</b>			
<i>(The PU, its partner or the team leader responsible for the assignment should ensure whether members of the audit team have complied with relevant ethical requirements.)</i>			
26.	<p>Does the PU, its partners or the team leaders responsible for the assignment ensure that the team members comply with relevant ethical practices?</p> <p><b>If the response is YES it means that such a system is in place within the PU. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
27.	<p>Are there methods and processes for establishing, promoting and monitoring ethical conduct among all personnel? If yes, kindly elaborate.</p> <p><i>Ethical requirements cover methods and processes for establishing, promoting, and monitoring ethical conduct among the team members.</i></p> <p><b>If the response is YES it means that a system is in place within the PU. If</b></p>	Yes	No



	<b>the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b>		
28.	<p>A) Are there policies and procedures to identify non-compliance with ethical requirements and also to resolve any issues of conflict?</p> <p><i>It is essential to establish policies and procedures to identify non-compliance with ethical requirements within the PU.</i></p> <p><b>If the response is YES it means that policies and procedures have been established within the PU. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
	<p>B) If yes, are these policies and procedures adequately documented?</p> <p><i>If the answer to the Q 28(A) is yes, please write YES in case the same is well documented, else write NO.</i></p> <p><b>If the response is YES it means that these policies and procedures adequately documented. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
29.	<p>Are there policies and procedures to ensure that the PU partners and professionals comply with the following professional ethics:</p> <p>Independence, Integrity, Objectivity, Professional competence and due care, Confidentiality, Professional conduct, Technical standards</p> <p><i>The PU will write YES, if the policies and procedures established within the PU ensure the compliance with all the given Ethics, otherwise it will write NO and will explain the reasons.</i></p> <p><b>Reviewer should go through the response and may like to comment on its effectiveness in its report. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
30.	<p>Are there policies, processes and safeguards established by the PU to mitigate the <b>familiarity threat</b> to its independence?</p> <p><i>Familiarity threat refers to the personal closeness or familiarity of PU or any of its partners with employees, officers, or directors of the client company.</i></p> <p><i>The PU will write YES, if the policies, processes and safeguards are established within the PU, else will write NO and explain the reasons.</i></p> <p><b>Reviewer should go through the response and may like to comment on its effectiveness in its report. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his</b></p>	Yes	No



	<b>report.</b>		
<b>HUMAN RESOURCES</b>			
<i>(In case of a PU, human resources are the prime assets responsible for its success or failure. The constitution of the team and members which make the team is the major determinant in rendering the quality professional services.)</i>			
31.	<p>What steps has the PU taken to ensure that the personnel it hires have the desired capability, competence and commitment to ethical principles to perform as per the professional standards, regulatory and legal requirements?</p> <p><i>The quality of Human Resources plays the most significant role in providing and assuring quality in professional services by PU. An excellence in quality services can only be achieved if there are corresponding excellent personnel. The firm should continuously assess its manpower requirement at various levels, with different skills sets.</i></p> <p><b>Reviewer should go through the response and may like to comment on its effectiveness in its report. If the answer is NA, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>		
32.	<p>What process does the PU follow for determining the appropriateness of an engagement team?</p> <p><i>The PU should establish policies and procedures regarding assigning appropriate staff with the necessary capabilities, competence and time to perform engagements.</i></p> <p><b>Reviewer should go through the response and may like to comment on its effectiveness in its report. If the answer is NA, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>		
33.	<p>What are the considerations for assigning responsibility for an engagement to a particular partner?</p> <p><i>The PU should establish policies and procedures for assigning the responsibility for each engagement to an engagement partner and communicating this information to the client.</i></p> <p><b>Reviewer should go through the response and may like to comment on its effectiveness in its report. If the answer is NA, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>		
34.	<p>What steps has the PU taken to ensure that its partners participate in CPD &amp; Professional Development programmes that enable them to accomplish assigned responsibilities?</p> <p><i>The PU should provide effective training for the partners. Continuous education is the buzzword and in this era of competition, the team members must update and upgrade their knowledge and skill. The ICMAI has taken a lead in this direction and has also introduced a scheme for continuous education program as a mandatory requirement for its professionals.</i></p> <p><b>Reviewer should go through the response and may like to comment on its effectiveness in</b></p>		



	<p><b>its report. If the answer is NA, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>		
35.	<p>What steps has the PU taken to ensure that its employees participate in CPD&amp; Professional Development programmes that enable them to accomplish assigned responsibilities?</p> <p><i>The PU should provide effective training for the staff members. Various types of training should be imparted to the staff, e.g. introductory and induction training to the newly employed, technical and skill enhancement training to the existing staff, managerial training for the higher level staff and so on.</i></p> <p><b>Reviewer should go through the response and may like to comment on its effectiveness in its report. If the answer is NA, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>		
36.	<p>How does the PU ensure that personnel selected for advancement have the qualifications to fulfil the responsibilities they will be called upon to assume?</p> <p><i>Advancement or promotion to next level in the PU depends upon performance quality.</i></p> <p><b>Reviewer should go through the response and may like to comment on its effectiveness in its report. If the answer is NA, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>		
<p><b>PERFORMANCE EVALUATION</b></p> <p><i>(Performance Evaluation is necessary for developing and maintaining competence &amp; commitment to ethical principles.)</i></p>			
37.	Has your PU taken steps for:		
	a) Making personnel aware of the PU’s expectations regarding their performance?	Yes	No
	b) Providing performance evaluation reports with the personnel?	Yes	No
	c) Helping personnel understand that advancement to positions of greater responsibility depends, amongst other things, upon performance quality?	Yes	No
	d) Explaining personnel in clear terms that the failure to comply with the PU’s policies and procedures may result in disciplinary action?	Yes	No
	Kindly elaborate:		
	<p><i>PU will write YES or NO depending upon the Performance Evaluation policy of the PU and elaborate any point if required.</i></p> <p><b>Reviewer should go through the response and may like to comment on its effectiveness in its report. If the answer is NO, reviewer should make a</b></p>		



	<b>note of this and include in the suggestions to be given to the PU in his report.</b>		
38.	In order to evaluate the performance are the following documented in your PU:		
	a) Overall quality standards set for an assignment	Yes	No
	b) Responsibility of engagement partner to ensure quality standards	Yes	No
	c) Mapping of engagement quality and consistency through use of manuals and/or software tools or other forms of standardized documentation and industry/ subject-matter specific guidance	Yes	No
	d) Supervision, quality control & documentation of work during the engagement	Yes	No
	e) SOPs for the assembly of final engagement files	Yes	No
	<b>The PU will write YES or NO depending upon the documentation policy of the PU with regard to the Performance Evaluation of the team members.</b>  <b>Reviewer should go through the response and may like to comment on its effectiveness in its report. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b>		
39.	Is the work done by the less experienced team members in the engagement team reviewed by more experienced personnel prior to the issue of auditor's report?  <b>The PU will write YES if such a convention / policy exists in the PU, else write NO.</b>  <b>If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b>	Yes	No
<b>MONITORING</b>			
<i>(Monitoring refers to a process which is an ongoing exercise for evaluation of PU's quality control systems which also includes periodic inspection of completed assignments on sample basis to provide the PU with reasonable assurance that its quality control systems are operating effectively.)</i>			
40.	A) Do you have well documented SOPs for monitoring the PU's quality controls in terms of:		
	a) Its personnel and human resources	Yes	No
	b) Assignment performance	Yes	No
	c) Professional development of personnel	Yes	No



	<p>B) Please elaborate:</p> <p>The PU will write YES or NO on the basis of the Monitoring Policy of the PU and elaborate any point if required.</p> <p><b>Reviewer should go through the response and may like to comment on its effectiveness in its report. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>		
41.	<p>Do the engagement team members discuss their findings with the appropriate management personnel?</p> <p><i>Reporting &amp; Corrective Measures provide for reporting the findings to the appropriate management levels, for monitoring actions taken or planned, and for overall review of the firm's quality control system.</i></p> <p><b>If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
42.	<p>While reporting, do the engagement team members discuss the corrective actions taken or planned discussed with the appropriate management personnel?</p> <p><i>Reporting &amp; Corrective Measures also provide for discussing the reports with the appropriate management levels, for taking any corrective actions.</i></p> <p><b>If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
43.	<p>In your PU, what is the scope for the modification of quality control policies and procedures in view of the monitoring reports? Please elaborate:</p> <p><b>Reviewer should go through the response and may like to comment on its effectiveness in its report.</b></p>		
<p><b>REPORTING UNDER COST AUDIT MECHANISM</b></p> <p><i>(Cost Audit is the major avenue for Cost Accountants in Practice, and hence maintaining the quality of the Cost Audit Report ensures its usefulness to the client, Government, Regulators and other stakeholders.)</i></p>			
44.	<p>Does the PU follow a system of discussion with the management in connection with the following issues before finalizing the report in case of cost audit:</p>		
	a) Abnormal expenditure pertaining to idle capacity, idle machine hours, strike, lock out etc.	Yes	No
	b) Variation in raw material consumption as compared to norms.	Yes	No
	c) Valuation of inventory and its impact on overall profitability.	Yes	No



	d) Way forward for optimum Capacity Utilization	Yes	No
	<p>Please write YES or NO appropriately.</p> <p><b>Reviewer should go through the response and may like to comment on its effectiveness in its report. If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>		
45.	<p>Does the PU submit signed Cost Audit Report in form CRA-3 with annexures, duly authenticated by the persons authorised to sign on behalf of the company and addressed to the Board of Directors?</p> <p>Please write YES or NO appropriately.</p> <p><b>If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
46.	<p>Has the PU visited the company and its different locations for conducting the Cost Audit?</p> <p>Please write YES or NO appropriately.</p> <p><b>If the answer is NO, reviewer should make a note of this and include in the suggestions to be given to the PU in his report.</b></p>	Yes	No
<p><b>QUALITY WITH RESPECT TO CUSTOMER &amp; CUSTOMER RELATIONSHIP</b></p> <p><b>Acceptance &amp; continuation of client relationship &amp; specific assignments</b></p> <p><i>A PU shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements which will provide reasonable assurance to the PU that it will undertake or continue relationship with client only when it satisfies that the PU has competence, capability, time &amp; resources to carry out the assignment, PU complies with the relevant ethical requirements and PU has considered the integrity of the client and ensured the same at an acceptable level.</i></p> <p><b>The PU will answer YES or NO, on the basis of PU's established policies as per the above.</b></p> <p><b>Reviewer should review the response and accordingly include his recommendations to the PU in his report.</b></p>			
47.	While establishing and continuing relationships with its clients, do there exist clear SOPs in the PU that ensure:		
	a) The PU has competence, capability, time and resources to carry out the assignment.	Yes	No
	b) The PU complies with the relevant ethical requirements?	Yes	No
48.	Is there a complaint against the client or any pending proceedings for violation of statute or other irregularities? If yes, please specify.	Yes	No





49.	Does the PU have clear SOPs for evaluation of prospective clients and for their approval as clients?	Yes	No
50.	Who evaluates the information obtained regarding the prospective clients and to make the acceptance decision in your PU? Kindly mention with the designation of the official.		

I hereby declare that the information furnished above is true to the best of my knowledge.

Signature of the authorised representative of the PU with seal

Name of the authorised representative:

Membership No:

Date:

Place:



## Module 5: Review Plan and Documentation

*Duration 45 minutes*

### Review Plan by the Reviewer

1. 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.
2. 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.
3. 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

4. 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 services to be reviewed depends upon the size of the PU, total number of service 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.
5. The Reviewer has to inform the PU and Board about the selection of samples of audit or assurance files 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.

#### Format of Communication to the PU about Selection of Sample

Letter No.:

Date:

Name and address of the Practice Unit selected for review

**Subject: Selection of Sample for review assignment**

Dear Sir/Madam,

This is with reference to the communication of Peer Review Board vide letter number \_\_\_\_ dated \_\_\_\_ with respect to conducting the peer review of your firm and further to your response that you have selected me as a Reviewer to carry out the peer review of your firm.

This is to acknowledge the receipt of the duly filled in questionnaire sent by you. I have gone through the information appearing in the questionnaire and finalised the sample services and clients for review as per the list attached herewith. You are requested to make available the records related to the sample services enlisted in the attachment to start the process of peer review.

This is also to inform you about the onsite visit to your office at **(Office address)** by the undersigned on **(Date and time)** in connection to the review. Please indicate your convenience and confirm your availability on the above mentioned date in your office for this meeting.

Thanking you,

Yours faithfully,

**Signature of Reviewer**

Name of Reviewer

Reviewer Registration No:

Encl.: List of Sample Service and Clients

CC: Peer Review Board

**Fixing the date for onsite review**

6. 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.
7. 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.
8. 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.

9. 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**

10. 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.
11. 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**

12. 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. For this the Reviewer shall assess whether the PU operates strictly in accordance with the Technical & Professional Standards and Code of Ethics of the Institute.
13. 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.
14. For the above purpose, during the Review Process, a Reviewer may make use of the three fundamental test approaches:
  - a. **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.



- b. **Compliance Tests:** Compliance tests are used by the Reviewers to test whether the PU officials are complying with the embedded internal controls.
  - c. **Substantive Tests:** Substantive Tests are employed when the compliance tests indicate weak controls or when the chances of deviation are high.
15. 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

16. 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

17. Documentation includes all essential engagement work papers compiled from the stage of review planning to the finalization of report.
18. 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:
- a. **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.
  - b. **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.
  - c. **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.

19. 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).
20. **Electronic Working papers:** As a matter of good practice, the Reviewer should prefer to maintain the review working papers electronically.
21. 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**

22. 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.*
23. 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, and 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**

24. 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.
25. 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**

26. 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:

- a) Determine when and by whom engagement documentation was created, changed or reviewed;
- b) 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;
- c) Prevent unauthorized changes to the engagement documentation; and
- d) Allow access to the engagement documentation by the engagement team and other authorized parties as necessary to properly discharge their responsibilities.

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

- a) The use of a password among engagement team members to restrict access to electronic engagement documentation to authorized users.
- b) Appropriate back-up routines for electronic engagement documentation at appropriate stages during the engagement.
- c) 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.



- d) Procedures for restricting access to, and enabling proper distribution and confidential storage of, hardcopy engagement documentation.
28. 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; and
  - c) Enable the scanned copies to be retrieved and printed as necessary.
  - d) There may be legal, regulatory or other reasons for a firm to retain original paper documentation that has been scanned.

### **Retention of Engagement Documentation**

29. 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**

30. 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**

31. 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:



- a. Conformance of audit procedures performed with legal and regulatory requirements;
  - b. Conformance to Cost Auditing Standards.
  - c. The results of audit procedures performed
  - d. The audit evidence obtained
  - e. Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
32. The Cost Audit documentation usually contains:
- a) **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
  - b) **Audit programs:** Audit Program for Material Cost, Employee Cost and others
  - c) **Audit Query List:** Contains a log of audit queries raised and their resolution
  - d) **Letter of Representation from Management concerning significant matters.** Correspondence regarding terms of supply of goods and services.
33. The PU shall assemble the audit documentation in an audit file.
34. The documentation must include at the minimum the following:
- a) A description of the entity, the products produced, services provided and other activities
  - b) An organization Chart showing the responsibility centres and the person responsible
  - c) A description, preferably a flow chart of the manufacturing process
  - d) Internal controls over material cost, labour cost and expenses
  - e) The risks of material misstatement assessed, for example, in respect of scrap recovery and disposal
  - f) Tests of materiality used
  - g) The overall audit strategy and audit plan
  - h) Significant matters noted during the audit, and conclusions reached.



## Module 6: Reporting

*Duration 30 minutes*

The Peer Review report shall cover technicalities like adherence to Standards / Acts and Rules etc. and also qualitative aspects like quality of assistants, outsourcing standards etc. The Reviewer shall send his report to the Board with a copy marked to the PU advising to respond to the report within the stipulated time frame directly to the Board with a copy marked to the Reviewer. The Board after studying the report of the Reviewer and the rejoinder by the PU will decide whether to call the PU and Reviewer for a discussion or not. In case there is any difference of opinion between the PU and the Reviewer the Board may issue necessary recommendations accordingly, if found necessary, to order a further peer review to be carried out.

### **Preliminary Report of Reviewer**

1. At the completion of the review process, once the Reviewer has satisfied himself of the on-site review and off-site reviews, the Reviewer has to submit a preliminary report of his findings and observations to the PU. In his preliminary report, the Reviewer has to elaborately spell out all his observations on/in areas where either the SOPs followed or the controls laid are insufficient or inefficient; or there is a case of non-compliance.
2. The objectives of sending a preliminary report are to:
  - (i) Keep the PU informed about the observations made;
  - (ii) Give a fair chance to the PU to justify and provide clarifications on the observations made by the Reviewer, and
  - (iii) Keep the record of the observations made by the Reviewer and also the clarification given by the PU. The Reviewer, however, has to ensure that no individual is named in the report.

#### **Format of Preliminary Report**

(On Reviewer letterhead)

To

The Proprietor / Partner of the PU

Dear Sir/Madam,

This is in reference to the peer review of your PU conducted by the undersigned on (date). The observations regarding the deficiencies prevailing in the system of quality control for the assurance / audit services of your PU are enclosed herewith for your



information and sending your representation/ comments thereon. After receiving your response to the preliminary report the final report will be prepared and sent to the PRB.

You are aware that the Peer Review process is undertaken to offer improvement in the systems of the PU and to ascertain the application of the standards by the PU while implementing the policies and procedures. I assure you that I have carried out the peer review of your PU with sincerity and maintained complete confidentiality of the proceedings during the process.

I convey my sincere gratitude to you, your partners and all of your staff for extending all-out cooperation during the process and making all necessary logistic arrangements. Please feel free to contact me for any further clarification on the attached observations.

Thanking you,

Yours faithfully,

Signature of Reviewer

Name of Reviewer

Reviewer's Registration No:

Place:

Date:

*Encl.: Observations regarding prevailing deficiencies*

3. The PU has to submit the responses/ clarifications to the observations made by the Reviewer in his preliminary report within 15 days, beginning the day after the receipt of the preliminary report.

### **Qualified Final Report**

4. In case the Reviewer is not satisfied with the reply of the PU, the Reviewer shall submit his Qualified Final Report to the Board. The Board shall go through the report submitted by the Reviewer along with the justifications/ presentations/ representations given by the Reviewer and issue instructions to the PU and to the Reviewer accordingly.
  - a) If the Reviewer reports on lack of adherence to technical standards by the PU, the Board may instruct the PU to maintain or apply the technical standards;
  - b) If the Reviewer reports on ineffectiveness or insufficiency of internal controls in the PU, the Board may instruct the PU to revisit the points of control and ensure its robustness;
  - c) If the Reviewer reports on lack of appropriate documentation and record-keeping by the PU, the Board may prescribe to the PU the necessary records and formats for record keeping;



### Format of Qualified Final Report

To

The Chairman,  
Peer Review Board,  
The Institute of Cost Accountants of India  
4<sup>th</sup> Floor, CMA Bhawan, 3, Institutional Area  
Lodhi Road, New Delhi- 110003

Dear Sir,

This is with reference to the communication of Peer Review Board vide letter number \_\_\_\_ dated \_\_\_\_ with respect to conducting the peer review of **(Name and address of PU)** by the undersigned as a Reviewer in terms of the Peer Review System of the Peer Review Board of the Institute of Cost Accountants of India.

As prescribed by the PRB the undersigned has duly examined the select services of the **(Name of PU)** and verified its compliance with Technical & Professional Standards and Code of Ethics, Quality of Reporting, Office systems & Procedures and Training Policies of the **(Name of PU)**. It is pertinent to mention here that the scope of this review was limited to examining the systems, policies and procedures relating to selected sample services of the **(Name of PU)**.

#### Qualified opinion

After duly examining the above, I have reached to the conclusion that the system of quality control for the auditing / assurance services of the **(Name of PU)** for the period under review **has not been properly designed & implemented** and it **does not helps the (Name of PU)** to carry out auditing / assurance assignments ensuring compliance with Technical & Professional Standards and Code of Ethics of the Institute and maintain the quality of these service by the **(Name of PU)**. The reasons for qualified opinion are appearing hereunder.

#### Reasons for Qualified Opinion

1, 2, 3, 4.....

In terms of the Peer Review System of the PRB of the Institute, a preliminary report to the PU (attached herewith) was sent seeking its response to the observations contained therein. The response from the PU (attached herewith) to the preliminary report was not found to be satisfactory.

Thanking you,

Yours faithfully,

Signature of Reviewer



Name of Reviewer	Reviewer's Registration No:
Date:	Place:
CC: Name and address of the Practice Unit	
Encl.:	
a. Reviewer's Preliminary Report to the PU	
b. PU's response to the Preliminary Report	

*Annexure to the Qualified Final Report*

**Annexure to the Qualified Final Report of (Name of PU)**

Sl.	Activity / Process / Procedure	Observation
1	Date on receipt of the questionnaire from the PRB	
2	Number of sample services selected	
3	Modification in the number of samples afterwards, if any	
4	Designated representative of the PU for review	
5	Adequacy of General Controls of the PU: a. Independence b. Maintenance of Professional skills/standards c. Outside Consultation d. Staff Supervision and Development e. Office Administration If no, specify the areas	Yes / No
6	Adequacy of the audit and assurance assignments administration of the PU	Yes / No
7	Adequacy of internal control systems in carrying out audit and assurance assignments	Yes / No
8	Adequate maintenance of engagement diary and working papers	Yes / No
9	Adequacy of the compliance system within the PU to ensure compliance with technical standards. If no, specify the Standards not complied with a. Cost Accounting Standards b. Standards on Cost Auditing c. GACAP d. Ethical Standards	Yes / No
10	Was any preliminary report issued; If yes, specify the prevailing deficiencies ..... ..... .....	Yes / No / NA
11	Has PU responded to the preliminary report? If yes, was Reviewer satisfied with the response? If Reviewer was not satisfied with the response, any qualified report has been issued?	Yes / No / NA Yes / No / NA Yes / No / NA
12	Is the Final Report qualified? If 'Yes', specify the reasons ..... .....	Yes / No / NA



Sl.	Activity / Process / Procedure	Observation
13	Has the Reviewer received full co-operation from the PU during the review process	Yes / No
14	Any issue/s during the Peer Review Process or any suggestion which Reviewer wants to specifically mention: ..... .....	

Signature of Reviewer

Name of Reviewer

Reviewer Registration No:

Place:

Date:

5. After the recommendations are issued by the Board, the PU is then subjected to a subsequent review, but not before six months of the issue of such instructions by the Board.
6. The Board can instruct the Reviewer to carry out the subsequent review. The subsequent review shall not be carried earlier than six months of issue of instructions to the PU. The Board also specifically mentions the records and / or the procedures to be reviewed by the Reviewer at the time of the subsequent review. The subsequent review has to be completed within 45 days of such instruction given to the Reviewer by the Board.
7. In the qualified report of the Reviewer, there may also be instances where it is reported that although the PU has all its technical and quality controls in place, there is a room for improvement in the same. Or, that although the key controls are in place, a deficiency in the same may materially affect the quality of services rendered by the PU. In such instances, the Board instructs the PU to streamline its processes and controls in line with the expectations of the Board and the Reviewer.
8. The PU is then given a time period of not greater than six months to streamline its processes and controls after which it is again subject to a follow up review.
9. If during the follow up review also, the Reviewer is not satisfied with the PU, he shall report the same giving details of the reasons and factors leading to his dissatisfaction to the Board.

### Final Report

10. The Reviewer drafts and submits his final report with the Board. The final report of the Reviewer is called the Reviewer’s Report. The Reviewer’s report is a detailed one



which gives details about the review scope, review procedures, review findings, justifications of the PU and the final recommendations and observations of the Reviewer.

#### Format of Final Report

To

The Chairman,  
Peer Review Board,  
The Institute of Cost Accountants of India  
4<sup>th</sup> Floor, CMA Bhawan, 3, Institutional Area  
Lodhi Road, New Delhi- 110003

Dear Sir,

This is with reference to the communication of Peer Review Board vide letter number \_\_\_\_ dated \_\_\_\_ with respect to conducting the peer review of **(Name and address of PU)** by the undersigned as a Reviewer in terms of the Peer Review System of the Peer Review Board of the Institute of Cost Accountants of India.

As prescribed by the PRB the undersigned has duly examined the select services of the **(Name of PU)** and verified its compliance with Technical & Professional Standards, Code of Ethics, Quality of Reporting, Office systems & Procedures and Training Policies of the **(Name of PU)**. It is pertinent to mention here that the scope of this review was limited to examining the systems, policies and procedures relating to selected sample services of the **(Name of PU)**.

After duly examining the above, I have reached to the conclusion that the system of quality control for the auditing / assurance services of the **(Name of PU)** for the period under review has been properly designed & implemented and it helps the **(Name of PU)** to carry out auditing / assurance assignments ensuring compliance with Technical & Professional Standards and Code of Ethics of the Institute and maintain the quality of these service by the **(Name of PU)**. The summary of the proceeding is appearing in the attached annexure.

Thanking you,

Yours faithfully,

Signature of Reviewer

Name of Reviewer

Reviewer Registration No:

Place:

Date:

CC: Name and address of the Practice Unit

*Annexure to the Final Report*

#### Annexure to the Final Report of (Name of PU)



Sl.	Activity / Process / Procedure	Observation
1	Date on receipt of the questionnaire from the PRB	
2	Number of sample services selected	
3	Modification in the number of samples afterwards, if any	
4	Designated representative of the PU for review	
5	Adequacy of General Controls of the PU: a. Independence b. Maintenance of Professional skills/standards c. Outside Consultation d. Staff Supervision and Development e. Office Administration If no, specify the areas	Yes / No
6	Adequacy of the audit and assurance assignments administration of the PU	Yes / No
7	Adequacy of internal control systems in carrying out audit and assurance assignments	Yes / No
8	Adequate maintenance of engagement diary and working papers	Yes / No
9	Adequacy of the compliance system within the PU to ensure compliance with technical standards. If no, specify the Standards not complied with a. Cost Accounting Standards b. Standards on Cost Auditing c. GACAP d. Ethical Standards	Yes / No
10	Was any preliminary report issued; If yes, specify the prevailing deficiencies ..... .....	Yes / No / NA
11	Has PU responded to the preliminary report? If yes, was Reviewer satisfied with the response? If Reviewer was not satisfied with the response, any qualified report has been issued?	Yes / No / NA Yes / No / NA Yes / No / NA
12	Is the Final Report qualified? If 'Yes', specify the reasons ..... .....	Yes / No / NA
13	Has the Reviewer received full co-operation from the PU during the review process	Yes / No
14	Any issue/s during the Peer Review Process or any suggestion which Reviewer wants to specifically mention: ..... .....	

Signature of Reviewer

Name of Reviewer

Reviewer Registration No:

Place:

Date:





11. The Board will go through the Reviewer's report in its entirety. If the Board is satisfied with the Reviewer's report about the PU's performance, it shall order the Secretariat to issue the Peer Review Certificate to the PU.
12. If the Board is not satisfied with the PU's performance, it may instruct the PU to follow certain guidelines to improve its systems/procedures/controls and subject the same to a follow-up review. The Board may also instruct the Reviewer to carry on a follow-up review after a time that it deems fit.
13. Reviewer should comment on the following aspects of working of the PU in his final report:
  - a) **Compliance with Technical Standards assuring Quality Control:** The policies and procedures constituting the PU's system of quality control for its assurance / audit services have been designed to ensure quality control to provide the PU with reasonable assurance of complying with Technical & Professional Standards and Code of Ethics.
  - b) **Office Systems and Procedures:** Examination of the office systems and procedures with regard to compliance of professional services must be carried out. The Reviewer shall verify whether the PU has adequate office systems and procedures in place and has a document management system including filing system, record storage and retrieval system.
  - c) **Allocation of assignments:** The Reviewer should comment whether allocation of assignments among the staff or trainees is commensurate with their capability, whether the assignments are properly carried out and the services are verified by the Proprietor or Partner of the PU before authentication.
  - d) **Training arrangements for staff:** The Reviewer should express:
    1. Whether proper training and capacity building of the staff in the office of the PU is conducted or not by the PU in order to maintain the quality of professional services.
    2. In case it is difficult for the Proprietor or Partner of the PU to carry out all the services himself, whether PU relies on the trainees for execution of the professional services.
    3. Whether the trainees are maintaining a logbook to record the work done every day and whether the same is being examined by the Proprietor or Partner or any designated officer of the PU periodically.
    4. Whether any Staff Induction Process is in place.



5. Whether training programmes or capacity building programs are conducted or any in-house mechanism is there for the professional development of staff.
  6. Whether there is a library or a resource of reference material relating to professional services.
  7. Whether the overall appearance of the office of the Practice Unit is satisfactory.
14. All Reports shall be prepared on the letterhead of the Reviewer, signed by him and should contain his Membership Number/COP. No. and the Reviewer's Code Number allotted by the Board.

### Cost of Review

15. Every activity has a cost aspect and as such the cost of Peer Review including supplementary review, if any, is to be borne by the Firm being reviewed. Such costs shall be as prescribed by the Board.
16. PU needs to pay the prescribed fees to the Reviewer within 10 days of submission of the Final Report by the Reviewer to the Board.

#### Fees of Peer Review

The following is the schedule of Lump Sum Fees payable by PU to Peer Reviewer.

Sr.	Category of Practice Unit	Recommended schedule of fee payable by PU to Reviewer (In Rupees)
1	C	20,000
2	B	30,000
3	A	40,000

#### Categories of Practice Units

The following is the table showing various categories of Practice Units for the purpose of conducting Peer Review of PU by the Reviewer and their periodicity of being Peer Reviewed:

Sr.	Turnover of Practice Unit (In Lakh Rupees)	Category of Practice Unit
1	Less than or equal to 25	C
2	Greater than 25 and less than or equal to 50	B
3	Greater than 50	A

#### Periodicity:

1. To be peer reviewed once in Five year from the date of implementation of the Peer Review.



2. *Voluntary for the first three years from the date of implementation of Peer Review.*

### **Procedural Deviations**

17. Wherever, any Partner or Proprietor of a Firm or the Reviewer or any member of the Board have 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.

### **Issue of Peer Review Certificate:**

18. Based on the findings in the final report and considering the explanations etc. given by the Firm under review, the Board shall issue a Peer Review Certificate if found worthy. Otherwise as mentioned above the Board may issue recommendations or initiate supplementary review / follow up review based on the merits of the case.

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