



**Revised  
Framework of Quality Control Review (QCR) Program**

This document describes the objectives and scope of the QCR framework, responsibilities and functions of Quality Assurance Board (QAB) and policies, procedures and process of quality control review established by the Institute of Chartered Accountants of Pakistan (the Institute).

**1. Preamble**

The Council of the Institute formed the Quality Control Review (QCR) Committee in 1987 with the primary objective of establishing a quality control review framework in respect of audits of financial statements conducted by the firms. With effect from October 2005, the QCR Committee was converted into a Quality Assurance Board (the Board) by the Council and was entrusted with this responsibility, as more fully described in this framework.

While the Board members are appointed by the Council through a nomination process and as per the composition described in paragraph 2 below, the Board performs its functions and discharges its responsibilities in accordance with this framework independently of the Council.

**2. Composition**

The Board comprises of 13 members including the Chairman who shall be appointed by the Council. The Chairman shall neither be a practicing member nor from the sitting Council.

The composition of the members of the Board other than the Chairman shall be as follows:

- (i) Maximum two members from the Council;
- (ii) Four independent members. Three members are to be nominated by SECP and one by SBP; and
- (iii) Remaining six members shall be nominated by the Council in the following manner:
  - (a) Two members from large firms;
  - (b) Two members from SMPs and;
  - (c) Two members from the industry.

**3. Objectives**

- 3.1 To establish policies and procedures for the QCR program that ensures that firms carry out audits in accordance with the professional standards adopted by the Institute.

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- 3.2 To establish appropriate quality assurance standards and guidelines in relation to audit practice of the firms that are considered essential in the interest of the profession, in the public interest and to comply with the requirements of 'Statement of Membership Obligation (SMO)-1' on Quality Assurance issued by the International Federation of Accountants (IFAC).

#### 4. Scope

This framework applies to all firms carrying out audit of financial statements.

#### 5. Responsibilities and Functions of Quality Assurance Board

- 5.1 To carry out QCR of the firms through a defined QCR program.
- 5.2 To monitor the QCR program to ensure its adequate and effective implementation.
- 5.3 To arrange or co-ordinate the training programs and workshops with CPD or other committees of the Institute to improve the quality standards of audit.
- 5.4 To perform a periodic review of the QCR program (including policies, procedures and processes etc.) to ensure that it remains up-to-date and is in line with the relevant standards and guidelines issued by the IFAC.
- 5.5 To set policies for the QCR Programs and ensure that it is as relevant as possible to all types and sizes of practices and decide on all matters relating to QCR, in the public interest and in the interest of the profession.

In carrying out the above functions, the Board shall be assisted by the 'Professional Standards Compliance & Evaluation' (PSC&E) department of the Institute.

#### 6. Definitions

In this Framework, the following terms have the meaning attributed below:

**"Audit"** - the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

**"Engagement Partner"** – the partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

**"Firm"** – a sole practitioner or a partnership of the members of the Institute engaged in professional practice.

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“**Entity**” – a client of a firm whose financial statements are audited.

“**Listed entity**” – an entity whose shares, stock or debt are quoted or listed on a stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

“**Quality Control Reviewer**” (the reviewer) – a chartered accountant engaged by the Institute, to carry out review of:

- a) audit working papers of firms engaged in audits; and
- b) firm’s system of quality control.

The Quality Control Reviewers may be assisted by appropriately qualified and experienced staff.

**Quality Control Review (QCR)** - it includes engagement review and firm review.

- a) **Engagement Review** - A review of the audit engagement performed by the firm to determine whether the audit report(s) issued by the firm in respect of the reviewed client(s) was supported by appropriate audit evidence.
- b) **Firm Review** - A review of the firm’s system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with the International Standards on Auditing and regulatory and legal requirements as applicable in Pakistan, and that the reports issued by the firm are appropriate in the circumstances.

Terms not defined herein above shall have meaning assigned to them by ‘International Auditing and Assurance Board’ or ‘International Accounting Standards Board’.

## 7. Selection of Audit Engagements

Firms shall undergo a QCR organized by the Board after every two and half years. However, an earlier review may be required under special circumstances. These circumstances may include cases where a member is found guilty of professional misconduct by SECP or the Institute, or any other circumstances, which in the opinion of the Board warrant an earlier review, in the public interest.

## 8. Engagement Reviews

8.1 Engagement review involves a detailed review of working paper files of specific audit engagements selected from list of entities of the firm and shall be conducted to determine whether the audit report issued by the firm in respect of reviewed client(s), was supported by appropriate audit evidence. However, the absence of any review comments shall not be considered an endorsement that the financial statements were necessarily fairly presented or that all aspects of the audit were fully compliant with the International Standards on Auditing as applicable in Pakistan.

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- 8.2 The selection of audit engagements shall be made in such a manner that at least twenty five percent (25%) of all partners in audit practice are covered under the review. Each office location of the firm conducting audit shall be reviewed.
- 8.3 Firms shall submit to the PSC&E department a list of audit engagements on the prescribed format as of June 30 each year (to be submitted within 3 months after June 30), and as and when required by the PSC&E department as per Council Directive 4.13. The list shall specify listed and other audit engagements separately for all office locations of the firm and their respective audit engagement partners.
- 8.4 The reviewer(s) in consultation with the PSC&E department shall select audit engagements as per the criteria provided in paragraph 8.2, from the list of audit engagements provided by the firm under review. In making the selection, the reviewers shall use their professional judgment and give preference to listed companies, other companies with substantial operations, or other public interest entities that are considered high risk engagements. Review of unlisted / private companies shall be performed upon receipt of consent from such companies.
- 8.5 Audit working papers and correspondence files of latest audited financial statements shall be reviewed to determine whether the audit opinion expressed is supported by appropriate audit evidence.
- 8.6 The review shall be carried out preferably at the premises of the firm. The reviewer shall use a QCR Checklist to ensure that requirements of the International Standards on Auditing as applicable in Pakistan have been met and that the audit opinion issued by the firm is supported by appropriate audit evidence in the form of audit working papers.

## **9. Review of the Firm(s)**

- 9.1 The reviewer shall also review firm's system of quality control which shall include policies and procedures addressing each of the following element:
- (i) Leadership responsibilities for quality within the firm.
  - (ii) Ethical requirements.
  - (iii) Acceptance and continuance of client relationships and specific engagements.
  - (iv) Human resources.
  - (v) Engagement performance.
  - (vi) Monitoring.

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- 9.2 The procedures performed during the firm review shall include:
- (i) An assessment of the system of quality control relating to audit of financial statements of listed entities;
  - (ii) Sufficient review of the quality control policies and procedures and review of engagement working papers to evaluate:
    - (a) The functioning of that system of quality control, and compliance with it; and
    - (b) The compliance with professional standards and regulatory and legal requirements in respect of engagements.
- 9.3 A key part of the firm review methodology shall be the assessment of a firm's monitoring policies and procedures. If these are judged to be effective the reviewer may rely on them by performing tests of the conclusions of the applicable period's monitoring as a source of evidence.
- 9.4 Assessment of other quality control policies and procedures, where appropriate, may include discussion with the firm's appropriate individuals through interviews and focus group meetings, reviewing documentation, observation of the system of quality control in operation like attending the firm's training sessions for its staff.

## **10. Review Finalization**

- 10.1 The reviewer shall discuss all issues identified during the review with the engagement partner. After completion of the review, the reviewer shall prepare a review report, which includes issues and weaknesses identified during the review, and recommendations for improvement. In cases where major weaknesses are found, a draft report shall be sent to the firm requiring comments in writing within two weeks from the date of the draft report. The comments received shall be analyzed, in certain cases a second opinion may be obtained, before presenting both the report and the comments to the Board.
- 10.2 All reports shall be presented before the Board, for approval, except for urgent cases where the report may be finalized and approved by circulation to all the members. At least five members of Board including the Chairman and / or Vice Chairman shall approve the report for finalization. Reports approved by circulation shall be ratified in the immediate next QAB meeting.

## **11. Review Report**

- 11.1 After approval by the Board, either report is issued to the firm covering the following:

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- (i) conclusion stating whether the audit report issued by the firm in respect of reviewed client(s), was supported or not supported by appropriate audit evidence;
- (ii) conclusion stating whether or not appropriate evidence was available in the files as to the compliance of ISQC 1 requirements as described in paragraph in 11.3 below.

11.2 In case where the conclusion of any audit engagement is assessed as “not supported by appropriate audit evidence” by the Board, then except for cases falling under section 15 below, the reviewer shall select more audit engagements performed by the firm. Selection of additional audit engagements shall be preferably from listed companies. The overall conclusion of the firm shall be “supported by appropriate audit evidence” if 75% or more of the selected audit engagements are found as “supported by appropriate audit evidence”.

Review of additional files shall be carried out within a time period decided by the Board.

11.3 The reviewer shall also include a conclusion, with a limited assurance of the following in the report:

- (i) Whether the firm’s system of quality control has been designed to meet the requirements under ISQC 1;
- (ii) Whether the firm has complied with its system of quality control during the review period;
- (iii) Reasons for negative conclusions on the above; and
- (iv) Recommendations for improvements at both firm wide and engagement level.

## **12. Satisfactory QCR Rating**

12.1 When all the office locations carrying out statutory audit engagements have been reviewed and the firm has received a “supported by appropriate audit evidence” conclusion, the firm shall be issued a report indicating its eligibility to be included in the list of firms with satisfactory QCR rating.

12.2 In order to carry out timely reviews of firms which are already on the list of firms with satisfactory QCR rating, the Institute shall initiate communication with such firms at least six months before the expiry of two and half years. This list is available on the Institute’s website and is updated on a monthly basis or as and when any change occurs.

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**13. QCR Revisits**

Once a firm receives a “not supported by appropriate audit evidence” conclusion and its name has been removed from the list of firms with satisfactory rating a revisit shall not be performed before the expiry of six months of such removal.

**14. Review Procedure**

In case a firm receives a "not supported by appropriate audit evidence" conclusion subsequent to review of additional files, they shall have a right to file a review application before the Board through ICAP secretariat within 10 days of such conclusion having been communicated to them. The ICAP secretariat shall forthwith send this review application to the Chairman of the Board. The Chairman of the Board with two non-practicing members of the Board (hereinafter called the "Review Committee") would go through the submissions of the firm and may, at its discretion, give a personal hearing to the partner in charge of the audit or the authorized representative, who must be a member of the Institute associated with the said firm. The "Review Committee" shall always place its findings before the Board suggesting any action in the matter or closing the same.

**15. Withdrawal of Satisfactory QCR Rating**

15.1 If a firm already on the list of firms with satisfactory QCR rating receives a “not supported by appropriate audit evidence” conclusion in a subsequent review, the firm’s name shall be immediately withdrawn from the list, after fulfilling the criteria laid down in paragraph 11.2.

15.2 Once a firm is included in the list of firms with satisfactory QCR rating, it shall get all its office locations reviewed after every two and half years.

Where a firm fails to get all its office locations reviewed after the expiry of aforementioned period, the name of the firm shall be removed from the list of firms with satisfactory rating. In case where there is a delay due to some genuine reason(s) or urgent engagements of the firm, additional time, which shall not be more than six months may be allowed by the Board.

**16. Reference to Investigation Committee**

The Board may refer a member or a firm to the Investigation Committee in the following circumstances:

- (i) The Board finds that the member is prima facie grossly negligent in issuing an audit report or performance of an audit; or
- (ii) The firm has conducted audit of a listed company without obtaining a satisfactory QCR rating.

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**17. Confidentiality and Independence**

- 17.1 The Board members, reviewers and the staff assisting such reviewers shall sign a “Statement of Confidentiality” in order to ensure complete confidentiality of the information obtained from the audit firms. Further, they shall also sign a “Statement of Independence” to confirm that they are both, free and appear to be free from interest, which may be regarded as incompatible with their objectivity, as far as the firm being reviewed is concerned. Both the statements shall be signed annually.
- 17.2 The name of the firm and their entities shall be kept confidential. The summary of review reports, which is presented to the QAB for approval, shall also be without naming the firm or their audit engagements.
- 17.3 In case a firm receives a “not supported by appropriate audit evidence” conclusion, any correspondence and/ or communication by the said firm/concerned engagement partner in this regard with any QAB member, Council member or ICAP office bearer shall be considered an inappropriate act under this framework.

**18. Date of Issue and Effective Date**

This revised framework was approved by the Council in its 210<sup>th</sup> meeting held on August 15, 2009 and is applicable on all reviews falling due subsequent to this date.