



**The Institute of  
Chartered Accountants  
of Pakistan**

**CA  
PAKISTAN**

**HEAD OFFICE**

ICAP/QAD/000029/30480/Circular-04/2015(247)

November 4, 2015

**ALL PRACTICING FIRMS / MEMBERS OF THE INSTITUTE**

Dear Member,

**QUALITY CONTROL REVIEW (QCR) PROGRAM FRAMEWORK – 2015**

Further to our Circular No. ICAP/QAD//000029/28373/Circular-03/2015 dated August 18, 2015 on the above subject, the Council in its 269<sup>th</sup> meeting held on October 14, 2015 decided to make further amendments to the Framework of the QCR Program to address certain practical difficulties. Additions to and deletions from the Framework are shown as underlined and struck through respectively in the enclosed paper.

The revised amended framework is also available for download at the Institute's website.

Shahid Hussain  
Director Quality Assurance

**(Established under the Chartered Accountants Ordinance, 1961 - X of 1961)**

Chartered Accountants Avenue, Clifton, Karachi-75600 (Pakistan). Ph: (92-21) 111-000-422, Fax: 99251626

Website: [www.icap.org.pk](http://www.icap.org.pk), E-mail: [info@icap.org.pk](mailto:info@icap.org.pk)

## AMENDMENTS TO THE FRAMEWORK OF THE QCR PROGRAM 2015

### 1. Scope

This framework describes the objectives and scope of the Quality Control Review (QCR) program established by the Institute of Chartered Accountants of Pakistan (the Institute). This framework further describes composition, responsibilities and functions of the Quality Assurance Board and policies, procedures and process in relation to QCR program. This framework applies to all Firms carrying out audit of financial statements prepared under any applicable legal and financial reporting framework, which intend to get or renew a QCR rating. Under the Code of Corporate Governance and S.R.O. 268(I)/2012 dated March 16, 2012 issued by the Securities and Exchange Commission of Pakistan, both listed and economically significant companies respectively are required to appoint QCR rated Firms as their statutory external auditors.

### 2. Definitions

**Firm** – A sole-practitioner or a partnership of the members of the Institute in practice which intends to get or renew a QCR rating.

**Quality Assurance Partner** – A partner, ~~other~~ a suitably qualified person within the Firm or outside the firm, ~~suitably-qualified external person~~ or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority ~~to~~ and who has objectively evaluated the significant judgments the engagement team made and the conclusions it reached in formulating the report.

#### 4.1 Composition

- iii) One member nominated by the Stock Exchange who should either be a member of the Institute having not less than ten years' post qualification experience, or a Director of the Stock Exchange. The member shall be nominated by Karachi, Lahore and Islamabad Stock Exchanges on rotation basis. ~~Member nominated by Stock Exchange shall not be below the rank of Director at the Stock Exchange.~~
- iv) Five members nominated by the Council from amongst the members of the Institute, out of which two members shall ~~be from industry having~~ have at least ten years of post-qualification working experience other than in a professional firm industry. The remaining three members shall either be audit partners from the practicing Firms or shall have at least five years' experience as audit and assurance partner in a professional firm. No member from the sitting Council shall be nominated on at the Board by the Council.

- 11.3 The reviewer(s), shall select two audit engagements of each partner selected or of the sole proprietor and where the reviewer(s) he / she is of the view that quality of both or either of the two files selected might not be concluded as satisfactory by the QAB then the third audit engagement may be selected from the list of audit engagements provided by the Firm under review.

Provided, where a partner or sole proprietor has less than three engagements to offer, the QCR shall be conducted on the basis of available engagements.

- 15.4 Subject to clause 11.3 of the Framework, QCR Rated Firms seeking renewal of its existing QCR rating and non-QCR rated Firms intending to obtain QCR ratings shall make available at least 10 audit engagements of limited companies for QCR.

## **21. Disciplinary Proceedings**

The Board may refer Engagement Partner(s) and / or Quality Assurance Partner who is a member of the Institute, of a reviewed Firm to the Secretary of the Institute for the following facts to be laid before the Investigation Committee in the following circumstances:

- (i) Deficiencies noted during QCR are serious enough to warrant the case to be referred to the Investigation Committee.
- (ii) An audit of a listed or economically significant company is accepted without obtaining a satisfactory QCR rating.
- (iii) Material misrepresentation is made during the process of QCR.

# **Framework of Quality Control Review (QCR) Program 2015**

## Framework of Quality Control Review (QCR) Program 2015

Table of Contents	Page No
<b>Preamble/Background</b>	3
<b>PART I – Scope</b>	
1. Scope	5
2. Definitions	5
3. Objectives	7
<b>PART II – Quality Assurance Board and its Functions</b>	
4. Quality Assurance Board	9
4.1. Composition	9
4.2. Term of the Board and its Members	9
4.3. Cessation of Membership	10
4.4. Meetings of the Board	10
4.5. Quorum	11
4.6. Duties and Powers of the Chairman	11
5. Responsibilities and Functions of the Board	12
<b>PART III – Quality Control Review</b>	
6. Validity of QCR Satisfactory Ratings	14
7. List of Firms with Satisfactory QCR Ratings	14
8. Responsibilities of QAD	14
9. Responsibilities of Firms with regard to QCR	15
10. Review Observations	15
11. Engagements Review	15
12. Engagement Selection Criteria	16
13. Review of Firm's System of Quality Control	16
14. Review Finalization	16
15. QCR Rating	17
16. Review Report	19
17. QCR Revisits	20
<b>PART IV – Appeal</b>	
18. Appellate Board	22
19. Filing of Appeal	22

## **PART V – Miscellaneous**

20.	Significant Changes in QCR rated Firms	25
21.	Disciplinary Proceedings	25
22.	Confidentiality and Independence	25
23.	Documentation	26
24.	Legal Proceedings	26
25.	Amendments/ Removal of Difficulties	26
26.	Indemnity	26
27.	Repeal of the Framework of Quality Control Review (QCR) Program 2009	27
27A.	Transitional Provisions	27
28.	Date of Issue and Effective Date	27



## **Framework of Quality Control Review (QCR) Program 2015**

### **Preamble/Background**

The Council of the Institute formed the Quality Control Review (QCR) Committee in 1987 with the primary objective of establishing an independent 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 and was entrusted with this responsibility, as more fully described in this framework.

The framework of the QCR Program was issued first in 2003 which was revised in 2006 and then in 2009.

Now in order to bring the existing QCR framework in line with the best international practices certain improvement and changes have been brought in which are summarized below:

- Issuance of QCR ratings on the basis of both Engagement Review and Review of Firm's System of Quality Control.
- Discontinuation of Review of Additional Files.
- Coverage of Minimum Audit Partners.
- Introduction of concept of Appellate Board.
- Opportunity of personal hearing to the aggrieved partner.
- Detailed review of QCR carried out by QAD by a Review Committee.

Further a comprehensive review of the framework was also carried out by an outside consultant, whose suggestions were also considered in the process of revision.

## **PART I – Scope**



## 1. Scope

This framework describes the objectives and scope of the Quality Control Review (QCR) program established by the Institute of Chartered Accountants of Pakistan (the Institute). This framework further describes composition, responsibilities and functions of the Quality Assurance Board and policies, procedures and process in relation to QCR program. This framework applies to all Firms carrying out audit of financial statements prepared under any applicable legal and financial reporting framework, which intend to get or renew a QCR rating. Under the Code of Corporate Governance and S.R.O. 268(I)/2012 dated March 16, 2012 issued by the Securities and Exchange Commission of Pakistan, both listed and economically significant companies respectively are required to appoint QCR rated Firms as their statutory external auditors.

An audit of financial statements is explained in the International Standard on Auditing 200 'Overall Objectives of the Independent Auditor and the Conduct of an audit in accordance with International Standards on Auditing'.

This framework applies to all office locations of the Firms located and operating in the territories of Islamic Republic of Pakistan and Azad Jammu & Kashmir and registered with the Institute.

## 2. Definitions

In this framework, following terms have the meanings attributed below:

**Deficiency** – Departure from International Standards on Auditing (ISAs), International Standard on Quality Control – 1 (ISQC 1) or legal and regulatory requirements as applicable in Pakistan. Legal and regulatory requirements also include directives of the Council.

**Detailed Review** – A review of work performed by the reviewer(s) and comments received from the Firm along with the documentary evidences.

**Engagement Partner** – Partner of a Firm or a sole-practitioner, whose name is disclosed in the audit report or who is identified as engagement partner.

**Engagement Review** – A review of the audit engagement(s) of a Firm by the Board to determine whether the audit(s) of financial statements carried out and audit report(s) issued by the Firm in respect of the reviewed engagement(s) were in accordance with ISAs and legal and regulatory requirements as applicable in Pakistan.

**Firm** – A sole-practitioner or a partnership of the members of the Institute in practice which intends to get or renew a QCR rating.

**Non-Reportable Deficiencies** – Those deficiencies in the quality control system and / or audit(s) of financial statements that are not significant and are not referred to the Board and highlighted only to the Firm for undertaking improvement in future.

**Quality Assurance Department (QAD)** – A department established by the Institute to carry out such functions and responsibilities as assigned to it by the Quality Assurance Board in line with this framework.

**Quality Assurance Board (QAB/the Board)** – The Board formed by the Institute to independently undertake the implementation and oversight of this framework.

**Quality Assurance Partner** – A partner, a suitably qualified person within or outside the firm or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority and who has objectively evaluated the significant judgments the engagement team made and the conclusions it reached in formulating the report.

**Quality Control Review (QCR)** – Engagement Review and Review of Firm's System of Quality Control.

**QCR Rating** – Rating issued by the Board under this framework to a Firm after the conduct of QCR, including the extension of previously issued rating.

**Quality Control Reviewer(s)** – A member of the Institute or team of persons, majority of whom members of the Institute responsible to conduct QCR. Such persons shall have post qualification audit experience of at least two years and currently shall not be associated with any Firm in any capacity.

**Reportable Deficiencies** – Significant departures at engagement level, from ISAs, ISQC 1 and legal and regulatory requirements or Firm-wide departures from ethical, quality, regulatory and other relevant standards and laws & regulations.

**Review Committee** – A committee constituted by the Board from among its members to carry out Detailed Review.

**Review of Firm's System of Quality Control** – A review by the Board of the Firm's system of quality control designed to provide it with reasonable assurance that the Firm and its personnel comply with the ISQC 1 as applicable in Pakistan.

**Satisfactory Engagement Review** – Audit(s) carried out and audit report(s) issued by the Firm in respect of the reviewed engagement(s) was/were in accordance with ISAs and legal and regulatory requirements as applicable in Pakistan.

**Satisfactory Review of Firm's System of Quality Control** – The Firm's system of quality control was designed and implemented in accordance with the requirements of ISQC 1.

Terms not defined herein above shall have the meaning assigned to them by relevant laws, ISAs and professional pronouncements as applicable in Pakistan.

### 3. Objectives

The objectives of the QCR Program are to enhance the quality of audit report and credibility of accountancy profession in public interest by ensuring:

- (i) The audit engagements are conducted in accordance with the applicable ISAs and legal and regulatory requirements as applicable in Pakistan.
- (ii) The system of quality control has been appropriately designed and effectively implemented in accordance with the requirements of ISQC-1.
- (iii) The Firm's quality control policies and procedures have been appropriately applied so that reports issued are appropriate in the circumstances.

## **PART II - Quality Assurance Board and its Functions**

#### **4. Quality Assurance Board**

The Quality Assurance Board shall comprise of such number of members as prescribed in 4.1 below.

The members of the Board shall be appointed from amongst the persons of eminence having experience in the field of accountancy, law, economics, business or finance.

##### **4.1 Composition**

The Quality Assurance Board shall comprise of eleven members in the following manner:

- i) Four members nominated by the Securities and Exchange Commission of Pakistan (SECP), out of which at least two shall be members of the Institute having not less than ten years post qualification experience. The remaining members may be employees of SECP not below the rank of Director or persons having at least fifteen years' experience in the areas of accounting, auditing, business, finance, banking, economics, general corporate management or law.
- ii) One member nominated by the State Bank of Pakistan (SBP) who may be member of the Institute having not less than ten years post qualification experience or an employee of SBP not below the rank of Director or a person having at least fifteen years' experience in the areas of accounting, auditing, business, finance, banking, economics, general corporate management or law.
- iii) One member nominated by the Stock Exchange who should either be a member of the Institute having not less than ten years' post qualification experience, or a Director of the Stock Exchange. The member shall be nominated by Karachi, Lahore and Islamabad Stock Exchanges on rotation basis.
- iv) Five members nominated by the Council from amongst the members of the Institute, out of which two members shall have at least ten years of post-qualification working experience other than in a professional firm. The remaining three members shall either be audit partners or shall have at least five years' experience as audit and assurance partner in a professional firm. No member from the sitting Council shall be nominated on the Board by the Council.
- iii) Chairman of the Board shall be the member of the Institute, having at least ten years practicing experience, who shall be nominated by the Council in consultation with SECP.

##### **4.2 Term of the Board and its Members**

- (i) The Board shall be a perpetual Board without any tenure.

- (ii) No member of the Board shall serve more than two consecutive periods of three years each.
- iii) Not less than five members of the first Board constituted after coming into effect of this framework, shall retire initially on the expiration of two years and may eligible for reappointment for a further term of three years. The remaining Board members shall remain the members of the Board for a term of three years and shall retire on the expiration of that term and may be eligible for reappointed for a further term of three years.
- iv) In case of any casual vacancy the new member shall be nominated by the original appointing body within sixty days for remaining period of the member vacating his / her position.

The above clause shall become effective within three months of the notification of the framework.

#### **4.3 Cessation of Membership**

A member of the Board shall cease to be a member under the following circumstances:

- (i) He/she is replaced by his nominating body.
- (ii) Upon acceptance of his/her resignation by the Council given in writing addressed to the Secretary of the Institute.
- (iii) He/she becomes of unsound mind.
- (iv) He/she has applied to be adjudicated as an insolvent and his/her application is pending.
- (v) He/she is an undischarged insolvent.
- (vi) He/she has been convicted by a court of law for an offence involving moral turpitude.
- (vii) He/she has displayed lack of fiduciary behaviour and a declaration to this effect has been made by a court.
- (viii) He/she is removed from the membership of the Institute.

#### **4.4 Meetings of the Board**

- i) The Board shall hold at least six (6) meetings in a financial year.
- ii) Procedure to call Board meetings shall be as follows.
  - a) Notice of the meeting shall be issued at least fifteen (15) days, or any lesser period if decided by the Chairman, before the date of the meeting.

- b) Agenda and working papers shall be sent by QAD to all Board members at least ten (10) days or any lesser period as may be decided by the Chairman, before the date of the meeting.
- c) In the absence of the Chairman, the members present shall elect amongst themselves a Chairman, who shall preside the meeting of the Board.
- iii) Except as otherwise specified in this framework, all the meetings of the Board, the vote of majority shall prevail and in the event of equality of vote, the Chairman shall have a casting vote in addition to his own vote.
- iv) The Secretary shall prepare minutes of the QAB meeting not later than 14 days after the meeting and shall circulate the minutes to all Board members.
- v) Minutes of meetings shall be signed by the Chairman of the meeting.
- iv) Remuneration not exceeding the amount as prescribed by the Council, may be paid to QAB members for attending the meeting.

#### **4.5 Quorum**

Minimum Six (6) members of the Board shall form the 'Quorum' for a Board meeting.

#### **4.6 Duties and Powers of the Chairman**

The Chairman shall be responsible to perform the following duties:

- i) Chair the meetings of the Board.
- ii) Ensure timely preparation and approval of agenda, working papers, minutes etc. of the meeting.
- iii) Ensure that meeting of the Board is planned effectively, conducted according to the framework and that matters are dealt with in an orderly and efficient manner.
- iv) Lead the process of Board's annual evaluation.
- v) Recommend removal of member(s) to the nominating authority in case a Board member is absent for three consecutive Board meetings.
- vi) Refer the matter to the nominating authority for filling up of casual vacancy.
- vii) Any other function as required/prescribed in the framework.



## **5. Responsibilities and Functions of the Board**

- 5.1 To decide on QCR Rating of a Firm.
- 5.2 To monitor the QCR Program to ensure its adequate and effective implementation in accordance with this framework.
- 5.3 To raise Firms' awareness of the objective of quality control and the related quality control standards by publishing specific explanatory documents about quality control and quality assurance.
- 5.4 To assist, recommend or coordinate the training programs and workshops to help improve quality control system of the Firms
- 5.5 To set policies for the implementation of this framework and to decide on all matters relating thereto.
- 5.6 To carry out a comprehensive review of the operations of QAD of which among other things shall include evaluation of the QCR procedures and work carried out as regards to QCR of the Firms, adequacy of resources available for the QCR Program and recommend appropriate steps to the Council in this regard.
- 5.7 To prepare annual report summarizing the performance of the Board and the results of the QCR Program. The annual report shall be published by the Institute.
- 5.8 The Board shall appoint a third party with three fourth majority of the members present in a meeting to conduct a review of the adequacy and efficiency of QCR Program after every two years in accordance with the criteria established by the Board. The third party shall prepare a report for the Board and the nominating authorities.
- 5.9 To recommend the Firms appropriate guidelines in relation to audit practice of the Firms or system of quality control within the Firms that are considered essential and in the interest of the profession and the public interest.
- 5.10 Provide feedback to HR Committee of the Institute about the performance of staff members of QAD

In carrying out the above functions, the Board shall be assisted by the QAD.

## **PART III - Quality Control Review**

## **6. Validity of QCR Satisfactory Ratings**

- 6.1 Firms with satisfactory ratings shall be required to undergo fresh QCR before the expiry of two and a half years from the date of last QCR report or any other period as may be prescribed by the Board in such a manner that all audit engagement partners in the Firm are reviewed at least once within a period of five years.
- 6.2 Additional time not exceeding three months for arrangement of QCR may be allowed by the Board, after consideration of justifiable reasons submitted by the Firm in writing.
- 6.3 An early review of a QCR rated Firm may be required by the Board, under special circumstances, including where an audit partner of the Firm is found guilty of professional misconduct by the Institute, or any other circumstances, which in the opinion of the Board warrant an early review.

## **7. List of Firms with Satisfactory QCR Ratings**

- 7.1 QAD shall maintain a List of Firms with Satisfactory QCR Ratings and it shall be updated on monthly basis or as and when any change occurs.
- 7.2 The list shall also be made available on the Institute's website for public knowledge.

## **8. Responsibilities of QAD**

- 8.1 In order to carry out reviews of QCR rated Firms on timely basis, QAD shall initiate communication with such Firms at least six months before the expiry of two and a half years from the date of last QCR report. Director QAD shall agree the dates of visits to each location of the Firm with the coordinator appointed by the Firm.
- 8.2 Director QAD shall assign appropriate resources for conduct of QCR on planned dates and appoint a reviewer.
- 8.3 Director QAD shall present the reports prepared by QAD regarding review of Firms to the Board or Review Committee.
- 8.4 QAD shall provide support to the functioning of Appellate Board formed under clause 18 of the framework.
- 8.5 QAD shall maintain the record of the signed minutes of the meetings of the Board and the Review Committee.
- 8.6 QAD shall functionally report to QAB and perform its functions in accordance with the requirements of this framework.

## **9. Responsibilities of Firm with regards to QCR**

- 9.1 Every Firm shall appoint a focal person to coordinate the QCR on behalf of the Firm who shall be responsible to provide required information to and coordinate with QAD to enable it to complete QCR in timely manner.
- 9.2 The Firm shall coordinate with QAD for arranging the QCR and provide all necessary information to enable QAD to perform QCR in a timely manner.
- 9.3 The Firm shall submit to QAD, at least one month before the date of QCR visit, a list of all audit engagements on the prescribed format of all locations whose audit reports were issued during two immediate preceding years.
- 9.4 The Firm shall provide information and support to QAD in respect of their review of Firm's Quality Control System to assess compliance in accordance with the applicable requirements.

## **10. Review Observations**

- 10.1 The reviewer(s) shall be responsible to summarize the results of review and discuss the observations with the engagement partner and/ or senior partner or equivalent of the Firm and receive their comments.
- 10.2 Any matter of disagreement between the reviewer(s) and the engagement partner or the Firm shall be referred to the Director QAD.

## **11. Engagement Review**

- 11.1 Engagement Review shall involve review of audit engagement working papers of selected engagements to evaluate:
  - (a) Implementation of the system of quality control with respect to audits conducted; and
  - (b) Whether or not the audit was carried out and audit report(s) issued by the Firm in accordance with ISAs and legal and regulatory requirements as applicable in Pakistan.

However, in the absence of any reportable or non-reportable deficiency on the engagements reviewed shall not be construed as an endorsement by the Institute or QAB that the financial statements were necessarily presented fairly or that all aspects of the audit were fully compliant with ISAs and legal and regulatory requirements as applicable in Pakistan. This responsibility shall remain with the engagement partner and the Firm.

- 11.2 The selection of audit engagements shall be made from latest completed engagements in such a manner that at least fifty percent (50%) partners in audit practice are covered under the review and partners in each office location of the Firm conducting audit shall be reviewed.

- 11.3 The reviewer(s), shall select two audit engagements of each partner selected or of the sole proprietor and where the reviewer(s) is of the view that quality of both or either of the two files selected might not be concluded as satisfactory by the QAB then the third audit engagement may be selected from the list of audit engagements provided by the Firm under review.

Provided, where a partner or sole proprietor has less than three engagements to offer, the QCR shall be conducted on the basis of available engagements.

- 11.4 The review shall be carried out preferably at the premises of the Firm.

## **12. Engagement Selection Criteria**

QAD shall select engagements for review based on the following criteria:

- i) Risk profile of the engagements.
- ii) Public interest entities.
- iii) Regulated entities.
- iv) Entities having modified audit opinions.
- v) Entities based on size of balance sheet, revenues, number of employees, etc.

## **13. Review of Firm's System of Quality Control**

It shall involve assessing the Firm's system of quality control in compliance with 'ISQC 1'.

This essentially is conducted at the leadership and management level of the Firm to consider, test and evaluate the design and operating effectiveness of the Firm's Quality Control System which includes policies, procedures and monitoring activities and key controls covering all quality control areas to measure the Firm's adherence to the requirements of ISQC 1.

## **14. Review Finalization**

- 14.1 After completion of the review and receiving comments from the relevant engagement partner(s) and the leadership of the Firm on the issues identified and observations stated in the review findings form, the reviewer shall prepare, within two weeks of the conclusion of review visit:

- (i) Audit Engagements Review Report; and
- (ii) 'ISQC 1' Compliance Review Report.

The above reports shall include issues and weaknesses, if any, identified as Reportable and Non-Reportable Deficiencies during the review.

Provided that in cases of small Firms with no professional staff, documentation deficiencies for appointment and evaluation of human resources shall not have an adverse inference upon QCR rating of the Firms.

In cases where, in QAD's opinion, Reportable Deficiencies are found, draft report shall be sent to the Firm requiring comments in writing on reportable deficiencies along with an Action Plan to correct these deficiencies within two weeks from the date of the draft report. The final comments received from the Firm shall be analyzed, before presenting both the report and the Firm's comments along with an Action Plan to the Board.

- 14.2 All reports shall be presented before the Board, for approval, except for urgent cases where, with permission of the Chairman the report may be circulated to all the Board members for review and approval. At least six members of the Board including the Chairman shall approve the Report. Reports approved by circulation shall be ratified in the immediate next Board meeting.
- 14.3 The overall conclusion of the Firm as regards to Engagement Review shall be concluded as satisfactory if two-third of the partners selected for engagement reviews receive an overall conclusion as satisfactory.

However, in case of partner(s) whose conclusion of Engagement Review is unsatisfactory, the Board may take any one or more of the following actions:

- a) requires such partner(s) to undergo additional training or CPD activities as recommended by the Board;
  - b) arranges a fresh Engagement Review of such partner(s) after one year;
  - c) refers to the Investigation Committee if conclusion of such engagement partner(s) remains unsatisfactory in the consecutive second review or he/she fails to implement the Action Plan submitted at the time of earlier review.
- 14.4 In case of unsatisfactory conclusion of QCR of a Firm and in other cases where the Board may feel appropriate, the matter shall be referred to the Review Committee which may be formed periodically by QAB from its members comprising at least two persons. The Review Committee may amend the draft report as appropriate taking into consideration the work performed by the reviewer(s) and comments received from the Firm along with the necessary documentary evidences. In case of unsatisfactory QCR rating the Review Committee may grant an opportunity of personal hearing to the concerned partner(s) / Firm.

## **15. QCR Rating**

- 15.1 The overall QCR rating of an existing QCR rated Firm shall be based on the Review of Firm's System of Quality Control and Engagement Review and shall be decided by the Board as follows:

Scenario	Overall Conclusion of Review of Firm's System of Quality Control (where applicable)	Overall Conclusion of Engagement Review	Possible Action by the Board	Impact on overall QCR Rating
1.	Satisfactory	Satisfactory	No Action	<b>Satisfactory Rating</b>
2.	Satisfactory	Unsatisfactory	After one year a follow up visit shall take place to perform Engagement Review as well as Review of Firm's System of Quality Control and:	<b>Satisfactory Rating will be extended for one year</b>
			(i) If the conclusion of both the reviews is <b>Satisfactory</b>	<b>Satisfactory Rating</b>
			(ii) If the conclusion of either Review of Firm's System of Quality Control or Engagement Review is <b>Unsatisfactory</b>	<b>Removal of the name from the List of Firms having Satisfactory QCR Ratings</b>
3.	Unsatisfactory	Satisfactory	After one year a follow up visit shall take place to perform Engagement Review as well as Review of Firm's System of Quality Control and:	<b>Satisfactory Rating will be extended for one year</b>
			(i) If the conclusion of both the reviews is <b>Satisfactory</b>	<b>Satisfactory Rating</b>
			(ii) If the conclusion of either Review of Firm's System of Quality Control or Engagement Review is <b>Unsatisfactory</b>	<b>Removal of name from the List of Firms having Satisfactory QCR Ratings</b>



4.	Unsatisfactory	Unsatisfactory		<b>Removal of the name from the List of Firms having Satisfactory QCR Ratings</b>
----	----------------	----------------	--	---

15.2 Except for the circumstances given in clause 6.3 if the QCR conclusion of both Engagement Review and Review of Firm's System of Quality Control is satisfactory, the next QCR of the Firm shall be carried out after two and a half years.

15.3 In order to obtain QCR rating, a Firm other than existing QCR Rated Firm shall have satisfactory conclusion on both Review of Firm's System of Quality Control and Engagement Review.

15.4 Subject to clause 11.3 of the Framework, QCR Rated Firms seeking renewal of its existing QCR rating and non-QCR rated Firms intending to obtain QCR ratings shall make available at least 10 audit engagements of limited companies for QCR.

## 16. QCR Report

16.1 After approval by the Board, the final QCR report shall be issued to the Firm covering the following, along with an indication regarding Firm's eligibility/ineligibility, as the case may be, to be included in the List of the Firms having Satisfactory QCR Ratings:

- (i) whether or not the audit was carried out and audit report(s) issued by the Firm in respect of reviewed client(s), was/were in accordance with ISAs and legal and regulatory requirements as applicable in Pakistan; and
- (ii) Whether or not appropriate evidence was available as to the compliance of ISQC 1 requirements regarding:
  - a) Design and implementation of the Firm's system of quality control; and
  - b) the Firm's compliance with its system of quality control during the period under review.

Reasons for unsatisfactory conclusions on the above and recommendations for improvements at both Firm wide and engagement level shall also be included in the final review reports.

16.2 Where a Firm fails to get its QCR completed within prescribed period, from the issuance of previous QCR rating, the name of the Firm shall be removed from the List of Firms having Satisfactory Ratings with the approval of the Board. Where a review indicates that a Firm's QCR rating should be removed

or changed, the decision should be approved by at least 75% of the members present at the QAB meeting where the issue is discussed.

- 16.3 Provided that in case of any unavoidable circumstances, if the QCR of a Firm cannot be concluded and QCR rating cannot be issued or extended then the Board may refer the matter to the Institute for guidance. The Institute shall, in consultation with the SECP if required, within three months of the receipt of such matter decide on the matter and provide guidance to the Board.

In such cases the status quo of Firm shall be maintained for a period not exceeding six months.

## **17. QCR Revisits**

When a name of the existing QCR rated Firm has been removed from the List of Firms having Satisfactory Ratings or a new Firm has received an overall unsatisfactory conclusion, a QCR revisit may be performed at the request of the Firm after at least six months of the date of such removal or an unsatisfactory conclusion as the case may be. Further, during the visit for this purpose, QCR shall be performed of engagements on which audit reports were issued subsequent to the period covered by last QCR.

## **PART IV – Appeal**

## **18. Appellate Board**

- 18.1 The Appellate Board refers to a forum formed under the framework to undertake appeal process against the decision of the QAB.
- 18.2 The Appellate Board shall comprise of six members. Three members each shall be nominated by the Council of the Institute and SECP. The Council's nominees shall include maximum two members of the Institute. One of the nominees of the Council shall be a member who has exercised the powers of, or is or has been, a judge of High Court or who is or has been an advocate of a High Court and is qualified to be a Judge of a High Court.
- The SECP's nominee shall include at least one member of the Institute.
- 18.3 The Chairman of the Appellate Board shall be appointed by the members of the Appellate Board. He shall be responsible for the conduct of meetings of the Appellate Board and ensuring the proper keeping of record of its meetings and decisions.
- 18.4 The members of the Council of the Institute and the QAB shall not be nominated on the Appellate Board. A cooling off period of two years shall be required for eligibility to be appointed at Appellate Board for the former members of the Council and the QAB.
- 18.5 Minimum three (3) members of the Appellate Board shall form the Quorum for its meeting.
- 18.6 The term of the Appellate Board shall be three years, from the date of its constitution. The existing Appellate Board shall continue to work until the new Appellate Board is constituted.
- 18.7 The first Appellate Board shall be constituted within sixty days of notification of this framework.
- 18.8 No member of Appellate Board shall serve for more than two consecutive terms of three years each.
- 18.9 A member retiring after serving two consecutive terms shall be eligible for re-appointment, after three years from the date of retirement.
- 18.10 A member of the Appellate Board shall cease to be a member in such circumstances referred to in clause 4.3.
- 18.11 All the secretarial support required for the functioning of Appellate Board shall be provided by the Institute.

## **19. Filing of Appeal**

- 19.1 In case the Board decides to remove the name of the Firm from the List of Firm having Satisfactory QCR Ratings or a new Firm has received an overall unsatisfactory conclusion, the aggrieved partner or the Firm, as appropriate

shall have a right to appeal before the Appellate Board within 30 days of such decision having been communicated to the Firm.

- 19.2 The Appellate Board may, at the request of the applicant or on its own motion give a personal hearing to the authorized representative of the Firm, who may be a member of the Institute or any other person duly authorized by the appellant Firm.
- 19.3 The QAB may authorize any of its members to attend the hearing on its behalf.
- 19.4 The Appellate Board shall have the power to confirm, vary or reverse the original decision of the QAB that has been appealed.
- 19.5 The decision of the Appellate Board shall be final which shall be communicated to the appellant with a copy to QAD and the QAB Chairman.
- 19.6 In all circumstances the Appellate Board shall dispose of the appeal within 60 days from the date of filing of appeal.
- 19.7 During time period allowed for appeal and during the process of appeal before the Appellate Board, the QAD shall maintain status quo regarding QCR rating of the Firm.

## **PART V – Miscellaneous**

## **20. Significant changes in QCR Rated Firms**

- 20.1 Where as a result of non-QCR rated Firm merging with a QCR rated Firm or induction of new audit partners, the number of audit partners reviewed during last QCR falls below 50% of the total audit engagement partners of the Firm, the Firm shall be subject to QCR within one year from the date of merger or change in the composition of the Firm.
- 20.2 Where a QCR rated Firm is split and/or majority of the audit partners reviewed during last QCR have retired or resigned from the Firm, the Firm shall be subject to QCR within one year from the date of split or retirement of partners.
- 20.3 Where two QCR rated Firms are merged, the merged Firm shall be subject to QCR with reference to the earliest QCR due date of both Firms.
- 20.4 Firms shall inform the QAB regarding their merger/ induction of partner(s)/ split within 30 days of such change.

## **21. Disciplinary Proceedings**

The Board may refer Engagement Partner(s) and / or Quality Assurance Partner who is a member of the Institute, of a reviewed Firm to the Secretary of the Institute for the following facts to be laid before the Investigation Committee:

- (i) Deficiencies noted during QCR are serious enough to warrant the case to be referred to the Investigation Committee.
- (ii) An audit of a listed or economically significant company is accepted without obtaining a satisfactory QCR rating.
- (iii) Material misrepresentation is made during the process of QCR.

## **22. Confidentiality and Independence**

- 22.1 In accordance with the approved code of conduct of the Institute as applicable on Council members, members of Boards, Committees of the Institute, QAD staff, the staff assisting such reviewers and third party appointed to conduct review of the QCR Program, shall sign:
- i) "Statement of Confidentiality" in order to ensure complete confidentiality of the information obtained from the Firms.
  - ii) "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.
  - iii) Both the statements shall be signed annually or if there is change which warrants the filing of fresh statements.



- 22.2 In addition to the above, the QAD staff members before visiting every Firm for conducting QCR and members of the Review Committee before conducting any Detailed Review under the framework shall also sign a separate Statement of Independence.
- 22.3 A member of the Board, staff of QAD or any person acting on behalf of the Board or QAD, shall not make use of or disclose the contents of any report or of any files, working paper files, books, documents or other material inspected, or any confidential information concerning the affairs of any Firm or of its clients obtained in the course of a QCR review, except to the Board, Appellate Board or any person acting on their behalf.
- 22.4 The names of the Firm, engagement partner, locations of the offices reviewed and their entities shall be kept confidential except for those cases selected under paragraph 5.6, 14.4 and 19 or in any other case where the Board or any of its members wishes to seek the information about the Firm and the client. The summary of review reports, presented to the Board for approval, shall also not disclose the names of the Firm, the name of client(s), engagement partners, office locations or their other audit engagements.

## **23. Documentation**

For all the reviews conducted, QAD shall retain all QCR reports issued to Firms for a period of ten years from the date of such reviews. However, working papers relating to QCR shall be retained at least for a period of five years.

In case of any litigation in the court of law, the QCR reports and the working papers relating to QCR of the concerned client shall be retained until the conclusion of the litigation.

## **24. Legal Proceedings**

In case of any legal proceedings arising out of decisions of the QAB or Appellate Board, the Institute shall deal with such matter in consultation with the respective Board.

## **25. Amendments/ Removal of Difficulties**

This framework may be altered or amended, as approved by the Council of the Institute wherever the circumstances require the same. The Board can also initiate such process of amendment/removal of difficulties.

## **26. Indemnity**

- (1) The members of the QAB and Appellate Board, shall be indemnified by the Institute from all losses and expenses incurred by them in the discharge of their respective duties, except such as happen from their own respective willful default.
- (2) No member of the Board and Appellate Board shall be liable for default of any other member or members of the Board and Appellate Board or for signing any receipt or document, or for any act of conformity, or for any loss or

expense happening to the Institute, unless the same happens from his own willful default.

## **27. Repeal of the Framework of Quality Control Review (QCR) Program 2009**

Notwithstanding the repeal of the framework of Quality Control Review Program 2009, any review done, QCR report, ACR certificate or any other document issued by the Quality Assurance Department or Quality Assurance Board or any other thing done under the repealed framework shall, so far as it is not inconsistent with the provisions, of the framework, be deemed to have been made, issued, order under the provisions of this framework unless and until it is superseded by action taken in accordance with this framework.

## **27A Transitional Provisions**

The repealed framework of the QCR Program will remain applicable in cases where fieldwork of QCRs of firms under the repealed framework has commenced but not concluded by QAB up to June 30, 2015 or QCR commencement date has been agreed or request for conducting QCR received prior to July 01, 2015. However, in case any review application is filed under clause 14 of the repealed framework it shall be dealt with by Appellate Board formed under clause 19 of Framework of the QCR Program 2015.

## **28. Date of Issue and Effective Date**

This revised framework was approved by the Council in its 259<sup>th</sup> meeting held on December 11-12, 2014 and is applicable in its jurisdictions w.e.f. July 01, 2015.