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**The Institute of  
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**CA  
PAKISTAN**

ICAP/QAD/000029/114591/Circular-01/2024

June 26, 2024

**ALL PRACTICING FIRMS / MEMBERS OF THE INSTITUTE  
QUALITY CONTROL REVIEW (QCR) FRAMEWORK – 2024**

Dear Member,

The AOB has conducted a review of the Quality Control Review (QCR) Framework 2019, issued by the Institute. Following this independent review, and in exercise of its powers under sections 36K and 36AA of the SECP Act, 1997, read with regulation 3 of the AOB (Operations) Regulations, 2018, the AOB has directed the Institute to adopt the revised QCR Framework 2024.

The Council, in its 386th meeting held on June 25, 2024, approved the revised Quality Control Review Framework 2024 (QCRF 2024). This framework will become applicable from October 1, 2024, subject to the Transitional Provisions specified in Clause 30.

The revised framework is available for download at:

<https://icap.org.pk/quality-assurance/qcr-framework/>

Yours sincerely,

**Omair Jamal, FCA**  
Secretary

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# **Quality Control Review (QCR) Framework 2024**

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## **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, 2009, 2015, 2019 and 2024.

Audit Oversight Board (AOB), the independent audit regulator, has been established by the Parliament in August 2016.

Now, in order to bring the existing QCR framework in line with international practices and AOB's regulations, certain improvements and changes have been made.

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# **Part I – Scope**

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## 1. Scope

- 1.1. This framework describes the objectives and scope of the Institute of Chartered Accountants of Pakistan's (the Institute) Quality Control Review (QCR) and the composition, responsibilities and functions of the Quality Assurance Board (QAB) and its Appellate Board and their policies, procedures and process in relation to QCR program.
- 1.2. This framework is applicable 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 or obtain registration with Audit Oversight Board (AOB). 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'.
- 1.3. Pursuant to Part IXC of the Securities and Exchange Commission of Pakistan Act, 1997, (SECP Act, 1997) Firms that carry out or intend to carry out audit of public interest companies are required to register with AOB, which requires a recommendation of QAB in accordance with the Quality Control Review Framework. Under the Listed Companies (Code of Corporate Governance) Regulations, 2019, no company shall appoint as external auditors, a firm of auditors, which has not been given a satisfactory rating under the QCR program of the Institute and is also registered with AOB in terms of Section 36H(k) of the SECP Act, 1997.
- 1.4. Pursuant to S.R.O. 1044 (I)/2015 dated October 22, 2015 issued by the SECP, following are required to appoint Satisfactory QCR rated Firms as their statutory external auditors:
  - (i). Public Interest Companies (PICs);
  - (ii). Large Sized Companies; and
  - (iii). Public Interest and Large Sized Companies which are either associations not for profit or limited by guarantee.
- 1.5. This framework is applicable to all office locations of the Firms located and operating in any part of Pakistan and/or registered with the Institute.

## 2. Definitions

In this framework, unless there is anything repugnant in the subject or context following terms have the meanings defined below:

- 2.1. Audit Oversight Board (AOB)** - Audit Oversight Board means the independent audit oversight board established under Part IXC of the SECP Act, 1997.
- 2.2. Deficiency** – Engagement level or firm wide failure(s) to comply with International Standards on Auditing (ISAs), including concerns in relation to the sufficiency or quality of audit evidence and the appropriateness of key audit judgments or other matters identified as per, international standards related to quality, their application and adherence, compliance of relevant ethical requirements and/or legal and regulatory requirements applicable in Pakistan including directives of the Council of the Institute.
- 2.3. Engagement Review** - A review by QAB of the selected audit engagement(s) of a Firm designed to provide it with reasonable assurance to determine whether the audit(s) of financial statements carried out and auditor's report(s) issued by the Firm in respect of the reviewed engagement(s) were in accordance with ISAs, relevant ethical requirements, or legal and

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regulatory requirements as applicable in Pakistan which include directives of the Council of the Institute.

- 2.4. Firm** - A sole practitioner or a partnership of the members of the Institute in practice which intends to get or renew a QCR rating consequent to an assessment under QCR.
- 2.5. List of Firms having Satisfactory QCR Rating** – List of Firms with Satisfactory QCR Ratings as assigned by QAB.
- 2.6. Public Interest Company (PIC)** – A company or body corporate notified by SECP from time to time for the purposes of Part IXC of the SECP Act, 1997.
- 2.7. Quality Assurance Department (QAD)** – A department established, resourced and funded by the Institute in consultation with the Quality Assurance Board to carry out functions and responsibilities assigned to it by the Quality Assurance Board in line with this framework.
- 2.8. Quality Assurance Board (QAB/the Board)** – The Board formed by the Institute to independently undertake the implementation, compliance, and oversight of this framework.
- 2.9. Quality Control Review Framework (QCRF)** - QCRF means a Quality Control Review Framework adopted by the Institute, as approved by AOB for the purposes of Quality Control Review.
- 2.10. Quality Control Review (QCR)** Engagement Review and Review of Firm’s System of Quality.
- 2.11. QCR Rating** – Rating issued by QAB under this framework to a Firm after the conduct of QCR.
- 2.12. Quality Control Reviewer** – An individual hired by QAD to conduct QCR, who has post qualification audit experience of at least two years and has not been in past employment of the Firm for at least the past two years and / or is not currently associated with any Firm in any capacity whatsoever.
- 2.13. Review Deficiency** – Deficiency, which is identified during the Engagement Review, Review of Firm’s System of Quality, and includes a Deficiency that comes or is brought to the knowledge of QAB or QAD in the normal course of the review process and expected to have a material and/or pervasive effect on the financial statements, the audit opinion and/or firm’s system of quality at any point of time.
- 2.14. Review of Firm’s System of Quality** - A review by QAB of the Firm’s system of quality designed to provide it with reasonable assurance that the Firm and its personnel comply with the international standards related to quality applicable in Pakistan.
- 2.15. Satisfactory QCR Rating** - Assessment by QAB of quality of the audit work of a Firm based on results of QCR performed, using the following categories:
- (i). Satisfactory; or
  - (ii). Satisfactory, with improvements required.
- 2.16. Significance** - Significance is consideration in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients. Relevant factors in assessing significance



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may be the materiality of the area or matter concerned, the extent of concerns regarding the sufficiency or quality of audit evidence, whether appropriate professional skepticism appears to have been exercised, and the extent of non-compliance.

**2.17. Unsatisfactory QCR Rating** - A rating other than a Satisfactory QCR rating.

**2.18.** Terms not defined herein above shall have the meaning assigned to them by relevant laws, ISAs and professional pronouncements applicable in Pakistan, and words importing the singular shall include the plural, and vice versa, and words importing the masculine gender shall include feminine and words importing a person shall include a body corporate and/or an entity.

### **3. Objectives**

The objectives of the QCR Program are to monitor, including consideration of events which come to the knowledge of QAB in the normal course of review, and thereby enhance the quality of auditor's report and credibility of accountancy profession to serve public interest by evaluating that the:

- (i). audit engagements are conducted in accordance with the applicable ISAs, relevant ethical requirements and legal and regulatory requirements applicable in Pakistan;
- (ii). system of quality has been appropriately designed and effectively implemented in accordance with the requirements of international standards related to quality applicable in Pakistan; and
- (iii). Firm's quality policies and procedures have been appropriately applied so that auditor's reports issued are appropriate in the circumstances.

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## **Part II – Quality Assurance Board and its Functions**

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## **4. Quality Assurance Board**

The Quality Assurance Board shall comprise of such number of members as prescribed in 4.1 below. Members of QAB shall hold qualification and experience in the relevant fields including accounting and auditing.

### **4.1 Composition**

The Quality Assurance Board shall comprise of nine members nominated as follows:

- (i). Three members shall be nominated by the Securities and Exchange Commission of Pakistan (SECP);
- (ii). Two members shall be nominated by the State Bank of Pakistan (SBP);
- (iii). One member shall be nominated by the Pakistan Stock Exchange (PSX);
- (iv). Three members shall be nominated by the Council of the Institute; and
- (v). The Chairman of QAB shall be a member of the Institute having at least ten years post qualification experience and shall be elected by the members of QAB through vote of majority. Provided that a member in practice and/or a member with an economic interest in an audit firm shall not be eligible to become the Chairman of QAB.

The above nominations shall be subject to following conditions:

- (i). Not more than two members shall be audit partners or employees in an audit firm and such members, if any, shall only be nominated by the Institute;
- (ii). No member from the Council shall be a member of QAB; and
- (iii). No current employee, member, or official of the AOB or any other statutory regulatory body or an employee of SECP shall be a member of QAB.

### **4.2 Term of QAB and its Members**

- (i). QAB shall have perpetual succession.
- (ii). No member of QAB shall serve more than two consecutive periods of three years each term.
- (iii). A person who was appointed as a member of QAB, under a previous QCR Framework may remain a member of QAB until the expiration of his term. The relevant nominating body shall nominate a new member in accordance with this Framework within sixty (60) days of effective date of this Framework. Where the term of a member has expired, he shall continue to be member of QAB till fresh nominations are made by the nominating body.
- (iv). In case of any casual vacancy the new member shall be nominated by the original appointing body within sixty (60) days for remaining period of the member vacating his position.

### **4.3 Cessation of Membership**

A member of QAB shall cease to be a member, if he:

- (i). is replaced by his nominating body/authority;
- (ii). has given his resignation in writing addressed to the Secretary of the Institute and the Council accords its acceptance;
- (iii). becomes of unsound mind;
- (iv). has applied to be adjudicated as an insolvent;
- (v). is an undischarged insolvent;
- (vi). has been convicted by any court of law or competent forum;

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- (vii). has displayed lack of fiduciary behavior, conduct and a declaration to this effect has been made by a court or any competent forum; and/or
  - (viii). is removed from the membership of the Institute.

#### **4.4 Meetings of QAB**

- (i). QAB shall hold at least six (6) meetings in a financial year.
- (ii). Procedure to call meetings of QAB shall be as follows:
  - a. Notice of the meeting shall be issued at least fifteen (15) days, or any shorter period if decided by the Chairman, before the date notified for the meeting.
  - b. Agenda and working papers for QAB meeting shall be sent by the Secretary to QAB, to all members of QAB at least ten (10) days or any shorter period as may be decided by the Chairman, before the date of the meeting.
  - c. In absence of the Chairman, the members present shall elect amongst themselves a Chairman, who shall preside over the meeting of QAB.
- (iii). Except as otherwise specified in this framework, decisions in all meetings of QAB shall be made through vote of majority and in the event of equality of vote, the Chairman shall have a casting vote in addition to his own vote.
- (iv). The Secretary to QAB shall prepare minutes of the QAB meeting not later than fourteen (14) days after the meeting and shall circulate the minutes to all members of QAB.
- (v). Minutes of meetings shall be signed by the Chairman of the meeting. Secretary to QAB shall maintain the record of the signed minutes of the meetings of QAB.
- (vi). Subject to the approval by the competent authority under the provisions of Chartered Accountants Ordinance, 1961, members of QAB shall be paid a meeting fee, as may be specified by the Council from time to time.

#### **4.5 Quorum**

Minimum five members of QAB shall form the 'Quorum' for a meeting of QAB.

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

The Chairman shall be responsible for the following:

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

### **5. Responsibilities and Functions of QAB**

- 5.1 To decide a QCR Rating in timely manner in case of a new Firm or before the expiry of a Firm's last QCR rating;
- 5.2 To set policies for the implementation of this framework, where required, and to decide all matters related thereto and/or monitor its adequacy and effective implementation;

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- 5.3 To prepare annual report within four (4) months after June 30 of the year summarizing the performance of QAB and the results of the QCR Program;
  - 5.4 To evaluate the performance of Head of QAD and Secretary to QAB for the HR Committee of the Institute;
  - 5.5 To determine required capacity of QAD, in view of the work hours required to perform reviews and recommend the same to Institute;
  - 5.6 To ensure that remedial actions or recommendations made by AOB are properly implemented within specified time period including evaluation of AOB's observations on results of QCRs;
  - 5.7 To recommend a Firm to AOB for registration under section 36T of Part IXC of the SECP Act, 1997, read with the regulations made thereunder within such time and manner as may be specified by AOB from time to time;

Provided that, where a Firm is deregistered by AOB, other than voluntary deregistration of the Firm, and subsequently the Firm applies to QAB seeking its recommendation to get registration with AOB, such recommendation to AOB shall be based on a fresh Satisfactory QCR rating of the Firm pursuant to a fresh QCR conducted, which shall also include evaluation of deficiencies highlighted by AOB at the time of deregistration and remedial actions taken thereof by the Firm.

- 5.8 To recommend a Firm to AOB for de-registration under section 36T of Part IXC of the SECP Act, 1997, read with the regulations made thereunder, within such time and manner as may be specified by AOB from time to time. A recommendation for de-registration shall be made upon the removal of a Firm from the List of Firms having Satisfactory QCR Rating, request by Firm for voluntary de-registration or any other grounds as may be found appropriate for de-registration of firm by QAB or AOB;
- 5.9 To make recommendation(s) to AOB, based upon its findings, for initiating necessary actions against the Firm or its partner(s) under the SECP Act, 1997 and the regulations made thereunder from time to time;
- 5.10 To appoint Secretary to QAB from amongst the candidates recommended by the Institute and approve the terms and conditions of his appointment; and
- 5.11 To appoint Head of QAD from amongst the candidates recommended by the Institute and approve the terms and conditions of his appointment.

Provided that (i) Secretary to the QAB and the Head of QAD shall be two different offices held by two different persons and (ii) a Head of QAD already appointed by the Institute shall be deemed to have been appointed by QAB.

In carrying out the above functions, QAB shall be assisted by its Secretary and the QAD.

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## **Part III – Quality Control Review**

## 6. Validity of Satisfactory QCR Ratings

- 6.1 QAD shall conduct risk-based and regular reviews of the Firms that are on the List of Firms having Satisfactory QCR Rating where a focus shall be on the Firms with concentration of PIC's audits. A Firm shall undergo fresh QCR according to following frequency:

<b>Firms subject to the review</b>	<b>Frequency of the review</b>
Firms that have issued auditor's report(s) of PIC(s) since last submission of list of audit engagements	
• Large Sized Firms	Every year
• Other than Large Sized Firms	Once every two (2) years
Firms other than above	Once every three (3) years

Provided that Large Sized Firms shall mean Firms with more than ten (10) audit partners as per the list maintained by the QAD or Firms that have signed more than fifty (50) auditor's reports of PICs over the last twelve (12) months period.

- 6.2 A fresh QCR rating shall be assigned to the Firm before expiry of its last QCR rating. An early review of a Satisfactory QCR rated Firm may be required for reason(s) specified by QAB, 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 QAB warrant an early review.
- 6.3 A Firm shall arrange review visit to begin at least three (3) months before the expiry of its last QCR rating so that fresh QCR rating could be assigned on a timely basis. Additional time not exceeding one month for arrangement of QCR may be granted by the Head of QAD, after consideration of justifiable reasons submitted by the Firm in writing. Such extensions, if any, shall be communicated to QAB for its information. Firm that fails to meet the timelines shall be immediately removed from the List of Firms having Satisfactory QCR Rating after the expiry of its last QCR rating.
- 6.4 A Firm shall comply with the applicable laws and regulations including, ISAs, International Standards related to Quality and relevant requirements of the Code of Ethics as adopted by the Institute to be added to and to remain on the List of Firms having Satisfactory QCR Rating whereby the QCR rating throughout its validity period remain subject to the said compliance.

## 7. List of Firms having Satisfactory QCR Rating

- 7.1 QAD shall maintain a List of Firms having Satisfactory QCR Rating and it shall be updated on a monthly basis or as and when any change to the List occurs.
- 7.2 The List of Firms having Satisfactory QCR Rating shall be made available on the Institute's website for public knowledge and including the information specified in Annexure.

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## 8. Responsibilities of the QAD

- 8.1 QAD shall report to QAB and perform its functions in accordance with the requirements of this framework.
- 8.2 In order to carry out reviews of Satisfactory QCR rated Firms on a timely basis, the Head of QAD shall intimate the dates of visits to each location of the Firm with the coordinator appointed by the Firm.
- 8.3 The Head of QAD shall assign appropriate resources for conduct of QCR on planned dates and appoint a reviewer.
- 8.4 The Head of QAD shall present the reports prepared by QAD to the Secretary QAB for the consideration of QAB.
- 8.5 The Head of QAD shall provide necessary assistance to the Appellate Board and its Secretary.
- 8.6 QAD shall report plan and regular status of quality control reviews to AOB on a timely basis as may be required by AOB from time to time.
- 8.7 Head of QAD shall be responsible for recruitment of professionals in QAD with appropriate qualification, experience and sector specialization in consultation with the Chairman of QAB.
- 8.8 The reviews performed by QAD shall cover requirements of international standards related to quality applicable in Pakistan, ISAs, relevant ethical requirements and laws and regulations. Consideration shall also be given to key aspects of the audit including information technology and financial statements related procedures. Review methodology shall require QAD reviewer to prepare documentation that is sufficient to enable an experienced internal/external reviewer to understand:
  - (i). The nature, timing and extent of the review procedures performed to comply with the methodology;
  - (ii). The results of the review procedures performed, and the evidence obtained; and
  - (iii). Matters arising during the review, the conclusions reached thereon, and professional judgments made in reaching those conclusions.
- 8.9 QAD shall have the powers to retain copies of certified signed auditor's reports along with initialed audited accounts, working papers and record of the Firms which support the work performed and conclusions reached on the QCR including the following:
  - (i). Significant findings and issues which have been raised for further consideration;
  - (ii). Significant/key areas reviewed by QAD during QCR;
  - (iii). Significant professional judgments made by the engagement team and conclusions reached thereon;
  - (iv). Complete documentation of observations identified by QAD/QAB during QCR;
  - (v). Consultations made by engagement team during the audit; and
  - (vi). Any other matter which the reviewer considers appropriate in the circumstances.



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8.10 QAD shall review the documents submitted by Firms for registration with AOB and check the particulars for their accuracy stated therein.

8.11 QAD shall provide AOB with access to all information of which QAD is aware that is relevant to the underlying inquiry and inspection by AOB.

## **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 a 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 (1) month before the date of QCR visit, names of all audit partners along with a list of all audit engagements on the prescribed format of all locations whose auditor's reports were issued since the date of submission of such list for last QCR of the Firm. For the purposes of QCR, audit partners shall mean all partners of the Firm who have carried out, since the last submission of list of audit engagements for QCR purposes as the case may be or intend to carry out, audit of financial statements of an entity. Such list shall be subject to independent verification by QAD, and any deficiencies identified during such verification shall be duly considered and evaluated, including evaluation on the conclusions of the QCR.

Provided that if at a later stage the list of audit engagements submitted for QCR purposes by a Firm is found to be not up to date, inaccurate, or incomplete by QAD or AOB, and where such errors are not immaterial to the population, the Satisfactory QCR Rating assigned to the Firm based on such list may become void and result in removal of the Firm from the List of Firms having Satisfactory QCR Rating or barring of audit partner(s) under clause 14.3 and/or result in deregistration of the Firm with AOB.

9.4 The Firm shall provide information and support to QAD in respect of their review of Firm's Quality System to assess compliance in accordance with the applicable requirements. The Firm shall provide copies of certified signed auditor's reports along with initialed audited accounts, working papers and records of the Firms which support QAD to perform and maintain adequate documentation for the QCR.

9.5 The Firm shall declare at the time of submission of information to QAD under clause 9.3 that the Firm and all its partners:

- (i). are compliant to the requirements related to qualification and disqualification of auditors as specified in the Companies Act, 2017 at the date of submission of such declaration; and
- (ii). were also compliant to such requirements in respect of the audit engagements included in the list submitted under clause 9.3.

9.6 The Firms shall design and implement policies and procedures for quality as well as a monitoring system to check compliance with the policies and procedures in order to promote an internal culture recognizing that quality is essential in performing any audit engagement.

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9.7 The Firm shall provide QAD/AOB with:

- (i). unhindered and timely access to all information of which the Firm is aware that is relevant to the underlying inquiries and inspections by QAD/AOB;
- (ii). any additional information as deemed necessary by QAD/AOB for the underlying inquiries and inspections; and
- (iii). unrestricted access to persons from whom QAD/AOB determine it necessary to obtain any information.

9.8 A Firm shall comply with the applicable laws and regulations including, ISAs, International Standards related to Quality and relevant requirements of the Code of Ethics as adopted by the Institute to be added to and to remain on the List of Firms having Satisfactory QCR Rating whereby the QCR rating throughout its validity period remain subject to the said compliance.

9.9 A QCR rated Firm shall inform the QAB within thirty (30) days of any changes including below:

- (i). merger or split of the Firm(s);
- (ii). induction of new audit partner(s) in the Firm;
- (iii). retirement, ouster or resignation of audit partners;
- (iv). issuance of an auditor's report by a partner of the Firm, who was not previously reported to QAD in last QCR as an audit partner;
- (v). a Firm other than a Large Sized Firm becomes a Large Sized Firm or vice versa; and
- (vi). a Firm which as per the last submitted list of audit engagements did not conduct audit of PIC(s) but thereafter issues auditor's report of PIC(s).

9.10 Firms which are included in the List of Firms having Satisfactory QCR Rating shall retain audit engagements documentation for ten (10) years from the date of the issuance of relevant auditor's report.

9.11 Firms shall submit a remedial action plan to QAD/QAB for Deficiencies identified in the QCR and ensure timely implementation of the same.

Provided that such action plan shall be reviewed by QAB for approval whereby necessary changes may be incorporated in the final action plan.

9.12 Firms shall maintain a register for all audit engagements where the Firm is appointed as an auditor of an entity. Such register shall be updated on monthly basis and particulars of each audit engagement shall be entered therein including the date of appointment of the Firm, date of auditor's report, name of the entity, names of key audit partners and other details as laid out in the prescribed format of list of audit engagements.

9.13 The Firm shall ensure that working papers of all audit engagements reported in the list of audit engagements as required under clause 9.3 of this framework are made available for QCR in order for QAD to select the same as part of the QCR of the Firm. In cases where the working papers of the engagement files are not shared with QAD for the QCR, this would impact the QCR rating of the Firm under clause 14.5 of this framework.

9.14 For audits of companies where satisfactory QCR rating is required for appointment as external auditor, the Firm is required to communicate its satisfactory QCR rating for such

audits under the applicable requirements. In cases where the Firm was assigned an unsatisfactory QCR rating, but the Firm has challenged such decision at various forums and obtained interim injunctions that led to the reinstatement of its name in the 'list of Firms having satisfactory QCR rating' pending final adjudication, the Firm shall disclose the same in the aforesaid communications to ensure complete and accurate information is available with the relevant companies.

## 10. Review Deficiencies

All Review Deficiencies shall be evaluated for their Significance after considering the factors as prescribed in clause 14.5 and such evaluation shall be documented in the QCR file.

## 11. Engagement Review

11.1 Engagement Review shall involve review of engagement working papers and entity's financial statements of selected audit engagements to evaluate:

- (i). implementation of the system of quality with respect to audits conducted; and
- (ii). whether or not the audit was carried out and auditor's report(s) issued by the Firm in accordance with ISAs, relevant ethical requirements, or legal and regulatory requirements as applicable in Pakistan which include directives of the Council of the Institute.

However, absence of any Review Deficiency in 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 the list of audit engagements submitted under clause 9.3.

11.3 The reviewer(s) shall select audit engagement(s) of each partner selected or of the sole proprietor.

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

11.5 The selection of audit engagements shall be made in such a manner that minimum following partners are covered:

<b>Firms subject to the review</b>	<b>Audit Partners minimum Coverage (%)</b>	<b>Coverage of all audit partners (Years)</b>
Firms that have issued auditor's report(s) of PIC(s) since last submission of list of audit engagements		
• Large Sized Firms	33% (1/3)	Three (3) years
• Other than Large Sized Firms	50% (1/2)	Four (4) years
Firms other than above	50% (1/2)	Six (6) years

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11.6 When a Review Deficiency or multiple Review Deficiencies are identified in a Quality Control Review, their effect on the conclusion of review of firm's system of quality shall also be assessed.

11.7 The overall conclusion on each Engagement Review shall be determined by QAB based on the Significance of Review Deficiencies identified and after considering the factors as prescribed in clause 14.5.

## **12. Engagement Selection**

QAD shall select audit engagements for QCR purposes based on the information provided in the list of audit engagements submitted by the Firm and other information available with QAD considering the relevant risk in the underlying audit engagements. Additionally, at least one (1) audit engagement shall be selected based on random selection method from the population other than the risk-based sample.

Such selection of audit engagements shall be approved by the Head of QAD and shall be communicated to the Audit Firm.

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

This review shall involve assessing the Firm's system of quality in compliance with international standards related to quality.

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 system of quality which includes policies, procedures and monitoring activities and key controls covering all quality areas to measure the Firm's adherence to the requirements of international standards related to quality.

## **14. Review Finalization**

14.1 After completion of the review QAD shall prepare a draft QCR report which shall include Review Deficiencies.

Such QCR report shall be sent to the Firm requiring comments along with a remedial action plan in writing within two (2) weeks from the date of the QCR report. Head of QAD along with relevant persons shall consider meeting(s) with the relevant partners of the Firm to discuss the Review Deficiencies and Firm's written comments. A Firm can also request such meeting(s) along with the written comments.

The comments received from the Firm shall be analyzed by QAD, before presenting both the QCR report and the Firm's comments, along with an action plan to QAB.

14.2 All reports shall be presented before QAB for approval, except for urgent cases where, with the permission of the Chairman QAB, a report may be circulated to all members of QAB for review and approval. At least five (5) members of QAB including the Chairman shall approve the circulated QCR report. QCR reports approved by circulation shall be ratified in the next meeting of QAB.

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14.3 The overall conclusion of the Engagement Reviews of an audit partner shall be determined based on the Significance of Review Deficiencies identified during such review and after considering the factors as laid out in clause 14.5. Where such conclusion is determined to be Unsatisfactory, such audit partner shall be barred from engaging as a key audit partner in respect of any engagement of a public interest company, subject to clause 17 of the QCRF.

Provided that:

- (i). where the overall conclusion on the Engagement Reviews of an audit partner is determined as “Satisfactory, with improvements required”, a “follow-up Engagement Review” shall be conducted in the following year along with an assessment to check the status of improvements and implementation of the action plan;
- (ii). there shall be only two types of results under follow-up Engagement Review: Satisfactory or Unsatisfactory. When the result of follow-up Engagement Review is Unsatisfactory, the underlying audit partner shall be barred from engaging him/herself as a key audit partner in respect of any engagement of a public interest company, subject to clause 17 of the QCRF;
- (iii). if an audit partner barred under this clause is an audit partner in another Firm, holding a Satisfactory QCR Rating, such partner shall be deemed as barred in such other Firm as well;
- (iv). this follow-up Engagement Review shall be in addition to any other actions that QAB may decide to undertake.

14.4 In cases where Review Deficiencies are noted for certain partner(s) of the Firm, QAB shall consider taking any one or more of the following actions considering the Significance of the underlying Review Deficiencies:

- (i). require such partner(s) to undergo additional training or CPD activities as recommended by QAB.
- (ii). arrange a follow-up Engagement Review of such partner(s) after the period as deemed appropriate by QAB for any matter other than as laid out in clause 14.3.
- (iii). refer to the Investigation Committee of the Institute to initiate proceedings under applicable legal framework including taking necessary action after following the due process.

14.5 Unsatisfactory QCR Rating or conclusion may be assigned to a Firm or an audit partner, as the case may be, by QAB based on nature, severity and Significance of the Review Deficiency found. In this regard QAB shall consider one or more factors including, but not limited to, the following:

- (i). whether the failure involved ethical issues;
- (ii). the nature, extent and importance of the standards or regulations breached or violated;
- (iii). whether the failure adversely affects, or potentially adversely affected, a significant number of people;
- (iv). whether the failure was isolated, or repeated or ongoing and whether it is likely that the same type of failing will recur;
- (v). the financial benefit derived, or loss avoided, whether for or by the auditor or another, as a result of the failure;
- (vi). failure to cooperate with, or hindered, the review / inspection by QAD/AOB;
- (vii). Firm sought to conceal or reduce the risk that the failure would be discovered including alteration of audit documentation;

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- (viii). facilitation by a Firm of wrongdoing by an audit client;
  - (ix). Review Deficiencies identified in majority of engagements selected for review-;
  - (x). Review Deficiencies related to the firm's system of quality; and/or
  - (xi). results of investigations and inquiries etc. by other regulatory bodies which are published or came or brought to the knowledge of QAB in the normal course of review process, and evaluation of their results by QAB indicate existence of any Deficiencies.

## 15. QCR Rating

15.1 The QCR rating of an existing satisfactory QCR rated Firm shall be based on QCR and shall be decided by QAB.

15.2 QCR Rated Firms seeking renewal of its existing QCR rating and non-QCR rated Firms intending to obtain QCR ratings shall have signed auditor's reports of at least six (6) audit engagements of limited companies and two (2) audit engagements per audit partner in the period of last two (2) years from the date of submission of list of audit engagements for QCR.

Provided that the abovesaid clause shall be applicable to audit firms which intend to obtain registration with AOB.

15.3 A Firm rated Unsatisfactory shall not be eligible for registration with AOB and it shall not carry out audit of financial statements of PIC(s) or that of any other entity the audit of which is confined to QCR satisfactory rated firms under any other relevant law or regulations.

15.4 An audit firm which intends to apply for registration with AOB under section 36T of the SECP Act, 1997 read with Audit Oversight Board (Operations) Regulations, 2018 is required to obtain a recommendation from QAB for the purposes of such registration. Only those audit firms are eligible to apply for the said recommendation which:

- (i). meet the relevant requirements for appointment of an auditor under applicable laws;
- (ii). hold a valid satisfactory QCR rating assigned by QAB including satisfactory rating to Engagement Reviews for audit partners of the Firm through a QCR report after carrying out the underlying reviews and validities of such reviews are not expired or next reviews are not overdue;
- (iii). are included in list of firms having a satisfactory QCR rating based on a satisfactory QCR rating assigned by QAB; and
- (iv). have submitted application form to QAB in the time and manner as may be required by AOB.

Provided that QAB for scrutinizing the application form shall consider its contents and all factors relevant in the public interest including the matters laid out by AOB before issuing its recommendation letter to the Firm including the below mentioned factors:

- a. any action including sanction, penalty, reprimand, warning, etc., taken by Court, AOB and any regulatory or professional body during the last ten years, against the audit Firm or its audit partners; and
- b. any matters related to compliance by the audit firm and its Audit Partners with all the applicable laws and regulations, QCRF, ISAs, relevant requirement of

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code of ethics as adopted by Institute and international standards related to quality and other professional pronouncements as applicable in Pakistan.

15.5 Review of QAB work by AOB may confirm existence of a Deficiency that was not considered or inadequately considered at the time of assignment of the QCR Rating to the Firm. Further, QAB also refers certain matters to the Investigation Committee based on its QCR reports which may identify additional Deficiencies not identified by QAB. The significance of such Deficiency and/or outcome of the disciplinary proceedings of Investigation Committee shall be evaluated by QAD/QAB and a revised draft QCR report may be issued to obtain the comments of the Firm as laid out in clause 14.1 within fifteen (15) days. QAB shall reassess the QCR rating of the Firm and an updated QCR Rating, if required, shall be assigned through issuance of a revised final QCR Report within sixty (60) days of the date of AOB's report. There may be certain observations pertaining to QCR process which may be noted for future compliance by QAD/QAB.

## **16. QCR Report**

16.1 After approval by QAB, the QCR report shall be issued to the Firm including Review Deficiencies identified, if any. In case of satisfactory QCR rating, the report shall also indicate the category of such rating as below:

- (i). Satisfactory; or
- (ii). Satisfactory, with improvements required.

16.2 The above categories shall reflect QAB assessment of the overall Significance of the Review Deficiencies and the areas requiring improvements. The Firm shall make appropriate changes to its audit approach for subsequent years to address all Review Deficiencies raised. A Firm or an audit partner is assessed as "Satisfactory" where there are no areas of sufficient significance which need improvements. The category "Satisfactory, with improvements required" indicates that improvements are needed in relation to one or more Review Deficiencies.

16.3 Reasons for "Unsatisfactory QCR Rating" shall be included in the final QCR report.

16.4 In cases of QCR Rating of "Satisfactory, with improvements required", action plan(s) for improvement(s) shall also be included in the final QCR report.

16.5 QCR report shall indicate the validity period of Satisfactory QCR rating assigned to the Firm which shall commence from the date of assignment of such rating by QAB. Where a Firm fails to get its QCR completed within the prescribed period, from the issuance of previous QCR rating, the name of the Firm shall be removed from the List of Firms having Satisfactory QCR Rating with the approval of QAB. Decision to assign an Unsatisfactory QCR Rating to a Firm shall be approved by at least three-fourth (75%) of the members present at the QAB meeting in which such decision is made.

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**17. QCR Revisits**

When a Firm has been removed from the List of Firms having Satisfactory QCR Rating or a new Firm has received an unsatisfactory rating or where an audit partner of a Firm has been barred under clause 14.3, a QCR revisit may be performed at the request of the Firm after at least one (1) year of the date of such removal or an unsatisfactory conclusion or barring, as the case may be. Further, during the visit for this purpose, QCR shall be performed of engagements on which auditor's reports were issued subsequent to the period covered by last QCR.

Provided that where a Firm is de-registered by AOB other than on a request for voluntary de-registration by the Firm, in such cases, the recommendation of QAB for re-registration with AOB shall be based only on results of a QCR revisit conducted after one (1) year of the date of de-registration by AOB.

**18. Follow-up Review of Action Plan (s) at Firm-wide and Engagement Level**

When a Firm's QCR is concluded as "Satisfactory, with improvements required," a "follow-up review" shall be conducted in the following year along with an assessment to check the status of improvements and completion of remedial action plan by the Firm. There shall be only two types of results under follow-up review: "action plan completed" and "action plan not completed."

When the result of follow-up review is "action plan not completed", the underlying Firm shall be removed from the List of Firms having Satisfactory QCR Rating.

This follow-up review shall be in addition to any other actions that QAB may decide to undertake.



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## **Part IV- Appeal**

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## **19. Appellate Board**

- 19.1 The Appellate Board refers to a forum formed under this framework to undertake appeal process against the decision of QAB in case it decides to remove/not include the name of the Firm from/in the List of Firms having Satisfactory QCR Rating or bar an audit partner under clause 14.3.
- 19.2 The Appellate Board shall comprise of five (5) members. Two (2) members shall be nominated by the Council of the Institute, two (2) by SECP and one (1) by SBP. The nominees shall include at least one (1) person 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.
- 19.3 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.
- 19.4 The members of the Council of the Institute and QAB shall be ineligible to be a member of the Appellate Board. A cooling off period of two years shall be required for eligibility for the former members of the Council and QAB.
- 19.5 No current employee or member of AOB or any other statutory regulatory body shall be eligible to be a member of the Appellate Board.
- 19.6 Minimum three (3) members of the Appellate Board shall form the Quorum for its meeting.
- 19.7 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.
- 19.8 No member of Appellate Board shall serve for more than two (2) consecutive terms of three years each.
- 19.9 A member retiring after serving two (2) consecutive terms shall be eligible for re-appointment, after three (3) years from the date of retirement.
- 19.10 A member of the Appellate Board shall cease to be a member in such circumstances referred to in clause 4.3.
- 19.11 All the secretarial support required for the functioning of Appellate Board shall be provided by the Institute.
- 19.12 Subject to the approval by the competent authority under the provisions of Chartered Accountants Ordinance, 1961, members of Appellate Board shall be paid a meeting fee, as may be specified by the Council of the Institute.

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## 20. Filing of Appeal

- 20.1 In case QAB decides to remove/not include the name of the Firm from/in the List of Firm having Satisfactory QCR Ratings or bar an audit partner under clause 14.3, the aggrieved partner or the Firm, as appropriate shall have a right to appeal before the Appellate Board within thirty (30) days of such decision having been communicated to the Firm.
- 20.2 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/audit partner.
- 20.3 The QAB may authorize any of its members to attend the hearing held by the Appellate Board on its behalf, if required. Further, Head of QAD shall attend the hearing of Appellate Board.
- 20.4 The Appellate Board shall have the power to confirm or reverse the original decision of the QAB that has been appealed. In all circumstances the Appellate Board shall dispose of the appeal within 60 days from the date of filing of the appeal. Barring exceptional circumstances which shall need to be adequately documented, the Appellate Board shall not refer a matter back to QAB.
- Provided that:
- (i). Any party appealing against the decision of QAB shall not be entitled to produce additional evidence, whether oral or documentary, in the Appellate Board, except for the following reasons:
    - a) QAB, while issuing the QCR report, has refused to admit evidence, whether documentary or material, or did not consider pertinent information, that ought to have been admitted, or considered;
    - b) the Appellate Board requires any document to be produced or any information to be examined to enable it to decide the appeal on its merits. For any other substantial cause, the Appellate Board may allow such evidence or document to be produced, or consider the pertinent information;
  - (ii). Wherever additional evidence is allowed to be produced by the Appellate Board, the Appellate Board shall record the reason for its admission.
- 20.5 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.
- 20.6 The decision of QAB to remove/not include a Firm from/in the List of Firms having Satisfactory QCR Ratings or bar an audit partner under clause 14.3 shall not take effect unless the appeal against the decision, if any, has been disposed of by the Appellate Board.
- 20.7 Any person aggrieved by the order of Appellate Board may file an appeal before the High Court, within sixty days of the date of such order.

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## **Part V – Miscellaneous**

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## **21. Significant changes in Satisfactory QCR rated Firms**

21.1 A satisfactory QCR rated Firm shall be subject to QCR if due to following changes the number of audit partners reviewed during last QCR falls below minimum coverage as specified in this framework;

- (i). merger with the Firm not included in the List of Firms having Satisfactory QCR Rating;
- (ii). induction of new audit partners; and
- (iii). issuance of auditor's report by a partner not reported in its last QCR as audit partner.

The QCR shall be completed within one (1) year from the date of such changes.

21.2 Where a Satisfactory 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 (1) year from the date of split or retirement of partners.

21.3 Where two (2) Satisfactory QCR rated Firms are merged, the merged Firm shall be subject to QCR with reference to the earliest QCR due date of both Firms.

21.4 QAD shall maintain a list of audit partner (s) reported by the firms with satisfactory QCR rating to ensure that required QCRs are performed on a timely basis.

21.5 Where the name of an audit partner of a Firm is removed from the register of members maintained under section 18 of the Chartered Accountants Ordinance, 1961, read with bylaws made thereunder, QAB shall re-assess the Satisfactory QCR Rating of the Firm or remove the Firm name from the List of Firms having Satisfactory QCR Rating or bar the relevant audit partner, as the case may be.

Provided that when such Firm or the audit partner is reinstated by Institute, the QAB shall consider to undertake a fresh QCR of the Firm or the relevant partner for the purposes of reinstatement in the list of firms having satisfactory QCR rating. For cases pertaining to non-payment of applicable fees, QAB may rely on the last QCR Report issued for the reinstatement if such QCR rating is not expired.

## **22. Disciplinary Proceedings**

22.1 QAB shall consider referring relevant partner(s) 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). Review Deficiencies noted during QCR to be referred to the Investigation Committee as deemed necessary;
- (ii). Audit is accepted or auditor's report is issued without obtaining a satisfactory QCR rating or AOB registration, in case where such rating or registration is required; and
- (iii). A misrepresentation of fact or document is made during the process of QCR.

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## 23. Confidentiality and Independence

23.1 In accordance with the approved code of conduct of the Institute, as applicable on Council members, members of QAB, members of Appellate Board, members of Committees of the Institute, QAD staff, the staff assisting such reviewers and third party appointed to conduct QCR reviews, shall sign:

- (i). “Statement of Confidentiality” 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 and the underlying entity whose engagement is being reviewed are concerned; and
- (iii). Both the statements shall be signed annually or if there is a change which warrants the filing of fresh statements with in fifteen (15) days of such change, if any.

23.2 In addition to the above, the QAD staff members before visiting every Firm for conducting QCR under this framework shall also sign a separate Statement of Independence.

23.3 A member of QAB, staff of QAD or any person acting on behalf of QAB 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 QAB, Appellate Board, AOB or any person acting on their behalf;

23.4 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 this Framework or in any other case where QAB or any of its members wishes to seek the information about the Firm and the client. The summary of review reports, presented to QAB 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.

23.5 A member of QAB, Appellate Board or any person acting on their behalf having directly or indirectly, by himself or through a member of his immediate family, any interest in any matter directly or indirectly under discussion by QAB or Appellate Board shall disclose to QAB or Appellate Board the fact and nature of his interest. Any such disclosure shall be recorded in the minutes of the meeting of QAB or Appellate Board and, after the disclosure, the member having an interest in the matter shall:

- (i). neither take part nor be present in any deliberation or decision of QAB or Appellate Board; and
- (ii). shall be disregarded for the purpose of constituting a quorum of QAB or Appellate Board.

Any member of QAB or Appellate Board who fails to disclose his interest as provided under this section shall be reported to the Institute, AOB and relevant nominating body for necessary action.

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**24. Retention of Documentation**

For all the reviews conducted, QAD shall retain all QCR reports issued to Firms for a period of ten (10) years from the date of such reviews. Working papers relating to QCR shall be retained at least for a period of ten (10) years from the date of QCR report.

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.

**25. Legal Proceedings**

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

**26. Amendments/ Removal of Difficulties**

This framework may be altered or amended from time to time, as directed by AOB.

**27. Indemnity**

27.1 The members of the QAB and Appellate Board, shall be indemnified by the Institute from all losses and expenses or any liability incurred by them in the discharge of their respective duties, except such as happen from their own respective willful default.

27.2 No member of QAB and Appellate Board shall be liable for default of any other member or members of QAB 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.

**28. Repeal of the Framework of Quality Control Review (QCR) Program 2019**

Notwithstanding the repeal of the framework of Quality Control Review Program 2019, any review done, QCR report 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.

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## **29. Recommendations to AOB**

QAB shall make a recommendation to AOB, based upon its findings, for initiating necessary action(s) under the SECP Act, 1997, read with the regulations made thereunder, if the Firm and/or its audit partner(s):

- (i). are in violation of applicable laws and regulations as applicable to an audit of a PIC in Pakistan;
- (ii). are in violation of ISAs, international standards related to quality and other professional pronouncements as applicable in Pakistan;
- (iii). are in violation of relevant requirements of the code of ethics as adopted by Institute;
- (iv). are in violation of the requirements of this framework, the SECP Act, 1997 and the regulations thereunder;
- (v). provides false or misleading information to QAB or QAD;
- (vi). do not submit the information required by QAB or QAD by the due date;
- (vii). are found guilty of misconduct pertaining to any audit of financial statements by a court of law; or
- (viii). do not comply with the registration conditions imposed by AOB.

## **30. Transitional Provisions**

The repealed framework of the QCR Program will remain applicable:

- (i). in cases where fieldwork of QCRs of firms under the repealed framework has commenced before the effective date of this framework; and
- (ii). in respect of clauses 6.1, 9.9, 11.5 of the revised framework pertaining to the frequency of QCR and the amended clauses will be applicable from 1 April 2025.

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

This revised framework was approved by the Council in its 386<sup>th</sup> meeting held on June 25, 2024 and is applicable in its jurisdictions w.e.f. 1 October 2024.



**Information to be disclosed in the List of Firms having Satisfactory QCR Rating**

**List as of 31 December 2021 (dates for illustration purposes only)**

Based on our review, nothing has come to our attention that causes us to believe that these firms have not carried out the audit of their clients in accordance with the International Standards on Auditing, relevant ethical requirements or legal and regulatory requirements as applicable in Pakistan.

This opinion has been expressed for the limited purpose of communicating our understanding of the adherence to the professional standards by these firms in conducting the audit of their clients. This does not in any way absolve or reduce the professional responsibility of these firms in expressing their audit opinion on the financial statements of audit clients.

Sr. no	Name of the Firm	Date of assignment of satisfactory QCR rating	QCR rating valid till	QCR rating expired by number of days	Name of Audit Partner	Category of QCR Rating of the Firm
<b>1. Firms with valid QCR Rating</b>						
Exam ple 1	M/S ABCDEF	1 January 2021	31 December 2022	N/A	Mr. A	Satisfactory with improvements required
					Mr. B	
					Mr. C	
					Mr. D	
					Mr. E	
					Mr. F	
<b>2. Firms where the QCR validity of firm has expired</b>						
Exam ple 2	M/S EFGH	1 November 2019	31 October 2021	61	Mr. E	Satisfactory
					Mr. F	
					Mr. G	
					Mr. H	
<b>3. Firms with unsatisfactory QCR rating restored in the List through court orders</b>						
Exam ple 3	M/S IJK	DD MMM YYYY	DD MMM YYYY	N/A	Mr. I	Unsatisfactory
					Mr. J	
					Mr. K	

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