



The Institute of
Chartered Accountants
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Quality Control Review (QCR) Framework 2019

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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 and 2019.

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 improvement and changes have been made.



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PART I - Scope

1. Scope

This framework describes the objectives and scope of the Institute's Quality Control Review (QCR) and the composition, responsibilities and functions of the Quality Assurance Board and Appellate Board and their 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 or obtain registration with 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'.

Pursuant to Part IXC of the Securities and Exchange Commission of Pakistan Act, 1997, Firms that carry out or intend to carry out audit of public interest companies are required to register with Audit Oversight Board, which requires a recommendation of QAB in accordance with the Quality Control Review Framework. Under the Listed Companies (Code of Corporate Governance) Regulations, 2017, no company shall appoint as external auditors, a firm of auditors, which has not been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan.

Under S.R.O. 1044 (I)/2015 dated October 22, 2015 issued by the Securities and Exchange Commission of Pakistan, following are required to appoint Satisfactory QCR rated Firms as their statutory external auditors:

- Public Interest Companies;
- Large Sized Companies; and
- Public Interest and Large Sized Companies which are either associations not for profit or limited by guarantee.

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:

Audit Oversight Board (AOB) – Audit Oversight Board means the independent audit oversight board established under Part IXC of the Securities and Exchange Commission of Pakistan Act, 1997.

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, International Standard on Quality Control – 1 (ISQC 1), relevant ethical requirements or legal and regulatory requirements as applicable in Pakistan. Legal and regulatory requirements also include directives of the Council.

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 audit report(s) issued by the Firm in respect of the reviewed engagement(s) were in accordance with ISAs, relevant ethical requirements, or legal and regulatory requirements as applicable in Pakistan which include directives of the Council and also checking the sufficiency or quality of audit evidence and the appropriateness of key audit judgments or other matters identified.

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

List of Firms having Satisfactory QCR Rating – List of Firms with Satisfactory QCR Ratings as assigned by QAB.

Public Interest Company (PIC) – A company or body corporate as may be notified by SECP for the purposes of Part IXC of the Securities and Exchange Commission of Pakistan Act, 1997.

Quality Assurance Department (QAD) – A department established, resourced and funded by the Institute in consultation with the Quality Assurance Board 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 Control Review (QCR) – Engagement Review and Review of Firm's System of Quality Control.

QCR Rating – Rating issued by QAB under this framework to a Firm after the conduct of QCR.

Quality Control Reviewer – An individual hired by QAD to conduct QCR and who has post qualification audit experience of at least two years and is not currently associated with any Firm in any capacity.

Review of Firm's System of Quality Control – A review by QAB 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 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.

The above categories shall not be publicly disclosed.

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 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.

Unsatisfactory QCR Rating – A rating other than a Satisfactory QCR rating.

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



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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.



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 evaluating that the:

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



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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. 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;
- iv) Three members shall be nominated by the Council; 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. 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) No 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 Audit Oversight Board or any other statutory regulatory body or a securities exchange shall be a member of QAB.

4.2 Term of QAB and its Members

- i) QAB shall be a perpetual board without any tenure.
- ii) No member of QAB shall serve more than two consecutive periods of three years each.
- 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 except an employee of SECP, SBP and PSX. The relevant nominating body shall nominate a new member in accordance with this QCR Framework within sixty (60) days of effective date of this Framework.
- 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;

- ii) has given his resignation in writing addressed to the Secretary of the Institute and the Council has accepted the same;
- iii) becomes of unsound mind;
- iv) has applied to be adjudicated as an insolvent and his application is pending;
- v) is an undischarged insolvent;
- vi) has been convicted by a court of law for an offence involving moral turpitude;
- vii) has displayed lack of fiduciary behavior and a declaration to this effect has been made by a court; 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 of the meeting.
 - b) Agenda and working papers 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 the 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, all the meetings of QAB, 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 to QAB shall prepare minutes of the QAB meeting not later than 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.

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 the 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 casual vacancy; and
- vi) Any other function as required/prescribed in the framework.

5. Responsibilities and Functions of QAB

- 5.1 To decide a QCR Rating on a timely basis 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 and to decide on all matters relating thereto and monitor its adequate and effective implementation;
- 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 ICAP;
- 5.6 To ensure that remedial actions or recommendations made by AOB are properly implemented within specified time period;
- 5.7 To recommend a Firm to AOB for registration under section 36T of Part IXC of Securities and Exchange Commission of Pakistan Act 1997, within such time and manner as may be specified by AOB;
- 5.8 To recommend a Firm to AOB for de-registration under section 36T of Part IXC of Securities and Exchange Commission of Pakistan Act 1997, within such time and manner as may be specified by AOB. 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 deemed appropriate by QAB or AOB;
- 5.9 To appoint Secretary to QAB from amongst the candidates recommended by the Institute and approve the terms and conditions of his appointment; and
- 5.10 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 QCR Satisfactory Ratings

- 6.1 QAD shall adopt a risk-based approach and conduct regular reviews of the Firms who are on the List of Firms having Satisfactory QCR Rating. A Firm shall undergo fresh QCR according to following frequency:

Firms subject to the review	Frequency of the review
Firms that have issued audit reports of PICs within last two calendar years	Once every two years
Firms other than above	Once every three years

- 6.2 A fresh QCR rating shall be assigned to the Firm before the expiry of its last QCR rating. An early review of a Satisfactory QCR rated Firm may be required by QAB 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 QAB warrant an early review.
- 6.3 A Firm shall arrange review visit to begin at least three 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 fail 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.

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 shall be made available on the Institute's website for public knowledge excluding the category of the rating and including the information specified in Annexure I.

8. Responsibilities of the QAD

- 8.1 QAD shall functionally 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 timely basis, the Head of QAD shall agree the dates of visits to each location of the Firm with the coordinator appointed by the Firm. QAD shall functionally report to QAB and perform its functions in accordance with the requirements of this framework.

- 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 specified by AOB, which is responsible for monitoring the quality control reviews conducted by QAD/QAB.
- 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 QAD shall prepare quality control review methodology covering requirements of applicable ISQC, ISAs, relevant ethical requirements and laws and regulations. Consideration shall also be given to key aspects of 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 review the documents submitted by Firms for registration with AOB and check the particulars stated therein.
- 8.10 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 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, name of all audit partners along with a list of all audit engagements on the prescribed format of all locations whose audit reports were issued during the two immediately preceding years. For the purposes of QCR, audit partners shall mean all partners of the Firm who have carried out during the two immediately preceding years or intend to carry out, audit of financial statements of an entity.
- 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.

- 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 in compliance with 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 with 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 control 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 audit engagements.
- 9.7 The Firm shall provide QAD/AOB with:
- i) Access to all information of which the Firm is aware that is relevant to the underlying inquiries and inspections by QAD/AOB;
 - ii) 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 information.

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. All such observations, engagement partner comments and rationale of their disposal, if any, shall be sufficiently documented so that they could be independently reviewed.
- 10.2 Any matter of disagreement between the reviewer(s) and the engagement partner or the Firm shall be referred to the Head of QAD.

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 control with respect to audits conducted;
 - ii) whether or not the audit was carried out and audit 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; and
 - iii) checking the sufficiency or quality of audit evidence and the appropriateness of key audit judgments or other matters identified.

However, in the absence of any 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 latest completed engagements in such a manner that partners in each office location of the Firm conducting audit shall be reviewed. In the following review of such Firm, all partners will be subject to review in whose engagements, deficiencies were noted, and they continued to be engagement partners of audit of public interest companies.
- 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 from in such a manner that minimum following partners are covered:

Firms subject to the review	Audit Partners minimum Coverage (%)	Coverage of all audit partners (Years)
Firms that have issued audit reports of PICs within last two calendar years	50%	4 years
Firms other than above	50%	6 years

- 11.6 When a deficiency or multiple deficiencies are identified in a quality control review, their effect on quality control on a firm-wide basis shall also be assessed.

12. Engagement Selection Criteria and Review Methodology

QAD shall develop risk-based and sector specific engagement selection criteria and review methodology which are approved by QAB.

13. Review of Firm's System of Quality Control

This review 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 a Review Report covering results of QCR. The Review Report shall include issues and weaknesses, if any, identified as deficiencies during the review.

In cases where, in QAD's opinion, deficiency / deficiencies are found, draft report shall be sent to the Firm requiring comments in writing within two weeks from the date of the draft report, on deficiency / deficiencies noted along with an Action Plan to correct these. 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 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 members of QAB including the Chairman shall approve the circulated report. Reports approved by circulation shall be ratified in the next meeting of QAB.

- 14.3 In cases where deficiencies are noted in the Engagement Review of certain partner(s) of the Firm, QAB may take any one or more of the following actions:

- i) require such partner(s) to undergo additional training or CPD activities as recommended by QAB.
- ii) arrange a fresh Engagement Review of such partner(s) after the period as deemed appropriate by QAB.
- iii) refer to the Investigation Committee of the Institute if he fails to implement the Action Plan submitted at the time of earlier review.

- 14.4 Unsatisfactory QCR Rating may be assigned to a Firm by QAB based on nature and severity of the deficiency noted. In this regard QAB may consider 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;
- iii) whether the failure adversely affect, 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;
- viii) facilitation by a Firm of wrongdoing by an audit client; and/or

- ix) deficiencies identified in majority of engagements selected for review.

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 make available at least 10 audit engagements of limited companies for QCR.
- Provided, where a Firm has less than 10 audit engagements to offer, the QCR shall be conducted on the basis of available audit engagements.
- 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 PICs 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 A Firm shall comply with the applicable laws and regulations including, ISAs, ISQC 1 and requirements of the Code of Ethics as adopted by the Institute to be added to and remain on the List of Firms having Satisfactory QCR Rating.

16. QCR Report

- 16.1 After approval by QAB, the final QCR report shall be issued to the Firm including 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 areas requiring improvements. The Firm shall make appropriate changes to its audit approach for subsequent years to address all deficiencies raised. A Firm 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 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. 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 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.

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, a QCR revisit may be performed at the request of the Firm after at least six (6) 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.

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 to assess the status of improvements and implementation of action plan by the Firm. There shall be two types of results under follow-up reviews: "Improvement measures sufficiently completed" and "Improvement measures insufficiently completed."

When the result of follow-up review is "Improvement measures insufficiently 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.

PART IV – Appeal

19. Appellate Board

- 19.1 The Appellate Board refers to a forum formed under the 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.
- 19.2 The Appellate Board shall comprise of five members. Two members shall be nominated by the Council of the Institute, two by SECP and one by SBP. The nominees shall include at least one 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 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 three consecutive terms of three years each.
- 19.9 A member retiring after serving two consecutive terms shall be eligible for re-appointment, after three 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. The Secretary to QAB may also serve as the Secretary to Appellate Board.
- 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.

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, 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.

- 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.
- 20.3 The QAB may authorize any of its members to attend the hearing held by the Appellate Board on its behalf.
- 20.4 The Appellate Board shall have the power to confirm, vary 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.
- 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 shall not take effect unless the appeal against the decision, if any, has been disposed of by the Appellate Board.



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PART V – Miscellaneous

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 the 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 audit report by a partner not reported in its last QCR as audit partner.

The QCR shall be completed within one 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 year from the date of split or retirement of partners.

21.3 Where two 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 Firms shall inform the QAB within 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 or resignation of audit partners; and
- iv) issuance of an audit report by a partner of the Firm, who was not previously reported to QAD in last QCR as an audit partner.

21.5 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 timely basis.

22. Disciplinary Proceedings

QAB 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 to be referred to the Investigation Committee as deemed necessary;
- ii) Audit is accepted or audit report is issued without obtaining a satisfactory QCR rating or AOB registration, in case where such rating or registration is required; and
- iii) Material misrepresentation is made during the process of QCR.

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 review of the QCR Program, 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 change which warrants the filing of fresh statements with in fifteen 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 the 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 the 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 and shall be reported to the Institute, AOB and relevant nominating body for necessary action.
- 23.6 For all official communication via email pertaining to QAB and/or Appellate Board, members of QAB and Appellate Board shall use the email facility provided by the Institute.

24. Retention of 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. Working papers relating to QCR shall be retained at least for a period of ten 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 matter in consultation with the respective Board.

26. 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. AOB may also direct the Institute for making such changes in this framework as it considers necessary or expedient. QAB can also initiate such process of amendment/removal of difficulties.

27. Indemnity

27.1 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.

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 2015

Notwithstanding the repeal of the framework of Quality Control Review Program 2015, 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.

29. 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 before the effective date of this framework and such QCRs shall be concluded by QAB by February 15, 2020. However, in case an appeal is filed under the repealed framework it shall be dealt with by Appellate Board formed under this framework.



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30. Date of Issue and Effective Date

This revised framework was approved by the Council in its 313th meeting held on April 25 - 26, 2019 and is applicable in its jurisdictions w.e.f. June 15, 2019.

Annexure I

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

Sr. no	Name of the Firm	Date of assignment of satisfactory QCR rating	QCR rating valid till	Number of PICs audit engagements selected for QCR
<i>Example</i>	<i>M/S ABC</i>	<i>1 January 2019</i>	<i>31 December 2020</i>	<i>10</i>