# Table of Contents

1. PURPOSE ........................................................................................................... 3
2. PREAMBLE ......................................................................................................... 3
3. DEFINITIONS ..................................................................................................... 3
4. SCOPE ................................................................................................................ 4
5. THE QUALITY ASSURANCE BOARD (BOARD) ................................................. 4
6. OBJECTIVES OF THE BOARD ......................................................................... 5
7. RESPONSIBILITIES AND FUNCTIONS OF BOARD ........................................ 5
8. SELECTION OF AUDIT ENGAGEMENTS .......................................................... 6
9. ENGAGEMENT REVIEWS .................................................................................. 6
10. REVIEW OF THE FIRM ................................................................................... 6
11. REVIEW FINALIZATION .................................................................................. 7
12. REVIEW REPORT ............................................................................................. 7
13. SATISFACTORY QCR RATING ......................................................................... 8
14. QCR REVISITS ................................................................................................ 8
15. REVIEW PROCEDURE ..................................................................................... 8
16. WITHDRAWAL OF SATISFACTORY QCR RATING ......................................... 9
17. REFERENCE TO INVESTIGATION BOARD ..................................................... 9
18. CONFIDENTIALITY AND INDEPENDENCE .................................................... 9
19. DATE OF ISSUE AND EFFECTIVE DATE ....................................................... 9
1. **Purpose**

This document describes the scope and objectives of the Quality Control Review (QCR) Framework, responsibilities and functions of Quality Assurance Board and policies, procedures and process of QCR, established by the Institute of Cost and Management Accountants of Pakistan (the Institute).

2. **Preamble**

National Council of the Institute will form Board, with an objective to ensure quality in conduct of audit under QCR program, that entails developing and issuing policies and procedures on quality control and monitoring compliance of the same.

All practicing members and firms of the Institute are required to establish a system of Quality Control, designed to provide them with a reasonable assurance that the firm and its personnel comply with the applicable professional standards and regulatory requirements and that the reports issued by them are appropriate in the circumstances.

The Institute has a responsibility to establish and implement, a system of quality control that encompasses policies and procedures, including but not limited to periodic reviews of the work of its practicing members and firms, designed to provide reasonable assurance that its members engaged in audit and other practices are doing so in line with the relevant rules, regulations and professional standards. Such a system should ensure that failure to comply with relevant quality control standards should render the firm and its personnel to appropriate sanctions, reprimands or penalties etc.

While the Board members are appointed by the Council through a nomination process and as per the composition described in paragraph 5 below, the Board performs its functions and discharges its responsibilities in accordance with this framework independently of the council.

3. **Definitions**

Wherever mentioned in this Framework, the following terms have the meaning attributed below:

3.1 "Audit" - the objective of an audit of financial statements is to enable the auditor to express an independent opinion whether the financial statements, cost and other records have been prepared, in all material respects, in accordance with an applicable financial reporting framework.

3.2 "Board" - Quality Assurance Board constituted under 'Framework of Quality Control Review Program'.

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

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

3.5 "Entity" - a client of a firm whose financial statements are audited.

3.6 "Institute" - Institute of Cost and Management Accountants of Pakistan.

3.8 "Quality Control Reviewer" (the reviewer) - a Cost and Management Accountant engaged by the Institute, to carry out the review of:

(a) Audit working papers of firm engaged in audits; and
(b) Firm's system of quality control.

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

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

(a) "Engagement Review" - A review of the audit engagement performed by the firm to determine whether the audit report(s) issued by the firm in respect of the reviewed client(s) was supported by appropriate audit evidence.

(b) "Firm Review" - A review of the firm's system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with the International Standards on Auditing and regulatory and legal requirements as applicable in Pakistan, and that the reports issued by the firm are appropriate in the circumstances.

3.10 "Reasonable Assurance" - In the context of the International Standard on Quality Control (ISQC-1), a high, but not absolute, level of assurance.

3.11 "COP" - Certificate of Practice issued by the Institute.

3.12 "Network Firms" - Network amongst two or more firms/practices means an arrangement to facilitate the better functioning of the affiliate member firms/practices in the common economic interest.

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

4. Scope

This framework applies to all Cost and Management Accountancy firms and practicing CMAs holding COP from the institute, carrying out audits of financial statements, cost audits, special statutory audits, tax audits, public sector audits and review of historical financial information and other assurance and related service engagements having proper authority from a professional, legal or regulatory body.

5. The Quality Assurance Board

5.1 The Board comprises of 14 members including the Chairperson and Vice Chairperson who shall be appointed by the Council. The Chairperson shall neither be a practicing member nor from the sitting Council.

5.2 The composition of the members of the Board shall be as follows:

1. Three members of the National Council;
2. Three Practicing Members;
3. Three Non-Practicing Members;
4. Five Independent Nominations as follows:
(i) Nominee of Securities and Exchange Commission of Pakistan;
(ii) Nominee of Federal Board of Revenue;
(iii) Nominee of State Bank of Pakistan;
(iv) Nominee of Auditor General of Pakistan;
(v) Nominee of Federation of Pakistan Chambers of Commerce and Industry.

5.3 The Chairperson of the Board will be the member of the Institute.

5.4 The Board Members will be appointed for a period of three years.

5.5 Any five members present in a meeting shall constitute a quorum.

6. **Objectives of the Board**

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

   6.2 To establish appropriate quality control review and monitoring mechanism, including issuance of standards, directives and guidelines in relation to audit practice carried out by the firms in public interest and to comply with the requirements of Statement of Membership Obligation (SMO-1) on Quality Control issued by the International Federation of Accountants (IFAC).

7. **Responsibilities and Functions of Board**

   7.1 To carry out QCR of the firms through a defined QCR Program.

   7.2 To perform oversight and monitoring of the QCR program to ensure its adequate and effective implementation.

   7.3 To consider and review reports prepared by the reviewers and to take appropriate actions and make suitable decisions.

   7.4 To provide necessary guidance and directives to the reviewers and the reviewee members and firms.

   7.5 To set, develop and implement policies and procedures for the QCR programs and ensure that they are as relevant as possible to all types and sizes of practices and decide on all matters relating to QCR, in the public interest and in the interest of the profession.

   7.6 To establish a system of periodic review and perform a periodic review of the QCR program (including policies, procedures and processes etc.) to ensure that it remains up-to-date.

   7.7 To arrange and coordinate training programs, courses, seminars, workshops etc. to improve the quality standards of professional engagements.

   7.8 To take all steps and decisions, necessary for the implementation of the QCR program.

In carrying out the above functions, the Board shall be assisted by the Technical Support and Practice Development Committee (TSPD Committee) and the Quality Control Department.
8. Selection of Audit Engagements

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

A 10-days notice of a visit will be given to the practicing firm/members at the registered address of the firm/partner. However, in exceptional cases an earlier notice or a surprise visit is also permissible. Such circumstances will be decided by the Board.

9. Engagement Reviews

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

9.2 The selection of audit engagements shall be made in such a manner that at least twenty five percent (25%) of all partners in audit practice are covered under the review. Each office location of the firm conducting audit shall be reviewed.

9.3 Firms shall submit to the Quality Control Department a list of audit engagements on the prescribed format as of June 30 each year (to be submitted within 3 months after June 30), and as and when required by the Quality Control Department. The list shall specify audit engagements for all office locations of the firm and their respective audit engagement partners.

9.4 The reviewer(s), in consultation with the Quality Control Department, shall select audit engagements as per the criteria provided in paragraph 9.2, from the list of audit engagements provided by the firm under review. In making the selection, the reviewers shall use their professional judgment and give preference to companies with substantial operations, or other public interest entities that are considered high risk engagements.

9.5 Audit working papers, correspondence files of latest audited financial statements and records shall be reviewed to determine whether the audit opinion expressed is supported by appropriate audit evidence.

9.6 The review shall be carried out preferably at the premises of the firm. The reviewer(s) shall use a QCR Checklist to ensure that requirements of the International Standards on auditing as applicable in Pakistan have been met and that the audit opinion issued by the firm is supported by appropriate audit evidence in the form of audit working papers.

10. Review of the Firm

10.1 The reviewer shall also review firm’s system of quality control which shall include policies and procedures addressing each of the following element:

(a) Leadership responsibilities for quality within the firm.
(b) Ethical requirements.
(c) Acceptance and continuance of client relationships and specific engagements.
(d) Human resources.
(e) Engagement performance.
(f) Monitoring.

10.2 The reviewer will also verify whether or not the quality control policies and procedures are
documented and communicated to the firm's personnel as each individual has a personal
responsibility for quality and is expected to comply with these policies and procedures.

10.3 The procedures performed during the firm review shall include:

(a) An assessment of the system of quality control relating to audit.
(b) Sufficient review of the quality control policies and procedures and review of engagement
working papers to evaluate:

(i) The functioning of that system of quality control, and compliance with it; and
(ii) The compliance with professional standards and regulatory and legal requirements in
respect of engagements.

10.4 A key part of the firm review methodology shall be the assessment of a firm's monitoring policies
and procedures. If these are judged to be effective, the reviewer may rely on them by performing
tests of the conclusions of the applicable period's monitoring as a source of evidence.

10.5 Assessment of other quality control policies and procedures, where appropriate, may include
discussion with the firm's appropriate individuals through interviews and focus group meetings,
reviewing documentation, observation of the system of quality control in operation e.g. attending
the firm's training sessions for its staff.

11. Review Finalization

11.1 The reviewer shall discuss all issues identified during the review with the engagement partner.
After completion of the review, the reviewer shall prepare a review report, which will include
issues and weaknesses identified during the review, and recommendations for improvement.
In cases where major weaknesses are found, a draft report shall be sent to the firm requiring
comments in writing within four weeks from the date of the draft report. The comments received
shall be analyzed, in certain cases a second opinion may be obtained before presenting both
the report and the comments to the Board.

11.2 All reports shall be presented before the Board, for approval, except for urgent cases where
the report may be finalized and approved by circulation to all the members. At least five members
of Board- including the Chairperson and / or Vice Chairperson, shall approve the report for
finalization. Reports, approved by circulation, shall be ratified in the immediate next Board
meeting.

12. Review Report

12.1 After approval by the Board, report shall be issued to the firm covering the following:

(a) Conclusion stating whether the audit report issued by the firm in respect of reviewed client(s),
was supported or not supported by appropriate audit evidence;
(b) Conclusion stating whether or not appropriate evidence was available in the files as to the
compliance of requirements as described in paragraph in 12.3 below.
12.2 In case where the conclusion of any audit engagement is assessed as "not supported by appropriate audit evidence" by the Board, then except for cases falling under section 17 below, the reviewer shall select more audit engagements performed by the firm. The overall conclusion of the firm shall be supported by appropriate audit evidence, if 75% or more of the selected audit engagements are found as "supported by appropriate audit evidence".

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

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

(a) Whether the firm's system of quality control has been designed to meet the audit requirements;
(b) Whether the firm has complied with its system of quality control during the review period;
(c) Reasons for negative conclusions on the above; and
(d) Recommendations for improvements at both firm wide and engagement level.

13. Satisfactory QCR Rating

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

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

14. QCR Revisits

14.1 Once a firm receives a "not supported by appropriate audit evidence" conclusion and its name has been removed from the list of firms with satisfactory rating, a revisit shall not be performed before the expiry of six months of such removal. This revisit shall be performed on a written request by the practicing member or a partner, in case of a firm.

15. Review Procedure

15.1 In case a firm receives a "not supported by appropriate audit evidence" conclusion subsequent to review of additional files, they shall have a right to file a review application before the Board through ICMA Pakistan's Quality Control Department, within 20 days of such conclusion having been communicated to them. The ICMA Pakistan Quality Control Department shall forthwith send this review application to the Chairperson of the Board within one week of its receipt. The Chairperson of the Board with two members of the Board (hereinafter called the "Review Committee") would go through the submissions of the firm and may, at its discretion, give a personal hearing to the partner in charge of the audit or the authorized representative, who must be a member of the Institute associated with the said firm.

15.2 The "Review Committee" shall place its findings before the Board suggesting any action in the matter or closing the same not later than 60 days of receipt of review application.

15.3 The Board shall discuss the report by "Review Committee and take the appropriate actions.

16. Withdrawal of Satisfactory QCR Rating

16.1 If a firm is already on the list of firms with satisfactory QCR rating receives a "not supported by appropriate audit evidence" conclusion in a subsequent review, the firm's name shall be immediately withdrawn from the list, after fulfilling the criteria laid down in paragraph 12.2.
16.2 Once a firm is included in the list of firms with satisfactory QCR rating, it shall get all its office locations reviewed after every three years.

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

17. Reference to Investigation Board

17.1 The Board may refer a practicing member or a firm to Investigation Committee, constituted by it, if it finds that the practicing member or firm is prima facie grossly negligent in issuing an audit report or performance of an audit. The Investigation Committee shall submit its report to the Board within 60 days of such referral.

17.2 The Board shall issue a notice to the practicing member or firm within two weeks of constitution of investigation committee.

18. Confidentiality and Independence

18.1 The Board members, reviewers and the staff assisting such reviewers shall sign a "Statement of Confidentiality" in order to ensure complete confidentiality of the information obtained from the audit firms. Further, they shall also sign a "Statement of Independence" to confirm that they are both, free and appear to be free from interest, which may be regarded as incompatible with their objectivity, as far as the firm being reviewed is concerned. Both the statements shall be signed before conduct of review.

18.2 The name of the firm and their entities shall be kept confidential. The summary of review reports, which is presented to the Board for approval, shall also be without naming the firm or their audit engagements.

18.3 In case a firm receives a "not supported by appropriate audit evidence" conclusion, any correspondence and/or communication by the said firm/concerned engagement partner in this regard with any Board member, Council member or ICMA Pakistan's office bearer shall be considered an inappropriate act under this framework. However, the firm/concerned engagement partner may proceed as laid down in section 15.1.

19. Date of Issue and Effective Date

19.1 This framework was approved by the Council in its 306th meeting vide Agenda Item No 4188 held on December 20, 2013 and is applicable on all reviews falling due subsequent to this date.

The National Council in its 313th meeting held on May 24, 2014 made the following amendments:

(a) Quality Control Committee renamed as Quality Control Board.
(b) Board members increased from 12 to 14.
(c) Members of the council increased from two to three.
(d) Non practicing members increased from two to three.