

Quality Control Review (QCR) Program



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**Institute of Cost and Management
Accountants of Pakistan**

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1. Purpose

To define the Quality Control Review (QCR) Program for awarding QCR rating to the Cost and Management Accountants (CMA) Firms, as per Framework of QCR Program.

2. Scope

This program applies to all CMA Firms having partner(s) holding valid Certificate of Practice (COP) from the Institute of Cost and Management Accountants of Pakistan (ICMA Pakistan), carrying audits of financial statement, cost audits, special statutory audits, tax audits, public sector audits, review of historical information and other assurance and related services engagements, having proper authority from a professional, legal or regulatory body.

3. Reviewer

The person hired by the Institute to review the files and related documents of the CMA firms having partner(s) holding valid COP.

4. Records

Quality Control Department (QCD) of the Institute will maintain proper record of CMA Firms having partner(s) holding valid COP. The firm will be allotted with serial number and proper register will be maintained by the QCD.

5. Procedure

- 5.1 CMA firms desiring to have, QCR rating, will apply to the Chairman Quality Assurance Board (QAB) along with list of the clients where audit and other related services as prescribed at Para 2 above, been carried out.
- 5.2 After approval of the Chairman QAB, the QCD, will maintain the list of such firms.
- 5.3 QCD will prepare the schedule of the reviewer for conducting the review of the CMA Firms.
- 5.4 QCD will intimate the concern CMA Firms for schedule of the review.
- 5.5 CMA Firms to ensure that all record is kept ready for review by the reviewer.

- 5.6 Head of the QCD and Reviewer will visit the CMA Firms for review. Head of the QCD will visit the CMA Firms for initial briefing only. The firm audit will be carried out by the reviewer as per the request of the CMA firm.
- 5.7 CMA Firms to ensure that audit of the clients is carried, in accordance with International Auditing Standards (ISA), International Federation of Accountants (IFAC) Regulations (SMO 1) and Guidelines by the Institute.
- 5.8 CMA Firms to ensure the maintenance of the record of each client as per QCR Program Review Check list, approved by the QAB.
- 5.9 Reviewer to ensure that all the requirements prescribed in the ISAs, SMO 1 and Check list are complete and procedure defined are adhered by the CMA Firm.
- 5.10 Reviewer will prepare and finalize QCR reports after carrying out QCR visits of the firm.
- 5.11 The report prepared will be presented to the QAB, by the reviewer.
- 5.12 The presentation of the report to the QAB, will not give any indication of the firm's identity.
- 5.13 The report will be prepared giving a confidential number to the firm. Each report will carry a fresh number so that identity of the firm is not disclosed to the QAB.
- 5.14 After approval of the report by QAB, the QCD will inform the concern firm about the decision of the QAB.

6. QCR Rating

The reviewer after review will submit its report to QAB along with his recommendations. The Firm having satisfactory records will be awarded with QCR rating and firms not having satisfactory will not be given any rating.

The firm, records of which, are not found satisfactory will be communicated to complete the records and the next review will be carried out as per Framework of QCR Program.

7. Selection of Audit Engagements

Firms shall undergo a QCR, organized by the QAB after every three years. However, an earlier review may be required under special circumstances. These circumstances may include cases where a firm is found guilty of professional misconduct by the Institute, or

any other circumstances, which in the opinion of the QAB warrant an earlier review, in the public interest.

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

8. Engagement Reviews

- 8.1 Engagement review involves a detailed review of working paper files of specific audit engagements selected from list of entities of the firm and shall be conducted to determine whether 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 ISA's on Auditing as applicable in Pakistan.
- 8.2 The selection of audit engagements shall be made in such a manner that at least twenty five percent (25%) of all partners in audit practice are covered under the review. Each office location of the firm conducting audit shall be reviewed.
- 8.3 Firms shall submit to the QCD, 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 QCD. The list shall specify audit engagements for all office locations of the firm and their respective audit engagement partners.
- 8.4 The reviewer(s) in consultation with the QCD 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.
- 8.5 Audit working papers and 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.
- 8.6 The review shall be carried out preferably at the premises of the firm. There viewer(s) shall use a QCR Checklist to ensure that requirements of the ISA's on Auditing as applicable in Pakistan have been met and that the audit opinion issued by the firm is supported by appropriate audit evidence in the form of audit working papers.

9. Review of the Firm

- 9.1 The reviewer shall also review firm's system of quality control which shall include policies and procedures addressing each of the following element:
- (i) Leadership responsibilities for quality within the firm.
 - (ii) Ethical requirements.
 - (iii) Acceptance and continuance of client relationships and specific engagements.
 - (iv) Human resources.
 - (v) Engagement performance.
 - (vi) Monitoring.
- 9.2 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.
- 9.3 The procedures performed during the firm review shall include:
- (i) An assessment of the system of quality control relating to audit.
 - (ii) Sufficient review of the quality control policies and procedures and review of engagement working papers to evaluate:
 - (a) The functioning of that system of quality control, and compliance with it; and
 - (b) The compliance with professional standards and regulatory and legal requirements in respect of engagements.
- 9.4 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, there viewer may rely on them by performing tests of the conclusions of the applicable period's monitoring as a source of evidence.
- 9.5 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.

10. Review Finalization

- 10.1 The reviewer shall discuss all issues identified during the review with the engagement partner. After completion of the review, the reviewer shall prepare

review report, which will include issues and weaknesses identified during there view, 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 QAB.

- 10.2 All reports shall be presented before the QAB 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 QAB including the Chairperson and / or Vice Chairperson shall approve the report for finalization. Reports approved by circulation shall be ratified in the immediate next QAB meeting.

11. Review Report

- 11.1 After approval by the QAB, report shall be issued to the firm covering the following:

- (i) Conclusion stating whether the audit report issued by the firm in respect of reviewed client(s), was supported or not supported by appropriate audit evidence;
- (ii) Conclusion stating whether or not appropriate evidence was available in the files as to the compliance of requirements as described in paragraph in 12.3 below.

- 11.2 In case where the conclusion of any audit engagement is assessed as “not supported by appropriate audit evidence” by the QAB, 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 QAB.

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

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

12. Satisfactory QCR Rating

- 12.1 When all the office locations carrying out statutory audit engagements have been reviewed and the firm has received a “supported by appropriate audit evidence” conclusion, the firm shall be issued a report indicating its eligibility to be included in the list of firms with satisfactory QCR rating.
- 12.2 In order to carry out timely reviews of firms which are already on the list of firms with satisfactory QCR rating, the QCD 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.

13. QCR Revisits

- 13.1 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 firm.

14. Review Procedure

- 14.1 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 QAB through ICMA Pakistan’s QCD, within 20 days of such conclusion having been communicated to them. The ICMA Pakistan QCD shall forthwith send this review application to the Chairperson of the QAB within one week of its receipt. The Chairperson of the QAB with two members of the QAB (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.
- 14.2 The "Review Committee" shall place its findings before the QAB suggesting any action in the matter or closing the same not later than 60 days of receipt of review application.
- 14.3 The QAB shall discuss the report by ‘Review Committee and take the appropriate actions.

15. Withdrawal of Satisfactory QCR Rating

- 15.1 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.
- 15.2 Once a firm is included in the list of firms with satisfactory QCR rating, it shall get all its office locations reviewed after every three years.

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

16. Reference to Investigation Committee

- 16.1 The QAB may refer a firm to Investigation Committee, constituted by it, if it finds that the 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 QAB within 60 days of such referral.
- 16.2 The QAB shall issue a notice to the firm within two weeks of constitution of investigation committee.

17. Confidentiality and Independence

- 17.1 The QAB members, reviewers, 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.
- 17.2 The name of the firm and their entities shall be kept confidential. The summary of review reports, which is presented to the QAB for approval, shall also be without naming the firm or their audit engagements.

- 17.3 In case a firm receives a “not supported by appropriate audit evidence” conclusion, any correspondence and/ or communication by the said firm/concerned engagement partner in this regard with any QAB member, Council member or 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.

18. Clarification

Any clarification required on the QCR Program will be referred to Chairman QAB, whose decision will be final.



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