



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL  
SATDOBATO, LALITPUR

Report  
On  
‘Interaction Program on Audit Quality with  
Audit Firms’

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## **ABOUT THE INTERACTION PROGRAM**

The interaction program on Audit Quality Assurance with the audit firms was conducted by the Quality Assurance Division (QAD) of the Institute of Chartered Accountants of Nepal (ICAN) as a part of the division's annual activity. It intended to hold an interaction between the ICAN, and proprietors and partners from the quality assurance reviewed audit firms to communicate about the results of the Quality Assurance (QA) review activities and to collect suggestions and identify the areas of co-operation to improve audit quality and review processes

### **Program Objective**

- To provide an overview of the QA review system and the review results
- To facilitate open discussion on audit quality challenges and solutions
- To solicit feedback from practitioners on improving the review process

### **Program Agenda**

The key agenda of the program was as follows:

- Introductory Session
- Welcome Speech
- Speech highlighting the purpose of holding the interaction program
- Presentation of technical paper on Quality Assurance Review System and the review results
- Discussion, comments and suggestions from Participants
- View on matters to be considered in maintaining audit quality
- Responses to the comments raised by Participants
- Closure of the Program with a vote of thanks

### **Program Summary**

A total of 47 practitioners from various audit firms participated in the program. The event was chaired by CA. Prabin Kumar Jha, President of ICAN and attended by CA. Nil Bahadur Saru Magar, Vice President of ICAN along with two other Council Members – CA. Umesh Raj Pandeya and CA. Hem Kumar Kafle, RA. Dev Bahadur Bohara, Chairman of the Quality Assurance Board (QAB) and CA. Tej Prasad Subedi, QAB Member. The Executive Director, Director-Technical and other staffs from QAD were also present in the program.

The program commenced with an introductory session of the participants, followed by a welcome speech from CA. Surendra Bhushan Shrestha, Executive Director of ICAN. He emphasized the need to expand the scope of the QA review and encouraged the participants to share their experiences of QA reviews conducted in their firms, along with their expectations from ICAN in enhancing audit quality.

Mr. Dev Bahadur Bohara, Chairman of QAB, then delivered a speech on the purpose and significance of the program. He highlighted that the ICAN initiated the QA Review in 2017 as part of the Statement of Membership Obligation-1 (SMO-1) of the International Federation of Accountants (IFAC). While the reviews over the years indicate that the overall audit quality among firms is not entirely unsatisfactory, there remains significant room for improvement which would require collective efforts from both the ICAN

and the practitioners. He also assured that ICAN and QAB would actively consider feedback from the program to further enhance the audit quality.

CA. Kiran Kumar Khatri, Director-Technical of ICAN, presented an overview of the QA review system highlighting QA to be both regulation and educative function of the ICAN. His presentation covered key aspects such as the QA review mechanism, Governance structure, the number of firms subject to review, the review process, key audit findings and existing limitations of the QA review.

Following the presentation, CA. Prabin Kumar Jha, President of ICAN, initiated an interactive discussion session, encouraging participants to actively share their perspectives, feedback, and suggestions for enhancing audit quality. He highlighted that the current scope of QA reviews primarily focuses on firms auditing publicly listed entities, given the significant public interest involved. Emphasizing the crucial role of leadership in driving audit quality, he stated that genuine improvements require a strong commitment from those in leadership positions. He also highlighted the growing need for multiple leadership roles within audit firms such as Anti Money Laundering (AML) Partner, Quality Partner, Ethics Partner etc., and stressed on the importance of reassessing the current size of audit firms in Nepal in the given circumstances, which predominantly operate as sole proprietorship.



### **Summary of the Interaction with the Audit Firms**

The practitioners from various audit firms shared their experiences of the QA review conducted in their firms. They expressed that implementing the feedback received from the review in other audit assignments significantly strengthened their documentation. It was further emphasized that conducting such reviews more frequently would lead to greater improvements in audit quality. Additionally, participants provided feedback and suggested potential refinements to enhance the effectiveness of the review system. It was widely acknowledged that maintaining audit quality is a shared responsibility, requiring collective efforts

from auditors, ICAN and other stakeholders. Other matters discussed and feedback received have been mentioned below categorically:

### **Expansion of Scope of Review**

- Increasing the frequency of review visits is crucial, as it would benefit a larger number of firms and lead to overall improvements in audit quality.
- The scope of reviews should be expanded to include audit firms that do not audit public listed entities. These smaller firms operate at the grassroots and regional level, covering a scattered yet significant segment of the economy. Strengthening their quality would contribute to broader audit enhancements.
- Since the Registered Auditor (RA) members represent a significant portion of audit practitioners, QA reviews should ensure comprehensive coverage of RA firms.
- While not as extensive as on-site reviews, off-site reviews can be implemented by requesting and assessing key audit documents such as appointment letter, engagement letter, Management representation letter and contents of the audit report and financial statement disclosures.
- Given the critical role and high-risk nature of Small and Medium Enterprises (SMEs) in the national economy, QAB should develop a strategic plan to extend its review coverage to this sector.

### **Audit Firm's specific difficulties and challenges**

- In a proprietorship firm, all leadership responsibilities rest with a single individual, making it challenging to conduct Engagement Quality Control Reviews (EQCR) and inspections or cold file reviews of audit engagements. To address this, ICAN could compile a list of audit firms interested in conducting hot and cold file reviews, which would benefit the audit firms.
- Many members lack sufficient knowledge of the risks and reporting requirements related to Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT). Additionally, fulfilling AML reporting obligations of the Suspicious Transaction is subject to complexity and practicality and requires significant effort.
- Limited expertise in Information Technology (IT) among auditors can compromise audit quality, particularly when auditing businesses with digitized operations.
- The importance of high-quality audits has not been widely promoted amongst the stakeholders, leading to insufficient recognition of their value.
- While auditors expect higher fees, clients are often unwilling to pay even the minimum audit fees, creating financial strain.
- Audit quality can suffer if the firm's leadership lacks the right attitude, ethics or commitment to professional standards. Enhancing audit quality requires not just proper documentation but also a strong ethical culture and professional mindset.
- With NSQM-1 and NSQM-2 drawing near to implementation, concerns arise over audit firms that have not been able to meet the minimum requirements of NSQC-1.

### **Audit Fees**

The introduction and implementation of the Directive on Audit Firm Quality Guidelines and Minimum Audit Fees by ICAN is a significant step forward. However, audit quality should never

be compromised solely due to inadequate fees. Once an engagement is accepted, the Engagement Partner holds the responsibility to uphold audit quality, regardless of the agreed-upon fee.

### **Possible Initiatives from the ICAN/QAB**

- Given that manpower constraints in the QAD significantly limit the number of reviews conducted, ICAN should assess staffing needs and consider incentivizing reviewers if necessary.
- Special programs should be introduced for newly certified Certificate of Practice (CoP) holders to educate them on the importance of audit quality from the outset of their practice.
- QAB should prioritize learning, teaching, and advocacy to enhance audit quality.
- QA reviews can serve as a guiding tool for members in identifying and addressing AML related risks and reporting requirements.
- To ensure firms present their actual documentation, the current practice of providing one month's prior notice for QA reviews should be revised. Instead, firms should be informed only a week in advance, restricting their ability to alter review dates.
- Enhancing auditees' awareness of audit quality is equally crucial. ICAN should advocate for client education programs in collaboration with organizations such as the Federation of Nepalese Chambers of Commerce and Industry (FNCCI).
- QA reviews should also include direct communication with audit managers and article trainees within the audit team in addition to firm partners, fostering knowledge transfer and strengthening future practitioners' expertise.

### **Other Queries**

- Does ICAN accept paperless audit documentation?
- Can the QA review reports and closure letters be shared with network firms, and are they permissible for marketing purposes?

### **Impact of Quality Assurance review**

- The QA review has raised awareness among audit firms about the importance of embedding audit quality as a core aspect of their culture.
- The QA review has fostered a culture of obtaining essential documents, such as a valid appointment letter, engagement letter and Management representation letter, which were previously not consistently practiced.
- The QA review has developed a culture of continuous learning among audit professionals.
- The QA review has emphasized that maintaining audit quality is not merely a regulatory requirement, but a professional responsibility that ultimately protects practitioners.

### **Views from Vice President**

The Vice President of ICAN expressed appreciation for the Past Presidents and Council Members for their relentless efforts in establishing the QAB. He emphasized that, as guardians of trust, ICAN members must uphold their professional responsibilities with the highest ethical standards. Highlighting the importance of audit quality, he urged practitioners to remain vigilant, ensuring their work does not compromise the profession's integrity or diminish its brand value. Additionally, he noted that while auditors play a key role

in enhancing audit quality, it is equally crucial for auditees and regulators to recognize its significance. Acknowledging the potential cost implications of appointing external reviewers for cold and hot reviews, he suggested that merging audit firms could be a viable solution to address this challenge.



### **Response from President on feedback and queries raised**

The President emphasized that improving audit quality is a continuous process that requires time and commitment. While the overall audit quality in Nepal is not alarming, there is still significant room for improvement. He clarified that the objective of QA reviews is not to intimidate practitioners but to support them in enhancing audit quality. To facilitate this, ICAN is working on initiatives to encourage audit firm mergers, which would enable firms to conduct hot file and cold file reviews more effectively. However, he said that further discussions would be required on whether to maintain a list of auditors voluntarily willing to conduct such reviews.

He also addressed practical concerns, that while QA reports can be shared with networking firms, marketing of firm as quality assured from ICAN remains restricted. Additionally, he cleared that ICAN does not impose limitations on maintaining audit documentation in a paperless format. Recognizing the evolving landscape of the profession, he highlighted the importance of integrating the topic of audit quality in General Communication and Management Skills (GMCS) training provided to newly qualified Chartered Accountants.

Regarding regulatory challenges, the President acknowledged that stakeholders and regulators still lack full awareness on the interpretation of "Audit Opinion" and the "Basis of Audit Opinion." However, he noted that progress has been made in recent times, with increasing recognition of these concepts. He also pointed out that while peer review may not be practical in Nepal's context, the responsibility of auditors in reporting suspicious transactions remains a critical area of risk that requires careful consideration.



## **Closing Remarks**

Council Member and QAB member, CA. Hem Kumar Kafle, who is also a practicing member of ICAN, expressed his gratitude to all participants for their active engagement in the interaction program. He extended his appreciation to Past Presidents, former Council Members, and everyone involved in introducing the concept of QA review in Nepal.

Highlighting the importance of regional expansion of QA review, he acknowledged that while it would be a commendable step forward, it requires a long-term vision & enhanced technical expertise. He also emphasized the ongoing initiatives of QAB and QAD, including the update on QA policies and procedures.

Additionally, he urged audit practitioners to view QA reviewers as representatives of ICAN rather than as individuals, reinforcing the collaborative spirit of the quality assurance process.



## **Conclusion and Way Forward**

The number of participants and the perspectives they shared highlight the importance of maintaining audit quality and acknowledge its numerous benefits to corporate performance, good Governance, and the credibility of the profession. The interaction served as a platform to deepen understanding of the QA Review system and its various aspects. It was observed that, despite certain challenges, audit quality has consistently remained a key priority for auditors.

The interaction concluded with the observation that ICAN's efforts alone, as the regulator of the audit profession, are not sufficient to uphold audit quality. The active support and collaboration of audit firms are essential, as they play a primary role in delivering high-quality audit services.