



REPORT ON INTERACTION PROGRAM ON AUDIT QUALITY WITH REGULATORY BODIES

2081 FALGUN 6
(2025 FEBRUARY 18)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL

SATDOBATO, LALITPUR

ABOUT THE INTERACTION PROGRAM

The interaction program on Audit Quality with Regulatory Bodies was conducted by Quality Assurance Division (QAD) of the Institute of Chartered Accountants of Nepal (ICAN) as part of the Division's annual activity. It aimed to facilitate dialogue between ICAN and Regulatory Bodies by promoting the exchange of information on ICAN's Quality Assurance mechanism, ICAN's other regulatory directives, experiences of the regulatory bodies on quality of audit of the entities under the authority of those bodies and their expectation from auditors and ICAN in the area of financial reporting and audit.

Program Agenda

The key agenda of the program were as follows:

- Welcome Speech
- Presentation on the Quality Assurance Review System of the Institute
- Comments and suggestions from participants
- Responses to comments raised by participants
- Vote of Thanks

Program Summary

A total of nine participants from various Regulatory Bodies, including Inland Revenue Department, Office of the Company Registrar, Nepal Rastra Bank, Securities Board of Nepal, Department of Cooperatives, and Nepal Telecommunications Authority attended the program. The event was chaired by CA. Prabin Kumar Jha, President of ICAN. CA. Nil Bahadur Saru Magar, Vice President of ICAN, along with 5 other Council Members, the Chairman of the Quality Assurance Board (QAB) along with 2 other QAB Members, Executive Director, Director – Technical and Director – Administration of ICAN, and other staffs from the QAD were also present in the program.



The event began with inaugural session where Mr. Dev Bahadur Bohara, Chairman of QAB delivered a welcome speech outlining the ongoing work of the QAD of the Institute with the oversight of QAB and encouraged participants to share their expectations from ICAN in improving audit quality. He also invited discussions on potential areas of collaboration between ICAN and Regulatory bodies.

After the inaugural session a paper was presented by CA. Kiran Kumar Khatri, Director – Technical of ICAN on the audit process, Quality Assurance Review procedures, key activities of the QAB, the

importance of risk assessment in audit and the rationale behind introducing minimum audit fees. The presenter provided valuable context for the open-floor discussion and highlighted potential areas for collaboration between Regulators and the ICAN.



Following the presentation session, the floor was opened for discussion, allowing participants to share their views, comments, and suggestions on areas where auditors could enhance their audit quality. Discussions also centered on the role of ICAN in ensuring audit quality and enforcing the Code of Ethics for its members. In response, the President of ICAN addressed each query raised by participants and outlined the relevant future course of action where applicable.

Summary of the Interaction with Representatives from each Regulatory Institutes

The representatives expressed their gratitude to the ICAN for organizing the interaction program, which provided a platform to share experiences related to audit practices. During the discussion session, participants shared their perspectives on auditing and offered valuable suggestions.

The interaction program primarily focused on audit quality. Representatives expressed that a significant factor affecting audit standards could be the high number of newly qualified practitioners with limited experience, as well as seasoned practitioners who may not be up to date with recent amendments and pronouncements. Other concerns raised have been mentioned below categorically:

Audit Procedures and Audit Opinion

- Very few audit reports with modified opinions, despite the Financial Statements indicating the need for modification.
- Lack of adequate disclosures in audit report from a tax perspective.
- Inadequate disclosures in the notes to account of the Financial Statements.
- Instances where taxpayers paid higher taxes due to auditors' negligence and non-adherence to professional ethics.
- The validity of a disclaimer of opinion expressed by auditors for three consecutive years due to non-application of Nepal Financial Reporting Standards (NFRS).

- Audit reports silent on poor financial performance of auditees, which could trigger at least uncertainties related to going concern and other risks of misstatements.
- Confusion over the applicability of NFRS at a mass level.
- Discrepancies in the accounting and presentation of Director loans with corresponding amount of director's advance, with Audit Reports failing to address this matter.

Non-Financial Information

- Audit comments on the functioning of the Board of Directors, Audit Committee and human resource issues are not widely practiced.
- Bank audits are extensively focused on credit, with little attention paid to Anti-Money Laundering, Information Technology, and Governance areas.
- While auditors are not responsible for detecting fraud, instances of fraud detected are not clearly reflected in audit reports.

Fair Presentation of Transactions

- Reserves like Corporate Social Responsibility created in previous years are subsequently used for issuing bonus shares, and audit report is silent on this matter.
- Audit procedures and comments on off-balance sheet items are not widely observed.
- No reflection of land advances to directors in hydropower companies in audit reports or notes to accounts.

Problems Specific to the Cooperatives Sector

- Material issues like loans exceeding the Single Obligor Limit, inadequate provisioning, and non-apportionment of profits into different reserves not being addressed in audit reports.
- Problems with the enforcement of PEARL.

Other Suggestions

- Rotation of audits for public listed entities within informally related groups of audit firms should be discouraged.
- A system or provision for quality assurance certification should be considered as a legislative requirement for auditing listed companies in line with international practices.
- Audit should not be accepted if issues leading to a disclaimer of opinion in the previous year are still prevalent in current year.
- Auditors should be upskilled in digital audit techniques, especially as businesses increasingly digitize.
- Auditors should be oriented to comply with the ICAN Code of Ethics and maintain professional liability.

The President of ICAN shared his views and ICAN's commitments regarding the matters raised by each representative from the Regulatory Institutes. He acknowledged that while modifications to audit reports are not uncommon, lapses tend to occur at smaller levels, particularly in audits of Small and Medium Entities and Micro Entities. He also pointed out that on verification of the audit reports of many problematic

cooperatives, very few audit reports failed to address the problematic conditions within those organizations while majority of auditors of problematic cooperatives were found to have issued modified opinion.

The President emphasized the importance of the concepts of materiality and sampling in audits. He noted that one reason for auditor's focus on credit-related aspects in Bank audit is the Board's strong credit-centric focus. He also highlighted ICAN's jurisdictional limitations, explaining that ICAN's authority applies only to its members, and many violations and non-compliance issues are committed by non-members as well.

Additionally, he discussed the unique nature of audit practitioners in Nepal, categorized into five distinct groups. While he acknowledged that it may not be feasible to create a separate group of auditors for listed entities at present, he assured that ICAN is committed to improving areas of concern through capacity building of its members. This includes holding members accountable through the Disciplinary Committee for breaches of the ICAN Code of Ethics and other applicable laws and collaborating with Regulatory bodies exploring various areas to ensure better compliance and quality.



Way Forward

- **Entity-Specific Discussions:** Many queries raised were specific to Regulatory bodies and require detailed, entity-specific discussions to resolve. The President concluded that such discussions should be organized regularly to chart out solutions.
- **Expectation Gap:** There is misunderstanding regarding an auditor's legal liability. Regulators expect auditors to write reports in line with their regulatory requirements, and tax authorities focus more on tax avoidance or evasion than on the true and fair view of Financial Statements.

▪ **Collaboration and Coordination Among Regulators:**

- ICAN President assured that such programs would be organized in a regulator-specific manner if needed.
- Violations of professional ethics by auditors should be reported or referred to ICAN.
- There are challenges in applying NFRS, particularly with small and medium entities and hydropower companies not implementing IFRIC 12 - Service Concession Arrangements.

The program concluded with Vote of Thanks from CA. Nil Bahadur Saru Magar, Vice President of ICAN, who expressed gratitude to participants for their valuable suggestions and active engagement along with emphasis on the importance of cooperation and collaboration between the regulators strong regulatory regime and gaining most out of audit.

Conclusion

All the participants expressed their appreciation for organizing this program, with discussions being lively and insightful. While the role and responsibilities of regulators differ, their expectations were based on their specific jurisdictional requirements. The queries raised were valid from their perspectives, however, it was noted that financial audits have inherent scope limitations. Some queries fell outside the auditors' responsibilities, though they are closely related to the financial stability of institutions and the safety of public funds. The ICAN would address most of the valuable suggestions received regarding audit practices and audit quality through policy improvisations and ensuring effectiveness of implementation of the audit regulations, audit standards, directives to its members, and through focused collaboration with the regulatory bodies.