QUALITY MANAGEMENT POLICY GUIDE, 2083

(Based on NSQM 1)

The Institute of Chartered Accountants of Nepal

Approved by 372nd Meeting of the Council on 2083 Bhadra 8
Effective Date: 2081.04.01 (Voluntary) and 2083.04.01 (Mandatory)

Disclaimer

This document has been developed to assist practicing members of The Institute of Chartered Accountants of Nepal (ICAN) to comply with the requirements of Nepal Standard on Quality Management 1 (NSQM 1). It aims to explain the key requirements of NSQM 1 and provide a framework for the documentation required by firms. This document should be read in its entirety, but it is not intended to be a substitute for reading, understanding, and directly complying with the full text of NSQM 1 as issued by the AuSB and as adopted by ICAN.

ICAN accept no responsibility or liability (whether direct, indirect, or consequential) to any firm, partner, employee, or third party for any loss, damage, claim, or expense arising from any person acting or omitting to act, or refraining from acting, upon any material contained in this document.

This document should not be relied upon to disclose all quality risks, responses, policies, and procedures that may be relevant to each individual firm. The circumstances, size, nature, and complexity of firms vary significantly, and each firm remains solely responsible for designing and implementing a System of Quality Management (SoQM) that is appropriate to its specific operations.

ICAN members and practicing firms in Nepal should not consider the content of this document as a "ready-to-use" manual, standard policy, or set of procedures. This document is intended to act as a guide only and does not constitute professional advice. Firms are strongly encouraged to exercise their own professional judgment and, where necessary, seek independent legal or professional advice tailored to their specific situation.

Compliance with the guidance provided in this document does not automatically guarantee compliance with NSQM 1 or with the regulations of ICAN or any other regulatory authority in Nepal.

Contents

1. Introduction

This document outlines the System of Quality Management (SoQM) for audit firms operating in Nepal, specifically tailored to address the unique characteristics of proprietorship and small partnership firms. It is developed in accordance with the Nepal Standard on Quality Management 1 (NSQM 1), which is based on the International Standard on Quality Management 1 (ISQM 1) issued by the International Auditing and Assurance Standards Board (IAASB). The objective of this Policy guide is to ensure that audit firms consistently perform high-quality engagements by establishing a robust and effective system of quality management.

1.1 Purpose and Scope

The primary purpose of this NSQM Policy guide is to establish, implement, and maintain a comprehensive SoQM that enables the firm to consistently perform quality engagements in compliance with professional standards and applicable legal and regulatory requirements. This policy guide applies to all engagements performed by the firm that are subject to Nepal Standards on Auditing (NSAs), Nepal Standards on Review Engagements (NSREs), Nepal Standards on Assurance Engagements (NSAEs), and Nepal Standards on Related Services (NSRSs), as well as other relevant professional and ethical standards. The scope encompasses all personnel within the firm, including partners, professional staff, administrative support, and any external consultants or experts engaged by the firm for specific tasks related to engagements or the SoQM.

The firm recognizes that quality is not merely a compliance exercise but a fundamental driver of professional reputation, client trust, and long-term sustainability. Therefore, this policy guide is designed to be a living document, actively used and referenced by all personnel in their daily work. It provides a structured framework for decision- making, risk management, and continuous improvement across all aspects of the firm's practice.

While the detailed practical illustrations in this guide focus on proprietorship and small partnership firms (see 1.2 below), consistent with NSQM 1's scalability principle, the underlying requirements described apply to the firm's engagements and personnel generally; firms of other sizes or structures apply the same principles, adapted to their own nature and circumstances.

1.2 Applicability in the Nepalese Context

Nepal's audit landscape is predominantly characterized by a large number of proprietorship firms and a smaller percentage (5-10%) of small partnership firms, typically with a maximum of 10 partners, based on ICAN's own registered-firm data. This policy guide is specifically designed to be scalable and adaptable to these structures, recognizing the inherent resource constraints and operational realities faced by such firms. It provides practical guidance for implementing NSQM 1, emphasizing how a sole practitioner (in a proprietorship) or a small group of partners (in a partnership) can effectively design, implement, and operate a SoQM.

The policy guide acknowledges that while the principles of quality management are universal, their application must be proportionate to the size, complexity, and nature of the firm's engagements and its organizational structure. It aims to provide a framework that is both compliant with NSQM 1 and practically implementable for small and medium-sized practices (SMPs) in Nepal. For instance, in a proprietorship, the sole practitioner may perform multiple roles within the SoQM, whereas in a small partnership, these roles may be distributed among the partners. The policy guide provides flexibility to accommodate these different operating models while ensuring that all requirements of NSQM 1 are met.

1.3 Effective Date and Transition

NSQM Policy is effective for voluntary compliance from 1st Shrawan 2081 (July 2024) and for mandatory compliance from 1st Shrawan 2083 (July 2026), in line with the pronouncements by The Institute of Chartered Accountants of Nepal (ICAN). The firm will ensure a smooth transition from previous quality control standards

(NSQC 1) to the new quality management standards (NSQM 1 & 2) within these timelines.

The transition process involves a comprehensive review of existing policies and procedures, identifying gaps against the new requirements, and implementing necessary changes. The firm is committed to providing adequate training and resources to all personnel to ensure a seamless and effective transition. The leadership will actively monitor the implementation progress and address any challenges that arise during the transition period.

2. System of Quality Management (SoQM) Components

NSQM 1 requires a firm to design, implement, and operate a SoQM that addresses eight interconnected components. These components are designed to operate in a continuous and iterative manner, adopting a proactive approach to quality management. The firm's SoQM is designed to provide reasonable assurance that the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances. The eight components are:

i. **The Firm's Risk Assessment Process**
ii. **Governance and Leadership**
iii. **Relevant Ethical Requirements**
iv. **Acceptance and Continuance of Client Relationships and Engagements**
v. **Engagement Performance**
vi. **Resources**
vii. **Information and Communication**
viii. **Monitoring and Remediation Process**

2.1 The Firm's Risk Assessment Process

The firm's risk assessment process is the cornerstone of its SoQM. It is a dynamic and iterative process that involves identifying, assessing, and responding to quality risks. This process ensures that the firm proactively manages potential threats to the quality of its engagements and the overall effectiveness of its SoQM.

2.1.1 Establishing Quality Objectives

Defining the desired outcomes for the SoQM is the first step. These quality objectives are consistent with the objectives of NSQM 1 and the firm's unwavering commitment to quality. They relate to the firm's compliance with professional standards, legal and regulatory requirements, and the appropriateness of engagement reports. Quality objectives are specific, measurable, achievable, relevant, and time-bound (SMART).

- **Compliance with Standards**: To ensure all engagements are planned, performed, and concluded in compliance with Nepal Standards on Auditing (NSAs), Nepal Standards on Review Engagements (NSREs), Nepal Standards on Assurance Engagements (NSAEs), and Nepal Standards on Related Services (NSRS), as well as all relevant ethical requirements, including the ICAN Code of Ethics.
- **Professional Competence**: To maintain and enhance a high level of professional competence, skepticism, and judgment among all personnel involved in engagements through continuous professional development and training.
- **Appropriate Reporting**: To issue appropriate engagement reports that are supported by sufficient and appropriate audit evidence, and that accurately reflect the nature and results of the engagement in all circumstances.
- **Client Satisfaction**: To deliver services that meet or exceed client expectations while maintaining professional independence and objectivity.
- **Culture of Quality**: To create a firm-wide culture where quality is prioritized over commercial considerations, and where all personnel are encouraged to raise quality concerns without fear of reprisal.
- **Effective Monitoring**: To establish and maintain an effective monitoring system that identifies

deficiencies in the SoQM on a timely basis and ensures that appropriate remedial actions are taken.

2.1.2 Identifying and Assessing Quality Risks

This involves systematically identifying risks that have a reasonable possibility of occurring and, individually or in combination, adversely affecting the achievement of the quality objectives. The firm considers the nature and circumstances of its operations, its engagements, and external factors. The assessment includes considering the likelihood of the risk occurring and the magnitude of its impact.

- **Engagement Risk**: The risk that the firm accepts engagements for which it lacks the necessary competence, resources, or independence. This includes risks associated with client integrity, the complexity of the engagement, and the specific industry of the client.
- **Human Resources Risk**: The risk of having an insufficient number of personnel, or personnel lacking the required competence, experience, or ethical understanding. This also includes risks related to inadequate training, high staff turnover, or improper assignment of personnel to engagements.
- **Ethical Risk**: The risk of failure to identify, evaluate, and address threats to independence or other ethical principles. This can arise from conflicts of interest, undue influence, or a lack of awareness regarding ethical requirements.
- **Performance Risk**: The risk of inadequate planning, supervision, review, or documentation of engagement work, leading to deficiencies in engagement quality. This includes risks related to insufficient audit evidence, inappropriate judgments, or failure to comply with professional standards during engagement execution.
- **Information Technology Risk**: The risk of reliance on outdated or insecure IT systems, leading to data breaches, loss of client information, or inefficiencies in engagement performance. This also includes risks associated with the improper use of technology or a lack of cybersecurity awareness among personnel.
- **Regulatory Risk**: The risk of non-compliance with ICAN pronouncements, legal, or regulatory requirements, leading to penalties, reputational damage, or loss of license. This includes staying updated with changes in NSQM, NSAs, and other relevant laws.
- **Client Concentration Risk**: For small firms, over-reliance on a few large clients can create pressure to compromise quality or independence. This risk needs careful management.

2.1.3 Designing and Implementing Responses

Developing and implementing policies and procedures to address the identified quality risks ensures that the firm's system of quality management is not merely a theoretical exercise but an operational framework that actively mitigates threats to audit quality. These responses are designed to prevent quality risks from occurring, or to detect and correct them if they do occur, thereby reducing the likelihood of quality risks to an acceptable level. Responses are proportionate to the assessed risks.

- **For Engagement Risk**: Implement robust client acceptance and continuance procedures (**refer to Section 5 and Annexure A**), including thorough background checks and independence assessments.
- **For Human Resources Risk**: Develop comprehensive recruitment and training programs (**refer to Section 7 and Annexure F**), implement regular performance evaluations, and ensure appropriate assignment of personnel.
- **For Ethical Risk**: Establish clear policies and procedures for identifying and addressing threats to independence and other ethical principles (**refer to Section 4 and Annexure C**), including mandatory

annual independence confirmations and ethical conflict resolution mechanisms.

- **For Performance Risk**: Implement standardized audit methodologies, detailed engagement planning (**refer to Section 6**), rigorous supervision and review processes, and comprehensive engagement documentation requirements.
- **For Information Technology Risk**: Invest in secure and up-to-date IT systems, implement data backup and recovery procedures, provide cybersecurity training, and establish policies for the secure handling of electronic data.
- **For Regulatory Risk**: Maintain a system for monitoring changes in professional standards and regulatory requirements, provide timely updates and training to personnel, and conduct periodic compliance reviews.
- **For Client Concentration Risk**: Diversify client base where possible, and for significant clients, implement enhanced quality control measures, including engagement quality reviews.

2.1.4 Tailoring for Proprietorship and Small Partnership Firms

For proprietorship firms, the sole practitioner is personally responsible for establishing quality objectives, identifying risks, and designing responses. This often involves a structured self-assessment approach, potentially utilizing templates, checklists, and guidance provided by ICAN or other professional bodies. The sole practitioner should document their thought process and conclusions, demonstrating how they have considered and addressed quality risks in their practice. For small partnership firms, the partners collectively share this responsibility, typically through regular meetings and discussions. Specific duties may be allocated to individual partners, but the overall oversight remains a collective responsibility. The firm should maintain a documented risk assessment matrix (**refer to Annexure E**) that is regularly reviewed and updated, reflecting the specific risks and responses relevant to their firm's size and nature of engagements.

3. Governance and Leadership

Effective governance and leadership are paramount for establishing and sustaining a culture of quality within the firm. This component addresses the firm's culture, leadership responsibilities, and organizational structure, ensuring that quality is prioritized and embedded throughout the firm's operations.

3.1 Culture of Quality

The firm is unequivocally committed to raising a culture that recognizes, values, and reinforces the importance of quality in the performance of all engagements. This culture is demonstrated through:

- **Commitment from Leadership**: The firm's leadership (sole practitioner or partners) consistently and visibly emphasizes the importance of quality, leading by example in their own work and interactions. They actively promote a quality-oriented mindset and ensure that commercial considerations do not override the commitment to quality.
- **Accountability**: All personnel are held accountable for their roles in the SoQM and for the quality of their work. Performance evaluations and professional development plans incorporate quality metrics and expectations. Clear consequences are established for non-compliance with quality policies.
- **Open Communication**: An environment is created where personnel feel comfortable raising concerns about quality, ethical dilemmas, or potential breaches without fear of reprisal. Mechanisms for anonymous reporting are considered where appropriate, and leadership actively encourages open dialogue on quality matters.
- **Recognition and Reward**: Quality performance is recognized and rewarded, reinforcing positive behaviors and commitment to the firm's quality objectives. This may include formal recognition programs, performance bonuses tied to quality metrics, or career advancement opportunities based on demonstrated commitment to quality.
- **Continuous Learning**: Promoting a culture of continuous learning and professional development, where personnel are encouraged to enhance their skills and knowledge to deliver high-quality services.

3.2 Leadership Responsibilities

3.2.1 Proprietorship Firms

In a proprietorship firm, the sole practitioner assumes ultimate responsibility and accountability for the entire SoQM. This includes:

- **Establishing and Communicating**: Developing, documenting, and communicating the firm's quality policy and objectives to all personnel. The sole practitioner must ensure that the policy is understood and applied consistently.
- **Resource Allocation**: Allocating sufficient financial, human, and technological resources for the effective design, implementation, and operation of the SoQM. This involves balancing the demands of client work with the necessary investment in quality management.
- **Monitoring and Evaluation**: Overseeing the monitoring activities and the annual evaluation of the SoQM, ensuring that identified deficiencies are addressed promptly. The sole practitioner must critically assess their own work and the effectiveness of the system.
- **Ethical Tone**: Setting an appropriate ethical tone at the top, promoting professional skepticism, and emphasizing compliance with ethical requirements. The sole practitioner's behavior serves as the

primary model for all personnel.

3.2.2 Small Partnership Firms (upto 10 Partners)

In a small partnership firm, the partners collectively bear ultimate responsibility and accountability for the System of Quality Management (SoQM). To ensure effective implementation and oversight, one partner may be formally designated as the Quality Management Partner (QMP), with clear lines of authority, responsibility, and reporting.

Consistent with NSQM 1, the firm formally assigns the following four responsibilities, which the partners may hold collectively, combine in the QMP, or separate among different partners, provided each is separately identified, documented, and communicated: (a) ultimate responsibility and accountability for the SoQM, held by the partners collectively or by the managing/senior partner where one is designated; (b) operational responsibility for the SoQM; (c) operational responsibility for compliance with independence requirements; and (d) operational responsibility for the monitoring and remediation process. Where responsibilities (b), (c), and (d) are held by the QMP or by other individuals, those individuals report directly to the individual(s) holding ultimate responsibility under (a), on a regular basis and immediately upon identifying any significant matter.

Quality Management Partner (QMP): The QMP is responsible for the day-to-day oversight, implementation, and maintenance of the SoQM, including:

- Developing, maintaining, and periodically updating the NSQM policies and related procedures.
- Ensuring personnel understand and comply with the SoQM and facilitating relevant training and professional development.
- Coordinating the firm's quality risk assessment, monitoring, remediation, and periodic inspections.
- Overseeing high-risk client acceptance and continuance decisions and ensuring appropriate responses to identified quality risks.
- Acting as the focal point for quality-related matters and providing guidance on complex quality issues.
- Reporting regularly to the partners on the effectiveness of the SoQM, identified deficiencies, remedial actions, and areas for improvement.

All Partners: Each partner is responsible for promoting a culture of quality, ensuring compliance with the SoQM within engagements under their responsibility, providing appropriate supervision and review, identifying and communicating quality risks or deficiencies to the QMP, and participating in the evaluation of the SoQM.

Partnership Meetings: Quality management shall be a standing agenda item in regular partnership meetings (e.g., monthly or quarterly) to review the performance of the SoQM, significant quality matters, monitoring findings, remedial actions, and opportunities for continuous improvement.

3.3 Organizational Structure and Resources for Quality

The firm's organizational structure, even if small, is designed to support the SoQM. This includes:

- **Clear Reporting Lines**: Establishing clear reporting lines for quality-related matters, ensuring that concerns can be escalated and addressed promptly.
- **Adequate Resources**: Ensuring that sufficient resources (human, financial, technological) are allocated to the SoQM. This includes dedicated time for the QMP, budget for training, and access to necessary software and technical literature.
- **Support Staff**: Recognizing the role of administrative and support staff in maintaining quality (e.g.,

document management, independence confirmations, IT support). They should be adequately trained and aware of their responsibilities within the SoQM.

- **External Consultation**: Establishing a policy for seeking external consultation on complex or contentious matters where internal expertise may be limited. This could involve consulting with other audit firms, ICAN, or legal experts.

3.4 Communication of the SoQM

Effective communication is vital for the successful operation of the SoQM. The firm ensures that both internal communication (among personnel, teams, and leadership at all levels) and external communication (with clients, regulators, professional bodies, service providers, and other relevant external parties) are clear, timely, transparent, and appropriately documented to support the achievement of quality objectives.

- **Internal Communication**: The NSQM Policy and all related procedures are communicated to all personnel upon joining the firm and periodically thereafter. Updates and changes are promptly disseminated. This can be achieved through:
    - ✓ Firm-wide emails and internal memos.
    - ✓ Regular team meetings and training sessions.
    - ✓ An accessible internal quality manual or shared drive where all SoQM documents are stored.
- **External Communication**: The firm communicates its commitment to quality to external stakeholders, including clients, regulators (ICAN), and prospective employees. This can be done through:
    - ✓ Statements in engagement letters.
    - ✓ Firm website or brochures.
    - ✓ Discussions with clients regarding the firm's quality processes.

By clearly defining governance structures, leadership responsibilities, and communication channels, [Firm Name] ensures that quality management is an integral part of its operations and culture, rather than a mere compliance exercise.

4. Relevant Ethical Requirements

The firm is committed to adhering to the highest ethical standards as mandated by the ICAN Code of Ethics for Professional Accountants (the Code) and other applicable ethical pronouncements. This commitment is fundamental to maintaining public trust and the credibility of the profession. The firm's policies and procedures are designed to ensure that all personnel understand and comply with these ethical requirements, thereby safeguarding the firm's integrity, objectivity, and independence.

4.1 Principles of the ICAN Code of Ethics

All personnel are required to comply with the fundamental principles of ethics, which are:

- **Integrity**: To be straightforward and honest in all professional and business relationships. This requires fair dealing and truthfulness.
- **Objectivity**: To not allow bias, conflict of interest, or undue influence of others to override professional or business judgments. This means maintaining an impartial stance in all professional activities.
- **Professional Competence and Due Care**: To attain and maintain professional knowledge and skill at the level required to ensure that clients receive competent professional service based on current developments in practice, legislation, and techniques. This also requires acting diligently and in accordance with applicable technical and professional standards.
- **Confidentiality**: To respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose. Confidential information acquired should not be used for the personal advantage of the professional accountant or third parties.
- **Professional Behavior**: To comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know might discredit the profession. This includes acting courteously and professionally with clients, colleagues, and other stakeholders.

4.2 Identifying and Addressing Threats to Independence

Independence is paramount for audit and assurance engagements. The firm maintains policies and procedures to identify, evaluate, and address threats to independence. These threats typically fall into the following categories:

Type of Threat	Description of Threat	Responses
Self-Interest Threat	The threat that a financial or other interest will inappropriately influence the professional accountant's judgment or behavior. Examples include direct financial interests in a client, loans to or from a client, or excessive reliance on fees from a single client	Prohibit direct financial interests. Establish thresholds for indirect financial interests. Implement policies for fee arrangements to avoid excessive reliance. Require disclosure of all financial relationships with clients
Self-Review Threat	The threat that a professional accountant will not appropriately evaluate the results of a previous judgment or service performed by the professional accountant, or by another individual within the firm or employing organization, on which the accountant will rely when forming a judgment as part of a current	Prohibit the provision of certain non-assurance services to audit clients. If non-assurance services are provided, ensure different personnel are involved and that the audit team does not rely solely on the

Type of Threat	Description of Threat	Responses
	service. Examples include performing bookkeeping services for an audit client or evaluating systems designed by the firm.	work performed by the firm's non-assurance service providers.
Advocacy Threat	The threat that a professional accountant will promote a client's or employer's position to the point that the professional accountant's objectivity is compromised. Examples include acting as an advocate for a client in litigation or promoting client shares	Prohibit personnel from acting as advocates for audit clients in legal disputes or promoting client securities. Ensure clear separation of roles between advisory and assurance services.
Familiarity Threat	The threat that due to a long or close relationship with a client, a professional accountant will be too sympathetic to their interests or too accepting of their work. Examples include a long association of senior personnel with an audit client or close family relationships with client management.	Implement partner rotation policies for long-standing audit clients (especially for partnership firms). Require periodic review of client relationships. Mandate independence confirmations from all personnel (**refer to Annexure C**).
Intimidation Threat	The threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the professional accountant. Examples include threats of dismissal or fee disputes	Create a culture where personnel feel empowered to raise concerns without fear of reprisal. Provide support mechanisms for personnel facing intimidation. Ensure that fee arrangements do not create undue pressure.

4.3 Safeguards to Independence and Ethical Requirements

When threats to independence or other ethical principles are identified, the firm applies safeguards to eliminate the threats or reduce them to an acceptable level. Safeguards can be created by the profession, legislation, or regulation, or by the firm itself. Examples of firm-level safeguards include:

- **Annual Independence Confirmations**: All partners and professional staff are required to complete and sign an annual independence confirmation form (refer to Annexure C), disclosing any relationships or circumstances that might create a threat to independence.
- **Engagement-Specific Independence Assessments**: Before accepting any new engagement and periodically during ongoing engagements, the engagement partner and team assess independence for that specific client and engagement.
- **Rotation of Senior Personnel**: For audit engagements of public interest entities or long-standing clients, the firm considers the rotation of the engagement partner and other key audit personnel in accordance with regulatory requirements and best practices.
- **Internal Review Procedures**: Implementation of robust internal review procedures, including independent partner review or Engagement Quality Review (EQR) for high-risk engagements (**refer to Annexure B**).
- **Consultation**: Establishing a policy for mandatory consultation on complex ethical issues or potential independence breaches with the Quality Management Partner (QMP) or an external expert.
- **Training**: Regular and mandatory training for all personnel on the ICAN Code of Ethics, firm independence policies, and practical case studies relevant to the Nepalese context.
- **Confidentiality Agreements**: All personnel sign confidentiality agreements upon employment,

reinforcing their obligation to protect client information.

- **Whistleblower Policy**: Implementing a policy that encourages personnel to report any ethical concerns or breaches of professional standards without fear of retaliation.

4.4 Ethical Dilemma Resolution

The firm establishes a clear process for personnel to follow when faced with an ethical dilemma or a potential breach of ethical requirements. This process typically involves:

i. **Identification**: Recognizing the ethical issue or threat.

ii. **Gathering Information**: Obtaining all relevant facts and circumstances.

iii. **Consultation**: Discussing the matter with the immediate supervisor, Engagement Partner, or the Quality Management Partner (QMP). For complex issues, external consultation may be sought.

iv. **Evaluation**: Assessing the fundamental principles affected and the nature and magnitude of the threats.

v. **Safeguards**: Identifying and applying appropriate safeguards to eliminate the threat or reduce it to an acceptable level.

vi. **Documentation**: Documenting the dilemma, the consultation process, the safeguards applied, and the final decision.

All personnel are encouraged to seek guidance promptly when uncertain about an ethical matter. The firm ensures that such consultations are treated with confidentiality and that no adverse action is taken against personnel for raising legitimate ethical concerns.

4.5 Non-Compliance with Laws and Regulations (NOCLAR)

The firm has policies and procedures in place to address non-compliance with laws and regulations (NOCLAR) by clients. Personnel are required to:

- **Identify**: Be alert to potential or actual NOCLAR during the course of an engagement.
- **Understand**: Obtain an understanding of the nature of the non-compliance and its potential impact.
- **Communicate**: Communicate the matter to the appropriate level of management and, where necessary, to those charged with governance within the client entity.
- **Act**: Determine whether further action is needed in the public interest, which may include reporting to an appropriate authority, even if there is a duty of confidentiality. This decision requires careful consideration and often consultation with legal counsel and the QMP.

The firm ensures that personnel are aware of their responsibilities under the NOCLAR framework and provides guidance on how to navigate these sensitive situations, particularly in the Nepalese legal and regulatory environment.

5. Acceptance and Continuance of Client Relationships and Engagements

The firm establishes robust policies and procedures for the acceptance and continuance of client relationships and specific engagements. These policies are designed to ensure that the firm undertakes engagements only when it is competent to perform them, can comply with relevant ethical requirements, and has considered the integrity of the client. This proactive approach helps to mitigate risks associated with client and engagement selection, thereby safeguarding the firm's reputation and maintaining the quality of its services.

5.1 Client and Engagement Evaluation Process

Before accepting a new client or engagement, or continuing an existing one, the firm performs a thorough evaluation that includes:

5.1.1 Client Integrity

Assessing the integrity of the client and its management is paramount. This involves considering the client's reputation, business practices, attitude towards internal control, and willingness to provide full and frank disclosures. For proprietorship and small partnership firms, this may involve:

- **Inquiries with Previous Auditors**: (With client permission) to understand reasons for auditor change, any disagreements, or significant issues encountered. This is a critical step to gain insights into potential red flags or challenges with the client.
- **Inquiries with Third Parties**: Such as bankers, legal counsel, or industry peers, to gather information about the client's reputation and business practices. These inquiries can provide valuable external perspectives.
- **Public Information Searches**: Reviewing publicly available information, including news articles, regulatory filings, and online presence, to identify any adverse media or legal issues. This helps in forming a comprehensive view of the client's public image and ethical standing.
- **Management's Attitude**: Evaluating management's attitude towards internal control, financial reporting, and ethical conduct. This can be assessed through initial meetings, discussions, and observations.
- **Nature of Client's Operations**: Understanding the client's business operations, industry, and potential risks associated with it. Complex or high-risk industries may require additional scrutiny.

5.1.2 Firm Competence and Capabilities

The firm assesses whether it possesses the necessary competence, capabilities, and resources to perform the engagement in accordance with professional standards and regulatory requirements. This includes:

- **Technical Expertise**: Evaluating whether the firm has personnel with the appropriate technical knowledge and experience in the client's industry and the type of engagement being undertaken. This may involve assessing the need for specialists.
- **Time and Resources**: Ensuring that the firm has sufficient time and human resources available to complete the engagement within the required timeframe without compromising quality. Over-commitment can lead to quality deficiencies.
- **Geographical and Jurisdictional Considerations**: Assessing if the firm has the ability to operate effectively in the client's geographical location and comply with any specific jurisdictional requirements.

- **Use of Experts**: If the engagement requires specialized knowledge, the firm evaluates whether it can engage suitable experts and effectively supervise their work.

5.1.3 Ethical Compliance

The firm ensures that it can comply with all relevant ethical requirements, particularly independence. This involves:

- **Independence Check**: Performing a thorough independence check for the firm and all engagement against the prospective client. This includes reviewing financial interests, business relationships, and any other potential threats to independence.
- **Conflict of Interest Assessment**: Identifying and evaluating any potential conflicts of interest that may arise from accepting the client or engagement. If conflicts are identified, the firm assesses whether they can be mitigated to an acceptable level through safeguards.
- **Ethical Review**: Ensuring that accepting the engagement does not create any threats to other fundamental ethical principles such as integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

5.1.4 Legally or Regulatorily Mandated Engagements

Where the firm is legally or regulatorily obligated to accept a client relationship or engagement — for example, an audit assignment made by the Department of Cooperatives (DoC) or another regulator under applicable law — the firm's ordinary discretion to decline the engagement does not apply. In such cases, the firm nonetheless performs the ethical compliance and competence assessment set out in 5.1.2 and 5.1.3, documents any identified threats or limitations, and applies all available safeguards. Where a threat cannot be reduced to an acceptable level, the firm documents this conclusion and communicates it to the assigning authority, as permitted by law, rather than declining the engagement outright.

5.2 Continuance of Client Relationships and Engagements

Client relationships and engagements are reviewed periodically, typically annually, to determine whether they should be continued. This continuance process is as critical as the initial acceptance and involves:

- **Re-evaluation of Client Integrity**: Reassessing the client's integrity, considering any new information or changes in circumstances since the last evaluation. This includes reviewing the client's financial performance, changes in management, and any new legal or regulatory issues.
- **Re-assessment of Firm Competence**: Confirming that the firm continues to possess the necessary competence and resources to serve the client effectively. This is particularly important if the client's business has grown or become more complex.
- **Re-confirmation of Ethical Compliance**: Performing an updated independence check and conflict of interest assessment. Any new threats to independence or ethical principles must be identified, evaluated, and addressed.
- **Review of Engagement Performance**: Evaluating the quality of past engagement performance for the client, including any identified deficiencies and remedial actions taken. This helps in identifying recurring issues or areas for improvement.
- **Communication with Client**: Maintaining open communication with the client regarding the terms of engagement, any changes in circumstances, and expectations for the upcoming period.

5.3 Withdrawal from an Engagement or Client Relationship

If, after acceptance or during the course of an engagement, the firm determines that it cannot comply with professional standards or ethical requirements, or if the risks associated with the client or engagement become unacceptable, the firm will take appropriate action, which may include withdrawing from the engagement or terminating the client relationship. The decision to withdraw is a serious one and is made after careful consideration of:

- **Professional and Legal Obligations**: The firm's professional and legal responsibilities, including any reporting requirements to regulatory bodies.
- **Ethical Implications**: The ethical implications of withdrawal, particularly regarding confidentiality and professional behavior.
- **Communication with Client**: Communicating the decision to withdraw to the client in a timely and professional manner, explaining the reasons where appropriate and permissible.
- **Documentation**: Documenting the reasons for withdrawal and the discussions held with the client and relevant parties. This documentation is crucial for demonstrating compliance with the firm's policies and professional standards.

5.3.1 Tailoring for Proprietorship and Small Partnership Firms

For proprietorship firms, the sole practitioner makes all decisions regarding client acceptance, continuance, and withdrawal. While the process remains the same, the documentation may be less formal but must still be comprehensive enough to demonstrate compliance. For small partnership firms, these decisions are typically made collectively by the partners, or by a designated partner with the concurrence of others, especially for significant clients. The Client Acceptance and Continuance Checklist **(refer to Annexure A**) is a vital tool for both types of firms to ensure a systematic and documented approach to these critical decisions.

6. Engagement Performance

The firm's policies and procedures for engagement performance are designed to ensure that engagements are performed in accordance with professional standards, applicable legal and regulatory requirements, and the firm's quality objectives. This component covers all phases of an engagement, from planning to documentation, emphasizing consistency and quality.

6.1 Engagement Planning

Effective planning is crucial for the successful and efficient execution of any engagement. The firm's planning procedures ensure that the scope, objectives, and approach of each engagement are clearly defined and understood. This involves:

- **Understanding the Client and its Environment**: Gaining a thorough understanding of the client's business, industry, regulatory environment, and internal control system. This understanding forms the basis for identifying risks of material misstatement.
- **Risk Assessment at Engagement Level**: Identifying and assessing risks of material misstatement, whether due to fraud or error, at both the financial statement and assertion levels. This includes considering the nature, timing, and extent of planned audit procedures.
- **Materiality Determination**: Establishing materiality for the financial statements as a whole, and for particular classes of transactions, account balances, or disclosures, where applicable. Performance materiality is also determined.
- **Developing an Overall Audit Strategy**: Formulating a strategy that sets the scope, timing, and direction of the audit, and guides the development of the more detailed audit plan. This strategy considers the results of the risk assessment and materiality.
- **Developing a Detailed Audit Plan**: Creating a detailed plan that describes the nature, timing, and extent of audit procedures to be performed by engagement team members in order to obtain sufficient appropriate audit evidence. This plan includes planned risk assessment procedures and planned further audit procedures.
- **Resource Allocation**: Assigning appropriate personnel to the engagement based on their competence, experience, and independence. This also includes considering the need for specialists.
- **Pre-engagement Activities**: Performing necessary pre-engagement activities, such as confirming the terms of the engagement with the client through an engagement letter.

6.1.1 Tailoring for Proprietorship and Small Partnership Firms

For proprietorship firms, the sole practitioner is responsible for all planning activities. This often involves utilizing standardized templates and checklists to ensure all aspects of planning are covered. For small partnership firms, the engagement partner is primarily responsible for planning, with input from other partners or senior staff. The planning process should be documented in the engagement file, demonstrating the firm's consideration of engagement-specific risks and the planned responses.

6.2 Engagement Execution

Engagement execution involves performing the planned audit procedures to obtain sufficient appropriate audit evidence. The firm's policies and procedures ensure that work is performed diligently and effectively.

- **Performing Audit Procedures**: Executing the audit procedures as outlined in the detailed audit

plan. This includes tests of controls, substantive analytical procedures, and tests of details.

- **Obtaining Audit Evidence**: Gathering sufficient appropriate audit evidence to support the audit opinion. This evidence must be relevant and reliable.
- **Evaluating Audit Evidence**: Critically evaluating the audit evidence obtained to determine whether it is sufficient and appropriate to support the conclusions reached.
- **Addressing Identified Misstatements**: Investigating and addressing any misstatements identified during the engagement, including communicating them to management and, where appropriate, to those charged with governance.
- **Responding to Risks**: Continuously being alert to new information that may affect the risk assessment and modifying planned procedures accordingly.
- **Use of Technology**: Leveraging appropriate audit software and tools to enhance efficiency and effectiveness of engagement execution, while ensuring data security and integrity.

6.3 Supervision and Review

Supervision and review are critical to ensuring the quality of engagement performance. The firm's policies and procedures require that work performed by engagement team members is adequately supervised and reviewed.

- **Supervision**: The engagement partner is responsible for supervising the engagement team. This includes:
  - ✓ Tracking the progress of the engagement.
  - ✓ Considering the competence and capabilities of individual engagement team members.
  - ✓ Addressing significant issues that arise during the engagement.
  - ✓ Identifying matters for consultation or consideration by more experienced engagement team members.
- **Review**: Work performed by engagement team members is reviewed by more experienced personnel. The review process ensures that:
  - ✓ Work has been performed in accordance with professional standards and the firm's policies.
  - ✓ Significant matters have been raised for further consideration.
  - ✓ Appropriate consultations have taken place.
  - ✓ The documentation supports the conclusions reached.
  - ✓ The engagement report is appropriate.

6.3.1 Extent of Supervision and Review

The extent of supervision and review varies depending on the complexity of the engagement, the risks involved, and the competence and experience of the engagement team members. For proprietorship firms, the sole practitioner performs both the work and the review, requiring a disciplined approach to self-review. Self-review alone, however, does not satisfy the firm's Engagement Quality Review (EQR) obligation. In addition to self-review, an Engagement Quality Review by a suitably qualified external reviewer is required, before the engagement report is issued, for any engagement meeting one or more of the following criteria:

- the engagement is an audit of the financial statements of a listed entity;
- an Engagement Quality Review is required by law, regulation, or a regulatory or supervisory authority

applicable to the engagement (for example, Nepal Rastra Bank, the Department of Cooperatives, the Securities Board of Nepal, or the Beema Samiti, as relevant);

- the engagement is a first-year engagement for a new client;
- there is significant doubt about the client's ability to continue as a going concern;
- the engagement involves significant accounting estimates or judgments material to the financial statements;
- the client is a public-interest entity, or a cooperative or other entity that meets or exceeds the asset-size or membership thresholds the firm has determined for mandatory Engagement Quality Review; or
- the sole practitioner otherwise identifies the engagement as high-risk or complex under the firm's risk assessment process.

The proprietor documents the Engagement Quality Review determination for every engagement, including the basis for concluding that a review is or is not required (refer to Annexure B).

For small partnership firms, the engagement partner reviews the work of other partners and staff. The same criteria above apply; the Engagement Quality Review may be performed by another partner who is independent of the engagement or, where firm capacity does not permit, by a suitably qualified external reviewer (refer to Annexure B).

6.4 Consultation

The firm establishes policies and procedures for consultation on difficult or contentious matters. This ensures that appropriate expertise is brought to bear on complex issues and that conclusions are well-reasoned and documented.

- **When to Consult**: Consultation is required for matters that are complex, unusual, or involve significant judgment, including:
  - ✓ Application of complex accounting or auditing standards.
  - ✓ Ethical issues, particularly those related to independence.
  - ✓ Significant risks identified during the engagement.
  - ✓ Differences of opinion within the engagement team.
- **Consultation Process**: The consultation process involves:
  - ✓ Identifying the matter requiring consultation.
  - ✓ Gathering all relevant facts and information.
  - ✓ Consulting with appropriate individuals (e.g., other partners, external experts, ICAN).
  - ✓ Documenting the nature of the matter, the individuals consulted, the advice received, and the conclusions reached.
- **Authority of Consulted Parties**: The conclusions reached from consultations are binding on the engagement team.

6.5 Engagement Documentation

Comprehensive and timely engagement documentation is essential for demonstrating that the engagement was performed in accordance with professional standards and regulatory requirements. It also provides a record of the work performed, the evidence obtained, and the conclusions reached.

- **Purpose of Documentation**: Engagement documentation serves several purposes:
  - ✓ Provides evidence of the engagement team's basis for a conclusion about the overall objective of the engagement.
  - ✓ Provides evidence that the engagement was planned and performed in accordance with NSAs, NSREs, NSAEs, NSRSs, and applicable legal and regulatory requirements.
  - ✓ Assists the engagement team to plan and perform the engagement.
  - ✓ Assists members of the engagement team responsible for supervision to direct and supervise the engagement work, and to review the work.
  - ✓ Enables the engagement team to be accountable for its work.
  - ✓ Retains a record of matters of continuing significance to future engagements.
  - ✓ Enables the conduct of quality control reviews and inspections.
- **Form, Content, and Extent**: The form, content, and extent of engagement documentation depend on factors such as:
  - ✓ The size and complexity of the entity.
  - ✓ The nature of the engagement procedures to be performed.
  - ✓ The identified risks of material misstatement.
  - ✓ The significance of the audit evidence obtained.
  - ✓ The nature and extent of exceptions identified.
  - ✓ The need to document a conclusion or basis for a conclusion not readily determinable from the documentation of the work performed.
  - ✓ The audit methodology and tools used.
- **Assembly of Final Engagement File**: The firm establishes a policy for the timely assembly of the final engagement file after the date of the engagement report. This typically involves a period of no more than 60 days.
- **Confidentiality, Safe Custody, Integrity, Accessibility, and Retrievability**: The firm implements policies and procedures to ensure the confidentiality, safe custody, integrity, accessibility, and retrievability of engagement documentation for the required retention period (typically 5 years, or as required by law/ICAN).

6.5.1 Tailoring for Proprietorship and Small Partnership Firms

For proprietorship firms, documentation may be maintained electronically or in hard copy, but must be organized and readily accessible. The sole practitioner must ensure that their documentation is sufficiently detailed to allow an experienced auditor, having no previous connection with the engagement, to understand the nature, timing, and extent of the procedures performed, the results of the procedures performed, and the conclusions reached. For small partnership firms, standardized templates and electronic working paper systems are encouraged to enhance consistency and efficiency in documentation. Regular reviews of documentation by partners are essential to ensure compliance and quality.

7. Resources

The firm ensures that it has sufficient and appropriate resources to design, implement, and operate its SoQM effectively, and to perform engagements in accordance with professional standards and regulatory requirements. Resources include human, technological, and intellectual assets.

7.1 Human Resources

Human resources are the most critical asset of the firm. Policies and procedures are established to ensure that the firm has personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements effectively.

7.1.1 Recruitment and Selection

- **Competency-Based Hiring**: The firm employs a competency-based approach to recruitment, focusing on attracting individuals with the necessary educational qualifications, technical skills, and professional attitudes. This includes assessing candidates' understanding of ethical principles and commitment to quality.
- **Background Checks**: Conducting appropriate background checks for all new hires to verify qualifications and professional standing.

7.1.2 Assignment of Personnel

- **Engagement Team Composition**: Personnel are assigned to engagements based on their experience, competence, and the specific requirements of the engagement. The engagement partner ensures that the team collectively possesses the necessary skills and knowledge.
- **Supervision and Mentoring**: Less experienced personnel are assigned to engagements where they can be adequately supervised and mentored by more experienced staff or partners. This adopts learning and development.
- **Workload Management**: Workloads are managed to ensure that personnel have sufficient time to perform their duties diligently and effectively, without compromising quality due to excessive pressure.

7.1.3 Professional Development and Training

- **Continuous Professional Development (CPD)**: The firm is committed to the continuous professional development of all its personnel. A structured CPD program is in place to ensure that personnel maintain and enhance their professional knowledge and skills, keeping abreast of changes in professional standards, regulatory requirements, and industry developments.
- **Training Needs Assessment**: Regular assessments are conducted to identify training needs across the firm, both at an individual and firm-wide level. Training programs are then tailored to address these identified needs.
- **Internal and External Training**: Training is provided through a combination of internal workshops, seminars, and external courses offered by ICAN or other reputable institutions. Topics include technical accounting and auditing standards, ethical requirements, quality management procedures, and IT skills.
- **Performance Evaluation**: Regular performance evaluations are conducted for all personnel, which include an assessment of their adherence to quality policies and their professional

development progress. Feedback is provided to facilitate continuous improvement.

- **Mentorship Programs**: Establishing mentorship programs where experienced partners or senior staff guide and support junior professionals in their career development and adherence to quality standards.

7.1.4 Ethical Conduct and Accountability

- **Ethical Training**: Regular training on the ICAN Code of Ethics and the firm's ethical policies is provided to all personnel. This reinforces the importance of integrity, objectivity, and independence.
- **Accountability Framework**: A clear accountability framework is established, ensuring that all personnel understand their responsibilities within the SoQM and are held accountable for their actions. This includes consequences for non-compliance with quality policies.

7.2 Technological Resources

The firm recognizes the importance of appropriate technological resources to support the effective and efficient performance of engagements and the operation of the SoQM.

- **Audit Software**: Utilizing reliable and up-to-date audit software to enhance efficiency in engagement planning, execution, and documentation. This includes tools for data analytics, sampling, and working paper management.
- **Communication Systems**: Implementing secure and efficient communication systems (e.g., email, video conferencing) to facilitate effective internal and external communication, especially for remote work arrangements.
- **Data Security and Privacy**: Implementing robust data security measures, including firewalls, antivirus software, encryption, and regular backups, to protect client information and ensure compliance with data privacy regulations. Personnel are trained on data security protocols.
- **IT Support**: Ensuring adequate IT support is available to address technical issues promptly and maintain the smooth operation of technological resources.
- **Cloud Computing**: Evaluating and implementing secure cloud-based solutions for data storage and collaboration, ensuring compliance with data residency and security requirements in Nepal.

7.3 Intellectual Resources

Intellectual resources include the knowledge, methodologies, and guidance materials that support the firm's operations and engagement performance.

- **Audit Methodologies**: Developing and maintaining standardized audit methodologies, templates, and checklists that are consistent with NSAs and other professional standards. These provide a structured approach to engagements.
- **Technical Guidance**: Providing access to up-to-date technical guidance, professional pronouncements from ICAN, and relevant legal and regulatory updates. This ensures that personnel have the necessary information to make informed decisions.
- **Knowledge Management System**: Implementing a knowledge management system to capture and share best practices, lessons learned from past engagements, and technical expertise across the firm. This promotes continuous learning and avoids duplication of effort.

- **Consultation Resources**: Maintaining a network of internal and external experts for consultation on complex or specialized matters. This ensures that the firm can access specialized knowledge when needed.
- **Research Tools**: Providing access to professional research databases and libraries to support technical inquiries and stay current with evolving standards and industry trends.

7.3.1 Tailoring for Proprietorship and Small Partnership Firms

For proprietorship firms, the sole practitioner must ensure access to relevant professional literature, ICAN pronouncements, and potentially subscribe to online audit tools or templates. Self-study and external CPD are crucial. For small partnership firms, resources may be pooled, and a designated partner might be responsible for managing technological and intellectual resources. The firm should invest in scalable solutions that can grow with the practice, such as cloud-based working paper software and online research subscriptions. Documentation of resource allocation and utilization is key to demonstrating compliance.

7.4 Network Requirements

Where the firm belongs to a network of firms — whether through formal affiliation, brand-sharing, or another arrangement — the firm identifies and understands the network's requirements and any network-provided resources, methodologies, or shared services relevant to its engagements.

The firm evaluates whether adopting or adapting policies, procedures, or resources provided by the network is appropriate to its own nature and circumstances, and does not adopt network requirements or services that are inconsistent with NSQM 1, NSQM 2, or applicable ICAN pronouncements without modification.

Where the network performs monitoring activities on the firm's behalf (for example, network-level inspections or common quality reviews), the firm considers the relevance and sufficiency of those activities for its own SoQM and supplements them where necessary.

The firm evaluates any identified deficiencies in network requirements or network-provided services, determines their effect on its own SoQM, and takes appropriate remedial action, including, where necessary, discontinuing reliance on the affected network requirement or service.

A firm with no network affiliation is not required to apply the substantive content of this section, but documents that conclusion as part of its risk assessment process.

8. Information and Communication

The firm establishes policies and procedures for effective information and communication to support the design, implementation, and operation of the SoQM. This ensures that relevant information flows effectively throughout the firm and with external parties, encouraging a transparent and responsive quality management system.

8.1 Internal Communication

Effective internal communication is vital for embedding a culture of quality and ensuring that all personnel are aware of their roles and responsibilities within the SoQM. Internal communication channels and processes include:

- **Policy Dissemination**: The NSQM Policy and all related policies and procedures are formally communicated to all personnel upon joining the firm and whenever updates occur. This includes providing access to the full policy document and summarizing key changes.
- **Training and Awareness Programs**: Regular training sessions, workshops, and awareness programs are conducted to educate personnel on the SoQM, ethical requirements, professional standards, and any new developments. These programs emphasize the practical application of policies in daily work.
- **Regular Meetings**: Partners and senior staff hold regular meetings to discuss quality-related matters, engagement progress, significant risks, and any challenges encountered. For proprietorship firms, the sole practitioner maintains a disciplined approach to self-review and reflection on quality matters.
- **Feedback Mechanisms**: Establishing channels for personnel to provide feedback, raise concerns, or suggest improvements to the SoQM. This can include suggestion boxes, direct communication with the QMP/sole practitioner, or anonymous reporting mechanisms.
- **Intranet/Shared Drives**: Utilizing internal communication platforms, such as an intranet or secure shared drives, to store and make accessible all quality management documentation, templates, and guidance materials.
- **Performance Reviews**: Incorporating discussions about quality performance, adherence to policies, and professional development in annual performance reviews for all personnel.

8.1.1 Tailoring for Proprietorship and Small Partnership Firms

In proprietorship firms, internal communication is primarily direct between the sole practitioner and any support staff. The sole practitioner must ensure that all personnel are personally briefed on quality policies and have direct access to all relevant documentation. Regular, documented discussions are crucial. In small partnership firms, formal partner meetings are essential for discussing and agreeing on quality objectives, risks, and responses. Clear communication protocols should be established for sharing information between partners and staff.

8.2 External Communication

The firm establishes policies and procedures for effective communication with external parties, including clients, regulators (ICAN), and other relevant stakeholders. This ensures transparency, responsiveness, and compliance with external requirements.

- **Client Communication**: Communicating clearly and promptly with clients regarding engagement terms, significant findings, and any matters that may affect the engagement. This includes providing engagement letters, management letters, and audit reports.

- **Regulatory Communication**: Responding to inquiries from ICAN and other regulatory bodies in a timely and appropriate manner. This includes submitting required reports and documentation.
- **Professional Bodies**: Engaging with professional bodies (e.g., ICAN) to stay informed about changes in standards, participate in consultations, and contribute to the development of the profession.
- **Confidentiality**: Ensuring that all external communication adheres to the firm's confidentiality policies and relevant legal and ethical requirements. Information is only disclosed to authorized parties.

8.3 Communication of Deficiencies

The firm establishes policies and procedures for communicating identified deficiencies in the SoQM to relevant personnel and, where appropriate, to external parties. Timely and effective communication of deficiencies is crucial for facilitating remediation and continuous improvement.

- **Internal Communication of Deficiencies**: Deficiencies identified through monitoring activities (e.g., internal inspections, engagement quality reviews) are communicated to the engagement partner, relevant personnel, and the QMP/sole practitioner. The communication includes details of the deficiency, its root cause, and recommended remedial actions.
- **Communication to Management/Those Charged with Governance**: Significant deficiencies in the client's internal control or other matters relevant to governance are communicated to the client's management and/or those charged with governance in accordance with professional standards.
- **External Reporting**: In rare circumstances, if required by law or regulation, or if the firm determines it is necessary to protect the public interest, deficiencies may be reported to external regulatory bodies (e.g., ICAN).
- **Documentation of Communication**: All communications regarding deficiencies, both internal and external, are thoroughly documented, including the nature of the deficiency, the recipients of the communication, and the date of communication. This documentation supports the monitoring and remediation process.

9. Monitoring and Remediation Process

The firm establishes and implements a monitoring and remediation process to provide reasonable assurance that the SoQM is relevant, adequate, operating effectively, and complies with NSQM 1. This process is continuous, iterative, and responsive to changes in the firm's environment and engagements.

9.1 Ongoing Monitoring Activities

Ongoing monitoring activities are integrated into the firm's day-to-day operations and are designed to provide timely information about the effectiveness of the SoQM. These activities include:

- **Review of Engagement Documentation**: Regular review of engagement documentation by engagement partners and other experienced personnel to ensure compliance with firm policies and professional standards. This is a continuous process throughout the engagement.
- **Supervision and Review of Personnel**: Ongoing supervision and review of the work of engagement team members by more experienced personnel, as described in Section 6.3. This includes providing constructive feedback and guidance.
- **Client Feedback**: Soliciting and reviewing feedback from clients regarding the quality of services provided. This can be through formal surveys or informal discussions.
- **Complaints and Allegations**: Monitoring and investigating any complaints or allegations regarding non-compliance with professional standards or the firm's policies. All complaints are taken seriously and investigated promptly.
- **Consultation Records**: Reviewing records of consultations to identify recurring issues or areas where additional guidance or training may be needed.
- **Ethical Confirmations**: Monitoring the timely completion and review of annual independence confirmations and other ethical declarations.

9.1.1 Tailoring for Proprietorship and Small Partnership Firms

For proprietorship firms, ongoing monitoring is primarily a self-review process. The sole practitioner must maintain a disciplined approach to critically evaluate their own work and adherence to the SoQM. Utilizing checklists and templates for self-assessment is highly recommended. For small partnership firms, partners should regularly discuss ongoing engagements, review each other's work (where appropriate and independent), and ensure that all personnel are adhering to quality standards. Regular partner meetings should include a standing agenda item for quality management discussions.

9.2 Periodic Inspections

Periodic inspections are more formal and structured reviews of completed engagements and the firm's SoQM. These inspections are typically conducted on a cyclical basis to assess compliance and identify areas for improvement.

- **Selection of Engagements**: A representative sample of completed engagements is selected for inspection. The selection criteria may include engagement type, industry, engagement partner, and risk profile.
- **Scope of Inspection**: Inspections cover all aspects of the engagement, including planning, execution, documentation, and reporting, as well as the firm's adherence to its SoQM policies and procedures.

- **Inspection Team**: Inspections are conducted by individuals who are independent of the engagement being reviewed and have the necessary experience and authority. In small firms, this may involve another partner or a qualified external reviewer.
- **Documentation of Findings**: Findings from inspections are documented, including identified deficiencies, their root causes, and recommendations for remedial actions.

9.2.1 Engagement Quality Review (EQR)

For certain engagements (e.g., those with high public interest, complex transactions, or significant risks), an Engagement Quality Review (EQR) is performed. The EQR is an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the engagement report. The EQR is performed by an engagement quality reviewer who is not part of the engagement team and has sufficient and appropriate experience and authority. The EQR is completed before the engagement report is issued. (**Refer to Annexure B for EQR Checklist**).

The criteria for determining when an engagement requires an EQR are set out at 6.3.1 above; the proprietor or engagement partner documents the EQR determination for every engagement against those criteria.

9.3 Evaluation of Identified Deficiencies

All deficiencies identified through monitoring activities and periodic inspections are evaluated to determine their severity, pervasiveness, and root causes. This evaluation process is critical for developing effective remedial actions.

- **Severity Assessment**: Assessing the impact of the deficiency on the quality of engagements and the effectiveness of the SoQM.
- **Root Cause Analysis**: Investigating the underlying reasons for the deficiency, rather than just addressing the symptoms. This may involve interviewing personnel, reviewing processes, and analyzing data.
- **Identification of Systemic Issues**: Determining whether the deficiency is an isolated incident or indicative of a systemic weakness in the SoQM.

9.4 Remedial Actions

Based on the evaluation of identified deficiencies, appropriate remedial actions are designed and implemented. These actions are aimed at addressing the root causes of deficiencies and preventing their recurrence.

- **Action Plan Development**: Developing a clear action plan that specifies the remedial actions to be taken, the responsible parties, and the timelines for implementation.
- **Implementation**: Implementing the remedial actions, which may include:
  - ✓ Revising firm policies and procedures.
  - ✓ Providing additional training or guidance to personnel.
  - ✓ Modifying audit methodologies or tools.
  - ✓ Taking disciplinary action where appropriate.
- **Monitoring Effectiveness**: Monitoring the implementation and effectiveness of remedial actions to ensure that they achieve their intended outcomes. This involves follow-up reviews and assessments.
- **Communication of Remediation**: Communicating the remedial actions taken and their

effectiveness to relevant personnel and, where appropriate, to external parties.

9.5 Annual Evaluation of the SoQM

At least annually, the firm performs an overall evaluation of its SoQM. This evaluation considers the results of ongoing monitoring activities, periodic inspections, and the effectiveness of remedial actions taken. The objective is to determine whether the SoQM is achieving its objectives and whether any further improvements are needed.

- **Scope of Evaluation**: The annual evaluation covers all eight components of the SoQM.
- **Reporting to Leadership**: The results of the annual evaluation, including any identified deficiencies and recommendations for improvement, are reported to the firm's leadership (sole practitioner or partners).
- **Continuous Improvement**: The annual evaluation serves as a basis for continuous improvement of the SoQM, ensuring its ongoing relevance and effectiveness in a dynamic professional environment. (**Refer to Annexure D for Monitoring and Remediation Report Template**).

Annexure A: Client Acceptance and Continuance Checklist

This checklist is to be completed for all new prospective clients and for the annual continuance of existing clients. Its purpose is to assist [Firm Name] in evaluating whether to accept or continue a client relationship and engagement, ensuring compliance with NSQM 1, the ICAN Code of Ethics, and the firm's quality objectives. This checklist helps assess client integrity, firm competence, resources, and independence.

Part 1: Client Acceptance (For New Clients)

1.1 Client Information

- **Prospective Client Name**: _____
- **Nature of Business**: _____
- **Legal Structure (Proprietorship, Partnership, Company, etc.)**:_____
- **Primary Contact Person**: _____
- **Proposed Engagement Type (Audit, Review, Compilation, Tax, Advisory)**:_____
- **Date of Initial Inquiry**: _____
- **Client's Fiscal Year End**: _____
- **Estimated Annual Revenue/Turnover**: _____
- **Key Stakeholders/Owners**: _____

1.2 Management Integrity and Ethical Considerations

This section assesses the integrity of the client's management and those charged with governance, which is crucial for mitigating reputational and regulatory risks for the firm. For proprietorships, this largely focuses on the proprietor; for partnerships, it extends to all partners.

No.	Question	Yes	No	N/A	Comments/Details (if 'No' or 'N/A')
1	Has the firm performed background checks on key management and those charged with governance (e.g., public records, regulatory databases, professional contacts, social media presence)?	[ ]	[ ]	[ ]	*The firm has performed background checks on all key management and those charged with governance, including public records, regulatory databases, professional contacts, and social media presence*
2	Are there any known ethical concerns, litigation, or regulatory investigations (e.g., from Inland Revenue Department, Company Registrar's Office, SEBON) involving the client or its management?	[ ]	[ ]	[ ]	*Investigate any past or current legal/regulatory issues. Consider consulting legal counsel if significant issues are identified.*
3	Does management demonstrate a commitment to ethical conduct and sound financial reporting (e.g., transparent communication, willingness to address internal control weaknesses)?	[ ]	[ ]	[ ]	*Assess through initial meetings, discussions, and inquiries with third parties (with client permission).*
4	Is there any indication of illegal activities (e.g., money laundering, fraud, tax evasion) associated with the client or its operations?	[ ]	[ ]	[ ]	*Be alert to red flags such as unusual cash transactions, complex ownership structures without clear business rationale, or reluctance to provide information.*

No.	Question	Yes	No	N/A	Comments/Details (if 'No' or 'N/A')
5	Are there any unusual or complex transactions that raise concerns about management's integrity or intent (e.g., related party transactions not at arm's length, significant transactions with unknown parties)?	[ ]	[ ]	[ ]	*Such transactions require careful scrutiny and may indicate attempts to manipulate financial statements.*
6	Has the prospective client been audited by another firm previously? If yes, have inquiries been made with the predecessor auditor (with client permission) regarding reasons for change, disagreements, etc.?	[ ]	[ ]	[ ]	*Inquiries with predecessor auditor are mandatory as per NSAs, unless client permission is denied. Document reasons for denial.*
7	Were there any disagreements with the predecessor auditor regarding accounting principles, audit procedures, or other significant matters?	[ ]	[ ]	[ ]	*Significant disagreements may indicate a client's aggressive accounting policies or unwillingness to accept audit adjustments.*
8	Is there any undue pressure from the client regarding fees, scope, or reporting deadlines that could compromise audit quality?	[ ]	[ ]	[ ]	*Evaluate if the proposed fee is adequate to perform a quality audit. Unrealistic deadlines may indicate an attempt to rush the audit process.*
9	Does the client have an adequate internal control environment, or are there significant weaknesses that management is unwilling to address?	[ ]	[ ]	[ ]	*A weak control environment increases audit risk and may indicate a lack of commitment to sound financial management.*

1.3 Firm's Competence and Resources

This section evaluates whether [Firm Name] possesses the necessary capabilities to undertake the engagement, ensuring that the firm can perform the work competently and in accordance with professional standards.

No.	Question	Yes	No	N/A	Comments/Details (if 'No' or 'N/A')
1	Does the firm (or individual practitioner) have the necessary technical expertise and industry knowledge for the proposed engagement (e.g., specific accounting standards like NFRS, industry regulations)?	[ ]	[ ]	[ ]	*For proprietorships, this depends on the sole practitioner's expertise. For partnerships, assess collective expertise. If lacking, consider training or external consultation.*
2	Does the firm have sufficient personnel with the required competence and experience to perform the engagement (e.g., qualified CAs, experienced articled clerks)?	[ ]	[ ]	[ ]	*Consider the size and complexity of the engagement. Ensure adequate staffing levels to avoid overworking staff and compromising quality.*
3	Are there any specialists required for the engagement (e.g., IT audit specialist, valuation expert, legal counsel)? If yes, can the firm provide or obtain such specialists internally or externally?	[ ]	[ ]	[ ]	*Document the need for specialists and how they will be engaged, ensuring their competence and independence.*

No.	Question	Yes	No	N/A	Comments/Details (if 'No' or 'N/A')
4	Does the firm have adequate technological resources (e.g., audit software, data analytics tools, secure communication platforms) to perform the engagement efficiently and effectively?	[ ]	[ ]	[ ]	*Assess if current technology can handle client's data volume and complexity.* *Consider investment in new tools if necessary.*
5	Is the engagement within the firm's capacity, considering current workload, staff availability, and other client deadlines?	[ ]	[ ]	[ ]	*Overcommitment can lead to rushed work and quality deficiencies. Prioritize engagements based on risk and resource availability.*
6	Does the firm have access to relevant technical literature, research tools, and professional guidance (e.g., ICAN pronouncements, international standards)?	[ ]	[ ]	[ ]	*Ensure access to up-to-date resources to support technical queries and complex issues.*

1.4 Independence Assessment

This section ensures that the firm and its personnel are independent of the prospective client, both in mind and in appearance, as required by the ICAN Code of Ethics. Refer to Annexure C for detailed independence confirmation.

No.	Question	Yes	No	N/A	Comments/Details (if 'Yes')
1	Have all partners and engagement team members completed their annual independence declarations (refer to Annexure C)?	[ ]	[ ]	[ ]	*Ensure all relevant personnel have formally declared their independence status.*
2	Are there any known financial interests (direct or material indirect) in the prospective client by the firm, its partners, or engagement team members, or their immediate family members?	[ ]	[ ]	[ ]	*Direct financial interests are prohibited. Material indirect interests require careful evaluation and safeguards.*
3	Are there any known loans or guarantees to or from the prospective client by the firm, its partners, or engagement team members (other than routine banking transactions on normal commercial terms)?	[ ]	[ ]	[ ]	*Such relationships can create significant self-interest threats.*
4	Are there any known business relationships with the prospective client that could impair independence (e.g., joint ventures, material common investments)?	[ ]	[ ]	[ ]	*Evaluate the nature and materiality of any business relationships.*
5	Are there any known family or personal relationships with the prospective client's management or those charged with governance that could create a familiarity or intimidation threat?	[ ]	[ ]	[ ]	*Close relationships (e.g., spouse, child, parent) with key client personnel are particularly sensitive.*
6	Has the firm (or any individual) provided any non-assurance services to the prospective client that could create a self-review or advocacy threat (e.g., bookkeeping, internal audit, management consulting)?	[ ]	[ ]	[ ]	*Assess the nature and extent of non- assurance services and apply safeguards or decline the engagement if threats cannot be mitigated.*

No.	Question	Yes	No	N/A	Comments/Details (if 'Yes')
7	Are there any overdue fees from the prospective client for previous engagements that could create a self-interest threat?	[ ]	[ ]	[ ]	*Overdue fees can create pressure to issue a favorable report to secure payment.*
8	Are there any other circumstances or relationships that could reasonably be perceived to impair the firm's independence or objectivity (e.g., gifts, hospitality, actual or threatened litigation)?	[ ]	[ ]	[ ]	*Consider all relevant facts and circumstances. Document any identified threats and the safeguards applied.*

1.5 Legal and Regulatory Compliance

This section ensures that both the firm and the client comply with all relevant legal and regulatory frameworks in Nepal.

No.	Question	Yes	No	N/A	Comments/Details (if 'No' or 'N/A')
1	Is the firm licensed and authorized by ICAN to perform the proposed engagement (e.g., valid audit license)?	[ ]	[ ]	[ ]	*Verify the firm's and individual practitioner's current license status.*
2	Are there any legal or regulatory restrictions that would prevent the firm from accepting this client or engagement (e.g., sanctions, conflict of interest rules)?	[ ]	[ ]	[ ]	*Consult legal advice if necessary.*
3	Does the client operate in a regulated industry (e.g., banking, insurance, hydropower) that requires specific compliance knowledge and reporting?	[ ]	[ ]	[ ]	*Ensure the firm has the necessary expertise or can obtain it.*
4	Is the client compliant with relevant Nepalese laws and regulations (e.g., Companies Act, Income Tax Act, Labor Laws)?	[ ]	[ ]	[ ]	*Initial assessment of client's compliance environment.*
5	Does the client have a clear understanding of their responsibilities regarding financial reporting and internal controls as per applicable laws and standards?	[ ]	[ ]	[ ]	*Confirm client's acceptance of their responsibilities as outlined in the engagement letter.*

1.6 Engagement Letter

The engagement letter formally documents the terms of the engagement and is crucial for establishing mutual understanding and avoiding disputes.

No.	Question	Yes	No	N/A	Comments/Details (if 'No')
1	Has an engagement letter been prepared, clearly outlining the objectives, scope, responsibilities of the firm and client, and the form of reports, in accordance with NSA 210?	[ ]	[ ]	[ ]	*Ensure all key elements of NSA 210 are included.*

No.	Question	Yes	No	N/A	Comments/Details (if 'No')
2	Has the engagement letter been signed by both the firm (Engagement Partner/Proprietor) and the client (management/those charged with governance)?	[ ]	[ ]	[ ]	*A signed engagement letter is essential before commencing significant work.*
3	Does the engagement letter include specific clauses relevant to Nepalese context (e.g., reference to ICAN, Nepalese laws, NFRS/NPSAS)?	[ ]	[ ]	[ ]	*Tailor the engagement letter to the local regulatory environment.*

Part 2: Client Continuance (For Existing Clients - Annual Review)

This section is to be completed annually for all existing clients to ensure that the firm continues to meet the requirements for independence, competence, and integrity. It is a critical component of ongoing quality management.

2.1 Review of Ongoing Relationship

No.	Question	Yes	No	N/A	Comments/Details (if 'No' or 'N/A')
1	Has there been any significant change in the client's ownership, management, or nature of business since the last review?	[ ]	[ ]	[ ]	*Changes may impact risk assessment, independence, or required expertise.*
2	Have there been any new ethical concerns, litigation, or regulatory investigations involving the client or its management during the past year?	[ ]	[ ]	[ ]	*Any new issues must be thoroughly investigated.*
3	Has the client demonstrated a continued commitment to ethical conduct and sound financial reporting throughout the past year?	[ ]	[ ]	[ ]	*Assess based on audit findings, management's responsiveness, and overall client behavior.*
4	Has the firm's competence and resources remained adequate for the ongoing engagement, considering any changes in client operations or accounting standards?	[ ]	[ ]	[ ]	*Re-evaluate if the firm still has the capacity and expertise.*
5	Has the firm's independence with respect to the client been continuously maintained? (Refer to annual independence declarations and any new threats identified)	[ ]	[ ]	[ ]	*Review all independence confirmations and any reported threats.*
6	Have there been any changes in legal or regulatory requirements that impact the firm's ability to continue the engagement or the scope of work?	[ ]	[ ]	[ ]	*Ensure ongoing compliance with all applicable laws and standards.*
7	Have there been any significant disagreements with management or those charged with governance during the past year that were not satisfactorily resolved?	[ ]	[ ]	[ ]	*Unresolved disagreements can indicate a breakdown in trust or ethical issues.*

No.	Question	Yes	No	N/A	Comments/Details (if 'No' or 'N/A')
8	Are there any overdue fees from the client that could pose a threat to independence or indicate financial difficulties?	[ ]	[ ]	[ ]	*Address overdue fees promptly to avoid independence threats.*
9	Has the client been responsive to audit requests and provided information in a timely and complete manner?	[ ]	[ ]	[ ]	*Lack of responsiveness can hinder audit progress and indicate potential issues.*
10	Are there any plans for the client to undertake significant new ventures, mergers, or acquisitions that would impact the nature or risk of the engagement?	[ ]	[ ]	[ ]	*Such events require a re-evaluation of engagement risks and planning.*

Part 3: Decision and Authorization

This section documents the final decision regarding client acceptance or continuance and the rationale behind it. It requires formal approval from the Quality Management Partner or designated authority.

- **Recommendation (Accept/Continue/Decline)**: _____
- **Reasoning for Recommendation**: _____

[Provide detailed reasoning, especially if declining or if significant safeguards are required. Reference specific findings from Part 1 or Part 2.]

- **Approved by (QMP/Partner)**: _____
- **Date of Approval**: _____

Part 4: Safeguards and Mitigation (if applicable)

If any threats to independence, competence, or integrity were identified during the acceptance or continuance process, describe the specific safeguards applied or mitigation actions taken to reduce the risks to an acceptable level. This demonstrates the firm's proactive approach to quality management.

- **Identified Threat(s)**: (e.g., Self-interest threat due to non-assurance services, lack of industry expertise)
- **Safeguard(s) Applied/Mitigation Action(s)**: (e.g., Engagement of an independent review partner, additional training for staff, consultation with external expert, declining specific non-assurance services)
- **Effectiveness of Safeguard(s)**: (Explain how the safeguard reduces the threat to an acceptable level)

[Provide details here. Attach additional sheets if necessary. Ensure documentation of all discussions and approvals related to safeguards.]

Annexure B: Engagement Quality Review (EQR) Checklist

This Engagement Quality Review (EQR) Checklist is to be used for engagements requiring an EQR in accordance with NSQM 1 and the firm's policies. The EQR is an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in forming the engagement report. This checklist is particularly relevant for small partnership firms where an EQR may be performed by another partner or an external reviewer, and for proprietorship firms when engaging an external EQR.

Note: NSQM 1 requires the firm to establish policies for when an Engagement Quality Review is required (see §6.3.1 and §9.2.1 above). The eligibility, independence and cooling-off requirements for the engagement quality reviewer, and the detailed conduct and documentation of the review itself, are addressed by Nepal Standard on Quality Management 2 (NSQM 2), a companion standard to NSQM 1. This checklist is used together with the firm's policies developed under NSQM 2.

Instructions:

i. The Engagement Quality Reviewer (EQR) should be independent of the engagement team and have the necessary competence and authority.

ii. Complete all relevant sections of this checklist.

iii. Document findings and conclusions for each item.

iv. Communicate any significant findings to the Engagement Partner and ensure they are addressed.

v. The EQR should be completed before the engagement report is issued.

vi. The Engagement Quality Reviewer must not have served as the engagement partner for the same client within the preceding two years (cooling-off period), and must have no other relationship with the client or the engagement that could compromise independence or objectivity.

vii. Where the reviewer is external to the firm, the reviewer signs a confidentiality undertaking before being given access to the engagement file, consistent with §4.1; where required, client consent to the disclosure is obtained, or the engagement letter provides for this in advance.

viii. External reviewers may be sourced from ICAN's panel of quality reviewers (where available), through a reciprocal peer-review arrangement with another member firm, or from another suitably qualified independent practitioner; the cost of the review is factored into the engagement fee at the proposal stage (see Annexure A, fee adequacy assessment).

Section 1: Engagement Information

Field	Details
Client Name	
Engagement Type	
Engagement Period	
Engagement Partner	
EQR Performed By	

Field	Details
Date of EQR	

Section 2: Scope of the EQR

The EQR should include, but is not limited to, the following:

- Evaluation of the significant judgments made by the engagement team.
- Evaluation of the conclusions reached in forming the engagement report.
- Consideration of the appropriateness of the engagement report.
- Review of selected engagement documentation related to significant judgments and conclusions.
- Assessment of the engagement team's compliance with relevant ethical requirements, particularly independence.
- Consideration of whether appropriate consultation has taken place on difficult or contentious matters.
- Evaluation of whether the engagement documentation supports the conclusions reached and complies with firm policies and professional standards.

Section 3: EQR Procedures

Item	Yes	No	N/A	Comments/ Findings
A. Independence and Ethical Requirements				
1. Has the engagement team and firm complied with independence requirements throughout the engagement?	[ ]	[ ]	[ ]	
2. Are there any identified threats to independence, and have appropriate safeguards been applied and documented?	[ ]	[ ]	[ ]	
3. Has the engagement team complied with other ethical requirements (e.g., objectivity, professional competence, confidentiality, professional behavior)?	[ ]	[ ]	[ ]	
4. Have all personnel involved in the engagement completed their annual independence declarations?	[ ]	[ ]	[ ]	
B. Acceptance and Continuance				
1. Was the client acceptance/continuance process properly followed and documented?	[ ]	[ ]	[ ]	
2. Was the firm competent and capable of performing the engagement?	[ ]	[ ]	[ ]	
3. Was client integrity appropriately assessed?	[ ]	[ ]	[ ]	
4. Was the engagement letter properly executed and does it reflect the agreed terms?	[ ]	[ ]	[ ]	
C. Significant Judgments and Conclusions				

Item	Yes	No	N/A	Comments/ Findings
1. Have significant risks (including fraud risks) been appropriately identified, assessed, and responded to?	[ ]	[ ]	[ ]	
2. Are the responses to assessed risks appropriate and effectively implemented, and is there sufficient appropriate audit evidence?	[ ]	[ ]	[ ]	
3. Have significant judgments regarding materiality (planning and performance materiality) been appropriate and consistently applied?	[ ]	[ ]	[ ]	
4. Is there sufficient appropriate audit evidence to support the conclusions reached on all material assertions?	[ ]	[ ]	[ ]	
5. Have significant accounting and auditing issues (e.g., complex estimates, revenue recognition, related parties) been appropriately resolved and documented?	[ ]	[ ]	[ ]	
6. Are the financial statements (or subject matter information) free from material misstatement, both individually and in aggregate?	[ ]	[ ]	[ ]	
7. Have significant estimates and related disclosures been appropriately addressed, including management's assumptions and methods?	[ ]	[ ]	[ ]	
8. Have related party transactions been appropriately identified, accounted for, and disclosed in accordance with applicable standards?	[ ]	[ ]	[ ]	
9. Has the going concern assessment been appropriately performed, and are the conclusions reached reasonable and supported by evidence?	[ ]	[ ]	[ ]	
10. Have subsequent events been appropriately identified and accounted for/disclosed?	[ ]	[ ]	[ ]	
11. Have all identified misstatements (corrected and uncorrected) been appropriately evaluated?	[ ]	[ ]	[ ]	
D. Engagement Performance and Supervision				
1. Was the engagement planned and executed in accordance with the firm's methodology and professional standards?	[ ]	[ ]	[ ]	
2. Was the engagement team adequately supervised throughout the engagement?	[ ]	[ ]	[ ]	
3. Was the work performed by engagement team members appropriately reviewed by more experienced personnel?	[ ]	[ ]	[ ]	
4. Were all significant issues and findings discussed with the engagement team and, where appropriate, with management/those charged with governance?	[ ]	[ ]	[ ]	
5. Was appropriate consultation sought on difficult or contentious matters, and were the conclusions documented and implemented?	[ ]	[ ]	[ ]	
E. Engagement Documentation				

Item	Yes	No	N/A	Comments/ Findings
1. Is the engagement documentation sufficient to support the significant judgments and conclusions reached in the engagement report?	[ ]	[ ]	[ ]	
2. Is the documentation clear, concise, and understandable to an experienced auditor with no prior connection to the engagement?	[ ]	[ ]	[ ]	
3. Has the final engagement file been assembled in a timely manner after the date of the engagement report?	[ ]	[ ]	[ ]	
4. Are there policies and procedures in place to ensure the confidentiality, safe custody, integrity, accessibility, and retrievability of engagement documentation?	[ ]	[ ]	[ ]	
F. Engagement Report				
1. Is the engagement report appropriate in the circumstances, including the opinion expressed?	[ ]	[ ]	[ ]	
2. Does the report comply with professional standards (NSAs) and regulatory requirements?	[ ]	[ ]	[ ]	
3. Are there any inconsistencies between the report and the engagement documentation or the financial statements?	[ ]	[ ]	[ ]	
4. Are all required elements of the report present and accurately stated?	[ ]	[ ]	[ ]	

Section 4: Overall EQR Conclusion

Overall Conclusion: (Concur with Engagement Partner's conclusions / Do not concur — significant issues identified)

Summary of Significant Findings and Recommendations:

[Provide detailed summary of findings, including nature of deficiencies, potential impact, and specific recommendations for improvement. If there are no significant findings, state so.]

Section 5: Follow-up Actions

Actions Required by Engagement Team/Firm:

[List specific actions to be taken, responsible parties, and deadlines for addressing findings.]

Date for Follow-up Review (if applicable): _____

Section 6: Signatures

Engagement Quality Reviewer Signature: _____
Date: _____

Engagement Partner Acknowledgment:

I acknowledge receipt and review of this EQR report and commit to addressing the findings and recommendations.

Engagement Partner Signature: _____
Date: _____

Annexure C: Independence Confirmation Form

This form is to be completed annually by all partners, professional staff, and administrative personnel of [Firm Name] who are involved in engagements or who may influence the outcome of engagements. It is designed to ensure compliance with the independence requirements of the ICAN Code of Ethics for Professional Accountants and the firm's NSQM Policy.

Personal Information

- **Name**: _____
- **Designation**: _____
- **Employee ID (if applicable)**: _____
- **Date of Completion**: _____

General Independence Declaration

I hereby confirm that, to the best of my knowledge and belief, during the period from [Start Date] to End Date, I have been, and remain, independent of all audit and assurance clients of [Firm Name] in accordance with the ICAN Code of Ethics for Professional Accountants and the firm's policies. I understand that independence comprises both independence of mind and independence in appearance.

I further confirm that I have read, understood, and complied with the firm's policies and procedures regarding independence, including those related to:

- Financial interests
- Loans and guarantees
- Business relationships
- Family and personal relationships
- Employment with an audit client
- Serving as an officer or director of an audit client
- Provision of non-assurance services
- Fees and remuneration
- Gifts and hospitality
- Litigation

Specific Independence Questions

Please answer the following questions. If you answer "Yes" to any question, please provide full details in Section 4.

No.	Question	Yes	No	N/A
1	Do you, or any of your immediate family members (spouse, dependent children), hold any direct or material indirect financial interest in any audit or assurance client of the firm?	[ ]	[ ]	[ ]
2	Do you, or any of your immediate family members, have any loans or guarantees to or from any audit or assurance client, its directors, or officers (other than routine banking transactions on normal commercial terms)?	[ ]	[ ]	[ ]
3	Do you have any close business relationships with any audit or assurance client or its management?	[ ]	[ ]	[ ]
4	Do you have any immediate or close family members who are directors, officers, or employees in a position to exert significant influence over the subject matter of an engagement for any audit or assurance client?	[ ]	[ ]	[ ]
5	Have you been employed by any audit or assurance client within the period covered by the engagement report or the preceding year?	[ ]	[ ]	[ ]
6	Are you currently serving, or have you recently served, as an officer or director of any audit or assurance client?	[ ]	[ ]	[ ]
7	Have you provided any non-assurance services to an audit client that might create a self-review or advocacy threat?	[ ]	[ ]	[ ]
8	Have you accepted any gifts or hospitality from an audit or assurance client, its directors, or officers, other than those whose value is clearly insignificant?	[ ]	[ ]	[ ]
9	Are you aware of any actual or threatened litigation between the firm (or yourself) and any audit or assurance client?	[ ]	[ ]	[ ]
10	Are you aware of any other circumstances or relationships that could reasonably be perceived to impair your independence or objectivity with respect to any audit or assurance client?	[ ]	[ ]	[ ]

Details of Exceptions (if applicable)

If you answered “Yes” to any of the questions in Section 3, please provide full details below, including the name of the client, the nature of the relationship or interest, and any safeguards that have been applied or proposed.

[Provide details here. Attach additional sheets if necessary.]

Ongoing Obligation

I understand that my obligation to maintain independence is continuous. I agree to notify the Quality Management Partner (QMP) or my engagement partner immediately if any circumstances arise that might impair my independence or objectivity, or if I become aware of any potential threats to independence.

Signatures

Signature of Individual: _____

Date: _____

For Office Use Only:

Reviewed by (QMP/Partner): _____

Date: _____

Comments/Actions Taken (if any exceptions noted):

[Provide details of review and actions taken.]

Annexure D: Monitoring and Remediation Report Template

This template is to be used by [Firm Name] to document the results of monitoring activities of its System of Quality Management (SoQM) and the actions taken to address identified deficiencies. This report facilitates continuous improvement of the SoQM in accordance with NSQM 1.

Instructions:

1. Complete this report after conducting monitoring activities (e.g., periodic inspections, ongoing monitoring, engagement quality reviews).
2. Clearly describe any identified deficiencies, their root causes, and the impact on engagement quality or the SoQM.
3. Outline the remedial actions taken or planned, including responsible persons, target completion dates, and resources required.
4. Document the follow-up activities and assess the effectiveness of the remedial actions.
5. Submit the completed report to the Quality Management Partner/Sole Practitioner for review, approval, and annual evaluation of the SoQM.

Section 1: Monitoring Activity Details

Field	Details
Monitoring Period Covered	(e.g., Annual: 2082/83 Quarterly: Shrawan-Aswin 2082, Specific Engagement Review: Client XYZ Audit 2083)
Date of Monitoring Activity	(e.g., 2083/09/15)
Monitored By	(Name and Designation of individual(s) performing the monitoring)
Type of Monitoring	(e.g., Internal Inspection, Engagement Quality Review, System Review, Client Feedback Analysis, Complaints Review)
Scope of Monitoring	(Brief description of what was monitored, e.g., “Complex and High value audit engagements completed in Q1 2082”, “SoQM component: Resources”)

Section 2: Summary of Monitoring Findings

Provide a summary of the overall findings from the monitoring activity, highlighting areas of strength and areas requiring improvement. This section should offer a high-level overview before delving into specific deficiencies.

Section 3: Identified Deficiencies and Root Causes

For each deficiency identified, provide a clear description and analyze its root cause. Refer to the relevant SoQM component and quality objective. Categorize deficiencies by severity (e.g., Minor, Significant, Critical).

Deficiency ID	SoQM Component	Quality Objective Affected	Deficiency Description	Severity	Root Cause Analysis	Impact on Quality
D-001	Engagement Performance	Appropriate Reporting	Inadequate documentation of significant audit judgments.	Significant	Lack of clear guidance on documentation standards for complex areas.	Increased risk of misstatement going undetected; difficulty in review.
D-002	Ethical Requirements	Professional Competence	Delay in completing annual independence confirmations by staff.	Minor	Overlooked due to heavy workload; lack of automated reminders.	Potential, but unconfirmed, independence threats.
D-003	Resources	Professional Competence	Insufficient training on new NFRS standards for junior staff.	Significant	Budget constraints and lack of structured training program.	Risk of non-compliance with accounting standards.

Section 4: Remedial Actions

For each identified deficiency, outline the specific remedial actions taken or planned to address it. Include the person responsible for implementation and the target completion date. Also, indicate the resources required for implementation.

Deficiency ID	Remedial Action(s)	Responsible Person	Target Completion Date	Resources Required	Status (Open/Closed)
D-001	Develop and disseminate detailed documentation guidelines for complex audit areas. Conduct mandatory training.	QMP / Engagement Partner	2082/03/30	Staff time, training materials	Open
D-002	Implement automated reminders for independence confirmations. Emphasize importance in team meetings.	HR / QMP	2082/02/15	IT support, staff time	Open
D-003	Enroll junior staff in external NFRS training programs. Develop internal NFRS update sessions.	QMP / Training Coordinator	2082/04/30	Training fees, staff time	Open

Section 5: Follow-up and Effectiveness Review

Describe how the effectiveness of the remedial actions will be monitored and reviewed to ensure that the deficiencies have been adequately addressed and do not recur. This section should detail the plan for verifying

the success of the remediation efforts.

- **Follow-up Mechanism**: For each remedial action, specify how its implementation and effectiveness will be verified (e.g., review of updated documentation, re-inspection of engagements, staff surveys, review of independence logs).
- **Responsible for Follow-up**: Clearly assign responsibility for conducting follow-up reviews (e.g., QMP, Engagement Partner, external reviewer).
- **Frequency of Follow-up**: Define the frequency or timing of follow-up reviews (e.g., 3 months after implementation, next annual monitoring cycle).
- **Documentation of Effectiveness**: Document the results of the effectiveness review, including whether the deficiency has been fully remediated and if any new issues have arisen.

Section 6: Overall Conclusion and Recommendations

Provide an overall conclusion on the effectiveness of the SoQM during the monitoring period, considering the identified deficiencies and the success of remedial actions. Offer recommendations for further improvement to enhance the firm's quality management system.

- **Overall Assessment**: State whether the SoQM is operating effectively and providing reasonable assurance that the firm's engagements are performed in accordance with professional standards.
- **Key Strengths**: Highlight areas where the SoQM is performing well.
- **Areas for Further Improvement**: Identify strategic areas where the firm should focus its efforts to enhance quality in the next period.
- **Recommendations**: Propose specific, actionable recommendations for leadership to consider for the continuous improvement of the SoQM.

Prepared By:

Name: _____

Designation: _____

Signature: _____

Date: _____

Reviewed and Approved By (Quality Management Partner/Sole Practitioner):

Name: _____

Designation: _____

Signature: _____

Date: _____

Annexure E: Risk Assessment Matrix

This Risk Assessment Matrix is designed to assist proprietorship and small partnership audit firms in Nepal in identifying, assessing, and responding to quality risks in accordance with NSQM 1. The matrix provides a structured approach to evaluate the likelihood and impact of potential quality risks and to determine appropriate responses.

Risk Categories

Quality risks are categorized based on the components of the System of Quality Management (SoQM) as outlined in NSQM 1.

Risk Assessment Scale

1.1 Likelihood

Rating	Description
High	Very likely to occur (e.g., almost certain, frequent)
Medium	Moderately likely to occur (e.g., probable, occasional)
Low	Unlikely to occur (e.g., rare, improbable)

1.2 Impact

Rating	Description
High	Significant adverse effect on engagement quality, regulatory compliance, or firm reputation.
Medium	Moderate adverse effect on engagement quality, regulatory compliance, or firm reputation.
Low	Minor adverse effect on engagement quality, regulatory compliance, or firm reputation.

Risks are prioritized based on a combination of their likelihood and impact. This helps the firm focus resources on the most critical risks.

Likelihood \ Impact	Low Impact	Medium Impact	High Impact	Critical Impact
Critical Likelihood	High	Critical	Critical	Critical
High Likelihood	Medium	High	Critical	Critical
Medium Likelihood	Low	Medium	High	Critical
Low Likelihood	Low	Low	Medium	High

- **Critical**: Requires immediate attention and robust responses.
- **High**: Requires significant attention and strong responses.
- **Medium**: Requires attention and adequate responses.
- **Low**: Requires monitoring and basic responses.

Illustrative Risk Assessment Matrix for Small Firms

This illustrative matrix provides examples of common quality risks faced by proprietorship and small partnership firms in Nepal and potential responses. Firms should customize this matrix to reflect their specific circumstances, nature of engagements, and operating environment.

Note on risk categorization: the risk types introduced at §2.1.2 (Engagement, Human Resources, Ethical, Performance, Information Technology, Regulatory, and Client Concentration Risk) are organized below by SoQM component rather than by risk type, since responses are most naturally assigned at the component level. For cross-reference: Information Technology Risk is primarily addressed under Resources (Technological Resources); Regulatory Risk is primarily addressed under Information and Communication (external communication and regulatory filings) and Governance and Leadership (accountability for compliance); and Client Concentration Risk is primarily addressed under Acceptance and Continuance. Firms may add these as explicit rows if a risk-type view is preferred.

SoQM Component	Quality Risk Description	Likelihood	Impact	Priority	Potential Responses (Policies & Procedures)
Governance & Leadership	Lack of clear accountability for quality management.	Medium	High	High	• Designate a partner (or sole practitioner) with ultimate responsibility for SoQM. • Communicate roles and responsibilities clearly.
	Inadequate promotion of a culture of quality.	Medium	Medium	Medium	• Lead by example; emphasize quality in all communications. • Provide training on ethical values and professional skepticism.
Ethical Requirements	Failure to identify and address independence threats.	High	Critical	Critical	• Implement annual independence declarations for all personnel. • Establish a clear process for identifying and evaluating potential conflicts of interest. • Provide independence training.
	Non-compliance with Code of Ethics.	Medium	High	High	• Regular training on ICAN Code of Ethics. • Encourage reporting of ethical concerns without fear of reprisal.
Acceptance & Continuance	Accepting engagements beyond firm's competence or resources.	Medium	High	High	• Develop a client and engagement acceptance checklist. • Assess firm's capabilities and resources before accepting new engagements. • Document acceptance/continuance decisions.
	Associating with clients lacking	Low	High	Medium	• Conduct background checks on new clients where feasible. • Inquire about client's reputation and

SoQM Component	Quality Risk Description	Likelihood	Impact	Priority	Potential Responses (Policies & Procedures)
	integrity.				business practices.
Engagement Performance	Inadequate planning leading to inefficient or ineffective audits.	High	Medium	High	• Utilize standardized audit programs and planning checklists. • Ensure engagement team understands client's business and risks.
	Insufficient supervision and review of engagement work.	High	High	Critical	• Implement a structured review process (e.g., partner review, peer review). • Provide clear guidance on documentation requirements. • For proprietorships, consider external consultation for complex areas.
	Inadequate engagement documentation.	High	Medium	High	• Provide templates for working papers. • Conduct regular reviews of documentation quality. • Training on documentation standards.
Resources	Insufficient competent personnel.	Medium	High	High	• Invest in continuous professional development (CPD) for staff and partners. • Strategic recruitment and retention efforts. • Utilize external experts when internal expertise is lacking.
	Outdated or inadequate technological resources.	Low	Medium	Low	• Regularly assess technology needs and invest in appropriate software/hardware. • Ensure data security measures are in place.
Information & Communication	Lack of effective internal communication on quality matters.	Medium	Medium	Medium	• Regular team meetings to discuss quality. • Accessible quality management manual. • Clear communication channels for feedback.
	Failure to communicate with external parties (e.g., ICAN, clients).	Low	Medium	Low	• Establish protocols for external communications. • Ensure timely submission of regulatory filings.

SoQM Component	Quality Risk Description	Likelihood	Impact	Priority	Potential Responses (Policies & Procedures)
Monitoring & Remediation	Ineffective monitoring of the SoQM.	Medium	High	High	• Implement periodic internal reviews of the SoQM. • Consider peer reviews or external quality assurance reviews. • Develop a monitoring checklist.
	Failure to address identified deficiencies effectively.	Medium	High	High	• Establish a clear process for investigating root causes of deficiencies. • Develop and implement timely corrective actions. • Track remediation efforts and their effectiveness.

Detailed Risk Scenarios and Responses for SMPs

This section provides more granular examples of quality risks and corresponding responses, considering the specific operational environment of proprietorship and small partnership firms in Nepal.

Governance and Leadership Risks

Quality Risk Description	Likelihood	Impact	Priority	Detailed Responses (Policies & Procedures)
Lack of clear accountability for quality management. *In proprietorships, the sole practitioner may struggle to separate roles; in partnerships, responsibilities might be informally assigned.*	Medium	High	High	• **Proprietorship**: Sole practitioner formally designates themselves as the Quality Management Partner (QMP) in the firm's internal documentation. • **Partnership**: Clearly define and document the QMP role and responsibilities in the partnership agreement or an internal memo. • Regular (e.g., quarterly) documented review of SoQM effectiveness by the QMP/partners.
Inadequate promotion of a culture of quality. *Commercial pressures or lack of awareness may lead to quality being overlooked.*	Medium	Medium	Medium	• **Leadership by Example**: QMP/partners consistently emphasize quality in all internal communications, client interactions, and performance reviews. • **Training**: Conduct annual mandatory training sessions on the firm's quality policy, ethical values, and the importance of professional skepticism. • **Feedback Mechanism**: Implement an anonymous suggestion box or a designated contact person for quality concerns.

Quality Risk Description	Likelihood	Impact	Priority	Detailed Responses (Policies & Procedures)
Insufficient resources allocated to quality management. *Small firms often face budget and time constraints.*	Medium	High	High	• **Budget Allocation**: Formally allocate a portion of the firm's annual budget for quality management activities (e.g., training, software, external reviews). • **Time Allocation**: QMP/partners dedicate specific, documented hours per week/month to SoQM activities. • **Leverage ICAN Resources**: Actively utilize free or subsidized resources, templates, and guidance provided by ICAN.

Ethical Requirements Risks

Quality Risk Description	Likelihood	Impact	Priority	Detailed Responses (Policies & Procedures)
Failure to identify and address independence threats. *Close client relationships or financial interests may inadvertently compromise independence.*	High	Critical	Critical	• **Annual Independence Declarations**: All personnel (including administrative staff who may have access to client information) complete and sign annual independence declarations (refer to Annexure C). • **Engagement-Specific Independence Confirmation**: For each new engagement, the engagement team confirms independence before commencing work. • **Prohibited Services List**: Maintain and regularly update a list of services that are prohibited for audit clients as per the ICAN Code of Ethics. • **Rotation Policy**: For partnership firms, consider partner rotation for long-standing audit clients where feasible and appropriate.
Non-compliance with the ICAN Code of Ethics. *Lack of awareness or pressure to compromise ethical principles.*	Medium	High	High	• **Mandatory Ethics Training**: Annual mandatory training on the ICAN Code of Ethics, including case studies relevant to Nepalese practice. • **Ethical Dilemma Resolution Framework**: Establish a clear process for personnel to consult on ethical dilemmas, ensuring confidentiality and non-retaliation. • **Whistleblower Policy**: Implement a policy that encourages reporting of ethical concerns without fear of reprisal.
				• **Confidentiality Agreements**: All personnel sign confidentiality agreements upon employment.

Quality Risk Description	Likelihood	Impact	Priority	Detailed Responses (Policies & Procedures)
Confidentiality breaches. *Accidental disclosure of client information, especially in shared office environments or with remote work.*	Medium	Medium	Medium	• **Secure Data Handling**: Implement policies for secure storage (physical and electronic), transmission, and disposal of client information. • **IT Security Training**: Regular training on data security, phishing awareness, and proper use of firm IT resources. • **Physical Security**: Ensure client files are stored in locked cabinets; restrict access to sensitive areas.

Acceptances and Continuance Risks

Quality Risk Description	Likelihood	Impact	Priority	Detailed Responses (Policies & Procedures)
Accepting engagements beyond the firm's competence or resources. *Pressure to grow the client base or lack of self- assessment.*	Medium	High	High	• **Client Acceptance & Continuance Checklist**: Utilize a comprehensive checklist (refer to Annexure A) for all new and recurring engagements, covering competence, resources, and independence. • **Pre-engagement Assessment**: Conduct a thorough assessment of the firm's capabilities (personnel, technical expertise, industry knowledge) against the requirements of the prospective engagement. • **Consultation**: Consult with external experts or other firms if specialized knowledge is required and not available internally. • **Decline Engagement**: Be prepared to decline engagements that pose an unacceptable quality risk.
Associating with clients lacking integrity. *Reputational risk from association with unethical clients.*	Low	High	Medium	• **Client Background Checks**: Conduct due diligence on prospective clients, including inquiries about their reputation, business practices, and management integrity (e.g., through public records, professional contacts). • **Source of Funds Verification**: Where appropriate, inquire about the source of funds to mitigate money laundering risks. • **Ongoing Monitoring**: Continuously monitor client integrity throughout the engagement period.

Engagement Performance Risks

Quality Risk Description	Likelihood	Impact	Priority	Detailed Responses (Policies & Procedures)
Inadequate planning leading to inefficient or ineffective audits. *Lack of standardized approach or time pressure.*	High	Medium	High	• **Standardized Audit Programs**: Develop and mandate the use of standardized audit programs, planning checklists, and risk assessment templates tailored to common Nepalese industries. • **Engagement Planning Meeting**: Conduct a formal planning meeting for each engagement, involving the engagement partner and key team members, to discuss client specifics, risks, and audit strategy. • **Documentation of Planning**: Ensure all planning decisions, risk assessments, and materiality determinations are thoroughly documented in the engagement file.
Insufficient supervision and review of engagement work. *Especially challenging in proprietorships or small partnerships with limited senior staff.*	High	High	Critical	• **Structured Review Process**: Implement a multi- level review process: preparer review, senior review, and engagement partner review. • **Proprietorship**: Sole practitioner dedicates specific time for self-review, using a review checklist. Consider engaging a peer reviewer for complex engagements. • **Partnership**: Clearly define review responsibilities for each partner and senior staff. Implement cross- partner reviews for significant engagements. • **EQR Policy**: Establish clear criteria for engagements requiring an Engagement Quality Review (EQR) and ensure an independent reviewer is appointed (**refer to Annexure B**).
Inadequate engagement documentation. *Failure to capture sufficient appropriate audit evidence or key judgments.*	High	Medium	High	• **Templates and Checklists**: Provide mandatory templates for working papers, lead schedules, and conclusion memoranda. • **Training on Documentation**: Conduct regular training on the firm's documentation standards and the requirements of NSAs. • **Timely Assembly**: Enforce a policy for the timely assembly of the final engagement file (e.g., within 60 days of the audit report date). • **Electronic Working Papers**: Encourage

Quality Risk Description	Likelihood	Impact	Priority	Detailed Responses (Policies & Procedures)
				or mandate the use of electronic working paper software for consistency, efficiency, and security.
Failure to identify and address significant accounting or auditing issues. *Lack of technical expertise or professional skepticism.*	Medium	High	High	• **Technical Consultation Policy**: Establish a clear policy for consultation on complex or contentious matters (e.g., with other partners, ICAN, external experts). • **Continuous Training**: Provide ongoing training on new accounting standards (NFRS/NPSAS) and auditing standards (NSAs). • **Promote Professional Skepticism**: Reinforce the importance of a questioning mind and critical assessment of audit evidence.

Resources Risks

Quality Risk Description	Likelihood	Impact	Priority	Detailed Responses (Policies & Procedures)
Insufficient competent personnel. *High staff turnover or difficulty attracting qualified professionals in Nepal.*	Medium	High	High	• **CPD Program**: Implement a robust Continuous Professional Development (CPD) program for all personnel, tracking compliance and effectiveness (refer to Annexure F). • **Mentorship and Coaching**: Establish mentorship programs for junior staff. • **Succession Planning**: For partnerships, develop a succession plan for key roles. • **Strategic Recruitment**: Partner with educational institutions; offer internships.
Outdated or inadequate technological resources. *Limited investment in IT infrastructure or software.*	Low	Medium	Low	• **Annual IT Assessment**: Conduct an annual assessment of IT needs and infrastructure. • **Budget for IT Investment**: Allocate a dedicated budget for upgrading audit software, hardware, and security solutions. • **Cloud Solutions**: Explore and implement secure cloud-based solutions for efficiency and accessibility, ensuring data privacy compliance. • **IT Training**: Provide regular training on the use of audit software and IT security.

Information and Communication Risks

Quality Risk Description	Likelihood	Impact	Priority	Detailed Responses (Policies & Procedures)
Lack of effective internal communication on quality matters. *Personnel unaware of policy updates or quality concerns.*	Medium	Medium	Medium	• **Regular Updates**: Distribute regular (e.g., quarterly) internal newsletters or memos summarizing key quality policy updates and reminders. • **Accessible Documentation**: Ensure the NSQM Policy and all related documents are easily accessible to all personnel (e.g., on a shared drive). • **Team Meetings**: Incorporate a standing agenda item for quality discussions in all team meetings.
Failure to communicate effectively with external parties (e.g., ICAN, clients). *Missed deadlines for regulatory filings or client dissatisfaction.*	Low	Medium	Low	• **Communication Protocols**: Establish clear protocols and templates for client communication (engagement letters, management letters, audit reports). • **Regulatory Compliance Calendar**: Maintain a calendar for all regulatory filings and deadlines (e.g., ICAN practice license renewals, firm returns). • **Designated Contact**: Designate a specific person (QMP/partner) responsible for liaising with ICAN on quality-related matters.

Monitoring and Remediation Risks

Quality Risk Description	Likelihood	Impact	Priority	Detailed Responses (Policies & Procedures)
Ineffective monitoring of the SoQM. *Monitoring activities are not conducted regularly or are superficial.*	Medium	High	High	• **Monitoring Schedule**: Develop and adhere to an annual monitoring schedule, including internal inspections and reviews of engagement files. • **Monitoring Checklists**: Utilize standardized monitoring checklists to ensure consistency and comprehensiveness. • **Proprietorship**: Sole practitioner performs a documented annual self-assessment of the SoQM. • **Partnership**: Implement peer reviews of engagement files among partners. Consider engaging an external reviewer periodically.

Quality Risk Description	Likelihood	Impact	Priority	Detailed Responses (Policies & Procedures)
Failure to address identified deficiencies effectively. *Remedial actions are not implemented or are not effective in addressing root causes.*	Medium	High	High	• **Root Cause Analysis**: For every identified deficiency, conduct a thorough root cause analysis to understand why it occurred. • **Action Plan**: Develop a specific, measurable, achievable, relevant, and time-bound (SMART) action plan for each deficiency, assigning responsibility. • **Follow-up**: Regularly follow up on the implementation of remedial actions and assess their effectiveness. • **Documentation**: Document all deficiencies, root causes, action plans, and follow-up activities (refer to Annexure D).

Annexure F: Training and Competence Records

This annexure outlines the firm's approach to maintaining and documenting the training and competence of its personnel, in accordance with NSQM 1 and the firm's commitment to professional development. Adequate training and competence are essential for delivering high-quality engagements.

Purpose:

The purpose of this annexure is to:

- Ensure that all personnel possess the necessary professional competence to perform their assigned roles and responsibilities effectively and ethically.
- Document the continuous professional development (CPD) activities undertaken by personnel to meet both ICAN requirements and firm-specific needs.
- Provide a structured framework for assessing, monitoring, and addressing competence gaps, thereby creating a culture of continuous learning and improvement.
- Demonstrate to regulators and external reviewers that the firm invests in its human capital and maintains a competent workforce.

Scope:

This annexure applies to all partners, professional staff (including articled clerks/trainees), and other personnel involved in engagements at [Firm Name]. It also extends to any external consultants or experts engaged by the firm, ensuring their competence is appropriately assessed and documented.

Policies and Procedures for Competence Development

a) Identification of Competence Requirements

The firm systematically identifies the competence requirements for various roles and levels within the firm. This process considers:

- **Nature and Complexity of Engagements**: The types of engagements undertaken (e.g., audit, review, tax, advisory) and their inherent complexity (e.g., industry-specific knowledge, complex accounting issues).
- **Professional Standards**: Requirements of Nepal Standards on Auditing (NSAs), Nepal Standards on Quality Management 1 (NSQM 1), and the ICAN Code of Ethics for Professional Accountants.
- **Legal and Regulatory Requirements**: Compliance with the Companies Act, Income Tax Act, and other relevant Nepalese laws and regulations.
- **Technological Advancements**: Proficiency in audit software, data analytics tools, cloud-based platforms, and cybersecurity best practices.
- **Industry-Specific Knowledge**: Understanding of key industries in which the firm's clients operate (e.g., banking, manufacturing, non-profit).
- **Soft Skills**: Professional skepticism, critical thinking, communication, leadership, and teamwork.

b) Training and Development Programs

The firm facilitates access to and actively encourages participation in relevant training and development

programs to ensure personnel acquire and maintain the necessary competence. These programs include:

- **Internal Training Programs**: Regularly scheduled workshops and seminars conducted by partners or senior staff on specific audit methodologies, firm policies, software updates, and technical accounting/auditing pronouncements relevant to Nepal.
- **External Training Programs**: Encouraging and supporting participation in courses, seminars, and workshops offered by ICAN, other professional bodies, universities, or reputable training providers. This includes specialized training for NFRS, NSAs, and tax laws.
- **On-the-Job Training and Coaching**: Providing practical learning opportunities through direct involvement in engagements, coupled with structured mentoring and coaching from experienced professionals. This is particularly crucial for articled clerks and junior staff.
- **Self-Study and Research**: Promoting a culture of continuous learning through self-study using professional literature, online resources (e.g., ICAN publications, international accounting/auditing pronouncements), and technical publications. The firm provides access to relevant databases and libraries.
- **Cross-Functional Training**: Where appropriate, providing opportunities for personnel to gain experience in different service lines or industries to broaden their skill sets.

c) Continuous Professional Development (CPD) Management

All professional personnel are required to comply with ICAN's CPD requirements. The firm actively supports personnel in meeting these requirements and ensures compliance by:

- **CPD Planning**: Assisting personnel in developing personalized CPD plans that align with their career goals, current role, and identified competence gaps.
- **Monitoring and Tracking**: Maintaining a centralized system for tracking CPD hours and activities undertaken by each professional. This includes verifying attendance and completion of courses.
- **Integration with Performance Evaluations**: Incorporating CPD compliance and its impact on performance into annual performance evaluations. Non-compliance or significant gaps may trigger specific development plans.
- **Reminders and Support**: Providing regular reminders about CPD deadlines and offering support in identifying suitable training opportunities.

d) Assessment of Competence

Competence is assessed through a combination of formal and informal methods to ensure a holistic view of an individual's capabilities:

- **Performance Evaluations**: Regular, documented performance evaluations that include an assessment of technical knowledge, application of professional judgment, adherence to quality standards, and ethical conduct. Feedback is provided to facilitate continuous improvement.
- **Engagement Reviews**: Feedback from engagement reviews, including Engagement Quality Reviews (EQRs), provides direct insights into the quality of work performed and identifies areas for improvement at an individual and team level.
- **Supervision and Coaching**: Ongoing observation, guidance, and feedback from senior personnel during engagement execution are critical for assessing and developing competence.

- **Formal Qualifications and Certifications**: Verification of professional qualifications (e.g., CA, ACCA, CPA, RA, AT) and any specialized certifications relevant to the firm's practice.
- **Client Feedback**: Where appropriate, feedback from clients regarding the performance and professionalism of engagement team members.
- **Peer Reviews**: For partners, periodic peer reviews can provide valuable insights into their technical competence and adherence to quality standards.

e) Training and Competence Record Template

Each personnel member is required to maintain a comprehensive record of their training and competence development. This record serves as a key document for performance evaluations, career progression, and demonstrating compliance with NSQM 1.

f) Personal Details

Field	Details
Personnel Name	_____
Designation	_____
Date of Joining Firm	_____
Professional Qualifications	(e.g., CA, ACCA, CPA, BBA, BBS,MBA, MBS) _____
ICAN Membership No. (if applicable)	_____
Specializations/Industry Focus	(e.g., Taxation, Banking, NGO Audit) _____

g) Annual CPD Plan and Log

Date	Training Program /Activity	Provider (Internal/ External)	Type	Hours	Key Learning Outcomes	Relevance to Role/Firm	Verified By (Supervisor/Partner)

Total CPD Hours for the Year: _____

h) Competence Assessment Summary

This section summarizes the individual's competence across key areas, based on performance evaluations, engagement reviews, and other assessments. It identifies strengths and areas requiring further development.

Area of Competence	Assessment (e.g., Proficient, Developing, Needs Improvement)	Date of Assessment	Assessed By	Action Plan (if any)	Target Date for Improvement
Technical Knowledge (e.g., NSAs, NFRS, Tax Laws)					
Professional Judgment & Skepticism					
Audit Software Proficiency (e.g., Tally, Excel, Audit Software)					
Industry Specific Knowledge (e.g., Banking, Manufacturing)					
Ethical Compliance & Independence					
Communication Skills (Written & Verbal)					
Leadership & Supervision (for senior roles)					

i) Development Plan (for identified gaps)

Competence Gap	Specific Training/ Development Activity	Expected Outcome	Responsible Person	Target Completion Date

j) Review and Update

The Quality Management Partner (QMP) or the designated partner/sole practitioner is responsible for periodically reviewing the training and competence records. This review ensures that:

- Records are up-to-date and accurately reflect the individual's development.
- Personnel are meeting the required competence levels for their roles.
- Identified competence gaps are being addressed through targeted training or development plans.
- The firm's overall human resource capabilities align with its quality objectives and strategic direction.

This review should be conducted at least annually, coinciding with performance evaluations, and the results should feed into the firm's overall annual evaluation of the SoQM.

Annexure G: Draft Sample NSQM Policy for Proprietorship Firm

QUALITY MANAGEMENT POLICY

Based on Nepal Standard on Quality Management 1 (NSQM 1)

For Proprietorship Audit Firms

Firm Name	[Insert Firm Name]
Proprietor	[Insert CA Name], FCA / ACA/RA/AT
Number of Team	2-10
ICAN Firm Reg. No.	[Insert Registration Number]
Effective Date	1st Shrawan 2083 (July 2026)
Policy Version	1.0
Prepared by	[Proprietor Name]
Reviewed on	[Date]
Next Review Date	1st Shrawan 2084 (July 2027)

DISCLAIMER

This policy document has been prepared to assist proprietorship firms in implementing the Nepal Standard on Quality Management 1 (NSQM 1). It is a working template. All highlighted fields marked in [ ] must be completed with firm-specific details. This document does not substitute for reading the full text of NSQM 1 as adopted by ICAN. ICAN accepts no liability for reliance on this template without professional judgment being applied.

Placeholder: a parallel sample NSQM policy for small partnership firms (up to 10 partners), mirroring this Annexure's structure with partnership-specific roles (QMP, all-partners duties, partnership meetings — see 3.2.2 above), is pending and will be issued as a future annexure. Partnership firms should adapt this Annexure in the interim, in consultation with all partners.

Compliance with this template does not automatically guarantee compliance with NSQM 1 or ICAN regulations. Each firm is solely responsible for designing and operating a System of Quality Management (SoQM) appropriate to its specific circumstances, scale, and nature of engagements.

1. Introduction and Scope

This Quality Management Policy establishes the System of Quality Management (SoQM) for [Firm Name], a proprietorship firm of Chartered Accountants/Registered Auditors operating in Nepal. It is designed and implemented in accordance with Nepal Standard on Quality Management 1 (NSQM 1), which is based on the International Standard on Quality Management 1 (ISQM 1) issued by the IAASB and adopted by ICAN.

1.1 Purpose

The purpose of this policy is to establish, implement, and maintain a comprehensive SoQM that enables [Firm Name] to consistently perform quality engagements in compliance with Nepal Standards on Auditing (NSAs), Nepal Standards on Review Engagements (NSREs), Nepal Standards on Assurance Engagements (NSAEs), Nepal Standards on Related Services (NSRSs), and the ICAN Code of Ethics.

1.2 Applicability

This policy applies to all engagements performed by the firm and to all personnel including the proprietor, professional staff, articled clerks, administrative staff, and any external consultants engaged for specific tasks.

> In a proprietorship firm, the sole practitioner assumes ultimate and personal responsibility for all aspects of the SoQM. All roles such as Quality Management Partner, Engagement Partner, Reviewer, and compliance officer vest in the proprietor unless specific tasks are formally delegated.

1.3 Effective Date

Milestone	Date
Voluntary compliance	1st Shrawan 2081 (July 2024)
Mandatory compliance	1st Shrawan 2083 (July 2026)
This policy effective from	1st Shrawan 2083 (July 2026)
Annual review due	1st Shrawan 2084 (July 2027)

1.4 Eight Components of the SoQM

NSQM 1 requires the firm to design, implement, and operate a SoQM addressing the following eight interconnected components:

i. The Firm's Risk Assessment Process
ii. Governance and Leadership
iii. Relevant Ethical Requirements
iv. Acceptance and Continuance of Client Relationships and Engagements
v. Engagement Performance
vi. Resources
vii. Information and Communication
viii. Monitoring and Remediation Process

2. Governance and Leadership

> Policy: The proprietor of [Firm Name] is the designated Quality Management Partner (QMP) and bears ultimate responsibility for the design, implementation, operation, and annual evaluation of the SoQM.

2.1 Culture of Quality

The firm is committed to a culture that recognizes, values, and reinforces quality in all engagements. This is demonstrated through:

- Leading by example, every engagement is planned, executed, and documented to the highest standard regardless of size.
- Prioritizing quality over commercial considerations, including fee pressure or tight deadlines.
- Encouraging all personnel to raise quality concerns without fear of reprisal.
- Integrating quality metrics into performance evaluations and professional development plans.
- Fostering continuous learning and keeping abreast of changes in standards and regulations.

2.2 Proprietor's Responsibilities as QMP

The proprietor, acting as QMP, is responsible for:

- Developing, documenting, and communicating this NSQM Policy to all personnel.
- Allocating sufficient time, financial, and technological resources to operate the SoQM.
- Overseeing all monitoring activities and the annual evaluation of the SoQM.
- Setting an appropriate ethical tone and promoting professional skepticism.
- Reviewing and approving all client acceptance, continuance, and withdrawal decisions.
- Ensuring all personnel complete annual independence declarations.
- Reviewing engagement documentation and quality of work performed.
- Taking prompt remedial action when deficiencies are identified.

2.3 Delegation of Responsibilities

Where the proprietor delegates specific SoQM tasks to senior staff (e.g., maintaining training logs, coordinating independence confirmations), such delegation must be documented in writing, and the proprietor retains overall responsibility and must review the output.

2.4 Risk Assessment Process

The proprietor conducts an annual risk assessment to identify quality risks, assess their likelihood and impact, and design proportionate responses. Quality objectives for the firm are:

- **Compliance with Standards:** All engagements planned, performed, and concluded in compliance with NSAs, NSREs, NSAEs, NSRSs, and ICAN Code of Ethics.
- **Professional Competence:** Maintain and enhance knowledge through CPD; apply professional skepticism.
- **Appropriate Reporting:** Issue reports supported by sufficient appropriate audit evidence.
- **Client Integrity:** Only associate with clients who demonstrate ethical conduct.
- **Culture of Quality:** Quality prioritized at all times; concerns raised freely.
- **Effective Monitoring:** Identify and remediate deficiencies in the SoQM promptly.

3. Relevant Ethical Requirements

> Policy: All personnel of [Firm Name] are required to comply at all times with the fundamental principles of the ICAN Code of Ethics: Integrity, Objectivity, Professional Competence and Due Care, Confidentiality, and Professional Behavior.

3.1 Fundamental Principles

- **Integrity:** Straightforward and honest in all professional and business relationships.
- **Objectivity:** No bias, conflict of interest, or undue influence shall override professional judgment.
- **Professional Competence & Due Care:** Maintain professional knowledge; act diligently as per applicable standards.
- **Confidentiality:** Client information not disclosed to third parties without authority or legal obligation.
- **Professional Behavior:** Comply with laws and regulations; avoid conduct that discredits the profession.

3.2 Independence

Independence is mandatory for all audit and assurance engagements. The firm identifies, evaluates, and addresses threats to independence including: self-interest, self-review, advocacy, familiarity, and intimidation threats.

Safeguards applied by [Firm Name] include:

- Annual independence declaration by the proprietor and all professional staff (refer to Annex B).
- Engagement-specific independence assessment before commencing any new engagement.
- Prohibition on direct financial interests in any audit or assurance client.
- Separation of non-assurance and assurance services to avoid self-review threats.
- Mandatory consultation with an external peer reviewer for complex independence questions.
- All personnel sign confidentiality agreements upon joining the firm.

3.3 Ethical Dilemma Resolution

When an ethical dilemma arises, the following steps are followed and documented:

- Identify and articulate the ethical issue clearly.
- Gather all relevant facts and circumstances.
- Consult with the proprietor (or, where the proprietor is affected, an external peer).
- Evaluate the fundamental principles affected and the nature of the threats.
- Apply safeguards to eliminate or reduce the threat to an acceptable level.
- Document the dilemma, consultation, safeguards applied, and final conclusion.

3.4 Non-Compliance with Laws and Regulations (NOCLAR)

Personnel are required to be alert to potential NOCLAR during engagements, communicate identified non-compliance to appropriate levels of client management or those charged with governance, and, where required in the public interest, to external regulatory authorities. All NOCLAR considerations are documented and reviewed by the proprietor.

4. Acceptance and Continuance of Clients

> Policy: [Firm Name] accepts or continues a client relationship only when it has assessed client integrity, confirmed the firm's competence and resources to perform the engagement, and verified that all ethical requirements particularly independence can be met.

4.1 New Client Acceptance

Before accepting any new client, the proprietor evaluates:

- Client integrity: background, reputation, management's ethical stance, results of predecessor auditor inquiry (where applicable).
- Firm competence: whether the firm has the technical expertise, industry knowledge, and resources for the engagement.
- Independence: no financial interests, business relationships, or personal relationships that impair independence.
- Legal compliance: the firm holds a valid ICAN audit license; the client operates legally.
- Engagement letter: prepared, reviewed, and signed by both parties before work commences (per NSA 210).

The Client Acceptance Checklist (Annex A) must be completed and filed for every new client.

4.2 Annual Continuance Review

Every existing client relationship is reviewed annually before the next engagement commences. The review considers changes in client ownership or management, any new ethical concerns, the firm's continued competence for the engagement, re-confirmation of independence, and quality of the prior engagement. The Continuance section of Annex A must be completed annually.

4.3 Withdrawal

If, after acceptance or during an engagement, the firm identifies an unacceptable risk to quality, independence, or ethics, the proprietor will consider withdrawing from the engagement or terminating the client relationship. Withdrawal decisions are documented, including the reasons, communications with the client, and any reporting obligations to ICAN or other authorities.

5. Engagement Performance

> Policy: All engagements are planned, executed, supervised, and documented in accordance with applicable NSAs, NSREs, NSAEs, or NSRSs and the firm's quality objectives.

5.1 Engagement Planning

- **Understanding Client and Environment:** Gain thorough understanding of the client's business, industry, regulatory environment, and internal controls.
- **Risk Assessment:** Identify and assess risks of material misstatement at financial statement and assertion levels.
- **Materiality:** Determine planning materiality, performance materiality, and threshold for trivial misstatements.
- **Audit Strategy and Plan:** Develop an overall strategy and a detailed audit plan specifying the nature, timing, and extent of procedures.
- **Resource Allocation:** Assign personnel based on competence, experience, and independence.
- **Engagement Letter:** Confirm terms with the client prior to commencing significant work.

5.2 Engagement Execution

Engagements are executed by:

- Performing audit procedures as per the detailed audit plan, tests of controls, analytical procedures, and tests of details.
- Gathering sufficient, appropriate, and reliable audit evidence to support the audit opinion.
- Critically evaluating evidence obtained and modifying procedures in response to new information or risks.
- Communicating identified misstatements to management and, where appropriate, to those charged with governance.
- Using audit software and data analytics tools where appropriate, ensuring data security.

5.3 Supervision and Review

The proprietor supervises all engagement work. Where other staff perform work, the proprietor reviews it to ensure:

- Work performed is in accordance with professional standards and firm policies.
- Significant matters have been properly identified and addressed.
- Audit evidence supports the conclusions reached.
- The engagement report is appropriate in the circumstances.

For complex or high-risk engagements, the proprietor will arrange an Engagement Quality Review (EQR) by a suitably qualified external peer reviewer before the report is issued.

5.4 Consultation

Consultation is required and documented for matters that are complex, unusual, or involve significant judgment,

including:

- Application of complex accounting or auditing standards (e.g., NFRS, revenue recognition, estimates).
- Ethical issues, particularly relating to independence.
- Significant risks such as fraud, going concern, or related-party transactions.
- Differences of opinion within the engagement team.

Consultation resources include other practicing CAs, ICAN, legal counsel, and relevant ICAN publications.

5.5 **Engagement Documentation**

Documentation must be sufficient to allow an experienced auditor with no prior connection to the engagement to understand:

- The nature, timing, and extent of procedures performed.
- The results obtained and the audit evidence gathered.
- The significant judgments made and the conclusions reached.

The final engagement file is assembled within 60 days of the engagement report date. Files are retained for a minimum of 5 years (or as required by ICAN/applicable law) in a secure, confidential, and retrievable format.

6. RESOURCES

6.1 Human Resources

The proprietor ensures all personnel have the competence, capabilities, and ethical commitment required. Specifically:

- Recruitment based on educational qualifications, technical competence, and ethical attitude.
- Personnel assigned to engagements based on their experience and the complexity of the work.
- Workloads managed so that quality is not compromised by excessive pressure.
- Regular performance evaluations incorporating quality metrics.

6.2 Continuous Professional Development (CPD)

All professional personnel comply with ICAN CPD requirements. The firm:

- Prepares individual CPD plans annually, aligned with current role and identified competence gaps.
- Tracks CPD hours centrally; non-compliance triggers a targeted development plan.
- Provides access to internal and external training: ICAN seminars, online courses, self-study materials.
- Incorporates CPD compliance into annual performance evaluations.

6.3 Technological Resources

- Audit software: reliable, up-to-date tools for engagement planning, working papers, and data analytics.
- Data security: firewalls, antivirus, encryption, and regular backups protect all client data.
- Cloud solutions: secure cloud-based storage evaluated and implemented with data-residency compliance.
- IT training: personnel trained on secure data handling, phishing awareness, and proper use of firm IT resources.

6.4 Intellectual Resources

- Standardized audit programs, templates, and checklists consistent with NSAs.
- Access to ICAN pronouncements, NFRS updates, tax law changes, and technical guidance.
- Subscription to professional research databases and online libraries.
- Knowledge-sharing mechanisms (e.g., documented lessons learned from past engagements).

7. INFORMATION AND COMMUNICATION

7.1 Internal Communication

The proprietor ensures all personnel are aware of their SoQM responsibilities through:

- Briefing all new personnel on this policy and related procedures upon joining.
- Communicating updates to policies and standards promptly via email, team meetings, or memos.
- Storing all SoQM documents in an accessible shared location (e.g., secure shared drive).
- Incorporating quality discussions as a standing item in regular staff meetings.
- Providing clear channels for personnel to raise quality concerns or ethical dilemmas.

7.2 External Communication

- Clients: clear and timely communication of engagement terms (via engagement letter), key findings, and reports.
- ICAN: timely response to all inquiries; compliance with all regulatory filings and reporting obligations.
- Confidentiality: all external communications adhere to the firm's confidentiality policies and ICAN Code of Ethics.

7.3 Communication of Deficiencies

Deficiencies identified through monitoring are communicated promptly to relevant personnel together with root-cause analysis and recommended remedial actions. Significant deficiencies in client internal controls are communicated in accordance with professional standards. Where required by law or regulation, deficiencies are reported to external bodies (e.g., ICAN).

8. MONITORING AND REMEDIATION

> Policy: [Firm Name] implements an ongoing and periodic monitoring programme to provide reasonable assurance that the SoQM is relevant, adequate, and operating effectively. Identified deficiencies are investigated, root-cause analysed, and remediated promptly.

8.1 Ongoing Monitoring Activities

Day-to-day monitoring activities include:

- Continuous review of engagement documentation during and after each engagement.
- Supervision and feedback to engagement team members during execution.
- Review of consultation records to identify recurring technical issues.
- Monitoring timely completion of annual independence declarations.
- Soliciting and reviewing client feedback on service quality.
- Tracking and investigating any complaints or allegations from clients or third parties.

8.2 Periodic Inspections

At least once annually, the proprietor performs a structured self-assessment of the SoQM (Annex C) and a file review of a representative sample of completed engagements. The inspection covers planning, execution, documentation, and reporting. Findings are documented, including identified deficiencies, root causes, and recommended remedial actions.

For engagements of significant public interest, complexity, or risk, the proprietor arranges an Engagement Quality Review (EQR) by an independent external reviewer prior to issuing the report.

8.3 Evaluation and Remediation of Deficiencies

- **Severity Assessment:** Assess the impact of the deficiency on engagement quality and the SoQM.
- **Root Cause Analysis:** Investigate underlying causes, not just symptoms through staff interviews and process reviews.
- **Systemic vs Isolated:** Determine whether the deficiency is isolated or indicative of a broader weakness.
- **Action Plan:** Develop a SMART action plan: specific remedial actions, responsible party, and target date.
- **Implementation:** Implement actions such as revise procedures, provide training, modify tools, or take disciplinary action as appropriate.
- **Follow-up:** Verify effectiveness of remedial actions in the next monitoring cycle and document the outcomes.

8.4 Annual Evaluation of the SoQM

At the close of each fiscal year, the proprietor performs an overall evaluation of all eight components of the SoQM. The evaluation considers the results of ongoing monitoring, periodic inspections, and the effectiveness of remedial actions. Conclusions, including a statement on whether the SoQM is operating effectively, are documented and used to update this policy for the following year.

ANNEX A — Client Acceptance & Continuance Checklist

Complete this checklist for every new client acceptance and annually for all continuing clients. File in the client's permanent record.

PART 1: Client Information

Field	Details
Client Name	
Nature of Business	
Legal Structure	
Fiscal Year End	
Proposed Engagement Type	
Date of Initial Inquiry	
Previous Auditor (if any)	

PART 2: Acceptance Checklist

No.	Requirement / Question	Yes	No	N/A / Remarks
1	Has a background check been conducted on the client's key management and owners?	[ ]	[ ]	
2	Are there any known ethical concerns, litigation, or regulatory investigations involving the client?	[ ]	[ ]	
3	Does management demonstrate commitment to ethical conduct and sound financial reporting?	[ ]	[ ]	
4	Has the predecessor auditor been contacted (where applicable and with client consent)?	[ ]	[ ]	
5	Are there any disagreements with the predecessor auditor on record?	[ ]	[ ]	
6	Does the firm have sufficient technical expertise and industry knowledge for this engagement?	[ ]	[ ]	
7	Are adequate personnel and time resources available for this engagement?	[ ]	[ ]	
8	Has an independence check been completed for the firm and all engagement personnel?	[ ]	[ ]	

No.	Requirement / Question	Yes	No	N/A / Remarks
9	Is the firm licensed by ICAN to perform this type of engagement?	[ ]	[ ]	
10	Has an engagement letter been prepared and signed by both parties?	[ ]	[ ]	

PART 3: Continuance Checklist (Annual Review — Existing Clients)

No.	Requirement / Question	Yes	No	N/A / Remarks
1	Have there been significant changes in the client's ownership, management, or business?	[ ]	[ ]	
2	Have there been any new ethical concerns, litigation, or regulatory issues in the past year?	[ ]	[ ]	
3	Has the firm's independence been continuously maintained throughout the past year?	[ ]	[ ]	
4	Are there any unresolved disagreements with management from the prior engagement?	[ ]	[ ]	
5	Are there any overdue fees that could pose a threat to independence?	[ ]	[ ]	
6	Has the client been responsive and cooperative during prior engagements?	[ ]	[ ]	
7	Does the firm continue to have the competence and capacity for this engagement?	[ ]	[ ]	

PART 4: Decision

Field	Details
Recommendation (Accept / Continue / Decline)	
Reasoning	
Safeguards applied (if any threats identified)	
Proprietor Signature	
Date	

ANNEX B — Independence Confirmation Form

To be completed annually by the proprietor and all professional staff. File in the SoQM records.

Field	Details
Name	
Designation	
Declaration Period	[Shrawan 2082 to Ashadh 2083]
Date of Completion	

I hereby confirm that, to the best of my knowledge and belief, I have been and remain independent of all audit and assurance clients of [Firm Name] in accordance with the ICAN Code of Ethics for Professional Accountants and the firm's NSQM Policy. I understand that independence comprises both independence of mind and independence in appearance. I have read, understood, and complied with the firm's independence policies.

No.	Requirement / Question	Yes	No	N/A / Remarks
1	Do you or any immediate family member hold any direct or material indirect financial interest in any audit client?	[ ]	[ ]	
2	Do you or any immediate family member have any loans or guarantees with any audit client or its management?	[ ]	[ ]	
3	Do you have any close business relationships with any audit client or its management?	[ ]	[ ]	
4	Do any family members hold director, officer, or significant employee positions at any audit client?	[ ]	[ ]	
5	Have you been employed by, or served as officer/director of, any audit client in the last year?	[ ]	[ ]	
6	Have you provided non-assurance services to an audit client that could create a self-review or advocacy threat?	[ ]	[ ]	
7	Have you accepted significant gifts or hospitality from any audit client?	[ ]	[ ]	
8	Are you aware of any actual or threatened litigation between yourself (or the firm) and any audit client?	[ ]	[ ]	
9	Are you aware of any other circumstance that could impair your independence or objectivity?	[ ]	[ ]	

If you answered 'Yes' to any question above, provide full details including client name, nature of relationship, and safeguards applied:

[Details of exceptions, if any]

I understand my obligation to maintain independence is continuous. I will notify the proprietor immediately if any circumstance arises that might impair my independence.

Signature of Individual	
Date	
Reviewed by (Proprietor)	
Date of Review	
Actions Taken (if exceptions noted)	

ANNEX C — Annual SoQM Self-Assessment Checklist

To be completed by the proprietor annually. This documents the overall evaluation required by NSQM 1 paragraph 53.

Assessment Period	[Shrawan 2082 – Ashadh 2083]
Completed by	[Proprietor Name]
Date	

No.	Requirement / Question	Yes	No	N/A / Remarks
1	Governance: Is the SoQM documented, communicated, and reviewed for current and effective?	[ ]	[ ]	
2	Governance: Are quality objectives clearly defined and understood by all personnel?	[ ]	[ ]	
3	Ethics: Have all annual independence declarations been completed on time?	[ ]	[ ]	
4	Ethics: Were all ethical dilemmas documented and resolved appropriately?	[ ]	[ ]	
5	Acceptance: Was the Client Acceptance/Continuance Checklist completed for all clients?	[ ]	[ ]	
6	Acceptance: Were all client decisions made with adequate documentation?	[ ]	[ ]	
7	Engagement: Were standardized audit programs and templates used for all engagements?	[ ]	[ ]	
8	Engagement: Were all engagement files assembled within 60 days of report date?	[ ]	[ ]	
9	Engagement: Were EQRs conducted for all high-risk or public interest engagements?	[ ]	[ ]	
10	Resources: Did all professional staff meet ICAN CPD requirements?	[ ]	[ ]	
11	Resources: Is audit software and IT infrastructure adequate and secure?	[ ]	[ ]	
12	Communication: Were all regulatory filings with ICAN submitted on time?	[ ]	[ ]	
13	Communication: Were client engagement letters signed before work	[ ]	[ ]	

No.	Requirement / Question	Yes	No	N/A / Remarks
	commenced?			
14	Monitoring: Was a periodic file inspection conducted during the year?	[ ]	[ ]	
15	Monitoring: Were all identified deficiencies documented with root cause analysis?	[ ]	[ ]	
16	Monitoring: Were remedial actions completed within agreed timelines?	[ ]	[ ]	
17	Overall: Is the SoQM providing reasonable assurance of engagement quality?	[ ]	[ ]	

Overall Assessment and Recommendations

Field	Details
Overall SoQM Effectiveness (Effective / Partially Effective / Requires Improvement)	
Key Strengths identified	
Key Deficiencies identified	
Recommendations for improvement	
Proprietor Signature	
Date	

Policy Sign-off and Acknowledgment

This Quality Management Policy has been prepared, reviewed, and approved by the proprietor of [Firm Name]. All personnel have been briefed on its contents and their responsibilities within the SoQM.

Field	Details
Prepared by (Proprietor)	[Name], FCA/ACA/RA/AT
Signature	
Date of Approval	
Effective Date	1st Shrawan 2083 (July 2026)
Next Review Date	1st Shrawan 2084 (July 2027)
Version	1.0