

The Institute of Chartered Accountants of Nepal

Quality Assurance Board

Program Report on

Quality Assurance Review Workshop 2022

Wednesday, 30 November 2022
Lalitpur



Organized by
नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL
(Established under the Nepal Chartered Accountants Act, 1997)



December 2022

About the Workshop

Quality Assurance Board (QAB), as a part of its annual activities, has organized the workshop on Quality Assurance Review on 30th November 2022, at ICAN Premises, Satdobato, Lalitpur. The workshop was organized with the aim of brainstorming the avenues of strengthening Quality Review Mechanism of the Institute and improving Audit Firm's system of quality management and was attended by the Partners and Proprietor of more than 68 firms. The focus of the workshop was to discuss the common findings of Quality Assurance Reviews and to urge firms to explore ways for improvement. Likewise, the feedback was also expected of practicing members on the Quality Assurance Processes implemented by the Institute.

The half day program was conducted in three sessions and led by staff members of ICAN and experts from ICAEW. The first session was on ICAN's Quality Review Mechanism, and the next two sessions were on the newly pronounced Quality Management Standards.

In the present context, where IAASB has pronounced new ISQM1 and ISQM 2 replacing ISQC 1 which shall be effective internationally from 15 December 2022, the requirement of orientation to the firm in this regard was also felt necessary by the QAB. Therefore, two presentations were made on newly pronounced ISQM1 and ISQM 2 issued by IAASB in the workshop by consulting team of Institute of Chartered Accountants of England and Wales (ICAEW) to raise awareness on the changes brought by these standards along with practical expedients to meet the requirements brought by those changes. The presentation provided an opportunity to create awareness to practicing firms about implementing ISQM 1 and ISQM 2, and the preparedness that was likely to be initiated. Similarly, open discussion on the presentation about QA review system and feedback from participants was useful to QAB to improve the review process.

This workshop was part of brainstorming on enhancing audit quality through panel discussion and providing platform to sharing audit experiences, views and concern about quality assurance review including the ground level challenges and explore on the possible remedial measure to address them. The workshop was targeted to the Proprietors and Partners of Firms who already had their quality assurance reviews from the Quality Assurance Board of ICAN and were at a better position to engage in the discussion, offer feedback and benefit from experience sharing. The annual report of QAB for FY 2021/22 was also shared with participants for insight on activities carried out by QAB.

This report has been prepared by assembling the materials like key issues discussed, technical papers presented in the workshop in the form of workshop document. We hope this report, to some extent, will serve as a reference document to formulating quality control and quality assurance policy and undertake activities by the Institute in future to elevate the quality assurance review practice.

Welcome and Opening Remarks



(CA. Sujan Kafle, Vice President ICAN, Welcoming the participants and giving opening remarks)

The Vice-President CA. Sujan Kumar Kafle opened the workshop by delivering the welcome speech. Delivering his speech, he highlighted the journey of Quality Assurance Review Mechanism of the Institute and shared the milestones of achievement on Quality Assurance Review by the QAB together with QA Division since its establishment. He highlighted the importance of the workshop and believed that it would set the milestone in maturity process of Quality Assurance Review mechanism and considered it as a platform to initiate the discussion about audit quality between ICAN and practicing members. He also mentioned that maintaining audit quality is a challenge before the practicing members as per the requirement of NSAs and urged the participants to accord

priority in quality of audit they perform. Concluding his remarks, expressed thanks to the ICAEW for their continuous support since the outset of Quality Review to till date and congratulated QAB members and staff for publishing the QAB Annual Report for FY 2021/22.

Technical Sessions

There were two sessions in which three technical papers were presented as follows:

1. Quality review Mechanism: Present Status and way forward
2. International Standards on Quality Management 1, Quality Management for firms that perform Audits or Review of Financial Management, or other Assurance or related Services
3. International Standards on Quality Management 2, Engagement Quality Review Proposed (ISA 220 revised)

Session: 1: Quality Review Mechanism: Present State and Way Forward



CA. Kiran Kumar Khatri, Technical Director, ICAN, delivering session on Quality Assurance Review Mechanism in ICAN

The Purpose of this session was:

- 1) Holding discussion on common issues in the firm's system of quality control and compliance of standards to maintain the audit quality, as identified by QA Reviews, in a way, to explore ways for improvement.
- 2) Explore the areas of improvement in the Quality Assurance Review Program of ICAN, through an effective two-way relationship with the firms, based on international practice,

In this session CA. Kiran Kumar Khatri, Technical Director ICAN, presented papers on Quality Assurance Review mechanism adopted by the Institute. In his session he explained the structure of Quality Assurance Board and Division, Quality Assurance Review Process, progress of review till date, major finding from the reviews, limitation, and the scope of Quality Assurance Review. He suggested firm with various methods and ways that could be implemented to overcome the finding identified during the review and increase the quality of audit documentation.

Session 2: An Overview of Firms Quality Management System – ISQM 1 and ISQM 2



The purpose of this session was to:

- 1) Create awareness about the new Quality Management standards compared to Quality Control standards, and the impacts created to firms and,
- 2) Discuss on the benefits and challenges of implementing the Quality Management Standards.

In this session, two papers were presented on ISQM 1 and ISQM 2 and these papers were presented by Karen Cook, ICAEW Chartered Accountant, Audit Quality Assurance reviewer at ICAEW and Linda Barnes ICAEW Chartered Accountants, Consultant on Audit Quality Assurance for ICAEW, respectively. This session was aimed at helping participants to understand about the new International Quality Management Standards pronounced by IFAC and to identify key differences with the requirements of ISQC-1.

Presenting the paper on ISQM 1, Karen covered components of ISQM, such as relevance, risk assessment, potential risks in smaller firms, designing risk response, monitoring and recommendation, Root Cause Analysis etc. Under root cause analysis, she talked about its benefits and training needs of the firm's staff, as necessitated by large size new audit client, complex clients and engagements, fee income and so on.

In the second presentation on ISQM 2, Linda mentioned that this is new standard and covered the key provision of the standard. The provision of Engagement Quality Controller Reviewer (EQCR) is as set out in ISQC1, some provisions are new and few of the provision have been deleted. Presenting the paper, she talked about extended scope of review, engagement quality reviewer's requirement, appointment of engagement quality reviewer, qualification and experience of the

reviewer, independence of the reviewer, performance and documentation requirement, and other provision. She stressed on Paragraph 25 of the standards that talks about areas to consider in maintaining quality of audit.

Panel Discussion



(Panel discussion on session 1: From left CA. Kiran Kumar Khatri, Technical Director, ICAN as a paper presenter and RA. Dev Bahadur Bohora, Session Moderator, and Panelist team of Linda Barnes, CA. Shashi Satyal, and CA. Anup Kumar Shrestha)

CA Anup Kumar Shrestha, Chairperson of Auditing Standards Board, CA Shashi Satyal-Senior Partner PKF TR Upadhy & Co were the panelists and discussion was moderated by Dev Bahadur Bohara, Chairperson of QAB.

As per the program schedule, at the end of each presentation, panel discussion was conducted to deliberate about QA findings and reasons for the same, the prospective ways to improve the state of audit quality, purpose of the newly introduced ISQM 1 and ISQM 2, the operational challenges of new standards and possible ways to deal with such situation. Immediately after completion of paper presentation some question and concerns were raised by moderator and the participants of the workshop put their questions before the panelists of the workshop. Some of the questions, concerns and advice received from participants have been given here in brief. The questions raised before the panelist was replied by the member of the panelist to whom the question was directed. More than 15 important submissions were made before the panelists. The panelist replied to each question raised by participants.



(Panel discussion on session 2: From left Kareen Cook, ICAEW Chartered Accountant as a paper presenter and RA. Dev Bahadur Bohora, Session Moderator, and Panelist team of Linda Barnes, CA. Shashi Satyal, CA. Anup Kumar Shrestha and session 1 presenter: CA. Kiran Kumar Khatri, Technical Director, ICAN)

CA. Anup Kumar Shrestha, Chairman, Auditing Standards Board (ASB)

Replying a question about firm compliance to Quality Standard requirements, CA Anup Kumar Shrestha, talked about the introduction of the standards and its present condition internationally. Adding to the QA finding in the firms presented by the presenter, he stated that the limited number of listed entity clients, size of the firm and audit fees are the factor in constraint for compliance with the standard in compared to other neighboring countries. He highlighted the need for educating, discussing and orientation of the members with the support from government and regulators for effective implementation of standard. He discussed with examples of consequences of non-compliance with the quality requirements in international arena.

CA. Shashi Satyal, Senior Partner, PKF TR Upadhy & Co, Chartered Accountants

Replying a question about training requirements and audit documentation quality, CA Shashi Satyal talked about the role of those in leadership position and their willingness for continuous training to the staffs. Explaining the practice in TR Upadhy & Co., he added that being a member of an international firm have added the benefits of access to documents prepared by PKF, easy availability of training materials and its adoption considering the local requirements in Nepal. The calendar of staff trainings is made each year in practical working environment as the new staffs already are aware of the theoretical knowledge. At last, he suggested that it might be costly for smaller firm to train staff in regular basis, but initiative can be taken to bring together the firms for collective training and resource sharing which ultimately will add value to the organization.

Linda Barnes, ICAEW Chartered Accountant, Consultant ICAEW

Replying a question about areas for improvement by firms, Linda talked about the start of quality assurance review system in ICAEW and compare the current scenario and situation of review in Nepal with ICAEW at the beginning phase. She added that, gradually the situation shall be improved but compliance with the auditing standards is required to uplift the quality of the audit service rendered by the audit firms. Further she emphasized the Quality Assurance as a learning process and Nepal has opportunity to learn from the experience and difficulties faced by ICAEW.

Question/ Answer Session- Participants were allowed to ask few questions, queries, comment, concern, suggestions with regards to quality assurance that were directed to panelist after comments from panelist

Prabin Kumar Jha, Partner, Joshi & Bhandari, Chartered Accountants

Speaking about the presentation, he stated that we need to have a strong approach toward implementation of Quality Standards with learning and continuous improvement. He highlighted the practical issues in the market and the situation of compliance with the quality standard by the Audit firms. Further, he said that there is always a continuous need for check and balance by the institute towards the firm to adherence with the NSQC 1 requirements.

Gaurav Agrawal, Director, B.K Agrawal & Co., Chartered Accountants

He talked about the practice management software and audit implementation software which are already in use by the bigger firm and have experience in well controlled audit environment. He suggested ICAN to collaborate with vendors and network firm for access of the documents and sharing of the systems to the smaller firm who might have limitation for improvement due to high cost and frequent turnover of the staffs.

Mahesh Guragain, Partner, M.G.S. & Associates, Chartered Accountants

He talked about the development of Quality Review Mechanism in ICAN, and the contribution made for its effectiveness. He shared the perspectives of differentiating the views between the Auditor and Quality Assurance Reviewer while carrying out the assurance review. Moreover, he stated that the review shall be based upon the client size and fee's structure rather than seeking the similar documentation compliance in all cases. He also suggested to conduct review based on risk approach, client weighted having effect in public interest, compliance to governance requirements and increased training by ICAN to the firm's partners and staffs. At last, he objected on the fees being charged for Quality Assurance Review by the Institute and suggested to adopt other method for the purpose.

CA. Kiran Kumar Khatri, Technical Director at the Institute, at last, clarified some of the issues raised by the participants and ensured the commitment to address the suggestions provided in future days.

The Way forward -In the discussion, various matters with regards to quality control system of practicing firms and quality assurance review systems of the Institute were unfolded. The key points emerged through presentation and deliberation in the workshop are given below in a nutshell.

- **Need of Co-ordination** - Only quality assurance cannot be seen in isolated manner hence coordination among regulators and users about the NAS, NSA and guidelines pronounced by the Institute to create a synergetic effect in the profession. Discussion, interaction, continuous dialogue in the matters of accounting and auditing among regulators, audit firms, major business entities like banks, insurance companies, Public Sector undertakings (PSUs), construction entrepreneurs, hotel and tourism industries, etc. to resolve the issues of financial sectors with regard to adoption of the accounting and audit standards.
- **Joint work** – ICAN and Accounting Standards and Auditing Standards Boards as key players of accounting profession in the country need to join hands for joint work and support each other in the professional matters and hold meeting in time to time to resolve the problem related to it, basically the gaps as can be seen with pronouncement and implementation status of the standards.
- **Tone from the Top**- Firms' leadership should primarily be responsible to maintain quality of audit in the firm by proper management of audit practice.
- **Skill Development Activities**- It is well known fact that without competent staff, it is difficult to deliver quality services to the client. So, enhance the skill set of staff involved in audit by preparing training calendar for providing training opportunities. Small firms might jointly organize such activities.
- **Quality Assurance Approach**- Improve QAR approach as the reviewer used audit type of approach in quality assurance review. The approach should take care of assisting firms to identify their root causes for the findings that are unfolded.
- **Audit Fee structure**- Audit fee is directly related to the quality of audit hence existing audit fee regime should be revisited or policy decisions taken to enhance the effectiveness of implementation of the related Guideline issued by the Institute and initiate dialogue with major stakeholders.
- **Use of Audit Software**- To improve the audit practice management various, audit engagement software is available in south Asian countries and beyond, that can be used by audit firms. In this connection, Institute should take initiation to encourage the audit firms for application of such software.
- **Collaborate with local big Audit firms**- There are more than ten firms that are either members or associate firms of big global audit firms and are at better positions receiving technical support from their Network Firms. So, audit firms can collaborate for transfer of knowledge by signing collective or firm to firm MOUs.

Summarizing and Vote of Thanks



CA. Chhetra Gopal Pradhan summarizing with Vote of Thanks

CA. Chhetra Gopal Pradhan, Council Member and Member of QAB, delivered vote of thanks and summarized QA program activities and result achieved. He emphasized on firm priority for maintaining the quality as per the required standards and the need for adoption of new standard. He put forward the major learning from the technical session and thank the panelist, paper presenter, and participating member for their active participation. At end, he described the prominence of need for quality and concluded with saying that “the word quality though sound simple is very tough to maintain, it is the part of culture, our traditions and values, a good quality comes with a price and bad quality cost a fortune”.

Conclusion

Concluding the workshop, the Chair of the QAB mentioned that in every profession quality comes first and we are not the exception. We have no other option just to adopt new ISQM as a member of IFAC. So, practicing firms are required to prepare for conducting the audit as per the auditing standards and maintain high quality in the audit service they deliver. In this connection ICAN, AuSB, government regulators need to work together to strengthen the audit regime within the country. The challenges regarding the audit profession can be dealt by the consorted efforts of ICAN and Audit Firms together with support and cooperation from of the other regulators and stakeholders.

Ensuring adherence to the technical standards, changing behavior and attitude of a staff is not an easy task. So, Audit firms require a proper system of monitoring, continuous support, and encouragement by the supervisors.

Later or sooner AuSB will prepare the new NSQM and ICAN will pronounce the standards. Audit practitioner has no option other than to implement the standards. Considering this fact at least the audit firms need to focus on the aspect like read ISQM thoroughly, need to relook or assess the current approach and audit quality of the firm, commitment from leadership and governance towards audit quality, increase sufficient time in staff training, monitoring and supervision of audit and conduct Root cause analysis to find out the systematic defect and prevent repetition of same the weakness.

Some Glimpse of the Workshop



Some Glimpse of the Workshop



Schedule of the Workshop

Program Outline	
Date:	Wednesday, November 30, 2022, (Mangsir 14,2079)
Venue:	ICAN Conference Hall, ICAN Marg, Satdobato, Lalitpur
Time	Activities
1:30-2:00 PM	Participants' Arrival, Registration
2:00-2:10 PM	Welcome Note CA Sujan Kumar Kafle, Vice President, ICAN
Panel Discussion: Quality Review Mechanism and Quality Management Standards Session Chair: Mr. Dev Bahadur Bohara, Chairperson, QAB Panelists: CA. Anup Kumar Shrestha, Chairman-AusB, Nepal CA. Sashi Satyal, Practicing Chartered Accountant Linda Barnes, ICAEW Chartered Accountant, Consultant on Audit Quality Assurance	
2:10-3:30 PM (80 mins)	Session 1: Quality Review Mechanism: Present State and Way Forward Paper Presentation: CA Kiran Kumar Khatri, Technical Director, ICAN PANEL Discussion Q/A Session
3:30-04:45 PM (75 mins)	Session 2: An overview of Firms Quality Management System - ISQM 1 and ISQM 2 Paper Presentation on ISQM 1: Karen Cook, ICAEW Chartered Accountant, Audit Quality Assurance Reviewer at ICAEW Paper Presentation on ISQM 2: Linda Barnes, ICAEW Chartered Accountant, Consultant on Audit Quality Assurance for ICAEW PANEL Discussion Q/A Session
04:45-5:00 PM	Summarizing with vote of Thanks CA. Chhetra Gopal Pradhan, Council Member, Member QAB
5:00 PM onward	Networking Dinner