



**The Institute of Chartered Accountants of Nepal (ICAN)**

**Quality Assurance Board**

**QAB Annual Report**

**2020-21**

**Strengthening Audit Practice**

## Preface

The purpose of this report is to provide information about the activities carried out by the Quality Assurance Board (QAB) and Quality Assurance Division (QAD) acting under QAB during the period 2020-21 in pursuit of strengthening and improving the quality of practicing audit firms in accordance with the established Audit Quality Assurance Framework.

This report constitutes mainly the overview of framework of audit quality assurance, the synopsis of Quality Assurance Activities carried out during the year, glimpses of audit quality across firm's system and engagement performance, and common observations noted during the review.

This report is prepared pursuant to the requirement of clause 12 of Audit Quality Assurance Review Procedure 2017 and for general information.



## Message from Chairperson

It is my honor to have served as the Chairperson of Quality Assurance Board (QAB) for the term of 2018-21 and privileged to submit third Annual Report of 2020-21 to the Council of the Institute of Chartered Accountants of Nepal.

The hurdles created by COVID-19 have impacted the Institute in various ways and so to Quality Assurance. This resulted into deviation with the planned level of activity of the QAB. QAB tried to make most of such difficult time by allowing desk reviews of firms where possible and by developing reference materials to assist firms on implementation of auditing standards.

Along with the transformation of the Institute with restructuring process, Quality Assurance Division has been placed with prominence in the organizational hierarchy and two Chartered Accountants were added to the Quality Assurance Division in the year. In 2020-21, QAB has been able to conduct quality assurance review of 41 audit practicing firms amidst of pandemic situation that includes 35 CA firms and 6 "B" class RA firms. For the first time, QAB initiated quality assurance review of RA audit firms from this year. The total number of reviews is on the higher side as compared to the last year's completed review visits of 23.

It is worth mentioning that in 2020/21, we completed one cycle of quality assurance review of CA firms engaged in conducting the audit of the listed companies. The response from audit firms is positive towards audit quality assurance review conducted by the Institute as a measure to enhance the quality of audit services by the firms. However, there is a need that such positivity should be reflected in work performed by them.

As per QAR reports, most of the firms reviewed were rated as 'Need Improvement' category. It appears that accounting and auditing knowledge are narrowly applied in performing the audit in fulfilling the requirement of audit procedure as prescribed by the auditing standards and Audit Practice Manual. In audit documentation side, there is a need to develop a pro-documentation mindset among firms so as to further improve the audit practices in providing quality audit services. The key findings of review are reflected in the annual report.

As we know, the audit work is becoming complex or more technical and challenging due to the changing landscape of business environment as well as spreading of pandemic across the world. So, the practicing firms are required to demonstrate their readiness, give adequate time and invest in training and skill development of staff in order to improve the quality of audit services. The purpose of QAR is to see whether the audit firms are conducting audit in line with auditing standards and encourage them to comply with pronounced standards by identifying the areas of improvement in audit practice. We hope that the practicing firms shall strictly

adhere with the auditing standards in providing high quality audit service in the days to come by acknowledging their responsibility in upholding public trust towards our profession.

Before concluding, I would like to thank the Board members for actively participating in the QAB activities despite their busy schedule as a result of which, Board has been successful in establishing the proper system of review process. The audit firms also deserve appreciation for their support extended to us in performing our task.

We are thankful to the consultant of Institute of Chartered Accountants of England and Wales for assisting QAB in our capacity building initiatives and providing technical inputs even in pandemic period through online platform.

Despite of prevalence of COVID 19, QAB Division has done their level best in performing the mandated task honestly. The entire team deserves appreciation for their performance and contribution.

Finally, on the behalf of the Board, I express gratitude to the Council of ICAN for entrusting us with the responsibility of running the Board for a period of three years and believe that the Board has been successful in fulfilling the task to a large extent. QA Board is fully committed to provide value added services to the practicing audit firms in the days to come.

**Mr. Dev Bahadur Bohara**  
**Chairperson, Quality Assurance Board**

## Contents

Preface .....	2
Message from Chairperson .....	3
About Us .....	6
Quality Assurance Board .....	6
Quality Assurance Division .....	6
About Audit Quality Assurance .....	6
Standards of Quality Assurance Review (IFAC SMO1) .....	7
Limitations of Quality Assurance Review .....	7
Audit Firms Subject to Quality Assurance Review .....	8
Information on Quality Assurance Review Visits .....	8
Our Work Processes .....	9
Understanding Grades and their Limitations .....	10
QAB's Work in 2020/21 .....	12
Quality Assurance Review Visits .....	13
Overview of Review Results .....	14
Grades Provided to QA Visits .....	14
Status of Grades among the Follow up Review Visits .....	15
Resulting Actions on Closure of Reviews .....	15
Category of Files Reviewed .....	16
Findings from Review .....	17
Potential Root Causes .....	23
Miscellaneous .....	25
Meeting and Decision of QAB .....	25
QAB Decisions across Area of Decisions for last three years .....	25
Composition of QAB and its tenure .....	25
Current Composition of QAB .....	25
Composition of the QAB during 2020-21 .....	26
Current Composition of Staffs .....	26
Disclaimer .....	27

## About Us

### Quality Assurance Board

Quality Assurance Board is the independent Board formed by the Council that provides direction, oversight and control of operations of Audit Quality Assurance Activities. Rule 103 of Nepal Chartered Accountants Rule 2061 (along with amendments) has provisioned for the structure, governance and operation of quality assurance activities. The Audit Quality Assurance Review Procedures 2017 provides operational guidance to the QAB.

### Quality Assurance Division

Quality Assurance Division (QAD) carries out the quality assurance review activities with the guidance provided by Quality Assurance Review Unit Procedures Manual 2020 and the decisions and direction of QAB from time to time.

### About Audit Quality Assurance

Audit Quality Assurance comprises of operations aimed at ensuring practicing audit firms' adherence to the prevailing laws and regulations, professional standards and other guidelines issued by the Institute. The operations normally constitute the quality assurance reviews and all the processes in relation thereto connected with audit quality monitoring and assisting firms to improve their systems and audit processes.

The objective of audit quality assurance activities is to enhance the quality of audit engagements so as to contribute to credible financial reporting by entities and build up impeccable public trust in audit profession. For achievement of the objective, Quality Assurance Reviews (QARs) are carried of the audit firms in order to make an objective assessment of:

1. Whether or not the practicing member and audit firms have complied with Nepal Standards on Quality Control and provisions on quality control have been constantly applied.
2. Whether or not the practicing member and audit firms have complied with applicable Nepal Standards on Auditing and Code of Ethics in engagement performances.
3. Whether or not the practicing member and audit firms have complied with relevant laws and regulation applicable to the engagement performances.

## Standards of Quality Assurance Review (IFACSMO1)

The need for establishing and institutionalization of the QA mechanism are not the regulatory tools applied by ICAN at its only discretion. The Statement of Membership Obligation 1 – Quality Assurance requires every Professional Accountancy Organizations (PAOs) to have this mechanism within the purview of certain standards pronounced within it as condition of continued membership of IFAC. The standard requires that the firms performing audit of financial statements should be mandatorily subject to Quality Assurance Review. The international best practice of audit regulation is now a mandatory requirement for all jurisdictions and ICAN is not an exception. The regulations, policies and procedures related to QA are based on the standards set by SMO-1, and efforts are continuing to meet them.

## Limitations of Quality Assurance Review

The Quality Assurance Review System is one of the regulatory apparatus of the Institute and should not be construed as an audit or investigation. It attempts to provide a limited assurance to the Institute for taking regulative decisions and as inputs for policy drives and the report is limited to the use of the concerned firm and the Institute. The Quality Assurance Review should not be treated as a substitute for the firm's own Engagement Quality Control or audit monitoring activities. Even after the review of the firm, the firm and the partners bear the same level of responsibility, legal or otherwise, as to their opinion expressed in the audit engagements. The Quality Assurance Division, the Quality Assurance Board and the Institute does not guarantee or assure members and stakeholders that the files reviewed are an immune against any material misstatements that are still not disclosed in the financial statements and acted upon by the auditors.

### Audit Firms Subject to Quality Assurance Review

The number of audit firms under the purview of quality assurance reviews as at year end 2020/21 are as follows:

Particulars	CA Firms	RA 'B' Class Firms	RA 'C' Class Firms	RA 'D' Class Firms	Total
Number of Firms with Renewed Status	563	1,304	557	930	3,354

### Information on Quality Assurance Review Visits

- ❖ The Quality Assurance Review Visits comprise of Routine, Follow-up and Risk visits.
- ❖ The routine review visit of audit firms performing the audit of listed entities take place in a cycle of 3 years.
- ❖ The review cycle for all other firms is of 6 years as of now as per IFAC's SMO-1. However, shorter time frame may be decided by QAB if felt necessary.
- ❖ The follow-up visits will take place generally in the next year of completion of routine visit.
- ❖ Currently, CA firms performing audit of listed entities and other CA Firms and 'B' class Registered Auditor's Firms performing audit of entities with more than NRs 500 million of total assets have been prioritized for quality assurance review.

## Our Work Processes

Audit Quality Assurance Review Process can be summarized as under:

### **Chapter 1: Preparation and Planning**

- Selection of Firms for review.
- Notice to Firms regarding QA Visit.
- Agreeing on visit dates and reviewer allocation, independence checks.
- UDIN Data verification and selection of files to be reviewed.
- Sending questionnaire and receiving response.
- Analysis of response.
- Study of annual report of audit file to be reviewed.
- Formulate strategy and action plan for review and identify risk areas, if any and documenting these in planning record.
- Discussion on any planning matters with the Head of Division.

### **Chapter 2: Field Work**

- Entry meeting with partners – Briefing on scope and review approach and listening to what they have to say.
- Inquiries with firm personnel about system of quality control in firm and review of documentation related to those.
- Review of documentation of selected files.
- Inquiries with firm personnel regarding any queries related to files.
- Exit meeting for briefing the findings and suggestions and listening to their preliminary verbal explanations.

### **Chapter 3: Reporting and Closure**

- Draft QA report prepared and reviewed by Head of Division.
- Sending the revised draft report for firm's response.
- Assigning marks and providing grades after evaluating response received.
- Forward report to QAB.
- Communicate QAB's decision to Firm.
- Monitor the progress of firm or plan for Follow-up visits for next year, if necessary.

## Understanding Grades and their Limitations

### Grading

Grades are assigned to the firms so that the QA Division will be able to track the improvements made by the Firms and because it contains some limitations, it is not for purpose of disclosures to the firm on an individual basis. However, we disclose the number of firms falling into each grade every year in QAB's Annual Report as a measure of adherence to quality standards observed at the reviewed firms. We assign the following grades to the firms:

Satisfactory

Generally Acceptable

Need Improvement

Need Significant Improvement

**Conceptually, the Grades assigned have connotations as described below:**

**Satisfactory:** Substantially compliant with or without minor issues.

**Generally Acceptable:** Issues are there but relatively minor to moderate and firm has willingness and capability to make improvements.

**Need Improvement:** Issues are there which are serious and requires urgent actions in view of audit quality and firm has to provision necessary resources and or willingness to make improvements.

**Need Significant Improvement:** Firm has done gross negligence in audit and it has identifiable negative outcomes or impact to the client or any stakeholder, and firm doesn't express the required commitment in terms of capability and willingness, or such commitment cannot be relied upon.

The limitations with the grades are:

- ❖ Grades represent the status of audit firms as on the dates of review.
- ❖ Grades are based on sample of completed audit files reviewed.
- ❖ Grades do not signify as Quality Approved Status and shouldn't be construed upon as such.
- ❖ Grades are fair measure of Quality but not an absolute measure.
- ❖ Prevalence of any critical issues in the audit firm can make the firm fall into lower grades despite their scores/marks obtained.

However, the Grading System carries much significance and is indispensable measurement tool to the Quality Assurance Division to precisely indicate the quality status of firms and to determine any further course of actions necessary in its internal work process.

## QAB's Work in 2020/21

Amid the Covid-19 pandemic crisis and several months of lockdown within the country, the year had been very challenging to carry out the QA review activities smoothly. It was very strenuous for Practicing Firms as well to arrange visits as scheduled and considering the sensitivities, many back and forth communication had to be made in the schedules. However, we provided the audit firms an option to submit files to the Institute and be available for discussion through online mode in order to cope up with restrictions and health issues laid down by pandemic. Audit Quality Assurance Review Protocol (for Pandemic Situation) which we had issued earlier was communicated to firms for their better understanding of their roles to facilitate the review process in the complex situation, was helpful during 2020-21.

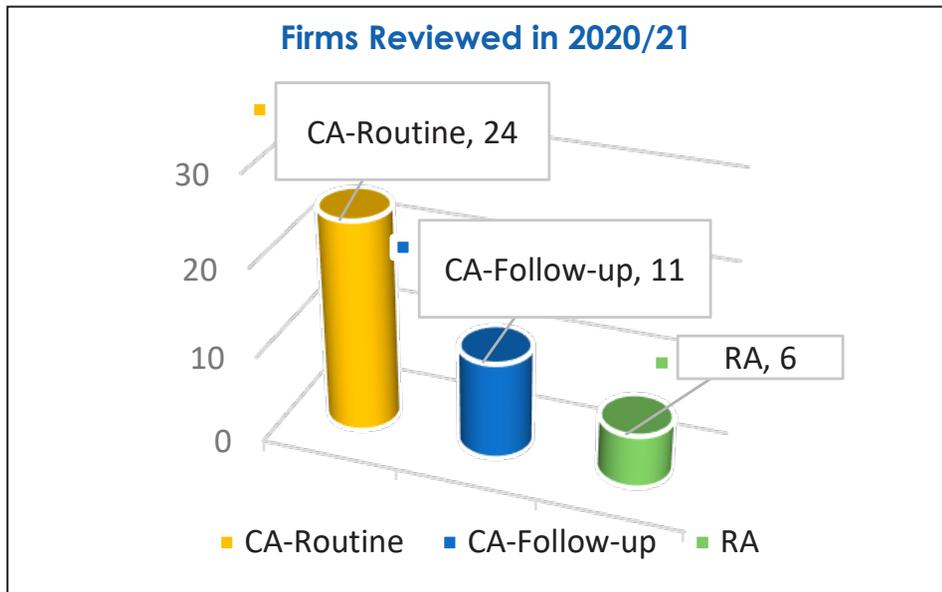
From this year, QAB has expanded review visits to audit firms of Registered Auditors as well. Total of 41 Practicing Firms were reviewed in the year 2020/21 of which 6 were firms of Registered Auditors. The 35 firms that were reviewed were the audit firms performing an audit of at least one listed company.

Other than regular review activities, some of the activities performed during or relating to the year 2020/21 are as under:

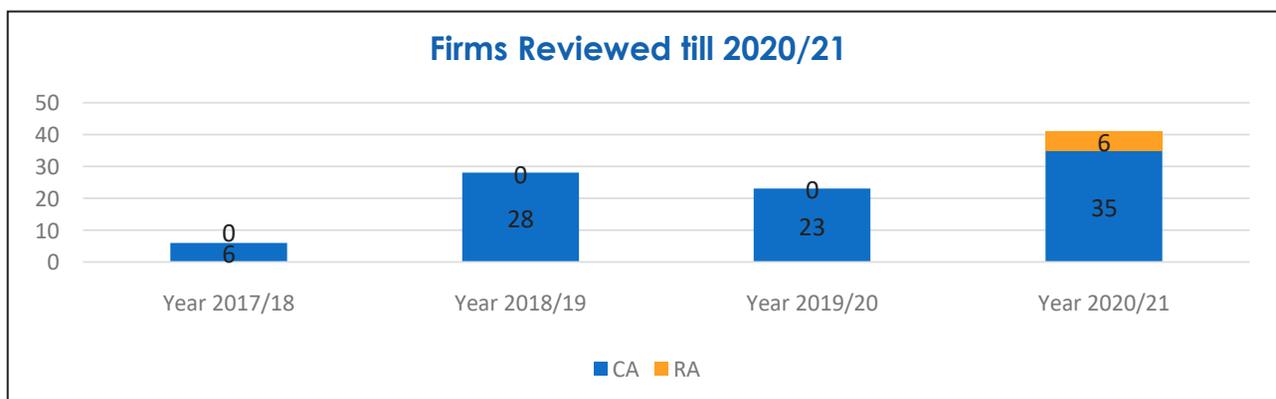
- ❖ Two Chartered Accountants were recruited in the Division as Reviewers in the mid of the year making the team total of 5.
- ❖ Newly recruited Reviewers were provided training – both instructional and on-the job.
- ❖ 10 Meetings of QAB were held.
- ❖ Audit Quality Assurance Review Procedure was amended.
- ❖ A reference material for Implementation of NSQC-1 was developed and uploaded in website.
- ❖ Other things incidental to strengthening of the review process were worked out and decided in the meetings of QAB.

## Quality Assurance Review Visits

41 practicing firms were reviewed during this year which makes total to 98 firms reviewed till 2020/21.



Total of 35 Practicing Firms of Chartered Accountants were reviewed out of which 11 reviews were of follow-up nature. Likewise, 6 Practicing Firms of Registered Auditors were reviewed.

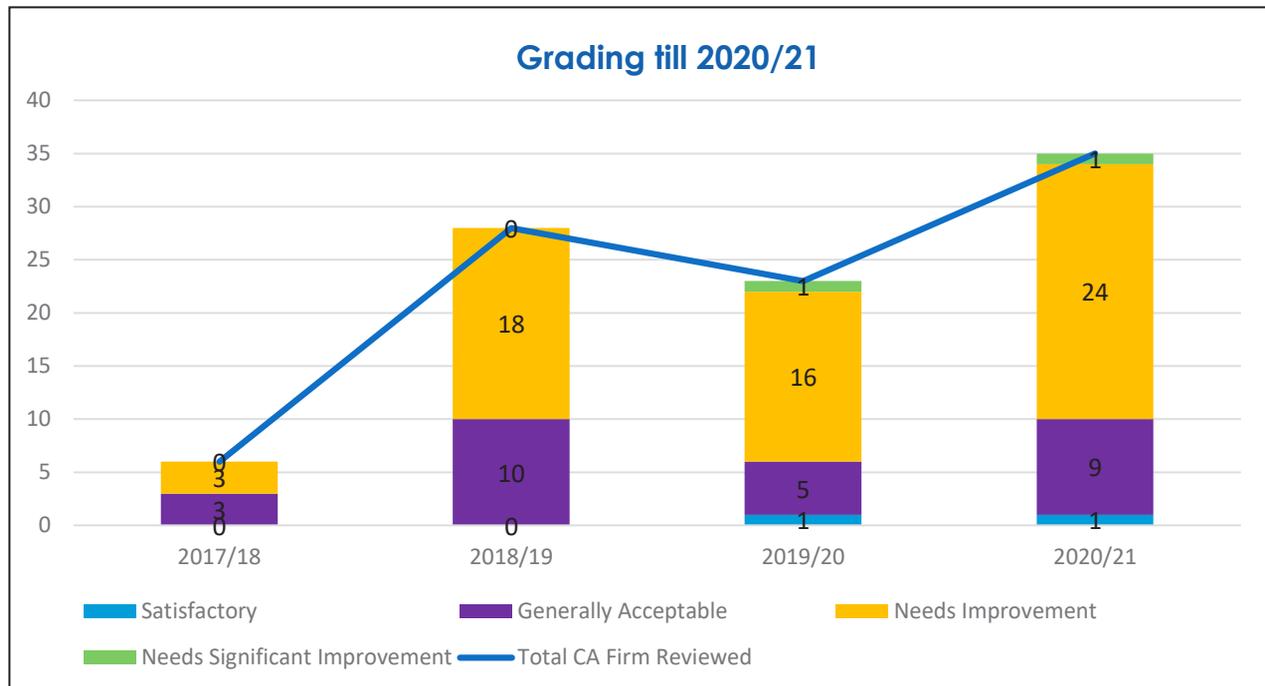


## Overview of Review Results

### Grades Provided to QA Visits

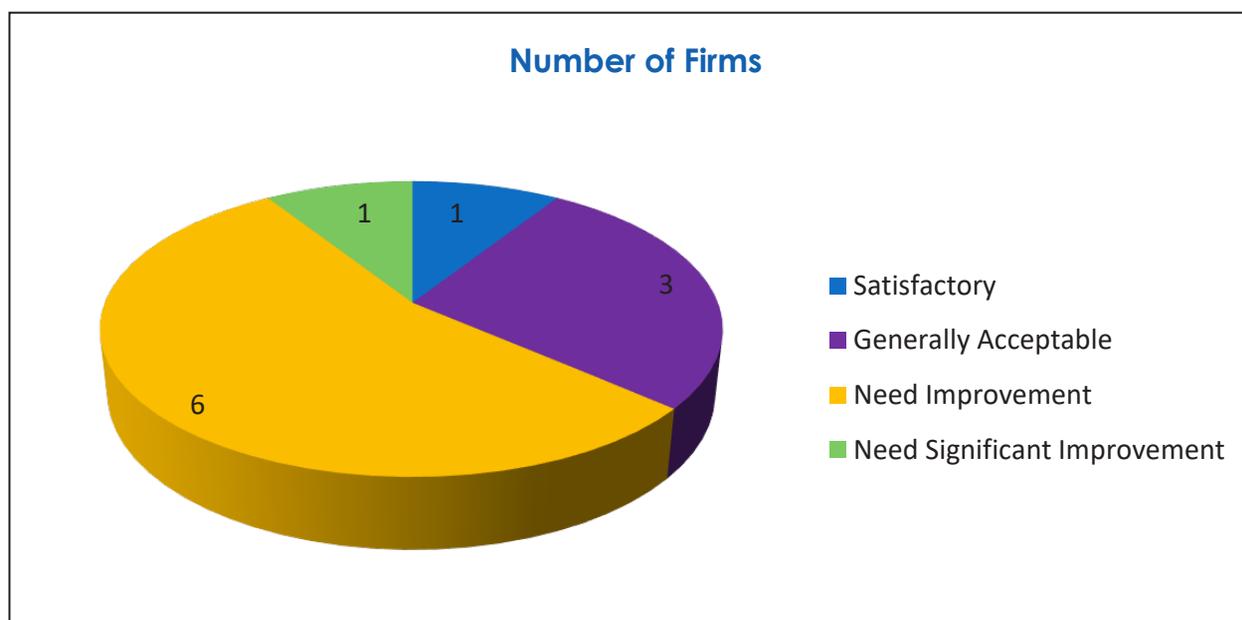
Details of final grading provided by QAB to the CA firms during 2020/21 are as under:

Grade	Number of Firms
Satisfactory	1
Generally Acceptable	9
Need Improvement: Without Follow-up	7
Need Improvement: With Follow-up	17
Need Significant Improvement	1

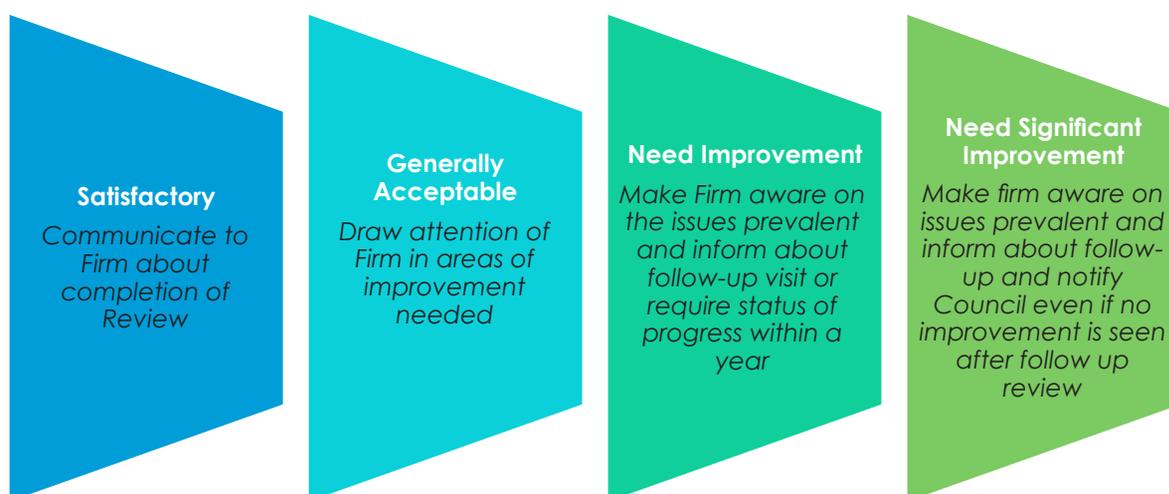


### Status of Grades among the Follow up Review Visits

The following status was seen of the 11 firms whose follow-up review was conducted during the year. The firms were selected for follow-up review visits as they obtained the Need Improvement Grade with marks lower than 50.



### Resulting Actions on Closure of Reviews

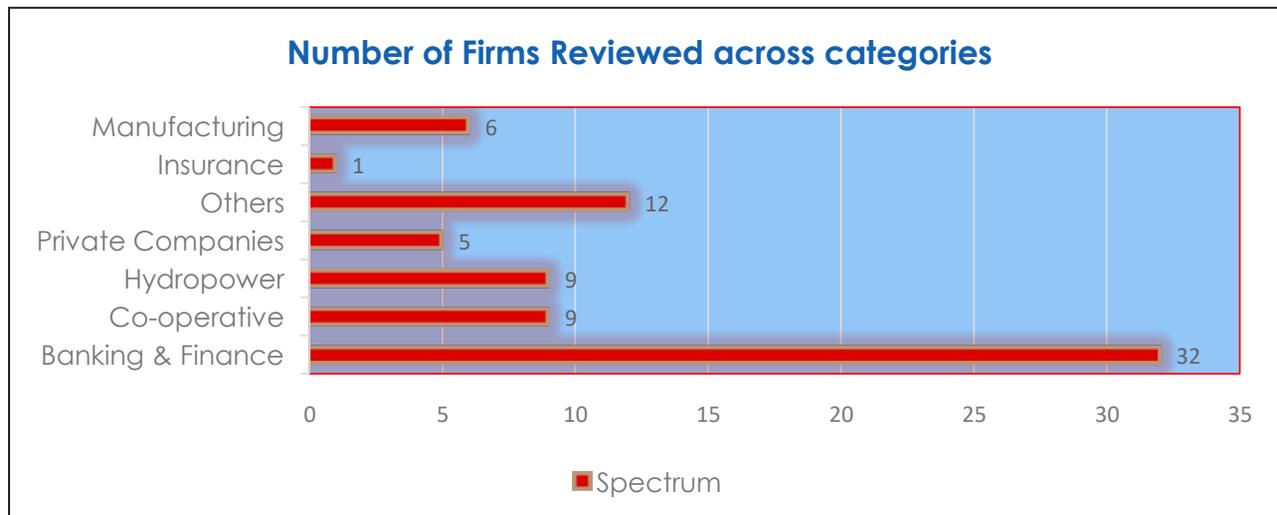


*If progress is not seen in follow-up review visits, QAB might consider notifying the compliance issues in the firm to Council and recommending other action to the firm including audit restrictions. It's at the discretion of Council whether to decide upon actions or to order that it be registered as a case for further disciplinary proceedings.*

## Category of Files Reviewed

Unlike previous years, where only one audit file of listed company was reviewed, one additional file has been reviewed in the year 2020/21. The other files were selected on the basis of nature or size of the business. Since the clients of the registered auditors are all unlisted entities, their files were selected on the basis of nature and size of the business. During the period, the 'B' class Registered Auditor's Firms were reviewed with files whose sum of total assets/liability exceeds 500 million Nepalese Rupees.

The QAB has reviewed a total of 74 audit engagements relating to diverse economic and business sectors of 41 firms in the year 2020-21. The number of the audit files of Banking and Financial Institutions reviewed is relatively high in comparison to other sector, as this sector has the highest number of companies listed with Nepal Stock Exchange.



## Findings from Review

Quality Assurance Review is a general regulatory function to assess the firm's system of quality control and compliance of professional standards during the conduct of the audit engagements.

The QA Review is not a fault finding activity on the part of the entity preparing the financial statements as well as auditors expressing an opinion on those financial statements, rather it is carried out to enhance the quality of audit. Quality Assurance Review primarily considers the non-compliance on the part of auditor rather than the client of the auditor.

The objective of summarizing the findings identified by the QA Division in this Annual Report is to give an idea to the practicing members about the areas where special attention is required of the firms and create awareness on the quality of audit.

### 1. Planning of Audit

#### 1.1 Acceptance of Client:

- The firms lacked a formal process of client screening which is generally carried out by evaluating the integrity of key personnel and those charged with governance of the client.
- The auditors failed to communicate with the previous auditors in most of the cases.
- Familiarity threat was not considered while formulating the audit team either in case of continuing client or in case where the previous audit team member is hired by the audit client in key position.

#### 1.2 Auditor Appointment:

- Few cases of non-acknowledgement of appointment letter by auditor were noted.
- Some cases of question on legality of appointment with respect to provision of Company Act 2063 were observed like appointment of auditor of public limited company by the Board of Directors of the Company in cases where AGM couldn't be held.

#### 1.3 Audit Strategy and Plan:

- Many firms still have not brought into the practice of formulating audit strategy and plan as a basic part of audit planning. Where audit strategies and audit

plan were formulated, it has been observed that those were not customized according to nature of business of the client.

#### 1.4 Risk Assessment:

- The risk assessment procedures were not carried out in most of the cases. However in few cases, though it had been done, it was not carried out in comprehensive manner.
- In many cases, instead of determining of audit risks at financial statement level and assertion level, the business risks of clients were noted down without reference to how they gave rise to audit risks.
- In most cases, the risk related to revenue fraud, management override of controls and other fraud risks were not assessed and documented.

#### 1.5 Engagement Letter:

- Practice of not issuing engagement letter was common to private companies or companies with low profile.
- In some cases, though engagement letters were issued, those were not acknowledged by the client.

#### 1.6 Other Planning Related Procedures:

- Preliminary analytical reviews were not conducted.
- Time plans were not prepared in few cases.
- Audit team formation was not documented and their competencies were assessed in very few cases.
- Planning meetings were not conducted and it was not clear if the proper guidance to audit team members were conveyed as to the financial statement's susceptibility of material misstatements.
- Materiality was not determined and in the cases where those had been taken into consideration, the materiality level was not applied during the determination of audit procedures and while evaluating the misstatements
- Audit sampling techniques were not ascertained and documented.

## 2. Execution of Audit

### 2.1 Use of adequate audit procedure and collection of sufficient appropriate audit evidences:

There were various instances where it was observed that auditor had not applied adequate procedures for verification of financial line items of material amount. Likewise, the proper documentation of audit evidences for material class of

transaction and account balances were not maintained. Though auditors tried to verbally justify those instances, proper evidences to support justifications were not present in most cases. Usually, the auditors claimed that they performed the procedures as appropriate in the circumstances but they failed to document such procedures applied and evidences obtained.

## **2.2 Audit Documentation:**

- Audit documentation of almost all firms requires strengthening to ensure compliance with NSA 230 and various other standards.
- Nature, timing and extent of audit procedures applied were not noted down either separately or in the form of audit program. Where audit program was developed, in many cases, it was developed in generic way, and not customized to reflect the nature and size of client and related requirements.
- Findings observed, judgment made and conclusion reached was also not present in documented form.
- Identification of performer of audit procedures and date such were performed and identification of reviewer and date of such were reviewed were not disclosed.
- Audit files were not properly organized; neither there was a system to keep track of changes in audit documentation.

## **2.3 Communication with Management:**

- In most of the firms, documentation of communication with management was not found other than preliminary audit report or management letter.
- In some cases, meeting minutes of exit meeting was not available, and in some cases, management letter was not issued or response thereupon not obtained.
- In few cases, communication with management regarding prospective modification of audit report was also not done.

## **2.4 Management Representation Letter:**

- The management representation letters were obtained either much earlier than signing of auditor's report or even after signing the auditor's report. In some instance, management representation letters were not obtained at all. Furthermore, management representation letters did not contain some crucial items of material impact.

## 2.5 Summary of Misstatement and Their Resolution Status:

- Summary of material misstatements identified and resolution status of misstatements were barely documented and evaluations of impact of uncorrected misstatements in financial statements were not documented by most of the firms.

## 2.6 Non-compliance with Relevant NSAs:

- Most of the firms didn't have practice to document the procedures applied for litigation and claim (as per NSA 501), related parties (NSA 550), subsequent events (NSA 560), going concern (NSA 570), consolidation of group companies (NSA 600), use of work of internal auditors (NSA 610), and use of work of management expert (NSA 500).

## 3. Reporting and Conclusion

### 3.1 Audit Opinion and Basis of Opinion:

- Most of the audit firms have not maintained documentation for forming the basis of opinion and their judgment on how the opinion provided might be appropriate in the given circumstances. It was also noted that different types of opinion were seen to be expressed by same auditor for same client in similar circumstance in different financial years.
- Clarity on the type of audit opinion to be expressed was seen to be lacking. For example: for non-adoption of IFRIC 12 in hydro power sector and for non-adoption of NFRS in Co-operatives and private sectors, types of audit opinion expressed differed across auditors and audit firms.

### 3.2 Independent Auditor's Report: Even though most of the auditor's report reviewed seemed satisfactory, some issues mentioned below were noted:

- Auditor's reports were not in exact format prescribed by NSA 700.
- Basis of Opinion paragraph not included in few report and in case of inclusion basis not described properly.
- Key Audit Matter neither included in audit report of listed entities nor clearly stated that there is nothing to report under KAM.
- Other Information paragraph not included and procedures for NSA 720 not adopted.
- Incomplete information in section of Report on Other Legal and Regulatory Requirements. Basically, few information required by Companies Act and BAFI Act were missing.
- Cases of clerical errors in auditor's report were also frequent.

#### 4. Firm's System of Quality Control

Following matters were observed in Firm's System of Quality Control:

- Most of the firms had not formulated Quality Control Policy. Even if formulated, they were not customized according to the size and nature of the client of the firm,
- Procedures for Client acceptance and continuance were not formally documented.
- Engagement Quality Control Reviews were not conducted in most of sole practitioner's firms and in cases where such were conducted, documentation of work was not done.
- Written confirmation of compliance with firm's policies on independence by the staffs required to be independent were not obtained.
- Audit Practice Manual is yet to be adopted by many firms.
- Analysis of adequacy of human resources, provision of trainings to them, appraisal and career development was seen to be lacking in many of the firms.
- System of self-monitoring as required by NSQC-1 or its documentation was not found in almost all firms.

#### 5. Weaknesses Observed at Client's end

During the course of our review, we came across some weaknesses on the audit clients as well. The Auditors have sometimes been unable to address such issues appropriately in the auditor's report. Such weaknesses identified are:

##### 5.1 Major Non-compliance with Accounting Framework

- Non-adoption of NFRS Framework by microfinance institutions.
- Non-adoption of NFRS Framework by a private company required to adopt NFRS due to crossing of limit of assets/liabilities fixed for application of NFRS for SMEs framework.
- Investment in Associates was not accounted as per NAS 28.
- Non-compliance with IFRIC-12 by many hydropower companies.

## 5.2 Specific Presentation and Disclosures Issues in the Financial Statement

Various issues were observed with regard to incomplete disclosures or irrelevant disclosures. Complication in compliance with disclosure requirement was seen such as:

- Relevant Accounting Policies and Notes to Accounts lack appropriate disclosures related to property plant and equipment, prior period tax expenses, movement of reserves, share capital, inventories and investment property.
- Sufficient disclosure for: related parties, change of ownership, contingent liabilities relating to litigations and claims, key management personnel and their benefits and non-controlling interest were not found.
- Generally, in NFRS complied financial statements, those accounting policies not related to the elements of financials are also disclosed thus making the financial statement bulky for no additional benefit to users.

## Potential Root Causes

QAB has identified some of the root causes that limits the firms to adhere with the standards and maintain quality of audit engagements. This is presented to assist firms in locating and addressing the causes giving rise to the quality issues in the firm and this may help stakeholders to gain some insight on the operating environment of the audit firms.

### Potential Root Causes:

#### 1. Resource Issues

- Quality and Quantity of audit staffs not recruited or hired commensurate with the nature, number and size of the clients.
- Qualification and experience of engagement teams not ensured for specialized audit clients like Banks and Insurance.
- Small firms do not have article trainees to support operational level engagement performance.
- Staff trainings are less structured, infrequent, and inadequate.
- Lack of application of high degree of professional judgment to determine the scalability of the compliance to standards across clients of different size and nature.

#### 2. Personal, Ethical and Attitude Issues

- Over dependence and reliance over the engagement teams by the partners.
- Minimal or no timely supervision of engagement performance/ process and outcomes mostly not documented.
- Standardization of audit documentation not a priority.
- A mindset that auditing standards are overly complex or they place too many requirements than required.
- Client's overall impression and experience from previous relationship given importance over engagement-wise audit evidences and issues.
- Proper and effective communication with client not prioritized as required by standards to ensure client doesn't undermine audit and or understands the limitation and expectations out of audit.
- Focus is on identifying issues and reporting them rather than forming proper basis for opinion.
- Less orientation and refreshment training to staffs on ethical issues and requirements.
- Fear of losing client or prospective client resulting into overriding the requirement of the standards.

### 3. Process Issues

- Only few firms use standard audit system.
- Some firms use conventional audit practices which comprises only to be a partial audit system.
- Quality Control Policy as per NSQC-1 requirements is not developed by many firms.
- Material legal compliances are not audited through the use of checklists even for highly regulated clients.
- Partner's instructions are themselves believed to be firm's processes and policies for small firms and they don't emphasize the need for formalized structure and firm processes.
- Absence of policy and audit system resulting thereby to ad-hoc processes and limited scope for evaluating standard of actual work.

### 4. Leadership Issues

- Effective leadership traits emphasizing standards of quality audit may have been poorly demonstrated.
- Usually, incentives to promote quality of audit work based on formalized performance appraisal process are discretionary and not emphasized.
- Some firms are not keen on making improvements over issues identified as repetition of the issues have been noted in our follow up visits.

### 5. Client Issues

- Sometimes client place unusual deadlines to firms and auditor feel that they have no option other than to compromise to the extent they can.
- Level of Fees not commensurate with the level of Quality Standards to be met.

## Miscellaneous

### Meeting and Decision of QAB

Altogether 10 meetings of the Quality Assurance Board were conducted during the year and number of meetings attended by each member is as under:

Member	Number of Meetings Attended	Member	Number of Meetings Attended
Mr. Dev Bahadur Bohara	10	Mrs. Bindu Bista	9
CA. Kiran Dangol	8	Mr. Muktinath Shrestha	9
RA. Abdul Karim Khan	8	RA. Laxman Khanal	6
CA. Badri Kumar Guragain	4		

CA. Sanjay Kumar Sinha and CA. Kiran Kumar Khatri attended all meetings as Secretary and Invitee respectively.

### QAB Decisions across Area of Decisions for last three years

S. No.	Area of Decisions	2018/19	2019/20	2020/21
1.	Discussion on Ratification of Quality Assurance Review reports	1	7	7
2.	Policy/Procedures Related Matters relating to QA and Audit Regulation	4	10	13
3.	Oversight and decisions related to QA Operations	09	16	09

### Composition of QAB and its tenure

The Board is constituted of 7 members from various sectors related to the accounting profession. The Board comprises of a Chairperson, two Council Members, two general members who are not practitioners, one representative from Securities regulator (SEBON) and one representative from Office of Auditor General. The Chairperson and all other members except the Council Members are non- practitioners.

The tenure of the Board is 3 years and is formed by the new Council of the Institute.

### Current Composition of QAB

The current Board is the newly formed Board by 9<sup>th</sup> Council from its decision dated 24 September 2021 after the tenure of the former Board ended on 15 July 2021 and it comprises of following members. The Board is the third one in the history.

Name	Role	Affiliation
Mr. Dev Bahadur Bohara	Chairman	Former Deputy Auditor General at Office of Auditor General
CA. Chhetra Gopal Pradhan	Member	Council Member and a practicing member
RA. Shankar Gyawali	Member	Council Member and a practicing member
CA. Dipak Sharma	Member	Finance Director in a Leading Corporate Organization
RA. Laxman Khanal	Member	Former Under Secretary in FCGO
Mr. Muktinath Shrestha	Member	Acting Executive Director at SEBON
Mr. Narayan M.C.	Member	Assistant Auditor General in Office of Auditor General
CA. Sanjay Kumar Sinha	Secretary	Executive Director, ICAN

The chairperson and other two members are repeated from the previous Quality Assurance Board. Likewise, the Secretary is also repeated from the previous QAB.

### Composition of the QAB during 2020-21

Following members were present in Board during 2020/21:

Name	Role	Affiliation
Mr. Dev Bahadur Bohara	Chairman	Former Deputy AG at Office of Auditor General
CA. Kiran Dangol	Member	Council Member and a public practitioner
RA. Abdul Karim Kha	Member	Council Member and a public practitioner
CA. Badri Kumar Guragain	Member	CEO of National Cooperative Bank Ltd
Mrs. Bindu Bista	Member	Assistant Auditor General in Office of Auditor General
RA. Laxman Khanal	Member	Former Under Secretary in FCGO
Mr. Muktinath Shrestha	Member	Acting Executive Director at SEBON
CA. Sanjay Kumar Sinha	Secretary	Executive Director, ICAN

### Current Composition of Staffs

Quality Assurance Division consists of 6 staffs lead by a Joint Director out of which 3 staffs were added in 2020/21. The department is under the overall supervision of the Technical Director of the Institute. Details of staffs in the Quality Assurance Division are as under:

Name	Position	Role
CA. Kiran Kumar Khatri	Joint Director	Head of Division
CA. Ghanashyam Kafle	Deputy Director	Reviewer
CA. Bharat Nepal	Deputy Director	Reviewer
CA. Anuradha Neupane	Assistant Director	Reviewer
CA. Amrita Thapa	Assistant Director	Reviewer
Mr. Shiva Bhattarai	Junior Assistant	Administrative Staff

## Disclaimer

*This report is intended for general information only. The information in this report doesn't constitute professional advice and should not be construed upon as such. Further, this report does not provide any guarantee regarding standard of audit quality by practicing firms. The Quality Assurance Board (QAB) and the Institute doesn't accept any responsibility for loss of any kind resulting to any person as consequence of decisions taken on the basis of information contained herein.*





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

**Head Office:**

ICAN Marg, Satdobato, Lalitpur  
P O Box 5289, Kathmandu, Nepal  
Tel No.: +977-1-5530832, 5530730  
Fax : +977-1-5550774  
E-mail : ican@ntc.net.np

**Branch Office:**

BIRATNAGAR  
Tel No.: 977-021-474395

POKHARA  
Tel No.: 977-061-587679

BUTWAL  
Tel No.: 977-071-543629

NEPALGUNJ  
Tel No.: 977-081-525916

BIRGUNJ  
Tel No.: 977-051-522660

DHANGADHI  
Tel No.: 977-091-527493

[www.ican.org.np](http://www.ican.org.np)