

# FREQUENTLY ASKED QUESTIONS ON THE NSA FOR LCE

The Nepal Standards on Auditing for Audits of  
Financial Statements of Less Complex Entities  
(NSA for LCE)



लेखापरीक्षणमान बोर्ड  
**AUDITING**  
**STANDARDS BOARD**

These Frequently Asked Questions (FAQs) are issued by the Auditing Standards Board (AuSB).

The AuSB developed and issued in November 2024 the *Nepal Standard on Auditing for Audits of Financial Statements of Less Complex Entities* (the NSA for LCE). It is effective for audits of financial statements of less complex entities for the periods beginning on or after 1<sup>st</sup> Shrawan 2083 with an option to apply before that date also.

These FAQs are intended to assist in the adoption and implementation of the NSA for LCE by addressing matters relevant to the application of the standard. The FAQs are designed to highlight, illustrate, or explain aspects of the NSA for LCE and thereby assist in the standard's application. They do not amend or override the NSA for LCE, the texts of which alone are authoritative. Reading the FAQs is not a substitute for reading the NSA for LCE. The FAQs are not intended to be exhaustive and reference to the NSA for LCE should always be made. This publication does not constitute an authoritative or official pronouncement of the AuSB.

---

---

## Table of Contents

|   |           |
|---|-----------|
| A. General .....                        | Q1 – Q6   |
| B. Benefits of Using the Standard ..... | Q7 – Q10  |
| C. Overarching Concepts .....           | Q11 – Q12 |
| D. Applicability of the Standard .....  | Q13 – Q17 |
| E. The Standard.....                    | Q18 – Q20 |
| F. Transition Out of the Standard.....  | Q21 – Q22 |

## **A. GENERAL**

### **1. What is the NSA for LCE?**

The NSA for LCE is the new auditing standard developed in line with the ISA for LCE by the Auditing Standards Board (AuSB) for financial audits of less complex entities (LCE) in **both private and public sectors**. It is a **standalone** auditing standard that is proportionate, tailored and designed specifically for smaller and less complex businesses.

Built on the foundation of the Nepal Standards on Auditing (NSAs), audits performed using this standard **provide the same level of assurance** for eligible audits i.e. reasonable assurance. It will help maintain confidence in financial reporting and promote the consistent application of auditing standards to less complex entities.

### **2. Why is the NSA for LCE needed?**

In the world of auditing, not all businesses are the same—nor are their audits. The audit of a small bakery shop is very different from an audit of a large multinational. The AuSB's responsibility to set auditing standards in the public interest covers the entire spectrum of the economy, including multinationals and less complex entities.

Smaller, less complex entities make crucial contributions to the national economy and account for the great majority of audits. At the same time, increasingly complex structures and transactions need to be addressed in the NSAs. This complexity in the NSAs could pose challenges for audits of less complex entities and, therefore, the AuSB has developed the NSA for LCE in line with the ISA for LCE, to support these audits.

### **3. From When the NSA for LCE will be applicable?**

The NSA for LCE is effective for audits of financial statements of less complex entities (LCE) for the periods beginning on or after 1<sup>st</sup> Shrawan, 2083 (17<sup>th</sup> July 2026) with an option to implement voluntarily before the due date. It applies only when the entity meets specific qualitative and quantitative criteria outlined in the standard.

### **4. Can the NSA for LCE be applied for audits of entities that use Nepal Financial Reporting Standard for Small and Medium-Sized Entities (NFRS for SMEs)?**

Whether the NSA for LCE can be applied for audits of entities that use the NFRS for SME will depend on the facts and circumstances of the entity. Generally, both standards are aimed at smaller, often less complex entities but these standards

have different criteria to determine when they are appropriate for use.

Regardless of which acceptable financial reporting framework an entity uses to prepare its financial statements, the NSA for LCE can only be used if the auditor determines it is appropriate in accordance with the Authority of the NSA for LCE.

**5. Does the NSA for LCE require the auditor to refer back to the NSAs in certain circumstances?**

No. The NSA for LCE is a stand-alone standard, completely separate from the NSAs. Therefore, cross references to the NSAs are not made in the NSA for LCE.

**6. How does the NSA for LCE differ from other Nepal Standards on Auditing?**

| <b>Particulars</b>   | <b>NSA for LCEs</b>              | <b>Full NSAs</b>                             |
|--|----------------------------------|--|
| Applicability  | Audits of LCEs only              | Audits of all entities                       |
| Structure  | One standard, including 10 Parts | 37 standards                                 |
| Volume/size  | Around 150 pages                 | Around 1,000 pages                           |
| Requirement for matters or circumstances that would have deemed more complex | Not included                     | Included                                     |
| Requirement for rare circumstances   | Not included                     | Included                                     |
| Guidance   | Adjoined to the Requirement      | Extensive and separate from the requirements |
| Examples   | Focused on LCE                   | Wide range of entities                       |

**B. BENEFITS OF USING THE STANDARD**

**7. How does the NSA for LCE help auditors who perform audit engagements for less complex entities?**

- It is a standalone standard (no need to refer to the NSAs at all) that is proportionate and tailored to the specific needs of an audit of less complex entities, recognizing the importance of smaller businesses.
- NSA for LCE is designed with an intuitive structure, following the flow of an audit and with clear, understandable and concise language.

- It simplifies the documentation requirements. While the documentation is simplified, it remains sufficient to support the auditor’s conclusions and is proportionate to the size and complexity of the entity.
- It helps to reduce the cost of auditing without compromising the quality of audit.
- Focused on matters applicable to LCEs only.
- This standard recognizes the different audit needs of the LCEs
- The guidance and illustrations in the standard are specific to LCEs and focus on what’s essential for the auditor.
- The NSA for LCE helps auditors deliver consistent and effective high-quality audits for less complex entities.

**8. Does using the NSA for LCE reduce the quality of the audit or mean less work is needed for an audit?**

The NSA for LCE does not reduce the quality of the audit or necessarily mean less work. **It is a different type of audit, not a lesser audit.** It helps auditors focus on aspects of the audit that are relevant for less complex entities.

It is about doing the right work, including the amount of work, in the right areas, and having proportionate requirements to drive that work. Requirements that are based on the underlying concepts from the NSAs and that are proportionate to the typical nature and circumstances of a less complex entity support the consistent performance of quality audit engagements in this market segment.

**9. If using the NSA for LCE does not necessarily reduce the time spent on the audit, what is the advantage of using the standard?**

The NSA for LCE is proportionate and tailored to the needs of an audit for a less complex entity. Given this, the key advantages of the NSA for LCE are that:

- The standard has been written to be clear, understandable and concise, avoiding any unnecessary words, repetition, or ambiguous language.
- The standard is easier to navigate given how it is organized and given its length.
- Auditors can be more certain that they have addressed all requirements as they don’t have to read through pages of requirements and guidance that is not relevant to an audit of a less complex entity.

These key advantages support auditors of less complex entities to invest more time executing appropriate procedures that more effectively target the risks of material misstatement.

**10. If an audit is performed on the NSA for LCE, should the audit client automatically expect a reduction in fees when the previous year's audit was performed in terms of the NSAs?**

No. On consideration that the same level of assurance (i.e. reasonable assurance) is provided, the application of the NSA for LCE is not expected to result in a reduction of audit work. Therefore, a reduction in fees should not be expected.

### **C. OVERARCHING CONCEPTS**

**11. What level of assurance is provided under the NSA for LCE?**

The NSA for LCE provides the same level of assurance as an audit performed under the full NSAs i.e. Reasonable Assurance.

**12. How can the NSA for LCE provide the same level of assurance as the NSAs while the standard is significantly shorter than the NSAs?**

The level of assurance that is achieved in any audit engagement results from the auditor planning and performing the audit to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. The NSA for LCE lays out the audit process for the auditor to achieve this in a manner that is proportionate to the typical nature and circumstances of an audit of a less complex entity. Some of the design factors led to the standard being significantly shorter than NSAs, for example:

- The requirements and Essential Explanatory Material in the NSA for LCE are designed to be proportionate to the typical nature and circumstances of an audit of a less complex entity. Requirements and Essential Explanatory Material that address complex matters or circumstances are excluded from the NSA for LCE.
- The NSA for LCE focusses on what the outcome of the requirement is that the auditor needs to achieve. The requirements describe what the auditor needs to do without including unnecessary granularity.
- The requirements in the NSA for LCE have been written to be clear, understandable and concise, avoiding any unnecessary words, repetition, or ambiguous language.

Although certain design factors have resulted in the standard being significantly shorter than the NSAs, the requirements still enable the auditor to achieve the auditor's overall objectives as set out in paragraph 1.3.1 of the NSA for LCE.

## **D. APPLICABILITY OF THE STANDARD**

### **13. When can the NSA for LCE be used?**

The authority of the standard sets three board criteria to use the NSA for LCE as below:

#### **A) Specific Prohibitions**

- a. If laws or regulations prohibit the use of the NSA for LCE;  
*(Note: As of now, there is no such prohibition under any law or regulation in Nepal)*
- b. If the entity is a listed entity;
- c. If the entity falls into one of the following classes:
  - i. An entity one of whose main functions is to take deposits from the public (Including Cooperatives) and the deposit amount is NRs. 10 Crores (NRs. 100 million) or more;
  - ii. An entity one of whose main functions is to provide insurance to the public; or
  - iii. An entity exhibiting other public interest characteristics.

*An entity is considered to exhibit other public interest characteristics if:*

*(a) It's borrowing from banks or financial institutions or public funds or from entities holding assets in fiduciary capacity is NRs. 50 Crores (NRs. 500 million) or more.*

*(b) It holds assets of NRs 50 Crores (NRs. 500 million) or more in fiduciary capacity for a broad group of outsiders as one of its primary businesses.*

- d. The audit is a group audit that does not fall within the above criteria and where component auditors are involved (except their involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g., attending a physical inventory count or physically inspecting assets or documents))

## B) Quantitative Criteria

Entity exceeding any of the following thresholds cannot use the NSA for LCE:

- Annual turnover of NRs. 1 Arba or more.
- Total assets of NRs. 1 Arba or more.
- Average of 300 or more employees during the year.

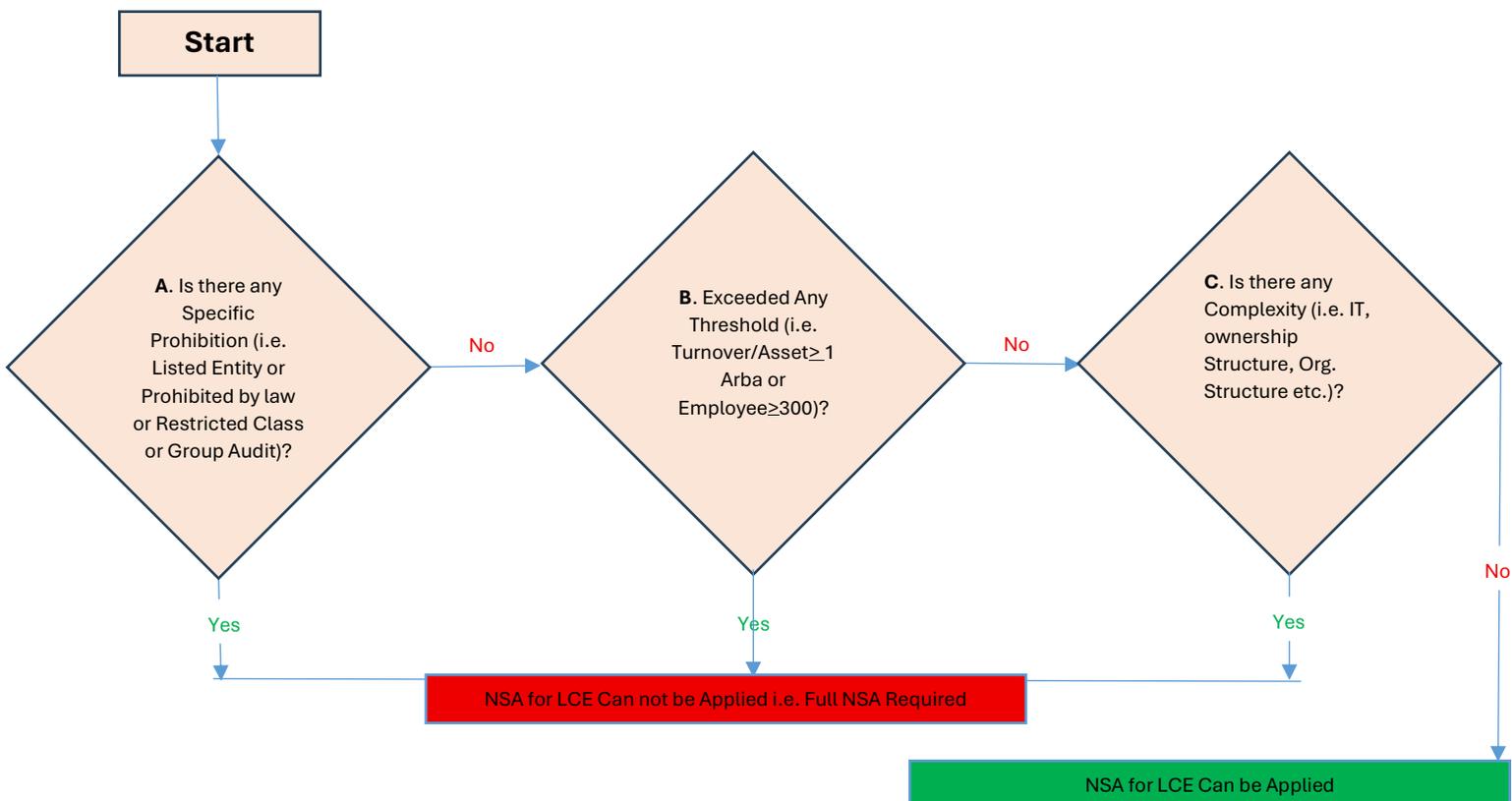
## C) Qualitative Characteristics

Within Qualitative Characteristics, the auditor may use his own discretion concerning the complexity of any business and determine whether to use the NSA for LCE or Full NSAs.

The following list (not exhaustive) may be considered to ascertain the applicability of the NSA for LCE:

- Business Activities, Business Model & Industry
- Organizational Structure and Size
- Ownership Structure
- Nature of Finance Function
- Information Technology (IT)
- Application of the Financial Reporting Framework and Accounting Estimates

### Applicability of the NSA for LCE can be Presented as Below:



**14. What if an entity meets the criteria as above?**

If any entity meets at least one criterion in two consecutive years, the NSA for LCE no longer applies to that entity. The entity can only revert to using the NSA for LCE if it fails to meet all three limits for two consecutive years.

**15. What if an entity is a newly established entity (less than 2 years old)?**

For a newly established entity (in existence for less than two years) applicability of the standard is assessed based on every year of its operations. If the entity meets at least one criterion in all the years it has existed, the NSA for LCE will not apply.

**16. If the auditor determined that application of the NSA for LCE was appropriate in one year, may the auditor assume that application of the NSA for LCE is appropriate in subsequent years?**

No. The consideration and documentation of applicability of the NSA for LCE in the conduct of the audit have to be performed for each year's audit.

**17. Does the auditor have to apply the NSA for LCE when an auditee is within the scope of the standard?**

No. Auditors may "opt-in" to apply the NSA for LCE when they are eligible to do so. The NSAs may be applied to an auditee that would be eligible for application of the NSA for LCE.

## **E. THE STANDARD**

**18. Does the NSA for LCE allow the auditor to combine the assessment of inherent and control risk?**

No. The NSA for LCE requires a separate assessment of inherent risk and control risk. See paragraphs 6.4.1 (b)(ii) and 6.4.7. of the NSA for LCE.

**19. Will Nepal Standards on Quality Management (NSQM) be applicable to the NSA for LCE?**

Yes. The NSA for LCE is premised on the basis that the firm is subject to NSQM 1 or to national requirements that are at least as demanding. See paragraphs P.1 and 1.2.2. of the NSA for LCE.

## **20. Are there illustrative examples to help auditors implement the NSA for LCE?**

The NSA for LCE includes the following illustrative examples:

- Illustrative engagement letter (Appendix 2 of the NSA for LCE)
- Illustrative representation letter (Appendix 7 of the NSA for LCE)
- Illustrative auditor's report (Section 9.4 of the NSA for LCE)

In addition, the Auditor Reporting Supplemental Guidance will provide illustrative auditor's reports, for different circumstances such as when the auditor has a qualified opinion.

## **F. TRANSITIONING OUT OF THE STANDARD**

### **21. What to do if transitioning is required in the middle of the engagement?**

In the case the auditor needs to transition to the NSAs mid-engagement, the First-Time Implementation Guide (Which is under preparation under AuSB) will provide guidance on how to do so. Among other matters the guide will note that the incremental procedures needed will vary depending on the facts and circumstances of the audit engagement. Broadly the auditor needs to:

- Re-establish the terms of engagement, for example through the issuance of an updated engagement letter.
- Reissue communications with management or those charged with governance.
- Evaluate whether sufficient work has been performed in the planning phase of the audit.
- Consider whether there are any additional procedures required on opening balances.
- Evaluate the sufficiency and appropriateness of work already performed.
- Design and perform additional procedures necessary to comply with all applicable NSA requirements, with additional documentation as appropriate.
- Undertake other actions as considered necessary to meet the objectives of the NSAs or to meet the obligations in terms of the firm's policies or procedures.

**22. What to do in case of transitioning after prior year's engagement?**

In the case the auditor needs to transition to the NSAs after the prior year's engagement is completed (i.e., the NSA for LCE was used for the prior period and the NSAs must be used for current period), NSA 510 on initial audit engagements and NSA 710 on comparative information provide requirements for audit procedures and related guidance. Regarding the auditor's report, when the financial statements include corresponding figures or comparative financial statements and the prior period was audited under a different auditing standard(s), the auditor is not required to include information regarding the auditing standard(s) used for different periods in the auditor's report. Although not required, the auditor may include an Other Matter paragraph to highlight that the previous period was audited using a different auditing standard.