



The Institute of Chartered Accountants of Nepal (ICAN)

**Guidance Note on Suspicious Transaction Reporting
(STR) by Auditors**

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For Members' Reference Only

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Abbreviations

ICAN	The Institute of Chartered Accountants of Nepal
STR	Suspicious Transaction Reporting
FIU	Financial Intelligence Unit
MLPA	Money Laundering Prevention Act, 2064
MLPR	Money Laundering Prevention Rules, 2081
COP	Certificate of Practice
AML	Anti Money Laundering
CFT	Countering Financing of Terrorism
NSA	Nepal Standards on Auditing
VAT	Value Added Tax
CDD	Client Due Diligence
SAR	Suspicious Activity Reporting

1. Introduction

This Guidance Note is issued in accordance with Section 11(7) of the Directives on Anti-Money Laundering and Countering Financing of Terrorism 2078 issued by ICAN pursuant to the decision of 359th meeting of the Council dated 2082 Poush 13 (28 December 2025). Its objective is to help auditors understand their duty to report Suspicious Transactions (STRs) that they come across during an audit to the Financial Intelligence Unit (FIU), as required by:

- Money Laundering Prevention Act, 2064 (MLPA)
- Money Laundering Prevention Rules, 2081 (MLPR)
- Directives on Anti-Money Laundering and Countering Financing of Terrorism 2078 issued by ICAN (Directives)

This Note supplements (but does not replace) the legal provisions and directives in force.

2. Definitions

Reporting Entities: “Reporting Entity” (RE) means the Auditors and Accountants as defined in section 2 (Nga) of the Directives. For the purpose of this Guidance Note, the Reporting Entities mean the Audit Firms carrying out the audit of financial statements having been registered in ICAN.

Money Laundering Offence: Money laundering offence is an offence relating to placement, layering and integration of proceeds from criminal sources.

Predicate Offence: Predicate offence is the underlying offence of criminal nature as prescribed in Annex 1 of the Money Laundering Prevention Act 2064.

Suspicious Transactions: Suspicious Transactions are financial transactions in which there are reasonable grounds to suspect that the funds involved are related to the proceeds of criminal activity.

Suspicious Activities: Activities within an audit client which could be behavior, pattern, or set of circumstances linked to money laundering, terrorist financing or a predicate offence.

Suspicious Transactions Report/Suspicious Activity Report: Suspicious Transactions Reports (STRs) include detailed information about transactions or activities that are or appear to be suspicious.

Reasonable Grounds: Reasonable Grounds should mean the context adjudged as reasonable considering the particular circumstances, industry and normal business practices within the industry.

Non-compliances: Non-compliances are acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the audit client.

Other Reporting Entities: Other Reporting Entities (REs) means Financial Institutions (FIs) and Designated Non-Financial Businesses and Professions (DNFBPs) as per MLPA.

Compliance Officer: Compliance Officer means the partner, proprietor or a employee of the firm designated as compliance officer to fulfil the AML CFT compliance obligations on a regular basis. This terminology also includes Money Laundering Reporting Officer.

3. Effective Date

This Guidance Note is effective from the date of issuance on 2082 Poush 17 (1 January 2026)

4. Scope

This Guidance Note applies to Audit Firms conducting audits of any legal person or arrangement, who is also a reporting entity under the MLPA. Firms of Auditors holding a Certificate of Practice (COP) from ICAN are expected to use this note for identifying and reporting suspicious transactions to the FIU.

Firms of professional accountants that are themselves reporting entities under Section 2(dha)(4) of the MLPA having provided the specified services other than auditing should comply with their separate AML/CFT obligations. However, the indicators and examples herein can assist those firms in strengthening their internal awareness and monitoring systems.

5. Requirement to Report Suspicious Transactions

Auditors are deemed reporting entities under Section 2(dha)(4)(Nga1) of the MLPA. Therefore, they must report to the FIU if they know, suspect, or have reasonable grounds to suspect that any asset or transaction is related to money laundering, terrorist financing, or a predicate offence.

In case of joint audit engagements, both firms shall be liable to report STR individually if STR is identified during the course of audit and both firms agree that there are reasonable grounds for suspicion.

6. Statutory Audit of Other Reporting Entities

When auditing banks, insurance companies, cooperatives, or other reporting entities, auditors should apply NSA 250 and examine compliance with the AML/CFT framework. The auditor should assess whether AML risk assessments, client due diligence procedures, and reporting of threshold and suspicious transactions are in place. Accordingly, the auditor should assess whether reporting under “Other Regulatory Reporting Requirement section” in an audit report is sufficient or if it also constitutes misstatements to be addressed in Audit Report as per NSA 250.

7. Basis for Identifying Suspicious Transactions

A suspicious transaction is one linked to, or suspected of being linked to, money laundering or a predicate offence. Auditors must report such transactions if there are reasonable grounds to believe assets originate from an illicit source — even if proof is incomplete.

At times, auditors should be mindful that a single transaction or a red flag may not provide reasonable basis to constitute a suspicion and thus may have to regard the context and other associated transactions or activities.

When an engagement team identifies a STR, the engagement partner should discuss this with the partner responsible for maintaining quality within the firm and the Compliance Officer (if separate from the proprietor) as per firm's policy to determine that there are reasonable grounds to constitute STR and maintain the record of the decision to report an STR.

8. General Non-Compliance vs. Suspicious Transactions

Not all non-compliance identified under NSA 250 qualifies as a suspicious transaction. Non-compliance that conceals or facilitates illicit funds may require STR reporting.

9. Other Responsibilities of Auditors

Auditors are designated as reporting entities only for reporting STRs discovered during audit work.

They are not required to perform customer due diligence (CDD), review of AML related internal controls, or AML risk assessments like other reporting entities.

Further, they are not required to carry out investigations to confirm that the suspicious transaction is actually a money laundering event.

10. Terms of Audit Engagement

Audit engagement letters should include a clause under Auditor's Responsibility acknowledging the auditor's legal duty to report suspicious transactions to the FIU. Such engagement letters should be acknowledged by relevant client authority.

11. Audit Procedures and Professional Skepticism

Auditors are not required to design separate procedures solely to detect money laundering. However, professional skepticism should be applied throughout the audit to identify red flags. If reasonable suspicion arises, auditors should gather evidence, maintain confidentiality, and file an STR via the goAML portal without delay, if auditor determines that transactions are related to the commission of money laundering offence or a terrorist financing offence after duly assessing the indication of suspicious transactions.

If the auditor discovers additional facts and circumstances to either support or refute the reporting entity's initial suspicion after sending the report, auditors should inform the FIU-Nepal appropriately.

12. Indicators of Suspicious Transactions/Activities

For references on the suspicious transactions or activities across various sectors, please refer 'The Suspicious Transaction Reporting & Suspicious Activity Reporting (STR/SAR) Guidelines' issued by Nepal Rastra Bank, Financial Intelligence Unit and other relevant documents. It includes the transactions if;

- the client offers to pay unusually high fees for the auditing/accounting service.
- the auditing or accounting engagement is conducted remotely, and the client appears to avoid face-to-face meetings or is reluctant in providing relevant information.
- the clients appear to be acting on someone else's instructions i.e. there seems to be a hidden beneficial owner.
- the client receives unusual payments from unlikely sources which is inconsistent with their business.
- the entity makes large payments to its subsidiaries or other entities within the group that do not seem to have done within normal course of business.
- there is repeated transaction between parties over a period of time without valid reason.
- fictitious employees are created under payroll list.

13. Mode and Time Limit of Reporting

Auditors must report STRs immediately upon concluding there are reasonable grounds for suspicion, using the goAML portal (<https://goaml.fiu.gov.np>). The STR must not be reported to the audit client, management, or other regulatory bodies.

Every audit firm is required to sign up in the goAML portal to be able to report suspicious transactions as is mandated in the Directive issued by ICAN in this regard.

14. Contents of the STR Report

In general, STR must contain following details. Similarly, SAR shall contain as much details as possible.

- Summary of suspicious transaction(s)/activities
- Analysis or Examination
- Possible Linkage
- Suspected Beneficiary FIU-Nepal STR/SAR
- Updated CDD information
- Related account statement
- Mandatory details (as required by regulators)
- Correct identifications

- Other details or supporting documents.
- REs are encouraged to add value to the information by searching and adding web materials along with its sources.

Audit Firms are also encouraged to consider the qualitative aspects of the information in the STR with regard to completeness, accuracy, timeliness, relevance and reliability.

15. Consideration in the Audit Report

The auditor's report should comply with NSA 250 and other relevant standards. Auditor should not mention in the auditor's report that a suspicious transaction was reported to the FIU . If the transaction also affects fair presentation of financial statements or is reportable in the auditor's report under other prevailing laws of Nepal, auditor should report it accordingly in the Auditor's Report without disclosing the STR filing.

Further, the auditor's responsibility section in the Auditor's Report should also include a statement that the Auditor is required to report suspicious transactions if identified as per the requirements of section 2 (dha) 4 (Nga1) of MLPA.

16. Prohibition on Tipping Off

Auditors must avoid tipping off, i.e., disclosing to the client or any third party that an STR has been filed or considered. Such disclosure may itself constitute an offence under the MLPA and may attract sanctions.

17. Record Retention and Confidentiality

Auditors should retain working papers and documentation supporting their decision to file (or not to file) an STR for at least five years, from the date of identification of transactions maintaining strict confidentiality.

R360.6 and 360.6 A1 of Code of Ethics states that the professional accountant should comply with the legal provisions that prohibit the on alerting the relevant party when responding to non-compliance with laws and regulations and hence should not be taken as a breach to the requirements of the Code of Ethics for professional accountants.

18. Training and Awareness

Audit Firms should provide training and awareness to the firm personnel on identifying indicators/ red flags, communication process and related compliance requirements on regular basis and as per need.

19. Interpretation Right

The Council reserves the right to interpret the provisions of this Guidance Note in case required.

20. Reference Documents

For enhanced understanding of the Guidance Note, references can be made to the following documents as appropriate:

- Money Laundering Prevention Act, 2064 (MLPA)
- Money Laundering Prevention Rules, 2081 (MLPR)
- Directives on Anti-Money Laundering and Countering Financing of Terrorism 2078 issued by ICAN (Directives)
- 'The Suspicious Transaction Reporting & Suspicious Activity Reporting (STR/SAR) Guidelines' issued by FIU.
- Nepal Standards on Auditing 250: Consideration of laws and Regulations in an Audit of Financial Statements
- Section 360 of Code of Ethics for Professional Accountants: Responding to Non-compliance with Laws and Regulations

*** The End***