December 2021
Vol. 24, No. 2

THE NEPAL CHARTERED ACCOUNTANT

Journal of the Institute of Chartered Accountants of Nepal

VISION

Establish ICAN as a "Credible Professional Accounting Body."

MISSION

Promote and Regulate High Quality Financial Reporting and Develop Competence of Professional Accountants to Enhance Reputation in all Sectors of the Economy.

CORE VALUES

Our Core Values are Trust, Mutual Respect, Innovation, Relevance, Accountability, Integrity, Fairness and Professional Excellence.

OBJECTIVES

To play effective role of a regulatory body to encourage the members to carry on accounting profession being within the extent of the code of conduct in order to consolidate and develop accounting profession as a cause for economic development of the nation.

To enhance social recognition and faith in accounting profession by raising awareness of the general public towards the importance of accounting profession and the economic and social responsibility of professional accountants.

To develop, protect and promote the accounting profession by enabling professional accountants understand their responsibility towards the importance of the accounting profession and accountancy.

To develop mechanism of registration, evaluation and examination of accounting professionals in consonance with International norms and practices so as to make the accounting profession respectable and reliable.

December 2021
Vol 24 No. 2

THE NEPAL CHARTEDRED ACCOUNTANT

(Quarterly Journal of The Institute of Chartered Accountants of Nepal)

EDITORIAL BOARD

CA. Yuddha Raj Oli	Coordinator
CA. Bhaskar Singh Lala	Member
CA. Shailendra Uprety	Member
CA. Aswin Babu Shrestha	Member
RA. Dev Bahadur Bohora	Member
RA. Surendra Keshar Amatya	Member
CA. Amrita Thapa	Secretary
Mr. Binaya Paudel	Editorial Support

The Institute of Chartered Accountants of Nepal
ICAN Marg, Satdobato, Lalitpur, P O Box 5289, Kathmandu, Nepal
Tel. No. 977-1-5530832, 5530730 Fax No. 977-1-5550774
E-mail: ican@ntc.net.np, Website: www.ican.org np

Branch Offices:
Biratnagar: Basundhara Complex, Roadcess Chowk Biratnagar
Tel: 021-474395 | Fax: 021-470077 | E-mail: icanbrt@ican.org.np
Butwal: Butwal Raimarga Chauraha United Finance Building, Ground Floor
Tel: 071 543629 | E-mail: icanbtl@ican.org.np
Birgunj: Birgunj Ghariarba Pokhari-13, Adarsha Nagar Birgunj
Tel: 051 522660 | E-mail: icanbrj@ican.org.np
Pokhara: New Road, Sabhagriha Chowk Pokhara-8
Tel: 061 587679 | E-mail: icanpkr@ican.org.np
Nepalgunj: Surkhet Road Nepalgunj-13
Tel: 081 525916 | E-mail: icannpj@ican.org.np
Dhangadi: Santoshi Tole-2, Dhangadhi
Tel: 091 527493 | E-mail: icandhg@ican.org.np

Design, Layout & Printed by:
Print and Art Service, Bagbazar, Ktm, Tel: 01 4244419/4239154

Subscription Rates
Annual Subscription Rs. 600
(including courier charges for Organizations)
Rs. 400 *(including courier charges for Members)*
Rs. 300 *(Self Collection)*

Opinions expressed by the contributors in this journal are their own and do not necessarily represent the views of the Institue. Member Bodies of SAFA may quote or reprint any part of this Journal with due acknowledgement. For others, solicitation is expected.

CONTENTS

Contributor
Global Risk Consultants

Editorial

"The Nepal Chartered Accountant" is the official publication of The Institute of Chartered Accountants of Nepal (ICAN) and it was first published in 1998. The Institute is desirous to regulate and improve communication with members, serve them better and keep well informed and updated through our Journal, e-News and Website.

The purpose of Journal is to disseminate accounting, auditing, financial market innovations etc. for enriching the knowledge of members and stakeholders in readable and understandable manner. So, we try to feature the articles in the Journal covering various topical issues related to information and technology, economy, accounting and auditing, tax matters, banking and insurance issues, management, PFM and governance, public policies such as monetary and economic policies, transparency and accountability, ethical and professional matters, management issues etc. and make our members, students, readers aware of the contemporary changes or innovations in business and professional landscape and get them updated.

Similarly, we try to focus on the articles that might be helpful and appealing to the divergent readers and people with different interest. Such published materials are not just a rich source of information but also indispensable reference materials on the diverse subjects covered in the Journal.

Apart from the articles, the Journal also presents notification and overview of the ICAN activities, details of national and international news and seminars etc. for the information to the ICAN members, students and other stakeholders in order to make them informed and update.

We always strive to serve our members about interesting intellectual discourses on topical subjects and believe that the articles featured in the Journal should be interesting read for financial and non-financial personalities. It is also our duty in keeping the members abreast of emerging development in a rapidly changing world .

Efforts are being made to publish the journal with good quality of literature and context in professional manner. In the light of the above the Editorial Board humbly requests the members of the Institute, stakeholders, academicians and other professionals to contribute innovative articles, research reports, insights on professional matters for enriching the knowledge of members and stakeholders in readable and understandable manner in order to increase the readership of the Journal and enhance its quality. Likewise, any feedback and valuable suggestion from our members and stakeholders in this regard shall be highly appreciated and we can be reached at ican@ntc.net.np. We also inform the writer that 4 CPE credit hours is awarded for the article published in the Journal.

President's Message

Dear Professional Colleagues,

The Institute has successfully conducted election of 9th Council in September, 2021 and the member assumed their formal position after the Oath Taking Ceremony held on 17th September, 2021. And, as the 25th President of the Institute of Chartered Accountants of Nepal, I feel delighted to present before you the second quarterly Journal of the Institute for the Fiscal Year 2078/79 which covers the period from October to December, 2021.

During this quarter, our activities were guided by the priorities laid down in our Strategic Plan followed by our Annual Program and Budget of F.Y 2078/79. Through this publication I would like to share some of the key activities performed during the period of October to December 2021 to the members and stakeholders.

Regulation and Supervision

Continuing with our commitment to strengthen the legal framework of the Institute and to enhance the regulatory and supervisory functions, duties and power the Institute has issued Guidelines on Anti-Money Laundering and Counter Financing of Terrorism, 2078 to its members which shall be effective from 28th December, 2021. Likewise, the Quality Assurance Board of the Institute has been conducting quality assurance review of the practicing firms as part of its regulatory function. Further, the Institute has notified for mandatory generation and use of UDIN by the practicing members before signing any documents which has widely been circulated among all the stakeholders and regulators.

Professional Development

With an objective to strengthen members' capabilities and competencies through regular training and development programs, the Biratnagar, Dhangadi and Butwal Branch office under the support of respective Branch Coordination Committee organized three Interaction Programs. Likewise, one Continuing Professional Education (CPE) program was organized virtually. And, Women Leadership Training was also organized for the female members of the Institute at ICAN Premises located at Lalitpur. .

Educational Activities

The Institute published result of Chartered Accountancy (CA), June 2021 and CA Membership Examination, September 2021. Similarly, Institute has successfully conducted CA Examination of December 2021 at eight different examination centers across the country. During this quarter, the Institute also organized online revision class for all level of students appearing in December, 2021 examination. The Institute also conducted its second batch of Articleship Orientation Training and General Management and Communication Skills (GMCS) for the students who have qualified the CAP-II and CAP-III level of CA Examination of June 2021. Moreover, the delegates of the Institute also had a meeting with Pokhara University (PU) to discuss about the enforcement of earlier agreement between ICAN and PU and to maintain coordination between the Institute and PU in different academic matters.

National Relation: Public and Government

The Institute with its objective to lead and engage in policy reform processes of the Government made suggestions to the areas where the profession's expertise is highly relevant by making courtesy visit to the office of the Hon'ble Auditor General of Nepal, Director General of Inland Revenue Department (IRD) and Director General of Department of Industry (DOI). The Institute also celebrated International Accounting Day by organizing a walkathon and virtual interaction program.

International Relation: Global Positioning and Leadership

During this quarter, a delegation led by me made a visit to the Institute of Chartered Accountants of India (ICAI) for the purpose of discussion about the ICAI’s Digital Evaluation System of examining answer papers and process to launch the system in ICAN. During our visit we also had a meeting with the officials of the Institute of Internal Auditors of India (IIA India) and discussed about implementation of the technical Collaboration Agreement entered between ICAN and IIA India. This visit remained successful in strengthening our relation with these Institutions.

Institutional Development and Sustainability

The Oath taking ceremony of the 9th Council was conducted on 17th September, 2021 at ICAN premises. The Council nominated the members for Standing Committee and Boards for fiscal year 2078/79. Likewise, the Council also formed eleven non-standing committees and six branch coordination committee in order to obtain support in smooth and effective operation of the Institute.

Concluding Remarks

Before concluding I assure that the Institute will accelerate its activities under the guidance, vision and leadership of our Council. I appeal to our Past President, Past Council Members, Committee Members, Task Force Members, Members and Management of the Institute for their support in proper functioning of the Institute.

With Best Wishes,

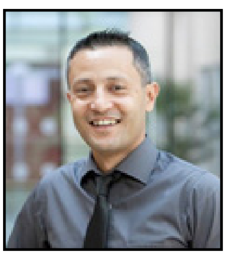
CA. Yuddha Raj Oli
President

AN OVERVIEW OF ACCRUAL ACCOUNTING REFORMS IN NEPAL

> The cash basis of accounting has been in operation in Nepal since the 1960s. However, over the years, some noticeable changes have been undertaken to improve the accounting practice and promote accountability.

CA. Amrit Shrestha

(The author is the Member of ICAN and he can be reached at mail to: writetoamrit@hotmail.com)



Prof. Pawan Adhikari

(The author is Professor at Essex University and he can be reached at mail to: padhik@essex.ac.uk)

1. The Nepalese Public Sector Accounting Context

Public financial management (PFM) cycle incorporates major four areas - budgeting, accounting, reporting and auditing. Accounting plays a central role in connecting the remaining three areas and achieving the goal of PFM in terms of enhancing transparency and accountability. In the last three decades, particularly with the rise of 'New Public Management', changes in public sector accounting have drawn an increasing attention across countries (Van Helden et al., 2021; Kuruppu et al., 2021; Polzer et al., 2021). Nepal is certainly not an exception. Indeed, the scope of the public sector varies across countries, but the Nepalese public sector is made up of embedding the general government and public corporations. The general government includes governments at all three tiers - federal, provincial and local, whereas public corporations include both financial and non-financial corporations, the majority of which are state-owned enterprises.

The cash basis of accounting has been in operation in Nepal since the 1960s. However, over the years, some noticeable changes have been undertaken to improve the accounting practice and promote accountability. For instance, the application of Information Technology has been significantly increased across public entities both in the recording and reporting of transactions. An accounting manual and charts of accounts have been developed following the Government Finance Statistics Manual (GFSM) 2014, and Nepal Public Sector Accounting Standard which corresponds the Cash Basis International Public Sector Accounting Standard (IPSAS) have been enforced for reporting across central level agencies. In addition, advanced software applications such as the treasury single accounts (TSA) and the Electronic Fund Transfers (EFT) have been put in force. These reforms introduced in Nepal reflect ongoing trends in international public sector accounting (Polzer et al., 2021; Kuruppu et al., 2021). Some of the notable Public Financial Management (PFM) reforms introduced in Nepal in the last few years, include, among others;

- Enactment of the Federal Financial Procedure and Fiscal Accountability Act, 2076 (Rules also enacted),
- Development and implementation of revised accounting forms and formats,
- Implementation of the Line Ministry Budget Information System (LMBIS), the TSA and the Risk Management Information System (RMIS) at the federal and provincial levels,
- Expenditure (appropriation accounts) accounting through the CGAS from 2020,
- Development and amendment (second) of the Charts of Accounts (COA),2074,
- Introduction and implementation of SuTRA for budgeting and accounting of local governments,
- Introduction of the Debt Operation and Management Software (DOMS) for debt recording and accounting,
- Implementation of the Integrated Internal Control Framework,
- Implementation and further revision (ongoing) of Nepal Public Sector Accounting Standard,
- Development of a manual for Public Assets Management,
- Further study on the Integrated Financial Management Information System (IFMIS) (on progress), and
- Professional accounting training and courses to selected accounting cadres.

Despite these advancements, the integration of these reforms and application of new technologies in practice has remained relatively poor, and this has continually raised concerns about transparency and accountability. In particular, changes to the accounting systems through the adoption of accruals have continually proved to be a challenging issue. The aim of this paper is to discuss some of the benefits of accrual accounting and underlying challenges in its implementation. Next, the paper discusses how the Government of Nepal should approach to accrual accounting and engender its propagated benefits, i.e., the effective use of resources and improved accountability.

2. Cash Basis Accounting in Nepal

The existing cash-basis accounting system of Government of Nepal was institutionalized during the 1960s. In an article published in the Accounting Historians Journal, Adhikari and Mellemvik (2009) provide all details relating to the introduction of cash accounting and its dissemination across public entities. Donnalley (1967, p. 2) states that the introduction of cash accounting was a four-year joint project launched by the USAID and the Government of Nepal. Based on the report submitted by Donnalley to the Government of Nepal, the following activities were undertaken during the project period (see Adhikari and Mellemvik, 2009, p. 126; Donnalley, 1967, p. 2);

- Implemented the new accounting system (cash accounting) in twelve out of the fourteen zones of Nepal,
- Offered training to 4565 accountants and officers through in-service training classes,
- Facilitated the dispatch of accounting supplies and equipment to government officers in twelve zones,
- Published and distributed the manual of expenditure accounting, the handbook of property accounting and guidelines for purchase procedures, and
- Made available the first English-Nepali financial dictionary

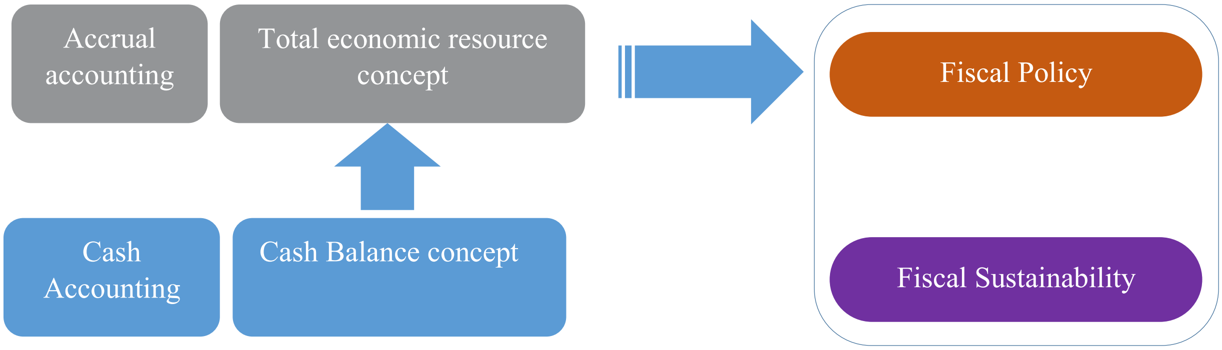
At the beginning of the new century, the World Bank started a country financial accountability assessment, as part of improving the PFM system. Of the recommendations incorporated in the assessment report, one was particularly focused on accounting, emphasizing the importance of considering the adoption of international public sector accounting standards and accrual accounting (Adhikari and Mellemvik, 2011). The World Bank in 2006 conducted another study comparing the existing international public sector accounting and auditing standards in Nepal with those of international standards. This was part of a wider South Asian project. In the report, areas were highlighted in which the existing cash accounting system was incompatible with the Cash Basis International Public Sector Accounting Standard (IPSAS), along with some striking limitations of the existing system in terms of accommodating off budget transactions and direct payments and grants offered by donors (Adhikari and Mellemvik, 2010). A key recommendation provided to the government was to take a step towards the adoption of the Cash Basis International Public Sector Accounting Standard, as part of a longer-term goal to embrace the accrual basis of accounting. Following this recommendation, the Accounting Standards Board started developing Nepal Public Sector Accounting Standard corresponding to the requirements laid down in the Cash Basis IPSAS. All central level agencies have now started preparing their consolidated statements following the Nepal Public Sector Accounting Standard (NPSAS), and currently the NPSAS is undergoing a revision so as to reflect the changes introduced to the Cash Basis IPSAS by the IFAC in 2017.

As is the case in other counties (Kuruppu et al., 2021), discussions about the extent to which accrual accounting is important in Nepal and whether the country has the capacity to implement accrual accounting continue have continued in Nepal. The simplicity of cash accounting has been acknowledged, but whether the cash accounting can meet the information requirement of the government and other users has been an important part of the discussion. In fact, such discussions are not new in the Nepalese context. Nepal is perhaps a country in the developing world, which has been reckoned to be at the forefront in terms of taking initiatives towards accrual accounting. Nepal's journey towards accrual accounting has been explained in detail in the study conducted by Adhikari and Mellemvik in 2011. The study shows that the importance of accrual accounting was initially mentioned in Nepal during the 1980s having experienced challenges in implementing the planning and program budgeting (PPB). One issue raised in favor of accrual accounting was that it would allow the government to identify the full costs of development projects and programs and help demonstrate their performance and results. The same study conducted by Adhikari and Mellemvik (2011) also mentions the accounting reform project set up by the government in the late 1980s. Although the report of this project was not made publicly available, Adhikari and Mellemvik (2011) state that the project team emphasized the importance of introducing some forms of accruals, in particularly the simple form of accruals which could recognize government receivables and payables. The project team also developed accounting codes, classifications and formats to support the simpler forms of accruals, and the plan was to pilot these new accounting measures in some selected development projects. No evidence is available, whether this pilot took place, and any results produced.

However, apart from these historical events, some initiatives have been undertaken by the Financial Comptroller General Office (FCGO) and the Ministry of Finance (MoF) more recently, which could be important in a transition towards accrual accounting in the longer-term. For instance, in 2017, the 'Charts of Accounts' were revised accommodating the evolving federal context, and the integrated chart of accounts have been issued complying with the IMF's GFSM 2014. The GFSM 2014 recommends governments to develop and disseminate fully integrated flows and stock positions recorded on an accrual basis together with the cash flow data with a view to assessing their liquidity position. In 2020, the Federal Financial Procedure and Fiscal Accountability Act and rules have been enacted, which incorporate some basic elements of accrual accounting. The ongoing IFMIS and the training needs assessment launched by the PEFA Secretariat (TNA study) through the support of the MDTF is also reckoned to be an important step towards accrual accounting. Some of the key achievements made towards adopting accrual accounting in the last few years are as follows:

- The federal Financial Procedure and Fiscal Accountability Act, 2076, has included provisions to adopt and implement accrual accounting. Provincial and local governments have set up similar provisions in their respective Financial Procedure Acts,
- Clause 1.1.1 of the Government Accounting Manual, 2073, mentions that government will migrate to accrual accounting,
- The 56th Annual Report of the Auditor General (point 12.5) includes the recommendation for a transformation of cash to accrual, and the importance of accrual accounting has been outlined also in the 57th and the 58th Annual Reports,
- It is clearly mentioned in the 'Chart of accounts of Nepal, 2074 (Second amendment)' that these are developed with an intention to implement accrual accounting in all three tiers of government.

Some evidence is available showing that some levels of governments have already started practicing simple forms of accrual accounting. For instance, Butwal Sub-



Metropolitan City has been applying accrual accounting since 2002, and the city is considered to be as one of the early adopters. Bharatpur Metropolitan city has also started implementing accrual accounting and the city has clearly indicated in its annual plans and policies about its intension to adopt accrual accounting.

3. Benefits of Accrual Accounting

In accrual accounting, transactions are recognized as the underlying economic events occur, regardless of the timing of the related cash receipts and payments. To what extent accrual accounting serves public interests and promote accountability has continued to trigger academic discussions. Despite this, several benefits of accrual accounting have been highlighted by the IFAC, international organizations such as the World Bank and the IMF and the accounting profession. For instance, a key argument for accruals concerns that it will supply comprehensive and reliable information on public finances and provide a basis for improved financial control of government activities.

In particular, the IPSASB (2010) has commented extensively on the benefits of accrual accounting for public sector entities in its study 14. For instance, in page 12 of the report, it is mentioned that the reporting on an accrual basis of accounting will allow the users to;

- Assess the accountability for all resources the entity controls and the deployment of those resources,
- Assess the financial position, financial performance, and cash flows of the entity, and
- Make decisions about providing resources and doing business with the entity (p. 12).

In addition, the report includes the benefits at a more detailed level, including the way entities financed their activities and met their cash requirements, as well as entities' ongoing ability to finance their activities and settle their liabilities and commitments. Considering these benefits, the adoption of accrual accounting may benefit the Government of Nepal in several areas, including:

- Determining the actual costs of ongoing projects,
- Identifying and valuing government's assets,
- Calculating the cost-of-service delivery and the efficient use of public resources,
- Implementing sound fiscal policies embedding quasi-fiscal activities and entities,
- Undertaking a rational decision on debt management and financing
- Identifying the impacts and contributions of international grants to the economy, and
- Launching a sound forecasting mechanism and improving treasury management

Given the careful adoption of accrual having adequate planning and commitments, accrual information may also help the government executive sustainable financial policies and pursue the principle of intergenerational equity.

4. Challenges in Implementing Accrual Accounting

Implementing public sector accounting reforms is challenging. Studies show that for the successful implementation of reforms, political wills and commitments are of paramount important (Kuruppu et al., 2021). Reforms are costly and there is involved an element of risk that both the reform process and enthusiasm may wane along the way. As experienced in many Western countries (Polzer et al., 2021), implementing accrual accounting is even more challenging as it requires not only advanced technologies and human capital, but also a paradigm shift by shifting a focus on managing resources and engendering results and outcomes. Equally important is to educate users, including the citizens, for the use of accrual information and constantly evaluate the performance of the government and its long-term sustainability. In many Western countries, politicians and other users have been blamed for disregarding accrual information and continue relying on budgetary information both in decision-making and discharging accountability (Van Helden et al., 2021). The importance of promoting public sector accounting education both at schools and university levels is globally acknowledged.

In the context of developing countries, it is generally agreed that the reforms should be introduced incrementally, having assessed the available infrastructure, local practice and education level. For instance, in their recent study of public sector accounting in Sub Sarah Africa, Jayasinghe et al., (2021) have illustrated how the existing local practices, which appear to be much profound that the recommendations made in the Cash Basis IPSAS, are marginalized favoring large scale reforms such as accrual-basis IPSASs. As a result, a number of studies conducted in Africa show that instead of improving governance, economy and accountability, those large-scale reforms have triggered corruption and promoted patronage politics (Polzer et al., 2021). What is important is therefore to strengthen the existing system and pursue incremental changes rather than going for large-scale internationally propagated public sector accounting reforms. Following Schick (1999), few issues which should be settled prior to a transition towards a full form of accruals include:

- Creating environment to demand and support performance prior to introducing performance or outcome budgeting,
- Controlling costs prior to seeking the control of outputs,
- Strengthening the use of cash accounting before complementing and substituting it with accruals,
- Establishing and reinforcing the internal control mechanisms before introducing managerial accountability,
- Operating a reliable accounting system before installing an integrated financial management system,
- Introducing the budget for outputs before focusing on outcomes, and
- Ensuring effective financial auditing before moving to performance auditing.

Given these recommendations, governments in developing countries may need to adopt a rational approach towards reforms, first by refining the operation of the existing cash basis accounting and then only instigating a step towards a simpler form of accrual accounting.

5. Prospects of Accrual Accounting in Nepal

In the context of Nepal, the adoption of a simple form of accrual accounting disclosing at least current fiscal resources and current liabilities could be a rational approach to improving the existing accounting practice and accountability. Many reforms, for instance a Treasury Single Account and the NPSAS, triggered by the Government of Nepal in the last few years offer a good foundation for the introduction of a simple form of accruals. However, any such reforms should be carefully planned through the involvement of wider stakeholders, such as the ICAN, the OAG, the ASB, development partners and other users' groups. Politicians and other users should be made aware of the benefits of having accrual accounting in place, as well as the importance of accrual information in achieving sustainable development of the country.

Study 14 of the IFAC/IPSASB could provide important guidance in this regard. Adhikari and Mellemvik (2011) have in their study clearly outlined the fact that it is unlikely that accrual accounting or any other advanced public financial management reforms would be implemented in Nepal without recognizing the preconditions associated with these reforms and adequately addressing these conditions. Next, without promoting education and training on public sector accounting, it is rather challenging both to implement the reforms and engender the intended results. The government should therefore develop a reliable capacity development strategy, involving the training institutions such as the Public Financial Management Training Center (PFMTC), the Nepal Administrative Staff College (NASC), and the Provincial Center for Good Governance (PCGG). There is also a need for introducing changes in the education curricula by involving the ICAN, the ASB and the

AuSB, and universities, as part of promoting public sector accounting education at different levels. The implementation of the IFMIS system could also help trigger a smooth transition towards a simpler form of accrual accounting. In another study of Nepal's government accounting, Adhikari and Jayasinghe (2017) emphasize the important of revisiting the existing budgetary focus and the role of government accountants prior to implementing reforms. For instance, they argue that reforms would be difficult to executive without changing the emphasis on budget, as well as the agency of government accountants and other users which are constructed on the day-to-day budget practices. This requires a cultural shift prior to implementing reforms. Rather than rushing to reforms, the government is therefore recommended to get engaged with discussions with stakeholders, researchers, accounting practitioners, professionals, and development partners and develop a realistic strategy and timeframe for a transition towards a simpler form of accrual accounting.

References

Adhikari, P. and Mellemvik, F., (2011). The rise and fall of accruals: a case of Nepalese central government. *Journal of Accounting in Emerging Economies*, 1 (2), 123-143

Adhikari, P. and Mellemvik, F., (2010). The adoption of IPSASs in south Asia: A comparative study of seven countries. *Research in Accounting in Emerging Economies*, 10, 169-199

Adhikari, P. and Mellemvik, F., (2009). Nepalese governmental accounting development in the early 1960s: an attempt to institutionalize expenditure accounting. *Accounting Historians Journal*, 36 (1), 113-133.

IPSASB. (2010). *Study 14 -Transition to the accrual basis of accounting: guidance for governments and governmental entities (third edition)*, IFAC.

Donnalley, G. (1967). *Survey of His Majesty's Government of Nepal budget & accounting systems*, Public Administration Division USAID/ Nepal.

Jayasinghe, K., Adhikari, P., Wynne, A., Malagila, J., Abdurafiu, N. and Soobaroyen, T., (2021). Government Accounting Reforms in Sub-Saharan African Countries and the Selective Ignorance of the Epistemic Community: A Competing Logics Perspective. *Critical Perspectives on Accounting*, 78, 102246-102246.

Kuruppu, C., Adhikari, P. and Van Helden, J., (2021). Editorial – A plea for changing directions of public sector accounting research in emerging economies. *Journal of Accounting in Emerging Economies*, 11 (5), 677-690.

Polzer, T., Adhikari, P., Gårseth-Nesbakk, L. and Nguyen, PC., (2021). Adoption of the International Public Sector Accounting Standards in emerging economies and low-income countries: A structured literature review. *Journal of Public Budgeting Accounting and Financial Management*, ahead-of-print.

Schick, A. (1999). *A contemporary approach to public expenditure management*, Washington, DC.

Van Helden, J., Adhikari, P. and Kuruppu, C., (2021). Public sector accounting in emerging economies: a review of the papers published in the first decade of Journal of Accounting in Emerging Economies. *Journal of Accounting in Emerging Economies*, 11 (5), 776-798. ■

FINANCIAL INCLUSION: CONCEPTS AND DETERMINANTS

> An inclusive financial system includes a range of financial services that provide opportunities for accessing and moving funds, growth of capital and reducing risks. It plays an important role in achieving economic growth and reducing poverty. The main determinants of financial inclusion are access, usage and quality of financial services.

Mr. Gyan Mani Adhikari
(The author is Associate Professor at Central Department of Management and he can be reached at mail to: adhikarigyanmani@yahoo.com)

Concepts

The Financial inclusion refers to a process that ensures the easy access, availability and usage of the formal financial system for all members of an economy. It implies the sustainable provisions of affordable financial services that meet the needs of individuals and firms-transactions, payments, savings, credit and insurance, etc. An inclusive financial system includes a range of financial services that provide opportunities for accessing and moving funds, growth of capital and reducing risks. In other words, financial inclusion allows individuals and firms to take advantage of business opportunities, invest in education, save for retirement, and insure against risks. Greater financial inclusion allows choice of more efficient assets portfolios and innovations.

Financial inclusion and access to finance are sometimes used interchangeably, but the former is broader than the latter by including uses. Financial inclusion aims at ~~to~~ providing access to finance to all and increase usage, especially focusing those people who are normally excluded by existing formal financial system considering them un-bankable. Access to finance commonly refers to the availability of quality financial services at a reasonable cost.

Financial inclusion is a critical enabler for poverty reduction and inclusive growth. It can be promoted by the collective efforts of private sector, government and civil society. Each has a role to play- the private sector in harnessing technology and adapting to consumer needs, the government in creating and enabling greater financial inclusion i.e. encouragement for healthy competition, creation of uncomplicated regulations and strengthening financial infrastructure) and the civil society in providing informal support and oversight.

Financial inclusion plays an important role in achieving economic growth and reducing poverty. The importance of financial inclusion can be explained as follows:

1. Access to financial services enables the poorest and most vulnerable in society to step out poverty and reduces the inequality in society.

2. Financial inclusion helps in:

    i. enabling people to have the ability and tools to manage and save their money and

    ii. empowering people with the skills and knowledge to make the right financial decisions.

3. Participation within the financial systems leads to all kinds of individual benefits, including:

    i. ability to start and grow a business, which gives people an opportunity through micro financing schemes to better long-term projects

    ii. being able to pay for an education for children, which Contemporary Macroeconomics Issues In Nepalese Perspectives in turn enables a new generation of educated and informed individuals

    iii. ability to handle uncertainties that require ad hoc and unexpected payments or financial shocks.

4. Financial inclusion through access to an account, savings and a payment system enables potentials and empowers men, women and whole communities. This in turn promotes:

    (i) investment within the communities provides jobs, which ultimately boosts living standards of the people and

    (ii) maintain equality both within the communities and within families.

5. Access to finance can encourage entrepreneurs to make investment in new and more productive technologies. It can also help them expand- hire more people and even mature to a large scale.

Determinants of Financial Inclusion

According to World Bank, the determinants of financial inclusion are categorized into following three dimensions:

1. **Access:**

    Access of formal financial services represents the possibility for individuals and firms to use them at prescribed threshold level. It may enhance frequencies in the use of financial services by improving intensive margin of usage. It can be measured by using following indicators:

    a. Physical points of service: It consists of number of branches per 100000 adults, number of ATMs per 100000 adults, number of points of sale (POS) terminals per 100000 inhabitants and number of business agents per 100000 adults.

    b. Mobile points of service: It consists of number of e-money accounts for mobile payments.

    c. Interoperability of points of service: It consists of combined index of interoperability of ATMs and interoperability of POS terminals.

2. **Usage:**

    Usage of financial services refers to gauge the level of service usage by individuals and business firms, including regularity and duration of loans. It can be measured by using following indicators:

    a. Formally banked adults: It consists of the percentage of adults with an account at a formal financial institutions and number of depositors per 1000 adults.

    b. Adults with credit at regulated institution: It consists of the % of adults with at least one outstanding loan from a regulated financial institutions and number of borrowers per 1000 adults.

    c. Adults with insurance: It consists the number of insurance policy holders per 1000 adults and segregated by life and non-life insurance.

    d. Cashless transactions: It consists number of retail cashless transactions per capita. v) Mobile transactional use: It consists of the % of adults that use their mobile device to make a payment.

e. High frequency of account use: It consists of the percent of adults with high frequency use of formal account.

f. Saving propensity: It consists of the saved amount at a first in the past year.

g. Remittances: It consists of the percentage of adults receiving domestic and international remittances.

h. Formally banked enterprises: It consists of the percentage of SMEs with an account at a formal financial institutions and number of SMEs depositors/number of depositors.

i. Enterprises with outstanding loan or line of credit at regulated institutions: It consists the percentage of SMEs with outstanding loan and number of outstanding loans / numbers of outstanding loans.

3. Quality:

Quality of financial services ascertains the matching between product features and client needs, range of available options, and level of client awareness and understanding. Quality indicators describe the supportive pillars that ensure that the customers can use the financial services to their satisfaction. It can be measured by using following indicators:

a. Financial literacy: Financial literacy is a combination of awareness, skill, attitude, and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. The main indicators of financial literacy are: financial behavior, financial attitude and financial influence. Demographic and educational characteristics also determine the level of financial literacy.

b. Market conduct and consumer protection: It refers to the grievance redressal (disclosure requirements and dispute requirements). It consists of disclosure index combining existence of a variety of disclosure requirements and index reflecting the existence of formal internal and external dispute resolution requirements.

c. Barriers to use: It includes two components, i.e. cost of usage and credit barriers. Cost of usage consists of: average costs of opening a basic account, average cost of maintaining a basic current account and average cost of credit transfers. Credit barriers consists of: percentage of SMEs required to provide collateral on their last bank loan and getting credit: distance of frontiers (i.e. extent of informational barriers in credit markets).

Conclusion

An inclusive financial system includes a range of financial services that provide opportunities for accessing and moving funds, growth of capital and reducing risks. It plays an important role in achieving economic growth and reducing poverty. The main determinants of financial inclusion are access, usage and quality of financial services. ■

INSURANCE SECTOR: COMBATING MONEY LAUNDERING & TERRORIST FINANCING

> Simply speaking, Money Laundering is a process where the money obtained by illegal means is disguised to make it look like it was obtained legally. It is "washed" to make it look clean. It is akin to laundering (Cleaning) clothes, where the dirty money is cleaned to legitimize its illicit sources.

CA Kshitiz Adhikari

The author is the Member of ICAN and he can be reached at mail to: kshitizadhikari1@gmail.com

Background:

After relatively successful implementation of Anti-Money Laundering and Combating Funding to Terrorism (AML/CFT) Strategy via go-AML Software in Banking Industry in Nepal, FIU (Financial Intelligence Unit) Nepal, has now increased its focus towards Insurance Industry in Nepal through Insurance Board. Financial Information Unit of Nepal (FIU-Nepal), is a functionally autonomous unit with its office within the premises of Nepal Rastra Bank, the central bank of Nepal and was established on 21 April 2008 as an administrative FIU under Section 9 and 10 of Asset (Money) Laundering Prevention Act (ALPA). FIU-Nepal serves as a central national agency responsible for receiving, analyzing and disseminating information concerning suspected proceeds of crime, which is potential for money laundering and/or terrorism financing and financing of proliferation.

The Asset Laundering Prevention Act(ALPA), 2014 & Regulations, Directives of Insurance Board regarding AML/CFT, APG Mutual Evaluation Reports, Recommendations of FATF(Financial Action Task Force),Guidance of FIU(Financial Intelligence Unit) regarding TTR(Threshold Transaction Reporting) and STR(Suspicious Transaction Reporting), Annual Reports of National ML/TF Risk Assessment by FIU Nepal, AML/CFT National Strategy and Action Plans of FIU Nepal and Internal Policy about AML/CFT of all Insurance Companies were already in existence there for the implementation in Insurance Industry, but there had not been as required active concern about its strict implementations and Supervisions as of now.

Now FIU Nepal is concentrating its focus towards Insurance Industry and Insurance Board is also exhibiting its relatively serious organizational gestures towards the implementation of go-AML reporting.

In context of this growing concern about ML/TF and its prevention in Insurance Sector, I am going to discuss about the possible scenarios and instances about how Money Laundering and Terrorist financing may be performed via Insurance Companies, where the insurers should be more sensitive while carrying out their Insurance business.

Introduction:

Simply speaking, Money Laundering is a process where the money obtained by illegal means is disguised to make it look like it was obtained legally. It is "washed" to make it look clean. It is akin to laundering (Cleaning) clothes, where the dirty money is cleaned to legitimize its illicit sources. However laundering clothes is good for health but Laundering money is detrimental for the economy, progress and prosperity of a country. Criminals/Perpetrators do not want such funds to be detected by law enforcement or revenue agencies, so they convert their dirty money into an asset which appears legitimate such as Bank Deposit, Real Estate, Casino Cheque, and Insurance Policy etc.

The major sources of laundered funds are Corruption, Bribery, Economic Scams, Drugs Trafficking, Smuggling, Counterfeiting, Tax Evasion, Insider Trading, Organized Crimes etc.

So then, how is Money Laundered?

Generally, Money Laundering or "cleaning" money occurs in three steps. Each step in the process is essential to ensure that the legitimacy of these kinds of transactions is never in question. The three stages are as follows:

- **Step-1: Placement**: - The proceeds of a crime are first brought into the financial system.
- **Step-2: Layering**: - Multiple transactions, accounts, banks, intermediaries and countries are used to disguise the origin of the funds.
- **Step-3: Integration**: -Now the Laundered Funds are brought back in the system as legitimate funds.

How do Criminals Launder money use Insurance Companies?

Insurance industry generally comprises of three types of Insurance: Life Insurance, General/Non-Life Insurance and Re-Insurance. Insurance industry is open to be abused by criminals/perpetrators, including money launderers and terrorist financiers and is potentially at risk of being misused for ML and TF. Criminals look to "legitimize" proceeds of criminal activity by disguising the sources, changing the form, or moving the funds to a place where they are less likely to attract attention, and therefore may use the financial sector, including the insurance sector, to do so. Persons involved in organizing terrorist acts or terrorist organizations look for ways to finance terrorist acts, terrorists or terrorist organizations. The products and transactions of insurers can provide the opportunity to launder money or to finance terrorism. The insurance sector should therefore apply AML/CFT preventive measures to commensurate with their risks, and report suspicious transactions.

Financial crime in the insurance sector has risen sharply in recent years. A research conducted by PWC suggests that, fraud and financial crime against insurers has been spiking upwards in recent times. The **Financial Action Task Force (FATF)**, an inter-governmental agency that promotes international cooperation in the fight against money laundering, warns that certain insurance products are being increasingly attractive to the money launderers and terrorist financiers. It says that two-thirds of insurance sector cases worldwide relate to life insurance and risk of ML/TF relating to general insurance is also in increasing trend.

The Insurer should always be sensitive about the fact that whether they are being used by perpetrators as the means of ML/TF. In the following Situations of the insurance transactions, insurer should be attentive towards the suspicious transaction that give rise to AML/CFT Suspicions:

1. The applicant for insurance business shows no concern for the performance of the policy but much interest in the early cancellation of the contract.
2. The applicant for insurance business attempts to use cash to complete a proposed transaction when this type of business transaction would normally be handled by cheques or other payment instruments.
3. The applicant for insurance business requests to make a lump sum payment by a wire transfer or with foreign currency.
4. The applicant for insurance business is reluctant to provide normal information when applying for a policy, providing minimal or fictitious information or, provides information that is

difficult or expensive for the institution to verify the applicant for insurance business appears to have policies with several institutions.

5. The applicant for insurance business purchases policies in amounts considered beyond the customer's income level.
6. The applicant for insurance business establishes a large insurance policy and within a short time period cancels the policy, requests the return of the cash value payable to a third party.
7. The applicant for insurance business wants to borrow the maximum cash value of a single premium policy, soon after paying for the policy.
8. Account outside the country
9. Large fund flows through non-resident accounts.
10. Insurance policies with premiums that exceed the client's apparent means.
11. The client requests an insurance product that has no discernible purpose and is reluctant to divulge the reason for the investment.
12. Insurance policies with values that appear to be inconsistent with the client's insurance needs.
13. Substitution, during the life of an insurance contract, of the ultimate beneficiary with a person without any apparent connection with the policyholder.
14. Requests for a large purchase of a lump sum contract where the policyholder has usually made small, regular payments.
15. Attempts to use a third party cheque to make a proposed purchase of a policy.
16. An atypical incidence of pre-payment of insurance premiums
17. The client accepts very unfavorable conditions unrelated to his or her health or age.
18. A transfer of the benefit of a product to an apparently unrelated third party.
19. Application for a policy from a potential client in a distant place where a comparable policy could be provided "closer to home".
20. Application for business outside the policyholder's normal pattern of business.
21. Introduction by an agent in an unregulated or loosely regulated jurisdiction or where organized criminal activities (e.g. drug trafficking or terrorist activity) or corruption are prevalent.
22. Any want of information or delay in the provision of information to enable verification to be completed.
23. The transaction involves use and payment of a performance bond resulting in a cross border.
24. Payment (wire transfers) = the first (or single) premium is paid from a bank.
25. The client conducts a transaction that results in a conspicuous increase of investment contributions.
26. Any transaction involving an undisclosed party early termination of a product, especially at a loss, or where cash was tendered and/or the refund cheque is to a third party
27. A change of the designated beneficiaries (especially if this can be achieved without knowledge or consent of the insurer and/or the right to payment could be transferred simply by signing an endorsement on the policy)
28. The applicant for insurance business use a mailing address outside the insurance supervisor's jurisdiction and where during the verification process it is discovered that the home telephone has been disconnected.

Examples of Money Laundering and Suspicious Transactions involving Insurance:

A. Life Insurance:

- Mr.A earned Nrs.one crore by means of corruption. He immediately purchased his family member's life insurance policies of large sum insured and with high premium amount. He utilized that amount to pay those premiums. Doing so, Mr.A at the maturity of policy will derive a legitimate amount of sum insured by cheque of Insurance Company. Now his source of income including the corrupted income of Nrs.one crore will be from life insurance maturity value.
- Mr.X earned Nrs.10 lakhs by means of Drug trafficking and to conceal his this criminal proceed, he purchased his life insurance policy of large sum insured having annual premium amount around Nrs.10 lakhs. After few months of purchasing the policy he surrendered the policy and received the surrender value of net Nrs.9 lakhs via cheque of Insurance Company. Doing so, he legitimized the source of Nrs.9 lakhs as proceed from insurance company at intentional loss of Nrs.1 lakhs.
- Mr.Pandey earned Nrs.50 lakhs by some sorts of criminal activity. To manage this proceed he purchased his life insurance policy of large sum insured of Nrs.50 lakhs for 10 years and paid all

the premiums in a single premium transaction. Soon after the policy purchase he took bank loan of Nrs.35 Lakhs by providing the policy as the security for the loan. His intention is not to repay the loan. Bank will recover its loan at the maturity of the policy. Doing so, he legitimized the source of Nrs.35 lakhs as loan from bank at intentional loss of Nrs.15 lakhs.

- Mr.Bhadra is a person assisting the criminal or the money launderer. He purchased a life insurance policy in his own name and later transfer ownership or nominate or change the beneficiary to a (seemingly) unconnected third party (e.g., the criminal who had originally generated the criminal money) soon after the policy was issued.
- A company director from Company W, Mr. H, set up a money laundering scheme involving two companies, each one established under two different legal systems. Both of the entities were to provide financial services and providing financial guarantees for which he would act as director. These companies wired the sum of USD 1.1 million to the accounts of Mr. H in Country S. It is likely that the funds originated in some sort of criminal activity and had already been introduced in some way into the financial system. Mr. H also received transfers from Country C. Funds were transferred from one account to another (several types of accounts were involved, including both current and savings accounts). Through one of these transfers, the funds were transferred to Country U from a current account in order to make payments on life insurance policies. The investment in these policies was the main mechanism in the scheme for laundering the funds. The premiums paid for the life insurance policies in Country U amounted to some USD 1.2 million and represented the last step in the laundering operation.

B. Non-Life Insurance:

- Mr.Bichitra had an illicit money of Nrs.15 lakhs. He owned a Range rover worth Nrs.5 crore. He insured his car for all the Comprehensive Risk Coverage from a General Insurance Company with Premium of Nrs.15 lakhs for one year. After few period he applied for the cancellation of the policy and he accepted for the deduction of Nrs.1 lakhs as short period charge and received Nrs.14 lakhs from the cheque of General Insurance Company making the legitimate source for Nrs.14 lakhs with intentional sacrifice of Nrs.1 lakhs.
- A money launderer purchased marine property and casualty insurance for a phantom ocean-going vessel. He paid large premiums on the policy and suborned the intermediaries so that regular claims were made and paid. However, he was very careful to ensure that the claims were less than the premium payments, so that the insurer enjoyed a reasonable profit on the policy. In this way, the money launderer was able to receive claims cheques which could be used to launder funds. The funds appeared to come from a reputable insurance company, and few questioned the source of the funds having seen the name of the company on the cheque or wire transfer.

C. Re- Insurance:

- An insurer in country A sought reinsurance with a reputable reinsurance company in country B for its directors and officer cover of an investment firm in country A. The insurer was prepared to pay four times the market rate for this reinsurance cover. This raised the suspicion of the reinsurer which contacted law enforcement agencies. Investigation made clear that the investment firm was bogus and controlled by criminals with a drug background. The insurer had ownership links with the investment firm. The impression is that - although drug money would be laundered by a payment received from the reinsurer– the main purpose was to create the appearance of legitimacy by using the name of a reputable reinsurer. By offering to pay above market rate the insurer probably intended to assure continuation of the reinsurance arrangement.

Problem Faced by Insurance Companies in Nepal in dealing with the ML/TF:

It is already mentioned that concept of ML/TF is new in the Nepalese Insurance sector and it may take some time for its perfection as desired. However, life insurance companies seems to have move forward in the implementation of ML/TF than Non-life sector. Here are some practical problems faced by overall Nepalese Insurance sector for the effective implementation of ML/TF:

- Lack of qualified and trained staff who understand the concept and seriousness of ML/TF.

- Not able to understand the difference between Insurance Risk and ML/TF risk.
- Lack of adequate KYC information of Insured.
- Most of the insured are rigidly reluctant to share their source of income, Property details and other KYC details with the field officers of Insurance companies.
- Not able to understand the purpose of implementation of AML/CFT, CDD, SDD, ECDD, Risk evaluation, TTR,STR.SAR etc. by the field officers of the insurance companies as well as by the insured.
- Extremely unhealthy competition for business in insurance sector (esp. General Insurance sector) that compromises for the KYC and Risk data of insured.
- Reluctance from the top management of the Insurance companies to abide by the provisions of AML/CFT Acts Seriously.
- Majority of the general insurance business are derived via banking channels for loan and BAFIs do not share the KYC information of their loan parties with the general Insurance companies due to the confidentiality clause in the BAFIA.

Roles of Professional Accountants for AML/CFT in Insurance Companies:

We know that professional accountants are key gatekeepers for the financial system, facilitating vital transactions and information of the clients (insurance companies). They have a significant role to play in ensuring that their services are not used to further a criminal purpose. The fight against crime demands that criminals/perpetrators be prevented from legitimizing the proceeds of their crime by the process of "money laundering". Statutory/External auditors performing financial statement audits are less likely than other professional accountants to encounter signs of possible money laundering. Reviewers of financial statements, whose work does not generally include evaluating the control environment, are even less likely than auditors to detect signs of possible money laundering. But accounting professionals acting in the following capacities are more likely to encounter such evidence:

- Accountants in management positions who record and report entity transactions, such as CEOs, COOs, CFOs, CIOs, controllers, risk managers, compliance officers and related staff;
- In-house financial systems consultants;
- Internal auditors responsible for operations and compliance auditing;
- Practitioners who provide outsourced regulatory examination services;
- Forensic accountants;
- Public practitioners who perform compliance and operational audits; risk management professional accountants and compliance specialists;
- Tax practitioners, especially in jurisdictions where filings connected with anti-money laundering laws (currency transaction and SAR) are directed to tax authorities.

BAFIs and Insurance sectors are increasingly asking accounting practitioners to conduct money-laundering risk assessment exercises. This is because financial institution including insurance company's supervisors expect or require business assessments to serve as a blueprint for an AML strategy and controls. Practitioners, as business process and control professionals, are frequently asked to assist these efforts, or to review these strategies, their resulting programs and their effectiveness. In addition, practitioners are being asked to conduct "best practice" reviews, compliance reviews and special audits. Obviously, professional risk at stake varies with the level of assurance required. More and more, governments are also requiring businesses to have AML compliance programs that monitor for compliance, and independent testing (by internal or external auditors) to audit those programs.

In this regard it is best for a Professional Accountant to follow the Risk Based Approach (RBA). The FATF Recommendations also require the adoption of a RBA to combating ML/TF. By adopting a RBA, Professional Accountants are able to ensure that measures to prevent or mitigate ML/TF are commensurate with the risks thereof identified. This will allow resources to be allocated in the most efficient ways. Adopting a RBA encompasses recognizing the existence of ML/TF risk, undertaking an assessment of risk, understanding it, and developing strategies supported by appropriate resources to manage and mitigate the identified risks. A RBA implies that appropriate policies, controls and procedures, approved by senior management, should be designed and implemented, based on and commensurate with identified and assessed risk. These policies and procedures should be built on the strategic policies of the Beema Samiti, including consideration of risk profile, products, channels, markets and customers. Higher risk areas should be subject to enhanced procedures and other measures, such as enhanced CDD checks and enhanced transaction monitoring. Similarly, in situations where risks are lower, simplified or reduced controls may be applied. The implementation of the policies, procedures and controls regarding ML/TF will need to be monitored by Professional Accountants.

Roles of Insurance Board (Beema Samiti) for AML/CFT in Insurance Companies:

Insurance Board, Nepal is the Regulatory Authority for the Insurance Industry in Nepal. In relation to AML/CFT, Assets (Money) Laundering Prevention Act, 2008 under its Section 7T has provided the obligation to regulate, supervise and monitor the reporting entities under the same Act to Regulator mandated for the regulation and supervision of such entity pursuant to prevailing laws. Insurance Board is constituted to systematize, regularize, develop and regulate the insurance business within the country under Insurance Act, 1992. As a regulatory body, the Board's main concern is to create a professional, healthy and developed insurance market in Nepal. Furthermore, It regulates and supervises the AML/CFT regime within insurance sectors namely life insurance companies and non-life insurance companies. Insurance Board have issued AML/CFT directive-2075 to its licensed entities.

As we discussed earlier, AML/CFT concept is at premature phase in Nepalese Insurance Sector. To date, there is no clear formula to assess whether an AML/CFT system has been effective in achieving its objectives. In the absence of a reliable measure of how much money is being laundered or how much terrorist funds are circulating, the question of effectiveness becomes even more elusive when it is couched in terms of "curbing" money laundering and terrorist financing. It is therefore impracticable to try to measure the success of an AML/CFT measure by attempting to establish the extent to which this measure has contributed to reducing the amount of money being laundered or terrorist funds being funneled. However, for the effectiveness of AML/CFT concept Insurance Board can perform these functions:

- Strengthening the Supervision functions relating to AML/CFT implementation.
- Perform or cause to perform the independent AML/CFT Audit in the Insurance Companies.
- Conducting practically productive programs and trainings to increase the AML/CFT knowledge among staff of Insurance Companies.
- Enforcement of sanctions for non-Compliance as per section 22 of "AML/CFT Directive for Insurance Companies-2075".
- Hire, recruit and/or mobilize AML/CFT expert personnel in the Insurance Board for more effectiveness of AML/CFT in Nepalese Insurance Industry.
- Conducting formal talks and workshops with Nepal Rastra Bank to develop a modality of sharing of KYC related information of Borrower/Depositor/Insured between the BAFIs and Insurance Companies.

Conclusion:

Effectiveness of AML/CFT implementation in Nepalese Insurance sector requires a collective and coordinated efforts from all the stakeholders of the insurance industry like Insurance Board, Insurer, Insured, FIU etc. Since we are in initial phase of execution of AML/CFT Practices in insurance industry in Nepal, we should always bear in mind and be proactively sensitive that, life insurance and non-life insurance can be used in different ways by money launderers and terrorist financiers as we discussed earlier. The vulnerability depends on factors such as (but not limited to) the complexity and terms of the contract, distribution, method of payment (cash or bank transfer) and contract. Insurers should take these factors into account when assessing ML/TF risks and vulnerabilities. This means that Insurance companies should derive KYC information and prepare AML/CFT risk profile of every insurer after conducting Customer Due Diligence (CDD), be it Simplified customer due diligence (SDD) or Enhanced Customer Due diligence (ECDD) as per the Risk level. After Risk Profiling, insurance companies should assess and identify the cases of TTR/STR/SAR, Politically Exposed Person (PEPs), Beneficial Owner and report to the FIU as per the requirement.

Bibliographies and References:

Application Paper –IAIS (International Association of Insurance Supervisors)

Position Paper of GFIA (Global federation of Insurance Associations)

AML/CFT Sanction Scanner

Annual Reports and NRA Reports of FIU Nepal.

FATF Recommendations regarding RBA for AML/CFT

Insurance Act, 2049

Asset Laundering Prevention Act, 2064.

AML/CFT Directives Issued by Insurance Board-2075

Scholars Articles about ML/TF related to Insurance ■

INTEGRATED BUSINESS MANAGEMENT SYSTEM (IBMS) FOR SMES

> Most of the people still think ERP as a single huge application that were built till a decade back. Many things have changed; and now ERP system is not necessarily a large block of system with everything built inside it.

CA. Mukund Pokharel **(CISA, CGEIT)**

(The author is the Member of ICAN and he can be reached at mail to : mukund@rigonepal.com)

Introduction:

Large enterprises have been using integrated suite of financial, operations, production, vendor, and customer management application packages in different forms like Enterprise Resource Planning (ERP) or Management Information Systems (MIS). Though, it is costly to design, develop and implement those kinds of systems, the benefits in terms of process efficiency, operational excellence and informed decision making are many. The cost and initial effort pays back within a few years or even months.

But, Small and Medium Sized Enterprises (SMEs), and even large enterprises in Nepal, have not yet invested in such systems. There are many reasons why the momentum towards integrated business management systems has not started in Nepal, including:

1. **Misconception** - that ERPs are very special applications and are built only for large enterprises.
2. **Value for Investment** - that the cost of such system is too high to justify investment and resulting benefit.
3. **Unavailability of Reliable System** – there are no readily available ERP systems in Nepal and there is lack of professional and knowledgeable team for ERP implementation.
4. **Compatibility** - systems developed in international context and environment do not fit Nepalese environment.

Redefining ERPs into IBMS for SMEs

Most of the people still think ERP as a single huge application that were built till a decade back. Many things have changed; and now ERP system is not necessarily a large block of system with everything built inside it. ERP has been evolving as Integrated Business Management Systems (IBMS) in the form of one or a combination of more than one system that can communicate with each other seamlessly (whether they are from the same vendor or from different vendors) to cover financial, operational, employee, vendor, customer functions (and there may be more). The definition of ERP may change from industry to industry and nature of the business because it is a system not a particular software. The primary factor of what constitutes an ERP is the one that fulfills business needs – not what is available from a traditional vendor.

For SMEs, we now see ERP in the form of IBMS which comprises of applications or solutions that can be integrated together and can communicate with each other as connected systems facilitating, standardizing, and streamlining business functions and informed decision making. With cloud infrastructure and SaaS (Software as a Service) offerings, almost all good applications have the capability to interchange data with another system through Application Programming Interface (API) or similar means and one or more vendor's applications can connect and complement each other seamlessly to provide ERP functionality.

In IBMS:

- There may be one or a combination of more than one interconnected and integrated applications or systems
- The core of the system is most likely financial management
- Peripheral systems can be from the same vendors or from different vendors
- The system as a whole can support business in financial, supplier, customer, and employee management via real time and actional information at a minimum.

Why should SMEs invest in IBMS

The COVID pandemic has taught us a lot about going digital. Businesses and consumers have taken a leap forward in technology usage and have clearly understood the benefits of information technology. From physical meetings – we moved to online meetings; from paper currency – we moved to digital wallets and online payments; from physical papers – we moved to digital workflow. And where digital systems and virtual options are not available – we have started to feel uncomfortable.

To summarize, the following are some of the compelling reasons whey SMEs should consider Integrated Business Management System in their organizations:

- Now it is time for teamwork and collaboration more than ever.
- We are being forced to compete with neighboring countries and other foreign counterparts where cost is low due to huge market reach or cheap labor.
- Margins are getting lower and there is a need for cost control without compromising quality or reducing margin.
- Everything is getting connected – bank, government institutions (IRD, CRO, Customs…), food, grocery service and many more and there is no escaping anymore.
- Customers and employee expectation have increased, and they are looking for connected, integrated, seamless and mobile experience anytime and everywhere.

To lead the pack or at least move with the trend and expectations, SMEs should invest in and implement well designed IMBS to transform business process and gain valuable information to support business decisions.

Fundamental Needs of SMEs

SMEs are facing numerous issues on technology adoption. But, at the same time, they do not know what they are missing and what is possible. The major hurdle is lack of awareness and willingness to transform. Finance Professionals have an important role to play as business process consultants and provide additional value to their clients. Clients will pay and thank their consultants for this insight and advisory.

Transforming business process is not a quick and easy task. It takes time, dedication and process re-engineering in many areas. Businesses can start from Finance and slowly move to other areas based on their size and nature of business. Major problems faced by small and medium enterprises are:

Primary problem: Talent Management

Many organizations in Nepal are running their business in family or friend culture. But now competition is increasing more than ever in one hand and there is wider opportunity (including business reach) on the other hand. We are in a position to do business without geographic boundaries (nationally and even globally). But the major problem all businesses are facing is - people issues; ranging from how to attract talent, how to compensate, motivate, get what is expected of them and retain them. Even management of the business entity does not know what they expect from their people. After Finance and Business idea, the most important part of the business is People. People management should be the primary concern of any business to succeed. To put it in another words - everybody in the organization should be in the same direction to succeed. People are the most wasted resources despite having a great potential.

Secondary problem: Stale Records and no Business Insight

Almost all the businesses do have an accounting system. But in most of the cases the system is so traditional that it is just limited to vouchers, ledgers and trial balance without any business insight for the owner or management. Such traditional system does not provide business insight like:

- What is profitable, what is not?
- Where there is resource waste?
- Where there is possibility of cost control?
- What is the current resource position?
- What needs management attention?

Further, traditional systems do not provide the following assurance:

- Is there control mechanism to prevent unauthorized activities?
- Are we complying with the law?
- Is there audit trial if something wrong happens?
- Is the data safe?

It is just a judgement or blind game – keep walking until you are tired and cannot keep up - and stop after burning lots of time and resources.

In general, this can be avoided through a well-planned IBMS that can standardize, streamline, and help you manage your business and resources in the following key areas:

Finance Management

- Budgeting and Planning
- Accounting
- Invoicing
- Banking Transaction
- Bank Reconciliation
- Inventory Management
- Assets Management
- Procurement
- Vendor Management
- Reporting
- Compliance
- Audit and Control
- Business Intelligence

Employee Management

- Up to date Employee Records
- Payroll, Benefits and Taxes
- Leave and Time
- Organization Goals
- Talent Acquisition
- Onboarding and Self Service
- Task Management
- Learning and Development
- Performance Management
- Travel Management
- Insurance Management
- Employee Communication
- Exit Management

Customer Relationship

- Leads and Contacts
- Proposals and Quotations
- Pro-forma Invoice
- Sales and Collection
- E-Mail and Communication

Industry Specific

- Production Management
- Warehouse Management
- Material Movement
- Distribution Management
- Process Management

Figure: Fundamental IBMS functionality for SMEs

Cost and Affordability

Many people think IBMS are costly, and SMEs cannot afford them. It was true to some extent in the past when only some large international companies were providing ERP systems to large enterprises. There was lack of capable human resources to modify and implement the system in Nepal. As a result, international system and international human resources cost a lot.

But now there are diverse options to choose from Nepalese and international vendors. We have a pool or resources who can consult, modify, and deploy systems at an affordable fee. Even better, SMEs can opt to go for standardized systems built for the industry to reduce the cost and time to implement. It also reduces the risk of project failure.

With the cloud technology many systems are available as Software as a Service (SaaS) offering. SaaS solutions are online systems without the hassle of in-house IT human resources and infrastructure. The solution is offered as a periodic subscription fee (usually monthly). There is no need for huge upfront investment. It can be more secure and reliable than unmanaged in-house system.

The small monthly cost of the SaaS IBMS solution is very insignificant when compared to the benefits organizations can achieve in the long run. Good IBMS in Nepal are available from some vendors at a very low cost starting from Rs. 10,000/- to Rs. 20,000/- a month based on the size of the business.

Availability

As mentioned above, many national and international systems are available in Nepal. For large enterprises which have budgets amount in million can go for international systems, customize them to fit in local law and environment and deploy. But majority of SMEs may not have a budget in million for business management system. And even if they have the budget, the value of investment may not justify the benefits received. International systems are good in many respects as long as they are from reliable and reputed vendors. But there is a major downside in addition to high cost – compatibility to local laws (e.g., VAT billing), requirements (e.g., NFRS), environment and working culture.

The solution to cost and compatibility problem is to go for home grown systems in Nepal. There are a few good Nepalese systems already available in the market that cover majority of the functions and features discussed above. Many finance professionals and software companies have also entered in this sector to provide reliable solutions owing to increasing customer awareness and demand after the COVID pandemic.

IBMSs or ERPs are very complex systems and cannot be built in a short period of time. It takes a combination of financial and technological expertise, right technology and deep understanding of business processes and the relevant laws of the country. Therefore, businesses should be very careful in choosing the right vendor and solution.

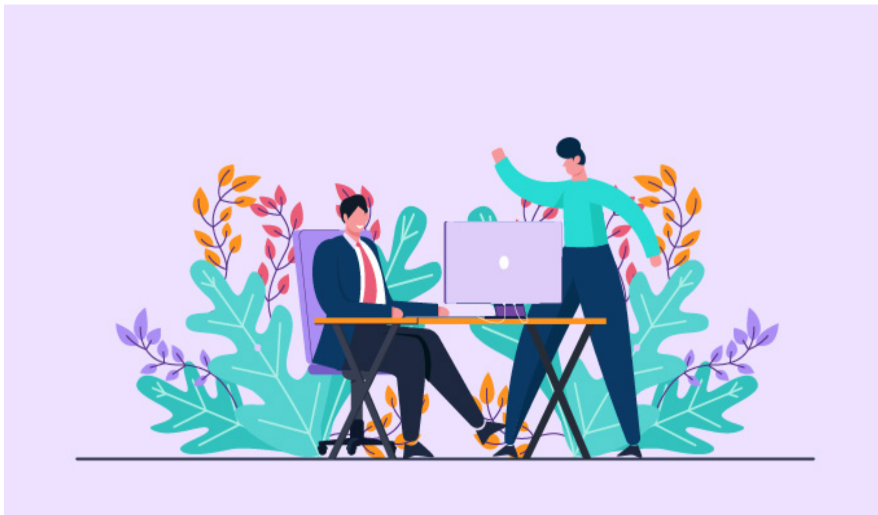
Finally, when choosing a vendor or solution choose the one that is compatible with local context and requirement, that is easy and intuitive to use, the company demonstrates a clear vision for the future development and has good reputation. And, if you are building your own custom system, think carefully – is the vendor capable to provide a complex solution in terms of financial, business and technological expertise?

Conclusion

Integrated Business Management Systems (IBMS) also referred to as ERPs are not only for large enterprises. SMEs can use and hugely benefit from these types of systems in standardizing and streamlining financial, operational, people, reporting and compliance functions as well as suppliers and vendor management. The COVID pandemic has increased awareness and demand for digital solution. The whole ecosystem from government to customer is leaning towards digital technology and we cannot be left behind. Good systems are available for SMEs nationally and internationally at a very low cost compared to potential benefits owing to greater demand and SaaS offering. It is now time to choose robust and reliable solution to manage your business and gain real-time insight of your business on demand for operational excellence and informed decision making. ■

SPIRITUALITY IN THE WORKPLACE (AN INTRODUCTORY OVERVIEW)

Last few decades show paradigm shift in industrial development especially concerned to human perspectives. Businesses in current age highly rely on the socialization, networking and/ or exchange of information. Getting results out of employees depending standalone on their remuneration for their time and efforts has become a matter of myth. Intense competition has challenged the world economy and driving it towards insecurity.



CA. Raju Basnet Chhetri

(The author is the Member of ICAN and he can be reached at mail to: rajubasnetchhetri@gmail.com)

Abstract

There is growing interest in 'Spirituality' in the 'Workplace' both from employees' and employers' perspectives, especially from the last decade of twentieth century. The paradigm of workplace management has shifted from physical to spiritual. This article, based on literature reviews, explains four dimensions of spirituality at workplace i.e., inner self, meaningful work, sense of community and alignment with organizational values and four variables i.e., job satisfaction, job involvement, job commitment and intention to leave. Spirituality in the workplace has been practiced by various organizations and the results are surprisingly encouraging as it, among other factors, introduces alignment of values of the individual and the organization. There is sufficient proof that spirituality in the workplace is responsible for creating a new organizational culture with happier workers who deliver better achievements.

Keywords: Workplace Spirituality, meaningful work, sense of community, job satisfaction, alignment with organizational values, spiritual dimension, transcendence.

Introduction

Last few decades show paradigm shift in industrial development especially concerned to human perspectives. Businesses in current age highly rely on the socialization, networking and/or exchange of information. Getting results out of employees depending standalone on their remuneration for their time and efforts has become a matter of myth. Intense competition has challenged the world economy and driving it towards insecurity. Employees are losing confidence and searching for new avenues and strengths for survival and growth. Businesses, however, demand performance from their workforce and performance levels are much based on employee satisfaction. The new economy, thus, has a focus on innovation, creativity, learning, occupational flexibility and overall development including the components of the work-eco-system. Businesses are not tools for profit and/or wealth maximization but are responsible agents taking care of upliftment of all stakeholders, which now include society, public and environment in its core scope.

The era which regarded managers as "impersonal instruments to achieve material ends" (Ashmos & Duchon, 2000) has turned over and the new emerging paradigm is spiritual paradigm. The spiritual paradigm is flexible and adaptable incorporating new insights into workplace interrelationships and group dynamics.

Workplace not only deals with the process and output of the business but also the spiritual needs of the employees. In this era, what businesses demand from their employers and employees are 'that people bring their whole selves to work rather than just their muscles and/or brains' (Sparrow & Knight, 2006). A spiritual workplace is current demand for recognizing, understanding, supporting and nurturing the spirit of employees. According to research, companies who offer spiritual growth opportunities to their employees outperform their competitors (Konz & Ryan, 1999). Various research areas yet to explored, spirituality at workplace seems promising to be catalyst for creating meaning, fulfillment and sustainability in the achievement of organizational goals and in the professional life of the employees.

Literature Review

The word spirituality is derived from the Old French *espirit*, which comes from the Latin word *spiritus* (soul, courage, vigor, breath) and is related to *spirare* (to breathe). Drucker (1954) through his widely acclaimed book. "The Practice of Management" relies on the belief that any person will give his best efforts or just work enough to hang up based on his spirit, which calls upon his dedication and effort. Spirituality has been defined as inner experience an individual has that can be evident by his or her behavior (McCormick, 1994). Neck and Milliman (1994) explained spirituality as oneness of life and perception to reality. Spirituality is expressing our desires to find meaning and purpose in our lives and is a process of living out one's set of deeply held personal values (Neck and Milliman, 1994). Spirituality is the synthesis of holistic concepts, practices and behaviors that promote the full expression of the body, mind and spirit (Guillory, 2000).

Spirituality at workplace include humanistic and employee friendly work environments, service orientation, creativity and innovation, personal and collective transformation, environmental sensitivity and high performance. Mitroff and Denton (1999) explained "interconnectedness" in spirituality as it entails the opportunity to discover one's life's ultimate purpose, to form a deep bond with coworkers and other people linked with work, and to have consistency (alignment) between one's inner beliefs and the organization's value. Ashmos and Duchon (2000) outlined the importance of 'spirit' within 'the workplace' "as the recognition of an inner life is nourished by meaningful work which takes place in the context of community".

Kinjerski and Skrypnek (2006) dealt about spiritual connection, meaning and purpose in work, sense of community and mystical experience. Sharma (2007) explained the aspects of spiritual synergy and positive spirit. A third level concept in addition to individual and organizational level was added by Kolodisky, Giacolone and Jurkiewicz (2008). The authors stated an interaction of individual and organization levels, arguing that conceptualizing workplace spirituality in this way parallels the concept of person – environment fit. When fit is strong between worker's values and his/her perceptions of the organization's values, better work outcomes will result. Several attempts have been made to define and conceptualize spirituality in workplace, still our knowledge of this extraordinary and transcendental concept is far from being complete and a lot is yet to be explored.

Dimensions of Workplace Spirituality

The scholarly work of McKee, Driscoll, Kelloway, and Kelley (2011) acknowledged that workplace spirituality has three broad dimensions: meaningful work, sense of community, and alignment with organizational values. As evidenced by the work of numerous scholars and researchers, this article highlights four significant characteristics of spirituality at work. i.e., inner self, meaningful work, sense of community and alignment with organizational values.

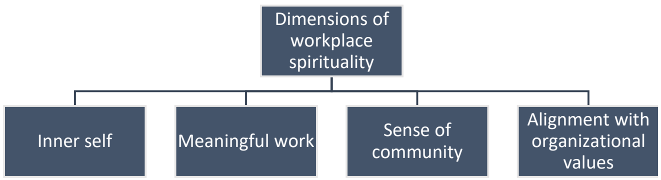


Figure 1. Dimensions of workplace spirituality
(Source: developed by the author)

Inner Self

This dimension refers to the employee's inner (spiritual) needs, which are as important as the physical, emotional and social needs of the employee (Duchon and Plowman, 2005). Identifying oneself with the spirit to know your purpose, value, beliefs, vision and motivations is spirituality. It is a fundamental part of an individual's holistic health and wellbeing. Spirituality is the basic feeling of being connected with one's complete self, others and the entire universe (Mitroff and Denton, 1999). The five key concepts based on research conducted (Martsolf and Mickley, 1998) are-

- **Meaning:** value of one's existence, the ability to make sense of one's circumstances and the determination of one's purpose.
- **Values:** cherished ideas, ideals and ethics.
- **Transcendence:** the experience, awareness and appreciation of a 'transcendent dimension' to existence that exists beyond of one's own self.
- **Connecting:** increased awareness of one's connection to oneself, others, god/spirit/divine and nature.
- **Becoming:** a stage of life that necessitates introspection and experience, as well as a sense of self and how one knows. An introspective study of oneself aids in comprehending the reason for one's existence. An individual can see what was previously unseen after recognizing their one's self.

Meaningful Work

This dimension of workplace spirituality represents how employees interact with their day-to-day work at individual level. 'Meaningful Work' refers that every individual looks for meaning in work i.e. work should provide an individual something beyond mere survival. The reason for which an individual works provides holistic spirit or completeness by doing it (Overell, 2008). The concept of meaningful work is expressed in the idea of employment that has a high personal value for an individual and meets one's deepest desire for greater significance and motivation (Mckee *et al.*, 2011). Hence, spirituality at workplace plays a vital role to bring a meaningful bond between one's personal life and productive time at workplace.

Sense of Community

This dimension refers to living in connection with each other. This dimension of workplace spirituality gives insight to belongingness, connectedness and community. A critical dimension of workplace spirituality which has been articulated as a sense of community comprises having a profound relationship to, or association with others (Ashmos & Duchon, 2000). The concept that people feel themselves as connected to one another and that there is some sort of interaction between one's inner self and the inner self of others is the foundation of workplace community (Waddock, 2006). Due to failure of trust in institutions, employees are searching for a sense of community, high quality connections (Dutton and Heaphy, 2005) and compassion at work

Alignment with Organizational Values

This dimension of spirituality at workplace refers to sense of alignment or association between an individual's personal values and organizational values. This element of workplace spirituality incorporates the interaction of employees with the larger organizational purpose (Mitroff and Denton, 1999). It also means that individuals believe that while working in organizations managers and employees have correct values, have a strong morality, and display a genuine concern for the well-being of its employees and public (Ashmos & Duchon, 2000). With reference to various evidences of consistency of organizational values.

Organizational Behavioral Variables

Individuals' work-related-attitudes with that of the organization are to be recognized and integrated to understand the grave importance of employees' behavior variables in any organization. What and how an organization expects from its employees shapes the behavior of employees' to the greater extent in addition to the employees' inherent attitudes. An organizations encouraging spirituality at workplace puts its employees at the center of the circle for qualitative and productive gains. They look employees as the fundamental source of organizational achievement. These kinds of organizations encourage and practice spirit of cooperation among employees and align the values of individuals with the values of the organization.

There has been evidence of positive result of workplace spirituality at individual level outcomes such as increased joy, serenity, job satisfaction and commitment (Paloutzian et al. 2003; Kouzes and Posner, 1995; Fry, 2003, 2005); improve productivity, reduce absenteeism and turnover (Fry, 2003, 2005; commitment to organization, intrinsic work satisfaction and job involvement (Milliman *et al.*, 2003). Spirituality at workplace depends upon various variables as quoted by various researchers. This article, however, discusses on following four variables: job satisfaction, job involvement, job commitment and intention to leave.

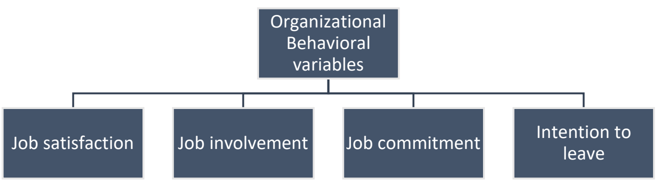


Figure 2. Organizational Behavioral variables *(Source: developed by the author)*

Job Satisfaction

Job satisfaction is a pleasurable or positive emotional state that arises from the appraisal of one's job or job experience (Locke, 1976). Similarly, Spector (1997) describes job satisfaction as simply how people feel about their jobs and different aspects of their jobs. Job satisfaction involves an individual's attitudes toward elements related to work such as achievement, responsibility, advancement and growth (Herzberg *et al.*, 1959).

Job Involvement

Job involvement is defined as "the degree to which a person identifies with his or her job, actively participates in it, and considers his or her performance important to a sense of self-worth, self-esteem, or self-image" (Word, 2012; Blau,1986). It was observed that workers who can express their spirituality through their work actually find work more satisfying and meaningful and accordingly perform better (Mitroff & Denton, 1999).

Job Commitment

Job commitment is defined as the extent to which a person psychologically identifies with or absorbed by their job (Lawler & Hall, 1970). Northcraft and Neale (1996) stated that commitment is an attitude reflecting an employee's loyalty to the organization, and an ongoing process through which organization members express their concern for the organization and its continued success and wellbeing. Thus, employees' job commitment is one of the inevitable factors for the better achievement of organizational objectives. An employee's degree of job commitment reflects the spiritual connection with organization's values.

Intention to Leave

Intention to leave is the likelihood that an employee will voluntarily end his/her relationship with the employer in the near future (Bluedorn, 1982). Milliman *et al.* (1999) postulate that having a strong sense of community and strong purposeful organizational goals related to greater employee commitment and higher retention rates. Employee's connected with organization only with physical means keep thinking about better opportunities outside instead of putting their efforts for the better performance. Those employees who feel insecure and do not feel associated with the organizations intend to quit the job anytime. They have no dedication and motivation at workplace, The effect seems in the result of the organizational deliveries. Thus, employee's intention to leave is one of the behavioral attributes to measure the workplace spirituality.

Possible Outcomes of a Spiritually Integrated Workplace

Dhiman & Marques (2011) have boldly pointed out that workplace spirituality is not merely a theoretical concept with little or no practical application. Encouraging workplace spirituality may lead to strengthening of creativity, innovation, honesty, trust, devotion, personal fulfillment, commitment and meeting the greater purpose of the interconnected individuals, organization, and community. It helps organizations to better understand the employees with spiritual connectedness with greater common values of the employee, organization and community. Spiritual behavior may lead to excellence in achievement and organizational welfare because of an increase in personal commitment and involvement and a holistic approach to the working individual (Dhiman & Marques 2011).

There is sufficient proof that spirituality in the workplace is responsible for creating a new organizational culture with happier employees who deliver better achievements. Together with these advantages, employee motivation and meaningfulness of the work experience are increased (Garcia-Zamor, 2003). Hence, both the employees and the employers have underscored the value of workplace spirituality . They have started to bring various techniques and tools to practices spirituality in their everyday life and the trend in significantly increasing in the recent years.

Conclusion

Workplace spirituality is a multidimensional phenomenon comprising various components enriched with social components as it is directly concerned with theology and anthropology. Spirituality in the workplace comprises a notion in which emphasis is given to the view that individual should practices to understand the inner self and work should be meaningful, significant and should align with common values. It makes individuals feel satisfied with their job, increase their devotion and commitment towards the job, increase involvement and reduces employee turnover.

The phenomenon of workplace spirituality is rooted basically in business ethics and spiritual leadership. The paradigm shift to teamwork, total quality management, and a spiritual workplace has emerged to a great extent because of how best to stimulate and encourage workers. Business ethics and spiritual leadership are two diverse organizational aspects that have a strong influence on bringing spirituality into the workplace. Spirituality in the workplace may be difficult to recognize, study, define, practice and implement, but once the spirituality is encouraged and practiced in organizations, they are rewarded with an upward spiral of positive outcomes.

Thus, it can be established that workplace spirituality is an extremely important business concept in today's market competition and Hence, it enjoys widespread corporate interest today benefitting both the individuals and organizations in particular and the community in general. Spirituality is recommended to be implemented in the workplace by organizations that wish to survive and prosper in today's competitive world. Studies have shown that this will result in positive employee and organizational outcomes.

References

Ashmos, D.P. & Duchon, D. (2000). Spirituality at work: A conceptualization and measure. Journal of Management Inquiry, 9(2), 134–145.

Blau, G. J. (1986). Job involvement and organizational commitment as interactive predictors of tardiness and absenteeism, Journal of Management, 12(4), 577-584.

Bluedorn, Allen C. (1982). A unified model of turnover from organizations. Human Relations, 35(2) 135-153.

Duchon, D. & Plowman, D.A. (2005). Nurturing the spirit at work: Impact on work unit performance. Leadership Quarterly, 16(5), 807–833.

Fry, L. W. (2005). Toward a theory of ethical and spiritual well-being and corporate social responsibility through spiritual leadership, in C. Dunne, R. A. Giacolone & C. L. Jurkiewicz, Editors, Positive psychology and corporate responsibility, Information Age Publishing, Greenwich, CT.

Fry, L.W. (2003). Toward a theory of spiritual leadership. Leadership Quarterly, 14(6), 693–727.

Garcia-Zamor, J.-C. (2003). Workplace Spirituality and Organizational Performance. Public Administration Review, 355-363.

Guillory, W. A. (2000). The living organization: Spirituality in the workplace. Innovations International Inc., Salt Lake City, UT.

Kinjerski V, Skrypnek BJ (2006). Measuring the intangible: development of the spirit at work scale. Paper presented at the Sixty-fifth Annual Meeting of the Academy of Management, Atlanta, GA, 16 pp. https://doi.org/10.5465/ambpp.2006.22898605

Kolodinsky, R.W., Giacalone, R.A., & Jurkiewicz, C.L. (2008). Workplace Values and Outcomes: Exploring Personal, Organizational, and Interactive Workplace Spirituality. Journal of Business Ethics, 81(2), 465-480.

Lawler, E.W. & Hall, D.T. (1970). Relationships of job characteristics to job involvement. Journal of Applied Psychology, 54(4), 305–312.

Locke, E.A. (1976) The Nature and Causes of Job Satisfaction. In: Dunnette, M.D., Ed., Handbook of Industrial and Organizational Psychology, Vol. 1, 1297-1343.

Martsolf, D.S. & Mickley, J. R. (1998). The concept of spirituality in nursing theories: Differing world-views and extent of focus. Journal of Advanced Nursing, 27, 294-303. Spiritualism in Education Workplace Spirituality and 68 69

McCormick, D (1994). Spirituality and management. Journal of Management Psychology, 9(6), 5-8.

McKee, M. C., Driscoll, C., Kelloway, E. K., & Kelley, E. (2011). Exploring linkages among transformational leadership, workplace spirituality and well-being in health care workers. Journal of Management, Spirituality & Religion, 8(3), 233-255.

Miller, W. C. (1992). How do we put our spiritual values of work, in Renesch, J. (Ed.), New Traditions in Business: Spirit and Leadership in the 21st Century, Berrett-Koehler, San Francisco, CA, 69-80.

Milliman, J., Czaplewski, A.J. & Ferguson, J. (2003). Workplace spirituality and employee work attitudes: An exploratory empirical assessment. Journal of Organizational Change Management, 16(4), 426–447.

Mitroff, I.I. & Denton, E.A. (1999). A study of spirituality in the workplace. Sloan Management Review, 40(4), 83–92.

Neck, C. P. & Milliman, J. F. (1994). Thought self-leadership: Finding spiritual fulfillment in organizational life. Journal of Managerial Psychology, 9(6), 9-16.

Northcraft, T. & Neale, H. (1996). Organisation Behaviour. London: Prentice-Hall.

Overell S (2008) Inwardness: the Rise of Meaningful Work, Provocation Series, 4: 2. The Work Foundation, London.

Paloutzian, R. F. Emmons, R. A. & Keortge, S. G. (2003). Spirtual well-being, spiritual intelligence and healthy workplace policy, in R. A. Giacolone & C. L. Jurkiewicz, Editors, Handbook of workplace spirituality and organizational performance, M. E. Sharpe, NY, 123-137.

Sharma, S (2007). New Mantras in Corporate Corridors – from Ancient Roots to Global Routes. New Age International Publishers, New Delhi.

Sparrow & Knight, 2006. Applied Emotional Intelligence: The Importance of Attitudes in Developing Emotional Intelligence. John Wiley & Sons.

Spector, P. (1997). Job Satisfaction: Application, Assessment, Causes and Consequences. Thousand Oaks, CA. Sage Publications.

Waddock, S. (2006). Leadership Integrity in a fractured knowledge world. Boston College. Carroll School of Management. ■

INTELLECTUAL PROPERTY RIGHT EXPANDS THE SCOPE OF AUDITORS

"Intellectual property rights are legal rights that provide the creator of an original invention, artwork, design and idea with legal protection and exclusivity over the ownership and use of the said work."

Dr. Rudra Sharma

(The author is an Advocate practicing at the Supreme Court of Nepal and Chairperson of Subject Committee Law, Purbanchal University)

Mrs. Prajwalta Karki

(The author is an Advocate and she can be reached at mail to: prajwalta1@gmail.com)

Abstract

This article is about exploring new scope of work for auditors. The new scope of work is intellectual property (IP) audit. This is already started in advanced economies and Nepal is waiting for such practice. However, auditors in Nepal are also doing it partially in other ways without calling it IP audit. For example, a taskforce formed by Government of Nepal has recommended that government should sell the trademark and brands of Janakpur Cigarattee Factory[1]. As the government may start a process for this, some auditors will try to quantify the value of the trademark and brands of Janakpur Cigarette Factory. This may be called a kind of IP audit. But, IP audit is supposed to be done more systematically. The asset of IP can be made bankable. If auditors prepare for such work, this will open a new avenue for them. ICAN should look into this as a part of professional development of all auditors. Further ICAN should work jointly with other professionals like IP lawyers in order to create atmosphere so that each and every company and institution will have intellectual property policy. Then, it will gradually lead for IP audit in each institution in regular basis.

1 Kantipur, March 25, 2022 at Page 9.

A. Introduction

Intellectual property rights are legal rights that provide the creator of an original invention, artwork, design and idea with legal protection and exclusivity over the ownership and use of the said work.[2] They are rights given to a person or an organization over the creation of the mind. When somebody brings forth a novel, original and applicable idea or invention then such an idea is known as their intellectual property. Unlike physical properties, intellectual property is intangible since it is arising from the mind. The idea is then put into application by way of a tool, technique, invention, literature, songs etc. which gives it a form and that form will be their intellectual property.

After an intellectual property is formally registered and recognized, the owner of such property will be granted rights which gives him the exclusive rights to own, use, license and sell it. Intellectual property rights are mainly of two kinds:

1. Copyrights and rights relating to copyright

Copyright is a legal term used to describe the rights that creators have over their literary and artistic works which includes but is not limited to books, music, poems, plays, articles, databases, films, paintings, architecture. It protects expression of idea, not the idea itself.[3] It extends only to expressions and not to ideas, procedures, methods of operation or mathematical concepts.[4] This means that an author who has published a book on climate migration will have copyright over the book and use of its content but not the idea of climate migration. The main intention of copyright law is to balance the interests of those who create content and interests of the public who want access to that content.

Copyright includes moral rights and economic rights. Both of these rights have been safeguarded in the Berne Convention, the fundamental international law regulating copyright. Article 6*bis* of the Convention provides for the moral rights which includes the right of the author to claim authorship of the work and to object any distortion, mutilation or other modification of, or other derogatory action in relation to the said work which would be prejudicial to his honor or reputation.[5] It is also provided for in Section 8 of Copyright Act, 2002 (2059) of Nepal where it is stated that the author of a work shall have several moral rights, irrespective of whether that author has the economic right to that work.[6]

Economic rights on the other hand allows the right owner to derive financial reward when anyone else uses their work. It essentially provides the owner with protection against unauthorized use of their work without their permission. The decision regarding the use of work is granted solely to the owner through economic rights. It provides exclusive rights to the owner regarding the reproduction, distribution, broadcasting, translation and adaptation of the work.[7] Economic rights are granted by the Copyright Act in Section 7.[8]

Copyright exists only for a certain time after which it comes into public domain. Countries that are party to the Berne Convention usually provide 50 years' time frame for copyright after which the rights no longer exist. Nepal too has the same provision in its copyright law.[9]

2. Industrial property

Industrial property takes a range of forms which include patents for inventions, industrial designs (aesthetic creations related to the appearance of industrial products), trademarks, service marks, layout-designs of integrated circuits, commercial names and designations, geographical indications and protection against unfair competition. Paris Convention defines it more broadly to by stating that "Industrial property shall be understood in the broadest sense and shall apply not only to industry and commerce, but likewise to agricultural and extractive industries and to all manufactured or natural products, for example, wines,

2 Bently, Sherman, Gangjee and Johnson., Intellectual Property Law; 2008

3 Dr.Rudra Sharma & Yuddha Oli., Intellectual Property Law, Society and Economic Development; 2021

4 https://www.wipo.int/copyright/en/

5 Berne Convention, article 6bis

6 Copyright Act Nepal, 2022, S.8

7 Ibid 2

8 Copyright Act Nepal, 2022, S.7

9 Copyright Act Nepal, 2022, S.9(5)

grain, tobacco leaf, fruit, cattle, minerals, mineral waters, beer, flowers, and flour."[10]

Patents, also referred to as patents for invention, are the most widespread means of protecting technical inventions. It is designed to contribute to the promotion of innovation and the transfer and dissemination of technology, to the mutual advantage of inventors, users of inventions and the general public. Simply put, once a patent is granted by a state or by a regional office acting for several states, the owner of a patent has the exclusive right to prevent anyone else from commercially exploiting the invention for a limited period, generally 20 years.[11]

Industrial Designs are applied to a wide variety of industrial products and handicrafts. Unlike patents they are not concerned with functional aspect but only ornamental and aesthetic aspects like the colour, lines of any third-dimensional form that give a special appearance to a product or handicraft. Industrial design registration protects against unauthorized exploitation of the design in industrial articles. It grants the owner of the design the exclusive right to make, import, sell, hire or offer for sale articles to which the design is applied or in which the design is embodied.

Moving on, another really important form of industrial property is trademark. It is a sign, or a combination of signs, that distinguishes the goods or services of one company from those of another. It may be words, letters, numerals, pictures, shapes and colors or any combination thereof. The owner of a registered trademark has an exclusive right in respect of the mark: the right to use the mark and to prevent unauthorized third parties from using it, or a confusingly similar mark, so as to prevent consumers and the public in general from being misled. Trademark protection is enforced by the courts which, in most systems, have the authority to block trademark infringement.[12]

B. New Dimensions of Intellectual Property Right

Traditionally intellectual properties were only a matter of concern for respective owners, with its value being overlooked until fairly recently. Business strength was focused solely on tangible assets with IP and other intangible assets being designated in footnotes. Over time, however, intangible assets such as intellectual property, know-how, brand and creative output have become increasingly important as they allow other forms of value to be generated.[13] However, the scenario has completely changed as IP has now become a tool for companies to leverage competitive advantage. Newer dimensions to IP are emerging by the day as IP financing is gaining more and more traction in business dealings and undertaking loans. Previously, IP financing was done with traditional tools such as licensing (royalties) and direct sales of patents or trademarks. Then towards the end of the first decade of the millennium, companies found new ways to raise funds using intangible assets by auctioning their IP which enabled IP owners to sell their intangible assets faster to gain access to rapid liquidity. Now IP financing has taken a new turn whereby it is now possible to use IP as a collateral for bank loans.[14] The rise of technology companies and the importance of intangible assets in today's economy are reshaping the lending environment and the lending standards that govern asset-based loans. Companies are now beginning to understand the importance IP holds in terms of its market and monetary value. Normally, only tangible assets such as real estate, equipment and inventory are used to secure asset-based loans however, now intangible assets like IP can also be used to get loans increasing the amount of credit available. This practice is prime example of how valuable IP can be to any company. Although it is overlooked because it is intangible, its importance cannot be overlooked because it is a real credible source of net worth of a company. In fact, World Intellectual Property Organization- WIPO has even stated that IP is the tangible part of the knowledge pool of an organization, as it consists of patents, copyrights, trademarks, designs, etc., that can be more easily financially valuated than other intangible intellectual assets. It is a distinctive feature that separates one company from another. It

10 Paris Convention, Article 1(3)

11 Understanding Industrial Property, WIPO, 2016

12 ibid

13 Using Intellectual Property to Access Growth Funding, British Business Bank, 2018

14 https://www.chinadaily.com.cn/cndy/2019-07/18/content_37492757.htm

shows that a company has a pool of ideas and tools that are its own which cannot be gained through any other similar companies. Thus, it creates a point of advantage and creates a separate value than that of others.

C. Audit of Intellectual property

Customarily an intangible asset of a company was only goodwill. It was considered a part of trademark and was valuated as such. In this sense we can imply that only trademark in the form of goodwill was considered in a company's financial books and even then it was not formally counted as an IP. But unlike goodwill, IP is formally protected by law and has financial value which can be traded therefore, a company's finances will be stronger when it accounts for the value of its IP. IP assets such as trade names, patents, and copyrights are being used to secure loans by banks and other lenders. In most situations, IP assets tend to act as "credit enhancers" and are included in a portfolio of assets that serves as collateral.[15]

Due to the above-mentioned characteristics of IP and emerging trend regarding its financing, the role of auditors is now expanding too. While IP financing may not have fully been adopted yet, the practice of IP audit has been going on for well over two decades now.[16] WIPO defines IP audit as a systematic review of the IP owned, used or acquired by a business so as to assess and manage risk, remedy problems and implement best practices in IP asset management.[17] IP audits can help assess, preserve, and enhance IP; correct defects in IP rights; put unused IP to work; identify risks that a company's products or services infringe another's IP; and implement best practices for IP asset management. A thorough IP audit involves not only a review of a company's IP assets, but also the company's IP-related agreements, policies and procedures, and competitors' IP.[18] Even more comprehensive audits include estimates of the IP's monetary value, and detailed recommendations for dealing with IP in the future.

IP audits can be general in scope or can be focused on a particular event or type of IP. General IP audits are mostly helpful for startups to know and assess what kind of IP they have created and can own. It helps to identify their IP development needs, opportunities and risks. Meanwhile event specific IP audits are mostly done when a company needs to

a. Assess the impact and potential value of obtaining or selling IP
b. Assess the impact of licensing IP
c. Assess the rights and risks involved in expanding into new markets
d. Determine whether its licensee is complying with the terms of a license
e. Assess a third party's infringement claims and possible consequences
f. Assess the impact of a key employee's departure on IP rights and values
g. Demonstrate the company's value to obtain or provide financing or investment capital
h. Demonstrate company value in preparation for a merger, joint venture or sale

Regardless of a general audit or an event specific audit, conducting an IP audit is beneficial to a company in many ways. First and foremost, it identifies what IP is owned by the company. By identifying this, a business can manage their intellectual property and protect it from any damage or loss. When it is unaware of what it owns then there is no way of managing it and it will result in a failure to protect, develop and successfully exploit their IP.IP audits have directly resulted in quantifiable benefits to many companies, including payments of millions of dollars for the use of patented technology that was not originally thought to be patentable.

Secondly, it helps to enhance the value of already existing IP. The laws governing IP are not always straight forward and there are many procedural matters to be taken into consideration when dealing with it. For instance, there are several layers of protection offered by law for trademarks, trade secrets that do not require a formal application. However, if the

16 https://www.innovation-asset.com/the-audit-and-management-of-intellectual-property

17 IP Audit, Module 10, WIPO

18 https://www.corporatecomplianceinsights.com/ip-audits-what-are-they-why-are-they-important-what-do-they-cost/#:~:-text=IP%20audits%20can%20help%20assess,practices%20for%20IP%20asset%20management

company is not alert regarding those rights, it may unknowingly diminish it. Conducting an audit will keep the company informed about it and help it from taking any miscalculated steps that may hamper the IPR. On the other hand, to protect and own patents and trademarks formal applications must be filed or else the company will have no claim to their invention. An audit will identify such necessary actions that can be addressed to avoid IP loss and enhance the value of a company's existing IP.

Moreover, IP audits will identify new opportunities from which a business can earn profit. Since many are unaware of the vast commercial opportunities in domestic and foreign markets that comes with exploitation of IP licenses, companies are unknowingly losing out on areas they could profit from. This is a highly important benefit for any company because they can proactively act to exploit such opportunities before their competitors and gain an upper hand. It also helps in identifying valuable opportunities for licensing IP in new markets and channels of trade.

Likewise, it also helps facilitate and optimize business transactions. The monetary value of IP can be estimated by accounting and economic methods such as isolating the amount of profits generated by IP-protected features, and determining third party royalties being paid for similar IP assets. Because an IP audit gives a company a current understanding of its IP assets and their estimated value, the company's owners are better prepared to deal with opportunities that might arise, such as a third-party offer to buy the company, or a new sales or expansion opportunity that may require financing.

D. Each and Every Company or institution should do IP Audit

It is still common among many individuals and businesses to think that an IP exists only within an IT company or biochemical industries but every business has some form of IP that can be registered or protected and profited from. Intellectual capital in a broader perspective, comprises of human capital, structural capital, and social capital. Human capital simply comprises the competence, skills, experience, and intellectual abilities of the individual employees, which is a source of innovation and strategic renewal and depends on how an organization effectively make use of it in a company.[19] The concept of human capital is dominant in any discussion of intellectual capital. Structural capital includes processes, systems, structures, and other intangibles that are owned by the firm but do not appear on its balance sheet.[20] Structural capital is the supportive infrastructure and information systems that transform individual know-how into group property and allow the intellectual capital to be measured and developed in an organization. Structural capital also deals with the mechanisms and structures of the organization that can help and support employees (human capital) in their quest for optimum intellectual performance and therefore overall business performance. Social capital resides either at the individual or the organizational level and it is an intermediary form of intellectual capital which consists of knowledge in groups and networks of knowledge resources embedded within and derived from a network of relationships.[21] Hence IP needs to be used as a strategic tool by management IP needs to be used as a strategic tool by management to compete in the marketplace and IP audit needs to be done periodically to take stock of the intangible assets owned by the company. Companies need to focus on IP by continuously investing in innovation and R&D activities, development of patents that are financially successful, development of copyrights and trade secrets and creating national and international brands.

Intangible assets are recognized as the most powerful assets of many of the world's largest and most powerful companies. It is the foundation for the market dominance and continuing profitability of leading corporations. Even then, the role of intangible assets in business is insufficiently understood. Accounting standards generally do not represent the worth of intangible assets and valuation of intangible assets and IP can

19 Bounfour, 2003; Brooking, 1996;Edvinsson and Malone, 1997; Stewart, 1997; Sullivan, 2001

20 Ibid

21 Ibid

be a complicated process. Intellectual property are intangible assets with the capability of generating revenues, decreasing costs, expanding and protecting competitive positions, enhancing customer value propositions and increasing the attractiveness of businesses.[22] IP enjoys special legal recognition and protection and is typically created by the specific and conscious intellectual activity of the developer.[23] It is important to recognize that IP can be directly linked to the future success and revenues of a company. When utilized effectively, IP can provide unique competitive advantage, which allows the company to secure a market and gain significant market share. It also gives the company a stronger negotiating position in securing stronger contracts with suppliers, customers and partners.

E. Each and every company and institutions should have IP policy

In order to conduct valuation of an IP, calculate the cost and benefit of protecting, selling, licensing, financing, using IP as a collateral and all other monetary aspect of IP, the importance of a skilled auditor is necessary. Until now there has been very little IP audit conducted in Nepal and based on all the benefits that an IP audit can bring to a company we can make sense of the amount profit they are losing because of how unaware they are of an IP audit. Not only companies but the skills of auditors are also not being put to use up to their full capacity. IP audit is a whole subject matter on its own, an area which can be specialized to help businesses identify their strengths and monetize on it. In order to further strengthen it, it would be highly beneficial for every company to have their own IP policy in place. Apart from IT companies, many universities now have their own IP policy in place to help them and their users guide them into how the university's IP such as their employee strength, their research, their innovations can be used by third party. Having an IP policy will make a clear path for the respective company in terms of how they want their IP to be shared, accessed and used as well as give third party an idea regarding it. Doing so will help the IP of the company from being exploited, used in an unauthorized manner and when done so they will already have a plan of action regarding such breach. It will act as a foundational guiding policy apart from the national and international law that governs the area of IP. It will also help users to know beforehand about the policy use so that they can be careful not to make any mistakes regarding the use of a company's IP. As such, an institution like ICAN, which provides education, conducts examinations of auditors of the country should lead as an example by preparing an IP policy of their own. In doing so it will further benefit the members of ICAN itself since having an IP policy will direct companies towards IP auditing.

F. Conclusion and recommendation

In conclusion, intellectual property rights are statutory rights i.e., they are granted by law for any kind of creation of the mind. When an invention or a work of art is novel and original in nature the law provides the owner with exclusive rights to its ownership, use and licensing. Nepal has two major statutes governing the area of IP, the Copyright Act 2002 and Patent, Design and Trademark Act, 1965. Both these acts deal with issues of registration, duration and rights of the IP holder.

IP right covers areas far and wide including the work of chartered accountants. In Nepal intellectual properties are generally covered and assessed as an intangible property as a whole. So, it is somehow being audited by the auditors already but not explicitly as an IP audit. However time has now come that the intangible assets should be booked in the audit reports as specific IP audit. Auditors should be made aware of the emerging global concepts of valuating a company's IP and auditing it as they would tangible assets.

The prevailing IP laws are not so comprehensive to allow the accountants and auditors to make assessment of IP in the audit report. However, it can soon be made possible by law once the IP Bill pending in the parliament will be converted into law.

Due to growing importance of IP, it seems it should be bankable and loans should be provided by mortgaging it too. For such activities to be made

22 Prashar and Aggarwal, 2009.

23 Reilly and Schwihs, 1998.

possible the role of auditors and regulatory bodies like ICAN is indispensable. Therefore it is highly recommended that ICAN should take initiation and leadership for this purpose.

Major References

1. Intellectual Property Law, Society and Economic Development- Dr.Rudra Sharma, Yuddha Oli

2. Intellectual property strategy for competitive advantageRoy, D. (2013) ‘Intellectual property strategy for competitive advantage’, *Int. J. Intellectual Property Management*, Vol. 6, Nos. 1/2, pp.36–61.

3. Shanel Ponnoose & Valli Shobhana ., 2012, The Intellectual Property Audit, *Journal of Intellectual Property Rights,* Vol.7, pp. 427-424

4. IP Audit: Uncovering the potential of your business, European IPR Helpdesk

5. Tomasz Grzegorezyk, Journal of High Technology Management Research, https://doi.org/10.1016/j.hitech.2020.100374

6. Deepak Roy.,2013, Intellectual Property Strategy for Competitive Advantage. *Int.J.Intellectual Property Management, Vol. 6, Nos. ½.*

7. Amy E. Wilson & James J. DeCarlo., 2003, The Intellectual Property (IP) Audit: An Effective IP Assest Management Tool.,*The Society for Biomolecular Screening.*

8. Abdulrahman Y. Al-Aali & David J. Teece., 2013, Towards the Strategic Management of Intellectual Property: Retrospective and Prospective, *California Management Review,* pp. 15-30. ■

TAXATION OF MATERIAL LOSSES: THOUSAND POSSIBILITIES AND ONE TRUTH

> The assumption by tax officer is that the loss is not normal loss but deliberate underreporting of final production, which affects sales or turnover of the assessee, and results in under declaration of taxable income which in turn amounts to tax evasion. This leads a new kind of conundrum for the manufacturer in her role of a taxpayer.

I'll tax the street
(If you try to sit, sit) I'll tax your seat
(If you get too cold, cold) I'll tax the heat
(If you take a walk, walk) I'll tax your feet
(Taxman)

- George Harrison[1]

CA. Shailendra Uprety

(The author is the Member of ICAN and he can be reached at mail to: caupretу@gmail.com)

There is nothing that is not taxed. Material Losses in the form of waste, scrap, defectives, evaporation, dead loss or spoilage is inevitable in any manufacturing process. It effects the efficiency of the process and also has a negative effect on return on investment. Though the theory behind manufacturing may be rocket-science, however, in practice there is always divergence between theoretical production and actual output due to material loss. Curiously, material loss also has tax implications esp., when there is under production – a situation where final products are less due to high losses. The assumption by tax officer is that the loss is not normal loss but deliberate underreporting of final production, which affects sales or turnover of the assessee,

1 Taxman, Song by The Beatles

and results in under declaration of taxable income which in turn amounts to tax evasion. This leads a new kind of conundrum for the manufacturer in her role of a taxpayer.

Black letter of tax code

Material loss find no express mention in taxation laws as it is a technical matter which is not withing the expertise of tax office and is governed by sectoral agencies like department of industry and commerce. The reasonable production of finished goods (output) by use (input) of raw is fixed by some government agencies which are generally termed by expression such as 'recovery rates', 'output ratio', 'material consumption norms', 'standard input output norms (SION)' etc.. Any gap calculated by deducting the standard output minus actual production is a concern for revenue in three interrelated fronts: income (corporate) taxation, excise and sales tax (VAT). In case of excise of goods other than alcohol, the Excise Duty Act empowers the excise duty officer to assess excise duty if recovery (output) limit is not met where such limit of manufacture of goods or service has been specified.[2] Moreover, duty is also imposed if the volume of alcohol output is less that the amount input for distillation differs by more than one percent.[3] In case of income tax, underproduction (clandestine removal) is added as underreported sales and included under the broad ambit of section 7 of Income Tax Act, 2002 (2058)[4]. In the same lines VAT is recovered from such abnormal losses.

As the case is open textured, the matter is often tested in the court room with verdicts that sometimes contradict with each other. This matter is analyzed through catena of cased decided by the court cases.

a. GoN vs Surya Tobacco Company P. Ltd.[5]

The first case that we take up is the famous case of Surya Tobacco. The case related to under production of tobacco/ cigarette for the year 1995 (2051 B.S.). The matter was raised as an audit issue by the Auditor General and then taken up by PAC which directed for recovery of excise on suppressed production or assumed production.

The Supreme Court quashed the levy of excise on assumed production by stating that nowhere in the law it is stated that a certain amount of production will result from a particular quantity of raw material. In the absence of law on such assumed production, the decision to levy tax is arbitrary so the levy was quashed.

b. Highland Distillery P. Ltd.[6]

In this case, many other issues were also averred like bonus, interest, consultancy expenses, etc. The matter for our concern is storage loss - though not directly related to manufacturing process. The taxpayer claimed that as per the store records stock of packaging materials that were lying in the godown had been damaged, therefore, the amount was claimed as expenses in financial statements. If the damaged materials were shown in the stock, then it would not depict the true financial position of the stock materials.

The tax office disallowed the expenses on the ground that the taxpayer has claimed such expenses without proper basis and justifications. The onus of proof that such goods are destroyed lies with the taxpayer and the taxpayer has not able to adduce evidence as per Evidence Act, 2031.[7]

The Case was decided by the Revenue Tribunal in favor of the assessee. On appeal to the Apex Court, the Apex Court also gave the verdict in favor of the assessee. Grounds of decision was that the amount of loss was within reasonable limit considering the nature and quantity of production and was claimed as per the report

2 Section10D(a)(f) of Excise Act, 2002 (2058)

3 Section10D(a)(g) of Excise Act, 2002 (2058)

4 Section 7(1) of Income Tax Act, 2002 (2058): The profits and benefits made by any person in any year from any business shall be the income of that business of that person in that income year.

5 *Ministry of Finance, Government of Nepal vs Surya Tobacco Pvt. Ltd.*, D. No. 8214

6 *Large Taxpayer Office vs Highland Distillery P. Ltd.*: Case no. 072-RB-01499 relates to levy of income tax for the year 2058/59; case no. 072-RB-0151relates to VAT.

7 Section 25 of Evidence Act, 2031: Burden of proof of proving an offence: The burden of proof of proving that the accused has committed the offence in a criminal case shall lie on the plaintiff.

of store department regarding loss of packing materials. Moreover, such expenses[8] are allowed as per Rule 51 of Excise Duty Rules, 2059 (2002).[9]

c. Kamala Rolling Mills P. Ltd.[10]

The Department of Industry (DOI) had published Material Consumption Norms Vol 1 B.S. 2063 regarding the quantity ratio of raw materials and finished goods in manufacturing process for various items. As per the Norms, 106 kgs of Mild Steel (M.S.) Billets were required for manufacturing 100 kg of M.S. Rod. The Mills reported high wastage and underproduction of M.S. Rod.

The tax office added income on the assessable income as per section 7(1) of the Income Tax Act, 2058, moreover, additional VAT and Excise duty was also levied to the extent of underproduction by reasoning that as the Norms came into force from 2063, the same is applicable to the said industry. Further tax office averred that the taxpayer has not been able to furnish evidence of excess wastage as per Evidence Act. On the other hand, the taxpayer cited the preamble of the Material Consumption Norms which read as below:

These determined norms are based on technology, type of raw material used and manpower engaged in production processes. Changes in any of these parameters may affect the norms.

In the same line, the high amount of waste and scrap was due to factors such as load shedding, poor quality of power/ voltage & fluctuation in electricity supply, lack of fully automatic plant etc. Furthermore, the Norms were prepared by DOI for administrative and customs purpose not for the purpose of excise, VAT and income tax.

The case was decided in favor of the Mill by the Revenue Tribunal as the production was within the set limit. However, the tax office appealed against the decision to the Supreme Court. The Apex Court dealt in length regarding the power granted by the Excise Act to fix recovery rate and the position of the Material Consumption Norms published by DOI. The Apex Court stated that unless proved otherwise, the norms established by an authorized government body, by adhering to certain procedures and methods, cannot be assumed to be unreasonable. The standards published by one government body (DOI by virtue of its technical expertise can be referred to by another government body (Excise Department), and the recovery rate published accordingly cannot be said to be otherwise. The Material Consumption Norms Vol 1 B.S. 2063 has been followed since its publication in the year 2063 (2007 AD). The assessee has not been able to challenge the norms by stating that it is unreasonable and impractical, nor has it stated any remarks in its financial statements regarding such abnormal loss. Moreover, in the case of *Buddhi Ram Dhital*[11] it has been decided by the Apex Court that the wastage rates determined by authorized regulatory body cannot be questioned without adequate basis and reasons. The wastage may be higher but tangible evidence should be produced as proof. The taxpayer has shown recovery of 91 percent as against 94.34 percent recovery set by the Norms. Therefore, the underproduction of 3.34 percent is assumed to be produced and sold by the assessee. Therefore, addition of such underproduction in taxable income and levy of tax on such addition including excise and VAT is in accordance with the law.

d. Pasupathi Iron and Steel P. Ltd.[12]

In this case the taxpayer reported under production of M.S. Rod against the standard set by Material Consumption Norms Vol 1 B.S. 2063. The

8 Attention is drawn regarding slight divergence with Rule 51 in that the Rule deals with loss of liquor, while the Highland Distillery case is regarding loss of packaging materials.

9 Rule 51 of Excise Duty Rules, 2059 (2002): Remission of shortfall stock: (1) In cases where there has been shortfall in the stock of Liquor up to one percent because of evaporation or obscuration or leakage or bottling, the Licensee producing Liquor shall submit for remission by stating such shortfall in the monthly returns to Excise Duty Officer.

10 *Large Taxpayer Office Vs. Kamala Rolling Mills P. Ltd.* Case no 072-RB-0333 relates to income tax assessment for F.Y. 2066/67; Case no. 072-RB-0337 relates to VAT assessment and case no 072-RB-0338 relates to Excise Assessment.

11 *Buddhi Ram Dhital Vs Sai Baba Gas Udhyog P. Ltd. (2067-CR-0234)*

12 *Inland Revenue Office, Dharan Vs. Pasupathi Iron and Steels P. Ltd.* Case no 073-RB-0009 relates to excise duty assessment for F.Y. 2065/66; Case no. 073-RB-0009 relates to F.Y. 2066/67.

assessee stated that it was not aware of the norms published by DOI on 2063 BS and was producing M.S. Rod as per the guidelines published by DOI on 2058 B.S. The Apex Court ruled that the plea by the assessee that it was not aware of the new norms is not tenable. Further the Apex Court quoted the decision in case of Everest Iron Steels[13] where in it was stated that "*The Tax Office has disallowed excess wastage by comparing it with proportion of other industries. If the wastage reported by the taxpayer is accepted only on the records maintained by the taxpayer, then the taxpayer may report higher wastage which may result in possibility of tax avoidance. Therefore, norms should be formulated in this regard*".

e. Sushil Vanaspati P. Ltd.[14]

Sushil Vanaspati had been producing vanaspati ghee oil from crude palm oil by using physical refining plant. As per the norms set by DOI, from 100 kg of crude palm oil, 92.2 to 94.2kg of ghee and oil (main product), 3.5 to 5.5 kg by- product and 2.3 kg scrap would be produced. The taxpayer submitted income tax returns by claiming more waste than the norms and as a result, the tax office assumed excess of waste to be sold at local market at average sales price of Rs. 30 per kg and demanded tax on the same.

Sushil Vanaspati pleaded that recovery and wastage depends on the quality of raw materials, working condition of machinery, duration of establishment, temperature, efficiency of staffs and workers and the recovery rate as stated by DOI is only a theoretical production and actual production may differ due to differing conditions.

When the matter was averred in Revenue Tribunal, the assessment by tax office was quashed. The Apex Court upheld the decision of Revenue Tribunal and quashed the tax assessment. The Apex court stated that the tax office has not refuted the amount of by-product disclosed by the assessee and has not been able to produce evidence as to what amount of by-product the taxpayer has produced and sold in local market. Moreover, the tax office has not been able to state in its assessment as to why the norms set by DOI for separate ~~purposed~~ must be adhered to by the assessee in the present case. Tax has been levied on assumed production which has not been produced by the assessee therefore the assessment was quashed.

f. Shivam Plastic Industries P. Ltd.[15]

In this case too, tax office has levied tax on under-production of finished goods, however when the case was averred in the Apex Court, the assessment was quashed by citing reasons that the tax office has not been able to refute the details of consumption of raw materials and quantity of finished goods which has been maintained as per accounting standards.

g. Saurav Food Products P. Ltd.[16]

Unlike other cases cited above which were concerned with manufacturing and production, this case deals with shortage and wastage of goods during transportation and loading and unloading.

In this case Saurav Foods filed return of tax for the year 2062/63. One of the items in expenses claimed related with shortage on movement/ transportation of rice, lentils, oil within and loading and unloading of goods. Tax office disallowed such claim on account of shortages. The matter was finally disputed in the Supreme Court where the lordships stated that even if the shortage claimed by the assessee is disallowed by the tax office, reasons as to why such allowance cannot be made must be provided. As a reasoned decision has not been made such assessment was quashed.

---

13 *Inland Revenue Office, Biratnagar vs. Everest Iron and Steels,* Income Tax (2049/50) (D. Date. 2066/09/20)

14 *Large Taxpayer Office Vs. Sushil Vanaspati P. Ltd.* Case no 070-RB-0046 relates with Income tax for F.Y. 2063/64; Case no 070-RB-0047 relates with VAT for F.Y. 2062/63; Case no 070-RB-0048 relates with Income tax for F.Y. 2062/63; Case no 070-RB-0049 relates with VAT for F.Y. 2063/64

15 *Large Taxpayer Office vs Shivam Plastic Industries P. Ltd.* Case no 071-RB-0056 relates with VAT for F.Y. 2061/62; Case no 071-RB-0057 relates with VAT for F.Y. 20059/60; Case no 071-RB-0058 relates with Income Tax for F.Y. 2059/60; Case no 071-RB-0059 relates with Income Tax for F.Y. 2061/62

16 *Large Taxpayer Office vs Saurav Food Product P. Ltd.* Case no. 070-RB-0066

h. Baba Vegetable Oil Industry P. Ltd.[17]

This case is similar to the case of Sushil Vanaspati P. Ltd. cited above. The taxpayer was engaged in manufacturing oil and ghee from crude palm oil. The taxpayer declared higher waste than the norms set by DOI, as a result the sales value of underproduction was added to the income of the assessee. The Revenue Tribunal decided in favor of the assessee and the matter was appealed by the tax office in the Supreme Court.

The Apex Court stated that the waste is a dead loss which may vary due to various reasons. Tax office should see whether losses are within reasonable limits or whether the losses are excessively high or low. Only after consideration of such factors a justifiable decision should be passed. As objective assessment of these factors has not been considered by the tax office, such assessment was quashed.

i. Narayani Rolling Mills P. Ltd.[18]

In this case, the taxpayer has shown recovery of 91 percentage as against the norms of 94.34 percentage. Therefore, excess wastage of 3.34 percentage is assumed to be deemed production and sold in the market and tax is assessed on the same.

The Apex Court decided the case against the taxpayer on the lines of *Kamala Rolling Mills P. Ltd.*[19]

Authority from an Indian Court

Ms. Jharkhand Ispat Private Ltd vs Union of India[20]

In the case of Ms. *Jharkhand Ispat Private Ltd,* the tax officer assessed tax based on the consumption of electricity of the factory of the assessee. The learned judge stated that:

Thousands of possibilities cannot be equated with one truth…The respondents can take the electricity consumption pattern as a corroborative piece of evidence, but, in absence of substantive proofs like-

(a) Details about the purchase of the raw material within the manufacturing units and no entries are made in the books of account or in the statutory records.

(b) Manufacturing of finished product with the help of the aforesaid raw material, which is not mentioned in the statutory records.

(c) Quantity of the manufacturing with reference to the capacity of production by the noticee unit.

(d) Quantity of the packing material used.

(e) The total number of the employees employed and the payment made to them.

(f) Ostensible discrepancy in the stock of raw materials and the finished product.

(g) Clandestine removal of goods with reference to entry/ exit of vehicles like Trucks etc. in the factory premises.

(h) If there is any proof about the loading of the goods in the Truck, like weight of truck etc. at the weighbridge, security gate records, transporter documents such as lorry receipts, statements of the truck drivers, entries of the trucks/vehicles at different check-post, different types of forms which are supplied by the Commercial Tax Department, like Road Permit supplied by the commercial tax department, receipts by the consignees etc. These documents ought to have been collected by the respondent-department, if at all, they are interested in collection of the correct central excise duty from the noticee upon whom or upon which allegation of clandestine removal of the finished product is levelled.

---

17 *Large Taxpayer Office vs Baba Vegetable Oil Industry P. Ltd.* Case no 071-RB-0262 related to income tax for F.Y. 2063/64; Case no 071-RB-0263 related to VAT for F.Y. 2062/63; Case no. 071-RB-0264 related to income tax for F.Y. 2062-63; case no. 071-RB-0265 relates to VAT for F.Y. 2063-64

18 *Large Taxpayer Office vs Narayani Rolling Mills P. Ltd.* Case no. 074-RB-0272 relates to Excise Duty for the F.Y. 2066/67; Case no. 074-RB-0273 relates to Income Tax for the F.Y. 2066/67

19 Supra note 10

20 *Ms. Jharkhand Ispat Private Ltd. vs Union of India*, Jharkhand High Court, 9 March, 2017 W.P.(T) No.1260 of 2017

The learned Judges further mentioned that "*The law is well settled that in every case of alleged clandestine removal, the onus is on the Revenue to prove what is alleges with positive and concrete evidence. In the absence of any positive evidence brought by the Revenue to discharge its onus, the impugned order cannot be sustained…Whenever arbitrariness is present, equality is absent. Equalities and arbitrariness are strong enemies of each other. When equality is present, arbitrariness is absent*". The assessment of tax based on the consumption of electricity was quashed.

Saradha Terry Products Ltd Vs. Commissioner of Central Excise[21]

In this case it was decided that in absence of evidence of removal of excess yarn or finished goods without payment of duty, duty demand not justified purely on basis of input-output norms (SION) without adequate and corroborative evidence of excess utilization of cotton yarn or diversion of yarn.

Conclusion

In self-assessment system of declaration of income, it is assumed that, a taxpayer maintains transparent books of account and file accurate tax returns. If the Tax Department wants to refute the filings of the taxpayer, then the onus lies on the Department to produce sufficient evidence to disallow the claims of the taxpayer. Therefore, if the taxpayer declares **her** production which diverges from the norms fixed by some government agencies, then just because the recovery (production) rate is different than the theoretical standards, then it is not reasonable and justifiable to make assessment on the assumption that the assessee has suppressed production figures or has clandestinely removed goods and sold the goods in the open market without payment of taxes. Taxation of excess material losses find no express mention in tax codes.[22] Moreover, taxation of presumptive basis is arbitrary. Furthermore, no consistency is observed in the case laws decided by the Supreme Court[23].

Indeterminate laws and inconsistent judgement of the Supreme Court has created uncertainty in the minds of a taxpayer. Every taxpayer needs to be pre-informed regarding the rules of the game which is couched as principle of certainty; constant change of goal posts will add distress to an honest taxpayer.

Benefit should be provided to a taxpayer who is playing within the four corners of the law.[24] However, each case must be judged on its merits. C*eteris paribus,* if excessive or unreasonable wastage or material losses are shown, then then it is a red flag of some tax evasion. More clarification from the tax department and a consistent approach of the courts are required for settlement of doubts and uncertainties among taxpayers.

21 *Saradha Terry Products Ltd Vs. Commissioner of Central Excise, Salem-2015 (327) ELT 675 (Tri-Chennai)*

22 No taxation without representation or taxation only in accordance with the law must be strictly abided.

23 In the cases of Surya Tobacco, Sushil Vanaspati, Shivam Plastic Industries and Baba Vegetable Oil Industry referred above, the Apex Court has decided the case in favor of the assessee, while, in case of Kamala Rolling Mills and Narayani Rolling Mills, the verdict is against the taxpayer.

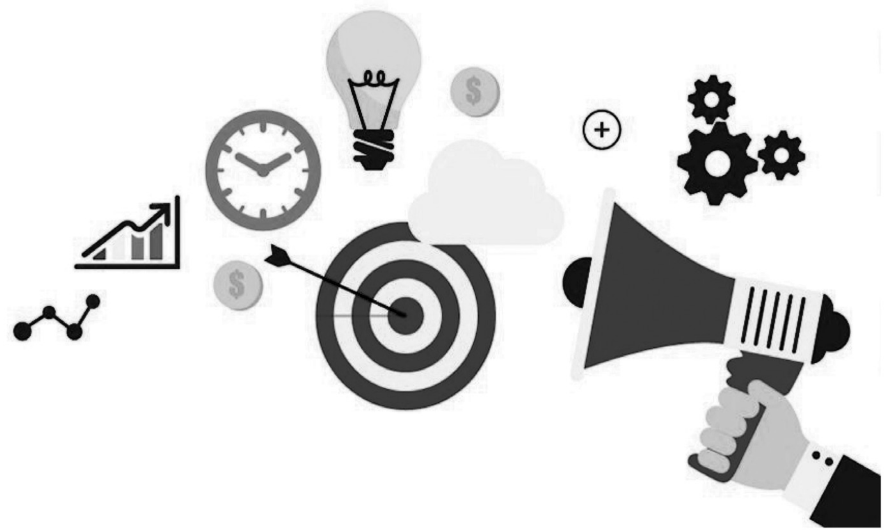
24 Every man is entitled, if he can, to order his affairs so that the tax attaching under the appropriate Acts is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow tax-payers may be of his ingenuity, he cannot be compelled to pay an increased tax. *Inland Revenue Commissioners v. Duke of Westminster* [1936] A.C. 1; 19 TC 490

SOME THOUGHTS ON DEVELOPMENT APPROACH FOR NEPAL

"Society of International Development defines development as the process that creates growth, progress, positive change or the addition of physical, economic, environmental, social, and demographic component. Similarly, Merriam – Webster dictionary explains development as the act or process of growing or causing something to grow or become larger or more advanced."

CA. Umesh Rijal

(The author is the Member of ICAN and he can be reached at mail to: rijal255@gmail.com)



What is Development?

Society of International Development defines development as the process that creates growth, progress, positive change or the addition of physical, economic, environmental, social, and demographic component. Similarly, Merriam – Webster dictionary explains development as the act or process of growing or causing something to grow or become larger or more advanced. We can simply understand development as to progress, and to move over the next plateau from the present plateau, it is to change the predicament towards the better situation. As human beings, we have a single goal in all of our lives – i.e. to grow or develop day by day, and our biggest escaping is to remain in the status quo. Our entire history and present circumstances are the results of the hunger for development that our ancestors sought. Being such an ambitious being, it is almost not possible for us to stay at the same level as much as we want or believe that we want. There are various dimensions of development: physical development, psychological development, cognitive development, technological development, economic development, social development, cultural development etc.

However, none of those developments could be achieved in isolation: They must be brought together and achieved simultaneously. Our aim in this article is to focus on economic development, and we are leaving other dimensions aside for the purpose of our discussion.

Current Scenario of World Economy and Nepalese Economy

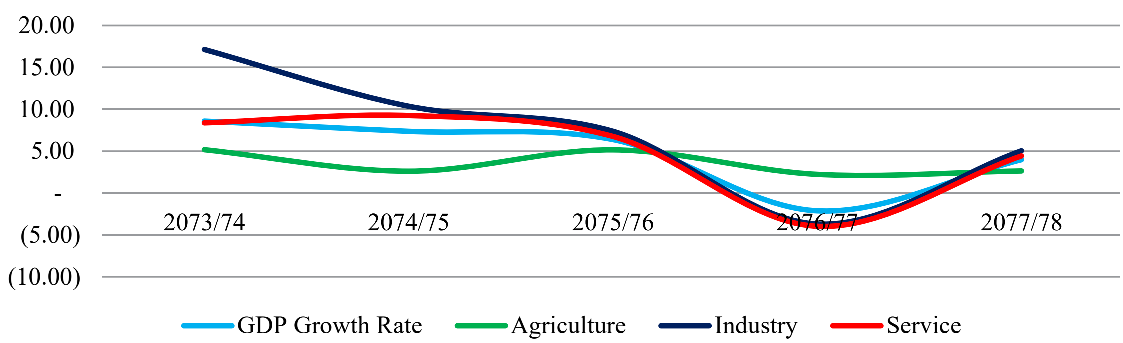
Due to COVID – 19 pandemic that had started since December 2019 from the Wuhan city of China, which still persists worldwide and no solution to eradicate it has been found yet, the size of the global economy is projected to get shrunken by 3.2% as compared to the pre – pandemic situation. Despite the projection of growth of economy of the advanced countries by almost 6.8% in case of USA and 8.5% in case of China, the uneven pace of recovery from the pandemic is expected to halt the overall growth of the global economy (The World Bank, 2021).

For any economy, some of the parameters for economic development are (BBC, 2021)

- Gross Domestic Product (GDP): total value of goods and services produced by a country in a year
- Gross National Product (GNP): total economic output of a country, including earnings from foreign investments
- GNP per Capita: GNP divided by the population of a country
- Inflation: measures how much the prices of goods, services, and wages increases each year; high inflation is a bad indicator that reflects the government does not have much control over the economy

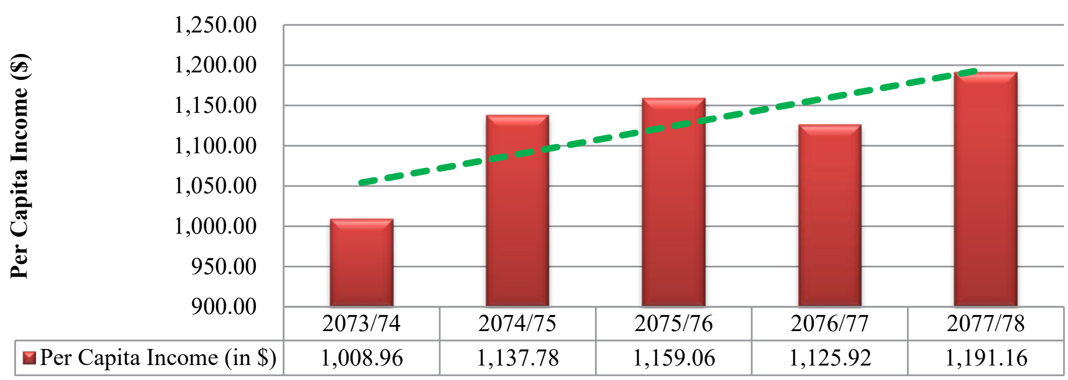
NRB, in the Monetary Policy for FY 2078/79, has projected that the growth rate of GDP of our country would be 4.01% in FY 2077/78, which is almost half the growth rate of pre – pandemic period, and still the data seems highly optimistic given the current predicament of Nepal due to COVID and our response ability against it. Likewise, situation of **per capital income** of Nepal is meager than the growth rate of GDP projected by the government; let us look at the graphs based on the data from the Government (Nepal Rastra Bank, 2078):

Growth Trend of GDP of Nepal in the last 5 Years



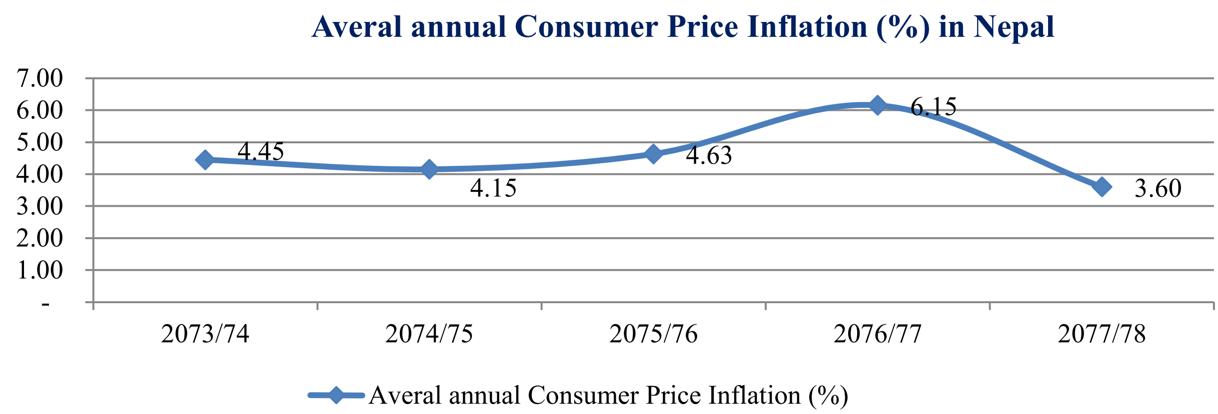
Source: World Bank Data

Trend of Per Capita Income of Nepal



Source: Data Extracted from Ministry of Finance

With chances of series of waves of COVID - 19, the fear among people is high and inflation has fallen to the lowest point - which is less than that of India which is expected to stand at 3.60% (Nepal Rastra Bank, 2021). The reason behind the falling rate of inflation is that people are becoming more conscious about how they spend their money - and have started to save for the future due to the current pandemic situation that has been hovering over us since 2019 December.



Source: Data Extracted from Monetary Policy of Respective Years

Composition of GDP of Highly Developed Economies and of Nepal and Other Similar Nations?

We have extracted the data from World Bank's website related to the GDP of countries and its composition and, we have got valuable information which is presented below (The World Bank, 2019):

1. Composition of GDP of countries where agriculture has negligible Contribution to GDP:

Ranking as per GDP Size	Country	GDP ($ Billions)	% of Agriculture in GDP	% of Industry in GDP	% of Service in GDP
1	United States	21,433.20	1.00	19.00	76.90
4	Japan	5,081.80	1.00	29.00	69.30
5	Germany	3,861.10	1.00	27.00	62.60
8	United Kingdom	2,829.10	1.00	17.00	71.30
22	Switzerland	703.1	1.00	26.00	70.90
25	Belgium	533.1	1.00	19.00	69.50
26	Sweden	530.9	1.00	22.00	65.20
30	Austria	445.1	1.00	26.00	62.80
34	Ireland	388.7	1.00	35.00	56.70
40	Denmark	350.1	1.00	21.00	64.80

Nations where agriculture sector has only 1% contribution in their GDP are highly developed and advanced. The lifestyle of the people living there is considered the benchmark for the rest of the world. The highest contributor to the GDP in such economies is made by the Service Sector following by the Industry.

2. Composition of GDP of countries where agriculture has only 0% Contribution to GDP

Ranking as per GDP Size	Country	GDP ($ Billions)	% of Agriculture in GDP	% of Industry in GDP	% of Service in GDP
36	Singapore	372.1	-	24.00	70.40
37	Hong Kong SAR, China	365.7	-	6.00	88.70
74	Luxembourg	71.1	-	11.00	79.20
87	Macao SAR, China	53.9	-	4.00	94.20

Where there is no scope of agriculture, again, the highest contributor is Service Sector – and all of these nations are highly developed. It shows that agriculture is not the only way for the development of any nation.

3. Composition of GDP of countries where agriculture has more than 30% Contribution to GDP:

Ranking as per GDP Size	Country	GDP ($ Billions)	% of Agriculture in GDP	% of Industry in GDP	% of Service in GDP
103	Nepal	30.6	24.00	13.00	50.60
165	Sierra Leone	4.1	54.00	5.00	31.10
188	Guinea-Bissau	1.3	53.00	13.00	37.20
144	Chad	11.3	43.00	14.00	40.50
174	Liberia	3.1	39.00	12.00	48.90
137	Niger	12.9	38.00	20.00	36.10
121	Mali	17.3	37.00	21.00	33.50
190	Comoros	1.2	33.00	9.00	53.30
178	Central African Republic	2.2	32.00	21.00	43.60

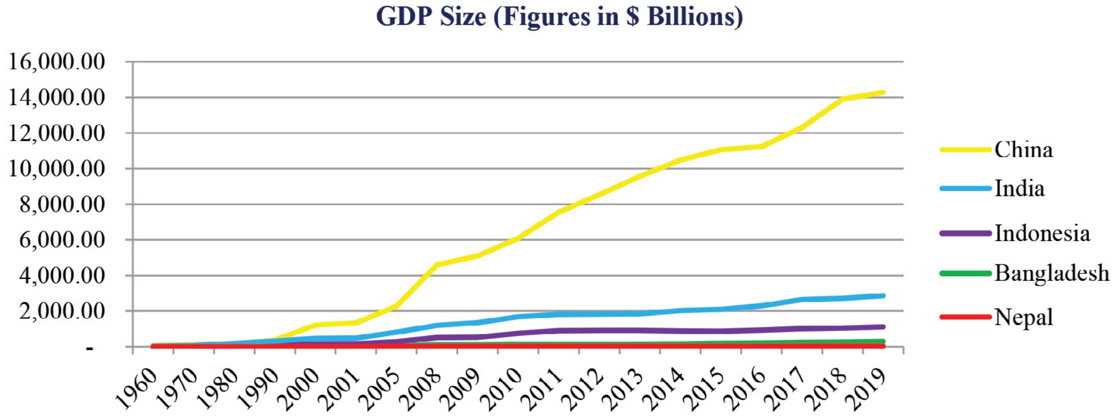
Countries where the contribution of agriculture is more than 30% of the GDP are considered least developed, and often the people there suffer from famine and health related issues. Such countries are living on the aidand the living standard of the people there is very low as compared to the advanced economies.

4. Composition of GDP of developing countries similar to Nepal or neighboring to Nepal:

Ranking as per GDP Size	Country	GDP ($ Billions)	% of Agriculture in GDP	% of Industry in GDP	% of Service in GDP
2	China	14,342.90	7.00	39.00	53.90
7	India	2,868.90	16.00	25.00	49.40
18	Indonesia	1,119.20	13.00	39.00	44.20
43	Bangladesh	302.6	13.00	30.00	52.80
45	Pakistan	278.2	22.00	18.00	53.90
47	Vietnam	261.9	14.00	34.00	41.60
70	Sri Lanka	84	7.00	27.00	58.20
73	Myanmar	76.1	21.00	38.00	40.70
103	Nepal	30.6	24.00	13.00	50.60
176	Bhutan	2.5	16.00	36.00	43.40

If we contemplate upon the data of countries neighboring to Nepal and similar other nations, agriculture has contributed less than 20% of the overall GDP in case of all of the nations considered developing and on the path to development. Service and industry have highest contributions.

5. **Size of GDP of various countries in the last 60 years:**



The above graph is self – explanatory: since the last line on the graph represents Nepal and our growth trend of GDP. China's growth rate of GDP is very high and unparalleled: whereas, India and Indonesia have somehow similar growth trend of the GDP, even GDP of Bangladesh has shown growth in the last decade only.

6. **What Nepal is focusing on?**

In 2071 B.S., the Government of Nepal introduced Agriculture Subsidy Loan vide Budget of FY 2071/72 so as to resolve the issues of increasing unemployment and brain drain of youth from the rural areas of Nepal and attract youth in commercial farming, animal husbandry, cold storage, agriculture warehousing, slaughter house etc. (Nepal Rastra Bank, 2071) The primary purpose of introducing this facility in addition to various other schemes devised by the government is to increase agro – productivity, increase contribution in GDP, and generate sizable number of self – employment as well as employment opportunities. However, as per the data of NRB 2078 (Nepal Rastra Bank, 2021), total amount of credit extended to the agricultural sector is around NPR. 425.83 Billion – out of this amount NPR 106.98 Billion is under interest subsidy program; whereas its contribution to the GDP is only NPR 628 Billion. It shows that the gross output/efficiency ratio of the credit extended in terms of GDP contribution is 148%; whereas, service sector has the efficiency ratio of 225%. Weare actually underutilizing the valuable resources like funds, time, human capital etc. by focusing largely in agriculture sector which could be better utilized in other sectors.

The Total import of agriculturalproducts and other related items in FY 77/78 amounted to NPR 275.73 Billion. Out of such import, import of vegetables only accounted for NPR 38.50 Billion, import of animal and vegetable fat amounted to NPR 82.91 Billion, import of dairy and dairy products amounted to NPR 2 Billion (Customs Department, 2078). Despite such huge flow of credit facilitiesand other subsidies, our import of agricultural products seems to be in increasing trend rather than decreasing gradually which is also a concerning issue to which we must focus on.

The Government seems to have believed that merely providing the interest subsidy loan on almost ad-hoc basis is more than sufficient to increase the agricultural output; the problems in agricultural sector are lack of effective credit to the farmers (despite huge amount of loans extended to the agriculture sector – major portion does not seem to be utilized for the agricultural sector), lack of irrigation facilities, lack of marketing facilities, lack of proper supply chain management system, influence of multiple layers of intermediaries and cartels, lack of proper infrastructure like storage, technology, and knowledge transfer, lack of agricultural research, defective land tenure system (land pooling system of farming would really increase the productivity and output rather than individual farming style that is being prevailing in Nepal) (Quick Guide 4 You, 2021).

We are focusing on agriculture – which has become old and obsolete these days. The focus on agriculture was suitable back up to the *Panchayat* era; but we are still focusing it and making it a major political debate in each election. There might be a case that much of our voters are from the agricultural background and rural areas, so as to secure their votes – political leaders might have used the slogan and propaganda of agriculture for the developed Nepal. Of course, this does not mean we must abandon it – since, we still need food to survive; we must not allocate much resource for agriculture which has very low yield and contribution to the overall development of Nepal.

Despite the more stable contribution of agricultural sector in the GDP of Nepal, as per the GDP growth rate chart presented above, the overall GDP of the nation has plummeted due to the pandemic situation. The same chart reflects that the service sector is most affected by the pandemic and similar deduction can be made to the industry as well; which has resulted in the fall of overall GDP of the nation. We can safely reach at an opinion that despite the effort of entire nation on agriculture, it will have minimal contribution to the GDP and thus will have minimal support to the development of our nation and for that we need to focus on services and industries. Still, our resources are in low quantity, and we are far behind in technological aspect; it would be easier to focus on services and generate various derivatives of different types of services as well.

7. What Nepal should focus on?

The entire focus of this article is to generate various ways which might have little more possibility of developing our nation than the decades long tried out way – agriculture. However, it must never be read and understood that this article tries to condemn the agricultural sector and farmers because, we cannot imagine life without agricultural product. Our days start with produces from agriculture and ends with the same.

So, what is it that we could focus on? This is not a question which anyone could answer easily or which has some concrete and straightforward answer as well. However, this article has tried to assemble some ways which have been tried by various other nations and which might be feasible and viable in Nepal given its geographic, demographic and economic distribution:

1. **Developing effective and efficient land tenure system**

   Land ownership structure in Nepal is not simple and there are various types of ownership structure prevalent currently. We can not find an effective allocation of land into agricultural, residential, commercial, industrial etc., which has made the matter worse. Since, our fertile land is being turned into plots for residential and commercial purposes and it is not going to stop if some measures are taken into.

   If someone has to start a commercial agricultural farm, thegovernment has made no provision to allocate suitable land for such entrepreneur (s). Either such person has to buy land or lease from the other persons. This practice of land system in Nepal is one of the major roadblocks into developing large scale commercial farms.

2. **Promoting Cooperative Model of Agribusiness**

   Amul and *Mother Dairy* are some of the biggest cooperatives in India engaged in dairy industry. Their members are farmers all over India and due to such industry, they are able to generate sizable income. Cooperative model gives the group strength and provides security in case of failure of business as well. It also provides the opportunity of knowledge and experience sharing alongside the benefit of hiring better technology at the lower cost by the farmers. Farmers in Nepal are not well versed with the latest technology; they need proper support and technical guidance and they are in the dire need of efficient and effective supply chain management system. All of these issues could be solved by the cooperative model of agribusiness.

3. **Developing long term plan for establishing Agro – SMEs**

   Small and Medium Enterprises (SMEs) play an important role in the Japanese Economy. It has fueled the economic growth after the World War II, and is still a vital economic sector accounting for almost 70% of national employment (OECD, 2017). 3.5 million SMEs account for 99.7% of the total number of companies in Japan – reflecting the importance of SMEs in one of the largest and efficient economy of the World (SME Support Japan).

   Majority of the Nepalese population are engaged in the agricultural sector and it gives us the huge potential to take it to the next level by promoting and preserving the culture of entrepreneurship to process primary agricultural products into further products. It will generate more employment, reduce our import of various products and make value addition in the real economy. It will also aid towards the self – sustaining vision of Nepal.

4. **Focusing on SMEs**

   Geographical structure of Nepal makes transportation of goods difficult and costly. It would be most effective if, instead of transporting goods from one location to another location, producing such goods in different location for the better supply chain management. It will foster the SMEs and develop entrepreneurial spirit among the people. If different regions become self – sufficient in various things, it would reduce the cost and help the overall economy of generating employment and sizable contribution to the GDP. SMEs represent about 90% of the businesses and 50% of the employment worldwide (The World Bank). Further, our increase in working population is pushing us to the verge of focusing more on SMEs to absorb and retain the brain drain of youth.

5. **Outsourcing Hub**

   The focus on information technology education in Nepal in the last decade has generated a large workforce in the field of information technology and most of them are working abroad. If we develop infrastructure and attract large companies of the world to outsource various tasks to Nepal, it could generate thousands of employment and make a remarkable contribution in the GDP as well. India, after liberalization in 1990s, has seen a remarkable growth in similar outsourcing industries popularly known as Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO). It will also increase the consumption of electricity which is essential in the coming years so as not to waste the produced electricity.

6. **Increasing Consumption of Electricity**

   We are going to have a huge surplus of electricity in the coming decade. Hence, we must plan from now to generate ways to consume electricity and reduce the import of fossil fuel. Establishing charging stations for electric vehicles all over Nepal, reduction in import duties to various electrical appliances, reducing electricity tariff rates, arranging ways of providing uninterrupted power supply, and promoting electricity as the primary source of energy are some of the ways to consume electricity and save money by reduced import of other sources of energy.

7. **Tax Deductible and High Yield Saving Bonds**

   It is imperative as well as necessity to introduce various types of tax deductible bonds and high yield saving bonds so as to reduce the expenditure of the general public and increase the long term funds available for the development of infrastructure projects. It will shape the saving habit of the entire nation. When the infrastructures are there, the development and economic activities will gradually start and people will start to engage in various economic activities.

8. **Branding of Local Products**

   It is not that we are not producing anything at all in Nepal – we lack effective branding. Branding is actually a process of giving a meaning to specific organization, products, services, processes etc. by creating and shaping a specific image of brand in the mindset of the consumers. And, the brand is the name, term, design, symbol or any other feature which provides unique identity to the goods/services than the other similar goods/services available (Marion, 2015). in Nepal, goods are produced locally and consumed locally in a confined market rather than being sold to the wide ranges of customers with a unique brand name. Such products are usually of short term nature rather than being there for the longer haul. The problem with this process is that – it leads to the premature shut down of the products from the market, and new product must replace that product with the entire new setup and investment. We are actually hurting our capital base not by branding and making a product live much longer than it is living as of now. The most contemporary example of effective branding in Nepalese context is of the shoe branded under *Goldstar.* The sales have increased and generated thousands of employment and self – employment opportunities for Nepalese youth.

9. **Legalizing Marijuana**

   It is time that Nepal takes an active part in legalizing marijuana for medical and scientific purposes. United Nations, on 2nd December, 2020, removed cannabis from the Schedule of drugs where it had been put for 59 years (United Nations, 2020). The United States of America, which in the 70's, pushed countries to put ban on marijuana has been making billions of dollars per year on marijuana related businesses. In the USA only, the present size of the marijuana industry is $3.2 Billion which is expected to increase up to $12.5 Billion by 2025 AD (Medical Marijuana, Inc.).It can open an untapped market for Nepalese organic marijuana and it will definitely increase the number of tourists by manifold. However, stringent regulation and oversight from the concerned Department of the Government is necessary for curbing the malpractices.

10. **Tourism and Its Various Derivatives**

Bhutan has seen tourists in a number almost similar to its own population despite the fact that it had opened for tourists since 1974 AD only (DrukJournal, 2018). If similar thing happened in our country, each person would get employment in Nepal and we would be tired of hosting tourists. However, this is not the case in Nepal, we are crying out loud for a million tourists per year. We could shift our major focus here.

Various different derivatives or flavors like work from Himalaya, nature tourism, Himalayan marathon, cultural tourism, organic agro tourism, spiritual tourism etc. may be introduced and attract new generation of tourists. It is the one sector which the god has gifted us and yet we are not fully recognizing its potentiality. Countries like Singapore, UAE – where nature has not provided much – have built the necessary infrastructure to attract millions of tourists per year. We need not have to build so many infrastructures like they have built; we only need basic infrastructures like basic transportation, basic healthcare, safety of the tourists and preservation of the natural flora and fauna as well as historical sites. Hence, it is of paramount importance that our government should take solemn note on it and develop strategies to leverage from the gifts that nature has provided to us.

11. **Reengineering of Bureaucratic System of Nepal**

Since the people's movement of 2046 BS, Nepal has not seen a stable government which had served a full tenure of 5 years yet. It is our biggest hindrance towards the path of economic development. Whereas, the bureaucratic system of any country is considered as the permanent government which is entrusted with the responsibility of effective implementation of the policies.

However, in our country, the bureaucratic system, we have not seen much development in the efficiency of its workings. The only thing the most public servants are concerned is with the job at the department where there is higher likelihood of economic activity and the job at the convenient location. Still, we are hopeful that the increased use of IT and enhanced level of financial transparency would force civil servants to become more honest and that would help in the overall development of Nepal. Investor and entrepreneurs get frustrated from the very first day due to the treatment they get at the government offices and the hassles they have to face therein. Nepal has been ranked 94th out of 190 nations around the Globe on ease of doing business, which also reflects the hassles an investor has to face – it can be directly linked with the inflow of FDI in Nepal.. The major reasons behind not seeing much flow of FDI in Nepal are these kinds of administrative hassles while establishing an industry, while paying taxes (Nepal ranks 175th in ease of paying taxes), enforcing various contracts (Nepal ranks 151st in ease of enforcing contracts) etc. (Doing Business)

Hence, it is imperative that the government officials should serve the general public rightly since their remunerations come directly from the taxpayer's money and the general public deserve better service than they are getting at present subject to the law of the land.

Conclusion

Of course, the above listed recommendations would not serve much in the development of Nepal unless and until they are put in action. These are some of the ideas only and there are much more we have at our disposal which could transform the level of economic growth of Nepal. And to do so the government and the public must act in coherence; people are going to lose faith over the system if system continues to unjustly put impediments on the general public by making things complicated. It is the duty of the government to make system simple and provide ease of doing things with the enhanced transparency. Government needs to put a better system at place, people will follow the system and do the rest of the job for the growth of overall economy. Let us hope that the composition of youth that is going to prevail for some decades from now on is going to blink the light at the end of the dark tunnel that we are currently travelling as compared to other nations. All people are born equal. However, our environment and the system are responsible whether or not the people are going to live the life that they deserve to live.

We must not let the problems overcome our attitude; rather itis time to put thoughts into actions. Rome was not built in a day. We shall build Nepal and hand it over to the next generation so that the brain drain and the dream of escaping Nepal would become a fairytale. It is my hope and I hope each of us hope the same. We can do whatever we can from our end. Let us avoid making Dudhpokhari a Paanipokhari.

Bibliography

BBC. (n.d.). *Bitesize*. Retrieved August 19, 2021, from BBC: https://www.bbc.co.uk/bitesize/guides/zs7wrdm/revision//3

Customs Department. (2078). *Total Import Data FY 77/78*. Kathmandu: Customs Department, Governemnt of Nepal.

Doing Business. (n.d.). *Ease of Doing Business Rankings*. Retrieved September 06, 2021, from Doing Business: https://www.doingbusiness.org/en/rankings

DrukJournal. (2018). Retrieved March 22, 2021, from https://drukjournal.bt/transforming-the-economy-through-tourism/#:~:text=A%20Steady%20Growth,USD%2049.75M%20in%202016.

Marion. (2015, October 27). *What is Branding?* Retrieved September 05, 2021, from The Branding Journal: https://www.thebrandingjournal.com/2015/10/what-is-branding-definition/#brand-definition

Medical Marijuana, Inc. (n.d.). *Industry Overview*. Retrieved September 05, 2021, from Medical Marijuana Inc.: https://www.medicalmarijuanainc.com/marijuana-industry-overview.

Nepal Rastra Bank. (2078). *Annual Report 76/77*. Kathmandu: Nepal Rastra Bank.

Nepal Rastra Bank. (2021). *Current Macroeconomic and Financial Situations*. Kathmandu: Nepal Rastra Bank.

Nepal Rastra Bank. (2078). *Monetary Policy*. Retrieved 2078, from Nepal Rastra Bank: https://www.nrb.org.np/contents/uploads/2021/08/Monetary-Policy-2078-79-1.pdf.

Nepal Rastra Bank. (2021). *Monetary Policy FY 2078/79*. Kathmandu: Nepal Rastra Bank.

Nepal Rastra bank. (2071). *Nepal Rastra Bank*. Retrieved 04 20, 2078, from Nepal Rastra Bank: htttps://www.nrb.org.np

OECD. (2017). *Improving the Performance of Japan's SME Sector*. Tokyo: OECD.

Quick Guide 4 You. (2021, June 26). *Problems of Nepalese Agriculture*. Retrieved August 29, 2021, from quick guide 4 you: https://quickguideforyou.com/problems-of-nepalese-agricutlure/

SME Support Japan. (n.d.). *About Us*. Retrieved September 2, 2021, from SME Support Japan: https://www.smrj.go.jp/english/about.

The World Bank. (2021, June 8). Retrieved August 3, 2021, from The World Bank: https://www.worldbank.org/en/news/feature/2021/06/08/the-global-economy-on-track-for-strong-but-uneven-growth-as-covid-19-still-weighs.

The World Bank. (2019). *GDP (current US$)*. Retrieved August 06, 2021, from The World Bank: https://data.worldbank.org/indicator/NY.GDP.MKT.CD.

The World Bank. (n.d.). *SMEs Finance*. Retrieved September 2, 2021, from The World Bank: https://www.worldbank.org/en/topic/smefinance.

United Nations. (2020, December 2). Retrieved March 22, 2021, from https://news.un.org/en/story/2020/12/1079132.

Warren, T. (2020, October 9). *Microsoft is letting more employees work from home permanently*. Retrieved August 12, 2021, from The Verge: https://www.theverge.com/platfomr/amp/2020/10/9/21508964/microsoft-remote-work-from-covid-19-coronavirus. ■

JUDICIAL UPDATE

Income Tax Act, 2058

***Large Taxpayer Office**, Lalitpur Vs. Gorkha Brewery Pvt Ltd, Kathmandu*
Supreme Court Case: Income Tax (F/Y 2058/059)-068-CR-1263, Decision Date: 2075.12.25
https://supremecourt.gov.np/cp/assets/downloads/supreme_109315.pdf

1) Interest Expense on Loan:

1.1) Interest Expense on Loan Used for Investment:

The tax payer had borrowed a loan amount of NPR 5.00 Crore from a bank and paid its interest of NPR 41,51,425.00. The interest amount was claimed as business expense under **section 14(1)** of Income Tax Act, 2058 in its self-assessed Income Tax Return of F/Y 2058/059. At the same time, it had invested an amount of NPR 5.00 Crore at a tax exempted National Saving Bond.

Later on, at full audit, the Large Taxpayer Office (LTO) disallowed the deduction claim of such interest expense on the ground that the loan amount was used for investment, not for business. The tax payer appealed to the Revenue Tribunal (RT) against such decision of LTO. Then, the RT quashed the decision of LTO and upheld the claim of the taxpayer. So, the LTO appealed to the Supreme Court against such decision of RT.

CA. Pramod Lingden, PhD Scholar

(The author is a Fellow Member of ICAN and he can be reached at mail to: ca.pramodlingden@gmail.com)

The Supreme Court quashed the decision of RT and upheld the initial full assessment order of LTO stating that the investment in National Saving Bond does not relate to the business of the tax payer. Hence, the interest amount paid on such loan which is not used for earning income from business cannot be claimed for deduction as business expense under **section 13(c) read together with section 14(1)** of the Income Tax Act, 2058.

1.2) Interest Expense on Loan Used for Business:

In addition, the tax payer had borrowed next loan and paid its interest of NPR 12,23,497.00. The interest amount was claimed as Capital A/C WIP expense under **section 14(1)** of Income Tax Act, 2058 in its self-assessed Income Tax Return of F/Y 2058/059.

Later on, at full audit, the Large Taxpayer Office (LTO) disallowed the deduction claim of such interest expense. The tax payer appealed to the Revenue Tribunal (RT) against such decision of LTO. Then, the RT quashed the decision of LTO and upheld the claim of the taxpayer. So, the LTO appealed to the Supreme Court against such decision of RT.

The Supreme Court quashed the initial full assessment order of LTO and upheld the decision of RT stating that there is no dispute on the fact that the loan was obtained for business and its interest amount had been paid. The loan amount appears to have been used for the business transaction. Hence, the interest amount paid on such loan can be claimed for deduction as expense from the income of its business under **section 14** of the Income Tax Act, 2058.

2) Sundry Debtors Written Off Expense:

The tax payer had written off sundry debtors of NPR 33,04,350.00. The written off amount was claimed as expense under **section 25(2)** of the Income Tax Act, 2058 in its self-assessed Income Tax Return of F/Y 2058/059.

Later on, at full audit, the Large Taxpayer Office (LTO) disallowed the sundry debtors written off expense on the ground that evidences regarding the adoption of entire proper measures to recover the payment could not be obtained. The tax payer appealed to the Revenue Tribunal (RT) against such decision of LTO. Then, the RT quashed the decision of LTO and upheld the claim of the taxpayer. So, the LTO appealed to the Supreme Court against such decision of RT.

The Supreme Court quashed the decision of RT and upheld the initial full assessment order of LTO stating that at absence of factual evidences regarding the adoption of entire proper measures to recover the payment and confirmation of failure to recover it, there still appears possibility of recovering the debt amount. Hence, the sundry debtors written off amount cannot be claimed for deduction as expense under **section 25(2)** of the Income Tax Act, 2058.

3) Sales Promotion Expenses:

The tax payer had distributed its product of NPR 23,49,819.00 as complementary for sales promotion. The complementary amount was claimed for deduction as expense under **section 13** of the Income Tax Act, 2058 in its self-assessed Income Tax Return of F/Y 2058/059.

Later on, at full audit, the Large Taxpayer Office (LTO) disallowed the complementary expenses on the ground that such expenses are not related to generation of income. The tax payer appealed to the Revenue Tribunal (RT) against such decision of LTO. Then, the RT quashed the decision of LTO and upheld the claim of the taxpayer. So, the LTO appealed to the Supreme Court against such decision of RT.

The Supreme Court quashed the initial full assessment order of LTO and upheld the decision of RT stating that different schemes adopted by distributors for sales promotion with the intension of increasing consumption of company's products at market appears to be a normal business process. In addition, the expense disclosed under this complementary heading could not be accepted as abnormal and unreal. Hence, the complementary expenses accepting as expenses incurred for generating the business income can be claimed for deduction as expense under **section 13** of the Income Tax Act, 2058.

4) Dealer and Retailer Discount Expenses:

The tax payer had provided discount of NPR 1,90,85,222.00 to dealers and retailers. The discount amount was claimed for deduction as expense under **section 13** of the Income Tax Act, 2058 in its self-assessed Income Tax Return of F/Y 2058/059.

Later on, at full audit, the Large Taxpayer Office (LTO) disallowed the discount expense on the ground that basis for writing such expenses was not disclosed, agreement for such discount was not concluded between the tax payer and sellers (dealers & retailers), and purpose of the expense was not cleared. The tax payer appealed to the Revenue Tribunal (RT) against such decision of LTO. Then, the RT quashed the decision of LTO and upheld the claim of the taxpayer. So, the LTO appealed to the Supreme Court against such decision of RT.

The Supreme Court quashed the decision of RT and upheld the initial full assessment order of LTO stating that bill, receipt, agreement etc. to prove the discount expense were not found to have been submitted. Hence, at absence of clarity of factual details, the discount amount cannot be accepted as real expenses and thus cannot be claimed for deduction as expense under **section 13** of the Income Tax Act, 2058.

5) Royalty Expenses of Previous Year:

The tax payer had charged royalty expense of NPR 42,88,305.00 related to F/Y 2057/58 and claimed for deduction as expense under **section 13** of the Income Tax Act, 2058 in its self-assessed Income Tax Return of F/Y 2058/059.

Later on, at full audit, the Large Taxpayer Office (LTO) disallowed the deduction of royalty expense on the ground that such expenses of F/Y 2057/58 were not related to current F/Y 2058/59. The tax payer appealed to the Revenue Tribunal (RT) against such decision of LTO. Then, the RT quashed the decision of LTO and upheld the claim of the taxpayer. So, the LTO appealed to the Supreme Court against such decision of RT.

The Supreme Court quashed the decision of RT and upheld the initial full assessment order of LTO stating that expenses of previous year cannot be claimed for deduction as expense in current fiscal year under **section 13(a)** of the Income Tax Act, 2058. ■

NEWS

STRATEGIC REVIEW

Regulation and Supervision

Issuance of Guidelines on Anti-Money Laundering and Counter Financing of Terrorism, 2078

The Institute has issued Guidelines on Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT), 2078 with effective from 28th December, 2021. The guidelines have been issued in accordance with the provision of Money Laundering Prevention Act, 2064 and the issued guidelines is applicable to accounting professionals providing service on behalf of client or party and relating to transaction of following:

a. Real-estate,

b. Management of money, securities or other assets,

c. Management of bank, savings and deposits and securities,

d. Contribution and investment management during the incorporation and operation or management of corporate legal entities

e. Incorporation, registration, operation or management of corporate entities or corporate legal arrangements

f. Purchase or Sale of organizations or entities.

The guidelines can be accessed from the website of the Institute from the link given below:

https://en.ican.org.np/_browsable/file/policies/Guidelines_on_Anti-Money_Laundering_and_Counter_Financing_of_Terrorism.pdf

Education

Chartered Accountancy Examination, June 2021 Result Published

The Institute published the result of Chartered Accountancy Examination, June 2021 of CAP I, CAP II and CAP III level conducted from 8th to 18th August, 2021. Altogether, 6 students are qualified for the ICAN Membership. Details of students applied, appeared, passed (single or both group) and qualified in different level of CA Examination is presented below:

Level	CAP-I	CAP-II	CAP-III
Total Applicants	2,312	2,693	1,068
Total Appeared	1,981	1,852	830
Passed (Either Single or Both Group)	1,289	545	60
Qualified	1,289	331	6

Articleship Orientation Program

The Institute of Chartered Accountants of Nepal organized Second Batch of Articleship Orientation Program on 17th and 18th November, 2021 in Kathmandu for the students who have passed CAP II level examination of June 2021. The purpose of this orientation program was to enhance the skills and capabilities of aspiring Chartered Accountants pursuing articleship training by providing proper orientation and training on personality development, communication skills and professional behavior and culture at audit firms and client's offices.

A Glimpse of Article Orientation Program

This program was mandatory for all CAP II passed students for submission of their articleship deed to the Institute. The Institute also facilitated the students of outside valley by providing virtual platform to participate in the program. 300 students attended physical program while 24 students joined program virtually.

General Management and Communication Skills (GMCS) Training

The Institute started 19th Batch General Management and Communication Skills (GMCS) training from 21 November 2021 and its closing ceremony took place on 6th December, 2021 in Kathmandu. ICAN President CA. Yuddha Raj Oli distributed certificate to the participants in the closing ceremony.

A Glimpse of 19th Batch of GMCS Closing Ceremony

The purpose of this training is to impart knowledge among participants to make them capable of translating challenges into rewarding opportunities by applying emotional intelligence and soft skills in the working atmosphere. The objective of this program is to enhance the communication and interpersonal skills and to provide understanding of contemporary business environment and opportunities. Further, this program will be helpful for aspiring Chartered Accountants to prepare for a career in employment or practice by coaching them to be adaptable and accountable. This training program is a prerequisite for enrollment in Chartered Accountancy Membership.

Online Revision Classes for CAP II and CAP III Level Students Appearing in December, 2021 Examination

The Institute, with a view to facilitate its students in preparing their December 2021 examination, has conducted online revision classes for all CAP II and CAP III level Students from September 2021 till December 2021. The revision classes were attended by Students at different level as follows:

Level	Number of Subjects covered in Revision Class for December, 2021 Examination	Number of Students Reached To
CAP-I	1	47
CAP-II	6	804
CAP-III	2	173

(Note: Generally, 30 classes are allocated for every subject and concerned faculty conducts respective classes at different level)

Chartered Accountancy Examination, December 2021

The Institute has conducted Chartered Accountancy (CA) Examination for CAP-I, CAP-II and CAP-III level from 26th December, 2021 and concluded on 5th January, 2022. Examination had been conducted at eight different examination centers throughout Nepal namely at Kathmandu, Lalitpur, Bhaktapur, Biratnagar, Pokhara, Butwal, Hetauda and Chitwan.

Level	CAP-I	CAP-II	CAP-III	ACCA
Total Applicants	1,425	2,796	1,197	3
Total Appeared	1,281	2,348	1,030	2

CA. Membership Examination Result Published

The Institute has published CA. Membership Examination Result on 3rd December 2021. As per the published result altogether 83 examinee were declared pass in examination. 407 examinees were applied for Membership examination where 344 were appeared. Examination was conducted from 3rd to 4th September 2021 in Kathmandu, Biratnagar, Butwal, Birgunj, Pokhara and Chitwan. Examination was conducted following the protocol suggested by District Administration Office of Nepal.

Meeting with Pokhara University (PU)

Meeting with the Dean and other officials of Pokhara University (PU) was held on 12th December, 2021. ICAN President, CA. Yuddha Raj Oli, Executive Director CA. Sanjay Kumar Sinha, Director Mr. Binod Prasad Neupane and Deputy Director CA. Himal Dahal participate in the meeting. The meeting was aimed to discuss about the enforcement of earlier agreement between ICAN and PU and to maintain coordination between the Institute and PU in different academic matters.

National Relation: Public and Government

International Accounting Day Celebrated

The Institute of Chartered Accountants of Nepal celebrated International Accounting Day with Walkathon and virtual Interaction program on 10th November, 2021. The motto of the celebration of International Accounting Day was to spread the message about the significance of Accountancy Education and to discuss the issues and implement innovative strategies for the development of the Accountancy Education.

The Walkathon Program

The Walkathon program was started with the formal inauguration and opening remarks of Vice President, CA. Bhaskar Singh Lala and cutting ribbon by the President, CA. Yuddha Raj Oil. More than 200 participants including President, Vice President, Council Members, Past Presidents, Past Council Members, Committee Members, Members of the Institute, Staffs, and Students participated in the walkathon program organized in the morning on 10th November 2021.

In the closing session of the walkathon program, RA. Mohan Raj Regmi, President AuDAN and CA. Ananda Raj Sharma Wagle, President ACAN gave brief importance about the auspicious day. President, CA. Yuddha Raj Oli concluded the program by giving his closing remarks in the program.

A Glimpse of Walkathon program of 10th November 2021

The Virtual Interaction Program

The Institute also organized a virtual interaction program on "International Accounting Day" in presence of Government Officials, Senior Educationist, and Members of the Institute. The program started in the Chairmanship of President, CA. Yuddha Raj Oli, where, CA. Maha Prasad Adhikari, Governor, Nepal Rastra Bank was the Chief Guest in the program. Similarly, Mr. Ramu Prasad Dotel, Deputy Auditor General of the Office of the Auditor General, Mr. Suman Raj Aryal, Financial Comptroller General of Financial Comptroller General Office and Dr. Dilli Raj Sharma, Dean, Faculty of Management, Tribhuvan University were the Guest of Honors of the program.

Vice President, CA. Bhaskar Singh Lala, welcomed the Chief Guest, Guest of Honors and all the participant in the program and started the program. President, Accounting Standards Board and Past President of ICAN CA. Prakash Jung Thapa gave his paper presentation on "Pacing with emerging Digitalization -Challenges and Rewards to Accounting Profession". Mr. Suman Raj Aryal, Financial Comptroller General of Financial Comptroller General Office explained about the efforts for aligning the Government Accounting System in line with International Accounting Practice and highlighted the major role of Financial Comptroller General Office in the process of transforming the Analog Governance to E-Governance and ultimately towards Digital Governance.

Likewise, Mr. Ramu Prasad Dotel, Deputy Auditor General of the Office of the Auditor General focused on conducting "Evidence Based Audit" and emphasis about the major role of ICAN towards regulating the Audit and Accounting Practice. And, CA. Maha Prasad Adhikari, Governor, Nepal Rastra Bank focused on the importance of Accounting Professional and contribution made by Accounting Professionals for Sustainable Development of the Nation.

CA. Yuddha Raj Oli, President and Chairman of the Program explained about the engagement of Accounting Professionals in all the sector of economy and contribution made by them for National prosperity and development and also emphasized that the good Public Financial Management System aids in overall financial development of Nation. He also explained about the role of ICAN for pronouncement and implementation of Standards in accordance with International Standards for proper Accounting System in the Nation. Concluding his remarks, President explained about the Challenges from Artificial Intelligence to the Accounting Professional and need for Digitalization of Accounting System and, informed that the Institute has been organizing various Post Qualification Courses for Professional Development of Members.

At the end of the program, President CA. Yuddha Raj Oli, showed the commitment of the Institute for making Accounting Professional Technology friendly and express his vote of thanks to the Chief Guest, Guest of Honors and all the participants and concluded the program. The program was participated by more than 250 participants.

Meeting with the Hon'ble Auditor General of Nepal

President CA. Yuddha Raj Oli, Vice President CA. Bhaskar Singh Lala and Executive Director CA. Sanjay Kumar Shina had a cordial meeting with the Hon'ble Auditor

General of Nepal Mr. Tanka Mani Sharma (Dangal) at the Office of the Auditor General. During the meeting President, CA. Yuddha Raj Oli briefed about the progress status of the Institute and discussed about the need of coordination with other Regulatory Authorities for implementation of Nepal Financial Reporting Standards (NFRS). Likewise, President CA. Yuddha Raj Oli emphasis about the NFRS implementation at State Owned Enterprises.

Courtesy visit to the Director General of Inland Revenue Department (IRD)

A cordial meeting with the Director General of IRD Mr. Shova Kanta Poudel and ICAN President CA. Yuddha Raj Oli, Vice-President CA. Bhaskar Singh Lala and Executive Director CA. Sanjay Kumar Sinha was held on14th December 2021. During the meeting, President CA. Yuddha Raj Oli mentioned about the initiatives undertaken by the Institute for assisting in effective implementation of taxation system in the Country. He further specified that the Fiscal, Taxation and Research Committee of the Institute is studying about the scope of following matters:

- Certification of monthly VAT returns from COP holders.
- Certification of Custom Declaration Form from COP holders.
- Preparation of format of Tax Audit for maintaining uniformity in Tax Audit.

Meeting with the Director General of Department of Industry (DOI)

A cordial meeting with the Director General of Department of Industry Mr. Ramchandra Tiwari and ICAN President CA. Yuddha Raj Oli, Vice-President CA. Bhaskar Singh Lala and Executive Director CA. Sanjay Kumar Sinha was held on 14th December 2021. The meeting was focused on identification of possible area of mutual coordination between ICAN and DOI, sharing of information and conduction of training.

Professional Development

Interaction Program at Biratnagar

The Biratnagar Branch of the Institute and Inland Revenue Office, Biratnagar jointly organized an interaction program on the occasion of 10th National Taxation Day, 2078 on 19th November, 2021at the premises of Inland Revenue Office, Biratnagar.

A Glimpse of Interaction Program jointly organized by ICAN Biratnagar Branch Office and Inland Revenue Office, Biratnagar.

The Program was organized in the joint Chairmanship of CA. Aswini Bansal, Coordinator, Biratnagar Branch Coordination Committee and Mr. Surya Prasad Pokharel, Chief Tax Officer, Inland Revenue Office, Biratnagar. RA. Bijay Hari Sharma, Member of the Biratnagar Branch Coordination Committee, gave his opening remarks on the program and explained that the auditors abide their professional ethics in delivering their active roles for enforcing compliance to the Tax Laws and are contributing to the Nation.

Likewise, CA. Manoj Adhikari, Member of the Biratnagar Branch Coordination Committee gave a paper presentation related to additional provision and amendments to be made in Tax Laws and highlighted on the areas of improvement to be made in the Online Portal of Inland Revenue Department. In the program, Tax Officer Mr. Dhundi Raj Dahal, presented a paper on "Role of Auditor in implementing Tax Laws" and Chief Tax Officer, Mr. Surya Prasad Pokharel showed commitment to address the concerns raised in the interaction program.

CA. Aswini Bansal thanked all the participants for their active participation and Mr. Surya Prasad Pokharel concluded the program with his Vote of Thanks. The Program was attended by Tax Officers and staffs of Inland Revenue Office, Biratnagar, Committee Members of Biratnagar Branch Coordination Committee, other Members and staffs of the Institute. Altogether, 44 participants participated the program.

Interaction Program at Dhangadi

The Dhangadi Branch of the Institute, Inland Revenue Office, Dhangadi and Auditors Association of Nepal, Dhangadi jointly organized an interaction program on 22nd November, 2021. The program has altogether four sessions. In the first session, CA. Umesh Raj Pandey, Coordinator, Dhangadi Branch Coordination Committee gave a paper presentation related to new provision on tax and System of E-TDS and VAT. In the second session, CA. Tek Raj Paneru, Member, Dhangadi Branch Coordination Committee presented a paper on audit related information.

A Glimpse of Interaction Program jointly organized by ICAN Dhangadi Branch Office and Inland Revenue Office, Dhangadi and Auditors Association of Nepal, Dhandagi.

Likewise, Mr. Hirananda Devkota Tax Officer, Inland Revenue Office, Dhangadi presented a paper regarding the Finance Ordinance, 2078 along with (Replacement Bill) in third session of the program. And, in the last session of the program CA. Janma Raj Timalsina gave a paper presentation related to Social Security Fund. In the closing session of the program, RA. Ambar Raj Joshi, President, Auditor Association of Nepal, Sudurpashchim Province and RA. Chet Raj Ojha, Member Dhandagi Branch Coordination Committee extend their wishes to the new Chief Tax Officer, Mr. Gauri Shankar Upadhya and concluded the program with a vote of thanks.

The Program was attended by Tax Officers and staffs of Inland Revenue Office, Dhangadi, Committee Members of Dhangadi Branch Coordination Committee, other Members and staffs of the Institute and Business Persons. Altogether, 46 participants participated the program.

Interaction Program at Butwal

The Butwal Branch of the Institute, Association of Chartered Accountants of Nepal, Rupandhi Chapter and Auditors Association of Nepal, Rupandehi and Tax counsellor workers organisation Nepal, Rupandehi District Committee jointly organized an interaction program on 19th November, 2021 with the Chairmanship of CA. Sheo Hari Sharma, Chairman of Branch Coordination Committee, Chief Tax Officer Inland Revenue Office, Bhairahawa, Mr. Muktiram Acharya was a Chief Guest of the program.

Program started with the welcome remarks of CA. Chhabi Pokharel, Chairman of ACAN Rupandehi Chapter. The Interaction program focused on entities for Tax Audit and Tax Payers, Subject Matters in Tax Audit, Differentiate between Tax Audit and Other Audit, Tax Audit as per the Income Tax Act of Section 57 and Tax Audit and Income Statement.

The Program was attended by the members of Auditor Association Central Committee, Auditor Association Lumbini Province Committee, Auditor Association District Committee, ACAN Rupendehi Chapter and Tax counsellor workers organisation Nepal, Rupandehi District Committee. Altogether, 65 participants participated the program.

Continuing Professional Education (CPE) Training

The Institute continuing with the objective to enhance the professional capacity of members organized three days online Continuing Professional Education (CPE) training from 29th to 31st October, 2021.The aim of the training was to enhance members' practical and theoretical knowledge regarding th3e preparation and presentation of Financial Statements of Non-Profit Organizations with practical examples and case studies. Around, 300 members of the Institute participated in the training.

Women Leadership Training

The Women Leadership Committee of the Institute organized a one-day training on "Women Leadership" on 24th December 2021 at ICAN Premises, Satdobato, Lalitpur. Chairperson of the Women Leadership Committee and Past Council Member, RA. Meera Shrestha welcomed the participants in the program and ICAN President CA. Yuddha Raj Oli addressed the participants.

A Glimpse of Women Leadership Training organized by Women Leadership Committee

The training was facilitated by Ms. Mannsi Agrawal, Corporate Trainer. The training comprises on multiple aspect of women leadership along with question answer session. The training was participated by 61 female Members of the Institute.

Registration of New Chartered Accountants at ICAN

The Institute registered Chartered Accountants pursuant to Section 16(2) of Nepal Chartered Accountants Act,1997. During the period of September 2021 to December, 2021, the newly enrolled Chartered Accountants are as follows:

Membership No.	Member's Name	Membership No.	Member's Name
CA-1695	Amar Maharjan	CA-1706	Shreesh Poudel
CA-1696	Kushal Raj Maharjan	CA-1707	Dinesh Mahato
CA-1697	Sunil Shrestha	CA-1708	Susan Nagarkoti
CA-1698	Subij Poudel	CA-1709	Mithaleshwar Sah

CA-1699	Prahalad Shrestha	CA-1710	Kamal Yadav
CA-1700	Dristi Shrestha	CA-1711	Bishnu Mani Pokhrel
CA-1701	Santosh Neupane	CA-1712	Prabin Ranabhat
CA-1702	Yogendra Bastola	CA-1713	Jeena Thing
CA-1703	Akash Kumar Bhetwal	CA-1713	Jeena Thing
CA-1704	Ishwor Nepal	CA-1714	Gokul Prasad Chalise
CA-1705	Enjila Mainali		

Renewal of Membership, Certificate of Practice (CoP) and Firm

As per the provision of Nepal Chartered Accountants Act, 1997 and Nepal Chartered Accountants Regulation, 2001 following members have renewed their membership, CoP and Firm from 16th July, 2021 to 31st December, 2021

Member Category	Member		COP		Firm	
	Total	Renewed	Total	Renewed	Total	Renewed
FCA	414	293	381	263	1030	553
CA	1,328	685	690	437		
RA "B"	3,423	1,445	3,162	1,222	1,969	1,198
RA "C"	1,561	602	1,413	504	845	503
RA "D"	2,252	937	2,046	879	1,280	872
Total	**8,978**	**3,962**	**7,692**	**3,305**	**5,124**	**3,126**

International Relation: Global Positioning and Leadership

Visit to The Institute of Chartered Accountants of India (ICAI)

Meeting of the ICAN President with the ICAI President in New Delhi

A delegate from the Institute of Chartered Accountants of Nepal (ICAN) led by the President of the Institute CA. Yuddha Raj Oli comprising of the Council Member RA. Bhola Nath Pathak and Executive Director CA. Sanjay Kumar Sinha visited the Institute of Chartered Accountants of India (ICAI) from 29th September to 2nd October, 2021. During the visit the team met the President of the ICAI and Officials of the Examination

Department of ICAI and discussed about the ICAI's system of Virtually Evaluation System of examination answers paper and process to launch the system in ICAN. The Institute has already initiated the process with the technical team involved in the development of Virtual Evaluation System in ICAI for early launch of it in ICAN.

Moreover, during the visit, the team also had a meeting with the officials of the Institute of Internal Auditors of India (IIA India) and discussed about implementation of the Technical Collaboration Agreement entered between ICAN and IIA India.

Institutional Development and Sustainability

Oath Taking Ceremony of President, Vice-President and Council Members of 9th Council

The oath taking ceremony of newly elected President, CA. Yuddha Raj Oli, Vice-President, CA. Bhaskar Singh Lala along with the newly elected Council Members of the Institute was held at ICAN Premises on 17th September, 2021 in Lalitpur. Chief Guest of the program Hon'ble Finance Minister Mr. Janardan Sharma (Prabhakar) inaugurated the ceremony. ICAN President CA. Madan Krishna Sharma welcomed Chief Guest, Special Guests, elected Council Members and all the invitees with the welcome remarks in the program. During his address he highlighted the major activities and milestone achieved during his tenure and presented a memento to the 8th Council Members for their contribution to the Institute.

Hon'ble Auditor General Mr. Tanka Mani Sharma (Dangal), administered the oath to the newly elected President, CA. Yuddha Raj Oli and thereafter the outgoing President CA. Madan Krishna Sharma handed over the President Medallion to newly elected President, CA. Yuddha Raj Oli. President, CA. Yuddha Raj Oli administered the oath to the Vice-President elect CA. Bhaskar Singh Lala and all newly elected Council Members. President, CA. Yuddha Raj Oli briefed about the upcoming and ongoing activities in his acceptance speech.

The Guest of Honors, CA. Maha Prasad Adhikari, Governor of Nepal Rastra Bank and Hon'ble Auditor General Mr. Tanka Mani Sharma and Chief Guest of the program Hon'ble Finance Minister, Mr. Janardan Sharma (Prabhakar) congratulated the newly elected President, Vice President and Council Members for their achievement and wished for successful tenure. CA. Tritha Raj Upadhyay, 2nd President of the Institute also congratulated the newly elected Council Members and briefed about the way forward for Institutional success.

CA. Yuddha Raj Oli, President presented a memento to the Chief Guest, Special Guest and Guest of Honors of the program. CA. Sanjay Kumar Sinha, Executive Director presented a memento to the outgoing President CA. Madan Krishna Sharma as a mark for his untiring effort and contribution to the Institute. The program was concluded with the vote of thanks by the Vice-President, CA. Bhaskar Singh Lala.

ICAN NOTICE

Notice About Unique Document Identification Number (UDIN):

Institute has issued notice regarding the use of UDIN by the practicing members during their practice. The notice has specified about the requirement for generating UDIN in the audit, certification and other reports prepared by the practicing members. The detail notice can be viewed by clicking in the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/a0dc6ebaa97bc0b55816adbbee7834fc.pdf

Notice About Audit Quality Assurance Review:

Institute has issued notice regarding information about the Audit Quality Assurance Review being conducted by the Quality Assurance Board of the Institute. The notice was issued with the objective to raise awareness about the Quality Assurance Review. The procedure for audit quality assurance review, model audit practice manual and other information can be obtained from the website of the Institute under the "Quality Assurance" tab. The detail notice can be viewed by clicking in the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/c3d41df423f993abb6517fdd1da74b76.pdf

Formation of Standing, Non-Standing, Branch Coordination Committee and Board

The 9th Council of the Institute has formed new Standing, Non-Standing, Branch Coordination Committee and Boards effective for the first term of the 9th Council in accordance with the provision of the Nepal Chartered Accountants Act, 2053 and Regulation, 2061. Altogether, there are 4 of Standing Committee, 11 Non-Standing Committee, 3 boards and 6 Branch Coordination Committee for Fiscal Year 2078/79. The list of the Standing, Non-Standing, Branch Coordination Committee and Board has been presented below:

Standing Committee	Boards
1. Executive Committee 2. Professional Development Committee 3. Disciplinary Committee 4. Examination Committee	1. Accounting Technician Board 2. Board of Studies 3. Quality Assurance Board
Non-Standing Committee	**Branch Coordination Committee**
1. Ethics Committee 2. Standard Implementation Review Committee 3. Public Finance and NPSAS Committee 4. Information Technology Committee 5. Monitoring and Financial Reporting Review Committee 6. Audit Committee 7. Member in Industry Committee 8. RA. Member Capacity Development Committee 9. Women Leadership Committee 10. Fiscal, Taxation and Research Committee 11. Expert Advisory Committee	1. Butwal Branch Coordination Committee 2. Biratnagar Branch Coordination Committee 3. Birgunj Branch Coordination Committee 4. Pokhara Branch Coordination Committee 5. Nepalgunj Branch Coordination Committee 6. Dhangadi Branch Coordination Committee

Staff Training on Income Tax and Value Added Tax (VAT)

The Institute organized a three days training on "Income Tax and VAT" to its staff's from 28th to 30th November, 2021 at ICAN Premises, Satdobato, Lalitpur. This training was facilitated by CA. Shesh Mani Dahal.

Whole Body Check Up

The ICAN Employee Union organized Whole Body Check Up program as a part of its social responsibility to facilitate the staffs of the Institute. Altogether, 51 staffs of the Institute got their body checkup under this program.

Inviting Articles

"The Nepal Chartered Accountant" is the official publication of The Institute of Chartered Accountants of Nepal (ICAN) and the first journal was published in 1998. Articles published in journal covers a range of topics or contemporary issues with respect to Accounting, Auditing, Economy, Taxation, Financial Management, Banking, Insurance, Legal Matters, Corruption issue, Capital Market etc.

Your thoughts, ideas and vision is valuable to ICAN in order to improve the quality and content of the journal. You can inbox us your Articles at: ican@ntc.net.np

NATIONAL UPDATES

Unified Directives to A, B and C Class Bank and Financial Institutions, 2078

Nepal Rastra Bank has issued Unified Directive, 2078 for A, B, and C Class Banks and Financial Institutions incorporating the Circulars issued till Kartik, 2078 in the Unified Directives, 2077. The Directive can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2021/11/Unified-Directives-2078-1.pdf

Circulars for Amendment in Unified Directives to A, B and C Class Bank and Financial Institutions, 2078

Nepal Rastra Bank has issued circular on 01st Poush, 2078 to A, B and C Class Bank and Financial Institutions regarding amendments made in the Unified Directive, 2078. The detail Circulars can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2021/12/ABC-Circular-no-8.pdf

Circular for Amendment in Unified Directives to D Class Microfinance Financial Institutions, 2077

Nepal Rastra Bank has issued circular to D Class Microfinance Financial Institutions regarding amendments made in the Unified Directive, 2077. The Circular can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2021/11/D-class-Unified-Directive-amendment-circular-3.pdf

Circular for Amendment in Directives to Infrastructure Development Bank, 2075

Nepal Rastra Bank has issued circular to Infrastructure Development Bank regarding amendments made in Unified Directive, 2075. The detail Circular can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2021/12/NIFRA-Circular-no-1.pdf

Refinance Manual, 2077 (Third Amendment)

Nepal Rastra Bank has issued Refinance Manual, 2077 (Third Amendment) to A, B, C and D Class Banks and Financial Institutions and Infrastructure Development Bank. The detail Refinance Manual can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2021/09/Nepal-Rastra-Bank-Punarkarja-Karyabidhi-2077-Third-Amendment.pdf

Approval for Publication of Financial Statement and Dividend Distribution for the Purpose of Annual General Meeting of Licensed Bank and Financial Institutions Procedure, 2077 (First Amendment)

Nepal Rastra Bank has issued approval for publication of Financial Statement and Dividend Distribution for the Purpose of Annual General Meeting of Licensed Bank and Financial Institutions Procedure, 2077 (First Amendment). The detail Procedure can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2021/09/Notice-No.-1-AGM-and-Dividend-distribution-Procedure-2077-with-amendments.pdf

Interest Subsidy for Concessional Loan Unified Guidelines, 2075 (Third Amendment)

Nepal Rastra Bank has issued Unified Guidelines (with Third Amendment) related to Interest Subsidy for Concessional Loan, 2075. The detail Guidelines can be viewed from the link below:

https://www.nrb.org.np/contents/uploads

Refinancing the Fire and Flood Affected Households for Reconstruction of Residential Houses and Revive the Business Guidelines, 2074

Nepal Rastra Bank has issued Guidelines related to Refinancing the Fire and Flood Affected Households for Reconstruction of Residential Houses and Revive the

Business. The detail Guidelines can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2021/11

Refinancing the Earthquake Affected Households for Reconstruction of Residential Houses Guidelines, 2072

Nepal Rastra Bank has issued Guidelines related to Refinancing the Earthquake Affected Households for Reconstruction of Residential Houses, 2072. The detail Guidelines can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2021/11

Probable Facilitation by Financial Institutions to Sick Industry Guidelines, 2070

Nepal Rastra Bank has issued Guidelines related to Probable Facilitation by Financial Institutions to Sick Industry, 2070. The detail Guidelines can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2021/11

Circular for Listed Public Entity issued by Securities Board of Nepal (SEBON)

Securities Board of Nepal (SEBON) has issued circulars to all the Listed Public Entity regarding mechanism of distributing dividend to their shareholders. The detail circular can be viewed by from the the link below:

http://sebon.gov.np/uploads/2021/10/25/TpWGrm5kib11woB30aMOFCBFmKzVSFhjJ6VC1wcK.pdf

Circular for Non-Life Insurance Companies

Beema Samiti has issued circular for all Non-Life Insurance Companies regarding changes in the rate of insurance premium subsidy for Agriculture Insurance. The detail circular can be viewed from the link below:

https://nib.gov.np/wp-content/uploads/2021/10/Circular-2-2078-79.pdf

Accident Insurance Directive, 2078

Beema Samiti has issued circular to all Non-Life Insurance Companies regarding issuance of Accident Insurance Directive, 2078. The Directive can be viewed from the link below:

https://nib.gov.np/wp-content/uploads/2021/11/Accident-Insurance-2078.08.01.pdf

Circular for Non-Life Insurance Companies

Beema Samiti has issued circular for Non-Life Insurance Companies regarding issuance of Insurance Policy for Coffee Production. The Insurance Policy can be viewed from the link below:

https://nib.gov.np/wp-content/uploads/2021/11/Coffee-Insurance-Policy-2078.pdf

INTERNATIONAL UPDATES

New Platform from IFAC Offers Digital Access to International Accounting Standards - eIS

The International Federation of Accountants (IFAC) unveiled a new online resource providing unprecedented access to the international standards that support and distinguish the accountancy profession. eIS, short for e-International Standards, provides direct access to the standards developed by the International Audit and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA), and the International Public Sector Accounting Standards Board (IPSASB), alongside key support, reference, and guidance materials, available to contextualize the language and provide enhanced transparency.

Learn more about eIS here or visit the platform today: eis.international-standards.org.

The detail can be viewed from the link below:

https://www.ifac.org/news-events/2021-11/new-platform-ifac-offers-digital-access-international-accounting-standards-eis

IESBA Welcomes the Launch of eCODE 2.0 and eIS

The International Ethics Standards Board For Accountants (IESBA) announced that the eCode – a digital tool to access and navigate the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) – will be moving to the recently announced eIS, or e-International Standards, platform. The detail can be viewed from the link below:

https://www.ethicsboard.org/news-events/2021-11/iesba-welcomes-launch-ecode-20-and-eis

New Technology-Focused FAQ Available

The Technology Working Group of the International Auditing and Assurance Standards Board (IAASB) has released non-authoritative support material to help auditors understand how to plan an audit under International Standard on Auditing (ISA) 300, Planning an Audit of Financial Statements, when using automated tools and techniques (ATT). The detail can be viewed from the link below:

https://www.iaasb.org/news-events/2021-12/new-technology-focused-faq-available

The Demand for Assurance Engagements on Sustainability and ESG Reporting is High. Here Is How the IAASB Is Responding

Momentum is gathering for increased sustainability/ environmental, social, and governance (ESG) reporting requirements for companies. Investors, policymakers, and a broad range of stakeholders seek higher quality, increasingly standardized reporting on companies' performance on non-financial measure. And with this, demand for assurance engagements that enhance the degree of confidence of the intended users of sustainability/ ESG reporting is growing. IAASB recognize that our initial consultations could lead to:

- Developing new subject-matter specific standard(s) that build on and supplement ISAE 3000 (Revised);
- Targeted enhancements to ISAE 3000 (Revised), as necessary; or
- Other related actions that are necessary in the public interest. For example, revising our existing guidance or developing new guidance.

The detail can be viewed from the link below:

https://www.iaasb.org/news-events/2021-12/demand-assurance-engagements-sustainability-and-esg-reporting-high-here-how-iaasb-responding

First-Time Implementation Guide for ISQM 1 Updated and Reissued

The International Auditing and Assurance Standards Board (IAASB) released an updated version of the First-time Implementation Guide for International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which was previously issued on June 14, 2021. The detail can be viewed from the link below:

https://www.iaasb.org/news-events/2021-09/first-time-implementation-guide-isqm-1-updated-and-reissued

Now Available: 2020 IAASB Handbook

The International Auditing and Assurance Standards Board (IAASB) has released the 2020 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements. The handbooks can be downloaded from the IAASB website. The detail can be viewed from the link below:

Mainstreaming Sustainability a Priority for Professional Accountants in Business

IFAC's Professional Accountants in Business (PAIB) Advisory Group has compiled insights on how accountants are contributing to value creation and sustainability in their organizations in both the private and public sectors in a new report, The Role of Accountants in Mainstreaming Sustainability. The detail can be viewed from the link below:

https://www.ifac.org/news-events/2021-11/mainstreaming-sustainability-priority-professional-accountants-business.

NOTES

Glimpse of Oath Taking Ceremony

Immediate Past President CA. Madan Krishna Sharma handed over President Medallion to Newly Elected President CA. Yuddha Raj Oli

Newly Elected Vice-President Taking Oath of Office from President CA. Yuddha Raj Oli

Newly Elected Council Members of 9th Council of the Institute Taking Oath of the Office from the Newly Elected President CA. Yuddha Raj Oli in Oath Taking Ceremony

GLOBAL RISK CONSULTANTS

Global Risk Consultants (GRC) is an Actuarial Consulting Partnership Firm established in India in 2015. Since its incorporation, GRC has had impressive growth whilst maintaining uncompromising quality standards. With its clients spread across Asia, Middle East, Africa & Europe; GRC has been offering consulting services in the areas of Life, Non-Life, Health, Re-insurance, Employee and Other Benefits.

GLIMPSE OF OUR SERVICE OFFERINGS:

♦ INSURANCE RELATED COVERING:

Regulatory Reporting/Appointed Actuary Services:
Valuation of policyholder liabilities, preparation of regulatory & financial condition reports, claims adequacy assessment, peer review, scenario & stress testing, re-insurance adequacy & sufficiency assessment, retro-cession arrangement & risk retention analysis, claims experience analysis.

Implementation of IFRS 17:
Gap analysis, financial impact assessment, implementation planning, implementation & dry run, support services covering actuarial, accounting, IT & finance, capital modelling and business strategy.

Actuarial Services as part of Insurance Audit under International Standard on Auditing (ISA 620): Valuation of Policyholder Liabilities.

Product Designing and pricing:
Product design in compliance with the Regulatory Requirements, Target market and market benchmark, building robust Pricing Models, Regulatory Filing and Reporting, Experience monitoring and management, Premium Adequacy Assessment, Re-pricing of existing products to meet underlying Regulatory Compliance.

Capital Management and Business Strategy:
Projection of capital requirements, assessment of economic capital/risk based capital, impact analysis of new products on capital requirement, solvency assessment and risk management.

Merger/Acquisition/New entrants:
Assessment of fair value of business, Actuarial due diligence, Financial due diligence, Commercial due diligence, Assisting in discussion with the buyer/seller, Feasibility and Viability studies.

♦ PENSION & EMPLOYEE BENEFITS COVERING:

Compliance Reporting:
Certified reports as per IAS 19 (Revised 2011) & US GAAP (ASC 715), Due diligence and consulting on accounting framework, merger, acquisitions, and takeovers, accounting for cost of benefits.

Benefit design & Review:
Determine the cost impact of introduction of new plans and benefits, benchmark existing Defined benefit (DB) plans with the general market, Scheme design and alteration from Defined Benefit to Defined Contribution conversion, analysis of cost v/s benefit.

Other Benefit Services:
Actuarial valuations for assessing funding level, derive contribution rates of funded plans for adequacy and better financial management and financial planning, advice cost implications of changes in policy from an HR & compliance perspective.

Actuarial valuation for Defined Benefit Plans like;
Gratuity, Leave Encashment, Long Service Award, Long Term Incentives, Employee Stock Ownership Plans (ESOP), Corporate Defined Benefit and State Sponsored Pension Plans.

WE ARE REACHABLE AT

503, 5th Floor, Madhava Building, Bandra Kurla Complex, Bandra (E), Mumbai - 400051, India
Tel.: +91 22 6695 3245 / + 91 22 6236 9034
Email: grc@globalriskconsultants.in
Website: www.globalriskconsultants.in

©2015 Global Risk Consultants, All Rights Reserved.