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THE NEPAL CHARTERED ACCOUNTANT

Journal of the Institute of Chartered Accountants of Nepal

About ICAN

We are guided by the vision of credible accounting body

The Institute of Chartered Accountants of Nepal (ICAN),an autonomous body, established under Special Act, the Nepal Chartered Accountants Act 1997, is entrusted by the statue to promote and regulate the accounting profession in the country. ICAN is committed to contribute in the economic development ofthe country and under take responsibility of leadership on matters of public interest, constructive submissions on legislation and Government Policy, and enhancement of social recognition and faith in the accounting profession. The Institute provides access to Chartered Accountancy and Accounting Technician education to the aspiring students. Our members provide professional accounting services and we aspire to equip them with the expertise for professional excellence.

ICAN is a full member of the International Federation of Accountants (IFAC), which represents nearly three million accounting professionals in 130 countries through 170 member bodies and associations. It is also a full member of Confederation of Asian and Pacific Accountants (CAPA), a regional organization representing thirty-three national professional accountancy organizationsin the Asia-Pacific Region and South Asian Federation of Accountants (SAFA), a forum of regional Professional Accounting Bodies in the South Asian Region.

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 and Professional Excellence.

OBJECTIVES

- Play the role of a regulatory body to encourage the members to carry on accounting profession being within the extent of the code of the conduct in order to consolidate and develop accounting profession as a cause for economic development of the nation.
- 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.
- Develop, protect and promote the accounting profession by enabling professional accountants understand their responsibility towards the importance of the accounting profession and accountancy.
- 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.

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Editorial

The new era of information technology has led the global economy towards digitalization whereby, most of the transactions have shifted from traditional brick and mortar business to online platform. Itis no longer possible to ring-fence the real economy from the so-called 'digital economy'. This has posed a serious challenge to tax sovereignty of nations as the tax collectors witness tax eroding as conventional source of taxes have dried up while no or inadequate policy have been formulated for taxation of the digital world. Traditionally, the taxing nexus between the MNC was established through permanent establishments (PE), which was defined by double taxation agreements; however, as the MNCs have grown both in size and reach, and 'online' has been the new norm, the physical nexus between the service recipient and service providers (MNCs) has been gradually fading.

As nations face existential threat, this conundrum has puzzled the tax offices world over. Different countries have opted for unilateral measures to augment the dwindling tax coffers. India has introduced digital equalization levy, which covers online advertisement and any provision for digital advertising space or any other facility or service for the purpose of online advertisement. Whereas, in half of the countries of Europe like United Kingdom, Italy, Austria, France, Hungary etc., have implemented digital service taxation while other countries have proposed proposals to tax digital transactions. This asymmetrical and discordant action by different countries has raised uncertainty in international taxation arena. Moreover, as retaliatory measures are bound to be imposed by the other state, the principles of stability, neutrality and transparency too are at stake.

OECD, has spearheaded the process to harmonize and bring certainty to international taxation regime by publishing a two-pillar plan, generally labelled as BEPS 2.0. Pillar one focuses on profit allocation and nexus;whereas pillar two is concerned with global minimum tax. Pillar one obliges MNC to pay tax in the countries where they have users even though they do not have any physical presence. Pillar two consists of series of global anti-base erosion rules like income inclusion rule, undertaxed payment rule and subject to tax rule. However, the detailed implementation action plan has not yet been finalized. Even though the framework is comprehensive and consensus-based solution to the challenges arisingin digital world, countries like Nepal face capacity constraints which limit their ability to put forth substantive responses in forum like OECD. However, this is a step in the right direction for developing countries like Nepal that will eventually benefit from the two-pillar framework as tax revenue start to pour in, that were otherwise facing declining or null tax collection in the online space.

The current budget tabled by the Finance Minister through the Replacement Bill has tried to touch upon certain aspects of digital transactions. The measure introduced by the Minister include deduction of tax on payments received by natural persons providing software and other electronic services and uploading audio-visual materials online taxes service providers in Nepal. This is only one side of the story. The major chunk of transactions being done by giant online tech companies are still out of the tax bracket in Nepal. Nepal needs to join the band-wagon and urge for implementation of the proposed OECD measures at the earliest. Moreover, the policy formulators in Nepal should proact to the emerging change in international changes by making suitable amendment and changes in tax policy.The sooner the digital taxation becomes a reality the better it is for countries like Nepal.

President's Message

Dear Professional Colleagues,

Our Institute has completed an impactful 24 years of furtherance of accounting profession and has emerged as a prestigious professional accounting body in Nepal with a global standing. Starting with 88 Chartered Accountants and 2,862 Registered Auditors' enrollment in the year 1997, today the number of Chartered Accountants and Registered Auditors' members has crossed 1,700 and 7,300 respectively and we have a student base of over 8,000 aspiring Chartered Accountants.

The tenure of the 8th Council and my term as a 24th President of the Institute will come to an end after oath taking of the 9th Council. It is satisfying that the election of the 9th Council was held successfully in September 2021 after two months' inescapable delay caused by COVID-19 induced restrictions. I heartily congratulate and welcome newly elected members of 9th Council of the Institute. Although this might be my last formal page as a President of the Institute, I will keep contributing to the cause of the Institute as a proactive member of the profession and will remain dedicated to the welfare of the profession. I am proud to report that we have successfully accomplished most of the planned activities. However, the prohibitory orders issued by the government to contain COVID-19 pandemic, amid which I had taken oath of office in July 2020 and that lasted till August 2021, affected the regular operation of the Institute and some of the planned tasks are in implementation stage which, I am sure, will be addressed and completed bythe 9th council under the able guidance and leadership of the succeeding president of the Institute.

The pandemic also affected our regular publication of the quarterly Journal since March 2021 and through this volume, I take an pleasure to share with you some of the major activities that the Institute has undertaken in the second half of my tenure.

The institute has signed MoU with the Institute of Internal Auditors, India (IIA India) on 16th April, 2021 for providing a framework of cooperation and facilitating collaboration between the Parties in the areas of common interest including adoption of the International Professional Practice Framework (IPPF) and its various components, provision of services including memberships of IIA India, training, preparation for IIA certifications, sharing of the IIA magazine and sharing of professional knowledge amongst others.This initiative has helped filling a gap on the standards to guide our members and the stakeholders in the areas of internal audit of global standards. An online orientation program on "Opportunities in Internal Audit for ICAN Members: Membership of IIA India" was organized on 21st May, 2021 in technical support of IIA India to kick start the operationalization of the Internal Audit standardization process.

The Institute has also signed an MoU with the Securities Board of Nepal on 19th April, 2021for facilitating exchange of information and mutual cooperation in the areas of financial reporting and good governance.

The Institute, continuing with its objective to enhance the professional capacity of members, has continued organizing various online CPE trainings to its members focusing on the areas that are more relevant and specific to the members' need. In response to the need for adapting to the changes, we continued organizing regular trainings and programs on contemporary topics apart from regular CPE programs at national and international level. The Institute organized Global Webinar on "Ethical Values of Professional Accountants" with paper presentation by international experts. Likewise, interaction program on Role of ICAN in Strengthening Public Financial Management, Risk Management in Banking Sector, Risk Management in Insurance Sector, Federal Budget 2078/79 and its Impact on Economy, Legal and Ethical Compliances regarding appointment of auditor and training on preparation of financial statement as per NFRS for SMEs were organized with active participation of the members.

With the aim to extend support to meritorious and financially deprived and locationally disadvantaged students pursuing Chartered Accountancy course, the Institute has revised the Scholarship Procedure 2078 increasing the amount of annual contribution to regular scholarship fund from 5% of annual surplus to 5% of total registration fees collected from the students. In addition, 1% of the registration fees is now contributed to the scholarship fund to support the students who are affected financially due to natural disasters, accidents, diseases, or prohibitory orders imposed by the Government for whatever reasons.

The Institute has successfully conducted Chartered Accountancy CAP-I, CAP-II and CAP-III level examinations, CA Membership Examinations and RA Upgrading Examinations in August 2021 that were scheduled for June 2021 but were put on hold due to COVID-19 lockdown. To facilitate the COVID-19 affected students an opt-out option was provided and more than 75% of the applicants appeared in the examination. The examinations were conducted at eight different centers to ensure that all the prescribed safety measures are complied with.

The Institute has always placed significant emphasis on digitalization of its operation with the primary objective to facilitate its members and students. Towards this objective, easing the process of membership renewal, payment, student registration and membership examination, the institute has successfully launched and has been using the new online Know Your Members (KYM) form for membership and COP renewal, new online payment gateway system, online CA course registration at CAP-III Level and online membership examination form respectively. Also, online Multi-Purpose Empanelment Form (MPEF) has been launched for empanelment of roster of resource persons of ICAN.

The quality assurance unit of the Institute has been carrying out quality assurance review of the selected firms regularly which is being gradually expanded to cover the firms of Registered Auditors from this year. In order to ensure audit quality and commensurate the remuneration, the Institute has issued Audit Firm Standards and Minimum Fee Directives, 2078 prescribing the quality requirement of an audit firm in terms of their corporate structure, human resources, training and development of human resources and written operating system procedures manual that are essential for ensuring auditor's compliance with the ethical requirements, Nepal Standards on Auditing (NSAs) and Nepal Standard Quality Control (NSQC-1) and a basis for determining a minimum audit fee thereof.

With the federalization of the governance system of the country, the Institute is in the process of setting out full-fledged provincial offices by upgrading the existing branch offices as well as setting up new offices wherever needed. And, I am more than happy to share with you that the Institute has signed an MoU with the Bela Adharbhut School of Dhangadhi, Beladevipur-11 to avail five Kattha land for construction of Province Office building of the Institute at Dhangadi.

The achievement and progress we have made would not have been possible without the dedication and whole hearted contribution of our Council members and member of various committees that serve as the pillars of the Institute's professional edifice. My special appreciation to CA. Jagannath Upadhyaya Niruala, who served as the President in the first year of this 8th Council and immediate past president CA. Krishna Prasad Acharya for their support and guidance. Cooperation of Vice President CA. Yuddha Raj Oli, who will be leading the Council after me, deserves my sincere gratitude for his wholehearted support to my leadership. I together with my council members take this opportunity to acknowledge the contribution and support made by our members, students, government, supreme audit institution and regulating authorities as well as other stakeholders who directly and indirectly contributed in the activities of the Institute. Last but not the least I wish to thank the management team and all the employees of the Institute, led by Executive Director CA. Sanjay Kumar Sinha for all the support and inputs on this enduring journey towards professional excellence.

All the best,

CA. Madan Krishna Sharma
President, ICAN

Recent Changes made by Finance Bill, 2078: An Overview

CA. Prabin Raj Kafle (M.Com)

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1. BACKGROUND

Whereas, it is expedient to amend the existing laws concerning revenue collection, reduction, increment, concession of tax and revenue administration to enforce the finance ordinance of the Government of Nepal for the fiscal year 2078/079 (2021/022).

In absence of the parliamentary session, President of Nepal has issued this ordinance on 29.05.2021 after recommendation made by the Cabinet Ministers as per in Section 114(1) of Constitution of Nepal.

Later, as on 2078.05.25, the coalition government Finance Minister Janardan Sharma abled a replacement bill in the House of Representatives so as to amend the annual budget 2078-79 that was presented by former Finance Minister Bishnu Paudel through an ordinance. Some key provision in the finance bill with regards to taxation has been is summarized below.

2. CHANGES MADE BY FINANCE BILL, 2078

a. Special provision for waiver of accumulated fees, additional fines and remaining interest if withdrawal of ongoing administrative appeals or of cases ongoing in the Revenue Tribunal or Court and making payment of assessed amount of tax (Section 20)

Fees, additional charges, penalties and remaining interest on taxes or late fees shall be waived in case taxpayer withdraws the appeals made to various levels (Administrative Review, Revenue Tribunal or in the Courts) on account of dispute for tax assessment order issued till 15 July 2020 (Ashad end 2077) under the Income Tax Act, 2058, Value Added Tax Act, 2052 and Excise Act 2058 and pays the assessed principal taxes including 50% of the applicable interest (interest calculated up to application date of availing this waiver facility) by 15 December 2021 (Mangsir end 2078). However, this waiver facility is not applicable to cases pertaining to falsified and fake invoices.

b. Special provision for waiver of outstanding payables (Section 21)

If 75 % of overdue amount that could not be recovered till date relating to assessments carried out as per the Excise Duty Act 2015, Income Tax Act 2031, Acts repealed by Value Added Tax Act 2052 (Hotel Tax, Entertainment Tax, Contract Tax, Sales Tax Act) is paid within 2078 Poush end then accumulated fines, fees, interest and remaining excise duty or tax shall be waived.

If applicable tax or duty along with 50% of interest applicable up to the date submitting of applications is paid within 2078 Poush end for assessments or amended assessments carried out in respect of tax or excise duty as per VAT Act 2052, Excise Duty Act 2058 and Income Tax Act 2058 within 2076 Ashad end then, applicable fees, fines and penalty shall be waived. This provision is not applicable for cases relating to assessments carried out in respect of false and duplicate invoices.

Non-profit motive community hospital or health organization and transport service provider providing transport service through electronic network shall be provided waiver of overdue of tax assessment or reassessment as per VAT Act 2052 and Income Tax Act 2058 by IRO conducted before 15 Jestha, 2078 and if they are not under the legal proceeding for this matter, if applied within Poush End 2078 for waiver of such an overdue.

c. Special provision for waiver of tax, interest, additional fees and fines by issuing the certificate of origin (Section 22)

Unpaid applicable VAT and interest, additional fees and fines on VAT for certificate of origin issued up to 28 May 2021 (14 Jestha 2078) for goods to be exported shall be exempted in the case of entities issuing certificate of origin.

d. Special provision for waiver of additional fees, interest, fines for trekking and tour package (Section 23)

Persons engaged in travel and trekking agency related transaction and treating taxable transactions as tax exempt and not collecting and depositing VAT thereon shall be waived of additional charges, interest and penalties if such person makes self-declaration of taxable transaction up to 28 May 2021 (14 Jestha 2078) and deposit VAT on such transactions within 14 January 2022 (Poush end 2078).

In case person deposits outstanding dues (principal VAT dues) on the tax-exempt transaction as per Sub Section (1) within 14 January 2022 (Poush end 2078) based on assessment order made by IRO then additional charges, interest and penalties charged on it shall be waived.

In case such person withdraws cases filed for administrative review or at revenue tribunal on tax assessment as per sub section (2) and pays assessed tax within 14 January 2022 (Poush end 2078) then additional charges, interest and penalties charged on it shall be waived.

e. Special provision for waiver of additional fees and interest for Health Service Provider Organization (Section 24)

Where the Health Service Provider Organizations have balance input VAT after adjusting with output VAT, and deposits the balance payable after debit adjustment of such Input VAT on account of the health service as a result of declaration of non-applicability of VAT on items that were previously taxable within 16th July 2022 (Ashad end, 2079). then any additional fee and interest on such payables shall be waived.

f. Special Provision for deduction of rental expenses related to transportation vehicle (Section 25)

Transportation of Goods Service Providers for the operation of its business, if paid the rental expenses for transportation vehicle to the natural persons not registered in PAN in the FY 2076/77, withholds and pays the TDS as per proviso (8) of Section 88(1) of Income Tax Act, 2058 then such expenses shall be deductible while computing taxable income of FY 2076-77, even when no invoice of such transaction as per Section 21(1)(Gha2) is available.

g. Special provision for tax exemption on transactions affected by COVID-19 (Section 28)

Taxpayers having annual turnover upto 20 lakh per annum and having income upto NPR 2 lakh and paying tax as per Section 4 (4) of Income Tax Act are provided 90 % exemption in applicable tax of 2077-78.

Taxpayers having transactions from 20 lakh to 50 lakh and paying tax as per Section 4(4Ka) of Income Tax Act are provided with 75 % exemption in tax of 2077-78.

Person having business transactions up to 1 crore shall be provided 50 % exemption on tax applicable of 2077-78 as per Income Tax Act.

Hotel, Travel, Trekking, Film Business (Production, distribution and screening), party palace, media house, transportation and aviation business having transaction above NPR. 1 crore shall be subject to 1 % tax in fiscal year 2077/78 on taxable income as per Income Tax Act, 2058.

If there is loss for business mentioned above for the Year 2076-77 and 2077-78 above, the claimable period of loss as per Section 20(1) shall be extended by 3 years.

h. Special provision regarding contribution made to fund for prevention, control and treatment of corona infection (Section 29)

Donation to Corona Infection Relief, Control and Treatment Fund in FY 2077/78 established by Central, Province or Local Government of Nepal will be allowed for deduction for the computation of total taxable income to any person.

i. Special provision for deduction of expenditure allocated for corporate social responsibility in equipment and materials necessary for construction of COVID-19 specialized hospital (Section 31)

Out of the amount set aside for Corporate Social Responsibility (CSR) in the FY 2020-21 (2077-78), the expenses incurred for the construction of specialized hospitals and for providing health equipment and materials related to the treatment of COVID 19 to the designated medical institutions as prescribed by Ministry of Health and Population, GoN are deductible for the computation of taxable income.

j. Special provision for amount deposited in approved retirement fund transferred to social security fund (Section 32)

If amount deposited in approved retirement fund is transferred to Social Security Fund established under Contribution Based Social Security Fund Act,2074 by involved or to be involved contributor within 13 April 2022 (Chaitra end 2078), withholding tax applicable as per section 88 of Income Tax Act on retirement payment shall be waived.

k. Special provision for waiver of renewal fees for Private Firm and Company (Section 33)

Private firms and companies that are registered under Private Firm Registration Act, 2014 and Companies Act, 2063 and have not submitted its annual returns up to FY 2018-19 (2075-76) and failing to renew its business, if submit such returns and deposit 5% of applicable fees and penalties by 2078 Poush end then remaining fees and penalty shall be waived.

l. Waiver of fees and interest for those coming under tax net (Section 34)

Doctor, Artist, Journalist, Player, Engineer, Advocate, Auditor, Writing reading businessman, Consultant, Agent and Middle Man related person generating taxable income; if such person after obtaining PAN, pay tax according to Income Tax Act, 2058 for FY 2075/76, FY 2076/77 and 2077/78 pay tax within 2078 Falgun end; applicable fees and interest shall be waived.

If such person pays tax as above; taxes, fees, interest as per Income Tax Act, 2058 before FY 2075/76 and tax, additional charges and interest as per VAT Act, 2052 on transactions upto F.Y. 2077-78 shall be waived.

3. CHANGES IN INCOME TAX ACT, 2058

a. Non-Business Chargeable Asset (Section 2 (Da))

Means land, buildings and interest-in-entity, or securities, other than the following assets:

1) Business Assets, Depreciable Assets or Trading Stocks.

2) Private house of a Natural person in the following conditions:

(Ka) Under continued ownership for 10 years or more, and

(Kha) Stayed in the house for 10 years or more continuously or at different times by the person. Explanation: "Private House" for the purpose of this clause means building, the land occupied by the building and additional land equal to area of land occupied by building or 1-ropani [5,476 st-508.7370m^2] whichever is lower.

3) Interest in Retirement Fund of a Beneficiary.

4) Land and private house of a Natural Person which has been disposed of at a price of less than 1-million Rupees, or

5) Assets disposed of through transfer by any means, other than sale and purchase within three generations.

b. Service Fee (Section 2(Ka Ma))

Means any fee paid to a Person according to Market Price for the services provided; the term includes meeting allowances, management fees, or technical services fees.

c. Calculation of tax and tax rates (Section 4(4))

Notwithstanding subsection (2), the income tax payable by a resident Natural Person under section 3 (Ka) in any income year, who meets all of the following conditions, is equal to the amount provided in Section 1(7) of Schedule-1.

(Ka) a resident Natural Person's income for an income-year consists exclusively of income from a business having a source in Nepal;

(Ka1) has not claimed tax credits for medical treatment expenses under Section 51 and tax withholding under Section 93

(Kha) if the taxable income and turnover of the business does not exceed the threshold of Rs. 300,000 and 30,00,000 respectively, and

d. Calculation of tax and tax rates (Section 4(4Ka))

Notwithstanding subsection (2), the income tax payable by a resident natural person under section 3 (Ka) on the basis of turnover in any income year, who meets the following conditions, is equal to the amount provided in Section 1(17) of Schedule-1.

(Ka) Taxable income of natural person should be only from business having source in Nepal.

(Kha) Taxable income from business up to Rs. 1,000,000 and turnover of business more than Rs 3,000,000 but less than Rs 10,000,000

(Gha) Income shall not be from professional services like service provided from Doctor, Engineer, Auditor, Lawyer, sports player, actor, consultant

e. Taxable income and classification of income heads (Section 5)

The taxable income of a person for an income-year is equal to the amount as calculated by subtracting reduction, if any, claimed for the year under section 12, 12Ka,12Kha, **12Ga** or 63 or all the four sections from the total of the person's assessable income for the year from each of the following income heads-

(Ka) business;
(Kha) employment;
(Ga) investment; and
(Gha) Windfall gain

f. Income exempts from Tax (Section 10)

(Tha) Income earned as per its objectives by Mutual Funds approved from Securities Board of Nepal.

(Dda) Income earned as per its objectives by Educational Institute established with the objective of not for earning and distributing profit as per the agreement with Government of Nepal (GON) or concerned entity of GON.

g. Business Exemption and Concessions (Section 11)

(1) An agricultural income derived from sources in Nepal during an income year by a person, other than the income from an agriculture business derived by a registered firm, or company, or partnership, or a corporate body, or through the land above the holding ceiling as prescribed in the Land Act, 2021, is exempt from income tax.

But, if any income is earned by carrying on agricultural business by being registered as any firm, company, partnership firm and other corporate body, 50 % tax on applicable income tax shall be exempted.

(3)(Kha) Respectively 10, 20 and 30 percentage of the applicable tax in the incomes of the special industry run in very undeveloped, undeveloped and less developed areas for 10 income years from the date of commercial production or transaction.

But, Special Industry incorporated at Karnali Province and providing direct employment to more than 100 Nepali Citizens shall be exempted from tax for 15 years from the date of commencement of transactions.

(3Gha) Following tax exemption shall be provided to the person doing business transaction of electricity (Section 11(3Gha)

Full income tax for the first 10 years and 50% of the income tax for 5 years thereafter will be exempted from the date of commercial production of electricity generated from hydro, wind, solar and bio product within 2082 Chaitra of generation, transmission, or distribution of hydroelectricity by a person licensed for generation, transmission, distribution of electricity.

However, full income tax for the first 15 years and 50% of the income tax for 6 years thereafter will be exempted to the reservoir or partly reservoir built hydro power project of more than 200 MW and completing its financial closure within 2082 Chaitra end.

Notwithstanding anything contained above, the provision at time of getting the license will be applicable for a licensed person who has already commenced commercial operation at the time of introduction of this Sub Section.

(3Tta) Following income tax exemption will be provided to a tourism related industry or an airlines company carrying out international flights.

- Full income tax exemption upto five years and fifty percent for three years thereafter from the date of commencement of transaction establishing on capital investment for more than Rupees one billion.
- Full income tax exemption upto ten years and fifty percent for five years thereafter from the date of commencement of transaction establishing on capital investment for more than Rupees two billion.
- Full income tax exemption upto fifteen years from the date of commencement of transaction establishing on capital investment for more than Rupees five billion.

(3Nga) Following tax rebate shall be allowed on Income from export having source in Nepal during any Income Year:

(Ka) If resident natural person required to pay tax at 20% on Income then 25% of such tax amount and if required to pay at 30% on Income then 50% of such tax amount

(Kha) 20% on applicable Income Tax on Income of an Entity

(Ga) Additional 35% on tax amount after availing rebate as per clause (Ka) or (Kha) on income received from Export of Manufactured goods by manufacturing based industry

(3Da) 50% rebate on Income Tax up to 3 years and 25% rebate on income tax upto 5 years thereafter from the date of operating transaction by Special industry operating after incorporating or shifting in Industrial Area or Rural Industrial Area.

(3Ddha) 20 % tax is exempted on the income earned from sale of raw material or subsidiary raw material, produced within country, to Special Industry.

(3Na) 100 % tax exemption is provided up to 5 years from date of commencement to the startup business as prescribed by department established by utilizing innovative knowledge, concept, skill, technology, system having annual transaction up to 1 crore rupees.

(3Pa) If the special industry which is in operation in Kathmandu valley is shifted and operated outside Kathmandu valley, 100 % tax exemption is provided up to 3 years of shifting and operation of business and 50 % tax exemption is provided up to additional 2 years.

(3Fa) If an industry produces a new product by utilizing only used materials that directly affects the environment as raw material, 50 % tax exemption is provided up to 3 years from date of operation and 25 % tax exemption is provided up to next 2 years.

(3Ba) 100% rebate on Income Tax up to 3 years and 50% rebate on income tax up to 2 years thereafter from the date of production to the Industry manufacturing Health Vaccine, Oxygen Gas and sanitary pad.

(2) Concession to infrastructure development projects or industry of national importance (Section 11Ga)

No income source will be asked for investment made within 2080 Chaitra end in projects of national importance like hydro-electricity projects, projects of infrastructure such as international airport, tunnel way and road, railway and cement industry, steel industry, agricultural based industry, tourism service related industry and manufacturing industry (except cigarette, bidi, cigar, eating tobacco, khaini, gutkha, pan masala, alcohol and beer industry) employing more than 300 local workers and using more than 50% local raw materials.

(3) Seed Capital provided to startup business (Section 12Ga)

Seed capital provided in the form of grant by any person up to 1 lakh rupees to maximum 5 startup business other than the associated person, is allowed for deduction at the time of calculation of taxable income.

(4) Special provision related to disposal in case of merger of business (Section 47Ka)

As per Sub Section (6) of Section 47Ka, **the entity of same class** willing to get merged under Sub Setion (1) should submit expression of interest to Inland Revenue Department within **2079** Ashad end.

As per Sub Section (7) of Section 47Ka, The entities submitting expression of interest to get merged under Sub Section (1) should complete the merger process **2080** Ashad end.

(5) Public Circular (Section 75(2)

The Department shall make public circulars issued under subsection (1) available to the public on website of department or national level newspaper, or telecast or publish through any other electronic medium.

(6) Service of documents (Section 79(1)

As per Sub Section (1) of Section 79, A document to be served on a person under this Act shall be considered as sufficiently served in the following circumstances: -

(Ka) sent to the **address through fax** electronic mail address or related other electronic medium of any person;

(7) Withholding Tax

Section 88(1)(8)	Withholding Tax at 2.5% shall be deducted on Payment made for transport services.
Section 88(1)(9)	Resident BFIs taking loan from foreign bank or other financial

	institution in foreign currency and investing in specified areas prescribed by NRB, then TDS of 10% is to be deducted on such interest payment.
Section 88(1)(11)	TDS is deducted at the rate of 5 % on payment of registration fee, education fee, and exam fee to foreign university or school.
Section 88(1)(12)	TDS is deducted at the rate of 5 % on payment of interest on deposit to Life Insurance Company by resident Bank and Financial Institutions.
Section 88(1)(12)	As per Sub Section (4) of Section 88, Notwithstanding subsections (1), (2) and (3), this section does not apply to the following payments-
(Kha 1)	Payment of interest on loan provided to each other by Co- operative bank and Co-operatives.
(Kha 2)	Interest paid on loan obtained in foreign currency from foreign bank or other foreign financial institution by the reservoir or partly reservoir built hydro power project of more than 200 MW and completing its financial closure within 2082 Chaitra end.
Section 88(3)	As per Sub Section (3) of Section 89, Notwithstanding subsection (1), a resident person shall be required to withhold tax from a payment to a non-resident person under a contract as follows: - However, this provision will not be applicable while making payment on purchase of arm and ammunitions, bullet and communication equipment by Nepal Army, Nepal Police and Armed Police for its purpose.

(8) Final Withholding Payment (Section 92(1))

The following payments shall be treated as final withholding payments:

(Tta)	Payment for rent of vehicle or transport vehicle and payment for carriage service of a natural person except of sole proprietorship firm.

(9) To recover advance tax (Section 95Ka)

(2) Following advance tax will be recovered on the gain calculated under section 37 in case gain from disposal of interest in resident entity by a person except by a resident entity registered under prevailing

law for carrying out transactions of buying and selling of securities:

- In case of gain from disposal of interest of an entity listed in Securities Exchange Board of Nepal, by the entity of which deals in securities exchange Market 5% of the profit in case of disposal of interest in an entity having ownership of more than 365 days and advance tax will be deducted at the rate of 7.5 percent of the profit in case of disposal of interest in an entity having ownership of less than or equal to 365 days ,10% on the gain from resident entity and 25% on the gain from others.

(6Kha) If any resident natural person not involved in business operation receives payment in foreign currency by providing software or similar electronic service outside Nepal, the bank, financial institution or money transfer entity shall recover advance tax at the rate of 1 % on payment received.

(6Ga) As per Sub Section (6Ga) of Section 95Ka, If any resident natural person not involved in business operation receives payment in foreign currency by providing consultancy service personally outside Nepal, the bank, financial institution or money transfer entity shall recover advance tax at the rate of 1 % on payment received.

(6Gha) As per Sub Section (6Gha) of Section 95Ka, If any resident natural person not involved in business operation receives payment in foreign currency by uploading audio visual in social media, then the bank, financial institution or money transfer entity shall recover advance tax at the rate of 1 % on payment received.

(10) Appeal to the revenue tribunal (Section 116)

(1) As per Sub Section (1) of Section 116, A person (the appellant) who is aggrieved by a decision on an objection under section 115 may appeal to the Revenue Tribunal in accordance with the Revenue Tribunal Act, 2031.

(5) While making appeal to the Revenue Tribunal u/s 116(1), 100 % of undisputed tax and 50 % of disputed tax, charges and interest shall be provided as deposit or bank guarantee of such amount shall be provided.

(6) As per Sub Section (6) of Section 116, While calculating amount of deposit or bank guarantee u/s 116(5), the 25% tax amount deposited for administrative review in Inland Revenue Department shall also be considered.

(11) Tax rate and benefit for natural person

Schedule 1 Section 1(4) As per Sub Section (4) of Section 1 of Schedule 1, Subject to Sub Section (3) the following Natural Person shall be taxed as follows: -

(Ka) the greater of the following amounts shall be taxed at the rates specified in Sub Section (1) or (2) as though it were the only taxable income of the Natural Person or couple, as the case requires; and

(1) the total of Natural Person or couple’s taxable income less the gains; or

(2) Rs. 400,000, in the case of Natural Person, or Rs 450,000, in the case of a couple,

(Kha) the balance of the taxable income is taxed at the rate of 10 percent. But,

(1) Tax shall be levied at 2.5% if the ownership is more than 5 years of the NBCA (land and house and land) disposed off.

(2) Tax shall be levied at 5% if the ownership is less than 5 years of the NBCA (land and House and land) disposed off.

(3) Tax shall be levied at the rate of five percent on the profit earned from the disposal of interest in entity listed in the Securities Board of Nepal and having ownership of more than 365 days and tax shall be levied at the rate of 7.5 percent on the profit earned from the disposal of interest in entity listed in the Securities Board of Nepal and having ownership of less than or equal to 365 days.

(12) Pension exemption (Schedule 1 Section 1(9Ka))

Notwithstanding this section, if any Natural Person has pension income, the tax amount shall be calculated after deducting 25% amount of exemption limit under subsection 1(Ka) for a single natural person and 2(Ka) for a couple from taxable income.

But, the amount to be reduced will not exceed the ceiling prescribed.

(13) Private House Insurance Premium (Schedule 1 Section 1(16Ka))

If any resident natural person insures the private building, which is in his/her ownership, in resident insurance company, lower of annual insurance premium amount or 5000 rupees shall be deducted on calculation of taxable income.

(14) Transactions based tax (Schedule 1 Section 1(17))

In computing tax as per section 4 (4ka), tax shall be levied as per section 4(4) on transaction up to 30 lakh rupees. In case of transaction exceeding 30 lakh rupees, tax shall be levied as below:

(Ka) for a person conducting transaction of goods including gas, cigarette by adding up to three percent commission or value addition and having transaction exceeding 30 lakh rupees up to 50 lakh 0.25 percent of transaction, and in case of transaction exceeding 50 lakh rupees up to 1 crore rupees, 0.3 percent of the transaction turnover,

(Kha) for a person conducting a business other than that mentioned in clause (Ka), Transaction exceeding 30 lakh rupees up to 50 lakh rupees- 1 percent of the transaction, Transaction exceeding 50 lakh rupees up to 1 crore rupees- 0.8 percent of the transaction,

(Ga) For a person conducting a service business, 2 percent of the transaction amount.

Value Added Tax (VAT) and its Contribution to GDP in Nepal

In summary, the value added tax (VAT) has a positive relationship with Gross Domestic Product and is contributing to the economic growth of the country resulting greater revenue potential to developing countries like Nepal than most other instruments, but realizing this in many cases requires expanding the base by eliminating exemptions, unifying rates, and improving compliance and proper implementation of the designed tax system.

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Introduction

Taxation is one of the important elements in managing national income, and has played an important role in civilized societies since their birth thousands years ago (Lymer & Oats, 2009)[1]. Adam Smith in his book 'The Wealth of Nations' which was published in 1776 suggested that a tax system is based on certain basic principles, namely equity, certainty, convenience and efficiency. This article primarily discusses the contribution of VAT to national income in the context of Nepal.

VAT is an indirect tax which is levied on a product or services the incidence of which is borne by the consumers who ultimately consume the product or services, while the immediate liability to pay the tax may fall upon another person such as manufacturer or provider of services or seller of goods. The concept of VAT was developed for the first time by Dr. Wilhelm V. Siemens in Germany in 1919 that was developed further in 1949 by a tax mission in Japan headed by Prof. Carls S. Shoup, the

1 Lymer, A. and Oats, L. (2009). *Taxation: Policy and Practice* (16th ed.). UK: Birmingham Fiscal Publications.

tax however remains as only a topic of academic interest until 1953. Finally, France introduced VAT covering the industrial sector in 1954.

In Nepal, the concept of VAT was developed in the Eighth Plan (1992-1997) when the government indicated its intention to convert the import/manufacturing level sales tax into VAT and finally the Parliament passed VAT act 1995 on 21st March, 1996 and the government specified the date of implementation of VAT act by publishing in the Nepal Gazette on 16th November, 1997. The rate of VAT was fixed at 10 percent when it was first introduced and later the rate was amended to 13 percent with effect from fiscal year 2005/2006. Currently, VAT is levied at a single rate of 13 percent with various exemptions and a zero rate for exports.

VAT contribution on Revenue and GDP

The key claim made by the advocates of VAT is that it is particularly effective way of raising tax revenue. Cnossen (1990)[2] argues that purely from revenue point of view, VAT is probably the best tax ever invented. The dramatic acceptance and rise of VAT across the globe is due to the reason that VAT is a good way to raise resources and modernize the overall tax system (Ebrill et al, 2001)[3].

From Global perspectives, Ebeke & Ehrhart (2011)[4] examined whether or not the adoption of value-added tax (VAT) in developing countries is an effective way of stabilizing tax revenues. Using a large panel of 103 developing countries observed over 1980-2008, they found robust evidence that the presence of VAT leads to significantly lower tax revenue instability. On average, countries with VAT experience 40-50% less tax revenue instability than countries which do not have a VAT system. These effects decrease with the level of economic development and the openness of trade.

Emmanuel (2013)[5] investigated the effects of Value Added Tax (VAT) on economic growth (GDP) of Nigeria using time series data from 1994-2010 and found one per cent increase in VAT revenue causes 1.47% increase in economic growth (GDP). Keen & Lockwood (2007)[6] estimated, on a panel of 143 countries for 25 years, of a system of equations describing both the probability of VAT adoption and the revenue impact of the VAT and found that the effect of the VAT proves to be significantly positive but fairly modest: adoption of the VAT is associated with a long run increase in the overall revenue-to-GDP ratio of about 4.5%.

At present, VAT is the third important source of tax revenue for the governments in the world, behind social security contributions and personal income taxes (Charlet & Buydens, 2012)[7]. An increase in tax revenue, including VAT signifies that more revenue is available for economic growth. In Nepalese economy, tax revenue is one of the primary sources of the government revenue. Among the tax, VAT can play an important role in the process of development in developing countries like Nepal which needs higher revenue to fulfill its financing deficit.

Contribution of VAT to total revenue

In the last ten years, the contribution of tax revenue is around 85-90 percent and non-tax revenue is around 10-15 percent on average in each year and there is huge growth rate of more than 250 % under tax revenue. In FY 2076/77, total tax revenue is NPR 700 Bn (89%) and non-tax revenue is NPR 89.11 Bn (11 %). Indirect tax contribute major portion in total tax revenue i.e. more

2 Cnossen, S. (1990). Taxing Value Added: The OECD Experience. International VAT Monitor 5 (May), pp. 2–16.

3 Ebrill, L., Keen, M., Bodin, J-P., and Summers, V. (2001), *The Modern VAT.* International Monetary Fund (IMF).

4 Ebeke, C. and Ehrhart, H. (2011), *Does VAT Reduce the Instability of Tax Revenues?* CERDI, Etudes et Documents, E 2011.24.

5 Emmanuel, U. C. (2013),*The Effects of Value Added Tax (V.A.T) on the Economic Growth of Nigeria*. Journal of Economics and Sustainable Development, 4(6), 190-201.

6 Keen, M. & Brockwood, B. (2007), "The Value Added Tax: Its Causes and Consequences", Warwick Economic Research Papers No. 108.

7 Charlet , A., & Buydens, S. (2012). *The OECD International VAT/GST Guidelines: Past and Future Developments*. World Journal of VAT/GST Law, 1(2), 175-184.

than 60 %. The amounts of direct and indirect taxes are increasing every year in the last ten years. The percentage contribution of direct tax to total tax revenue and indirect tax to total revenue are fluctuating throughout the period.

Among the indirect taxes, VAT contribute major portion in total indirect tax revenue i.e around 46 % and in total VAT contribute around 30-35 % of total tax revenue on an average. In FY 2076/77, total revenue from VAT is NPR 224 Bn (30%) and growth rate is more than 250 % in the last ten years. This indicates VAT has significant role in Nepalese economy.

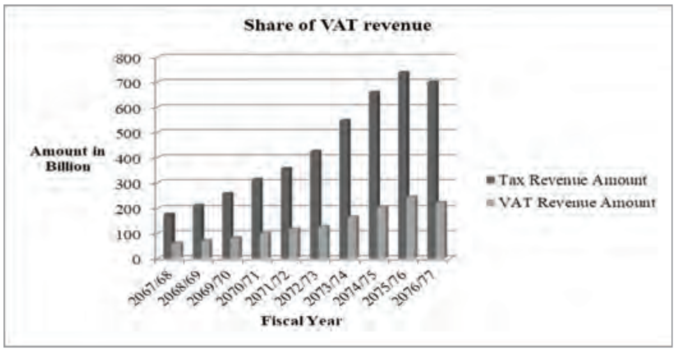

Fig: 1: Share of VAT Revenue

Source: Inland Revenue Department (IRD), Annual Report (2067/68 to 2076/77)

The share of VAT collection from domestic products has been around 34 to 38 % whereas collection from imports has been around 61-66 % in the last ten years. Nepalese economy is agricultural based. Most of the products and services are imported from neighboring countries and third world countries and agriculture production through unorganized sector has been exempted from VAT. Due to this, import generates more VAT revenue than domestically produced goods and services. In FY 2076/77, total revenue from VAT (Internal) is NPR 96.14 Bn (43%) and from VAT (Imports) is NPR 127.93 Bn (57 %), hence, the performance of VAT can be more if domestic produced goods and services generate more VAT.

VAT to GDP Ratio

Kalas & Milenkovic (2017)[8] found a strong relationship between value-added tax and gross domestic product. The VAT /GDP ratio measures the consistency of the growth of VAT revenue with the corresponding growth in Gross National Product. This is an indicator of the utilization of taxable capacity. Normally, the growth of VAT revenue mobilization in line with the growth in GDP is desirable for the rapid economic development of a country. The collection of VAT revenue is more reliable than the direct tax revenue, non-tax revenue, which facilitates the process of economic planning and development in the country.

In the context of Nepal, VAT-to-GDP ratio during the study period FY 2067/68 to FY 2076/77 comparing to other taxes is presented as follows:

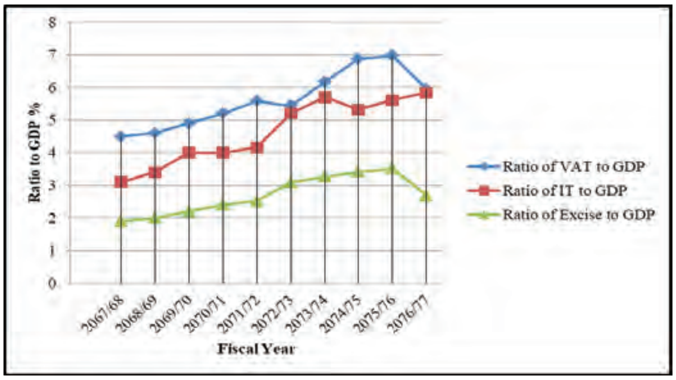

Fig: 2: VAT to GDP Ratio

Source: Inland Revenue Department (IRD), Annual Report (2067/68 to 2076/77)

Contribution ratio to GDP from VAT is highest among Income tax and Excise after implementation of VAT in the country. The share of sales tax/VAT in GDP is 1.90 % in FY 2052/53 and thereafter in increasing trend in all the fiscal years reaching to 6% in FY 2076/77.

Efficiency of Value Added Tax to GDP

Advocates claim that in developed economies like USA, UK etc. Direct Tax plays a leading role for the

8 Kalas, B., & Milenkovic, N. (2017). *The Role of Value Added Tax in the Economy of Serbia. Ekonomika, 63(2), 69-78.* https://doi.org/10.5937/ekonomika.1702069K.

internal resource mobilization where as in developing countries like Nepal, Indirect Tax plays pioneering role by dominating Direct Tax with very limited tax base and narrow coverage. Nepal depends heavily on the indirect tax rather than the direct tax because there is not any good alternative especially for the optimum level of revenue mobilization; on hand and on the other hand, wide spread poverty, heavy dependency on agriculture, snail's pace industrialization, low level income and wealth and very wreaked administration.

The VAT efficiency ratio (E) is the ratio of VAT revenue to GDP, divided by the standard VAT rate (IMF, 2002). It indicates the percentage of GDP collected by each percentage point of the standard VAT rate. In general, the higher the ratio, the better the performance of VAT.VAT efficiency ratio (E) is hovering around 6-8 % comparing to the standard rate (13%) for the last ten years in the context of Nepal that means there is a huge gap in collection capability resulting VAT leakage and a number of factors are responsible for this but not limited to informal economy, shadow economy, black transactions, complexity in implementation, ineffective billing system, under valuation of goods and services, loss of revenue via producing fake bills.

Conclusion

In summary, the value added tax (VAT) has a positive relationship with Gross Domestic Product and is contributing to the economic growth of the country resulting greater revenue potential to developing countries like Nepal than most other instruments, but realizing this in many cases requires expanding the base by eliminating exemptions, unifying rates, and improving compliance and proper implementation of the designed tax system.

Hence, in the words quoted by Wallschutzsky (1989)[9] has suggested that the key elements in such a strategy must be summarized as follows: Keep the tax laws as simple as possible; aim for a global tax with few exemptions, rebates, or deductions; Do not try to use the tax system to achieve too many social and economic goals; Continually monitor the tax system; Concentrate on basic tasks such as collection of taxes at source and ID number system; Do not collect more information than can be processed; actively encourage good record keeping; and, aim, as a long term goal, for self-assessment.

9 Wallschutzsky, I. (1989). *Achieving Compliance in Developing Countries.* 45 Bulletin for International Fiscal Documentation. Asia Pacific Tax Bulletin.

Audit Quality Assurance Review - An Overview

Audit Quality Assurance Review involves the periodic review of works that were performed by auditors and audit firms. It ensures that auditors perform to high professional and ethical standards. QA for audit is one of the key components of audit regulation.

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1. Background

The Institute of Chartered Accountants of Nepal (The ICAN or The Institute) has recently restructured organizational setup. In new structure a separate Supervision and Regulation Directorate has been established for practicing Quality Assurance Review, Disciplinary Investigation and other Regulatory arrangements to maintain synergy in the regulatory mechanism of the Institute. With the increased size of the economic activities in the country the business activities and complexities associated with it are challenging to the audit practicing firms in rendering the quality of audit services to their client. In this article attempts has been made to present the overview of existing audit quality review system of the Institute for the understanding of the stakeholders.

2. What Audit Quality Assurance Review is?

Quality Assurance (QA) Review Function is one of the core regulatory functions of The Institute of Chartered Accountants of Nepal (ICAN). Most of the countries have the Institute of Chartered

Accountants to regulate its members and their functions that may include Audit Quality Assurance Review. The Institute of Chartered Accountants of Nepal (ICAN) is the national regulatory authority to regulate Accounting Profession which was established in 1997 (2053) with promulgation of Nepal Chartered Accountants Act, 1997 by the Parliament.

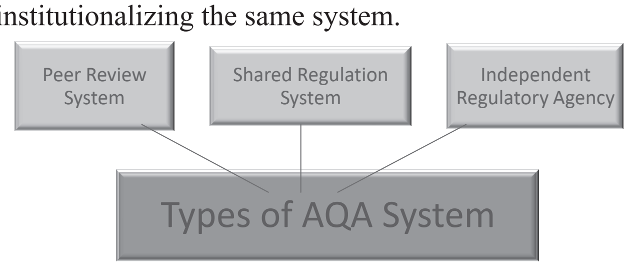
Audit Quality Assurance Review involves the periodic review of works that were performed by auditors and audit firms. It ensures that auditors perform to high professional and ethical standards. QA for audit is one of the key components of audit regulation that involves the following components as given in the chart below:

COMPONENTS OF AUDIT REGULATION

Source: Quality Assurance for Audit-A Good Practice Guide by ICEAW

3. What are the Models of Audit Quality Assurance Review?

There are mainly three different types of Audit Quality Assurance (AQA) models of Review System across the world. The first one is Peer Review System, a system involving a dedicated unit within regulatory body, second is Shared Regulation and third is high end system involving an Independent Regulatory Agency. The most common AQA System is Shared Regulation System. The shared regulation system has been adopted in USA, Japan, UK and other countries and Nepal is also in process of institutionalizing the same system.



Earlier, Peer Review System as Self-Regulation system had been used in Nepal to review Audit quality. In 2073 B.S. Council of ICAN decided to form an independent Quality Assurance Board (QAB) in Nepal as regulatory apparatus of the Institute by replacing the Peer Review Board to review and regulate the quality of services delivered by its members. QAB of the Institute through QAB Unit reviews the Audit services performed by the practicing members of ICAN, which includes the review of firm's quality control system and quality of audit engagement performed. The QAB Unit is equipped with qualified dedicated reviewers and they perform review work applying specified review procedures and international practices.

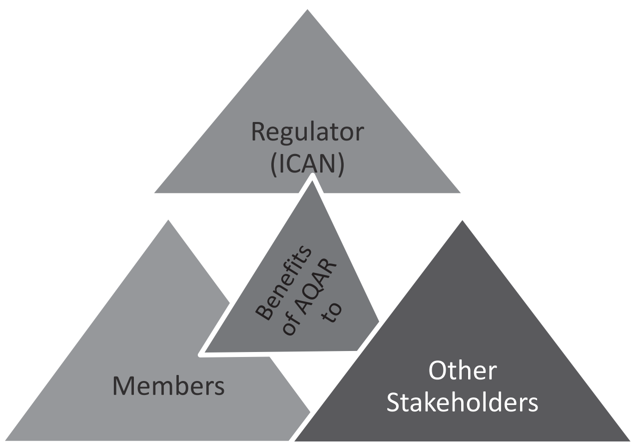
4. Why AQA Review ?

AQA is necessary to enhance the public confidence on the audit function by improving the quality of work performed by the Auditors. For that purpose, the regulator should review and monitor the work performed by its members closely. It is human nature that the fear and care will emerge if there is any body to regulate the work performed by him/her. So, effective AQA review system can make the auditor careful on performing the audit engagement. AQA review helps to enhance the capabilities and professional behavior by exchanging the system among the audit firms. The Statement of Membership Obligation (SMO-1) of IFAC provides the conceptual framework for establishing and operating Audit Quality Assurance Review Systems by its member Professional Accountancy Organizations (PAOs).

In this regard, it is the obligation of the Institute to comply with Statement of Membership Obligation (SMO) -1 of IFAC membership. This helps in enhancing and generating the public confidence on the audit services and helps in making aware to improve the quality of work performed by the auditor. In Nepal, Rule 103 of Nepal Chartered Accountants Rule, 2061 has the policy provision of Quality Assurance Board (QAB). As per the Quality Assurance Board's Annual Report 2019-20, a total of 57 audit firms of Chartered Accountants, who conducted the audit of listed entities' audit, were reviewed by the Board.

5. What are the benefits of AQA Review ?

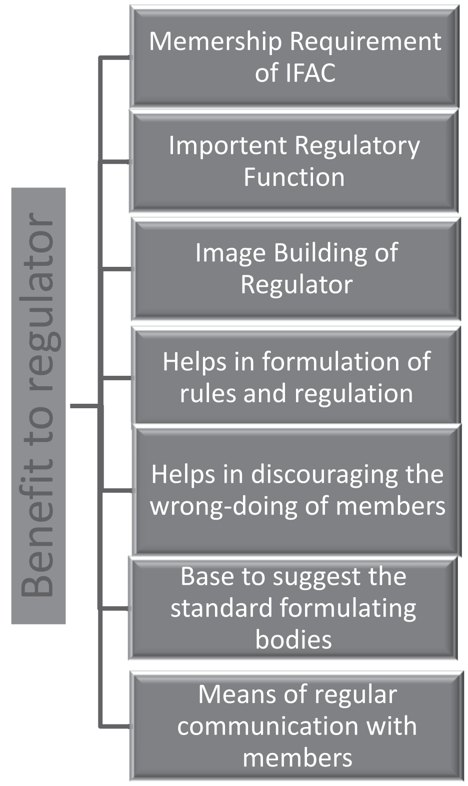
Enhancing the public confidence on audit is ultimate benefit of AQA review system. Mainly 3 parties are benefited if AQA Review function becomes effective.



5.1. Benefits to Regulator(ICAN)

ICAN is one and only regulator of audit function in Nepal except the audit conducted by Office of Auditor General. AQA review is one of the important regulatory functions of ICAN as discussed above. Followings are some benefits of AQA Review to Regulator (ICAN);

a. Quality Assurance Review is the requirement of IFAC membership. So, Conducting Audit Quality Assurance Review indicates the compliance with requirement of IFAC membership.
b. It is one of the regulatory functions and regulation is one of the important objectives of the Institute.



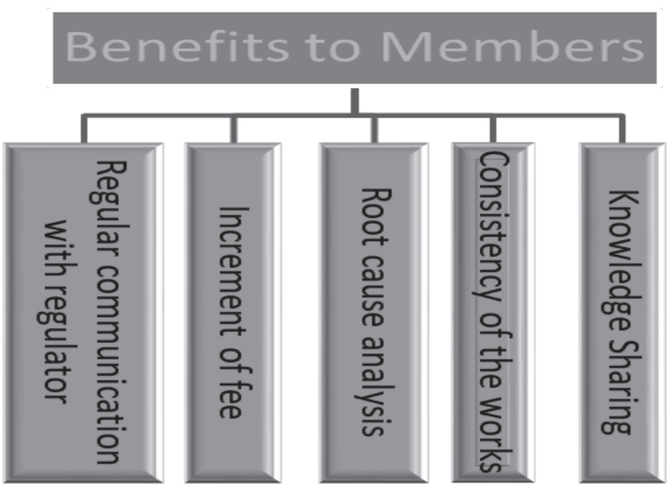
c. It helps in increasing the reliability of audit function which enhances the public confidence towards the audited information that automatically helps in image building of regulator.
d. It becomes basis to Regulator for formulating the Rule, Regulation, Procedures, Manual, Directives etc. based on the findings noted on the Quality Assurance Review function.
e. Regulator can suggest the standard formulating bodies for amending and updating the standards which are impractical to the local environment based on the findings of Audit Quality Assurance Review function.
f. It acts as the means of regular communication with regulator and its members. It helps regulator to keep in touch with the members.

5.2. Benefits to Members

The AQA Review function is basically focused on Audit performance of Practicing Members of the Institute.

Reviewers mainly review the Audit Quality management system of the firm and the Performance of Audit engagement. AQA Review helps the Practicing members to share the knowledge with reviewer and to know about the national and international existing practice regarding the Quality Management System and Audit performance. They can be benefited from the AQA Review in various prospective and followings are some benefits of AQA review to the practicing members of the Institute;

a. Quality Assurance Review function provides the room for knowledge sharing to the members. Members can share their knowledge to the reviewer and can obtain the information of best practices in the industry from the reviewer.
b. Audit Quality Assurance Review helps in increasing the consistency on audit practice of members.
c. Members can understand the lapses on their audit system, procedures and methodologies applied and they can analyze the root cause thereof.
d. Qualitative audit work deserves for increasing fee structure.
e. It will be the means of regular communication with regulator.



5.3. Benefits to stakeholders

One and only benefit of the Audit Quality Assurance Review function to other stakeholders is to obtain the reliable audit opinion and true and fair information based on which the audit opinion is issued. Because of performing Audit Quality Assurance Review by regulator, members get opportunity to enhance the quality of their works that eventually helps to increase the reliability of the audit opinion and information which supports to increase the public confidence.

6. Expectation

Regarding the function of auditor, regulator (ICAN) may have some expectation and regarding the regulatory function of the regulator its members may have some expectation. Some of the expectation of both and other stakeholders regarding the Audit Quality Assurance review function may be as follows.

6.1. Expectation of Regulator (ICAN)

The Institute of Chartered Accountants of Nepal has initiated the practice of Audit Quality Assurance Review work with establishing separate Division under the guidance and control of Quality Assurance Board, an independent board in ICAN. As the regulator ICAN may have some expectation from its members, which can be as follow;

– ICAN expects that every members comply with ICAN Act 2053, ICAN Regulation 2061, Codes of Ethics Issued by ICAN and other prevailing applicable Laws,
– ICAN expects from audit firms to recruit capable and competent human resources,
– ICAN expects that members perform the audit and other function complying with all the requirement of Nepal Standards on Auditing (NSAs),
– ICAN expects that members perform quality of work with appropriate & sufficient system of Quality control and help on economic development of nation which enhances the public confidence on accounting profession, trust on regulator's functions and importance of professional qualification.

6.2. Expectation of Members

Members of Institute may have their own expectation toward the regulator. They expect that regulator should have regular contact and interaction with its members. They, further, want to find the solution for each related problem that they are facing while discharging their Audit function from the Institute. Members may have different expectation from regulator and some of the expectations might be as follows;

- Members expect that regulator provides sufficient guidance to the members.
- Members expect that Audit Quality Assurance Review function shall be done with sufficient notice.
- Members expect that the Audit Quality Assurance Review function shall be done from qualified and knowledgeable reviewer who can confidently convince the Firm.
- Members expect that the Institute provides the sufficient time to improve on the findings of Review team.
- Members expect that the Institute does not take the action only on the basis of Audit Quality Assurance Review in initial phase.
- Members expect that the Audit Quality Assurance Review function helps in enhancing the competencies of the Firm and Industry as a whole.
- Members expect that the reviewed firm shall have lower chance of Legal action from other Authority of Government.

6.3. Expectation of Other Stakeholders

Other stakeholders can be Investor (National and International), other regulatory body, Government, International Accounting firm who is trying to collaborate with Nepalese firms and management of the organizations. Each stakeholder may have their own expectations from accounting profession. Some of the expectations may be as follow:

- Investor expects that the information over which the audit opinion is issued are true & fair, if not auditor mentions the fact, and based on such information the investor can take the decision of investment.
- Other regulatory bodies like Security exchange Board of Nepal, Nepal Rastra Bank, Insurance Board etc. expect that the audit is conducted following all the applicable procedures and everyone can have confidence on the audited information.
- Government expects that the audit function is being conducted by capable and professional firms or person with sufficient expertise and qualification following all necessary procedure so that everyone can rely on the audited information.

7. Conclusion

It is the real fact that the quality of work performed by the auditor is crucial not only to the accounting profession but also linked with the image of the Regulator (ICAN) and linked with economic prosperity of nation. It is the responsibility of practicing firms to comply with the Auditing Standards and other Audit Protocols along with Applicable Legal Requirements while discharging their audit responsibility. The responsibility of the Regulator like ICAN is to encourage the practicing firms to perform the audit engagement complying with all the Auditing Standards and other Audit Protocols along with Applicable Legal requirements. The results of Audit Quality Assurance Review might be useful to the practicing audit firms, Regulator (ICAN), other Regulatory Bodies and other Stakeholders and practicing firm can stimulate their future audit performance/works using the results of Audit Quality Assurance Function. Therefore, for the purpose of effective Audit Quality Assurance review function, the QAB Unit should be well equipped with sufficient resources by the Institute. To make this function more effective every stakeholders like the Institute as a Regulator, Practicing Members, Other Regulatory Body, Audited Organization and General Public as the users of the Audited information may have different role from their own side that should demonstrated by them in action.

Mandating NRB for Complying with GON Directive on Money, Banking and Finance: What are the Likely Consequences ?

Since the NRB Act, 2002 is a central banking legislation dedicated to the promotion, regulation, consolidation, and stability of the nation's money, banking, and finance system, any GON directive to the NRB over these subjects as provided by the amended section 106C would compromise and undermine the jurisdictional authority of the central bank although the relevance, consistency and appropriateness of the legal provision concerning the GON directive to the NRB has not yet been defined, explained, and interpreted by the court of law.

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1. Introduction

For carrying out the central banking activities, the Nepal Rastra Bank (NRB) was established on April 26, 1956 as per the Nepal Rastra Bank Act, 1955 which commenced on December 5, 1955 despite the NRB bill receiving royal seal on November 4, 1955. Along with the change of times, there were numerous amendments to the Act which was eventually replaced by the new NRB Act, 2002 which came into operation on January 30, 2002. To be specific, in a span of 46 years (1956-2002), there were nine amendments to the NRB Act, The NRB Act, 2002 is more elaborate and comprehensive compared to the NRB Act, 1955 which contained 39 sections comprising four parts while the prevailing NRB Act, 2002 consists of 112 sections divided into 12 parts. The NRB Act, 2002 mandates the NRB to perform central banking functions and promote stability in price, balance of payments, and overall financial sector for the sustainable development of the economy. Fostering access to financial services, promoting secured, healthy, and efficient payment system, and increasing public confidence in the banking as well as the financial system comprise the additional objectives of the

NRB. The Act mentions that the NRB will facilitate the implementation of the economic policy of the Government of Nepal (GON) without compromising the pursuance of NRB's own objectives. However, the insertion of section 106C through the second amendment to the NRB Act, 2002 has compromised the independent authority of the central bank by the likely government interference in the matters of money, banking, and finance.

2. The Context

As part of the second amendment to the NRB Act, 2002 introduced on November 14, 2016, newly inserted section (namely, 106C) specifically concerned the issue of directive by the GON to the NRB on matters of money, banking, and finance along with the provision for its mandatory compliance by the NRB. The present article concerns with analyzing the consequences of section 106C. As provided in section 5 (1) of the then prevailing NRB Act, 1955, the GON could issue directive, if deemed appropriate for the public interest, in consultation with the NRB governor, and it would be the duty of the NRB to comply with such directive. However, the then Act did not consider it expedient to mention the scope of directive as money, banking, and finance as then Act implicitly considered that these areas pertained to the central bank specialization.

In the context of the emerging need for empowering the central bank with more autonomy and independence for raising their capability and accountability toward discharging the mandated central banking duties and responsibilities, the NRB Act, 2002 scrapped such provision of issuing GON directive and getting it complied by the NRB. However, the second amendment to the NRB Act, 2002 inserted section 106C providing that the GON may issue directive to the NRB in matters concerning money, banking, and finance, and it shall be the duty of the NRB to comply with such directive. For almost 15 years from January 30, 2002 to November 13, 2016, there was no such provision of GON directive nor the requirement for its mandatory compliance. As stated earlier, the erstwhile NRB Act, 1955 had provided for such mandatory provision only in consultation with the NRB governor. Such a provision of prior consultation with the NRB governor before issuing any directive by the GON allowed the NRB the room for communicating to the GON the NRB perspective on the related subject. Such an arrangement helped reduce the government interference and high-handedness in the area of central banking by indirectly respecting the specialized and professional character of the central banking functions.

Another significant absence in the second amendment as compared to the provision of the then NRB Act, 1955 has been the scrapping of the provision of issuing the directive to the NRB by the GON provided that such directive was deemed appropriate for safeguarding public interest. Thus, the second amendment did not require the GON to prove the appropriateness of the GON directive to the NRB in the light of public interest. This means that if the GON directive could turn out subjective, inappropriate, and even politically-motivated, then such directive would not be consistent with the spirit of an independent and professional character of the central bank, raising the possibility of the central bank being used as a political instrument. If the central institution of the land overseeing the country's money, banking, and finance gets subjugated to political interests, the public confidence in, and the credibility of, the central bank roles and responsibilities would be eroded, undermining the credence, confidence, and stability of the country's financial and economic system.

3. GON Directive vis-a-vis the Role of NRB Board

The NRB Act, 2002 mentions the specific functions and duties of the NRB (section 5), that of the board of directors (section 29), and that of the governor (section 30). It is the role and responsibility of the NRB board of directors to formulate policies concerning money, banking, and finance coming under the purview of the NRB. Likewise, it is the responsibility of the NRB governor for implementing such policies. If the GON is dissatisfied with the performance of the board, the board members could be relieved of the posts by complying with the due process of the law. While the governor could be removed from the post on the recommendation of the enquiry committee as formed under section 23 of the Act, deputy governor and other board member could be relieved of the posts as recommended by the enquiry conducted by the NRB board, as per section 22 (3). Section 22 (5) of the Act lists the following grounds on which basis the proceedings for the removal of the governor, deputy governor, and other board member could be initiated namely, (a) if one is disqualified to become a director because of any of the listed six grounds pursuant to section 21, (b) if there is lack of capability to implement or cause to implement the functions which the NRB has to carry out in order to achieve the objectives of the NRB under this Act, (c) if one has committed any act causing loss and damage to the banking and financial system of the country, (d) if one is found to have acted dishonestly or with mala-fide intention in any transaction related to the NRB business, (e) if professional license is revoked or prohibited from carrying out any profession rendering the person disqualified to get engaged in any trade or profession on the grounds of gross misconduct, and (f) if one is absent for more than three consecutive meetings of the board of directors without attributing a genuine reason.

As section 106C of the NRB Act, 2002 provides that the GON may issue directive to the NRB in matters concerning money, banking, and finance, it is, however, unclear what would constitute the nature, contents, scope, and limitations of the directive. First to ponder is what prompted the legislature to insert such section in the NRB Act, 2002? Since the NRB board of directors comprising the governor, two deputy governors, and four members including the incumbent finance secretary have all been appointed by the GON and their qualifications, selection process, ineligibility criteria, removal criteria and the process of removal, and their roles and responsibilities are all clearly delineated in the Act, the GON should first evaluated the role and performance of the NRB board as also the governor as specified in the Act and proceeded with the necessary actions as per the letter and the spirit of the Act instead of presenting to the legislature the amended section which, in an authoritarian and unprofessional way, empowered the GON to issue directive on money, banking, and finance for the mandatory compliance by the NRB while the NRB itself serves as the country's specialized and authoritative agency in the matters of money, banking, and finance.

Hence, instead of evaluating the performance of the board members and, if found guilty, proceeding to take the actions in conformity to the law, the government illogically opted for directing the NRB as per its wishes and fancies by presenting the amendment bill by inserting 106C in the legislature in response to which the legislature also approved without due considerations for its implications. If the government really wanted the performance of the central bank enhanced and its credibility raised, it would have followed the aforesaid process of law.

4. NRB Functions and the Relations with the GON

Chapter 8 (sections 69-75) of the NRB Act, 2002 covers the different aspects of NRB's relations with the GON. According to section 69, the NRB shall be the banker and economic advisor of the GON besides being the fiscal agent of Nepal. The GON shall consult the NRB on any matter that is within the jurisdiction of its competence. It shall be the duty of the NRB to advise on the matter consulted by the GON. The GON shall, while preparing the annual budget, consult the NRB on the domestic debt including the overdraft. The NRB shall submit a pre-budget review report on the country's economic and financial matters to the GON each year. As per section

74, the NRB shall have powers to submit proposals to the GON for enacting new law or amending the existing laws on the subjects relating to the objectives of the NRB or area of its competence such as monetary policy and its operation, extension of credit, balance of payments, foreign exchange, and banking. Section 75 (5) mentions that, at no time, the amount of overdraft provided by the NRB to the GON shall be more than five percent of the government revenue for the preceding fiscal year. Section 75 (6) states that the GON shall make the payment of the overdraft referred to in sub-section (5) within 180 days at the prevailing rate of interest either in the form of cash or marketable debt bond. According to section 75 (7), the total amount of debt bond purchased by the NRB from the GON and taken into its ownership shall not be more than 10 percent of the revenue for the preceding fiscal year, excepting the debt bond purchased for stabilizing the country's monetary conditions. Such provisions of the NRB Act, 2002 clearly delineate the terms and conditions relating to the NRB's business relationship with the GON. This means that the GON directive to the NRB on matters of money, banking, and finance should not violate or compromise the specific provisions of the Act. If this is violated, the central banking law would cease to operate and people's confidence in the money and banking system would evaporate.

5. Implications of Directive

As per the newly-inserted section 106C, the GON is mandated to issue to NRB the directive on money, banking, and finance without the consultation of the NRB governor and the NRB would be duty-bound to abide by such directive, irrespective of whether the directive promotes public interest or not. Issue of directive without the consultation of the NRB governor implies that the GON's directive could relate to any area of NRB role even beyond the NRB scope and limitation which, therefore, could override the subject-matter covered by the Act, and also at the time which NRB would consider as the most inopportune. Issuing the directive by the GON unilaterally, i.e., without taking into consideration the NRB view and perspective, in the subject of NRB specialization and competence as established by the different sections of the NRB Act, would prove a futile exercise because of legal inconsistency and discrepancy. The implications of the unlimited power of the GON in relation to the NRB functioning will be quite vague and uncertain proposition. Such paradox naturally asks for legal review and interpretation from a competent court of law. Otherwise, it would be hard to implement the central banking law in a prudent, independent, and professional manner. Among others, such a vague provision would directly affect the implementation of provisions especially in matters pertaining to the relations of NRB with the GON (i.e. sections 69 to 75 of the NRB Act, 2002.) When the independence and autonomy of the central bank in operational matters is negated, central bank would cease to work professionally. It is disappointing to observe that the GON directive issued without the consultation of the governor even in areas which the central banking law regards as the exclusive and specialized domain of the NRB would have to be complied by the NRB, giving rise to the conflict of duty and interest on the side of the NRB. What would be the vast implications of such dubious directive?

When the champions of excessive fiscal deficit have a heyday, fiscal discipline becomes the first victim. According to them, large fiscal deficit and the massive rise in public debt comprise the fundamental indicators of accelerated development on a sustained basis. For them, the term fiscal discipline itself is anti-development and nations could never fall prey to debt trap. Consequent to such irresponsible stance, over the past couples of years, we have seen the monstrous rise in the total public debt and the per capita debt level, and this tendency is bound to deteriorate further. With one of the world's lowest level of export/gross domestic product (GDP) ratio, Nepal's total debt/GDP ratio invariably looks unsustainable. Since such debt-loving elements started presenting the budget, the hitherto maintained revenue surplus (revenue exceeding the recurrent expenditure) turned into an increasingly huge revenue deficit (recurrent expenditure exceeding the revenue). This meant that the revenue fell short of even the recurrent expenditure and the shortfall was financed through debt financing. This resulted in a massive rise in the public debt/GDP ratio in a short span of time. This will create unsustainable debt situation characterized by debt financing risks and complications, leading to sharp problems with respect to inter-generational equity besides the government experiencing resource shortfall in financing the prioritized sectors like education, health, irrigation, drinking water, primary social security, other basic infrastructure, and agriculture.

Evaluating debt sustainability across countries by looking at the comparative public debt/GDP ratios would be a fallacious indicator for a country like Nepal with one of the weakest export sector coupled with the excessive fiscal deficit/GDP ratio. In a country with one of the world's lowest level of export/GDP ratio and one of the highest level of trade deficit/GDP ratio, the weak fiscal front would raise the interest cost for the private sector, reduce the private sector investment, plunder the State resources for financing the recurrent expenditure, discourage the domestic production base of the economy on account of the swarmed imports and appreciating real exchange rate, reduce the confidence in the banking and monetary system, encourage the capital flight in the economy, stagnate the employment prospects, increase poverty, and hinder the process of self-sustained growth process.

The champions of large budget deficit, fat bureaucracy, and populist politics undermine the public institutions that emphasize the fiscal discipline as a matter of law. Due to such undisciplined stance, the macroeconomic fundamentals would worsen and the investment climate would continue to become unfavorable in the days to come. The control-loving character of such vested elements goes against the health and growth of public institutions including the central bank. One such example of master stroke targeting the central bank has been the insertion of section 106C in the central bank legislation that would vanish whatever the autonomy remained even when the NRB board is comprised of all the government nominees (meaning that the GON sits at the helm of affairs of the central bank through these nominees.) Even such an arrangement could not satiate the dictating craze of the authoritarians who declare that there is only one fiscal policy in action and monetary policy does not exist and operate in the real world though the fiscal management they have orchestrated has produced increasing revenue deficit, huge burden of debt for the poverty-stricken people, and shortfall of resources for meeting people's fundamental needs of life.

The GON has been achieving record success in widening the fiscal deficit as also the public debt while exercising more control over the central bank even by amending the central banking law. These two were the very examples that Zimbabwe experimented to destroy its economy. So, it would be quite relevant to cite here the repercussions of increasing control over the central bank and the failure of fiscal policy to control the fiscal deficit as experienced by Zimbabwe, especially during the first decade of the new Millennium. Because of the self-seeking economic mismanagement perpetrated by the dictatorial rule, Zimbabwe went through most turbulent times in the global economic history, accompanied by hyper inflation and spiraling unemployment. How the economic system was destroyed in a period of one and a half decades could be explained with the worst loss of confidence observed in the country's currency system. On June 16, 1980, three issues of currency notes were introduced in denominations of 50, 100, 500 and 1,000 meticais. The same notes and denominations were reissued on June 16, 1983, while 5,000 meticais notes were introduced on February 3, 1989. On June 16, 1991, 500, 1,000, 5,000, and 10,000 notes were issued followed by 50,000 and 100,000 meticais on June 16, 1993, 20,000 meticais on June 16, 1999, and 200,000 and 500,000 meticais on June 16, 2003. If the elements responsible for fiscal mismanagement and undue interference and intervention in the country's monetary and banking system are not held back in time, the day won't be far enough that Nepal too will be following the steps of Zimbabwe.

6. Conclusion

Since the NRB Act, 2002 is a central banking legislation dedicated to the promotion, regulation, consolidation, and stability of the nation's money, banking, and finance system, any GON directive to the NRB over these subjects as provided by the amended section 106C would compromise and undermine the jurisdictional authority of the central bank although the relevance, consistency and appropriateness of the legal provision concerning the GON directive to the NRB has not yet been defined, explained, and interpreted by the court of law. Even for such amendment to appear logical, practical, certain, and implementable, specific reason and rationale for the issue of directive by the GON should have been specified in the Act. In the absence of such clear-cut provision, the stakeholders would be surrounded by uncertainty, vagueness, arbitrariness, and subjectivity, resulting in the reduced efficiency, health, stability, and effectiveness of the financial system, which would ultimately have unfavorable effects on production and productivity of the economy. If not amended, such a provision would make the NRB subservient to the whims and fancies of the Ministry of Finance (MOF), like the situation that prevailed before the establishment of the NRB on April 26, 1956 as per the NRB Act, 1955. Thus, section 106C could make a mockery of the NRB Act by relegating the NRB role and treating the MOF as the de facto regulatory body for the financial system. Likewise, conditions would emerge where the very existence and operation of the central bank as an independent and autonomous institution would have to be questioned. Such a situation would make the monetary and financial system subservient to the fiscal policy and its management, thereby fiscal policy singlehandedly assuming all the costs and risks otherwise managed by the financial and monetary policy. Thus, the desire for becoming the single powerful authority of the nation's fiscal and monetary management would make such single agency accountable for the costs and risks arising from the implementation of both the fiscal and monetary policy by a de facto single entity. In such an environment, people's consequent erosion in the confidence level in managing money, banking, and public finance will bring adverse consequences for the entire economy, entailing huge cost and suffering in the process and also in the context of ameliorating the situation.

If the people's elected representatives interfere in the central banking activities by not letting the central bank discharge its monetary, banking, regulatory, and supervisory functions and duties in an independent and autonomous way, financial system would suffer from weaknesses and inefficiencies as well as instability and erosion in public confidence, making the management of the internal and external macroeconomy increasingly imprudent and risky. In such an environment, the development of a stable, efficient, and vibrant financial intermediation process will be undermined. When the public confidence in the financial system becomes shakier, the days will not be far-off when the symptoms of instability and uncertainty in the country's monetary, banking, and financial system begin to emerge and gradually deepen. This would lead to financial and even economic crisis, with repercussions and implications not only inside the borders of the country concerned but also across the entire spectrum of the global economy. Undermining the deep sensitivity, inherent volatility, and recurring fragility characterizing the financial system by not timely correcting even small regulatory lapse and letting it snowball could become disastrous for the affected economies as evidenced by the financial and economic crises witnessed by a host of countries around the world in different time periods in the past. Even the strongest and most resourceful country in the face of the earth, namely, the USA, was forced to pay a heavy price in terms of stagnant output, massive unemployment, and loss of investor confidence besides the widespread insolvencies of financial and real sector institutions in the Great Depression during 1929-1933 and the sub-prime mortgage crisis during 2007-2009. So, no one should venture into any vested, subjective, and mischievous adventure by ignoring the sensitivity and fragility of the financial system. Insertion of section 106C in the central banking legislation could be considered as the latest incarnation of the financial system's fiend and, hence, needs to be reversed at the earliest possible time. Otherwise, this section has the potential to bring about disastrous impact even to the country's fiscal sustainability. The legislators are also urged to spare some time to study and review the causes and consequences of the financial and economic crises witnessed the world over in the past before complying with what some misdirected, self-centered, and manipulative elements occupying the corridors of economic powers ask them to do, this time inserting such terrible section in the NRB Act at the behest of defaulters.

Scholarship and Insurance Facilities to Students

The Institute is continuing with its objective to extend all corner support to meritorious and financially deprived Chartered Accountants students in their career building efforts. In this connection, Institute has decided to increase the amount of annual contribution in regular scholarships being awarded them and introduced the insurance facilities to cover their accidental and health related issues including establishment of Scholarship Fund to support students thosefacing financial hardships due to prohibitory orders, natural disasters, severe accidents or diseases.

In this respect, the Institute has decided to increase the amount of annual contribution in regular scholarship fund by revising its policy of contribution which was 5% of annual surplus of the Institute now will be 5% of total registration fee collected from the students during the financial year. The revised contribution plan is expected to increase the annual contribution in regular scholarship fund thrice of the existing contribution made by the Institute. Following with revised contribution plan during the financial year 2077/78, altogether 168 students were awarded with scholarship which was about 3 times higher than the amount provided to the students as scholarship in previous years.

Similarly, a Scholarship Fund has been established with initial contribution from the Institute to support the students affected financially due to natural disasters, accidents, diseases or prohibitory orders imposed by the Government of Nepal. This scholarship fund will have annual contribution of 1% of registration fee collected from the students.

The revised Scholarship Procedure, 2078 can be obtained by clicking below link to have an understanding about all the scholarship facilities extended by the Institute to the students:

https://en.ican.org.np/_browsable/file/policies/s_procedure.pdf

Further, the Institute has decided to procure health and accidental insurance policies for the students covering risk of Rs. 1 lakh to each student who have been enrolled in different levels of CA Education during the year. These insurance policies are expected to provide financial protection to students in case of their need and will help them to concentrate on their studies.The procedure for availing benefits of theses insurance facilities shall be introduced soon.

Debt Financing: Finding the Sweet Spot in Capital Structure

The sources of capital in any company are either debt or equity and among these taking debt has always been the most discussed subject matter. Debt financing has two important advantages: first, interest paid is tax deductible whereas dividends are not and second the amount of return which needs to be paid to debtholders remains constant.

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Introduction

Taking loans has often, if not always, been taken as a tool used only out of compulsion. And yet, we cannot rule out the strategic advantages it could have on increasing shareholder's wealth. Should organizations then practice a regular and systematic debt financing structure? Another pertaining question is, what is the optimum amount of debt we should take to maximize our firm's value? This article attempts to shed light on the theories of capital structure and also with the aid of existing literatures on the same presents some practices on how to find that ideal capital mix of the firm that could result maximum increment in firm's value. Eventually the article shares advantages of taking loans and getting the right balance in capital structure of the company, i.e. the sweet spot that increases organizational wealth, increases shares value in the company and helps in running wheel of economy more properly.

Objective

A good understanding of the effects of debt financing is important as the role of debt is misunderstood and many firms are conservative in their use of debt. Striking the right balance can have a significant advantage in maximizing shareholder's wealth.

This article highlights the factors necessary to determine optimal debt-equity mix.

Mechanism of Debt Financing/How Debt Financing works

The sources of capital in any company are either debt or equity and among these taking debt has always been the most discussed subject matter. Debt financing has two important advantages: first, interest paid is tax deductible whereas dividends are not and second the amount of return which needs to be paid to debtholders remains constant. These factors decrease relative costs of debt to equity and also eliminate the need for stockholders to share chunks of profits respectively. However, debt also has its inherent disadvantages. Firstly, use of more debt increases the company's risk which results in increment in cost of both debt and equity. Secondly, if company cannot repay its debt it may go into bankruptcy. So, if a company has volatile earnings and operating cash flows, there should be a limit in the amount of debt it uses. On the other hand, if the company's operating cash flows are stable and it has low business risk it can take good benefit by opting for more debt[1].

The following international cases give more insights on how taking excessive debts can affect a company:

A. **Borders Group (2011):** On February 16, 2011 it filed bankruptcy after failing to meet excess debt costs. Intense competition from rivals Amazon.com and Barnes & Noble made its situation worse but to meet it, the company pushed forward with expansion funded through credits and loans. As a part of bankruptcy process, company had to shut 200 out of its 462 stores and change its focus to e-books and non-book products. Publishers were its biggest creditors combined of $182 million was expected to be paid but Borders could pay only 25 cents on the dollar back to them[2].

B. **Gibson (2018):** Gibson, a well-known guitar brand endorsed by celebrities like Elvis Presley, filed for bankruptcy in 2018 over debts the company was unable to clear. To meet rising competition, it continued to take on debts to acquire Phillips, Onkyo and other electronics companies which helped its annual revenue to grow but shrunk its profit margin. In fact, by 2015, Gibson was making $2.1 billion in annual revenue, but its profit margin had dropped to 4 percent and that was nowhere enough to the debts the company had[3].

A decision which allows company to decide how much debt it should have relative to equity is called capital structure decision. Greater the debt greater the risk of bankruptcy but it also brings advantages along with it. Empirical studies have shown that compared to a company that is solely funded by equity to a company with a capital structure including a mix of both, the latter has an increase in its value by 10-17% owing to the advantage of tax deductibility[4].

The Effect of Debt on Equity

Some risks which come inherently in business are called business risk whereas some risks come when the company opts to take more credit and its effect is directly on business and in turn to stockholders. Financial risk is the additional risk placed on the common stockholders as a result of the decision to finance with debt.

Consider the following,

A company is started by 8 people to open and run trading business. Now, let us take first case: if this business is totally funded by equity holders then these 8 equity

1 Brigham, E. and Houston, J. (2007)Fundamentals of Financial Management. Thomson Southwestern, Cincinnati.

2 Bosman, J., & Merced, M. J. D. L. (2011, February 17). *Borders' bankruptcy shakes industry*. The New York Times. Retrieved September 12, 2021, from https://www.nytimes.com/2011/02/17/business/media/17borders.html.

3 BBC News. (2018, May 2). US guitar firm Gibson goes bust. https://www.bbc.com/news/business-43967923

4 Weinhold, W. A., & Piper, T. R. (2014, August 1). How Much Debt Is Right for Your Company? HarvardBusiness Review. https://hbr.org/1982/07/how-much-debt-is-right-for-your-company

holders divide the risk equally between each other given that each shareholder owns equal shares. Here all the shareholders divide risk of business equally. But in the second case, if the company funds itself with 50% debt and 50% equity with 4 investors as equity holders and other 4 putting their money in company as loan then the condition is little different. 4 debtholders are going to get fixed payment and they get priority over equity holder on the preference of payment. If firm goes bankrupt, they must be paid anyway. But on the other hand, 4 remaining equity holders have to bear all of the business risk so common equity will in result be twice as risky in second case. In return equity holders might bag more profit than first case if company does extremely well. Thus, we can see that the use of debt concentrates the risk on the shareholders.

The sweet spot of maximum return through this concentrated risk lies at optimal capital structure which is when a company has a mix of debt and equity that maximizes the stock's intrinsic value. In other words, we are looking for a capital structure that minimizes the Weighted Average Cost of Capital (WACC). This inherently means we are looking for a debt-equity ratio that maximizes the Earning per share (EPS) of the company and has the lowest WACC.

There are several theories and work done in the past related to finding that optimal capital structure and recommendations forwarded to us. Some of them are discussed as under:

- *Modigliani and Meton Miller (MM) theory: MM proved under a restrictive set of assumptions such as no brokerage costs, no taxes, on bankruptcy costs and investors have same info as management about the firm's future investment opportunities that a firm's value should be unaffected by its capital structure. They posit that capital structure was irrelevant based on these assumptions since EBIT then would be unaffected by cost of capital[5].*
- *The trad off theory : It is the capital structure theory that states that firms trade off the benefits of debt financing against problems caused by potential bankruptcy.*
- *Signaling Theory : The announcement of stock offering is generally taken as a signal that the firm's prospects as seen by its management are not bright. Thus, when a firm announces a new stock offering, more than often than not the price of its stock will decline. Buy back of shares indicates opposite.*
- *Pecking order Hypothesis: There is a sequence which firms prefer to raise capital. First priority to spontaneous credit, then retained earnings, debt and new common stock follows.*
- *Windows of opportunity: It states the occasion where a company's managers adjust it's firm's capital structure to take advantage of certain market situations which is called windows of opportunity. If stock price is less than Intrinsic value of stock, manager's action is buyback. If the stock price is more than intrinsic value of stock then company issue new equity in the market.*

The different theories lead to different conclusion about the optimal capital structure while the practice across the globe is also dependent on the strength and development of financial markets (Sibindi, 2016). Countless studies in the past have explained what might be the determinants of ideal capital structure and what might be its advantages.

Literature Review

Velnampy (2012) concluded that capital structure decision is a vital one and it affects profitability of an enterprise directly. He posits that the successful selection and use of capital is one of the key elements of the firm's financial strategy. The conclusion was drawn based on a study between the relationship between capital structure

5 Sibindi, Athenia. (2016). Determinants of capital structure: A literature review. Risk Governance and Control: Financial Markets & Institutions. 6. 10.22495/rcgv6i4c1art13.

and profitability of ten listed Sri Lankan banks 2002 to 2009. Results of the study showed that there is a positive relationship between debt to equity ratio and return on equity. Furthermore, it suggested that 89% of total assets in the banking sector of Sri Lanka were represented by debt, confirming the fact that banks are highly geared institutions[6].

Gajurel (2005) used decomposition analysis, properties of portfolio analysis, econometric analysis and opinion survey of managers to conclude that Nepalese firms are highly levered. However, the long-term debt ratio was found to be significantly low. Assets structure and size were observed as positively related to leverage whereas liquidity, risk, growth and non-debt tax shield were negatively related to leverage. Both pecking order and trade off theories at work were used in the market while determining capital structure. GDP, inflation and capital market influence in firm's capital structure decisions also played a crucial part. Opinion survey analysis showed that Nepalese managers preferred internal financing first followed by bank loan financing[7].

Likewise, Timilsina (2020) studied the capital structure in commercial banks of Nepal and found that return on assets, bank size and assets tangibility are the most influencing factors and assets growth and liquidity are the least influencing factor affecting the capital structure of Nepalese commercial banks[8].

Arsov & Naumoski (2016) tried to understand if there are any determinants that systematically influence the capital structure of the companies in the Balkan countries & also test relevance of any existing theory while implementation in real scenarios. It was concluded that managers of these countries did not set specific target leverage ratios, but instead followed a particular order in the selection of the sources of financing. In other words, the companies behave in accordance with the pecking order theory. They also concluded that leverage ratios were higher among the large companies and those investing more heavily in fixed assets, while the profitability and tangibility of assets had a negative impact on leverage. Companies that invest in fixed assets borrow more; companies with higher profits borrow less[9].

Handoo & Sharma (2014) identified the most important determinants of capital structure of 870 listed Indian firms comprising both private and government companies for the period 2001-2010. It was concluded that factors such as profitability, growth, asset, tangibility, size, cost of debt, tax rate, and debt serving capacity have significant impact on the leverage structure chosen by firms in the Indian context. Managing capital structure thus was a balancing act determined by these factors[10].

Pandey & Singh (2015) through their studies on international organizations, found that size, growth opportunity, tangibility of assets, profitability, business risk, non-debt tax shield, age of the firm, dividend payout ratio, liquidity, corporate tax rate, uniqueness, debt service capacity and cost of debt are the major important determinants of capital structure[11].

Deangelo & Roll (2016) contrarily show that many companies do not establish a fixed target capital structure and that there are lot of interesting dynamics over time. They found no systematic relations between company-

6 Velnampy, Thirunavukkarasu&Niresh, J. (2012). The Relationship between Capital Structure & Profitability. Global Journal of Management and Business Research. Volume 12. 66-73.

7 Gajurel, Dinesh. (2005). Capital Structure Management in Nepalese Enterprises. Corporate Finance: Capital Structure & Payout Policies eJournal. 10.2139/ssrn.778106.

8 Timilsina, L. P. (2020). Determinants of Capital Structure in Nepalese Commercial Banks. International Research Journal of MMC, 1(1), 50-70.

9 Arsov, Sasho&Naumoski, Aleksandar. (2016). Determinants of capital structure: An empirical study of companies from selected post-transition economies. ZbornikRadovaEkonomskogFakulteta u Rijeci :Časopis za EkonomskuTeorijuiPraksu. 34. 119-146. 10.18045/zbefri.2016.1.119.

10 Handoo, Anshu& Sharma, Kapil. (2014). A study on determinants of capital structure in India. IIMB Management Review. 26. 10.1016/j.iimb.2014.07.009.

11 Pandey, Asheesh& Singh, Madan. (2015). Capital structure determinants: A literature review. Capital structure determinants: a literature review. 4. 163-176.

specific leverage changes and changes in industry leverage, company profitability, or other determinants of leverage as underscored in various prior studies in the subject matter. They further saw that capital structure changes were often linked to the funding of company expansions, but such changes were also sometimes designed to support established payout policies while preserving financing flexibility[12].

Analysis Results

From the reviews of existing literatures, we can observe that the optimal capital structure of a company relies on the following factors:-

- *Business risk: Business risk is associated with cost of bankruptcy. Higher the risk low use of debt since the operations might not generate enough to meet the cost of interests.*
- *Corporate tax rate: The Government charges taxes on profit of a firm. Lower corporate tax means larger pie of wealth is available to distribute as profit. Normally, debts are used to mitigate high tax rates.*
- *Firm age and Firm size: New firms cannot use more debt because of high bankruptcy costs during earning low profits, so these firms are unable to get the benefit of interest tax shield.*
- *Growth opportunities: Firms with high growth opportunities accept big projects to increase rate of return on the investment of shareholders.*
- *Liquidity: Liquidity the ability of the firm to convert its assets into cash. Higher the liquidity higher debt service obligation potential.*
- *Non-debt Tax shields: Depreciation and depletion allowances are non-debt tax shield which acts as an alternative to interest tax shields of debt. Firms may reduce tax payments by using more debt rather than equity in financing their investments.*
- *Tangibility: Larger the tangible assets of the firm they may have greater leverage capacity since they can be used as collaterals to have more access over funds.*
- *Profitability: Higher the profit of the firm more debt due to low bankruptcy costs and ability of firm to pay its interest.*
- *Uniqueness: Uniqueness of assets is created by firm's unique propositions like skilled specialized workers and suppliers. R& D department of the firm create a uniqueness in assets.*
- *Dividend payout ratio: If there are adequate retained earnings to finance its investment initially firm can raise its finance from external sources too.*
- *Debt serving capacity: Firm which can meet its interest expenses easily have good debt serving capacity ratio Higher the capacity higher the leverage.*
- *Cost of debt: The rate of interest which is paid against the loan taken is known as cost of debt. This affects WACC and eventually the capital structure a firm can implement.*

Company			Industry		
Name	Long-Term Debt Ratio	Times-Interest-Earned Ratio	Description	Long-Term Debt Ratio	Times-Interest-Earned Ratio
Alphabet Inc.	2.91%	218.14	Internet Content	2.91%	178.10
NUCOR	31.51	10.32	Steel	23.66	4.78
Eli Lilly	35.06	16.23	Pharmaceuticals	35.90	13.57
BP	35.90	1.66	Petroleum	23.66	5.89
Rockwell Collins	36.31	13.71	Aerospace	55.36	10.19
ConAgra Foods	40.12	5.11	Food Processing	36.71	5.12
CSX	48.45	5.81	Railroads	43.50	9.00
United Continental Holdings	58.68	7.62	Airlines	51.69	11.11
Southern Company	63.10	3.52	Electric Utilities	50.25	4.00
Kroger	65.40	5.25	Grocery Stores	59.02	5.79
Ford Motor Company	75.96	6.51	Automobiles	42.53	33.70
The Wendy's Co.	82.82	2.71	Restaurants	96.04	11.07

Figure 1: Capital Structure percentages of various companies ranked as per long term-debt ratios

The following table published by MSN illustrates different capital structures opted by different companies in the United States as of 2017. We can see that wide

12 DeAngelo, Harry and Roll, Richard W., Capital Structure Instability (Fall 2016). Journal of Applied Corporate Finance, Vol. 28, Issue 4, pp. 38-52, 2016, Available at SSRN: https://ssrn.com/abstract=2902367 or http://dx.doi.org/10.1111/jacf.12203

variation in capital structure exists among firms in given industries. Thus factor unique to individual firms listed above plays an important role in setting target capital structures.

Debts do not only come with the tax deductibility advantage. We cannot oversee other constraints and hidden costs associated to it such as availability of loans and the business restrictions from credit conditions or loan covenants. Meanwhile, the more loan composition in capital structure, the difficult it starts to get to receive further loans on acceptable terms. The liquidity restrictions of debt could also mean that companies have to change their operating and product-market strategies (as can be inferred from the cases of Gibson and Borders Group) which may in fact reduce a company's market value.

Hence, to arrive at a sweet spot of debt-equity mix, it is important for the concerned parties to consider few important questions[13]:

1. What are the company's real and additional financial requirements and do they align to its product-market strategies? Can the additional needs be deferred? How long do we need funds to implement those strategies?
2. What are the special characteristics of the financing (such as currencies, duration to raise, ease of negotiation, pre/payment conditions, etc.)?
3. What segments of the capital markets will the company tap for each type of finance needed?
4. What are the lending conditions? This is imperative to consider since, the level of debt as seen from literatures depends highly on the type of industries as well as unique to companies. Those operating in less competitive environment and with less operating cost have the leverage to take higher financial risk. Likewise, based on the projected statements of company's financial health, can they meet all the conditions pertaining to loans?
5. Can the company use fund in changing the strategy of the company in case of adversity?
7. Will the company be competitively vulnerable if it achieves its target capital structure?
8. What are the implications for stakeholders and how does it affect the financial metrics of the company's health ?

Conclusion

We cannot determine on common rule to estimate a firm's optimal capital structure with absolute precision. Accordingly, a financial executive generally treats the optimal capital structure as a range- for e.g. 40% to 50% debt – rather than a precise point, such a 45% debt. What can also be concluded is that use of debt and equity are both important while determining the ideal capital structure of the firm. Firm should find its own ideal capital mix by undergoing several considerations such as loan conditions and whether or not it supports the product-market strategies of the company and whether or not it helps to stay in the competition (does not make it financially vulnerable nor too conservative in industry standard such that they loose the profitability associated to tax deductibility) and lastly if the debt policy can aid during adversities or sudden changes in the company's status.

13 Weinhold, W. A., & Piper, T. R. (2014, August 1). *How Much Debt Is Right for Your Company?* Harvard Business Review. https://hbr.org/1982/07/how-much-debt-is-right-for-your-company

Financial Reporting in the Saving and Credit Co-operative Sector

The guidelines effectively cover all aspects of accounting and financial reporting of co-operatives and also provide a standard format for financial statements. The guidelines bear a stark and uncanny resemblance with the NFRS for SMEs framework. The guidelines can be viewed as the NFRS for SMEs framework tailored to address certain issues that are specific to the co-operative sector.

CA. Prabin Baral

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Background

A study published in 2014 by the Nepal Rastra Bank on the co-operative sector in Nepal titled "Cooperatives, Economic Democracy and Human Security: Perspectives from Nepal" estimates that there are over 30,000 co-operative organizations with over 4.5 million members. As of 2019, it is estimated that there are around 34,837 co-operative organizations with a strength of over 6.5 million members. The number of members is significant considering the fact that the population of Nepal is a little below 29 million, thereby suggesting a membership penetration of around 23%. The sector employs around 69,000 employees. A report published by the International Co-operative Alliance-Asia and Pacific titled "Mapping: Key Figures- National Report: Nepal" estimates that the co-operative sector contributes 3% to the total Gross Domestic Product (GDP) of Nepal. As of 2074B.S, the sector mobilized 7,317.87 crores of share capital, 30,216.45 crores of deposits and 27,371.04 crores in loans and advances. Within the co-operative sector, the savings and credit co-operative sector (organizations generally referred to as SACCOS) boasts a lion's share in the total numbers. The savings and credit sector (the financial sector) accounts for 55% of all co-operative organizations, over 52% of all members, over 50% of employees employed by the co-operative sector and over 76% of the total turnover. The financial co-operative alone mobilizes 5,438.47 crores in share capital (74% of total), 21,749.28 crores in deposits (72% of total) and 17,987.97 crores in loans and advances (66% of total). The financial co-operative sector thus, constitutes a major component of the vast co-operative sector in Nepal, which in turn is a significant contributor to the Nepalese economy. Hence, it needs no further assertion that the accounting and financial reporting in the co-operative sector and particularly in the savings and credit co-operative sector bears significant economic importance. This article focuses on various aspects of the savings and credit co-operative sector, including legal and financial reporting aspects.

The Financial Reporting Framework.

The Institute of Chartered Accountants of Nepal (ICAN) has published a 4-tier financial reporting framework for various organizations in Nepal namely;

- Nepal Financial Reporting Standards (NFRS) framework for large entities (commonly called full NFRS in the professional circle).
- NFRS for Small and Medium Sized Entities (NFRS for SMEs) framework. (a simplified version of NFRS)
- Nepal Accounting Standards for Micro Entities (NAS for MEs); (a further simplified framework that suits micro entities that do not have the necessary capacity to implement either NFRS or NFRS for SMEs).
- Nepal Accounting Standards for Non-Profit Organizations (NAS for NPOs); (a tailored framework for the non-profit sector).

ICAN has published various criteria and financial thresholds that are based on turnover, balance sheet size, loans and borrowings and the employee strength. No framework in particular has been prepared for the co-operative sector and hence the sector would follow any one of the first three frameworks as would be applicable based on the prescribed criteria and thresholds and there lies the conundrum.

The Conundrum

The savings and credit co-operatives are regulated by the Department of Co-operatives that functions under the Ministry of Land Management, Co-operative and Poverty Alleviation. The department has recently published guidelines on financial reporting for co-operatives in Nepal (the guidelines were published on the department's website https://www.deoc.gov.np/ in Shrawan 2076. The guidelines effectively cover all aspects of accounting and financial reporting of co-operatives and also provide a standard format for financial statements. The guidelines bear a stark and uncanny resemblance with the NFRS for SMEs framework. The guidelines can be viewed as the NFRS for SMEs framework tailored to address certain issues that are specific to the co-operative sector. One major difference is that the co-operative guidelines do not allow any retrospective adjustments to financial statements (not even in case of errors) and hence, there is no chapter that deals with the transitional adjustments upon first-time adoption of the guidelines. Since no retrospective adjustments are allowed, the guidelines on first-time adoption have effectively been rendered redundant. This seems necessary in the co-operative sector in light of the legal requirements surrounding the appropriation of profits earned by co-operatives. The Co-operatives Act and Rules thereof provide clear rules on appropriation of profits to various reserves including dividend reserves and secured capital redemption funds (that would be distributed to members) and other various appropriations that need to be either spent on certain specific activities or need to be transferred to various other organizations. As such, any retrospective changes in profits and/or reserves would bring about another challenge as to how would the reserves be re-allocated due to such changes and what would happen to the appropriations that have already been distributed or otherwise expended. The co-operative guidelines thus rightly prohibits any retrospective adjustments in light of absence of legal requirements that address these issues.

This has led to a confusion, do co-operatives need to prepare their financial statements in accordance with one of the applicable frameworks as prescribed by ICAN or do they need to follow the co-operative guidelines as prescribed by their regulator, the Department of Co-operatives. This conundrum is not a new one in the Nepalese financial reporting realm. A similar issue arose when NFRS was, during the first phase of implementation circa 2014, first made applicable to the banking and insurance sector. The banking sector is regulated by the Nepal Rastra Bank (NRB); the central bank. When NFRS was first made applicable to the banking industry, banks faced a similar issue; do they need to prepare their financial statements as per NFRS or do they follow the erstwhile directives issued by the NRB that did not conform with NFRS. Some banks published both sets of financial statements with a detail of reconciliations while others followed NRB's directives. Insurance sector, which is regulated by the Insurance Board, faced a similar issue and a similar practice was observed in this sector too. While NRB has now prescribed revised directives that conform with NFRS, the Insurance Board still hasn't issued revised directives and insurance companies in Nepal, even after more than 6 years since NFRS was first made applicable. The insurance companies still publish two sets of financial statements; one prepared as per NFRS for general purpose and another prepared as per the Insurance Board directives for regulatory purposes.

What this means for the Co-operative Sector?

This brings us to the meat of the matter; do co-operatives follow one of the frameworks prescribed by ICAN as applicable or do they follow the co-operative guidelines prescribed by their regulator, the Department of Co-operatives. Or, do they prepare two sets of financial statements as was done by many banks and as is still being done by insurance companies. Going by ICAN pronouncements, given the size of savings and deposits mobilized by the savings and credit co-operatives, an average sized savings and credit co-operative in Nepal would need to follow either of the two frameworks; NFRS or NFRS for SMEs (Organizations with a balance sheet size of over 100 million need to follow NFRS for SMEs framework and those with a balance sheet size of over 1,000 million need to follow full set of NFRS). Since these frameworks are relatively new and due to issues surrounding the organizational capacity of the co-operatives, these could prove to be huge challenge. Let's discuss a few of the challenges that co-operatives face:

- **Organizational Capacity**: Co-operatives, even the large ones, face an acute shortage of skilled personnel, especially in the finance and accounts department, that can be expected to keep up with the recent accounting developments. Most co-operatives are located in rural areas and have to manage with personnel with basic accounting knowledge. High staff turnover doesn't make things any easier. They rely on accounting professionals for preparing financial statements and the fact that even the accounting professionals that provide their services to such rural co-operatives aren't well-versed with the new developments makes the task even more challenging.
- **Lack of Financial Literacy**: It is a general understanding that financial statements are meant for the stakeholders of an organization. For a co-operative, the main stakeholders are its very members. Co-operatives encapsulate a spirit of co-operation and in the Nepalese context, function with the main goal of alleviating poverty and to uplift the quality of lives of its members. The majority of members of various co-operatives are not well-versed with the financial and accounting jargon and can't be expected to be able to read the financial statements in a way that a stakeholder is supposed to. This raises an important question about the relevance of the financial statements prepared as per the NFRS frameworks for

the general Nepalese population. NFRS frameworks are based on the International Financial Reporting Standards that first served the European markets with stakeholders that can be expected to analyze the financial statements in the spirit in which they were intended.

- **Lack of Regulatory Clarity**: Furthermore, lack of clarity surrounding the effect of retrospective adjustments on the statutory reserves and appropriations upon the first-time adoption of either NFRS or NFRS for SMEs has made the issue even more contentious. For example, if any of the transitional adjustments leads to a decrease in retained earnings, what would happen to the profits already appropriated (and also distributed) as per the applicable laws? Similarly, if any of the adjustments leads to an increase in reserves, would they be available for distribution to the members?

Conclusion

What makes this issue interesting is that the co-operative guidelines were apparently prepared with technical support from ICAN after the NFRS frameworks were already pronounced. Can we expect that ICAN will very soon endorse those co-operative guidelines? After all, ICAN has already pronounced NAS for NPOs framework that caters specifically to the non-profit sector and it won't be unreasonable to expect that a similar framework could be pronounced for the co-operative sector given the uniqueness of the sector in the Nepalese context and considering the various challenges that the sector faces as discussed earlier. Furthermore, the fact that the co-operative guidelines were prepared with technical support from ICAN and that fact that the co-operative guidelines are effectively based on NFRS for SMEs framework, not in name but definitely in spirit, makes a strong case in support of the co-operative guidelines as the single framework for the co-operative sector in Nepal. The guidelines could be viewed as a stepping stone towards a full implementation of NFRS for co-operatives; let us allow the co-operatives to experiment with a relatively easier framework and let's gradually nurture them, so that they can experience an organic transition into NFRS.

HEARTFELT CONDOLENCE

CA. KOMAL BAHADUR CHITRAKAR

We are deeply saddened to share this news of grief that CA. Komal Bahadur Chitrakar, First President of Institute of Chartered Accountants of Nepal (ICAN)-1997/98 and Past President of South Asian Federation of Accountants (SAFA)- 2010 passed away on 31 May 2021. His demise is an irreparable loss to the state of professional accounting development of the country and the region. He made profound contribution to the establishment of the Institute of Chartered Accountants of Nepal and development of accounting profession in Nepal for over 5 decades. He was also actively associated with SAFA since its inception when he represented on behalf of Association of Chartered Accountants of Nepal, the predecessor organization of ICAN.

CA. Chitrakar was the fellow member of both ICAN and Institute of Chartered Accountants of India (ICAI). He had been in public practice since 1970 after he qualified as a Chartered Accountant in 1965 from ICAI. Besides professional engagements, Mr. Chitrakar was a dedicated social worker and was active in several social organizations. He served as the President of the Rotary Club of Kathmandu Mid-Town in 2005-2006. He was the founding Secretary General of Transparency International Nepal. His undaunted dedication in upholding the professional dignity and dedication to the public interest as a professional accountant will continue to guide us in the absence of his mortal life

News

Institutional Activities

Memorandum of Understanding with The Institute of Internal Auditors, India (IIA India)

The Institute of Chartered Accountants of Nepal (ICAN) and The Institute of Internal Auditors, India (IIA India) signed the Memorandum of Understanding on 16th April 2021 for providing a framework of cooperation and facilitating collaboration between the Parties in the areas of common interest including adoption of the International Professional Practice Framework (IPPF) and its various components, provision of services including memberships of IIA India, training, preparation for IIA certifications, sharing of the IIA magazine and sharing of professional knowledge amongst others. This would facilitate the upgradation of internal audit skills, knowledge and competencies in Nepal to global standards.

Memorandum of Understanding with the Securities Board of Nepal

The Institute signed MoU with the Securities Board of Nepal for facilitating exchange of information and mutual cooperation in the areas of financial reporting and good governance on 19th April, 2021.

National Best Presented Annual Report (BPA) Award 2020

The Institute with its objective to promote better presentation of financial and other pertinent information and disclosure in the annual report of the reporting entities has been holding an annual award for the National Best Presented Annual Report (BPA) Award since 2003.

"National Best Presented Annual Report (BPA) Award 2020" distribution ceremony was organized on 29th August, 2021 in Kathmandu. The National Best Presented Annual Report Award 2020 was held under the category of Banking Sector (Private and Public), Financial Sector (Including Development Banks and Finance Companies), Insurance Sector, Public Sector and General Sector. The recipients of the National BPA Awards shall have the privilege for nomination in the SAFA Best Presented Accounts Award Competition.

Representatives of National BPA Award, 2020 Winners and Runners up at the Award Distribution Ceremony

Winners of National BPA for the Fiscal Year 2019/2020

Category	Contestant	Remarks
Category 1: Banking Sector	Standard Chartered Bank Nepal Ltd.	Winner
	Nepal SBI Bank Ltd.	Runner Up
Category 2: Financial Sector	MuktinathBikas Bank Ltd.	Winner
	Lumbini Bikas Bank Ltd.	Runner Up
Category 3: Public Sector	Nepal Doorsanchar Company Ltd.	Winner
Category 4: General Sector	Bottlers Nepal (Terai) Ltd.	Winner
	Chilime Hydropower Company Ltd.	Runner Up
	Nepal Clearing House Ltd.	Runner Up

Global Webinar on "Ethical Values of Professional Accountants"

The Institute with its objective to empower members with professional technical skills on ethical values organized Global Webinar on the topic ***"Ethical Values of Professional Accountants"*** on 25th June, 2021.

The webinar started with the welcome remarks by the ICAN President CA. Madan Krishna Sharma where Dr. Chen Yugui, President CAPA was the Chief Guest and Mr. Manil Jayesinghe, President CA Sri Lanka was the Guest of the program.

Presenter, Organizer and Panelist during Global Webinar on Ethical Values of Professional Accountants

CA. Ranjit Kumar Agrawal, Council Member ICAI and Mr, Riyaz Mihular, Chairman Ethics Committee of CA Sri Lanka & Managing Partner of KPMG presented a paper on ***"Ethical Compromises and Accounting Frauds"*** and ***"Code of Ethics: Challenges for Enforcements and Way Forward"*** respectively. Similarly, CA. Kaushalendra Kumar Singh, Past President ICAN and Josephine Haste CA, Manager, Member Tools and Resources CA ANZ also presented a paper on ***"An Insight on Code of Ethics and Ethical Guidelines Issued by ICAN"*** and ***"Global Development in Professional Ethics in the Technical Session"*** respectively.

CA. Yuddha Raj Oli, Vice- President moderated the technical session and CA. Sanjay Kumar Sinha, Executive Director concluded the webinar and thanked all for their active participation in webinar during his vote of thanks. This webinar was participated by more than 350 participants.

Interaction Program on "Role of ICAN in Strengthening Public Financial Management"

The Institute organized an interaction program on "Role of ICAN in Strengthening Public Financial Management" virtually in the presence of Hon'ble Auditor General, Mr. Tanka Mani Sharma Dangal on 7th May 2021.The aim of the interaction program was to discussion on Public Financial Management (PFM) implementation status in Nepal and explore various avenues through which the Institute can support Government of Nepal in Strengthening PFM system in Nepal.

The program was commenced with the welcome speech of the ICAN President CA. Madan Krishna Sharma. Thereafter, the Immediate Past President and Chairman of Public Finance and NPSAS Committee of ICAN CA. Krishna Prasad Acharya presented a Technical Paper in the session.

The Chief Guest of the program Hon'ble Auditor General, Mr. Tanka Mani Sharma (Dangal), and the Guest of Honors - Secretary - Revenue, Ministry of Finance, Mr. Ram Sharan Pudasaini and Financial Comptroller General - Mr. Madhu Kumar Marasini gave their remarks on the program.

Joint Secretary, Ministry of Industry, Commerce and Supplies, Ms. Chandrakala Paudel, Deputy Financial Comptroller General – Mr. Bhesh Prasad Bhurtel, Assistant Auditor General - CA. Chandra Kanta Bhandari and Past President ICAN & PFM Practitioner CA. Pradeep Kumar Shrestha, Academician, Prof (Dr.) Pushkar Bajracharya, Former Financial Comptroller General Mr. Rajendra Prasad Nepal, Former Joint Secretary Ministry of Finance and Member of Expenditure Review Committee Mr. Durga Nidhi Sharma were the commentators in the program.

The program was participated by the Government Officials, Professionals in Public Financial Management, Members of the Institute and other Stakeholders.

Vice President of ICAN, CA. Yuddha Raj Oli, concluded the program with summarization of the program and closing remarks.

Interaction Program on "Risk Management in Banking Sector"

The Institute with its objective to enhance and empower its members and other stakeholders with professional technical skills organized interaction program on ***"Risk Management in Banking Sector"*** on 23rd June, 2021 through virtual mode. The program was focused on providing professional and subjective knowledge about risk associated with the banking sector, current business and regulatory scenarios, remedies and mechanisms to reduce the risk and explore and address current issues associated with risk management in banking sector.

Presenter, Organizer and Panelist during Interaction Program on Risk Management in Banking Sector

The program started with the welcome speech of the ICAN President CA. Madan Krishna Sharma and CA. Maha Prasad Adhikari, Governor, Nepal Rastra Bank gave his remarks on the program. Mr. BN Gharti, Banking Expert presented a paper in the program.

Following the address and paper presentation, a panel discussion consisting of representative from different sectors was conducted. CA. Prabhu Ram Bhandary, Past President ICAN, Mr. Kiran Pandit, Director, Nepal Rastra Bank, Mr. Bhuvan Dahal, Chairman, Nepal Bankers Association, Mr. Suyog Shrestha, Vice President, Development Bankers Association of Nepal, Mr. Saroj Kaji Tuladhar, Chairman, Nepal Financial Institution Association, Mr. Anjan Shrestha, Vice President, Federation of Nepalese Chambers of Commerce and Industry, CA. Anal Raj Bhattarai, Council Member-Confederation of Nepalese Industries discussed as the panelists in the program.

The interaction program was moderated by CA. Yuddha Raj Oli, Vice President of the Institute and was ended with the Vote of Thanks by CA. Sanjay Kumar Sinha, Executive Director of the Institute. The program was participated by more than 400 participants

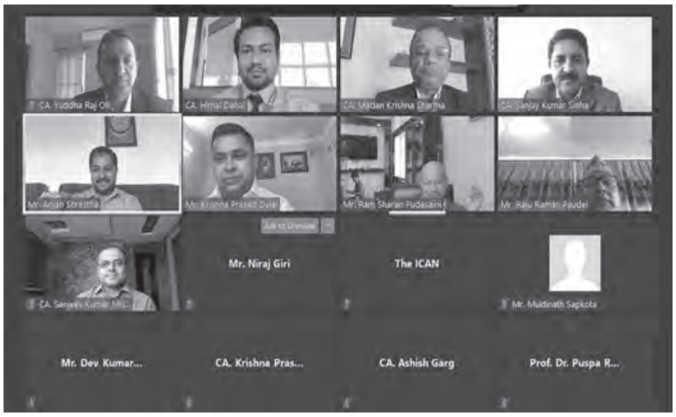
Interaction Program on "Risk Management in Insurance Sector"

The Institute, in order to enhance and empower members and other stakeholders with Professional technical skills organized online interaction program on ***"Risk Management in Insurance Sector"*** on 05th July, 2021. The aim of the program was to identify the challenges and risks underlying in Insurance Sector which might be useful to the participants of the program to deal with such risks in a unified manner.

This interaction program was designed to enhance the capacity of understanding various issues and challenges associated with Risk Management in Insurance Sector and the way forward to have systematic risk management. The program also covered some practical examples related to risk management in Insurance Sector.

Interaction Program on Federal Budget 2078/79 and its Impact on Economy

The Institute organized an Interaction Program on Federal Budget 2078/79 and its Impact on Economy on 7 June 2021 through virtual mode. The objective of the interaction program was to review, highlight and analyze various factors associated with balanced development of national economy and to assess the opportunities so that Federal Budget 2078/79 might be able to meet the desired expectations.



Presenter, Organizer and Panelist during Interaction Program on Federal Budget 2078/79 and its Impact on Economy

The program commenced with the welcome speech of the ICAN President CA. Madan Krishna Sharma where, Prof. Dr. Puspa Raj Kadel, Vice-Chairman, National Planning Commission and Mr. Ram Sharan Pudashini, Secretary (Revenue), Ministry of Finance were the Chief Guest and the Guest of Honor of the program respectively.

Panel discussion from Regulator and Business Forum was organized and the panelists of the respective sectors discussed on the respective sessions. Mr. Dev Kumar Dhakal, Executive Director, Nepal Rastra Bank, Mr. Raju Raman Paudel, Executive Director, Insurance Board and Mr. Niraj Giri, Executive Director, Securities Board of Nepal discussed as a panelist in Regulators side. Likewise, Mr. Anjan Shrestha, Vice President, Federation of Nepalese Chambers of Commerce and Industry, Mr. Krishna Prasad Dulal, President, National Automobile Dealers Association, Mrs. Shreejana Rana, President, Hotel Association Nepal and CA. Ashish Garg, Vice President, Independent Power Producers' Association, Nepal were the panelists of Business Forum Side. And, CA. Sanjeev Kumar Mishra, presented a paper on ***"Changes by Budget in Tax Policy and Tax Administration"***.

Program was moderated by CA. Yuddha Raj Oli, Vice President of the Institute and concluded with the Vote of Thanks from CA. Sanjay Kumar Sinha, Executive Director of the Institute. More than 400 individuals participated in the program.

Interaction on "Legal and Ethical Compliances regarding Appointment of Auditor".

The Butwal Branch Coordination Committee of the Institute organized an online interaction program on ***"Legal and ethical compliances regarding appointment of Auditor"*** on 6th July, 2021. The objective of the program was to create awareness among auditors on various provisions of Companies Act 2063 and ICAN Code of Ethics regarding appointment of Auditor. CA. Nanda Kishor Sharma and CA. Sheo Hari Sharma were the paper presenters in the program.

Online Training on "Preparation of Financial Statements as per NFRS for SMEs"

The Institute organized two days (each day three hours) online training on ***"Preparation of Financial Statements as per NFRS for SMEs"*** on 21st and 22nd June, 2021. The program was organized with the objectives to enhance the theoretical and practical knowledge among accountants of SMEs and make them able to prepare and present the financial statements by using NFRS since application of NFRS for SMEs has been made mandatory from 16th July, 2021 for all SMEs.

The program was formally started with the remarks of CA. Himal Dahal; Deputy Director of the Institute and CA. Arun Raut delivered training tothe participants. Program was attended by accountants of SMEs, Finance officers and preparers of Financial Statements of SMEs. More than 370 individuals participated in the training.

Online Orientation Program on "Opportunities in Internal Audit for ICAN Members: Membership of IIA India"

The Institute organized an online orientation program on "Opportunities in Internal Audit for ICAN Members: Membership of IIA India" on 21st May, 2021 in technical support of The Institute of Internal Auditors (IIA India). The program wasaimed to provide insight on the pathway to be a member of IIA India by the ICAN members for their continuous use of updated international information and resource materials related to internal audits.

Highlights of Federal Budget 2078/79 (2021/2022)

The Institute has published the highlights of federal budget of 2078/79 for ready reference to its members, students and other stakeholders. The summary of federal budget 2078/79 has been uploaded in the website of the ICAN

9th Council Members Elected

Election for 9th Council members amongst the Chartered Accountants members was conducted from 05th to 06th September, 2021 and Registered Auditors members was conducted from 03rd to 04th September, 2021 in Lalitpur at the premises of the Institute. The name of newly elected Council Members are as follows:

S.No.	Name of Members
1.	CA. Santosh Kafle
2.	CA. Bhaskar Singh Lala
3.	CA. Yuddha Raj Oli
4.	CA. Chhetra Gopal Pradhan
5.	CA. Sujan Kumar Kafle
6.	CA. Surendra Shrestha
7.	CA. Ram Chandra Khanal
8.	CA. Sujan Shrestha
9.	CA. Peeyush Anand
10.	CA. Prabin Kumar Jha
11.	RA. Posh Raj Nepal
12.	RA. Bholanath Pathak
13.	RA. Shankar Gyawali
14.	RA. Kesh Bahadur K.C

Out of 17 Council Members remaining 3 members will be nominated by the Nepal Government on the recommendation of the Auditor General of Nepal.

Certificate Presentation Ceremony to the Elected Members of 9th Council

The office of Election Officer of ICAN organized a "Certificate Presentation Ceremony to the 9th Council" on 08th September, 2021 at ICAN Head Office, ICAN Marga, Satdobato, Lalitpur. President CA. Madan Krishna Sharma and Election Officer Mr. Ashok Kumar Karki felicitated the newly elected members of 9th Council.

Group photograph of newly elected council members for 9th council at Certificate Presentation Ceremony

In the program, President CA. Madan Krishna Sharma congratulating the newly elected 9th Council Members delivered his welcome speech. Likewise, CA. Aananda Raj Sharma, President of the Association of Chartered Accountants of Nepal (ACAN) and Mr. Mohanraj Regmi, President of the Auditors Association of Nepal (AUDAN) also congratulated the new council members. The Election Officer Mr. Ashok Kumar Karki concluded the program by delivering thank giving speech for successfully conducting the election and wishing a successful tenure for the new council members.

Current Vice-President and newly elected Council Member CA. Yuddha Raj Oli, Executive Director CA. Sanjya Kumar Sinha, members of past Council Members and employees of the Institute participated in the event.

Members Activities

Issuance of Directive on Audit Firms Standards and Minimum Fee

The Institute has issued Audit Firm Standards and Minimum Fee Directive, 2078 incorporating the quality requirement of an audit firm's in terms of their corporate structure, human resources, training and development of human resources and written operating system procedures manual which is essential for ensuring auditor's compliance with the ethical requirement, Nepal Standards on Auditing (NSAs) and Nepal Standard Quality Control (NSQC-1) and a basis for determining a minimum audit fee thereof. The directive shall be applicable from16th July, 2021.

Changes in Amount of Audit Limit

The Institute has issued notice regarding change in amount of audit limit by B, C and D Class members. The revised audit limit was determined based on the Wholesale Price Index as published by the Nepal Rastra Bank and shall be applicable with effect from 16th July, 2021. As per the revised amount of audit limit, B, C and D class COP holder members shall be eligible to conduct audit up to NPR 1,200 million, 300 Million and 60 Million respectively.

Empanelment of Faculties and Resource Persons

The Institute has invited Expression of Interest (EoI) from faculties and resource persons for various activities being undertaken by the Institute hiring expert services of the professionals. This Expression of Interest has been invited for empanelment in the roster of ICAN. The selected professionals shall be assigned in the task of review and development of study materials, suggested answers compilation, RTPs development, online and physical revision classes to the students, training to members and to avail services as resource person in examination and other activities of the Institute.

Online Membership Examination Form

The Institute has developed new system of submitting online examination form for CA Membership Examination. The institute has already developed and has been using online examination form system in case of Chartered Accountancy Examination.The online membership examination form for CA Membership Examination shall be applicable from September, 2021. The online examination form can be submitted by logging into the "Online CA Membership Examination Form" portal: http://fbe.ican.org.np/membership

Registration of New Chartered Accountants at ICAN

The Institute registered 61 Chartered Accountants pursuant to Section 16(2) of Nepal Chartered Accountants Act, 1997. During the Period of March, 2021 to August, 2021, the newly enrolled Chartered Accountants are as follows:

M.No.	Member's Name
1634	Namuna Joshi
1635	Amrit Kumar Sah
1636	Sunil Bhandari
1637	Birendra Gharti Magar

M.No.	Member's Name
1638	Rupa Lamichhane
1639	Dhirendra Joshi
1640	Kapil Shrestha
1641	Malisha Shrestha
1642	SaugatParajuli
1643	Pawan Rajbahak
1644	Nishan Bhatta
1645	PadamPanthi
1646	Jay Prakash Chaudhary
1647	Ritu Shakya
1648	Ashish Paudel
1649	Rashmi Bhusal
1650	Rani Bang
1651	Sandesh Kshetri
1652	Suraj Kumar Singh
1653	Sujit Koirala
1654	Anupama Ghimire
1655	Shakshi Ghimire
1656	Roshan Sapkota
1657	Dipesh Raj Pandey
1658	Laxman Adhikari
1659	Sanjay Gupta
1660	Apshana Adhikari
1661	TrishilaJhunjhunwala
1662	Aakash Shrestha
1663	Janma Raj Timilsaina
1664	Deepak Oli
1665	Santosh Bhattarai
1666	Manasha Shrestha
1667	HarichandraLamichhane
1668	Anil Sah
1669	SushilaKhanal
1670	Priyanka Rauniyar
1671	Pradip Aryal
1672	Kapil Luitel
1673	Upendra Sapkota
1674	Kiran Paudel
1675	Manisha Kunwar
1676	Subrat Sapkota

M.No.	Member's Name
1677	Sijan Bohara
1678	Bina Parajuli
1679	Nabish Pokharel
1680	Bikal Poudel
1681	Sanjay Karki
1682	Amrit Bahadur Karki
1683	Arjun Pandey
1684	SujanBabu Tiwari
1685	Ganesh Karki
1686	Bishvanath Aryal
1687	Raman Jyoti Bajracharya
1688	Asmit Bhattarai
1689	Binaya Phuyal
1690	Uttam Kunwar
1691	Sudeep Neupane
1692	SesemaNembang Limbu
1693	Anish Paudyal
1694	NabinDevkota

Members Welcome Program

The Institute organized Members Welcome Program for the new members of ICAN on 9th June, 2021 with the objective to orient them about various aspects related to their personal and professional growth.

The program started with the welcome remarks by CA. Sanjay Kumar Sinha, Executive Director, ICAN. In this program, CA. Shashi Satyal delivered a paper presentation on "Challenges and Opportunities in Professional Practice" whereby, CA. Prabin Basnet presented about "Challenges and Opportunities in Service Industry". And, Mr. Rajan Koirala, Motivational Speaker gave speech about leadership and motivation.

CA. Madan Krishna Sharma, President, ICAN and CA. Yuddha Raj Oli, Vice-President, ICAN also gave their speech in the Members Welcome Program. The program was concluded by Mr. Binod Neupane, Director ICAN, with his vote of thanks. The program was attained by 76 new members of ICAN.

Result of CA Membership Examination

The Institute has published the result of Membership Examination held in March 2021. Total 434 candidates filled their form for membership examination out of which only 374 candidates appeared in the exam and 48 candidates qualified the examination.

Know Your Member (KYM)

The Institute has notified to entire membership for filling up the upgraded Know Your Member (KYM) through their member Login. Also, the members shall compulsorily update their KYM in order to the renew their Membership, Certificate of Practice and Firm for Fiscal Year 2078/79.

Himalayan Bank Payment Gateway System

The Institute has entered into agreement with Himalayan Bank Limited for Payment Gateway System through Debit and Credit Card for facilitating online membership renewal within and outside the country.

Change in applicable date of NFRS 17: Insurance Contracts

The Institute has issued notice regarding changes in the applicable date of NFRS 17: Insurance Contract. As per the notice, NFRS 17 shall be applicable with effective from 1st Shrawan, 2080 which was previously 1st Shrawan, 2078.

Change in applicable date of NFRS of SMEs, NAS for NPOs and NAS for MEs

The Institute has issued notice regarding changes in the applicable date of Nepal Financial Reporting Standards for Small and Medium Sized Entities (NFRS for SMEs), Nepal Accounting Standards for Not for Profit Organizations (NAS for NPOs) and Nepal Accounting Standards for Micro Entities (NAS for MEs). As per the notice, NFRS for SMEs , NAS for NPOs/NAS for MEs shall be now voluntarily applicable till 31st Ashadh, 2080 after which it shall be mandatorily applicable with effective from 1st Shrawan, 2080.

Continuing Professional Education Training

The Institute continuing with its efforts to enhance the professional capacity of members organized various online CPE training to its members. The details of CPE training delivered are given below:

Training Period	CPE Hours	Training Topics
Virtual Training		
3rd to 8th May, 2021	18	General Application of the Code of Ethics, NFRS Application in Hydropower Companies, Infrastructure and Construction Sector and Audit of Non-Profit Organizations (NPOs)
27th May to 2nd June, 2021	21	Nepal Standards on Auditing (NSAs), Taxation, Laws and Regulations and Nepal Accounting Standards for Micro Entities (NAS for MEs)
14th to 20th June, 2021	21	School Audit, NFRS for Small and Medium Enterprises (NFRS for SMEs), Social Security Fund and Labour Act and Forensic Audit and Fraud Detection (FADA)
30th June to 7th July, 2021	24	NFRS in Banking and Financial Sector, General Application of Code of Ethics, Major Provisions of NAS for NPOs, Amendments made by the Finance Ordinance 2078 and Nepal Standard on Quality Control (NSQC-1).
22nd to 31st July, 2021	30	Financial Statements of Manufacturing Sectors as per NFRS, understanding of Income Tax, Cooperative Act 2074, and Labor Act 2074 and Rules 2075, Auditing and Assurance Standard

Training Period	CPE Hours	Training Topics
9th to 14th August, 2021	18	Financial Statements of Small and Medium Entities (SMEs) as per NFRS, NAS for NPOs, Company Act 2063 & Directives 2072, Social Welfare Act 2049, Rules & Directives
Physical Training		
2nd to 4th April, 2021	30	School Audit, Cooperative Audit, Code of Ethics and. Audit of MEs.
9th to 11th April, 2021	30	School Audit, Code of Ethics, NSQC-1, NFRS For SMEs and Audit Documentation
16th to 18th April, 2021	30	Cooperative Audit, Code of Ethics, Audit of MEs and NFRS in Manufacturing Sector

Beside the above, the Institute and the Program Organizing Units (POUs) with a view to enhance the competencies of the accounting professionals, had conduced altogether 12 CPE via virtual and physical means at Dang, Pokhara, Janakpur, Nepalgunj, Jhapa, Birgunj, Mahendranagar and Kathmandu on various topics and specially focused on technical and ethical standards, information technology and other contemporary issues.

Renewal of Membership, 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 within the stipulated time period of sixty days (July 16, 2021 to August 13, 2021) with normal fee as given below:

Member categories	Membership		COP		Firm	
	Total	Renewed	Total	Renewed	Total	Renewed
FCA	401	246	368	251	1000	484
CA	1280	575	656	364		
RA B	3423	1295	3160	1088	1954	1051
RA C	1564	535	1416	427	843	420
RA D	2255	878	2049	804	1276	791
Total	**8923**	**3529**	**7649**	**2934**	**5073**	**2746**

Students Activities

Chartered Accountancy Examination

The Institute conducted Chartered Accountancy CAP-I, CAP-II and CAP-III Level, CA Membership for ACCAs Examination and RA Upgrading Examination, June 2021 from 8th to 18th August, 2021 in Kathmandu, Biratnagar, Butwal, Birgung, Pokhara, Chitwan and Hetauda.

Despite the difficulty imposed by the COVID-19 pandemic examination took place by observing all necessary protocols suggested by the concerned District Administration Office. And Opt-Out option was given to all those students who were facing problem to appear in the examination due to impact of COVID-19 pandemic. Altogether, 4,663 students appeared in the examination out of total 6,073students applied. Details of students applied and appeared in different level of CA Examination are as follows:

Level	CAP-I	CAP-II	CAP-III	Total
Applicants	2,312	2,693	1,068	6,073
Appeared	1,981	1,852	830	4,663

Students Scholarship and Insurance Facility

The Institute continuing with its objective to extend all corner support to meritorious and financially deprived Chartered Accountants students in their career building effort has made decision to increase the amount of annual contribution in regular scholarships that are being offered to them and has introduced the insurance facilities to cover their accidental and health related issues including establishment of Scholarship Fund to support students affected financially due to prohibitory orders, natural disasters, severe accidents or diseases.

The revised Scholarship Procedure 2078 has been uploaded in the website of ICAN.

Participation in Virtual International Students Conference- 2021

CAP III level students of the Institute have participated in the virtual **International Students Conference-2021** on the theme ***"Building Better Future for Accounting Professionals"*** held on 27th and 28th August, 2021 organized by the Student's Society of the Institute of Certified Management Accountants of Sri Lanka.

Orientation Program for CAP I Level Students

The Institute organized an orientation program for newly enrolled CAP-I students appearing in December, 2021 examination through virtual platform on 27th July, 2021. CA. Sanjay Kumar Sinha, Executive Director of the Institute welcomed the students in the fraternity of CA students and CA. Himal Dahal, Deputy Director of the Institute briefed them about the Institute, future of CA profession and opportunities after having chartered accountancy degree. More than 500 Students attended the program

Online Registration in Chartered Accountancy Course (CAP - III) Level

As a continuation of digitalization of various process related to students and members, the Institute has successfully launched the "Online Registration Form" for the Chartered Accountancy Course CAP-III Level from 27 June 2021. The Online Registration Form for CAP I and CAP II Level was launched from last year.

Other News

MoU signed with Bela Adharbhut School of Dhangadhi

The Institute signed the MoU with the Bela Adharbhut School of Dhangadhi, Beladevipur-11 to avail five kattha land on lease for construction of Province Office building of the Institute at Dhangadi.

Online Yoga Program

The Institute organized a seven days online Yoga Program from 25th to 31st May, 2021 in technical collaboration with Nepal Yog Foundation, Kathmandu. ICAN staff and members participated in the Yoga Program.

Online Public Procurement Training Program

The Institute organized five days Online Public Procurement Training Program for it's staffs from 28th May, 2021 to 3rd June, 2021. This program was aimed at enhancing staff' understanding on public procurement process and overcome various practical issues encountered. Almost all the staff members of the Institute are actively participating in this training.

Online Training on Effective Communication and Team Building

The Institute organized online training to staffs on topic ***"Effective Communication and Team Building"*** on 18th June, 2021. The objective of the training was to strengthen the communication skill and team building capacity of the staffs in order to perform their assigned jobs efficiently. Mr. Rajan Koirala delivered training to the staffs. The entire staff of the institute participated in the training actively.

Nepal Financial Reporting Standards

The 244th meeting of the Council dated 25 June 2020, in exercise of powers conferred by section 11 (m) of Nepal Chartered Accountants Act 2053 has decided to pronounce the following list of Nepal Financial Reporting Standards (NFRSs) including IFRIC and SIC for implementation with effective dates as mentioned in table below. The pronounced standards are the updated standards in line with the International Financial Reporting Standards (IFRSs) issued on 01 January 2018 by International Accounting Standards Board (IASB).

Detail List of Nepal Financial Reporting Standards 2018

Nepal Financial Reporting Standards (NFRS) with Conceptual Framework		
S. No.	**Name of Standards**	**Effective Date**
	The Conceptual Framework for Financial Reporting	**July 16, 2020**
1	NFRS 1 First-time Adoption of Nepal Financial Reporting Standards	
2	NFRS 2 Share-based Payment	
3	NFRS 3 Business Combinations	
4	NFRS 4 Insurance Contracts	
5	NFRS 5 Non-current Assets Held for Sale and Discontinued Operations	
6	NFRS 6 Exploration for and Evaluation of Mineral Resources	
7	NFRS 7 Financial Instruments: Disclosures	
8	NFRS 8 Operating Segments	
9	NFRS 9 Financial Instruments	**July 16, 2021**
10	NFRS 10 Consolidated Financial Statements	**July 16, 2020**
11	NFRS 11 Joint Arrangements	
12	NFRS 12 Disclosure of Interests in Other Entities	
13	NFRS 13 Fair Value Measurement	
14	NFRS 14 Regulatory Deferral Accounts	**July 16, 2021**
15	NFRS 15 Revenue from Contracts with Customers	
16	NFRS 16 Leases	
17	NFRS 17 Insurance Contract	**July 17, 2023**

Nepal Accounting Standards (NAS)		
	Name of Standards	**Effective Date**
18	NAS 1 Presentation of Financial Statements	**July 16, 2020**
19	NAS 2 Inventories	
20	NAS 7 Statement of Cash Flows	
21	NAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	
22	NAS 10 Events after the Reporting Period	
23	NAS 12 Income Taxes	
24	NAS 16 Property, Plant and Equipment	
25	NAS 19 Employee Benefits	
26	NAS 20 Accounting for Government Grants and Disclosure of Government Assistance	
27	NAS 21 The Effects of Changes in Foreign Exchange Rates	
28	NAS 23 Borrowing Costs	
29	NAS 24 Related Party Disclosures	
30	NAS 26 Accounting and Reporting by Retirement Benefit Plans	
31	NAS 27 Separate Financial Statements	
32	NAS 28 Investments in Associates and Joint Ventures	
33	NAS 29 Financial Reporting in Hyperinflationary Economies	**July 16, 2021**
34	NAS 32 Financial Instruments: Presentation	**July 16, 2020**
35	NAS 33 Earnings per Share	
36	NAS 34 Interim Financial Reporting	
37	NAS 36 Impairment of Assets	
38	NAS 37 Provisions, Contingent Liabilities and Contingent Assets	
39	NAS 38 Intangible Assets	
40	NAS 39 Financial Instruments: Recognition and Measurement	
41	NAS 40 Investment Property	
42	NAS 41 Agriculture	

	IFRIC	Remarks
1	IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities	As per IFRS 2018
2	IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments	
3	IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	
4	IFRIC 6 Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment	
5	IFRIC 7 Applying the Restatement Approach under NAS 29 Financial Reporting in Hyperinflationary Economies	
6	IFRIC 10 Interim Financial Reporting and Impairment	
7	IFRIC 12 Service Concession Arrangements	
8	IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	
9	IFRIC 16 Hedges of a Net Investment in a Foreign Operation	
10	IFRIC 17 Distributions of Non-cash Assets to Owners	
11	IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	
12	IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	
13	IFRIC 21 Levies	
14	IFRIC 22 Foreign Currency Transactions and Advance Consideration	
15	IFRIC 23 Uncertainty over Income Tax Treatments	
	SIC	
1	SIC-7 Introduction of the Euro	
2	SIC-10 Government Assistance—No Specific Relation to Operating Activities	
3	SIC-25 Income Taxes—Changes in the Tax Status of an Entity or its Shareholders	
4	SIC-29 Service Concession Arrangements: Disclosures	
5	SIC-32 Intangible Assets—Web Site Costs	

Note: NFRS 2013 version of NAS 11: Construction Contracts, NAS 17: Leases and NAS 18: Revenue Contracts, will continue to be effective until superseding standards will come into force on July 16, 2021. NFRS 17: Insurance Contract will be effective from 17th July, 2023

Other Accounting Standards

S.No.	Accounting Standards	Effective Date
1	Nepal Financial Reporting Standards for Small and Medium-sized Entities (NFRS for SMEs) 2017	Voluntarily upto 18th July, 2023 & Mandatorily from 17th July, 2023
2	Nepal Accounting Standards for Micro Entities (NAS for MEs) 2018	
3	Nepal Accounting Standards for Not-for-Profit Organizations (NAS for NPOs) 2018	

Nepal Standards on Auditing

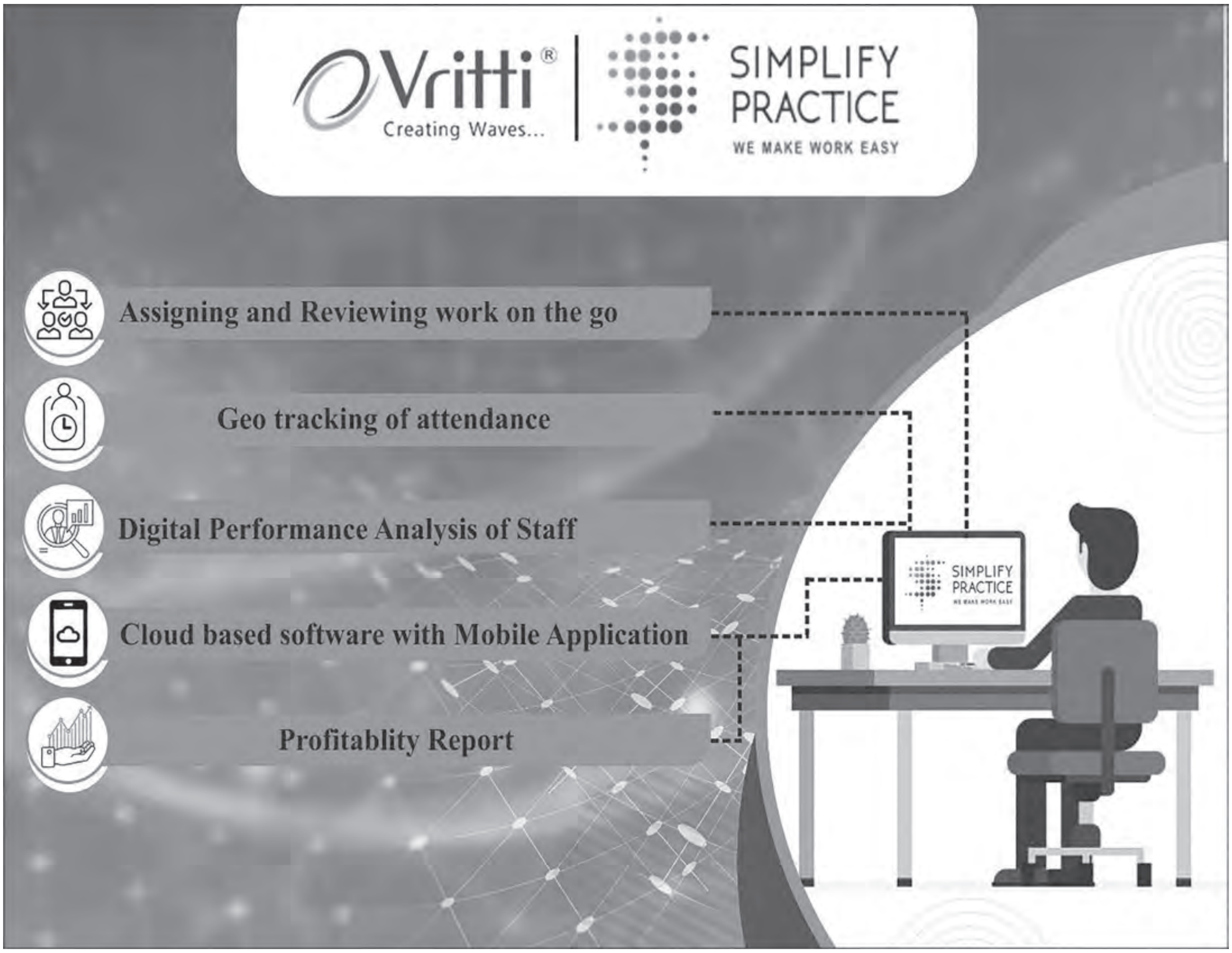
The following Nepal Standards on Auditing 2018 are applicable voluntarily from 1st Shrawan 2075 and Mandatory from 1st Shrawan 2076 except for NSA 701- Communicating Key Audit Matters in the Independent Auditor's Report, which is applicable from 1st Shrawan 2077.

S.No.	NSA No.	Standards
		Preface to the Nepal Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.
		Glossary of Terms
		NEPAL STARNDARDS ON QUALITY CONTROL
1	NSQC 1	Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements.
AUDITS OF HISTORICAL FINANCIAL INFORMATION		
200-299 GENERAL PRINCIPLES AND RESPONSIBILITIES		
1	NSA 200	Overall Objective of the Independent Auditor and the conduct of an Auditor in Accordance with Nepal Standards on Auditing
2	NSA 210	Agreeing the Terms of Audit Engagements
3	NSA 220	Quality Control for an Audits of Financial Statements
4	NSA 230	Audit Documentation
5	NSA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
6	NSA 250	Consideration of Laws and Regulation in an Audit of Financial Statements
7	NSA 260 (Revised)	Communication with Those Charged with Governance
8	NSA 265	Communicating Deficiencies in International Control to Those Charged with Governance and Management
300-499 RISK ASSESSMENT AND RESPONSE TO ASSESSED RISKS		
9	NSA 300	Planning an Audit of Financial Statements
10	NSA 315 (Revised)	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment
11	NSA 320	Materiality in Planning and Performing an Audit
12	NSA 330	The Auditor's Responses to Assessed Risks
13	NSA 402	Audit Considerations Relating to an Entity Using a Service Organization
14	NSA 450	Evaluation of Misstatements Identified during the Audit
500-599 AUDIT EVIDENCE		
15	NSA 500	Audit Evidence
16	NSA 501	Audit Evidence-Specific Considerations for Selected Items
17	NSA 505	External Confirmations
18	NSA 510	Initial Audit Engagements—Opening Balances
19	NSA 520	Analytical Procedures
20	NSA 530	Audit Sampling

21	**NSA 540**	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
22	**NSA 550**	Related Parties
23	**NSA 560**	Subsequent Events
24	**NSA 570 (Revised)**	Going Concern
25	**NSA 580**	Written Representations
600-699 USING THE WORK OF OTHERS		
26	**NSA 600**	Special considerations-Audits of Group Financial statements (including the work of component Auditors)
27	**NSA 610 (Revised 2013)**	Using the work of Internal Auditors
28	**NSA 620**	Using the work of an Auditors Expert

700-799 AUDIT CONCLUSIONS & REPORTING		
29	NSA 700 (Revised)	Forming an opinion and Reporting on financial statements
30	NSA 701	Communicating Key Audit Matters in the Independent Auditor's Report
31	NSA 705 (Revised)	Modifications to the opinion in the Independent Auditors report
32	NSA 706 (Revised)	Emphasis of Matter Paragraphs and other Matter Paragraphs in the Independent Auditors Report
33	NSA 710	Comparative information-corresponding Figures and comparative Financial Statements
34	NSA 720 (Revised)	The auditor's responsibilities relating to Other information in Documents Containing Audited Financial statements.
800-899 SPECIALIZED AREAS		
35	NSA 800 (Revised)	Special Considerations-Audit of financial statements Prepared in Accordance with Special Purpose Frameworks
36	NSA 805 (Revised)	Special Considerations-Audits of Single Financial statements and Specific Elements, Accounts or Items of a Financial statements
37	NSA 810 (Revised)	Engagements to Report on Summary of Financial Statements
NEPAL AUDITING PRACTICE NOTES		
38	NAPN 1000	Special considerations in Auditing Financial Instruments
AUDITS AND REVIEW OF HISTORICAL FINANCIAL INFORMATION		
2000-2699 NEPAL STANDARDS ON REVIEW ENGAGEMENTS(NSREs)		
39	NSRE 2400 (Revised)	Engagement to Review Financial Statement
40	NSRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity

ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION		
3000-3699 NEPAL STANDARDS ON ASSURANCE ENGAGEMENTS(NSAEs)		
3000-3399 APPLICABLE TO ALL ASSURANCE ENGAGEMENTS		
41	NSAE 3000 (Revised)	Assurance Engagements Other than Audits or Reviews of Historical Financial Information
3400-3699 SUBEJECT SPECIFIC STANDARDS		
42	NSAE 3400	The Examination of Prospective Financial Information (Previously NSA 810)
43	NSAE 3402	Assurance Reports on Controls at a Service Organization
44	NSAE 3410	Assurance Engagements on Greenhouse Gas Statements
445	NSAE 3420	Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus
RELATED SERVICES		
4000-4699 NEPAL STANDARDS ON RELATED SERVICES(NSRSs)		
46	NSRS 4400	Engagements to Perform Agreed-Upon Procedures Regarding Financial Information (Previously NSA 920)
47	NSRSs 4410 (Revised)	Compilation Engagements
AUDIT QUALITY		
48		A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality
ASSURANCE FRAMEWORK		
49		Amended Nepal Framework for Assurance Engagements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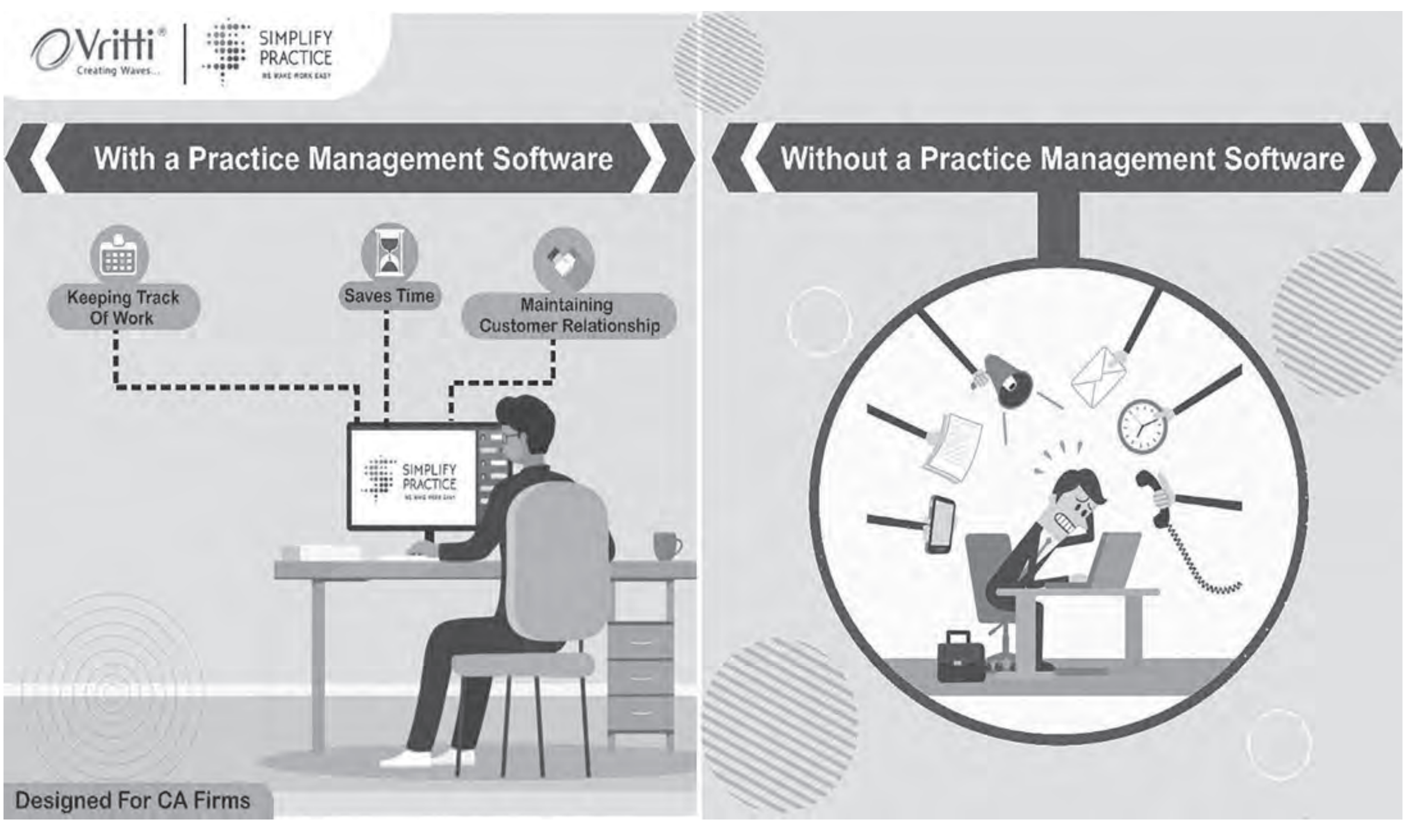
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It is essential to gain insight about what's happening in your business over time. This module is one-stop solution to track the participation of each member towards the desired goal of the organisation.

THREE THINGS WE DO BEST IN PRACTICE MANAGEMENT

LARGE ASSIGNMENT

It deals with assignment complex in nature and process, either on cost, time or effort estimation .This module is designed to generate, update and track end-to-end processes, activities and tasks along with the team and its performance.

MEDIUM ASSIGNMENT

It deals with assignments that involve less processes and not at all complex in nature. It can be implemented for assignments with lower estimation either on cost, time or effort.

EMPLOYEE MANAGEMENT

Task and Time

- Create, Update and Manage Task
- Visibility of Task
- Employee & Assigned Task Register
- Task Status Report
- Notifications and Alerts
- Time Management
- Team Management

Attendance

- Biometric-based Attendance
- GPS-based Attendance
- Update and Manage Timesheet
- Leave & Holiday Management
- Attendance Processing
- Attendance Register

Expenses

- Create, Update and Manage Travel Claim
- Generate Travel Advance Request
- Geo Map-based Distance Computation
- Automated Bill Generation
- Policy Master
- Travel Cost Register

ANDROID MOBILE APPLICATION

Simplify Practice android mobile application is designed to meet your firm's needs. Team members can schedule, assign & review activities, Raise easy claim to your manager from client place, Attendance can be mark when you are at client's place and also Simplify Practice android mobile application allows to record your activities from any location, Schedule meetings can be reviewed through the application and many more features.

Highlights of this tool

- Personalized and Interactive Dashboard
- Easy Reporting • Decision Making Support • Anytime, anywhere

Activities of ICAN

Note:

Group photograph of newly elected council members for 9th council at Certificate Presentation Ceremony

नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था

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