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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL

Established under the Nepal Chartered Accountants Act, 1997

Fundamental Principles of Professional Accountants

INTEGRITY

OBJECTIVITY

PROFESSIONAL COMPETENCE AND DUE CARE

CONFIDENTIALITY

PROFESSIONAL BEHAVIOR

Strategic Direction of ICAN

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Contents

Editorial

Financial Reporting Standards and Auditing Standards: Growing Relevance for Good Corporate Governance

The Institute has recently pronounced Nepal Financial Reporting Standards (NFRS) 2024 and Nepal Standards on Auditing (NSA) 2024 developed by the Accounting Standards Board of Nepal (AsB, Nepal) and Auditing Standards Board of Nepal (AuSB, Nepal), respectively. The NFRS 2024 has been developed in accordance with the International Financial Reporting Standards (IFRS) 2024 which is mandatorily applicable for annual report beginning on or after 16th July 2025 whereby, the NSA 2024 has been developed in line with 2021 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements which is effective for application for the audit of financial statements beginning on or after 16th July 2025. The September 2024 issue of the Journal incorporates two write-ups elaborating the objectives of the accounting and auditing standards along with the standards development process.

The Financial Reporting Standards are crucial for making financial statements clear, reliable, consistent and comparable. These standards, set by a country's national accounting body, provide a framework for how organizations should account for and report their finances. Without these standards, it would be challenging for investors, lenders and other interested parties to assess a company's financial well-being. Similarly, the auditing standards provide a structure to establish a framework that ensures the quality, consistency and reliability of audit process that serves the interest of stakeholders. These standards are applicable for the account preparers and auditors. While the financial reporting and auditing standards have different goals and processes, they are interconnected and complementary. Both aim to provide the stakeholders with accurate and trustworthy information.

Financial reporting and auditing standards not only ensure that financial statements are prepared correctly and audits are performed effectively, but also help companies maintain good corporate governance. By adhering to these standards, companies can reassure stakeholders that the financial information they provide is reliable and trustworthy.

The Institute acknowledges that pronouncement of the standards is only the first step. It is equally important that account preparers and auditors apply these standards. The Institute, as mandated in the Nepal Chartered Accountants Act, 1997, has been working for raising awareness of the public towards the importance of accountancy and the economic and social responsibilities of the accountants. In this regard, the Institute has been continuously organizing various workshops, seminars, trainings and CPE programs to disseminate knowledge and skills relating to pronounced standards around the year for the members. The Institute has been collaborating with relevant agencies to expand the reach of training on financial reporting and auditing standards for non-members also.

Despite these initiations, the Quality Assurance Division of the Institute has noted various instances of non-compliance or deviation from the standards, mainly the auditing standards, while conducting quality assurance review of audit firms that are involved in the audit of listed entities. Therefore, it is important for the professional accountants to update themselves about the recent standards pronounced and navigate the industries on how to apply these standards correctly. Furthermore, the Institute plans to undertake a collaborative initiative with the concerned regulators and associations for familiarizing the accountants, who are not members of the Institute, about the fundamentals of the financial reporting and auditing standards.

As the application of full NFRS may be overly complex and burdensome for smaller entities, the Institute has pronounced NFRS for Small and Medium-sized Entities (NFRS for SMEs), Nepal Accounting Standards (NAS) for Micro Entities (MEs) and NAS for Not-for-Profit Organization (NPOs) to address the specific needs of smaller entities. Also, the AuSB, Nepal is under process for finalization of NSA for Least Complex Entities (LCEs), which is expected to assist the auditors by providing simplified audit process for LCEs.

The Institute is dedicated in protecting the public interests and fostering integrity and accountability. To achieve this, it adopts the international standards and adapts them to our national context. This ensures that accounting professionals stay updated with the latest standards. The Institute is committed to facilitate and provide the accounting community with the skills needed to effectively implement all new standards. Your feedback on these standards is highly valued.

From the President

CA. Prabin Kumar Jha
President, ICAN

Dear Esteemed Professional Colleagues,

This year, the members of the Institute elected a new Council to lead the organization. I am deeply honored and humbled to have been unanimously elected as the 28th President of our esteemed Institute. I would like to express my sincere gratitude to all the member for re-electing me as the Council members and the Council member of the 10th council for the trust they have placed in me by electing me as the president. I officially assumed the role of President on 20th July 2024. I pledge to continue leading the Institute in its mission to elevate the value and significance of the accountancy profession as mandated by the Nepal Chartered Accountants Act, 1997. I am also grateful to the immediate Past President CA. Sujan Kumar Kafle, for involving me in key activities of the Institute that enhanced my understanding of the Institute during my tenure while serving as a the vice-President under him.

As a member of our esteemed Institute, we hold the responsibility to serve the public interest. However, this is challenging due to raising expectations from the stakeholders and meeting these expectations that demands dedication and perseverance from all of us.

Through this note, I would like to inform you that we are in the process of formulating the Institute's Strategic Plan for the next five years (2024/25–2028/29). I have instructed the Committee to explore and incorporate key policy and strategic matters that I outlined during my swearing-in ceremony and in my acceptance speech. The strategies and priorities under this plan will include regulation and supervision, professional development, education, relations with the government and society, international relationships, institutional development and sustainability. The formulation of the Strategic Plan is expected to be completed within a month or two. Once the Strategic Plan is approved by the Council, the operations of the Institute will be guided by the plan and our team will remain committed to its successful implementation.

The Institute publishes its official Journal featuring insightful articles contributed by professional colleagues and eminent experts. These articles aim to enhance members' competencies and keep them updated on the latest developments in the accounting profession and activities of the Institute.

As this is my first communication with you, I consider it my responsibility to keep all the members informed of the key events of the Institute that took place during the first quarter of fiscal year 2024/25 (July to September 2024).

Regulation and Supervision

The Quality Assurance Board of the Institute has been conducting routine quality assurance reviews of Chartered Accountants firms engaged in auditing of listed companies. Likewise, Registered Auditors' firms that have audited entities with assets exceeding NPR 500 million have also been included in the quality assurance review process. The audit limit for Registered Auditor members was revised, effective from 17th July 2024.

Professional Development

The Institute awarded certificates to members who successfully completed the certification course in Public Financial Management. To enhance members' knowledge, the Institute also organized a conference on artificial intelligence, along with various programs on information systems auditing, a post-budget interaction program and training sessions on NFRS for SMEs and NAS for MEs during the reporting quarter.

Education

The Institute has been working to align Chartered Accountancy education in Nepal with international standards through technical collaboration with the Institute of Chartered Accountants in England and Wales (ICAEW). As part of this effort, the Institute has signed a contract with ICAEW for the development of learning materials for the Chartered Accountancy course. I believe this initiative is a significant step toward enhancing the quality of CA education in Nepal. The learning material for local subjects, mainly Law and Taxation, shall be developed locally.

National Relation: Public and Government

The Institute strives to partner with the government to contribute to the country's economic development. In this regard, the Institute has been holding a series of meetings with officials of the Government of Nepal and providing support at various levels to offer input that accelerates economic growth.

Recently, I, along with the Vice President, Council Member and couple of our members, had the opportunity to interact with the Parliamentary Committee formed to investigate issues related to the cooperative sector in Nepal. During the meeting, we shared the auditor's perspective and explained the process of how audits are conducted and reports are prepared. Additionally, at the request of the Parliamentary Committee, the Institute provided audit reports of few cooperatives for their review. We also had a meeting with Vice Chair of the Nepal Planning Commission to provide our feedback on the 16th National Plan of Nepal.

We firmly believe that the Institute and its members possess the knowledge and expertise needed to strengthen Public Financial Management, thereby enhancing service delivery across the country. In line with this, various study reports have been presented to the Ministry of Finance, advocating for the inclusion of our professional members in the Civil Services. As a continuation of this initiative, I recently led a delegation in a courtesy meeting with the Hon'ble Deputy Prime Minister and Finance Minister to discuss this matter further.

In addition, I led a delegation in a productive meeting with the Director General of the Inland Revenue Department, where we submitted a document containing the Institute's comments on the exposure draft of the Transfer Pricing Directives and the format for Income Tax Return certification. Similarly, the Institute continues to support the Department of Cooperatives on various audit-related matters within the cooperative sector.

I am also pleased to share that the Institute served as a strategic partner to the Confederation of Nepalese Industries (CNI) during the fifth Nepal Infrastructure Summit 2024. We commend the CNI for successfully organizing the significant event.

With the objective of promoting transparency, accountability and enhanced financial reporting practices nationwide, the Institute organized the National Best Presented Annual Report

2023 Award distribution ceremony. During the event, 18 companies received awards across 5 categories, out of 24 companies that participated in 8 categories.

Additionally, the Institute conducted a one-day training workshop on financial statements and audit reports for officials of regulatory authorities. The training aimed to provide practical knowledge that is essential for analyzing and reviewing financial statements and audit reports.

International Relation: Global Positioning and Leadership

The Institute is a member of SAFA, and myself and our council members are actively participating in various programs organized by SAFA during my tenure as President. Following the formation of the 10th Council, the Institute has nominated Council Members and other representatives to serve in various SAFA committees.

In addition, I, along with the Vice-President and couple of Council Members, participated in the Board and Annual Council Meeting of IFAC as well as multiple meetings of CAPA and SAFA. I am confident that the nomination and participation of ICAN members in these international forums will expand the Institute's global reach and foster enhanced collaboration.

Institutional Development and Sustainability

The oath-taking ceremony of the 10th Council was held on 20th July 2024, in the gracious presence of Hon'ble Deputy Prime Minister and Finance Minister Bishnu Prasad Paudel as the Chief Guest, accompanied by Hon'ble Auditor General Mr. Toyam Raya and Governor of Nepal Rastra Bank, CA. Maha Prasad Adhikari and other guests. I would like to express my deepest gratitude to the Finance Minister, the Auditor General, the Governor of NRB and all other distinguished guests for their gracious presence at the event.

To enhance governance and support the decision-making process, the Council has formed four standing committees, three boards, fourteen non-standing committees, and six branch coordination committees for the current fiscal year. I am confident that these committees will significantly contribute to achieving the Institute's goals and objectives efficiently.

Additionally, I am pleased to announce that CA. Surendra Bhusan Shrestha has been appointed as the new Executive Director of the Institute, effective from 10th November 2024. I believe his leadership will be instrumental in guiding the Institute towards fulfilling its mandate.

Concluding Remarks,

As we are all part of the same organization, I urge every member to unite, support one another and work together towards achieving the future we envision for our profession. Once again, I express my sincere gratitude to my fellow Council Members for electing me as President and for entrusting me with this powerful and crucial responsibilities.

Before I conclude, I would like to pay tribute to our esteemed pioneers for their invaluable contributions to the development of accounting profession in the country.

CA. Prabin Kumar Jha,

President, ICAN

Preparation and Presentation of Financial Statements of Government in Nepal

CA. Baikuntha Adhikari

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Background

The Fiscal Procedures and Financial Accountability (FPFA) Act, 2019 has made provisions for the operation, accounting, reporting and controlling of government funds. Fiscal Procedures and Financial Accountability Regulations, 2021 have been formulated to facilitate the implementation of the Act. Basically, it is found that federal government's financial operations are conducted by complying with these laws. However, the provincial government and local level are authorized to prepare their own Financial Procedure Act and Rule thereof in line with these federal laws. Since the Government of Nepal has implemented the Nepal Public Sector Accounting Standards (NPSAS) since 15 September 2009, it has been updated in accordance with the International Public Sector Accounting Standards (IPSAS) cash basis, issued by the International Public Sector Accounting Standards Board in 2017, which has been enacted that is being implemented since 6 December 2022. The forms relating to financial reporting according to the same accounting standards have also been implemented. In those forms, the central level Consolidated Financial Statements (OAG Form 270) and operational level financial statements for entities that conduct recurring and capital expenditure (OAG Form 271-1) and additionally for entities that also conduct financing expenditure transactions (OAG Form 271-2) are applicable.

The federal Offices, local levels and ministries or entities perform the task of updating the accounts and records of transactions by including all transactions made by them and their subordinate entities and prepare consolidated financial statements of ministries or entities accordingly. The District Treasury Controller Office (DTCO) and Province Treasury Controller Office (PTCO) prepare the consolidated financial statements within their scope by collecting the financial statements from the concerned offices/entities. The Financial Comptroller General Office (FCGO) is responsible for preparing the Consolidated Financial Statements of the federal treasury and the Consolidated financial statements of the federal, province and local levels. Regarding the preparation and presentation of government financial statements, this article basically discusses the legal provisions and practices under fiscal procedures and financial accountability laws in three tires of governments.

Responsibility for preparing Financial Statements

As per FPFA Act, financial statements are prepared by the spending or revenue collecting entity or budget center where books of accounts and records are kept. These entities are required to submit periodical statement of expenditures and revenue and annual financial statement to their controlling entities within the specified period. The financial statement is prepared at operational level however, consolidation of such statements based on the financial statement prepared by operational level is done by controlling entities i.e. Ministry and concerned DTCO and PTCO. The legal provisions for preparation and presentation of financial statement in public sector is discussed below:

a) **Ministry or Entity:** The secretary of the federal ministry or entity, and the provincial secretary of the provincial ministry or entity, working as the administrative chief related to financial administration, are called chief accounting officer. Under section 29 (2) of the FPFA Act, 2019, the chief accounting officer of a federal ministry or entity must receive the financial statements of all income and expenditure including appropriation, revenue, deposit as well as other funds from the subordinate office and prepare consolidated financial statements and central accounts. Also, there is a provision to submit financial statements and accounts to the FCGO and Office of the Auditor General (OAG) within the specified period of time. Section 29(5) of the same Act also states that if the chief accounting officer or the person-in charge requests an extension of the deadline, including the reasons for not being able to submit the financial statements within the specified period, the Auditor General or the officer appointed by him may extends the deadline up to a maximum of 30 days. The ministry or entity must maintain records and provide the details of movable and immovable property, liability under their jurisdiction to the FCGO within the specified time. The provincial ministry or entity shall provide the said details to the PTCO according to the same procedures and provisions as the federal ministry or entity follows.

b) **Office:** Under section 26 of the FPFA Act, 2019, in addition to appropriation, revenue, deposit and other funds, it is the duty of each office to maintain an account of all transactions from assistances or funds received in accordance with the agreement with the Government of Nepal. If such assistance is not included in the budget, there is also a provision that the responsible office is required to prepare and keep a separate record of such assistance in the prescribed form. Section 29 of the Act stipulates that the person-in charge must submit the statement of account of the office's transactions and related documents to the Chief Accounting Officer or the office designated by him or her and to the Auditor General within the specified period. In addition, if an extension of time is requested to submit the statement of accounts in this way, the immediate superior officer may extend the dead line for a maximum of 30 days for good reasons, but the time period for submitting the consolidated financial statement to the Office of the Auditor General will not be affected. Moreover, all Offices must submit accounts and records to the OAG for audit in accordance with the Audit Act, 2019. As per NPSAS such offices are called controlled entities.

c) **Local level:** Under section 4(1) of FPFA Act, 2019, the Local Level shall require to prepare a financial statement, incorporating the grants made available to the local level under their control by the Government of Nepal and appropriate Province Government, money receipt under revenue sharing, internal incomes, loans, and grants, as well as expenditures, and submit the same to the PTCO and the DTCO. The provision that the local level should submit the financial statement by the end of Asoj (mid-October) has been made in Rule 10 (1) of The FPFA Regulations, 2021. According to the Audit Act, 2019, accounting records and financial statements shall also be provided to OAG for audit.

d) **District Treasury Controller Office (DTCO):** The DTCOs have been established in 77 districts across the country under the FCGO. Under section 5 of FPFA Act, 2019, this office prepares consolidated financial statements of all offices within its jurisdiction based on grants received from the Government of Nepal and Provincial Government, funds received under revenue sharing, internal income, loans and grants and expenditure statements and financial statements received from the local level. There is also a provision to submit such statements to the PTCO and FCGO.

e) **Province Treasury Controller Office (PTCO):** The PTCOs in each province are responsible for the operation of the provincial treasury, guidance in the financial administration of the province, preparation of the provincial accounts and consolidated financial statements. Under section 4(2) of FPFA Act, 2019, this office prepares consolidated financial statements of financial transactions within the province on the basis of grants received from the Government of Nepal and the amount received under the revenue sharing to all offices within its jurisdiction and the statement of internal income, loans and grants and expenditures of the Provincial Government. PTCO shall also include the income and expenditure made by the local levels of the respective province in the consolidated financial statement after receiving financial statements from the local level. Such consolidated financial statements are sent to the FCGO within Kartik 15 (last October) as stipulated in Rule 10 (2) of the FPFA Rules, 2021. According to the Audit Act, 2019, such financial statements must also be submitted to the OAG for audit.

f) **Financial Comptroller General Office (FCGO):** The consolidated financial statement of whole of the government is prepared by FCGO and submitted to OAG for audit. Section 3(2) of FPFA Act, 2019 stipulates that the FCGO is responsible for operating the federal consolidated fund and maintaining the accounts up-to-date and preparing its annual financial statements. Under section 5(1) of the Act, FCGO is responsible for preparing consolidated financial statements of the whole of the government based on the financial statements of the federal consolidated fund, province consolidated funds, local consolidated funds and other government funds, if any. Under section 5(5) of that Act, this office should prepare a consolidated financial statement and send it to the Ministry of Finance. Likewise, such consolidated financial statements must be submitted to the Ministry of Finance and OAG within 15 Paush (last December) as per the Rule 10(3) of the FPFA Regulations, 2021. Under section 29 of the Act, stipulates that this office shall submit to the OAG, within the specified period, the consolidated financial statements of the federal consolidated fund including foreign grants and loans, details of investment including appropriation, revenue, deposit as well as other funds for each financial year.

g) **Extra Budgetary Entity:** Extra Budgetary entities are included in the consolidated financial statements prepared by the FCGO based on the financial statements of federal, province and local consolidated as well as other government funds is in section 5(1) of FPFA Act, 2019. Under Rule 79 of the FPFA Regulations, 2021, public entities outside the budget system (extra-budgetary) such as boards, committees or other entities must submit accounts and statements, if such entities have received any subsidy from the government of Nepal. If it is mentioned in their financial administration Bye-rules, according to such Bye-rules otherwise according to this FPFA regulation, they must prepare quarterly and annual statements of income and expenditure including such subsidies, their internal income or the amount received from other entities. Such details should be sent to the concerned ministry within 7 days of the end of the period in the case of quarterly and 35 days of the end of the financial year in the case of annual. In this way, while submitting the annual financial statement, if the grant amount other than the unconditional one cannot be spent within the same financial year, then such amount should be deposited in the respective consolidated fund and that statement should also be attached. According to Audit Act, 2019, such entities shall also submit financial statements to the OAG for audit.

h) **Central Entity:** Under Rule 2(e) of FPFA Regulations, 2021, Government of Nepal's ministries, constitutional bodies, commissions, secretariats and central level bodies of the Government of Nepal are referred to as central level offices. Under rule 79(2) of the same Regulations, Central Entity should prepare consolidated report based on the statement received from extra budgetary entities including boards, committees or other entities. As per the NPSAS such entities are called controlling entity. The central entity or controlling entity should conduct a mapping of the income, expenses, grants and other matters of public entities outside the budget system (extra-budgetary). Based on that mapping, central entity or controlling entity should prepare the consolidated financial statements and submit it to the FCGO and the OAGN. Ministries or Entities conducting central-level operations give budget authorization to the related subordinate offices. They maintain central accounts based on the statements received from subordinate offices or controlled office and prepare consolidated financial statements accordingly. Rule 56(3) of the Regulations states that such central entities should maintain separate records of accounting and bookkeeping of their operational level transactions.

Directions and actions:

Under section 29(3) to (5) of FPFA Act, 2019, stipulates that, the responsible person shall submit the financial statement of the transactions of his/her office and the related documents to the chief accounting officer or to the office designated by him/her or to the Auditor General within the specified period as prescribed ; if it is not possible to submit within the specified period, if it is necessary to extend the deadline, there is a provision that the deadline can be extended by a maximum of 30 days. If such extension is not requested or if the account and financial statements are not submitted even within the extended deadline, the Auditor General may instruct the Chief Accounting Officer if he/she is responsible person and the Immediate Superior Officer if he/she is a Chief Accounting Officer to submit such account and financial statements. The Auditor General may send a written letter to the relevant ministry to take departmental action according to the prevailing law to the officials who do not submit account and financial statements even after giving such instructions. In this way, the provision of giving instructions and sending a written letter for action is contained under section 29(6) and (7) of the said Act.

Financial Statements and Consolidation:

Financial Statements preparation and Consolidation process have been mentioned in the NPSAS Cash-based implemented by the Government of Nepal. According to this standard, Financial Statements include:

a) Statement of cash receipts and payments in which cash balances under the control of the entity and payments made by third parties on behalf of the entity are separately identified,

b) Accounting policies and explanatory notes and

c) Comparative statement of budget and actual amount.

As per this standard Consolidated Financial Statements mean the financial statements of an economic entity in which cash receipts, cash payments and cash balances of controlling entity and controlled entities are presented as a single entity. In this way, the financial statements prepared by the controlling entity by compiling the financial statements of the controlled entity or entities and its own financial statements as a single financial statement is called consolidated financial statements. But for the purpose of FPFA Regulations, 2021, the annual consolidated financial statement that is prepared by the FCGO is called consolidated financial statements. Under Rule 2(b) of the Regulations, consolidated financial statements mean statements consolidated and prepared annually by the FCGO based on the financial statements received from central level office, district-wise statements received from DTCO, statements received from PTCO and Local Level, foreign aids received by Government of Nepal and statements related to internal loan and investments as well. In this way, it seems that there are several levels of consolidated financial statements, which are determined as per the context.

Recommendatory Additional Disclosures in the Financial Statements:

As per the prevailing NPSAS, part 1 is mandatory and part 2 is voluntary. In voluntary section- Part 2 provides additional disclosures which are not mandatory in the preparation and presentation of financial statements. But as we have to move from cash basis to accrual basis of financial statements preparation, such voluntary additional disclosures are important to help in this direction. NPSAS has encouraged such disclosures in the notes of the financial statements. The practices of such disclosures mentioned in part 2 of NPSAS are briefly mentioned as below:

1. Cash received by the entity as an intermediary and balance of such cash: amount to be transferred to third parties according to revenue collection, legal requirements and administrative arrangements (Pass-through cash flows), amount that can be transferred to

third parties, allocated from the budget such as unemployment benefit, disability pension, family allowance, social security amounts.

2. Transactions between related parties according to IPSAS accrual base; disclosure of major categories and groups of cash flows; assets such as debtors, investment, machine equipment; liabilities such as creditors, loans, advance etc.

3. Expenditure comparison with multi-year budget, cross reference with service achievements, name of significant controlled entities, jurisdiction, reason for not consolidating controlled entities, ownership ratios in controlled entities, determination and explanation thereof; as much as possible, when determining the controlling entity, the interpretation that control is established even if there is less than half of the interest and another entity that does not control even if there is more than half of the interest.

4. Details of entities included and removed from the group's financial statements including reasons for inclusion or removal, list of entities included in and removed from the group's financial statements since the previous period's financial statements were finalized, the accounting method used to account for the separate financial statements of a controlled entity.

5. Restatement of financial statements to include the effect of change in price indices when presenting financial statements in currencies of hyperinflationary economy, use and disclosure of meaningful price indices in comparative information and consolidated financial statements of previous periods.

6. External aid receipt: total amount of external aid if not mentioned in the face of cash receipts and payments statement, liabilities for purchase of goods or services or other, total external aid paid by third parties, total amount of foreign aid received in the form of loans and grants, category of external aid provider and amount provided, purpose and use of external aid and amount of loans and grants, total external aid, loan and grant balance and purpose for which it can be used, the disclosures of external aid mentioned in this manner also in receiving aid other than external aid.

7. Information according to classification of cash flow from operating, financial and investment activities by entities that adopt the *accrual-based IPSAS 2 cash-based framework* to provide details of cash receipts and payments.

Usefulness of Public Sector Accounting Standards:

Regarding the presentation of the general-purpose financial statements of the government and the public sector, the aspects such as uniformity, transparency, accountability, reliability, compliance, efficiency, effectiveness and comparability should be improved over time. Accordingly, the accounting work should also be given clarity. For this, the public sector accounting standards are absolutely useful. Cash-based accounting standards report the entity's cash receipts, cash disbursements and cash balances in a detailed and transparent manner. As mentioned in the prevailing NPSAS, the FCGO is clear that the real utility of financial reports can only be achieved by adopting the accrual-based accounting standards.

Accounting standards give detailed information about the purpose, definition, general features, nature and content of financial statement, statement of financial position, profit or loss and other comprehensive income statement, statement of change in equity, statement of cash flows. It also talks about accounting policies and notes, disclosures related to financial statements, identification of components of financial statements for accounting and reporting. Accounting standards provide principle-based and procedural clarity on how to deal with financial statements and accounting balances, transections and disclosures related assertions such as completeness, occurrence, measurement, presentation and disclosure, accuracy, cut-off, right and obligation.

Inevitability of accrual-based ac-

counting and reporting:

Preface of the prevailing NPSAS states that, the objectives of financial reporting can be achieved by adopting the accrual-based accounting standards; therefore, government and public sector entities will be encouraged to report financial statements in order to meet the requirements of accrual-based accounting; this will require transitional provisions; NPSAS (cash-based) has been developed as an intermediate step to support the same transition; this cash-based accounting is not expected to be the ultimate goal and therefore the disclosures mentioned in part 2 are encouraged by the preface of the prevailing NPSAS. In addition, it is also mentioned that the FCGO or any entity need not to adopt this transitional way. In case of Government Business Enterprises (GBEs), the Nepal Financial Reporting Standards (NFRS), which have been prepared based on the International Financial Reporting Standard (IFRS), are implemented. Under section 108 and 109 of Companies Act, 2006 state that the accounts of the companies should be kept in accordance with the accounting standards applied by the authorized entity under the prevailing law; the company should prepare the balance sheet, profit and loss account and cash flow statement for the fiscal year. Nepal's public enterprises and regulatory entities established under the Companies Act and other laws are keeping accounts and making financial reports in accordance with the NFRS.

Under section 25 (1), (2), (3) and (6) of FPFA Act, 2019 state that, accounts of government transactions shall be maintained on the basis prescribed in accordance with the principle of double entry accounting system; the process of accounting and reporting shall be as determined by the FCGO in accordance with the accepted principles of accounting, the latest concepts developed in this field and the guidance of the prescribed public sector accounting standards; provinces and local levels can maintain accounts on a prescribed basis with the approval of the FCGO. Rule 56(4) and (5) of FPFA Regulations, 2021, provide that, FCGO can implement an accrual accounting system by analyzing the needs and institutions in relation to the transactions; if there is any dispute regarding accounting, it will be as determined by the FCGO.

Thus, the current NPSAS does not prohibit the accounting and financial reporting of government transactions on an accrual basis, but rather encourage it. Not only companies or other private entities, but also government owned corporate bodies are doing accounting and reporting on the accrual basis. According to FPFA law, there is legal provision that allows the implementation of accrual-based accounting system with the approval of the FCGO.

Problems and challenges:

The government of Nepal has implemented the NPSAS (Cash-based) since 2009. It seems to have been updated again in 2022. In this way, it seems that the period of 16 years until now 2024 has been completed. In the government entities, all the financial transactions mentioned in part 1 of the Accounting Standards are still not appropriately included in the financial statements. It seems that the disclosures in the financial statements as per voluntary content mentioned in part 2 of the said Accounting Standard are often found insufficient.

The Computerized Government Accounting System (CGAS) developed by FCGO has been implemented for all offices of the Government of Nepal and Province Government. The local treasury management system (Sub-national Treasury Regulatory Application or SuTRA) developed by the same office has been implemented for all local levels. When the figures shown by the system and the financial statement approved by the office or entity are different, it has been found by the audit that the accounts are not reconciled.

Schedule 4 of the Nepal Administrative Service (formation, group and classification and appointment) Regulations, 1993 formed under section 75 of the Civil Service Act, 1992 prescribes the educational qualifications of the Accounting Group employees. There is a provision that the employees of the Accounting Group can be employed even if they do not study accounting, i. e. if they have completed their studies in management, commerce, or business administration or any core subject from economics, mathematics, statistics or public administration from a recognized educational institution. According to the same, Nepal government, province government and local level have arranged the manpower for their accounting service. In this way, there is a need to review the current legal system, which is not the case that there should be accounting and bookkeeping by human resources who are experts in accounting or even chartered accountancy. Sufficient training should be arranged for the existing accounting personnel. In the coming days, it should be arranged that the employees who do not have accounting qualifications and knowledge will not be placed in the accounting group.

There is a need to improve the man power management in order to cover all the transections and keep the accounts and records and to prepare the financial statements in a realistic manner to do necessary reconciliation efficiently as well as to apply the public sector accounting standards of accrual basis. For that, these aspects are important.

Roadmap for the migration from cash to accrual basis of accounting:

a) Basis for the roadmap: FPFA Act and Regulations provide that the accounts shall be maintained as determined by the FCGO in accordance with the guidance of the prescribed NPSAS. Province and local level are allowed to keep accounts with the approval of the FCGO. There is provision that the FCGO can implement the Accrual Accounting System after analyzing the needs and institutions for any types of transections. Also, if there is any dispute regarding accounting, the legal provision has arranged it to be as determined by FCGO. According to the same legal provisions, the FCGO prepared the NPSAS through the Nepal Accounting Standards Board (NASB) and implemented it with the approval of Nepal government. Rule 10 of the Nepal Administrative Service (formation, group and classification and appointment) Regulations 1993 provides that the administration of the accounting group of the government of Nepal shall be done by the FCGO. Accordingly, the administration of the accounting group appears to have been done. Employees of educational qualifications as per the same law are recruited from the Public Service Commission, and such employees of accounting groups are currently working at the province and local level as well. Accounting and financial reporting works are being done by these employees.

b) Roadmap for the migration: The FCGO should study and prepare a review report in accordance with accounting standards issued by the IFAC, according to which, with the support of the NASB, NPSAS Accrual-based should be prepared, and the said standards should be approved by the Government of Nepal and implemented. Along with this, FCGO, in coordination with Nepal Government Ministry of Finance, Ministry of Federal Affairs and General Administration, Ministry of Law Justice and Parliamentary Affairs and Public Service Commission should amend schedule 4 of the Nepal Administrative Service (formation, group and classification and appointment) Regulations, 1993 and arrange for those who are knowledgeable in accounting or have the qualification of chartered accountancy to be involved in the operational and policy level of the accounting group. Professional training to increase efficiency in accounting and related standards should also be conducted after identifying the need.

Conclusion:

FPFA Act, 2019 and the FPFA Rules, 2021 have been formulated to prepare and submit financial statements of government entities. The provincial government and the local level can formulate the relevant laws accordingly. As permitted by such laws, financial statements of government accounts should be prepared and submitted in accordance with NPSAS. Extra Budgetary Entities including boards, committees, etc. operating under separate legal existence can implement separate regulations related to fiscal procedures and financial accountability. In addition, such GBEs can use NFRS (based on IFRS) instead of NPSAS, according to their laws.

Federal and province level offices, local level and ministries or entities (including extra budgetary entities) who perform operational level work and maintain records of accounts should submit the relevant details (financial or other statements) to the designated entities (Superior Office, DTCO, PTCO and FCGO whichever are relevant). Local level and federal and province level ministries or entities should consolidate their financial statements and those of their subsidiaries and report them to the designated entities (DTCO, PTCO, FCGO or any or some of them). The DTCO, PTCO and FCGO prepare and submit consolidated financial statements according to their assigned areas. The records of accounting and bookkeeping should also be submitted to the OAG for audit purpose.

In this way, according to accounting standards, it is the responsibility of the responsible person and chief accounting officer to prepare and submit the financial statements in such a way that the mandatory disclosures in the financial statements and with some additional disclosures that are encouraged. It is found that there is a legal arrangement that authorizes the Auditor General will give instructions to those who fail to submit the details to the OAG. Auditor General may send a written notice to the responsible officer for departmental action to the officer who fails to follow the instructions. The objectives of the financial reporting can be achieved by adopting the accrual-based accounting standards; the prevailing NPSAS has also encouraged accrual-based accounting. In GBEs and regulatory bodies, the accrual-based accounting and financial reporting system has been already implemented. Nepal's current law and prevailing accounting standards and IFAC have given sufficient direction to support for implementing the accrual-based accounting. Since there are enough skilled manpower in the country, FCGO should not delay in implementing the accrual-based accounting and financial reporting standards by following the roadmap suggested in this article. These aspects are very important in the preparation and presentation of financial statements including the accounting for the government sectors of Nepal.

References:

1. Fiscal Procedures and Financial Accountability Act, 2019: Nepal Law Commission, Kathmandu
2. Fiscal Procedures and Financial Accountability Regulations, 2021: Nepal Law Commission, Kathmandu
3. Audit Act, 2019: Nepal Law Commission, Kathmandu
4. Nepal Public Sector Accounting Standards (cash-based): Financial Comptroller General Office, Kathmandu
5. International Public Sector Accounting Standards: Handbook of International Public Sector Accounting Pronouncements, IFAC
6. Accounting Directives of Nepal Government: Financial Comptroller General Office, Kathmandu
7. Civil Service Act, 1992: Nepal Law Commission, Kathmandu
8. Nepal Administrative Service (formation, group and classification and appointment) Regulations, 1993: Nepal Law Commission, Kathmandu

An Overview of Nepal Financial Reporting Standards (NFRS) 2024

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Background

The Accounting Standards Board (ASB or Board) revised the Nepal Financial Reporting Standards (NFRS) 2018 to align with the International Financial Reporting Standards (IFRS) 2024. This process involved multiple stages, including exposure draft, public consultation, input from the Standards Development and Revision Technical Committee (Technical Committee), standards review task force, and final approval by the Board. The exposure draft of NFRS 2024, open for public comment for 60 days, was circulated to a wide range of stakeholder, including financial institutions, regulatory bodies, and academic institutions, to gather feedback. Notable updates in NFRS 2024 include revisions to definitions of business, interest rate benchmark reforms, and specific standards such as NFRS 3, NFRS 9 and NFRS 17. The ASB also conducted outreach programs across all seven provinces of Nepal, including Kathmandu, reaching over 300 participants in collaboration with the Institute of Chartered Accountants of Nepal (ICAN).

Due process of the board

NFRS are developed, revised, and updated through a formal due process of the board involving the Standards Development and Revision Technical Committee, regulatory authorities, and other stakeholders. The key stages in this process include:

a) **Issue Identification by Technical Committee:** Issues related to the standards are first identified, reviewed, and discussed by the Technical Committee, which then makes recommendations for the development of the standards.

b) **First Discussion in the Board:** The Board considers the suggestions from the Technical Committee. After the first discussion, Board members are given one month to submit their comments.

c) **Second Discussion in the Board:** The Technical Committee reviews the comments and resubmits the standards for further discussion by the Board.

d) **Publication of Exposure Draft:** If the Board decides to make the proposed draft public, an exposure draft is published for a public comment period of at least two months.

e) **Approval of Exposure Draft as a Standard:** After compiling the public comments, the Technical Committee submits the final version of the standard along with its inputs to the Board for approval.

f) **Request for Implementation:** The Board requests the relevant regulatory bodies to facilitate the implementation of the new standards.

Revision Process

The Board has issued Nepal Accounting Standards (NAS) 2007/2008, Nepal Financial Reporting Standards (NFRS) 2013 and Nepal Financial Reporting Standards (NFRS) 2018 for listed entities and entities with public accountability. The Board has revised the NFRS 2018 with reference from IFRS 2024 required standards. The revision process for the Nepal Financial Reporting Standards (NFRS) 2024 is comprehensive and involves several stages and key participants to ensure accuracy and transparency. The process begins with the Standard Development and Revision Technical

Committee, which is responsible for the initial review and revisions. This committee scrutinizes the daft presented by the secretariat and proposes necessary changes in the process. Following this, the Standards Review Task Force conducted a detailed examination of the proposed revisions. This task force was tasked with ensuring that the changes align with international standards and best practices. To support the technical committee and the task force, consultants are brought in to provide specialized knowledge and expertise.

Project Timeline

The 153rd Board Meeting on September 7, 2023, initiated the revision of NFRS 2018 by referring the amendments till IFRS 2024. The secretariat issued EOI Notice for a Technical Consultant and an agreement was made with the consultants. The Technical Committee Meeting approved the action plan and track changes method for the revision of NFRS. The initial draft was presented on at the technical committee meeting which formed Standards Revision Review Taskforce to review the revision process. The Technical Committee forwarded the final draft to the Board on March 26, 2024. The 159th Board meeting discussed the final draft on April 12, 2024, followed by a one-month review, and the 160th Board meeting approved for the publication of the exposure draft on May 14, 2024. Public outreach for exposure draft began on May 17, 2024.

Control Mechanism

A robust Control Mechanism was put in place to maintain transparency and integrity throughout the revision process. All revisions were made in track change mode, which allows for a clear view of the changes made and facilitates easy tracking of alterations. This method ensures that all stakeholders can see the history of changes and the rationale behind them. To ensure transparency in the revisions and amendments made to Nepal Financial Reporting Standards (NFRS), the modified and revised provisions are underlined, while the deleted provisions are struck through.

Exposure Draft

After these steps were completed, the revised document went a one-month review by the Board members. This period allowed Board members to thoroughly examine the revised standards and provide their feedback. Following this review, an exposure draft was issued for public consultation over two months. This public consultation period is crucial for gathering input from a broader audience, including practitioners, academics, and other stakeholders, ensuring that the standards are robust, comprehensive, and widely accepted.

Since there have not been major developments necessitating significant amendments in the financial reporting landscape, the IFRS 2024 has very few significant changes compared to IFRS 2018. Similarly, there are only a few key changes in NFRS 2024 compared to NFRS 2018. The following table provides a high-level summary of these key updates. For complete information about the changes, it is advisable to refer the standards.

S.No.	Standards	Key Updates in NFRS 2024 with relevant Para No.
1	Conceptual Framework	No Significant Changes
2	NFRS 1	No Significant Changes
3	NFRS 2	No change
4	NFRS 3	**Exceptions to the recognition principle (21A-21C):** The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. The new updates provide the exceptions to the Liabilities and contingent liabilities within the scope of NAS 37 or IFRIC 21.

S.No.	Standards	Key Updates in NFRS 2024 with relevant Para No.
		Definition of Business (B7): The old definition of business focuses on providing returns directly to investors or owners, emphasizing dividends, lower costs, or other economic benefits. The new definition broadens the scope by including customers as beneficiaries alongside investors. **Optional test to identify concentration of fair value (B7A- B7C):** The optional concentration test in NFRS 3 offers a simplified way to determine if a set of acquired assets and activities does not constitute a business. This allows entities to determine if the acquired assets are concentrated predominantly in a single identifiable asset or group of similar assets. If the concentration test is met, further assessment is unnecessary. It is significant since if an acquired set of assets and activities does not constitute a business under NFRS 3, acquisition method shall be followed. **Elements of Business (B8-B8A):** Added para to clarify to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output **Assessing whether an acquired process is substantive (B12-B12D):** Para added to assess whether an acquired process is considered "substantive" under the NFRS 3 definition of a business. A substantive process is critical to determining if an acquired set of assets and activities qualifies as a business.
5	NFRS 5	No change
6	NFRS 6	No change
7	NFRS 7	**Uncertainty arising from interest rate benchmark reform (24H):** Para has been added which provides relief from the potential effects of the uncertainty caused by the interest rate benchmark reform. **Additional disclosures related to interest rate benchmark reform (24I – 24J):** Two Para has been added that enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy, an entity shall disclose additional information.
8	NFRS 8	No change
9	NFRS 9	**Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform (5.4.5 – 5.4.9):** An entity shall apply paragraphs 5.4.6–5.4.9 to a financial asset or financial liability if, and only if, the basis for determining the contractual cash flows of that financial asset or financial liability changes as a result of interest rate benchmark reform. **Temporary exceptions from applying specific hedge accounting requirements (6.8- 6.8.13):** An entity shall apply these paragraphs hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties.

S.No.	Standards	Key Updates in NFRS 2024 with relevant Para No.
		Additional temporary exceptions arising from interest rate benchmark reform (6.9- 6.9.3): As and when the requirements in paragraphs 6.8.4–6.8.8 cease to apply to a hedging relationship (see paragraphs 6.8.9–6.8.13), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform. **Transition for Interest Rate Benchmark Reform—Phase 2 (7.2.43 - 7.2.46):** An entity shall apply Interest Rate Benchmark Reform—Phase 2 retrospectively in accordance with NAS 8. An entity shall designate a new hedging relationship (for example, as described in paragraph 6.9.13) only prospectively (i.e. an entity is prohibited from designating a new hedge accounting relationship in prior periods). Also, conditions for reinstating a discontinued hedging relationship have been added.
10	NFRS 10	No Significant Changes
11	NFRS 11	No change
12	NFRS 12	No change
13	NFRS 13	No change
14	NFRS 14	No change
15	NFRS 15	No change
16	NFRS 16	**Lease Modification due to covid (46A-46B):** To provide lessees with accounting relief for specific rent concessions arising due to the financial disruptions of the COVID-19 pandemic and it would not amount to lease modification. Lease modification would require adjustment to right to use and lease liability (para: 42) However this para may not be relevant now since the concession is provided for transaction upto 30 June 2022. **Temporary exception arising from interest rate benchmark reform (104-106):** In developed jurisdiction leases often have variable lease payments tied to interest rate benchmarks like as interbank offered rates (IBORs). The Financial Stability Board has published a report setting out recommendations to reform some major benchmarks. Some jurisdictions have already made clear progress towards replacing existing benchmarks with alternative, nearly risk-free rates. Reform in these benchmarks necessitates contract changes, which technically could trigger lease modification accounting under para 42. So, the amendments provide relief from the potential effects of the uncertainty caused by the reform.
17	NFRS 17	**Insurance acquisition cash flows (28A-28F):** Para 27 is now deleted. An entity shall allocate insurance acquisition cash flows to groups of insurance contracts using a systematic and rational method applying paragraphs B35A–B35B, unless it chooses to recognise them as expenses applying paragraph 59(a). **Contractual service margin (38-39):** The fundamental concept of conceptual service margin has been further elaborated. **Onerous contracts (50)** The fundamental concept of 3. Onerous contracts have been further elaborated.

S.No.	Standards	Key Updates in NFRS 2024 with relevant Para No.
		Recognition of Re-Insurance Contract (62A): An entity shall delay the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date that any underlying insurance contract is initially recognised, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held. **Measurement of Re-Insurance Contract Para (65-66B, 70A):** Measurement criteria for Reinsurance contracts has been revised and elaborated. **Reconciliation (105A-105B):** An entity shall disclose a reconciliation from the opening to the closing balance of assets for insurance acquisition cash flows recognised applying paragraph 28B. **Insurance acquisition cash flows (B35A-B35D):** Application guidance is added to calculate insurance acquisition cash flows. **Initial recognition of transfers of insurance contracts and business combinations (B95A - B95F):** New guidance is added for Initial recognition of transfers of insurance contracts and business combinations and Asset for insurance acquisition cash flows. **Recognition of the contractual service margin in profit or loss (B119A-B119D):** New guidance is added for recognition of contractual service margin in profit or loss & recognition of recovery of losses on underlying insurance contracts. **The effect of accounting estimates made in interim financial statements (B137**): If an entity prepares interim financial statements applying NAS 34 Interim Financial Reporting, the entity shall make an accounting policy choice as to whether to change the treatment of accounting estimates made in previous interim financial statements when applying NFRS 17 in the subsequent interim financial statements and in the annual reporting period. The entity shall apply its choice of accounting policy to all groups of insurance contracts it issues and groups of reinsurance contracts it holds.
18	NAS 1	**Materiality (7):** Revised definition of "**material**" emphasizes the direct impact on decision-making by the primary users of financial statements. It also highlights the impact of omitting, misstating or obscuring information in determining materiality. Old focused only influencing economic decisions in general. An entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period. **Right to defer settlement for at least twelve months(72A-72B):** This clarifies when an entity can classify a liability as non-current, even if certain conditions (covenants) are attached to the loan arrangement. It prevents companies from classifying liabilities as non-current simply because a right to defer exists on contract. This ensures the financial statements don't undermine company's short-term obligations. **Settlement (76A-76B):** New Para clarifies what constitutes "settlement" of a liability, which directly impacts whether it's classified as current (due within 12 months) or non-current.

S.No.	Standards	Key Updates in NFRS 2024 with relevant Para No.
		Disclosure (117-121): More disclosure requirement is prescribed for Disclosure of accounting policy. New disclosure requirement is connected with new definition of materiality.
19	NAS 2	No change
20	NAS 7	**Supplier Finance Arrangement(44F-44H)**: Introduces new disclosure requirements for this rapidly growing area of working capital finance (sometimes referred to as reverse factoring). A company need to disclose the terms and conditions of supplier finance arrangements, Amounts of liabilities, Ranges of payment due dates, Liquidity risk information, etc.
21	NAS 8	**Accounting Estimate(32-34A)**: Introduce the concept of measurement uncertainty and provide more specific guidance on how to develop accounting estimates. Measurement uncertainty it as the inability to measure a financial item precisely because of inherent limitations in the measurement process.
22	NAS 10	No Significant Changes
23	NAS 12	**Pillar Two income taxes (4A, 88A-88D):** These amendments support the organisation during the implementation of the OECD's rules. Provides exception to an entity to neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.
24	NAS 16	No Significant Changes
25	NAS 19	**Components of defined benefit cost (122A-126)**: The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements.
26	NAS 20	No change
27	NAS 21	No change
28	NAS 23	No change
29	NAS 24	No change
30	NAS 26	No change
31	NAS 27	No change
32	NAS 28	No Significant Changes
33	NAS 29	No change
34	NAS 32	No Significant Changes
35	NAS 33	No change
36	NAS 34	No Significant Changes
37	NAS 36	No Significant Changes
38	NAS 37	No Significant Changes

S.No.	Standards	Key Updates in NFRS 2024 with relevant Para No.
39	NAS 38	No change
40	NAS 39	**Temporary exceptions from applying specific hedge accounting requirements (102A – 102O):** Para has been added relating to a hedging relationship directly affected by interest rate benchmark reform applicable only if the reform gives rise to uncertainties about the interest rate benchmark and/or the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. It also emphasises on highly probable requirement for cash flow hedges, Reclassifying the cumulative gain or loss recognised in other comprehensive income, Effectiveness assessment and Designating financial items as hedged items **Additional temporary exceptions arising from interest rate benchmark reform (102P- 102T):** Para has been added stating as and when the requirements in paragraphs 102D–102I cease to apply to a hedging relationship (see paragraphs 102J–102O), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform, ie the changes are consistent with the requirements in paragraphs 5.4.6–5.4.8 of NFRS 9.
41	NAS 40	No change
42	NAS 41	No change

As per the decision of the Board's 160th Meeting held on 2081/02/01, the Exposure Draft of Nepal Financial Reporting Standards (NFRS) 2024 was made public on 2081/02/04 providing comment period of 60 days. The exposure draft notice was published on the Accounting Standards Board's website (https://www.asbnepal.gov.np/), notice board, in national newspapers, and through the Institute of Chartered Accountants of Nepal. The board also sent printed copy of exposure draft to various regulators and other entities requesting for their feedback and comments.

Outreach Program

Following the publication of the NFRS 2024 exposure draft, the Board organized an outreach program in each 7 provinces and one in Kathmandu. The program aimed to inform participants about the exposure draft of NFRS 2024 and request for their feedback. The participants for the program were the accounts preparers represented by the business associations, Inland Revenue Officers, Representatives from Universities, representatives from Nepal Insurance Authority, Professional members from ICAN, ACAN & AUDAN and other stakeholders. The Board also conducted online survey to collect the feedback. The total participants in the program and online survey in program outside valley were as follow:

S.No.	Program Venue	No. of Participants	
		At Program	Participating in Online Survey & PIR
1	Biratnagar	41	27
2	Dhangadhi	42	31
3	Birendranagar	44	26
4	Pokhara	51	36

S.No.	Program Venue	No. of Participants	
		At Program	Participating in Online Survey & PIR
5	Hetauda	46	32
6	Birgunj	45	29
7	Butwal	40	28
Total		309	209

The survey participants, representing preparers, regulators, universities, and professional bodies, expressed strong support for updating NFRS in line with international standards. While the exposure draft of NFRS 2024 was not widely known, the standards development process of the Accounting Standards Board was perceived as transparent. Many participants also expressed concerns about their preparedness for NFRS implementation and identified specific standards, such as NFRS 9 and NFRS 17, as posing major challenges. Feedback received by the board regarding exposure draft of NFRS 2024 included need for increased training, awareness campaigns, simplified standards, readily available resources, and alignment with the Nepali economic context.

Approval of NFRS 2024

As per the decision of the 164th Board Meeting held on 2081.05.14, the final draft of NFRS 2024 proposed by the technical committee was approved as final standards. The Board also resolved to include the SIC and IFRIC issued by International Accounting Standards Board (IASB) as an integral part of standards. The board forwarded the NFRS 2024 to ICAN for implementation, ICAN has decided to implement the NFRS 2024 for financial statements prepared from 1st Shrawan 2082. The NFRS 2024 along with all the standards issued by the ASB are available for free on the Board's website.

Concluding Remarks

It is important to note that NFRS is only applicable to entities with public accountability (e.g. entities listed in capital market), and the access to the capital market including foreign investment is really important factor for them. The Nepal Financial Reporting Standards (NFRSs) developed by the Board are converged with International Financial Reporting Standards (IFRSs). Hence the NFRSs are based on global baseline that promotes transparency, accountability and efficiency to capital markets around the world. Through the timely update of the standards, the Board aims to promote the transparency and accountability of the financial statements which ensures that financial statements of the entities in Nepal are prepared based on global benchmark.

Shaping Auditing Standards in Nepal for Compliance and Implementation

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Introduction

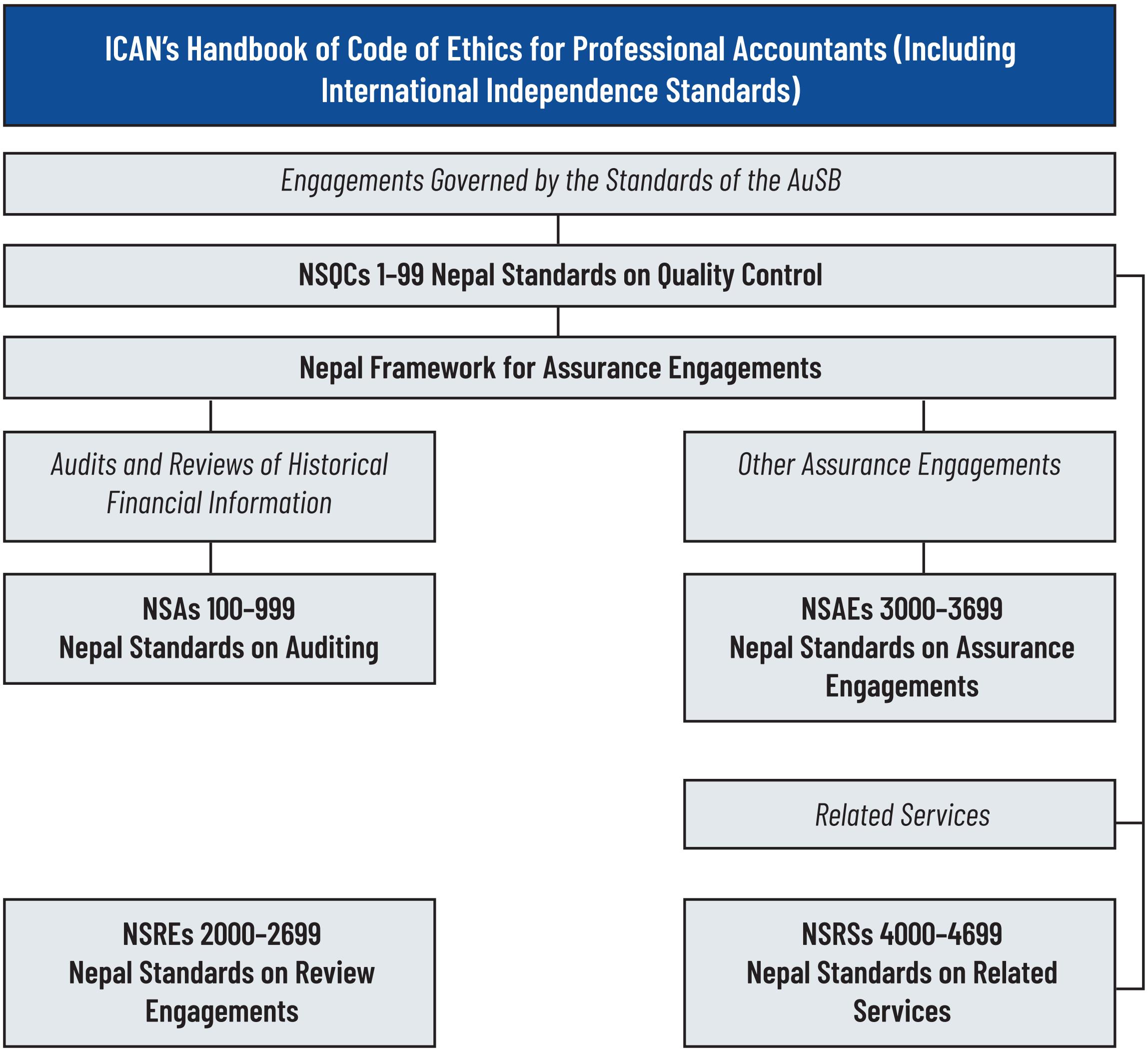
The Auditing Standards Board (AuSB) of Nepal was established by the Government of Nepal on 26th Falgun 2059, corresponding to 10th March 2003, under the Nepal Chartered Accountants Act, 1997 (first amendment 2002). The AuSB comprises seven members, including a chairman appointed by the Government of Nepal among the Fellow Chartered Accountants. The other members consist of a representative from Ministry of Finance (MoF), a representative from the Office of the Auditor General (OAG), three Chartered Accountants, and one Registered Auditor, all are nominated by the Government of Nepal upon the recommendation of the Institute of Chartered Accountants of Nepal (ICAN).

The AuSB is responsible for developing and revising auditing standards in Nepal to align with the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB).

Pursuant to Section 11 of Nepal Chartered Accountants Act,1997, it is the function of the Institute of Chartered Accountants of Nepal to monitor and regulate so as to ensure the compliance of Standards on Auditing developed or recommended by AuSB.

While formulating and revising of standards, the AuSB takes into account the relevant laws, practices, and business contexts of Nepal. The NSAs are promulgated under the jurisdiction of the Chartered Accountants Act, 1997 (first amendment 2002). Additionally, the AuSB provides Guidance Notes addressing issues that arise from the standards as needed. The AuSB also evaluates, and revises auditing standards in time to time to update as required.

Structure of Pronouncements Issued by the Auditing Standards Board



History of Publication the Standards by the Auditing Standards Board

Since the establishment of the Auditing Standards Board in 2003, the Board has issued four publications of Nepal Standards on Auditing, as detailed below:

1. The Board released its first edition of Nepal Standards on Auditing in 2005 as *Nepal Standards on Auditing 2005,* marking the beginning of standardized auditing practices in Nepal. This edition (*Nepal Standards on Auditing 2005*) was subsequently reprinted in 2007, 2009, 2010, and 2012, reflecting the continued relevance and need for consistent auditing practices in the country.
2. In 2015, a new edition was released as *Nepal Standards on Auditing 2015*, which was later reprinted in 2017 to ensure widespread accessibility.
3. Similarly in 2018, the *Nepal Standards on Auditing 2018* was released, incorporating updated global practices and standards.
4. The latest revision came in 2024, with the release of the *Nepal Standards on Auditing 2024*, showcasing the evolving nature of auditing standards to keep pace with changes in the auditing field.

Currently Effective Auditing Standards in Nepal

The Nepal Standards on Auditing 2018 (NSA 2018) is currently applicable for the audits and reviews of financial statements in Nepal. Moreover, as the AuSB has already finalized and ICAN has also pronounced the Nepal Standards on Auditing 2024 (NSA 2024), NSA 2024 is also presently in effect on a voluntary basis. The NSA 2024, comprising two volumes, includes the Quality Control Standards, Quality Management Standards, Auditing Standards for Historical Financial Information, Assurance Standards for Audits or Reviews of Non-Historical Financial Information, Auditing Practice Notes, Auditing Standards on Review Engagements, Assurance Engagements, Related Services, Framework for Audit Quality, and Framework for Assurance Engagements.

The Nepal Standards on Auditing 2018 was developed by AuSB in accordance with the "2016-2017 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements," while the Nepal Standards on Auditing 2024 was formulated in line with the "2021 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements" issued in December, 2022 by the International Auditing and Assurance Standards Board (IAASB). The NSA 2024 contains a total of fifty-one (51) auditing standards, which are generally categorized as follows:

S No	Description of Standard	No of Standards
1	Nepal Standards on Quality Management (NSQM)	2
2	Nepal Standards on Auditing (NSA)	37
3	Nepal Auditing Practice Note (NAPN)	1
4	Nepal Standards on Review Engagement (NSRE)	2
5	Nepal Standards on Assurance Engagements (NSAE)	5
6	Nepal Standards on Related Services (NSRS)	2
7	A Framework for Audit Quality	1
8	Nepal Framework for Assurance Engagements	1
Total Auditing Standards		51

Note: The two (2) quality control-related standards, NSA-220 and NSQC-1, which were previously included in NSA 2018 have been amended to become three (3) quality management standards i.e. NSA-220 (amended), NSQM 1 and NSQM 2, in NSA 2024.

There exists a change in following eight (8) auditing standards that have been developed or amended from the date of publication of the 2016/17 Handbook (i.e., NSA 2018) to the date of publication of 2021 Handbook (i.e., NSA 2024) released by the IAASB:

S No	NSA No	Name of the Standard
1	NSA 250 (Revised)	Consideration of Laws & Regulations in an Audit of Financial Statements (NOCLAR)
2	NSA 540 (Revised)	Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures
3	NSA 315 (Revised)	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
4	NSRS 4400 (Revised)	Agreed-Upon Procedures Engagements
5	NSQM 1	Quality Management for Firms That Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

6	NSQM 2	Engagement Quality Reviews
7	NSA 220 (Revised)	Quality Management for an Audit of Financial Statements
8	NSA 600 (Revised)	Special Considerations—Audits of Group Financial Statements Including the Work of Component Auditors

The amendments to the above Nepal Standards on Auditing were implemented to rectify the concerns identified in the post-implementation review of clarified ISAs (assessed by IAASB), incorporate NOCLAR provisions in the updated Code of Ethics for Professional Accountants, adapt to alterations in business environments resulting from recent conflicts and pandemics, and respond to the evolving landscape of information and technology.

As per the decision of 324th Council meeting of ICAN dated 17th Baisakh 2081, all fifty-one (51) standards included in both volumes of NSA 2024 will be effective voluntarily from 1st Shrawan 2081. And except new and revised five (5) standards (which were applicable internationally from 1st January 2022 onwards), all other standards will be effective mandatorily from 1st Shrawan 2082.

Following five (5) new and revised standards will be effective mandatorily from 1st Shrawan 2083:

S No	NSA Reference	Name of the Standard
1	NSQM 1	Quality Management for Firms That Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements
2	NSQM 2	Engagement Quality Reviews
3	NSA 220 (Revised)	Quality Management for an Audit of Financial Statements
4	NSA 600 (Revised)	Special Considerations—Audits of Group Financial Statements Including the Work of Component Auditors
5	NSRS 4400 (Revised)	Agreed-Upon Procedures Engagements

Development Process of the Auditing Standards

The Auditing Standards Board (AuSB) possess a detailed due process titled "Standard Development and Its Implementation Process (Amended 2080)" for the formulation and revision of auditing standards in Nepal. The due process was amended in 2080 to enhance its comprehensiveness and transparency, encompassing all facets of the standard development and revision process.

The due process encompasses a need analysis of the standards within the Nepalese context, the establishment of a task force, the appointment of consultants, and discussions and consultations with regulators and stakeholders, solicitation for feedback on the exposure draft from the public, conclusion of the standard following comprehensive deliberations in various board and technical meetings and recommendation to ICAN for the standard's adoption with a suggested effective date.

A Brief Introduction of a New Auditing Standard "Nepal Standards on Auditing for the Audits of Financial Statements of Less Complex Entities (NSA for LCE)"

In the context of financial transparency and accountability, the demand for rigorous auditing standards is increasingly urgent. Financial statements and the audit opinion thereon constitute the basis for decision-making by stakeholders, investors, and regulators. The intricate and resource-demanding characteristics of audit procedures to be applied as per the ISAs might pose difficulties for auditing less complex entities (LCEs), including small and medium-sized firms. In response to this necessity, the International Auditing and Assurance Standards Board (IAASB) commenced the development of the "International Standards on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)" in 2017, which was finalized and approved on 21st September 2023 following extensive technical discussions and multiple revisions. The standard (ISA for LCE) was issued internationally on December 6, 2023, following approval from the Public Interest Oversight Board (PIOB). The ISA for LCE will be effective from 15th December 2025 internationally.

In light of the significance and necessity for establishing a comparable standard in Nepal, the Auditing Standards Board commenced efforts on December 8, 2023, to develop the new auditing standard, "Nepal Standards on Auditing for the Audits of Financial Statements of Less Complex Entities (NSA for LCE)." Organizing discussions at various technical committee meetings, board meetings, and interactions with regulators and stakeholders, all required steps have been completed as of 1st Ashwin 2081, and the standard has been finalized for publishing. The definitive version of the standard (NSA for LCE) has been submitted by AuSB to the Institute of Chartered Accountants of Nepal (ICAN) for implementation effective from 1st Shrawan 2083 (17th July 2026), with the option for voluntary implementation prior to the deadline.

The NSA for LCE is a major advancement in auditing. It integrates the rigor and reliability of the comprehensive NSA framework, while providing a streamlined and effective method for auditing the financial statements of LCEs. NSA for LCE establishes clear, practical, and proportionate auditing criteria to ensure that audits of smaller, less complicated entities uphold high quality without imposing the needless burden of procedures intended for larger, more complex organizations. Key benefits of using the NSA for LCE are as follows:

- It is a standalone standard that is proportionate and tailored to the specific needs of an audit of less complex entities, recognizing the importance of smaller businesses.
- It simplifies the documentation requirements. While the documentation is simplified, it remains sufficient to support the auditor's conclusions and is proportionate to the size and complexity of the entity.
- It will help maintain confidence in financial reporting and promote the consistent application of auditing standards to audits of LCEs.
- It provides the same level of assurance as an audit performed under the NSAs i.e. Reasonable assurance.
- It reduces the cost of auditing without compromising the quality of audit.

This standard reflects the commitment of the Auditing Standards Board (AuSB) to fostering inclusivity in the Nepalese financial landscape. By tailoring auditing practices to the size and complexity of entities, NSA for LCE enables a wider range of organizations to meet regulatory and financial reporting requirements without compromising on the integrity or quality of the audit.

Some differences between full NSAs and NSA for LCE are outlined as follows:

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

Which Entities are Less Complex Entities?

To delineate the Less Complex Entities within the Nepalese context, the Auditing Standards Board (AuSB) conducted multiple Board and Technical meetings and engaged in talks with authorities and stakeholders. Based on the authority granted by the standard, the AuSB establishes three overarching criteria for defining less complex entities (LCEs) for the applicability of the Nepal Standards on Auditing for Audits of Financial Statements of Less complex Entities (NSA for LCE):

1. Specific Prohibitions

   a) Law or Regulation prohibits the use of the NSA for LCE or specifies the use of Auditing Standards other than the NSA for LCE for the audit of the financial statements in that jurisdiction.

   b) The entity is a Listed Entity.

   c) The entity falls into one of the following classes:

      (i) An entity one of whose main functions is to take Deposits from the public and deposit amount is NPR 10 Crores (NRs. 100 million) or more.

      (ii) An entity one of whose main functions is to provide insurance to the public; or

      (iii) An entity exhibiting other Public Interest characteristics.

> *An entity is considered to exhibit other public interest characteristics if:*
>
> *a. Its Borrowing from banks or financial institutions or public funds or from entities holding assets in fiduciary capacity is NRs. 50 Crores* (NRs. 500 million) *or more.*
>
> *b. It holds Assets of NRs 50 Crores* (NRs. 500 million) *or more in fiduciary capacity for a broad group of outsiders as one of its primary businesses.*

   d) The audit of group financial statements (Group Audit) and:

      (i) Any of the group's individual entities or business units meet the criteria as described in paragraph A.1.(b) or A.1.(c); or *(i.e. not a listed entity, not falls under the category of taking Deposit/Insurance & entity having Public Interest characteristics)*

      (ii) Component auditors are involved, except when the component auditor's involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g., attending a physical inventory count or physically inspecting assets or documents).

2. Qualitative Characteristics

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

   The following list (not comprehensive) delineates the attributes of an LCE to ascertain the applicability of NSA for LCE:

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

3. Quantitative Thresholds

The NSA for LCE shall not be used if an entity is having any of the following economic significance:

   a) Annual Turnover (Revenue) of NRs. 100 Crores (NRs. 1,000 million) or more;

   b) Statement of Financial Position (Balance Sheet) total (without netting-off current liabilities with current assets) of NRs. 100 Crores (NRs. 1,000 million) or more;

   c) (c) Average staff employed during the year are 300 or more.

An Entity which attains at least one of above three limits in two consecutive years, shall be deemed to be an entity having economic significance and NSA for LCE shall not be applicable to that entity. Further, once considered as entity having economic significance, NSA for LCE shall not be used for that entity unless the entity fails to attain all the three limits for 2 consecutive years.

In case of newly established entity (less than 2 years of existence), the entity shall be considered to have economic significance if it has attained at least one of the above three limits in all the years of its existence.

When the auditor is determining whether the NSA for LCE is appropriate to use, quantitative thresholds established in a jurisdiction are to be considered in addition to the specific prohibitions and the qualitative characteristics as above.

Relevance for Compliance with Auditing Standards and Its Impact

Compliance with Nepal Standards on Auditing is vital for maintaining the integrity of financial reporting. When auditors adhere to established standards (NSAs), it enhances the reliability of financial statements, which is essential for fostering investor confidence and attracting foreign investment as well.

The impact of compliance with the Nepal Standards on Auditing (NSAs) extends beyond auditors and firms. Key stakeholders, including investors, regulators, and the public, benefit from increased transparency and accountability in financial reporting that results from the compliance with NSAs. Improved compliance leads to:

- **Enhanced Credibility**: Adhering to NSAs ensures that financial statements are prepared consistently, enhancing their credibility among stakeholders, including investors, creditors, and regulators. Increased transparency and reliability will boost the investor's confidence and can attract the investments. Compliance to the NSAs will enhance the acceptance of financial statement in international level.
- **Regulatory Compliance:** Compliance with NSAs will help organizations to meet the legal and regulatory obligations, reducing the risk of penalties and legal issues. Further, effective implementation of auditing standards will promote good governance practices.
- **Improving Audit Quality:** Standardized procedures set by NSAs provide a framework for auditors, ensuring that audits are conducted uniformly, which leads to higher quality audits. Further, adherence to these standards (NSAs) encourages continuous improvement and professional development among auditors as well.
- **Risk Management**: Compliance of standards helps in identifying potential financial risks and irregularities. Suggesting organizations to take proactive measures and regular adherence to auditing standards can significantly reduce the risk of fraud and misrepresentation that ultimately safeguards the interests of stakeholders.
- **Economic Impact**: A robust auditing framework can lead to a healthier economy by fostering trust and accountability in financial transactions. Furthermore, since international investors often require compliance with recognized auditing standards, NSAs being in line with the International Auditing Standards, is crucial for Nepal's economic development.

Roles in Implementation of the Auditing Standards in Nepal

The Nepal Auditing Standards Board (AuSB) is responsible for the development and revision of auditing standards in Nepal. AuSB ensures that the standards it develops are consistent with the International Auditing and Assurance Standards Board's (IAASB) principles, adjusting them as needed to meet local requirements. The board develops standards through a rigorous due process that involves stakeholder meetings and public exposure drafts to elicit comments and make required adjustments before final publication. Once a standard has been prepared, AuSB is responsible to prepare guidance notes, checklists and interpretations to help auditors use it effectively, ensuring that it is practical and relevant to the present auditing environment in Nepal.

On the other hand, the Institute of Chartered Accountants of Nepal (ICAN) is the principal regulatory authority in charge of ensuring that these standards are implemented and enforced. ICAN ensures that auditors and accounting professionals across the country follow AuSB's standards. ICAN's primary role is to provide auditors with the appropriate training, workshops, and ongoing professional development activities to improve their ability to understand and apply these standards. ICAN also monitors compliance through its regulatory frameworks, conducts inspections, and imposes disciplinary actions/penalties where auditors fail to fulfill the requirements.

The role of an auditor in implementing auditing standards is crucial to ensuring the quality, accuracy and integrity of the audit process. Auditing standards provide a framework that auditors must follow to conduct their work systematically and consistently. Auditors must ensure that all audit processes are followed as per auditing standards. This includes planning the audit to define the scope, objectives, and procedures, gathering sufficient, competent and appropriate evidence, applying professional skepticism, and maintain thorough documentation of all procedures and evidence collected. Additionally, auditors must adhere to ethical standards of behavior throughout the audit process. Thus, the issuance of auditing standards without proper compliance is meaningless. The critical responsibility of implementing auditing standards remains with the auditor.

Compliances status and challenges

Nepal has made considerable progress in adopting auditing standards, integrating ISAs with slight modifications to suit the local situation. This alignment ensures uniformity in audit quality and bolsters the reliability of financial statements, hence cultivating confidence among stakeholders. Despite these endeavors, the compliance status continues to be a challenge. As per the Annual Report of Quality Assurance Board for the financial year 2022-23, none of the firm was able fall under "Satisfactory" category, 60% were classified as "Need Improvement", 3% fell into "Need Significant Improvement" category, and only 37% were deemed "Generally Acceptable". The figures are evident that the proper implementation of the auditing and ethical standards is not satisfactory, necessitating significant efforts to enhance the current implementation status.

Majorly, audit firms are facing challenges in the comprehensive implementation of NSAs due to constrained resources, inadequate documentation, absence of firm's quality control policies, insufficient technical proficiency, deficiency in effective training etc. Furthermore, insufficient information about regulatory requirements often hinders adherence to the standards.

Way Forward

Development of standards is important, but their implementation is more important. So, a collaborative strategy between the Auditing Standards Board (AuSB) and the Institute of Chartered Accountants of Nepal (ICAN) is vital for the efficient implementation of Nepal Standards on Auditing (NSA). This collaboration may concentrate on creating extensive training programs that furnish auditors with essential skills and knowledge of NSA, including workshops and certification courses. It is essential to generate awareness among the stakeholders on the importance of these standards, and collaborative outreach efforts can facilitate efficient information dissemination.

Additionally, implementing a comprehensive monitoring framework to ensure compliance, along with an explicit feedback mechanism for practitioners, will improve accountability. Utilizing technology, including digital auditing instruments and data analytics, can optimize auditing procedures and enhance productivity. Moreover, advocating for a robust ethical framework and offering continuous support via tools and standards will cultivate a culture of integrity within the field. Consistent assessments and revisions of the standards, in accordance with global best practices, will ensure their relevance and effectiveness. Through this collaborative initiative, AuSB and ICAN may significantly enhance the quality and integrity of auditing practices in Nepal.

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Changes in Presentation and Disclosure in Financial Statements: Overview of IFRS 18

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1. Background

The annual financial statements of the company give glimpses of the position and performance of company over a specified period. Stakeholders use those financial statements as per their relationship with the company. One of the major stakeholders is investor (existing or potential). To put this into perspective, after more than five years, we already have two companies listed in Nepal Stock Exchange (NEPSE) under manufacturing and product sector in last one year only and almost three dozen companies under pipeline for share issuance to public within one year. An investor grabs annual reports of two companies and to the surprise, cannot compare the two companies with respect to their performance. Let's look at the format of statement of profit or loss of two high value companies listed in NEPSE:

Company A		**Company B**	
Particulars	**Amount**	**Particulars**	**Amount**
Revenue from operations	***	Revenue from operations	***
Other income	***	Cost of goods sold	***
Total income	***	**Gross profit**	***
Cost of materials consumed	***	Other operating income	***
Changes in inventory of finished goods	***	Selling and distribution expenses	***
Employee benefit expenses	***	Administrative and operating expenses	***
Depreciation and amortization expenses	***	**Profit from operations**	***
Finance cost	***	Finance cost	***
Other expenses	***	Finance income	***
Total expenses	***	**Profit before tax**	***
Profit before tax	***		***

Now the investor faces a challenge to work out the comparable data. One statement is all about total income and total expenses whereas another focuses on gross profit and profit from operations. This is indeed a serious issue on comparability even though there are around 60 financial reporting standards/ interpretations/review notes currently in existence. As per International Financial Reporting Standards (IFRS), these are both correct presentations as defined under International Accounting Standards (IAS) 1 Presentation of Financial Statements.

Similarly, we are now witnessing the increasing use of certain performance indicator like EBITDA (Earnings before interest tax depreciation and amortization), adjusted EBITDA, adjusted profit etc. which can be very confusing if a set standard does not exist in defining those or linking those with the statement of profit of loss of any company.

IAS 1 is the current IFRS for guiding the presentation of financial statements. To overcome the deficiencies or limitations of IAS 1, the International Accounting Standards Board has issued new standard in form of IFRS 18: Presentation and Disclosure in Financial Statements in April 2024 with effective date on January 1, 2027.

2. Snapshot of Major Changes:

The new standard will bring following three major changes in presentation and disclosure:

Presentation	Disclosure	
Statement of Profit or Loss	**Additional Information**	**Notes to Financial Statements**
Sub-totals defined in statement of profit or loss in similar manner to statement of cash flows i.e. operating, investing and financing activities.	Disclosure on management defined performance measures.	Specific guidance on aggregation and disaggregation of financial information.

In this article, we look at the major changes under each of these matters:

3. Details on Changes

3.1. Presentation of Statement of Profit or Loss

In the currently used format for presentation as recommended under IAS 1, some of the items are not well defined. Take an example of operating profit. Do we include finance cost or income within operating profit? What about exchange gain/loss on foreign currency transactions? The new standard addressed this matter by introducing subtotal in the statement of profit or loss and categorizing the components of statement of profit or loss in three distinct categories of operating, investing and financing activities along with income tax and discontinued operations (this is not generally used in the context of Nepal). The subtotals will be as follows:

- Operating profit/(loss)
- Profit/(loss) before financing and income tax
- Profit/(loss)

There is a specific exception to this subtotal requirement for those entities engaged in financing activities as main business. For such entities, operating income/expenses comprise of finance income and finance cost, thus are included within operating profit/(loss).

So, the new general-purpose statement of profit or loss as per IFRS 18 will somewhat resemble the following:

Heading	Amount	Classification
Revenue	***	Operating Activity
Cost of goods sold	***	
Gross profit	***	
Other operating income	***	
Selling expenses	***	
Research and development expenses	***	
General and administrative expenses	***	
Other operating expenses	***	
Operating profit	***	
Share of the profit from associates and joint ventures	***	Investing Activity
Other investment income	***	
Profit before financing and income tax	***	

Heading	Amount	Classification
Interest expenses on borrowing and lease liabilities	***	Financing Activity
Interest expenses on employee liabilities	***	
Profit before tax	***	
Income tax expenses	***	
Profit for the year	***	

The format is just an indication and each entity with its separate nature of transactions could include headings for better presentation of this statement. Some of the major changes expected on this model are as follow:

Operating activities: This will now include unusual income/expenses, which previously used to be generally stated as non-operating income under separate heading.

Investing activities: This will include rental incomes, fair value changes in financial assets as well as interest income on cash and cash equivalents, which previously used to be classified under separate groups like finance income, operating income etc.

Financing activities: No substantial change will arise on this category of presentation.

One of the differences under this categorization will come in form of classification of foreign exchange difference. Previously, these used to be classified under single heading or as line item under any other heading. Now, the exchange difference should be linked to each activity and presented accordingly. For items of operating activities (receivable/payable etc.), forex difference will be included in operating activity, for items of investing activities (investment, cash and cash equivalent etc.), included in investing activities and for financing activities (loans, debts etc.), these are included in financing activities.

As earlier stated, the model is for general purpose financial statements of general entities. If any entity is engaged in providing financial services to customers, the structure of statement of profit or loss changes accordingly.

As an indication, the statement of profit or loss (SoPL) of banking sector (or investment sector) shall look somewhat as below:

Recommended Presentation	Amount	Activity	Current Presentation*
Interest revenue	***	Operating Activity	Interest income
Interest expenses	***		Interest expense
Net interest income	***		**Net interest income**
Fee and commission income	***		Fee and commission income
Fee and commission expenses	***		Fee and commission expense
Net fee and commission income	***		Net fee and commission income
			Net interest, fee and commission income
Net trading income	***		Net trading income
Net investment income	***		Other operating income
Credit impairment loss	***		**Total operating income**
Employee benefits	***		Impairment charge/ (reversal) for loans and other losses
Depreciation and amortization expenses	***		**Net operating income**
			Personnel expenses
			Other operating expenses
			Depreciation & Amortization
Operating profit	***		**Operating Profit**

Share of the profit from associates and joint ventures	***	Non-main investing and financing activity	Non-operating income
Operating profit and income/(expenses) from equity method investments	***		Non-operating expense
Interest expenses on employee and lease liabilities	***		
Profit before tax	***		**Profit before income tax**
Income tax expenses	***		Income tax expense
Profit for the year	***		Profit for the period

**Recommended/mandated by Nepal Rastra Bank*

Similarly, the statement of profit or loss of insurance sector shall look somewhat as follows:

Recommended Presentation	**Amount**	**Grouping**	**Current Presentation**
Insurance revenue	***	Operating	Gross earned premium
Insurance service expenses	***		Premium ceded
Insurance service result	***		**Net earned premium**
Interest revenue	***		Commission income
Other investment revenue	***		Other direct income
Credit impairment losses	***		Income from Investment and Loans
Insurance finance expenses	***		Net gain/loss on fair value changes
Net financial result	***		Net realized gains/losses
Other operating expenses	***		Other income
			Total income
			Net claims incurred
			Commission expenses
			Service fees
			Other direct expenses
			Employee benefit expenses
			Depreciation and amortization expenses
			Impairment losses
Operating profit	***		Other operating expenses
Share of profit or loss of associates and joint venture	***	Investing	Finance cost
Profit before financing and income tax	***		**Net profit before share of net profit of associates**
Interest expenses on borrowing and pension liabilities	***	Financing	Share of net profit of associates
Profit before tax	***		**Profit before tax**
Income tax	***		Income tax
Profit for the year	***		Profit for the year

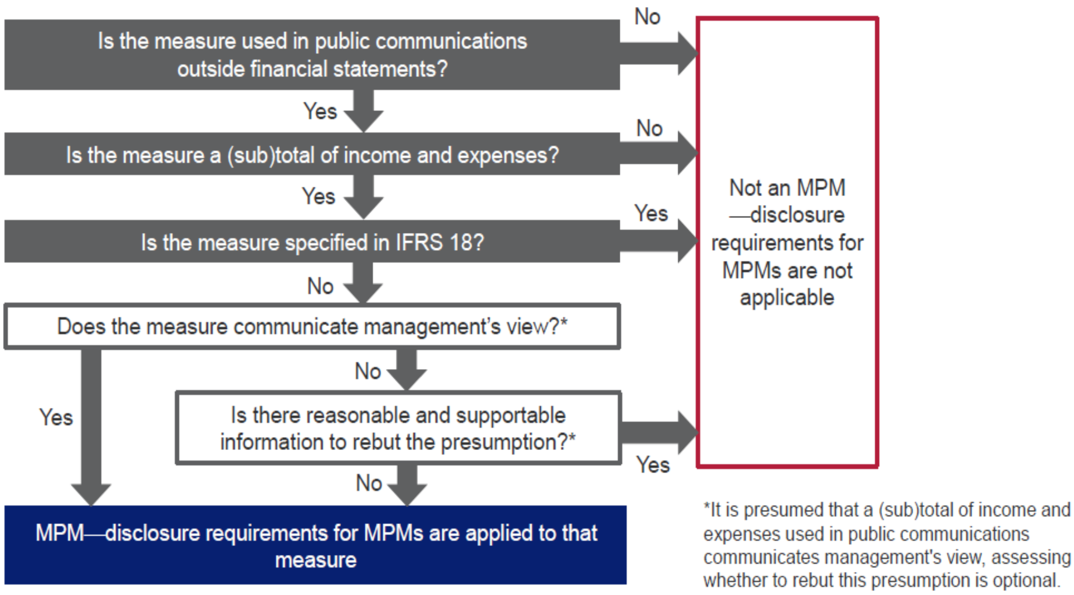
3.2. Management Defined Performance Measures (MPM)

MPM can be defined as those sub-totals in statement of profit or loss which are not defined by IFRS. These are generally included in annual reports of entities after the mandatory disclosure part and provides information on management's view of entity's performance during the period reported.

For the information to be included as MPM, the following criteria should be met:

- should be outside the financial statements,
- should not be total or subtotal of income/ expenses reported in financial statements,
- should not be specified in IFRS and
- should communicate management's view on performance

In the context, a flowchart of MPM could be drawn in the following manner:



Source: IFRS Foundation

Disclosure requirement as per IFRS 18

For harmonization/standardization of MPMs, some of the disclosure requirements should be followed, as mentioned below:

- Presented measure should provide reconciliation to the most directly comparable specified total/ subtotal of SoPL,
- MPM should be explained as to how it provides useful information and how was it computed,
- Declaration should be provided as to this provides management's view and is not comparable to other entities
- If any change has been made to MPMs of earlier years, explanation of changes and reason for doing so should be disclosed.

Let's look at a simple example for MPM.

A company has operating profit of Rs. 10 million. Included in this profit are one time legal settlement claim received for 1 million, gain on sale of office building Rs. 1 million and shifted to rental space. Now, the management feels that the operating profit is misleading and it requires to provide MPM disclosure on this matter. Let us go step by step for this case.

a) Is this MPM?

Yes, it meets all criteria mentioned in earlier paragraphs regarding MPM.

b) Reconcile with most directly comparable specified total/subtotal (in million)

Adjusted Operating profit*	**8**
Add: gain on sale of assets	1
Add: receipt on legal claim settlement	1
Operating profit as per SoPL	**10**

*nearest directly comparable specified sub-total

c) Explanation and declaration

During the reporting period, company sold of its building and decided to move to rental space for freeing up the tied-up cash in fixed assets. On such sale of building, 1 million profit was generated. This is one off item for this period and is not expected to arise next year.

Company won a case at the court for claim lodged with its vendor regarding compensation for special warranty claim. On settlement of the case, the company received a sum of Rs. 1 million.

The adjusted profit presented by the management for this period is not comparable to other companies.

Special case of operating profit before depreciation, amortization and specified impairment within scope of IAS 36 (OPDAI)

Another key measure mostly used by companies is EBITDA (earnings before interest, tax, depreciation and amortization). Although EBITDA seems similar to OPDAI, it has to be understood separately. IASB has specified special conditions regarding whether OPDAI and its presentation and whether it constitutes MPM.

- If an entity uses OPDAI in its public communications, MPM disclosure is not required.
- IF an entity uses EBDITA that is computed differently than OPDAI in its public communications, then EBITA becomes a MPM and MPM disclosure requirements are to be provided.

3.3. Grouping of Information

This is popularly understood as aggregation or disaggregation of financial information. In most of the general purpose financial statements, it is not clear as to how much information should be aggregated or disaggregated. Additionally, if we refer to financial statements, in various headings a term "Others" is noted. One of the concerns of investor or potential investor, while analyzing the financial statements is the adequacy of detailed information or presence of obscured information in form of "others". For example, if we look into the financial statement of financial institution, there are massive figures in various assets, liabilities, income and expenses heading as "other". Nevertheless, highly regulated sectors like banking, insurance have format prescribed by regulators that enhances comparability of grouped information. In other sectors, such format is self-developed partly complying with NAS 1 or are modified as per the interest of management as well as auditors.

The grouping of information is in stark in financial statements of two manufacturing companies as mentioned in Background of this article. In sectors which are not regulated by strong regulators, the grouping of information as well as inclusion of items under "others" is even a greater issue. For example, one listed cement company has grouped an amount equal to 4.62% of total administrative expenses as "others" whereas some items having only 0.08% of total administrative expenses are separately presented in notes. For harmonizing these issues, this IFRS will introduce enhanced requirement for grouping of information, guidance on whether information is to be provided in face of financial statement or in notes as well as disclosure of items presented under the heading "others". The major requirements of new IFRS 18 are:

- Defining the roles of primary financial statements and explanatory notes,
- Requirement of specific items in face of financial statements and aggregation of items using meaningful accounting terminologies, and
- Present operating expenses by nature, function or mixed.

Defining roles of primary financial statements and notes: IFRS 18 defines the requirements under primary financial statements and notes. The primary financial statements should provide useful and structured summary for understanding the elements of financial statements (assets, liabilities, equity, income and expenses) and cash flow, making comparison amongst entities and reporting periods and identifying areas /items where user of financial statements may seek additional information in notes. Additionally, notes should provide further information for better understanding of the lines items included in primary financial statements and supplement those figures with other relevant additional information.

Aggregation and disaggregation: The major principle under this is if any information has dissimilar characteristic, it is sufficient criteria for disaggregation, and such information should provide useful information as well as should be material information. It means, such information should either be included in primary financial statements or in notes, based on whether it provides useful structured summary or a material information.

Additional requirement in the form of using meaningful and precise labels enables the users to have greater insight to the financial information provided in financial statements. For example, "Other Operating Expenses" is precise but just mentioning "others" is not. It is recommended to use "others" only when it is impractical to find to specific meaningful labels. If any aggregated item is material (including others), additional disclosures is required to satisfy the need of stakeholders or users of financial statements. In earlier example of Cement Company which presented an amount equal to 4.62% of total administrative expenses as "others", it will now be required to disaggregate what are the material figures included in such grouping. However, it is not mandatory as to breakdown the amounts and sometimes only additional disclosure might suffice. The explanation of such aggregated amounts might be done as follows:

- No any amounts for which the information would be material are included in the amounts,
- The amounts consist of several unrelated immaterial amounts and the largest related immaterial amount is of any specific nature.

Disclosure of specific nature items: Depreciation, amortization, employee benefits, specified impairment losses and write down of inventories are the specific nature items for which specific disclosure should be provided regardless of their accounting treatment. For example: NFRS/IFRS 16 allows capitalization of certain depreciation expenses to the carrying amount of another assets. If such is also the case, entity is required to disclose the total depreciation for the period disclosing the amount included under specific expenses and the amount capitalized. Similar treatments are required for the mentioned items. This is generally provided by a separate note.

3.4. Statement of Cash Flows

Similar to the aforementioned issue on comparability of statement of profit or loss, the cash flow statements of companies are also not comparable, even in same group of industry. This is basically due to use of indirect method of cash flow, which is quite convenient for preparation. Basically, most of the cash flows are started from profit before tax or profit after tax and adjustments made thereof. Another issue faced by most preparers of financial statements is regarding presentation of interest received/paid and dividend received/paid. The existing cash flow standard itself allows these items to be grouped either in operating, investing or financing activities. This has created non harmonization in presentation of specific items. The proposed standard addresses these issues as well. The summarized requirements are as:

- The preparation of cash flows should start from "Operating Profit" for indirect method,
- For entities with specified main business activity (like banks, investment companies), interest received/interest paid/dividend received shall be under single category of either of operating, investing or financing activity,
- For entities without specified main business activity, interest/dividend received is investing activity, interest/dividend paid is financing activity,

These guidance on cash flows are expected to make the cash flows of similar industry comparable to the users of financial statements.

4. Conclusion

The new standard on presentation of financial statements is expected to bring massive change on how the financial statements are presented, specifically in case of statement of profit or loss and statement of cash flows. Along with such matters, few additional matters like disclosure of MPMs, additional notes of specific items, principles of aggregation and disaggregation, we can expect that the stakeholders or users of financial statements will be highly benefited in terms of industry-wise comparability and enough financial information as to make the financial decisions based on the annual financial reports of the companies. Even though Accounting Standard Board of Nepal have not included this standard for revised version of NFRS 2024, it is understood that it will be soon rolled out for the preparers to be ready when the standard becomes effective for mandatory compliance from 2027 onwards. NFRS 18 (to be prepared in line with IFRS 18) is yet to be issued and pronounced in Nepal.

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अनुशासन सम्बन्धी उजुरी उपर सजाय गरिएको बारे ।

पेशागत प्रमाणपत्र प्राप्त संस्थाका एक चार्टर्ड एकाउन्टेन्ट सदस्य, “ख” वर्गका एक सदस्य, “ग” वर्गका एक सदस्य, र “घ” वर्गका एक सदस्य गरी चार जना लेखापरीक्षकले हस्ताक्षर गरेको विभिन्न निकायका लेखापरीक्षण तथा प्रमाणिकरण प्रतिवेदनहरुमा लेखापरीक्षकहरुले अनिवार्य रुपमा संस्थाको UDIN Portal बाट UDIN Generate गरी सो UDIN नम्बर उल्लेख गर्नुपर्नेमा त्यस्तो गरेको नपाईएको भनी संस्थामा निवदेन तथा इमेल मार्फत जानकारी प्राप्त भएकोमा UDIN उल्लेख नभएको कारणबाट सम्बन्धित पक्षलाई हानी नोक्सानी समेत हुन सक्ने र लेखाव्यवसायको गरिमामा समेत असर पर्न सक्ने हुँदा निजहरुलाई नियमानुसार आवश्यक कारबाही गर्नुपर्ने देखिएको भनी कार्यकारी निर्देशकको प्रस्तावमा निजहरु विरुद्ध उजुरी दर्ता भएको ।

कुनै व्यक्तिले विदेश जाने प्रयोजनार्थ एक आधिकारिक निकायमा पेश गरेको एक प्रा.लि.को लेखापरीक्षण प्रतिवेदनमा “घ” वर्गका नीज सदस्यले UDIN सम्बन्धी विवरण उल्लेख नगरेको, त्यसैगरी एक व्यवसायिक फर्मको लेखापरीक्षण प्रतिवेदनमा “ख” वर्गका नीज सदस्यले UDIN सम्बन्धी विवरण उल्लेख नगरेको, एक प्रा.लि. को लेखापरीक्षण प्रतिवेदनमा “ग” वर्गका नीज सदस्यले UDIN सम्बन्धी विवरण उल्लेख नगरेको, सो विषयमा निजलाई संस्थाले पत्राचार गरेपछी सो मितिको भोलीपल्ट UDIN Generate गरेको, विशेष प्रायोजनार्थ आधिकारिक निकायमा पेश गर्नको लागि तयार गरिएका तीन जना व्यक्तिको Valuation of Immovable Assets, Movable Assets / Annual Income को प्रमाणिकरणमा एक चार्टर्ड एकाउन्टेन्ट सदस्यले UDIN सम्बन्धी विवरण उल्लेख नगरेको विषयमा छानविन गर्दा निज सदस्यहरुले संस्थाको निर्देशन विपरीत UDIN generate नगरी प्रमाणिकरणको प्रतिवेदन जारी गरेको देखियो र सो हुनुको कारणमा निज सदस्यहरुले पेश गरेको जवाफ तर्कसंगत देखिएन ।

निजहरुले गरेको यस प्रकारको कमजोरीले सेवाग्राहीलाई उल्लेख्य हानी नोक्सानी हुन सक्ने देखिएको र यस कार्यले संस्था र संस्थाका सदस्यहरुको अन्तराष्ट्रिय छवि तथा लेखाव्यवसायको गरिमामा समेत असर पर्ने देखिएकोले निजहरुले नेपाल चार्टर्ड एकाउन्टेन्ट्स ऐन, २०५३ को दफा ३४(१), ३४(९), ३४(१५) नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली, २०६१ को नियम ६४(ख), ६४(ङ), परिषदको २३६ औं बैठकले गरेको निर्णय बमोजिम UDIN सम्बन्धीको निर्देशन तथा संस्थाले जारी गरेको आचारसंहिता बमोजिम लेखाव्यावसायीका आधारभुत सिद्धान्त बमोजिम कार्य नगरेको पाईएकोले निज सदस्यहरुलाई नेपाल चार्टर्ड एकाउन्टेन्ट्स ऐन २०५३ को दफा १४(५)(ग) बमोजिम **६ महिनाको लागि लेखाव्यावसाय गर्न नपाउने गरी रोक लगाउने** सजाय दिने निर्णय परिषदको मिति २०८१ असार २९ गते बसेको ३३० औं बैठकबाट भएको व्यहोरा सार्वजनिक जानकारीको लागि नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली, २०६१ को नियम ८४ (२) (ग) बमोजिम प्रकाशन गरिएको छ ।

नोटः

यो सूचनामा उजुरी तथा उजुरी उपर भएको निर्णयको संक्षिप्त व्यहोरा मात्र उल्लेख गरी सार्वजनिक जानकारीको लागि प्रकाशन गरिएको हुँदा यसलाई अनुशासन छानविनको पूर्ण प्रतिवेदनको रुपमा लिन उपयुक्त नहुने ।

Implementing Risk-Based Capital and Solvency Standards in Nepal: Enhancing Financial Stability and Risk Management in the Insurance Sector

Abstract

Capital requirements are essential for industries, particularly those handling public funds like banks and insurance companies. The concept of Risk-Based Capital (RBC) emerged to address the inadequacies of fixed capital requirements exposed during financial crises in the 1970s and 1980s. RBC was first adopted in the U.S. in the early 1990s and later in Europe through the Solvency II framework. In Nepal, the insurance industry has grown significantly, prompting the Nepal Insurance Authority (NIA) to implement the RBC and Solvency Directive, 2022. This directive aims to align capital adequacy with insurers' risk profiles, enhancing governance, risk management, and financial stability. The transition to RBC in has started from FY 2080-81 BS, with full implementation by FY 2083-84 BS. This paper discusses the importance of RBC, valuation methods under the RBCS directive, risk measurement approaches, capital resources, and supervisory interventions based on solvency ratios.

Key words: Capital Requirements, Risk-Based Capital (RBC), Nepal Insurance Authority (NIA) Solvency Ratio, Financial Stability, Insurance Regulation, Valuation Methods, Risk Management, Supervisory Intervention.

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Introduction

Capital requirement is one of the important aspects of any industry whether it be a small-scale industry or large-scale industry. To gauge how much capital is required for any business is a technical job. Capital requirements are crucial for industries, especially those managing public funds such as banks and insurance companies to safeguard the customers. Earlier in the regulated businesses like banking and insurance, there was a fixed capital requirement which requires the entities to hold a minimum capital prescribed by the regulators irrespective of the risk they are taking. The financial crisis and the failure of large corporations during 1970s-1980s exposed the regulation of fixed capital. Thereafter it was felt that the entities should have adequate capital to reflect their risk profiles. If we go back to the history of insurance, Risk Based Capital (RBC) was first introduced in U.S. in the early 1990s in response to insurance industry crisis. In Europe, European Union started developing the Solvency II framework in the early 2000s which was later fully implemented in 2016. IAIS has also formulated a capital standard in the Insurance Core Principles which aims to ensure consistency and comparability across different jurisdictions.

In Nepal Insurance is one of the fastest growing industries in the last decade. The increasing size of the insurance industry has increased its systemic importance in the financial sector. Hence the Nepal Insurance Authority (NIA) has realized the importance of risk-based approach for supervision recently. In response to the complex business environment and increasing systemic importance of insurance in the financial sector, the regulator of insurance business in Nepal, NIA, has introduced the Risk based capital and solvency directive, 2022 (RBCS directive). The implementation of RBC in Nepal starts from FY 2080-81 B.S which will have three years of transition and will be fully implemented from FY 2083-84 B.S. Currently NIA is working closely with the World Bank for the implementation of RBC in Nepalese Insurance Sector.

Why risk-based capital?

NIA has realized that the insurers should withhold adequate level of capital to withstand the financial difficulties because of which it has increased paid up capital of the insurers recently. The minimum paid up capital for the life insurance companies, non-life insurance companies and reinsurers as per the current regulation are NPR 5 billion, NPR 2.5 billion and NPR. 20 billion respectively. These are the minimum licensing capital for each type of insurance business and on top of it re(insurers) are required to have adequate level of capital according to their risk profile.

Currently, the solvency of insurers is calculated using the simplistic formula provided by the Solvency I regime. Solvency I has several limitations: it does not consider risk factors, it fails to account for current market conditions in the valuation of assets and liabilities, and it lacks flexibility. Due to these shortcomings in the current valuation directive and solvency requirements, NIA has transitioned to a new regime for capital adequacy and solvency requirements.

The preamble of the Risk based capital and solvency directive, 2022 (2078) states that "…insurers maintain a capital adequacy level commensurate with their risk profiles in order to make sure that they have enough financial resources to withstand financial difficulties, in such a manner that they have in place a sound system of governance, in particular a robust risk management system and prudent written underwriting, investment and asset-liability management policies." The preamble focuses on capital adequacy, good governance, effective risk management and prudent underwriting, investment and asset liability management of the insurers.

Risk based capital helps both the regulators and insurers. It helps the insurers to maintain capital adequacy in the financial stress situation which ensures smooth functioning of the insurers during financial difficulties. Besides this RBC incentivizes the entities having robust and effective risk management and governance. The ultimate objective of RBC is the protection of policyholders. The risk-based regime focuses on regulatory compliance, financial stability, transparency and accountability. RBC on one hand acts as an early warning system to the insurers and on the other hand it assists regulators for early intervention in case the entities fail to maintain an adequate level of capital and solvency threshold.

Valuation Basis under RBC

As per RBCS directive issued by NIA, "Assets of insurers shall be valued at market value in accordance with the provisions of Insurance Act, Nepal Financial Reporting Standards, Actuarial Principles and Financial Statements Directives. Liabilities shall be valued at the amount for which they could be transferred or settled between knowledgeable willing parties and independent of each other, including an adequate allowance of the uncertainties related to all relevant future cash-flows considered in the valuation. Valuation of assets and liabilities shall be undertaken on consistent basis, in a reliable, decision useful and transparent manner."

The valuation of assets and liabilities is an important part of RBC. The value of assets and liabilities will have a direct impact on the calculation of solvency capital requirement or risk charge. From the valuation criteria prescribed by the NIA, the methodology for calculating items as per NFRS will be substantially consistent with the valuation methodology for risk-based capital. The assets, liabilities, capital resources and required capital are very much interconnected with each other, so the valuation of these items should be done consistently to achieve the desired result. Hence a total balance sheet approach should be applied for valuation purposes so that interconnectedness between the assets, liabilities, capital resources and required capital can be assessed holistically.

Valuation for RBC purposes must be reliable, ensuring that the values of assets and liabilities are accurate and credible. Objectivity in this valuation process is crucial, with no undue influence from management. Achieving objectivity requires leveraging internal control processes, utilizing factual and relevant information, adhering to market valuations, and following professional standards along with independent reviews. Furthermore, the valuation for RBC should be decision-useful, providing stakeholders with clear and actionable insights. To minimize subjectivity, methodologies that produce a range of values, from which a final value can be judiciously selected, are preferred over those that offer a single, potentially biased figure. Objective calculations should take precedence over those based on subjective assumptions. Regulators should also provide specific assumptions and methods for critical factors like mortality rates and discounting factors to standardize and further objectify the valuation process.

For RBC valuation purposes, market consistent valuation should be used unless there is not any deep, liquid and transparent market for the market value of assets or liabilities. Market consistent valuation uses the principles, methodologies and parameters that the financial market would expect to be used. If a deep, liquid and transparent market is not available or in case the market is dysfunctional, or it is distorted then in such a case the market value of the similar assets / liabilities or the mark to model valuation method can be used. While using the valuation of similar assets or liabilities, the market value of other sufficiently similar assets or liabilities traded in deep, liquid, and transparent markets should be used, with appropriate adjustments applied prudently to account for any relevant differences between the reference assets/liabilities and the original asset/liability. If mark to model is applied, it should account for the time value of money (discounting future cash flows) when the asset/liability is expected to be realized beyond one year. Additionally, for assets, mark-to-model should include a credit risk adjustment appropriate for the expected losses in the event of default or downgrade of the counterparty.

As per RBCS directive issued by NIA, the value of technical or policy provisions of life insurers should be equal to the sum of a best estimate (using the Gross Premium Method and prospective valuation method) and a margin over the best estimate (MOBE) to account for the uncertainty in the cash flows related to insurance obligations. Insurers must use actuarial and statistical techniques that appropriately reflect the risks affecting the cash flows, applied on a policy-by-policy basis. The best estimate should not have a zero floor at either the policy or portfolio level. The RBCS directive has prescribed the methodologies for valuation of the guaranteed benefits, future discretionary benefits and MOBE. NIA has recommended to apply the stochastic calculation for Future Discretionary Benefits (FDB), however the directive has allowed the life insurers to calculate FDB based on scenario testing approaches. On preliminary discussion with the insurers, NIA can allow other simplistic calculation for FDB in the first year of application or during the transition period. Besides this technical reserve valuation should also consider the risk of uncertainty regarding timing and amount of the cash flows which is addressed through MOBE. As per the RBCS directive, the calculation of the margin over the best estimate must assume that the valuation of uncertainty should not be less than the amount derived from a 95 percent confidence level.

When calculating insurance liabilities and setting best estimate assumptions, non-life insurers and reinsurers must value their technical provisions using a best estimate approach, including an additional margin over the best estimate (MOBE). This best estimate should reflect the statistical estimate of the underlying distribution of the concerned insurance liabilities. The best estimate reserves will include the unearned premium reserve (UPR), unexpired risk reserve (URR), outstanding claims reserve (OCR), incurred but not reported (IBNR) claims, incurred but not enough reserved (IBNER) claims, and earthquake reserve. Non-life insurers and reinsurers must establish appropriate levels of MOBE for each line of business to account for the inherent uncertainty in the cash flows related to insurance obligations. The calculation of MOBE must assume a valuation of uncertainty that is no lower than what would be derived from a 75 percent confidence level. As mentioned earlier in the case of life insurance, the value of MOBE should remain constant in both non-stressed and stressed scenarios and should neither be deducted from the capital requirement nor added to qualifying capital resources in non-life insurers and reinsurers also. The methodology for measurement of the technical provision in case of non-life insurance and reinsurance is thoroughly explained in the directive issued by NIA, summary of which is given below:

Technical provision	Methodology prescribed by NIA
UPR	1/8th method for inward reinsurance and retrocession business, 50% of premium of last 3 month for the cases without a specified ending period and for one-year policies with unknown voyage period in marine insurance, 1/365th approach for rest of the non-life and reinsurance products.
URR	UPR multiplied by the excess of the combined ratio above the percentage of the corresponding premium set out in the actuarial basis of the pricing of the product or fixed method provided in the RBCS directive.
OCR and IBNR	As per Insurer's record
IBNER	Chain ladder method, Bornhuetter Ferguson method or Frequency severity model
Earthquake reserve	15% of net accumulation of earthquake premiums (maximum 150% of the highest gross premium amounts of the last 5 years)

Risk Free Rate (RFR) Term Structure

The methodology outlined by the NIA for deriving risk-free interest rate term structures is designed to be objective, robust, and transparent. This approach is crucial for calculating technical provisions in the insurance sector. Initiated with a public consultation period at the end of October 2023, the methodology was further refined through discussions with representatives from the Nepal Rastra Bank (NRB), banking sector, and the World Bank. The primary challenge addressed by this methodology is the lack of a deep, liquid, and transparent fixed-income secondary market in Nepal. This situation necessitates a reliable reference point to derive the Nepalese Risk-Free Rate (RFR) curves, ensuring they reflect market conditions accurately without being skewed by entity-specific features or subjective judgments.

The initial step in deriving the Nepalese RFR curves involves using the Indian risk-free interest rate curves as a base reference. These curves, sourced from European Insurance and Occupational Pensions Authority (EIOPA), are used due to their stability and availability. For simplicity, the methodology applies the most recently published EIOPA RFR curves before the reference date, such as using the curves published at the end of June for financial year-end calculations. This base reference is essential for providing a stable and reliable starting point, particularly in the absence of a robust local market for fixed-income securities. Indian RFR curves based on OIS are particularly suitable because they are unaffected by credit risk adjustments. This characteristic is vital for ensuring that the derived RFR curves for Nepal are free from extraneous market influences. The use of a stable and well-regarded external reference point helps mitigate the challenges posed by the local market's limitations, providing a more accurate reflection of risk-free rates. To establish a reliable base reference, the NIA has opted to use the Indian risk-free interest rate curves as provided by EIOPA. This choice is due to the availability of these rates with adequate frequency and the relative stability they offer. The methodology involves several key steps, starting with using the liquid part of the Indian

Overnight Index Swaps (OIS) for tenors from 1 to 5 years. Notably, no credit risk adjustment (CRA) is applied to these rates, given the negligible credit risk associated with them. Using this methodology, the tenors 1 to 5 of the Indian OIS zero coupon interest rates are initially adjusted by a portion of the average spread between the Indian RFR curve and each of the EIOPA risk-free interest rate curves for the five secondary reference currencies (China, Hong Kong, Malaysia, Thailand, and the USA).

Adjusting the base reference to better reflect the Nepalese economy is a critical step. Given the potential for significant differences between the Indian and Nepalese economies, it is necessary to introduce adjustments to ensure the derived RFR curves are relevant. One such adjustment involves considering the inflation spread between India and Nepal. However, initial assessments have shown that the inflation adjustment is relatively insensitive to market movements, leading to its exclusion for now. The NIA plans to reassess this adjustment in the future if market conditions change significantly. To prevent distortions from large spreads in the risk-free interest rates of secondary reference currencies, an absolute cap of 75 basis points is set. This cap ensures that the adjustments remain within a plausible range, maintaining the integrity of the derived RFR curves. This approach balances the need for accuracy with the practicalities of dealing with market anomalies.

Mitigating short-term volatility is a vital consideration in the methodology. The derived RFR curves should remain stable and reliable over time, avoiding artificial fluctuations that could impact long-term financial planning and risk management. By focusing on the liquid part of the reference curves and implementing measures like the absolute cap on adjustments, the methodology aims to produce curves that reflect true market conditions without being overly sensitive to short-term market noise. Short-term volatility can lead to procyclical behavior, where financial decisions exacerbate market movements. By ensuring the methodology is robust against such volatility, the NIA promotes more stable and prudent financial practices within the insurance sector. This stability is essential for maintaining confidence in the financial system and ensuring that technical provisions are based on reliable and consistent data.

Extrapolation is necessary to extend the derived RFR curves beyond the liquid part of the reference rates. This step involves using established techniques to project rates for longer tenors, ensuring that the curves remain applicable for all required durations. The methodology aims to balance accuracy with practicality, using transparent and replicable processes to achieve this.

Additional considerations include the need for the methodology to remain easy to operate, transparent, and pragmatic. It should incentivize good risk management practices and prevent procyclical behavior, delivering an adequate level of prudence. The NIA's approach ensures that the derived RFR curves are not only accurate and reliable but also support the broader goals of financial stability and sound risk management in the Nepalese insurance sector.

RBC Calculation and Solvency Capital Requirement (SCR)

NIA has prescribed two approaches for risk measurement i.e., stress approach and factor-based approach. Factor based approach is prescribed for credit risk, equity risk, property risk, foreign exchange risk and non-life insurance risk whereas stress approach is prescribed for life insurance risk and interest risk. Operational risk is measured as a fixed percentage of RBC as a residual risk charge. The formula for calculating RBC is prescribed in the directive as:

$$Total\ RBC = \sqrt{\sum Corr(RBC_C; RBC_M; RBC_L; RBC_{NL}} + RBC_{OPR}$$

Where, RBC_C is Capital charge for credit risk, RBC_M is Capital charge for market risk, RBC_L is Capital charge for life insurance risk, RBC_{NL} is Capital charge for nonlife insurance risk and RBC_{OPR} is Capital charge for operational risk.

The detailed calculation of risk charge or SCR is given in the directive issued by NIA, the summary for which is tabulated as below:

Risk	Basis for Risk charge
Credit risk	Factor based calculation according to asset class and asset credit quality, concentration risk is added for concentration of exposure exceeding prescribed threshold, credit risk on off balance sheet exposure is also calculated by 1% factor. NIA prescribed certain assets to have zero credit risk, and certain assets not subject to assets concentration.
Market risk (Equity)	Factor based calculation for SCR, Equity investments classified based on whether they are listed with recognized stock exchange.
Market risk (Property)	Factor based calculation; property classified based on uses i.e. for own use or held for commercial purposes.
Market risk (Forex)	Factor based calculation; Forex exposure multiplied by the factor prescribed.
Market risk (interest rate)	Stress approach used in case of life insurers. Assets and liabilities are valued by stressing up and down discount rates. The highest deviation under the downward shock or upward shocks on the assets and liabilities is the SCR for interest risk. For non-life insurance factor applied according to the residual term of interest rate sensitive exposure.
Life insurance risk	Stress approach prescribed. Life insurance risk charge is calculated based on change in NAV before and after application of stress in different parameters such as mortality, morbidity, longevity, lapse, expense and cat risk.
Non-life insurance risk	Factor based calculation. Factor prescribed in the RBCS directive.
Non-life (Earthquake risk)	It is calculated by multiplying the aggregate amount of Earthquake Premium Reserve (EPR) and Earthquake Risk Exposure (ERE) by a 1.25 risk factor.
Operational risk	It is added to the total RBC as a fixed percentage of the RBC calculated.

Capital Resources and Control Level

In general, capital resources are excess of assets over the liabilities of the company. However, from the risk management prospective capital has been described as the resource which has loss absorbing capacity in case of financial difficulty. The qualitative and quantitative characteristics of the capital has been considered in the RBCS directive. In qualitative terms, the quality of capital can be examined. For example,_capital available for going concern basis as well as on gone concern or run-off basis is more preferred than the one that is available only on gone concern or run off basis. Likewise, subordination is also a qualitative feature which determines the priority of payment in case of insolvency or winding up. Legal frameworks need to be examined whether the capital is subordinated to the rights of policyholders or not in case of insolvency or wind-up. The longer the availability of capital resources, the more permanence lies with it which makes it more qualitative in terms of loss absorbing capacity. Capital without mandatory service cost is preferred to the capital resources with service costs. Based on the above qualitative features, capital resources are categorized as tier-1 capital and tier-2 capital.

The list of available capital resources and their categories as per the RBCS directive is listed below:

Category	List of capital resources
Tier-1 capital	▪ Paid-up (paid-in) capital, issued and fully paid-up ordinary shares ▪ Other paid in capital instruments such as preference shares (irredeemable and noncumulative preference shares) ▪ Retained earnings, other than future profits embedded in the valuation of technical reserves ▪ Paid-in (paid-up) subordinated debts ▪ Earthquake reserves ▪ Cat reserve ▪ Insurance Fund ▪ Special Reserve ▪ HO account in case of foreign branches
Tier-2 Capital	▪ Cumulative irredeemable preference shares ▪ Irredeemable subordinated debts ▪ Other capital resources qualified as Tier 2, including unpaid preference shares, unpaid ▪ subordinated debt, letters of credit, guarantees and mutual member calls. ▪ Future profits embedded in the valuation of technical provisions (reserves).

NIA has applied prudential filters for the capital resources and hence certain items should be deducted to calculate the available capital resources. These include goodwill and other intangible assets, deferred tax income or expenses, deferred tax assets, and assets pledged for credit facilities. Additionally, any credit facilities secured by the insurer's own shares, direct and indirect investments, reciprocal cross holdings between financial institutions, and reinsurance assets from non-qualifying reinsurance arrangements must be deducted. Non-qualifying reinsurance includes agreements with unregulated entities or those not subject to risk-based solvency supervision and agreements that do not provide sufficient risk transfer. Inadmissible assets, as per the Investment Directive, should also be deducted.

NIA has also prescribed the capital composition limit to reflect the quality of capital resources and its ability to absorb losses. At least 60% of the Regulatory Capital (RBC) must consist of Tier 1 items. Additionally, Tier 1 items should cover at least 80% of the Minimum Capital Requirement (MCR). Future profits embedded in the valuation of technical provisions (reserves) can be considered as capital resources, but they are limited to 15% of the RBC.

Supervisory Intervention Based on Solvency

The RBCS directive issued by NIA has formulated the regulatory target level, minimum capital requirement and supervisory intervention based on solvency. The Supervisory Target Capital Level should be considered a benchmark related to the RBC Level. It serves as a target level within a solvency ratio range of 130% to a minimum of 100%. This ratio represents the available capital over the regulatory capital. If the solvency ratio falls below 100%, supervisory actions of increasing intensity will be initiated to restore the insurer's financial position to at least the RBC level or to reduce the level of risk undertaken. The MCR establishes the minimum threshold for the RBC and acts as the final safeguard to protect policyholder interests. NIA prescribes that the MCR is set at one-third of the RBC level, with a range that must not drop below 25% or exceed 45% of the RBC. NIA has set down the following intervention based on solvency in the RBCS directive:

Control Levels	Solvency Ratio	Supervisory Actions
Internal Target Level	> 130%	Ongoing monitoring, Periodical onsite inspections
Supervisory Target Level (RBC Level)	100% - 130%	Remedial Plans or requiring business plans Onsite inspections Frequent reporting requirements Capital injection Restriction on payment of dividend
Regulatory Intervention Level	70% - 100%	Business restrictions and/or restructuring measures Capital injection **Restrictions on:** Payment of dividends Writing business Lending or invesments Acquisitions **Restructuring on:** of board members or senior management Reducing or mitigating risks, redesigning investment and reinsurance strategy
Mandatory Control Level (MCR Level)	45% - 70%	Removing or replacing of board members or senior management Stopping new business and run-off portfolio Revoking (withdrawal) the license Winding up

Transitional Relaxation

From 1 Shrawan, 2080 to Ashad-End 2084, life insurance policy reserves will be calculated using a weighted average of two methods: the current rules outlined in Annexure II of RBCS Directive and a flat interest rate determined by the lesser of 6% or the actual yield on the life fund as per the Valuation Directive 2077. The weight of reserves calculated by the first method will increase annually from 0.7 in Ashad-End 2081 to 1.0 in Ashad-End 2084, while the weight for the second method will decrease correspondingly from 0.3 to zero. Life insurers may opt for a quicker transition but cannot revert to a slower pace once the accelerated process begins. Additionally, these weights will apply to non-life claim reserves for non-life insurers.

The NIA will introduce transitional measures over four years to help insurers adjust to the new Risk-Based Capital Approach specified in this Directive. The implementation will begin on 1 Sharwan, 2080, with full adoption required by Ashad-End 2084. Insurers must calculate their Risk-Based Capital and Available Capital resources by Ashad-End 2081 and address any breaches or shortfalls in the solvency ratio within the four-year transitional period. Insurers must submit a board-approved financial plan outlining the capital resources needed to meet the Risk-Based Capital requirements or target solvency ratio to the NIA within ten days of approval. The NIA retains the authority to mandate amendments to the financial plan if it is deemed unrealistic or if the necessary funds are not allocated annually on a proportional basis.

Way Forward

Moving forward, the NIA should focus on a seamless transition to the Risk-Based Capital and Solvency

(RBCS) Directive, 2022, to enhance the resilience and stability of the insurance sector. Key actions include comprehensive training and capacity-building initiatives for insurers to understand and implement the new RBCS framework effectively. NIA should also ensure continuous collaboration with international bodies like the World Bank to leverage global best practices and provide technical assistance where needed. It's crucial to establish a robust monitoring and evaluation mechanism to track the progress of the implementation and identify areas requiring further intervention. Insurers must prioritize strengthening their governance structures and risk management systems, aligning with the directive's requirements on capital adequacy, prudent underwriting, and investment practices.

The NIA should facilitate regular stakeholder consultations to address any emerging challenges and ensure the directive's adaptability to the local market dynamics. Additionally, developing a transparent and consistent valuation approach for assets and liabilities, as outlined in the directive, will be essential for accurate solvency assessments. The phased implementation approach should be rigorously followed, with insurers submitting their board-approved financial plans and adhering to the transition timelines. NIA should maintain stringent oversight, particularly focusing on insurers falling below the supervisory target levels, to prompt timely remedial actions and prevent potential insolvencies. This proactive regulatory stance will safeguard policyholder interests and maintain public confidence in the insurance sector. Furthermore, as the RBCS framework evolves, NIA should consider periodic reviews and updates to the directive, ensuring it remains responsive to changes in the financial environment and risk profiles of insurers. Emphasizing transparency, accountability, and stakeholder engagement throughout this process will be critical for the successful integration of the RBCS directive, ultimately contributing to a more robust and stable insurance industry in Nepal.

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AI-Powered Accounting: Revolutionizing Efficiency

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Introduction

Since the primitive days of humanity, accounting has been there in one way or another. People used to count people in their herd, count and record their domestic animals, maybe count what they've gotten or given or might have accounted for the yield of crops, etc. Some sources even emphasize that accounting was created side-by-side with the evolution of language, barter system, and money (ACCA, 2024). The accounting foundation that we know today, the double-entry bookkeeping system, however, was developed in 1494 by an Italian accountant known as Luca Pacioli. The accountant as a profession was started in Scotland back in 1854 with the establishment of the Institute of Accountants and Actuaries which was followed by the establishment of The American Association of Public Accountants in 1887. It was Queen Victoria who gave the accountants a royal decree to make the accounting profession independent of the legal profession, and the early group called themselves "Chartered Accountants" because of the charter given by the Queen (Maryville University Online, 2022). We can understand how important accounting was for the British Empire that the Queen had to issue a decree on behalf of the accountants, and in modern times with complexities of intertwined operations with technology and the evolving fintech landscape, the role of accountants is transitioning with much greater importance. Accountants are not merely the record keepers and the storytellers of historical financial transactions, rather, they are the visionaries of the future and forecasting of financial information with much accuracy, and an important partner of any business.

A well-informed businessperson (say client) has a clear set of expectations from accountants and accounting professionals. The clients are looking for a person who she/he can trust to safeguard their financial records and become a strategic partner in effective decision-making, providing them with peace of mind that their financial records are being dealt with appropriately. The clients also expect accountants to act with all integrity and professionalism as well as hone their skills regularly so that they receive the best possible services from the accountants. They also expect accountants to keep up with the latest developments in the accounting field, and on the technological front as well. Furthermore, they desire efficiency from us, and ultimately more participation in the decision-making process. Also, clients are aware of the latest developments in FinTech, Artificial Intelligence (AI), Machine Learning (ML), etc., and these technologies can increase efficiency and the quality of the output. Hence, accountants must get used to these latest tools to increase their efficiency and productivity and become the strategic partners that the clients were always yearning for.

Understanding AI/ML Tools in the Accounting Industry

With the release of ChatGPT back in November 2022, the world went frenzy around AI/ML garnering both positive as well as negative criticisms; however, soon it became clear that no matter the resistance, these technologies are going to prevail and come out much better than the previous ones at a much faster rate. Tools powered by AI/ML can redefine themselves through continuous learning that has access to all the available knowledge that humanity has ever accumulated. We can simply imagine what a brilliant mind with keen learning ability can accomplish and compare the same with a machine that is capable of learning continuously refining its output and removing all the limitations of a human brain – then we get what tools like ChatGPT are capable of. These tools are so powerful that a task that may need hours for human capabilities can be accomplished in a few minutes, they can help us learn new skills, assist in mundane and routine tasks by automating them, brainstorm ideas, provide expert opinions, check formulas, create templates, and many others.

These tools powered by AI/ML can be used in the automation of routine and time-consuming tasks, optimizing workflows, better and quicker data analysis and reporting, better forecasting, and predictive analysis, enhancing the auditing process, helping prepare better financial models and templates, and so on. Without being insecure by these tools, accountants can leverage these tools to save time and resources and use them for the betterment of the clients by providing value-added service.

Application of These Tools in the Accounting Industry

There are various types of Employees Resource Planning (ERPs) at present that harness the power of AI/ML and try to automate tasks for accountants. Popular accounting software like QuickBooks, Xero, Sage, etc. are powered by AI/ML. They can classify and record transactions automatically, post recurring transactions, help create various reports for the easy review of transactions for the accountants, connect with bank accounts, classify, and post bank transactions, etc. These are the powers of AI/ML when used in accounting software. However, general tools like ChatGPT and Gemini can also become powerful tools for an accountant when applied effectively. The secret to leveraging these tools lies in prompting or asking questions (OpenAI, 2024). Now, let's see a couple of examples of how ChatGPT can be a friend to an accountant:

excel   Copy code

```excel
=INDEX($B$2:$Z$100, MATCH(A1, $A$2:$A$100, 0), MATCH(A1, $B$1:$Z$1, 0))
```

Figure 1: ChatGPT is used to generate a formula for Excel based on the given problem.

python   Copy code

```python
import pandas as pd
import itertools

# Read the Excel file
df = pd.read_excel('your_excel_file.xlsx')

# Extract values from Columns B and C
values_b = df['Column B'].tolist()
value_c = df.at[0, 'Column C']  # Assuming there's only one value in Column C

# Find combination of numbers in Column B that sum up to value in Column C
found_combination = None
for r in range(1, len(values_b) + 1):
    combinations = itertools.combinations(values_b, r)
    for combination in combinations:
        if sum(combination) == value_c:
            found_combination = combination
            break
    if found_combination:
        break

if found_combination:
    print("Combination found:", found_combination)
else:
    print("No combination found.")
```

Figure 2: Python Code to help find split amounts (useful in reconciliation)

```
+------------------------+-------------+-------------+-------------+-----------
|         Month          |   Jan-XXXX  |   Feb-XXXX  |   Mar-XXXX  |   Apr-XXXX
+------------------------+-------------+-------------+-------------+-----------
| Beginning Cash Balance|             |             |             |
+------------------------+-------------+-------------+-------------+-----------
| Sales Revenue          | =SUMIFS('Daily Transactions'!$B$2:$B$100,'Daily Transact
+------------------------+-------------+-------------+-------------+-----------
| Cost of Goods Sold     | =SUMIFS('Daily Transactions'!$C$2:$C$100,'Daily Transact
+------------------------+-------------+-------------+-------------+-----------
| Operating Expenses     | =SUMIFS('Daily Transactions'!$D$2:$D$100,'Daily Transact
+------------------------+-------------+-------------+-------------+-----------
| Total Expenses         | =SUM(B3:...)| [similar formula for other months] |
+------------------------+-------------+-------------+-------------+-----------
| Net Cash Flow          | =B3-C3-D3| [similar formula for other months] |
+------------------------+-------------+-------------+-------------+-----------
| Ending Cash Balance    | =B2+G3 | [similar formula for other months] |
+------------------------+-------------+-------------+-------------+-----------
```

Figure 3: Simple Cashflow Forecast Format

```
Sub CopyDataToSummary()
    Dim wsSummary As Worksheet
    Dim ws As Worksheet
    Dim LastRow As Long
    Dim i As Integer

    'Set the summary worksheet
    Set wsSummary = ThisWorkbook.Sheets("All")

    'Loop through each worksheet
    For Each ws In ThisWorkbook.Worksheets
        If ws.Name <> "All" Then 'Exclude the summary sheet
            'Find the last row in the summary sheet
            LastRow = wsSummary.Cells(wsSummary.Rows.Count, "A").End(xlUp).Row
            'Copy data from individual sheet to the summary sheet
            For i = 1 To 5 'Assuming data is in columns A to E, adjust as per your l
                ws.Cells(2, i).Copy Destination:=wsSummary.Cells(LastRow + 1, i)
            Next i
        End If
    Next ws
End Sub
```

Figure 4: VBA Code for automating some tasks in Excel.

The screenshots that are included in this paper are generated using the free version of ChatGPT, and it took only a few minutes to generate them. If a person performs this task on her/his own in an Excel sheet or using the help of other resources that are available on the internet it could take hours to research ideas and come up with a desired solution. We can just imagine the amount of time that can be saved, the level of accuracy of the output, and the volume of ideas that we can generate and test on our own using these tools. The immense value addition that these tools can bring into an accountant's professional life is remarkable, and it can't be ignored at any cost.

Of course, these are just examples of what these tools are capable of and how they can help an accountant achieve the level of efficiency and accuracy that the employer or client expects. These tools can be leveraged to do the following activities for an accountant (OpenAI, 2024):

- Generate texts (helps with writing professional email and other forms of communication).
- Function calling (ChatGPT can be integrated with Excel and ask questions).
- Learn anything by using the persona prompt method.
- Brainstorm ideas on any topic like with real people.
- Generating computer codes for complex problem-solving which spreadsheets like Excel can't do it.
- Helping to prepare business plans, preparing presentations, and data analysis. etc.
- Obtaining assistance in learning new things or concepts.

Since accountants are well over connected with different industries and sectors, the use of such tools is not limited to the accounting industry as well. There are tools such as face recognition, speech recognition, biometric security, chatbots, cybersecurity etc. that are already being used in the banking industry. We can see some of these tools being used by Nepalese banking industry, and many more such tools are under development or research phase. A few months ago, Taiwanese Central Bank issued AI Use Guidelines in the banking industry, and it is expected that Nepal will also follow the same and develop a clear guideline on the use of AI in the banking industry. This guideline will give the banks a clear pathway on the AI implementation.

Benefits of Using These Tools for an Accountant

So far, we've understood that these tools are a game changer for an accountant and there will be continuous evolution of the same in the coming times which no accountant can ignore and continue practicing accounting. Hence, as an enabler of the change, accountants have a huge responsibility to adopt these tools and make clients aware of them. Hence, let's look over some of the benefits that an accountant might reap using these tools:

Improvement in the work of an accountant significantly by increasing efficiency and accuracy (Purnama, et al., 2024).

Reduction or elimination of errors in data capturing and providing accountants adequate time to perform high-value-adding services and analytical activities (Gonçalves, Ferreira da Silva, & Ferreira, 2022).

Accountants can leverage the work-from-anywhere concept and can be used to maintain the work-life balance(Awang, Shuhidan, Taib, Rashid, & Hasan, 2022).

Increased accuracy, enhanced transparency, and increased role of accountants from reporting to more inclined towards a strategic partner of the management.

Enhanced decision-making ability due to data-driven insights coming as an output of these technologies (The Upwork Team, 2023).

Cost savings due to automation of various tasks, increased efficiency, and elimination of repetitive tasks (The Upwork Team, 2023).

Challenges

Even though these tools have the potential to disrupt the accounting industry, and significantly improve the service delivery of accountants, they come with many unprecedented challenges. Now, let's discuss some of the challenges in the following points:

If the accountants don't use these tools with prudence and the highest ethical consideration, there lies a risk of plagiarism and other ethical ramifications (Saleem, Abdeljawad, & Nour, 2023). This might pose a greater threat to the accountants and cause a dilemma regarding the effective use of these tools.

The biggest concern among accountants is the loss of jobs and opportunities due to automation and increased efficiency (Mohammad S. J., et al., 2020). Accountants who are averse to the use and understanding of technology can find themselves as outcasts soon.

There is a scarcity of tech-savvy accountants who have the zeal and skill to adopt these technologies quickly. Also, the cost involved in transitioning the accounting practices using these tools is higher at the initial stages, and not everyone can afford to take this cost and adopt the technology (Odonkor, Kaggwa, Uwaoma, Hassan, & Farayola, 2024).

Security and privacy concerns are among the most discussed areas when it comes to integrating technologies and the latest tools into accounting (Odonkor, Kaggwa, Uwaoma, Hassan, & Farayola, 2024). The data that an accountant handles is confidential and contains highly sensitive financial information of the clients or employer, and both clients/employers and accountants are not confident yet over the security measures and the level of privacy that these tools are equipped with.

The cost to train the existing accountants is also significant, and it is one of the challenges that accountants don't discuss openly; however, they consider it when the time comes to adopt these tools.

Opportunities and Future Outlook

We all often hear that the greater the challenge the greater will be the opportunities, and this technological transformation is no alien to this concept. Despite the challenges that we just discussed related to AI/ML in the accounting industry, it brings about more opportunities for the future. Now, let's look at some of the opportunities that these will be bringing into the accounting industry:

It will not only streamline the routine and mundane tasks for the accountants, it will also enhance the analytical capabilities of the accountants. It will enable predictive insights and help in strategic decision-making that previously seemed too difficult (Odonkor, Kaggwa, Uwaoma, Hassan, & Farayola, 2024). This will widen the scope of the accountants and bring the accountants into the limelight of the management as a strategic partner.

Automation will save a lot of effort, time, and resources for both the accountants and their clients. It will also give time and resources for accountants to devise value-adding services for their practices and think outside of the box when needed.

These technologies have provided accountants with an opportunity to explore further deeper into the accounting domain and expand their understanding of the domain (Jaya & Buana, 2024). It will eventually help in expanding their practice horizon and developing more value-adding activities.

Breaking free from the serotyped roles of accountants, now accountants can leverage these technologies and come up with amazing fintech solutions for the overall mankind, help to attain financial inclusion and increase the overall lifestyle of all mankind.

Tech-savvy accountants can upgrade their skill sets and find more thriving practice areas in the time to come (Al-Mulla, Abbas, Al-Alawi, & Alkooheji, 2024).

Conclusion

So far, various types of research have shown that no technology can replace human beings, and the technology is there to support human beings not to replace them. Accountants will still be needed despite the buzz of automation and AI (Peace, 2021). However, the skillsets that are relevant for accountants presently might not be relevant at all. The industry will demand new skill sets from accounting professionals, and most of them will be related to technology for sure. Recruiters nowadays have started to look for an accountant with a critical thinking and analytical mindset equipped with hardcore accounting skills and a love for technology. This implies that accountants must be tech-savvy, excellent in communication, and adaptive to the ever-changing needs of the industry (Tain, 2023). The key point to understand here is that technology will replace the existing skills that we expect from accountants, not the accountants themselves. Human accountants are required to lead the automation and develop more robust technologies to support the needs of the industry.

The reality that we must accept and adapt is that automation will happen, the accountants not evolving themselves with the changing needs of the businesses and not updating themselves in alignment with the evolving technologies will be out of business for sure. However, accountants embracing the technology, and leveraging them will be thriving to a greater extent that we may not even fathom today (Mohammad S. J., et al., 2020).

The willingness to adapt to technology and its ever-evolving facets must be a must-have mindset in the era of digitalization in accounting (Shuhidan, Awang, Taib, Rashid, & Hasan, 2023). Hence, The ICAI and other accounting bodies must prepare themselves and their graduates to equip them with technological evolution. Let's not fear what comes, let's embrace and make the most of it in our practices, add more value to clients, and become a strategic partner in any organization.

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Protection of Information Assets

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Abstract

In today's digital world, protection of information assets is a major concern for all kinds of industries. This article explores in the protection of information assets using examples from well-known cases, the types of security threats in the digital word, legal provision in Nepal related to information assets, emerging threats, importance of protecting information assets, the consequences the organizations faced, from not safeguarding the information, the key challenges in protecting the information assets and the ways of initiation for the protection of information assets. Further, this article also mentions the role of the information system auditor in the protection of information assets.

Introduction

The ways organizations work, communicate and keep records have been changed in line with the development of digital tools. However, the easiness in using the digital mediums brings the risks of cyber threats, data breaches, unauthorized access and many other risks. So, to protect the information assets of the organization from this inherent risk of digital world, organization need to step up and act proactively.

Information Assets refers to valuable pieces of data or information which the organization possesses and utilizes to support its operation, decision making processes and strategic objectives.

Confidentiality, integrity and availability of information assets helps the organization maintain trust, competitiveness and regulatory compliance. However, the inherent risk of the digital system has challenged the organization to maintain the security and privacy of information assets.

Notable cases related to the protection of information assets:

Some notable cases related to protection of information assets is given below in brief:

1. Equifax Data Breach (2017):

This case highlighted that in order to protect sensitive data, the importance of robust security measures should not be ignored.

In this case, Equifax, a large company that collects credit information, experienced a breach in their system which exposed the personal information of millions of people.

https://www.cnn.com/2019/07/22/tech/equifax-hack-ftc/index.html

2. Sony PlayStation Network Breach (2011):

This case too highlighted in the protection of user data stored in online platforms.

In this case, Sony's PlayStation Network experienced a breach in the system, which exposed the personal information of millions of people.

http://edition.cnn.com/2011/TECH/gaming.gadgets/04/26/playstation.network.hack/index.html

3. Facebook-Cambridge Analytica Data Scandal (2018):

This situation made people worried about how their personal data is protected and used ethically.

https://www.bbc.com/news/technology-54722362

Legal provision in Nepal relating to protection of information:

Nepal is also not behind in protection and secrecy of information of individuals. In Nepal data protection and privacy matters are governed by various legislations and policies. Article 28 of the Constitution of Nepal is the key provision that ensures right to privacy and protection of personal information as a matter of fundamental right. Apart from the Constitution some of the key legislation that are related to Data Protection and Security are given below-

1. **Individual Privacy Act, 2075**

   It is the first specific legislation of Nepal governing the protection of individual privacy. This act is enacted to ensure

   - the constitutional right to privacy of the matter related to body, residence, property, documents, data, correspondence, personal information, character and information in online medium,
   - management protection and secured utilization of personal information remained in public body and or institution
   - preventing encroachment on the privacy of every person.

2. **Electronic Transaction Act, 2063**

   This act provides the legal framework for electronic transactions. It is enacted to make legal provisions for authentication and regularization of the recognition, validity, integrity and reliability of generation, production, processing, storage, communication and transmission system of electronic records by making the transactions to be carried out by means of electronic data exchange or by any other means of electronic communications, reliable and secured. Further, this act also controls the acts of unauthorized use of electronic records or making alteration in such records through the illegal manner.

3. **National Cyber Security Policy, 2080**

   This policy outlines the government strategies and initiatives to address growing cyber threats faced by the country. This policy helps in forming secure cyberspace for the users, reducing the risk of cyber-attack, conducting research, developing human resources and building the capacity of the workforce to create cyber space stronger and more resilient and making secure and credible online services.

4. **Information Technologies Guidelines, Nepal Rastra Bank**

   Nepal Rastra Bank has issued Information Technologies Guidelines considering the increasing activities in financial transaction sector. New Delivery systems like Internet banking, mobile banking, and Automated Teller Machine have increased the risk of financial loss and electronic fraud. This guideline aims to regulate and guide IT related activities in commercial banks with the objective of strengthening banks for tackling with emerging cyber frauds, managing information technology prudently and mitigating the risk arising from implementation of information Technology.

Notable Security Threats in information system environment

In today's digital world, information systems face countless security threats which can compromise their integrity, confidentiality and availability and these threats can come from anywhere. These threats can be from hackers who constantly try to break into the system or from the insiders who know the secrets and want to use the information for their own gain.

Comprehensive Security strategies like robust technical measures, employee trainings and ongoing risk assessment is required to address the threats.

Some of the prominent security threats in information system environment include:

Backdoor

This method bypasses normal authentication to gain unauthorized access to systems, network or software application. Here the attacker can enter and control the system without being detected.

Blue Jacking

Here unwanted messages (malicious links or files) are sent through Bluetooth devices to nearby devices such as phones, laptops.

Cyber Stalking

It refers to use of digital technology to track and harass someone. The nature of example includes sending unwanted, frightening messages on social media.

Cyber Terrorism

Here, violent acts are conducted using the internet to achieve political or ideological gains. This type of act can disrupt communication, steal sensitive information and may cause huge financial losses. Ransomware, hacking servers, defacing websites, hacking communication platforms, attacking financial institutions are some of the examples of Cyber Terrorism.

Data Diddling

Here, the information is altered before the information goes to the desired computer system. It can be done either by forging the documents or changing the records. Adjusting the figures of a company's financial reports to seem that the company is performing better is one of the examples.

Denial of Service

By the name, the service is denied here. The systems are flooded with so much traffic that the desired users are unable to access the desired system, leading to either crashing or slow performing. Flooding the well-known websites, for example, say Mero share website during IPO application and preventing the desired customers from being unable to use the website is classic example of denial of Service.

Domain Name Server (DNS) Spoofing

Here, the attacker manipulates DNS Records and redirects the users to the website that are fraudulent and malicious. The interesting part is that the redirected website resembles the users intended destination.

Email Spoofing

This technique tricks users into believing that the messages came from the person or the organization they know or trust.

Identity Theft

Identity theft occurs when someone uses our personal or financial information without our permission which may put the person whose information was stolen in problem.

Piggybacking

Here, the person who is unauthorized uses already logged in account of the authorized user to enter a system without being allowed to. In an organization, someone else may use the opportunity from the computer of the coworker who forgets to log out to view confidential files.

Structure Query Language (SQL) Injection

SQL is a computer language which is used to communicate with and manipulate data stored in relational databases. Efficiency, flexibility, portability and its standard are the reasons SQL are used. In other words, SQL is the standard language which is understood by all the database management system.

In SQL injection, malicious SQL code is injected into an application's input data which then if executed by application database, allows an attacker to gain unauthorized access to sensitive data or modify the database's structure.

Here malicious code is entered into a server using SQL and once the server gets affected begins to release the information with ease.

Emerging threats in 2024: What to watch out for?

Emerging Threats	Meanings
Ransom Ware 2.0	It is the severe ransomware that causes more harm.
AI -powered Offenses	Malicious use of AI for better attacks.
Insecurity in IoT Devices	Smart devices with vulnerabilities, which are popular to hackers.
Cloud Security Concerns	Risks related to data storage in the cloud, such as hacking or unauthorized access.
Zero-Day Attacks	Exploiting software/hardware vulnerabilities before solutions for the vulnerabilities come up.
Phishing and Social Engineering	Sending fake emails or text messages that target people into revealing their personal information to criminals.
Critical Infrastructures	These are elements with weak points that can lead to a disaster once manipulated.
Cryptocurrency Concerns	Digital currencies at risk from theft and ransomware among others.
Poor Cyber Practices	Cyber risks due to ignorance of basic security practices such as weak passwords or no training for employees.
Third-Party Exposure	Exposure resulting from reliance on suppliers lacking security measures leading to data breaches or supply chain attacks.

Importance of Protecting Information Assets

Organizations hold critical data like intellectual property, customer information, financial records and strategic plans. Protecting these information assets is essential for organizations of all sizes.

Importance of protecting information assets includes the following.

Confidentiality, Integrity and availability of information assets are maintained through protection of information assets. These prevent unauthorized access, unauthorized modifications and ensure availability of system when needed and thus avoiding disruptions to business operations.

Protecting Information Assets ensures compliance with the regulations framed at national and international level. This shows that the organization is committed to protecting sensitive information and thus helps in building trust with clients, customers and stakeholders. Through compliance, the potential for lawsuits and liabilities resulting from data breaches and non-compliance can be reduced.

Implementing strong protection for information assets helps to reduce costly incidents and maintain the organization's financial stability and profitability. Protecting the information assets enables the organization to retain its competitive edge in the marketplace. It enhances stakeholder confidence and investment.

Business continuities are ensured through protection of information assets. Critical functions of the organizations can be continued even in the time of security incidents. Further it helps the organization in adapting to the evolving cyber threat landscape.

Secure information assets allow better data analytics and insights which are vital in today's data driven business environment.

Thus, to safeguard sensitive data, maintain operational integrity, ensure regulatory compliance and to build trust with the stakeholders, organizations should protect the information assets. Those organizations who give priority to information security are in a better position to prevent losses and manage risk.

Consequences of Not Safeguarding Information in Organizations

Failing to protect information can cause serious problems for organizations. Lawsuits, recovery effects, incident response, regulatory fines come with huge financial burden for the organization which faces cyber-attacks and data breaches. Organization compromising with confidentiality, integrity and availability of the information assets face with reputation damage, reluctancy of the stakeholders from engaging with the organization and decline in the competitive advantage status.

Cyber-attacks result in productivity losses and disruption to the critical services of the organization which directly impacts customer service, supply chains and other operational services.

Organizations failing to protect sensitive information assets are imposed with hefty fines, penalties, and legal sanctions by the regulatory authorities.

Intellectual Identity theft results in the unauthorized access to information assets of the organizations compromising in their research and development efforts, product innovations and long-term strategic initiatives.

Major examples of failure of safeguarding information assets at international level

1. **Singapore Health Services Breach – 2018**

   Singapore experienced worst cyber-attack after hackers gain access to the database of Sing Health, the largest group of healthcare institutions.

   Sensitive Health data of the patients who visited Sing Health's clinic and polyclinics was exposed in the breach. It highlighted the vulnerabilities in the health care sector.

   This breach raised significant concerns about cybersecurity in the healthcare sector and led to enhanced security measures to prevent future attacks.

   Source: https://graphics.straitstimes.com/STI/STIMEDIA/Interactives/2018/07/sg-cyber-breach/index.html

2. **Bangladesh Bank Heist - 2016**

   Here the hackers used the SWIFT Network to issue fraudulent instructions to transfer nearly $ 1 billion from the Bangladesh Bank account at Federal Reserve bank of New York.

   Weaknesses in the SWIFT payment Network and Bangladesh Banks's cybersecurity measures was revealed by the breach.

   This breach led to strengthening the security protocols within the global financial system and raised awareness about risk associated with digital banking.

   Source: https://www.reuters.com/investigates/special-report/cyber-heist-federal/

Major examples of failure of safeguarding information assets at national level

1. **Nepal Telecom cyber-Attack – 2020**

   Here the Chinese hackers exploited vulnerabilities in Nepal Telecoms system and gain access to the call records of the users.

   This breach posed a risk to the privacy of customers' contact details, addresses and even call records. It showcased the vulnerabilities in the telecom sector.

   This breach prompted the company to enhance, upgrade and improve its network security and monitoring aspects to prevent unauthorized access.

   Source: https://cio.economictimes.indiatimes.com/news/digital-security/nepal-telecom-call-details-stolen-by-chinese-hackers/84366457

   https://ciso.economictimes.indiatimes.com/news/nepal-telecom-call-details-stolen-by-chinese-hackers/84366159

2. **NIC Asia Bank Heist – 2017**

   Here unidentified cybercriminals reportedly hacked into the SWIFT system of the bank to steal money.

   This breach led to a report by NIC Asia Bank to regulatory authorities regarding unauthorized transaction due to a security breach. The bank system was compromised leading to loss of funds. This breach exposed the vulnerability in the information technology system of Nepali banks.

   This breach underscored the critical need for banks to implement robust cybersecurity measures. This pushed the banks to adopt multi-factor authentication, advanced encryption, and continuous monitoring of transaction systems.

   Source: https://kathmandupost.com/valley/2017/10/23/nic-asia-cash-stolen-in-cyber-heist

3. **Foodmandu Data Breach -2020**

Foodmandu is a popular e- commerce food delivery service. Here the hackers gained access to the names, addresses, and phone numbers of thousands of customers.

This breach highlighted the significant vulnerabilities in the company's data protection practices.

Source : https://myrepublica.nagariknetwork.com/news/foodmandu-s-website-hacked-50-thousand-users-data-dumped/

Protecting Information Assets: Key Challenges

In the fast paced and interconnected digital world, safeguarding information assets is a complex task. New methods and tools to bypass security systems to take advantage of the weaknesses in information networks are being constantly created by cybercriminals. This shows that the threats are constantly evolving.

Cyber-attacks are being carried out by highly skilled individuals with abundant resources. Complex and targeted attacks such as Advanced persistent Threats aim to gain unauthorized access to the sensitive information of the organization.

Internal Threat which means threat from employees or trusted individuals within an organization are the major challenges for the protection of information assets as they may intentionally or unintentionally compromised the sensitive data.

The technologies we have today differ significantly from the technologies we had a few years ago. Thus, this quick development of technology makes the information systems more complex but less secure. We are having the new technologies like cloud services, Internet of things, Artificial intelligence etc. which are offering us more benefits but on the other hand also create difficulties in keeping our data safe.

To protect the data of the users, companies need to follow rules and regulation which can be difficult to implement and may take a lot of effort to comply and still after the compliance with the laws, it may be difficult to achieve the good safety measures.

Strong security systems require financial resources and skilled personnel. So, not having sufficient financial resources and skilled personnel may prevent the organization from using the best security tools.

For all kinds of organizations, data leaks and online attacks are the major threats which lead to financial loss, reputation damage and litigations. To prevent this, companies need to be proactive and should follow the holistic approach to online security.

Human errors are one of the leading causes of security breaches. They lack awareness of security practices and may become the victim of social engineering attacks. So regular security awareness training and education programs are essential to mitigate the risk.

How Protection of Information Assets can be Initiated?

To manage the potential threats, organizations can have their own method of risk responses strategies such as avoidance, transfer, acceptance and mitigation. A careful balance of the mentioned strategies to handle the possible threats needs to be identified and implemented. On the other hand, controls and the tactical measures need to be implemented to strengthen the protection of information systems. The controls can be encryption, access limits, developing systems for detecting intrusion and of course initiating employee training. The risk response strategies and the defining the controls together form a dynamic framework which preserves the Information Security triad (Confidentiality, integrity and availability) of the critical information assets in the ever-changing digital landscape.

Information security management is all about safeguarding the information assets. Safeguard is done by ensuring confidentiality, integrity and availability of the information assets. Control methods to select are based on risk assessment and cost benefit analysis. Here information security policies serve as the primary control mechanism. To have the effective management, Security procedures which are aligned with stakeholder expectations, commitments from senior level management, defined policies, organization structure, security awareness are required. These things together protect the organizations from the evolving threats and disruptions in the digital landscape.

Classification of the information assets based on its sensitivity, importance and regulatory requirements helps the organizations to apply the proper security measures for the risk associated with each type of classified information. Further, the classification helps the organization in prioritizing protection efforts, effective resource allocation and prompt response to security incidents based on the criticality of the data involved. All these approaches help in enhancing the organization's ability to handle challenges, regulatory compliance and increase stakeholder trust.

Ensuring environmental and physical security are as important as digital protections. Environmental security is all about maintaining the optimal conditions for technologies infrastructure and regulating temperature and humidity levels. Access controls, surveillance, and parameter defense to prevent unauthorized access to sensitive areas falls under the physical security. These securities help in mitigation of risk of theft, equipment failures and supports proactive monitoring and surveillance for early threat detection.

User Authentication, Authorization and Accountability mechanisms fall under logical access controls. Logical Access Controls manages access rights to digital resources and ensures only the authorized person has access to the data, application and networks of the organization. For this, methods like passwords, biometrics, multifactor authentication can be used. By aligning with the policies and regulations, logical access controls help in mitigating data breaches and unauthorized access and thus safeguarding digital assets.

To safeguard computer networks, data, and system from unauthorized access and disruption, organization need network and security related processes which involve utilizing firewalls for traffic control, implementing Intrusion Detection and Prevention system for threat detection, virtual private networks for secure remote access, data encryption, network activities monitoring, patch management, security awareness training and segmenting networks.

By using all the above-mentioned processes and methods, organizations can strengthen their defense mechanism, mitigate the risk and ensure their critical assets are safe from the evolving cyber security threats.

Role of Information System Auditor in protection of Information assets

Information system auditors should plan and design the audit programs and during this process scope, objectives, and methodologies to be used should be outlined. Based on the audit planning they need to execute the audit plan where auditors collect and analyze the data to identify the potential areas and issues for improvement. So, based on the audit planning and its execution auditors need to provide audit reports along with findings, conclusion and recommendations to the relevant stakeholders.

Information system auditors need to evaluate existing controls and recommend enhancements to mitigate identified risks. They should review and verify that the organization policies and procedures are followed and are aligned with legal and regulatory requirements. They need to assess the design and effectiveness of information security controls and should conduct regular security audits to identify the weaknesses and vulnerabilities in the system. They should also review the incident response processes, identifying areas for improvement to prevent future occurrences. Performance of information system and system controls ensuring that they meet the organization and security controls need to be evaluated.

Information system auditors play an important role in the safeguarding of information assets by providing independent examination of the organization information system. They assess the security, integrity and efficiency of the information system. They carry out a wide range of activities to ensure that organization information assets are adequately protected and aligned with regulatory requirements and the organization's goal. Key role includes Risk Assessment and Management, Compliance and regulatory assurance, Information Security control evaluation, incident response and management, monitoring and continuous improvement, education and training and audit planning and execution.

Conclusion

In the context of increased users and development of technology across the country, gradually government and private sector (mainly banks and financial intuitions) organization are delivering online services to their customer and have started to collect and store the data. In the view of this, keeping information safe is very important in our digital world, where many threats and vulnerabilities exist online. To protect effectively, we need strong security steps, like controlling who can access data, using codes to hide information, and checking for risks often. Companies should focus on understanding security and following rules to avoid legal problems and damage to their reputation. Having plans to respond to problems and always getting better are key to dealing with new threats and staying strong. Being ready for risks and teaching employees helps create a watchful environment against online attacks.

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अनुशासन सम्बन्धी उजुरी उपर सजाय गरिएको बारे ।

एक गैर सरकारी संस्थाको आ.व. २०७५/७६ को लेखापरीक्षण गर्ने क्रममा एक लेखापरीक्षकले उक्त निकायले कर्मचारी सेवा नियमावली र आर्थिक नियमावलीलाई खारेज गरी मिति २०७५ कार्तिक २५ गते संस्था व्यवस्थापन विनीयमावली जारी गरी सो विनीयमावलीमा कर्मचारीहरुको विदा, औषधीउपचार तथा उपदान बापतको व्यवस्था कटौति गरेकोमा सो निकायबाट भएका निर्णयहरुको बेवास्ता गरी वा अध्ययन नगरी हेलचेक्राई गरी सम्बन्धित आर्थिक वर्षमा संस्था व्यवस्थापन विनीयमावली जारी गरेको मितिसम्म कायम हुन आउने कर्मचारी सुविधाको व्यवस्था बापतको दायित्व रकमलाई सो आ.व. को लेखापरीक्षण प्रतिवेदनमा कहीं कतै नदेखाएको आरोप सहित सम्बन्धित लेखापरीक्षक विरुद्ध संस्थामा दर्ता भएको उजुरी उपर छानबिन कार्य सम्पन्न गरी परिषदको मिति २०८१ असार १६ गते बसेको ३२९औं बैठकले निज लेखापरीक्षकले उक्त निकायद्वारा कर्मचारी सुविधा बापतको थप व्यवस्था कायम नगरेको कुरालाई लेखापरीक्षण प्रतिवेदनमा कैफियत जनाउन पर्ने थियो वा थिएन भनी विश्लेषण नगरेको तथा कर्मचारीको सुविधा व्यवस्था सम्बन्धी दायित्व र सो व्यवस्थाबाट नागरिक लगानी कोषमा गरिएको लगानी लाई नेट अफ गरी प्रस्तुतिकरण गरेको सम्बन्धमा लेखा सम्बन्धी टिप्पणीमा उपयुक्त खुलासा नभएको प्रति कैफियत नजनाएको हदसम्म लेखापरीक्षकको कमजोरी भएको देखिएको भएपनि निज लेखापरीक्षकले उक्त रकमको व्यवस्था नगरिएको कुरा र कर्मचारी सुविधा कटौती गर्नु श्रम सम्बन्धी ऐन नियमको पालना नभएको भन्ने विषयलाई आफ्नो व्यवस्थापन पत्रमा उल्लेख गरी निकायको व्यवस्थापनलाई जानकारी गराएको र उपरोक्त अनुसार उल्लिखित कमजोरी सम्बन्धमा भएको गल्ति नदोहोराउने प्रतिबद्धता व्यक्त गरेको तथा वित्तीय विवरणको प्रस्तुतिकरण गर्ने जिम्मेवारी व्यवस्थापनको हुने हुँदा उपरोक्त आर्थिक वर्ष अघि व्यवस्थापनमै रहेको व्यक्तिबाट आफनो जिम्मेवारीको बोध नगरी लेखापरीक्षकलाई मात्र दोष लगाउनु न्यायसंगत नदेखिएको हुँदा निज लेखापरीक्षकले गरेको गल्ती प्रति निजलाई अनुशासन छानविन कार्यविधिको दफा (५)११ बमोजिम **एक पटकको लागि सचेत गराई** निज उपरको उक्त उजूरीलाई नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली, २०६१ को नियम ८४(२)(क) बमोजिम तामेलिमा राख्ने निर्णय गरेको व्यहोरा जानकारीको लागि प्रकाशन गरिएको छ ।

Has The Game Begun? Transfer Pricing Regime in Nepal

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The Inland Revenue Department (IRD) has issued the Transfer Pricing Directive 2081 (Directive). The Hon'ble Finance Minister announced the need to introduce the transfer pricing guidelines in his budget speech in May 2024. The objective for introducing the Directive, as stated in the Budget Speech, is "to control and minimize tax evasion from base erosion, profit transfer and income splitting (*Para.329 of Budget Speech, 2024/25*).[1]

This article discusses the concept of transfer pricing, the structure of the new Transfer Pricing Directive, preparation for tax administration and taxpayers.

Need for Transfer Pricing Guidelines

Nepal's economic growth has been on rise since the country opened to economic liberalization in the mid-20th century and increasingly, multinational companies (MNCs) are setting up their subsidiary companies in Nepal. The need for transfer pricing (TP) rules has particularly arisen as the MNCs nowadays source their goods and services from their own subsidiaries in different countries, as part of increasing global supply chains, and that results in international transactions. The TP rules apply to enterprises or companies that engage in international transactions with their related parties. The rules ensure that these international transactions are conducted at arm's length prices to prevent any undue profit shifting through mispricing of purchases or sales.

Headquarters of MNCs usually determine the price at which goods are transferred, or services are rendered between the various affiliates of the group. These transactions are not often based on market forces or as two independent companies would negotiate the price of goods or services between them. MNCs use other considerations such as tax rates in various affiliate countries, etc., to fix the prices of goods and services. The objective behind this pricing by the MNCs is to shift higher profit to affiliates or headquarters in countries with low tax rate thereby lowering tax expenses and maximizing the group cash flows. Therefore, transfer pricing regime has been developed in order to curb this artificial or mispricing which are dictated by tax concerns only.

1 The view of authors is that the goal of TP is an anti-abuse tax provision and cannot be considered to be anti-tax evasion measure. Moreover, the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (2022), discusses this issue and mentions that the consideration of TP should not be confused with the consideration of problems of tax fraud or tax avoidance, even though TP policies may be used for such purposes. (Page 29).

Existing laws in Nepal

The newly brought Transfer Pricing Directive traces its source to Section 33 of the Income Tax Act, 2002 (2058) ('Act') and Rule 15 of Income Tax Rules, 2003 (2059) ('Rules'). Sub-section (1) of Section 33 of the Act provides powers to IRD to distribute, appropriate or allocate the amount to be included or deducted in computing the income between associated enterprises in such manners as to reflect the [fair] taxable income or the [fair] tax payable. Moreover, as per sub-section (2) of Section 33 of the Act, while taking action under section 33(1), the IRD has the power to re-characterize any income, loss, amount or source and type of payment[2]. Sub-section (3) inserted in Section 33 of the Act by the Finance Act, 2024 provides that the transfer price between the associated enterprises shall be as determined by the IRD under the authority of sub-section 33(3) of the Act. The Transfer Pricing Directive aims to generate fair share of tax in Nepal by promoting transactions between multi-national companies in market price.

It is also to be noted that Nepal has signed Double Tax Avoidance Agreement (DTAA) with only 11 countries.[3] **Article 9** - Associated Enterprises of DTAA, to some extent regulates that the transactions between the associated enterprises are to be done in arm's length price (ALP) and necessary adjustments are to be done if the transaction are mispriced. However, **Article 9** is not "self- executing" and does not in itself create a transfer regime in a country where such regime does not already exist. Therefore, transfer pricing regime is a creation of domestic law.

Structure of the Directive

The Directive was unveiled without much fanfare, and without any public discussion, by merely uploading on the website of the IRD. The Directive contains seven chapters and two annexures. Chapters include: i) Introduction, ii) Definition, iii) Transfer pricing and arm's length principle, iv) Comparability analysis, v) Method of arm's length price determination, vi) Transfer pricing documentation, and vii) Transfer pricing administration.

Chapter 1 briefly discusses the rationale for bringing out the Directive. Section 1.3 of the Directive mentions that the Directive shall be applicable to offshore transactions (external TP) between associated enterprises. Further, the Directive shall be applicable from income year (I.Y.) 2024/ 25.[4]

Chapter 2 defines key terms in the Directive. Few other words have been defined in the relevant section of the Directive where they occur. Definition of 'income year', 'company', 'resident entity controlled by an organization entitled to tax exemption', 'relative', 'entity', 'underlying ownership', 'resident person', 'person, permanent establishment', and 'associated enterprise' have been quoted *verbatim* from the Act. Whereas new definitions have been added: 'comparability analysis', 'comparable uncontrolled transaction', 'controlled transaction', 'tested party', 'multinational company', 'arrangement', 'offshore transaction', 'foreign controlled transactions', 'un-controlled transactions', 'arm's length transactions', and 'transfer pricing determination'.

Chapter 3 states the principle of arm's length transaction by citing examples of internal comparable

2 *In addition, as per subsection (2) of section 33:Further, in respect of head office and other expenses which are required for operating the business, if such associated enterprises or persons are benefitted by such expenses, IRD has powers to allocate such expenses between such associated enterprises in the proportion of turnover of such parties. Moreover, Rule 15 of the Income Tax Rules deals with advance pricing arrangements, which states that in cases where any one or more than one person makes a request in writing to IRD for the distribution, allocation or allotment on the basis of arm's length in respect of the amounts to be included or deducted in computing the income of any person pursuant to Subsection (1) of Section 33 of the Act, the IRD may issue a notice in writing.*

3 *Countries with which Nepal has signed DTAA: India, Norway, Thailand, Sri Lanka, Mauritius, Austria, China, Qatar, Bangladesh, South Korea and Pakistan.*

4 *The Directive has few drafting errors. The Directive was issued on October 6, 2024, which is well past two and half months after the beginning of the I.Y. However, rather than applying the Directive 'from the date of issue', giving retrospective effect does violate basic principles of legislation.*

transaction and external comparable transaction. Then methods of determination of arm's length price in brief has been mentioned which have been further elaborated in chapters 4 and 5.

Chapter 4 is regarding comparability analysis. At the onset, it lists out three steps for comparability analysis: i) analysis of controlled transaction between associated enterprises, ii) functional analysis and iii) a comparison between the conditions of the controlled transaction and those in uncontrolled transactions (comparables or comparable uncontrolled transactions) taking place in comparable circumstances. Comparability analysis processes have been mentioned thereafter: i) analysis of economically significant characteristics of business and transaction (transactional analysis), ii) examination of comparability factor of controlled transaction, iii) selection of tested party, iv) identification and selection of comparable, v) appropriate adjustment to comparable, vi) selection of appropriate arm's length method.

Chapter 5 describes the five methods of transfer pricing with relevant examples. The five methods mentioned are: i) comparable uncontrolled price method, ii) resale price method, iii) cost plus method, iv) transactional net margin method and v) transactional profit split method. Additionally, if in context of international transaction, if more than one price is determined, then the Directive guides that the price shall be determined on the basis of median range method[5] and average method.[6]

Chapter 6 lists out the documentation to be maintained while determining transfer price. The list of documentation to be maintained is spelled out in Annex 1 of the Directive. The basic documentation to be kept includes documents regarding information of the entities, documents relating to offshore transactions between associated enterprises and documents regarding determination of price as per ALP. Transfer pricing documentation as mentioned in Annex 1 of the Directive is to be maintained by taxpayers having controlled offshore transactions of equal to or more than one hundred million rupees. Further, in case the amount of sale or purchase of goods or services between the associated enterprises exceeds more than five hundred million rupees, then a certification as per Annex 2 is to be done by an auditor who is not a tax or financial auditor and has experience of over five years.

The final chapter, **Chapter 7**, is regarding Transfer Pricing Administration. This chapter revisits relevant section of the Act relating to amended assessment (section 101), serving of notice of assessment (section 102), penalty for non-maintenance notified documents and non-filing of returns (section 117), penalty for non-payment of installment tax (section 118), penalty for non-payment of tax (section 119), residual penalty (section 119A) and penalty for furnishing of false or misleading statement (section 120). Regarding appeal of the transfer pricing adjustment order, the appeal is to be made to Administrative Review (section 115), as per current practice in income tax and VAT appeals; thereafter the appeal lies with the Revenue Tribunal.

The Directive has been supplemented by two annexures: Annex 1- Transfer Pricing Documentation to be maintained by Taxpayers and Annex 2 – Transfer Pricing Return to be certified by Auditor.

Preparation for Tax Authority

Transfer pricing regime is a new terrain for the Nepalese tax authority. Identification of number and type of MNC operating in Nepal and assessing the transfer pricing risk that are likely to arise is the first challenge for the IRD. Navigating complex transactions across various associated enterprises, especially without prior experience in handling transfer pricing cases, may prove challenging. Given the scarcity of resources, identifying, and maintaining database of comparable transactions is also an upheaval task. The best solution to navigate these challenges is to be setting up a dedicated

5 Median range method is to be used if the prices in the data set of price determined is equal to or more than seven. In this method, the data set is to be arranged in ascending order and the data sets within thirty fifth and sixty fifth percentile shall be considered to be ALP. Further, if the difference between the transaction prices is within the range of five percentage of the upper and the lower quartile price, no adjustment shall be made to the transaction price. Any price falling outside the range of five percentage of upper and the lower quartile shall be calculated by considering the central value or the fifth percentile and necessary adjustment shall be made for the purpose of TP. While average method is to be used if the price determined is equal to or less than six.

6 Average method is to be used if the prices in the data set of prices determined is equal to or less than six. If the transaction price is within range of five percentage of the average value, then the same price shall be taken, else adjustment shall be made to the transaction price by considering the average value to be the ALP.

transfer pricing unit in the tax administration.[7] However, the effort in setting up a new structure within the Department has not yet been notified.

Next step would be to assessing the current capabilities and gap. The skill and expertise to dissect and analyze the transfer pricing cases would evolve in time. Training the tax officers involved in transfer pricing cases and building databases should be of paramount importance. Coordination between various Government Agencies is also required mostly for sharing of data and information. Mechanism for free flow of information between Nepal Rashtra Bank (central bank), Customs Department, Office of The Company Registrar etc. is a prerequisite for proper functioning of TP regime.

Preparation for businesses

TP policies are normally harmonized across countries. The Directive issued by the Department is in line with the OECD and UN manuals and other best practices. But the problem lies in its implementation. For the MNCs, TP is not a new ball game. However, uncertainty over double taxation risks and the documentation and compliance requirements to fit the law of land is an issue of major concern. The business community wishes to comply with all the laws of the source countries, including TP law. Maintaining 'arm's length documentation' to fairly price transaction within the associated parties in the group in order to avoid a dispute or to a timely resolution is the basic task to be undertaken.

Maintaining contemporaneous documentation is a highly skilled task that necessitates comprehensive business knowledge and often requires a dedicated department within the MNC's as well. At the initial stages, the headquarters of the MNC would need to do the handholding to comply with the documentation requirement as the local unit would lack the expertise and may not have the overall knowledge of the group and pricing strategies. Contemporaneous documentation requirements will help to ensure the integrity of the taxpayers' positions and restrain taxpayers from developing justifications for their positions after the fact.

Penalties of non-maintenance of documents and tax effect on adjustment to price are cost to the companies. Moreover, the reputational loss as non-complier will also dent the image MNCs. Therefore, MNC must strictly comply with the Directive and other best international practices.

Putting the cart before the horse

No taxation without representation is the cardinal principle of tax law, which states that taxation is the exclusive domain of the legislature. Sub-section 3 of section 33 of the Act delegates the power to the Department to formulate only the "method" of determining TP between associated enterprises. Whether the Department can enact substantive law through delegated legislation, as has been witnessed in the Directive, is debatable.

The Directive refers to provisions[8] that are not mentioned in either the Income Tax Act or the Rules. This legal vacuum must be plugged by providing the substantive provisions in the Act or Rules, else the Directive may be challenged under its constitutionality. The right approach would have been if the substantive provisions were enacted in the Act or the Rule, through the legislature and Directive issued at a later date.

The game is to start now

As per a survey report published by the Central Bank, the stock of FDI in Nepal was Rs. 264.3 billion as of mid-July 2022, while the FDI inflow in 2021/22 was Rs. 19.2 billion[9]. Situated between two of the behemoths and largest importers of FDI, India and China, the amount of FDI inflow in Nepal is not very encouraging. Inadequate development of macroeconomic environment, political instability, lack of consistent planning, insufficient institutional capacity, lack of modern taxation and investment laws, etc. are major impediments in attracting FDI.

Transparent and fair taxation laws, including TP laws, are an essential step in attracting FDIs. Given the risks of investing in a foreign country and the opportunity that various countries place to lure foreign investors, MNCs want hassle free business

7 United Nation (2021) practical Manual on Transfer Pricing for developing countries, May 2021, Establishing Transfer Pricing Capability in Developing Countries.

8 Additional definitions as mentioned in section 2 of this paper, provisions regarding maintenance of documentation and certification of TP documents, penalty on non-maintenance of TP documents are few examples where the substantive law is lacking.

9 Survey Report on Foreign Direct Investment in Nepal (2021/22), available at https://www.nrb.org.np/contents/uploads/2023/09/FDI-Survey-2021-22-2.pdf, accessed on 19 November 2024.

and regulatory environment to carry out business. As global investment and capital are agile, it moves to regions with less friction and more returns. Nepal too needs to revamp its taxation and investment laws to make it more investor friendly and at the same time reap revenue for social welfare and development. A modern, fair and certain TP law is one step toward this end.

Things to do

The effort of the Department in bringing out the Directive is a welcome step. However, in most countries the TP laws are included in the tax laws and not enacted through a Directive. It would there be important that the TP Directive be backed by substantive law and necessary and timely changes can be made after consultation with the business community and experts. This will also be a great opportunity to bring forth a more refined Directive in future by addressing the lacunas identified in this article and beyond.

Dispute avoidance and resolution facilitates efficient and equitable determination and collection of tax revenues that are properly due. This would minimize controversy, cost, uncertainty and delay for both tax administrations and taxpayers. The Directive at present lacks a proper mechanism for dispute avoidance and resolution and is an area that should be addressed.

Another area not there in the Directive is the safe harbor rules (relief to eligible taxpayers from certain obligations which are imposed by TP laws) and proper functioning mechanism of Advance Pricing Agreement (APA) regime. Safe harbor relieves eligible taxpayers from compliance burdens, provides certainty to the regime and permits tax administration to focus their scarce resources on high net worth and risky cases. Moreover, there should be a strong preference for APA over litigation. Given the value and dominance in international trade of intangibles, a portion of the Directive must have been dedicated for issues regarding intangibles providing bright-line tests rather than waiting for the disputes to brew up- hope springs eternal.

The Authors highly appreciate inputs from respected Sanjay Kumar, ex-IRS and former Tax Partner, Deloitte

Is Taxation a Positive or Negative Right of the Government?

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Abstract:

Taxes are the foundation of government revenue and an essential element for financing government activities and running the public sector. The state alone holds the primary authority to impose taxes. This article aims to provide an understanding on whether imposing taxes is best understood to be positive or a negative right or obligation. It discusses the concept of taxes and their purpose and provides a basis for understanding how we ought to think about the government's authority to impose taxes within the context of our rights and responsibilities.

Keywords: Taxations, negative right, positive right, obligation.

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Introduction:

A tax is a payment made by an individual or an entity of a country to the government in accordance with the income, or the value of property. Some argue that taxing is negative right of the government while others contend that taxation is the positive right. This article aims to provide a critical understanding on taxation and its connection with both the negative and positive rights of government. Firstly, we need a proper understanding of taxation and the concept of right. Imposing taxes is the right of government whereas paying taxes is the duty of an individuals. Taxes are imposed by the government on the income of workers and business profits, they could also include charges added to the cost of some goods, services, and transactions. They are mandatory contribution to the state's revenue. Companies and individuals in all countries are required to pay taxes which is used to finance government activities and public services.

A tax can be defined as a financial burden placed on individuals or property owners in order to increase government revenue. As a result, taxes are a required contribution rather than a choice-based payment or donation. The legislative authority demands this payment. It could be either direct or indirect tax. With an efficient tax system and measures, revenue mobilization can result in growth that may be slightly faster than that in Gross Domestic Product (GDP). A tax is a mandatory fee that a government charges an individual or organization and use the revenue generated to pay for public works. It is often regarded obligation of taxpayers because when the government imposes tax, it creates an obligation to pay for individuals or business. It is hence mode of raising revenue to fund public expenditure[1].The power of taxation is an essential and **inherent attributes**[2]of sovereignty[3]. In the case

1 Thomas Cooley, The Law of Taxation (4th edn, 1924) 149

2 "Inherent attributes" refers to qualities or powers that are naturally part of something, in this case, the power of taxation being an intrinsic part of government authority. It means that the power to tax is fundamental to the existence of any government, as it is necessary for funding its operations and responsibilities.

3 Ibid

of **McCulloch v. Maryland**[4], the chief justice of United States John Marshall described the sovereign right of taxations as:

"It is admitted that the power of taxing the people and their property is essential to the very existence of Government, and may be legitimately exercised on the objects to which it is applicable, to the utmost extent to which the Government may choose to carry it. The only security against the abuse of this power is found in the structure of the Government itself. In imposing a tax, the legislature acts upon its constituents. This is, in general, a sufficient security against erroneous and oppressive taxation."

In the concerning case of Amrit Banaspati Co. Ltd. v. State of Punjab Supreme Court of India "Taxes are monetary burdens or charges imposed by legislative power upon persons, or property to raise revenues"[5]. The government needs requisite funds to discharge its primary governmental functions[6]. No responsible government can function and achieve its welfare objectives without levying and collecting taxes7. Despite the fact that taxation controls everything and a consequence of sovereignty, it is restricted by clearly stated constitutional restrictions. Latham CJ defined *"tax" as a "compulsory exaction of money by a public authority for public purposes, enforceable by law, and not a payment for services rendered*[8].

It is said that the essence of taxation is compulsion, which means that it is imposed under statutory authority without the consent of the taxpayer and that the payment is made in accordance with the law. The second characteristic of a tax is that it is imposed for a public purpose without regard to the tax payer receiving any special benefits. This can be expressed by saying that the tax is levied for general revenue, which when collected is part of the state's public revenues. It is said that there is no element of "quid pro quo" between the taxpayer and the public authority because the purpose of a tax is not to provide any special benefit to any particular individual. Another characteristic of taxation is that because it is a component of the common burden, the amount imposed on the taxpayer typically depends on his ability to pay[9]. The power to tax is an incident of sovereignty[10]. Tax is basically considered as to a distinct matter or purpose of legislative competence in which the power to tax cannot be deduced from a general legislative entry and the taxing power of the union and the states are mutually exclusive without any overlap[11].

Tax as the Negative and Positive Right of the Government:

In the case of ***Radhesyam Adhikari vs. Government of Nepal***[12], the term "*right*" was defined as the legally or constitutionally granted privileges, facilities exemptions immunities and claims. These are explicit, well defined legal entitlements that individuals or communities possess collectively under the law or constitution. In the eyes of the government it is its right to impose taxes and collect revenue. Taxes are seen by governments as, the primary means to raise funds to pay for infrastructure, public services, and other state functions. Taxes are viewed as instruments for influencing economic behavior, which can encourage or discourage certain industries. The power of the right to tax is often considered as a fundamental aspect of governmental authority.

The Common Law or common legal system basically recognizes two types of rights i.e., positive and negative rights. A positive right corresponds to a positive duty, while the negative right corresponds to negative duty[13]. **According to John W. Salmond**, in the case of a negative right, the interest, which is its **de facto basis**[14], is of such a nature that it requires for its adequate maintenance or protection,

4 17 U.S. 316 (1819)

5 (1992) 2 SCC 411 [10]

6 Dena Bank v. Bhikabhai Prabhudas Parekh & Co., (2000) 5 SCC 694 [8]

7 Jindal Stainless Ltd. & Anr. v. State of Haryana & Ors

8 Matthews v. Chicory Marketing Board 60 CLR 263

9 Commissioner, Hindu Religious Endowment, Madras v. Sri Lakshmindra Thirta Swamiar of Sri Shirur Mutt (1954) 1 SCC 412

10 Knoeller, H. M. (1938). The power to tax. Marquette Law Review, 22(3). Available at https://scholarship.law.marquette.edu/mulr/vol22/iss3/2

11 Hoechst Pharmaceuticals Ltd. And. vs. State Of Bihar And Others on 6 May, 1983

12 NKP , Decision Number : 4430

13 M/S.L&T Finance Ltd vs M/S.J.K.S.Constructions Pvt. Ltd on 10 February, 2014

14 The term "de facto" is a Latin phrase that means "in fact" or "in reality."

nothing more than the passive acquiescence of other persons[15]. All that is requested by the proprietor from the interest is to be abandoned in the pleasure in it. In the case of a positive right, on the other hand, the interest is of a less perfect and self-sufficient nature, inasmuch as the person entitled, requires for the realization and enjoyment of his right, the active assistance of other persons[16].

Is Taxation Negative Right?

Basically the negative right is the kind of rights that mostly requires others to restrain from interfering with the life, liberty and the property of individuals. The negative rights impose a duty of non-interference on individuals or others that they obligate and the government to refrain from actions that could restrict some rights, because it requires others to refrain from interfering with an individual's ideas. Similarly the positive right is defined as the right which basically holds the entitlement that requires individuals or others, typically the government or the society, to provide individuals with some goods, services or certain benefits. Basically positive rights makes necessary action and practices of involvement to ensure individuals can get necessary resources they require.

The right to impose taxes of the government cannot be said to be an absolute negative right as it is said that, taxation is a necessary function of maintaining a running or functioning state and providing a better goods and services to the public. While imposing taxes creates or places a burden to an individual's liberty, it cannot be said to be a negative or oppressive act. Basically inorder to operate government functions which can be developing infrastructure, social programs and national defense, and providing public goods to benefit all citizens' government also requires revenue that which collected only as a form of tax. In the absence of ability to collect tax revenue, a government will be unable to perform its basic responsibility and cause the foundation of civil society to weaken.

If we consider taxation as a negative right, it may lead us to ignore the positive role that taxes play in supporting the well-functioning state. It will also mean ignoring the fact that, citizens generally receive tangible benefits from the collection of tax revenue such as education for services such as education, healthcare, and the other public services. In modern democracies the power to impose tax is not considered as negative or unilateral right because it is the basically the decided by representatives elected by citizens that whose consent the government must govern. The democratic practice of holding periodic election ensures that the principles of taxation are not abused. Hence taxation cannot be considered to be negative right of the government.

Taxation a Positive Right?

We have said taxation is not a negative right so is it then positive right of the government? , - The answer is also no. The government right to impose taxes is not a positive right for following reasons:

a) Basically positive rights are those rights that must be fulfill or provided by the government. Taxation in general is not something demanded by citizens, it is basically the right of the government, - an obligation which is then imposed on citizens, rather than a right that citizens can claim from the government.

b) Positive rights are basically considered as inalienable or inherent, such as the right to free speech or freedom of religion. The right of government to impose tax cannot be considered as a fundamental human right but rather it is a necessary power of the state that is granted by or through the political process.

c) Likewise a positive right limits the government power by requiring the state to provide or protect certain liberties. The right to impose the taxes do not do this but increases the governmental power as it compels the citizens to contribute financially to state functioning.

In traditional sense, while taxation is a necessary and important legitimate function of the government, it cannot be said that imposing the tax is a positive right. Imposing tax is a conditional and limited power of the state/government, rather than being an inalienable entitlement.

Tax as Obligations:

Imposing a tax is neither a negative or positive right of the government. The government power to impose tax it is not a right, but an obligation.

15 Jurisprudence" (4th Edition-1913), John W. Salmond
16 Ibid

Imposing tax is not a power of the state but a necessity through which layers of government can function and public services can be provided. The fundamental duty to provide welfare to citizens can only be fulfilled by imposing taxes to generate funds needed to provide public services. When it comes to the relationship between the government and citizens, the obligation to impose and collect tax lies primarily with the government. In traditional systems, it is said that the government's ability to impose tax is not a discretionary right but is an obligation that arises from its responsibilities to citizens. As the role of government is to provide and protect public goods and run a public welfare system, it is the duty of the government to raise the necessary revenue to fund infrastructure, social programs, national defense, and other collective public needs. If taxation is considered a right of the government, it basically implies that government has the option to resign from its the core function, which is basically against the social contract between state and citizens.

Conclusion:

In conclusion it is clear that a government's right to impose taxes cannot be established to be either a negative or positive right. Instead, it can be classified as an obligation of the government required for fulfilling its fundamental duties and responsibilities. The main purpose of imposing taxes is to generate the revenue to help the government fulfill the basic need of citizens. The government must have resources for delivering its functions such as funding critical infrastructure, providing essential social services, and maintaining national security, which is possible only through taxation. All public services provided by the government are paid for by taxes largely (if aid is not considered in Nepal's case), and these result in tangible benefits for citizens and these contribute towards higher quality of the life of citizens. The obligation to pay taxes arises not from the claim of a right but from the citizen's civil duty to contribute to common good. The authority to impose taxes is granted by the political process and is a fundamental political right or the right of the government. Therefore, the imposition of tax is an obligation, a necessary function required for governing and ensuring the overall welfare of the citizens.

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JUDICIAL UPDATE

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Case-I: Income Tax Act, 2058

Supreme Court Decision Date:- 2081/01/31

Parties:- Summit Hotel Pvt Ltd, Lalitpur (Appellant) V. Revenue Tribunal, Kathmandu *et al.* (Respondent)

Supreme Court Case No.:- 076-WO-0866

Fees and Interest not to be considered as a Penalty

Abstract:

*Amount of interest and fees determined during the tax assessment by Internal Revenue Office (IRO) cannot be considered as penalties, but shall be treated as tax amount. According to Section 9(1)(a) of the Revenue Tribunal Act 2031, when appealing to the Revenue Tribunal, depositing 50% of the assessed tax amount is sufficient, not required to deposit additionally for fees and interest as a penalty. Since it has been found that the appellant company has already deposited 50% of the assessed tax amount, the mandate issued by the Revenue Tribunal on 2076/11/06 requiring the petitioner to deposit 100% of the interest and fee amounts as penalties in addition to the assessed tax is deemed inconsistent with the law, and has been quashed by the **writ of certiorari**.* In addition, a **writ of *mandamus*** was issued directing the respondents to treat the interest and fee amounts as part of the "tax" when calculating the deposit for an appeal before the Revenue Tribunal, and to accept only 50% of the assessed tax amount as the required deposit.

Fact:

The appellant company M/s Summit Hotel Pvt Ltd had submitted its Income Tax Return of F/Y 2069/70 under Section 96 of the Income Tax Act, 2058 by self-assessing its tax liability pursuant to Section 99 of *idem* Act on 2070/09/23.

Later on, the Inland Revenue Office Lalitpur after undergoing a full audit issued a tax assessment notice against the appellant company with an amended tax, fee and interest of NPR 4,39,36,177.46 on 2073/03/30. The appellant company had already paid NPR 28,91,273.00 while submitting its Income Tax Return. So, the IRO asked it to deposit the additional amount NPR 4,10,44,904.46 out of NPR 4,39,36,177.46.

Dispute:

The appellant company, being dissatisfied with such tax assessment order made by the IRO Lalitpur, had applied to the Inland Revenue Department (IRD) for Administrative Review under Section 115 of the Income Tax Act, 2058. It had deposited one-third (NPR 1,36,80,266.66) of the additionally assessed (i.e. disputed) tax amount (NPR 4,10,44,904.46) out of the total assessed tax amount of NPR 4,39,36,177.46) while applying for the administrative review. However, the IRD refused to entertain its application. So, the company had appealed to the Revenue Tribunal, Kathmandu against such refusal decision of IRD under Section 116 of *idem* Act on 2074/04/32.

Then, the Revenue Tribunal, in order to attain 50% of the disputed tax and 100% of the penalty pursuant to Section 9(1)(a) of the Revenue Tribunal Act 2031, mandated the appellant company to deposit additional amount NPR 1,90,70,861.41 within 15 days on 2076/11/06, in addition to

NPR 1,36,80,266.66 deposited while applying for administrative review. However, the appellant company repudiated the mandate of the Tribunal and argued that fees & interest imposed by the LTO Lalitpur is not a penalty. Instead, it is a part of tax as defined under Section 2(n) of the Income Tax Act, 2058. Hence, 100% of such fee and interest need not be deposited as mandated by the Revenue Tribunal.

Therefore, the appellant company, being dissatisfied with such mandate of the Revenue Tribunal to deposit 100% of fee and interest considering such amounts as a penalty, appealed to the Supreme Court against such mandate.

Supreme Court Judgement:

The Supreme Court quashed the mandate of the Revenue Tribunal stating:

1. The appellant company, when applying for administrative review before the IRD against the tax assessment decision made by the IRO Lalitpur, had paid one-third of the total tax assessed amount comprising tax, fees, and interest as deposit. Further, when appealing against the decision of IRD before the Revenue Tribunal, the company paid an additional 17%, making a total 50% of the assessed tax, interest, and fee amount as deposit. In this situation, the order issued by the Revenue Tribunal on 2076/11/6 requiring 100% security of the penalty, considering the interest and fees as penalties, does not seem legally justified. Hence, it is concluded that the interest and fees assessed during the tax assessment process by IRO Lalitpur cannot be considered as penalties but shall be treated as part of the tax amount. Pursuant to Section 9(1)(a) of the Revenue Tribunal Act, 2031, while appealing before the Revenue Tribunal, paying 50% of the assessed tax amount as deposit is sufficient. Since the appellant company had already deposited 50% of the assessed tax amount as deposit, the order issued by the Revenue Tribunal on 2076/11/6, requiring 100% of the interest and fees as deposit for penalty, is not in accordance with the law. Therefore, the mandate of Revenue Tribunal has been quashed by issuing a **writ of *certiorari***.
2. In addition, a **writ of *mandamus*** is issued directing the respondents to treat the interest and fee amounts as part of the "tax" when calculating the deposit for an appeal, and to accept or cause to accept only 50% of the assessed tax amount as the required deposit.

Case-II: Customs Act, 2064

Supreme Court Decision Date:- 2081/02/18

Parties:- United Distributors Nepal Pvt Ltd, Kathmandu (Appellant) V. Birgunj Customs Office, Parsa *et al.* (Respondent)

Supreme Court Case No.:- 075-RB-0738

Validity of Foreign Official Documents in Customs Value Determination

Abstract:

Sections 13(2) and 13(6) of the Customs Act, 2064, prioritize the transaction value as declared by the importer unless there are legitimate doubts about its authenticity. In the present case, the appellant company has submitted the ARE-1 form and SAFTA certificate, both issued by official authorities of the Government of India. These documents clearly detail the Free on Board (FOB) value, freight, and insurance charges, and their authenticity cannot reasonably be questioned because they are issued by the government of India. Additionally, any doubt regarding under valuation and collection of short excise duties in India would fall under the jurisdiction of Indian authorities and have no bearing on the importer's declarations in Nepal. Thus, based on the transparency of these documents, questioning the declared CIF value and imposing additional customs duties by adding cost for freight and insurance would be unjustified.

Fact:

1. The appellant company, M/s United Distributors Nepal Pvt Ltd, through Invoice No NPL/000075/2015, imported HORLICKS CLASSIC MALT from India on 2071/12/25. For the purpose of customs valuation, it declared the transaction value of the imported goods as NPR 28,74,972/- by filing Declaration Form No M48019 along with necessary documents to the Birgunj Customs Office, in accordance with Section 13(3) of the Customs Act, 2064.

2. The respondent, Birgunj Customs Office, rejected the transaction value declared by the appellant company on the grounds that it was not substantiated by sufficient documentation to prove it as the actual transaction value. As a result, the customs office, pursuant to Section 13(12) of the Customs Act, 2064, added NPR 1,18,164.98 for the freight and insurance charges to the declared value, thereby determining the total custom value to be NPR 29,93,136.98 on 2071/12/27.

Dispute:

1. The appellant company repudiated the custom value determined by the Customs Office arguing that the Letter of Credit ("LC") specifies Cost, Insurance, and Freight ("CIF"). Since the LC mentions CIF, it includes insurance and freight up to Birgunj, and the Indian vendor company has been paid accordingly. The ARE-1 form has been filled out by the Indian vendor company in accordance with the Indian law, and a commercial invoice is attached to the ARE-1 form, which specifies the CIF value. From the ARE-1 form, it is clear that the CIF includes Free on Board ("FOB"), insurance, and freight. In the Bill of Export, the FOB value is separately mentioned. Despite the fact that the submitted evidences show the inclusion of amounts for insurance and freight, the Customs Office made the customs valuation decision by again adding those earlier included insurance and freight costs under Section 13(12) of the Customs Act, 2064.
2. The basis of the Customs Office for determining the custom value by adding the insurance and freight costs to the declared transaction value was that if the transaction value declared under Section 13(3) of the Customs Act, 2064 does not appear to include freight, insurance, and other charges, an estimated amount may be added to determine the transaction value under Section 13(4) of the Act. The ARE-1 form and the Invoice are identical, with the ARE-1 form showing the 'Value of Goods' and excise duty being levied based on that amount. It cannot be claimed that insurance and freight are included in the 'Value of Goods.' So, the customs value was determined by adding an amount for freight and insurance.
3. The appellant company, dissatisfied with this decision, filed an application for the review of custom valuation to the Valuation Review Committee of the Department of Customs. However, the Committee upheld the decision of the Birgunj Customs Office through its decision dated 2073/6/10.
4. Dissatisfied with the decision of the Valuation Review Committee, the appellant company filed an appeal before the Revenue Tribunal, Kathmandu, under Section 62(1) of the Customs Act, 2064, and Section 9 of the Revenue Tribunal Act, 2031.
5. The Revenue Tribunal upheld the decision of the Valuation Review Committee of the Department of Customs. Subsequently, appellant company being dissatisfied with such decision appealed to the Supreme Court.

Supreme Court Judgement:

The Supreme Court quashed the decision of the Revenue Tribunal stating:

1. Section 13(2) of the Customs Act, 2064 provides customs value of imported goods shall be based on the transaction value of such goods. If any doubt arises regarding the transaction value declared by the importer based on various documents and details submitted, only then, in accordance with Section 13(6), customs officer may request additional documents or evidence to verify whether the declared value is the actual transaction value.

2. Considering the nature of the attached documents in the case file, since the ARE-1 form and the SAFTA certificate are issued by the official authority of the Government of India, i.e., the exporting country, it would not be appropriate to question the authenticity of these foreign official documents. The ARE-1 form certified by the official authority of India clearly specifies the FOB value as NPR 27,56,807, freight as NPR 1,15,750, and insurance as NPR 2,415, indicating a total value of NPR 28,74,972. In such a situation, where transparency in the figures is evident, it does not seem appropriate to compare it with a theoretical basis. Even if it is assumed that there was an over or under collection of excise duty due to lower valuation in India, this would be a matter between the exporter and the relevant excise authority in India, and the importer would have no role in this, nor would they have the right or authority to challenge it.

3. In this manner, the appellant importer company has declared the transaction value based on the CIF value as per the ARE-1 form received from India, the Excise Invoice, and the SAFTA Combined Declaration and Certificate, and has made the corresponding payment. In such a situation, the decision of the Birgunj Customs Office, dated 2071/12/27, which determined the customs value by adding freight and insurance charges to the declared transaction value on the grounds that the freight and insurance amounts were not included, and the decision of the Customs Valuation Review Committee, dated 2073/06/10, which supported this decision, both of which were upheld by the Revenue Tribunal, Kathmandu on 2074/12/14, do not appear to be legally justified. As a result, the overvaluation and subsequent determination of higher customs duties than the declared transaction value are to be reversed, and the excess customs duty, along with any other taxes and fees, should be refunded.

बक्यौता रहेको लेखापरीक्षण शूल्क भूक्तानी भएको यकिन गनुपर्ने सम्बन्धी

सूचना

मिति २०८१/०३/२९ गते बसेको परिषदको ३३० औं वैठकको निर्णयानुसार आर्थिक वर्ष २०८१/८२ देखि गरिने लेखापरीक्षण अनुबन्धहरु सम्पन्न गर्नु अघि पूर्व लेखापरीक्षकलाई लेखापरीक्षण शूल्क भुक्तानी भए नभएको यकिन गरेर मात्र लेखापरीक्षण प्रतिवेदन हस्ताक्षर गर्न सम्पूर्ण पेशागत प्रमाणपत्र प्राप्त सदस्यहरुलाई जानकारी गराइन्छ ।

संस्थाबाट जारी लेखाव्यवसायीको आचारसंहिता Handbook of Code of Ethics for Professional Accountants मा उपरोक्त व्यवस्था थप गर्ने निर्णय समेत परिषदबाट भएको व्यहोरा जानकारी गराइन्छ ।

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विनोद प्रसाद न्यौपाने

नि. कार्यकारी निर्देशक

STRATEGIC REVIEW

Regulation and Supervision

Pronouncement of Nepal Financial Reporting Standard (NFRS) 2024

The Institute has pronounced Nepal Financial Reporting Standard (NFRS) 2024 with mandatory application for annual reporting period beginning on or after 16th July 2025. The pronounced NFRS 2024 are developed by Accounting Standards Board of Nepal (ASB, Nepal) in line with International Financial Reporting Standards (IFRS) 2024 issued by International Accounting Standards Board on 1st January 2024. The list of pronounced NFRS 2024 can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/ac27cc7294eb7999e7ace349648c0bf1.pdf

Revision in Audit Limit

The Institute has issued notice regarding a change in the amount of audit limit by B, C and D Class practicing members. The changed audit limit was determined based on the Wholesale Price Index as published by the Nepal Rastra Bank and shall be applicable with effective from 17th July 2024. The changed audit limit along with earlier audit limit has been presented hereunder:

Member Category	Current Audit Limit w.e.f. 1st Shrawan 2081	Previous Audit Limit w.e.f. 1st Shrawan 2078
RA 'B' Class	1 Arba 52 Crore	1 Arba 20 Crore
RA 'C' Class	38 Crore	30 Crore
RA 'D' Class	13 Crore	6 Crore

Notice of the same can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/b6b4dc4c082cbacdd4a4d76a5e1f77cc.pdf

Notice Related to Disciplinary Action

The Institute has published notice regarding disciplinary action taken against the practicing members of the Institute. The notice of the same can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/2c694d50adf759663f87839338663e7c.pdf

https://en.ican.org.np/_uploads/_downloads/_files/3/ac3eb65e9a8c998e080b1a5ff4f70ef0.pdf

https://en.ican.org.np/_uploads/_downloads/_files/3/2c9500e43d1baf3c75d8ebe9dde7c0dc.pdf

https://en.ican.org.np/_uploads/_downloads/_files/3/c3ef5a5be42cd86e2d7fbe0c272ea038.pdf

Notice for Drawing Attention

The Institute has published notice drawing serious attention of all stakeholders regarding practice of advertising and communicating misleading information about auditing and audit practice related information, by the members and non-members of the Institute which are not in conformity with the Nepal Chartered Accountants Act, 2053 and Code of Ethics, 2023. The notice of the same can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/c15faa72c7d19f15fbd920217c843e52.pdf

Confirmation of Payment of Previous Year Outstanding Audit Fees

The Institute has issued notice to all the Members holding Certificate of Practice, to ensure payment of previous year outstanding audit fees of predecessor auditor, prior to issuance of audit report for all audit engagement beginning from fiscal year 2081/82.

Also, the Council has decided to incorporate this provision in the Handbook of Code of Ethics for Professional Accountants issued for the Members of the Institute. Notice of the same can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/72ac7d17b60d7cf55083c0f5538f5d5f.pdf

Professional Development

Conference on Artificial Intelligence and Information System Audit

The Institute organized a half day Conference on Artificial Intelligence and Information System Audit on 20th July 2024, in Kathmandu. The aim of the program was to deliver the importance of Artificial Intelligence and Information system Audit in Accounting practices.

Glimpse of panel discussion during the second technical session of the conference

The conference was organized in two technical sessions. The first session of the conference was on "Artificial Intelligence for Finance Professionals" whereby CA. Mukunda Pokharel gave a presentation. Similarly, the second session of the conference was on "Regulatory Role on Information System Audit" whereby CA. Suyogya Bhandari, member of the Information Technology Committee, ICAN presented a paper, and a panel discussion was held in the Chairmanship of CA. Santosh Kafle, Chairman, Information Technology Committee and Council Member, ICAN. Moreover, Mr. Shubash Chandra Ghimire, Director, Nepal Rastra Bank; Mr. Susil Dev Subedi, Director, Nepal Insurance Authority; Mr. Arjun Ghimire, Director, Nepal Telecommunication Authority; Mr. Roshan Regmi, Chief Officer, NMB Bank and Dr. Nabaraj Adhikari, Securities Board of Nepal were the panelist in the session. The Conference was attended by more than 120 participants.

Distribution of Certificate of Completion of PFM -Certification Course

Coinciding with the Oath Taking and National Best Presented Annual Report 2023 distribution ceremony, the Institute also distributed Certificate of Completion of Public Financial Management (PFM) -Certification Course to the members qualifying the (PFM) – Final Assessment Test was held on 13th July 2024. The result of the test was published on 17th July 2024. Altogether 28 Chartered Accountant members of the Institute received certificates of completion of the PFM course. Rt. Hon'ble Deputy Prime Minister and Finance Minister Bishnu Prasad Paudel presented certificates to the qualifying members

Rt. Hon'ble Deputy Prime Minister and Finance Minister Bishnu Prasad Paudel presenting Certificate of Completion of PFM Certification Course to qualifying candidate

Continuing Professional Education (CPE) Training

During the period the Institute conducted two CPE program in Kathmandu. The objective of CPE was to enhance the capacity of members of the Institute in various contemporary issues. The CPE covered topics related to school audit, cooperative audit, Code of Ethics, audit report (NSA 700 series), major changes in Tax Act by Finance Bill and AML/CFT considerations, Model Financial Statements under NAS for NPOs/ MEs or Audit Documentation and Audit Conclusion and Reporting, major provisions of Income Tax and VAT including ICAN Code of Ethics and Disciplinary Procedures.

S. No.	Date of Training	Number of Participants
1	10th to 12th July 2024	151
2	14th to 16th September 2024	106

Post Budget Interaction Program

Biratnagar branch office of the Institute organized a post budget interaction program on 4th July 2024 at the meeting hall of Biratnagar branch office. CA. Aswini Bansal welcomed all the participants in the program after which the program was facilitated by resource person, CA. Prajwal Sharma Adhikari. Altogether, 28 participants attended the program.

Training on NFRS for SMEs and NAS for MEs

The Institute with the objective to enhance conceptual and practical knowledge about the effective application of relevant standards while preparing and presenting Financial Statements of Small, Medium and Micro Entities organized three days training on Nepal Financial Reporting Standards for Small and Medium Entities (NFRS for SMEs) and Nepal Accounting Standards for Micro Entities (NAS for MEs) from 23rd to 25th August 2024 at the premises of the Institute located at Satdobato. The three days training was facilitated by CA. Sanjeev Dhakal and CA. Roshan Sapkota whereby 83 members of the Institute participated in the training.

Education

ICAN to Develop Learning Materials in Collaboration with ICAEW

The Institute with the vision to align CA education in Nepal with the International Standards has initiated process for updating the CA syllabus in technical collaboration with the Institute of Chartered Accountants in England and Wales (ICAEW). As such, the Institute has signed a contract for development of Learning Materials for Chartered Accountancy Course of the Institute, with the ICAEW on 27th August 2024. This initiative of the Institute is a crucial step in enhancing the quality of CA education in Nepal

Chartered Accountancy Examination June 2024 Result Published

The Institute published the results of the Chartered Accountancy Examination, June 2024 of CAP I, CAP II and CAP III level conducted from 1st June to 12th June 2024. The result was published on 14th August 2024 as per the Rule 17 of Nepal Chartered Accountants Regulation 2061. Altogether, 6,529 students appeared in the examination out of 7,215 students who applied for different levels of examination. Details of students applied, appeared, passed (single or both group) and qualified in different level of CA Examination is presented below:

	CAP I	CAPII			CAP III		
		Group I	**Group II**	**Both**	**Group I**	**Group II**	**Both**
Applicants	1414	906	760	2649	699	365	409
Appeared	1290	699	652	2520	648	314	401
Passed	521	95	331	190	36	178	15
Qualified	**521**	**371**			55		

25th Batch of GMCS Training Conducted

The 25th batch of General Management and Communication Skills Training (GMCS) training for the students who have passed or appeared in both group of CAP III level examinations and pursuing Accounting Technician (AT) which commenced on 27th August 2024 has completed on 12th September 2024, at the premises of ICAN. Participation in this training is a pre-requisite for obtaining membership of the Institute. Altogether, 57 persons participated in the training.

Group Photo of the participants at GMCS Training along with the President, Vice- President, Council Members and Officials of the Institute during the Opening Session of Training

ICAN President, Vice-President, Council Member and Acting Executive Director addressing the GMCS closing ceremony

The objective of this training is to enhance communication, presentation, and interpersonal skills and to provide understanding of contemporary business environment and opportunities and help the students to prepare for a career either in employment or in practice by adopting the changes required to be competitive in their professional life. Participation in this training is a pre-requisite for obtaining membership of the Institute. Altogether 57 students participated in the training.

8th Batch of Pre-Articleship Orientation Program Conducted

The Institute organized 8th batch of pre-articleship orientation program on 25th August 2024 for the students who have qualified in CAP II level examination of June 2024 at Kathmandu, Nepal. The program commenced with the welcome remarks from the Acting Executive Director, Mr. Binod Prasad Neupane followed by opening remarks from CA. Prabin Kumar Jha, President, ICAN. The program featured insightful sessions by ICAN Vice-President, CA. Nil Bahadur Saru Magar on professionalism and audit firm practices, Joint Director, ICAN CA. Suman Kumar Bohara on Policies & Procedures, and Mr. Rajan Koirala on Business Communication and Professional Etiquette.

Glimpse of 8th Batch of Pre Articleship-Orientation Program organized in Kathmandu.

The purpose of this orientation program was to enhance the skills and capabilities of students going to pursue three years articleship training in various audit firms. The program provided orientation by covering the areas like training on personality development, communication skills, professional behavior and culture at audit firms and clients' offices. The program was broadcasted live in branch offices of ICAN for the students residing outside of Kathmandu Valley. The program concluded with a vote of thanks from Council Member, CA. Umesh Raj Pandeya complemented by experience sharing session by students and certificate distribution. Altogether 348 students participated physically while around 21 participated virtually.

Submission of Report by Negotiation Committee

The negotiation committee formed by 332nd meeting of Council dated 26th July 2024, to address the issue raised in letter of demand submitted by Nepal Chartered Accountant Students' Association (NCASA) submitted the report before the President, ICAN on 7th August 2024 following a productive agreement with NCASA.

Glimpse of report submitted by Coordinator of Negotiation Committee before ICAN President along with Council Members and Officials from the Institute

Inspection of Accredited Academies

The Institute conducted inspection of 3 accredited academies in September 2024. The procedures for conducting inspection of the accredited academy are governed by "Guidelines for Granting Accreditation to Academy-Providing Coaching Classes to Chartered Accountancy Education." The primary objective of inspection is to ensure that the conditions stipulated by the Institute for accreditation has been observed and the guidelines regarding running of coaching classes are being followed properly by the academy.

Chartered Accountancy Membership Examination, September 2024

The Institute conducted CA Membership examination of September 2024 on 18th and 20th September 2024 at Kathmandu, Biratnagar, Pokhara, Birgunj, Butwal, Chitwan and Nepalgunj. Altogether, 304 applicants appeared in the examination out of total 370 applicants.

National Relation: Public and Government

National Best Presented Annual Report 2023 Award Distribution Ceremony

The Institute organized the National Best Presented Annual Report (NBPA) 2023 Award distribution ceremony coinciding with the Oath Taking Ceremony of the 10th Council on 20th July 2024 in Kathmandu. The National BPA award was evaluated by independent BPA evaluation committee formed under the Chairmanship of Vice-President, ICAN comprising of representatives from the Office of Auditor General, Nepal Rastra Bank, Securities Board of Nepal, Nepal Insurance Authority, Nepal Telecommunication Authority, Office of Company Registrar and Electricity Regulatory Commission. Altogether, 18 companies received awards on 5 different categories out of 24 participating companies on 8 different categories as below:

Categories	Number of Nomination Received	Number of Award Provided
Private Sector Banks	5	5
Financial Services Sector	8	7
Manufacturing Sector	4	4
Non-Life Insurance	3	0
Life Insurance	1	0
Power & Energy	1	1
Service Sector	1	1
Agricultural Sector	1	0
Total	24	18

Rt. Hon'ble Deputy Prime Minister and Finance Minister Bishnu Prasad Paudel presenting NBPA 2023 to representative of the award-winning company

The detailed list of the winners of NBPA 2023 is presented below:

Sector	Name of Company	Award
Private Sector Banks	Nabil Bank Limited	Gold
	Nepal SBI Bank Limited	Silver
	Siddhartha Bank Limited	Bronze
	Machhapuchhare Bank Limited	Certificate of Merit
	Standard Chartered Bank Nepal Limited	Certificate of Merit
Financial Services Sector	Muktinath Bikas Bank Limited	Gold
	Kamana Sewa Bikas Bank Limited	Silver
	Lumbini Bikas Bank Limited	Bronze
	Prabhu Capital Limited	Certificate of Merit
	Nepal Clearing House Limited	Certificate of Merit
	Karja Suchana Kendra Limited	Certificate of Merit
	Shine Resunga Development Bank Limited	Certificate of Merit
Manufacturing Sector	Himalayan Distillery Limited	Gold
	Bottlers Nepal Limited	Silver
	Bottlers Nepal (Terai) Limited	Bronze
	Unilever Nepal Limited	Certificate of Merit
Power & Energy	Butwal Power Company Limited	Gold
Service Sector	Oriental Hotels Limited	Gold

Courtesy Meeting with the Hon'ble Deputy Prime Minister and Finance Minister

Delegation from the Institute led by CA. Prabin Kumar Jha, President, ICAN including CA. Nil Bahadur Saru Magar, Vice-President; CA. Sanjay Kumar Sinha, the then Executive Director and Mr. Binod Prasad Neupane, Administration Director, had a courtesy meeting with the Hon'ble Deputy Prime Minister and Finance Minister, Bishnu Prasad Poudel on 15th August 2024 at Ministry of Finance. During the meeting, ICAN President, presented comprehensive study reports on "Professionalizing Public Financial Management through the Services of Chartered Accountants in the Public Sector" and the "Role of Accounting Professionals in Public Financial Management of Nepal" to the Hon'ble Finance Minister whereby, Hon'ble Minister responded positively and expressed his commitment to implement the key findings and recommendation outlined on those study reports.

Glimpse of courtesy meeting of ICAN delegation with the Hon'ble Deputy Prime Minister and Finance Minister

Cordial Meeting with Delegates from Department of Cooperatives

The Institute held a cordial meeting with the delegation from the Department of Cooperatives on 25th August 2024 in ICAN premises. The meeting was focused on discussions on the issues in the cooperative sector and audit matters in cooperatives. The delegation from the Department of Cooperatives was led by Registrar Mr. Pitambar Ghimire, joined by Deputy Registrars Mr. Tola Raj Upadhyaya and Mr. Tek Raj Aryal, along with Accounts Officer Mr. Tika Ram Rijal. Likewise, President CA. Prabin Kumar Jha, Vice-President CA. Nil Bahadur Saru Magar, Council Member RA.

Jhalak Mani Lamsal, Acting Executive Director Mr. Binod Prasad Neupane, Technical Director CA. Kiran Kumar Khatri, and Assistant Director CA. Santosh Bista attended the meeting representing the Institute.

Glimpse of meeting between representatives from ICAN and Department of Cooperatives at ICAN Premises

Cordial Meeting with the Director General of Inland Revenue Department

Delegation from Institute led by President, CA. Prabin Kumar Jha comprising Vice-President, CA. Nil Bahadur Saru Magar, Acting Executive Director, CA. Kiran Kumar Khatri and Assistant Director, CA. Santosh Bista had a cordial meeting with Director General, Inland Revenue Department, Mr. Ram Prasad Acharya and Deputy Director General, Mr. Gopi Krishna Koirala on 26th September 2024. During the meeting, delegation submitted Format of Certification of Income Tax Return and suggestions on exposure draft of Transfer Pricing Guidelines before the Director General.

Glimpse of submission of Institute's suggestion and recommendation to the Director General, IRD during cordial meeting at the office of the Director General, IRD

Participation in Interaction Program organized by Nepal Insurance Authority

ICAN President, CA. Prabin Kumar Jha addressed, as the Chief Guest in the interaction program on NFRS 17, organized by the Nepal Insurance Authority on 18th September 2024.

Strategic Partner in the Fifth Nepal Infrastructure Summit 2024

The Institute signed a "Strategic Partnership Agreement – Nepal Infrastructure Summit 2024" with the Confederation of Nepalese Industries (CNI) on 28th August 2024. The fifth Nepal Infrastructure Summit 2024 on theme "Driving Sustainable Development through Strategic Investment" was organized on 12th and 13th September 2024 at The Soaltee Hotel, Kathmandu. The summit was graced by Rt. Hon'ble Prime Minister KP Sharma Oli along with Hon'ble Ministries and executives from Government Bodies. The two-day summit had in total 35 international speakers, 70 national speakers, 14 sessions with more than 1300 participants. As a strategic partner, the Institute provided 20 Continuing Professional Education (CPE) credit hours for its members participating in the summit. Likewise, three staff of the Institute, Ms. Pragya Aryal, Assistant Director; CA. Amrita Thapa, Assistant Director and CA. Yangchen Lama, Senior Officer participated in the summit.

Training on Financial Statement and Auditing

The Institute with the objective to assist various regulatory bodies in discharging their regulatory function by equipping their officials with practical knowledge required for analyzing and review of financial statement and audit report, organized one day training on Financial Statement and Audit Report on 23rd September 2024 at ICAN premises for the officials of the various regulatory authorities. The three session of the training was facilitated by CA. Prabin Baral and CA. Bidur Luitel whereby, ICAN President, CA. Prabin Kumar Jha also addressed the program. Altogether, 19 participants attended the training.

Glimpse of group photo participants in training on Financial Statement and Audit Report with ICAN President, Vice-President, Officials and Resource Person

International Relation: Global Positioning and Leadership

Nomination of Institute's Members in SAFA Board and various SAFA Committee

The Institute has nominated the following Council Members and members in SAFA Board and SAFA Committee for fiscal year 2023/24. The nomination can be viewed from the link below:

https://en.ican.org.np/site/show/nomination-in-safa-board-committee

Virtual Participation in the IFAC Board Meeting

ICAN President, CA. Prabin Kumar Jha and Vice-President CA. Nil Bahadur Saru Magar virtually participated in International Federation of Accountants (IFAC) Board Meeting held on 5th and 6th September 2024.

Virtual Participation in the CAPA Members Meeting

ICAN President, CA. Prabin Kumar Jha; Vice-President, CA. Nil Bahadur Saru Magar; Council Member, CA. Sunil Devkota; Past President, CA. Yuddha Raj Oli and Acting Executive Director, Mr. Binod Prasad Neupane, virtually participated in the Confederation of Asian and Pacific Accountants (CAPA) Members Meeting held on 9th September 2024.

Virtual Participation in the meeting of Top Leaders in Accountancy Profession 2024

CA. Prabin Kumar Jha, President, ICAN virtually participated in the meeting of the Top Leaders in Accountancy Profession 2024 held on 24th August 2024 hosted by the Institute of Chartered Accountants of Pakistan. The program was attended by participants from 14 global accountancy organizations and USAID.

Virtual Participation in SAFA Committee Meeting

ICAN President, CA. Prabin Kumar Jha and Vice-President, CA. Nil Bahadur Saru Magar participated in SAFA Board Meeting held on 23rd August 2024. Moreover, CA. Hem Kumar Kafle, RA. Meera Shrestha, CA. Peeyush Anand, CA. Aman Uprety, CA. Anand Raj Sharma Wagle and CA. Kiran Kumar Khatri respectively participated in SAFA committee meeting of Committee on Professional Ethics and Independence, Women Leadership Committee, Committee for Co-Operatives and NPO Sector, Committee on Accounting Standards, Committee on Sustainability Reporting and Assurance and Committee on Anti Money Laundering respectively held on 23rd August 2024.

Virtual Participation in the Meeting of Public Relations Task Force of SAFA

Acting Executive Director, Mr. Binod Prasad Neupane participated in the virtual meeting of Public Relation Taskforce of SAFA held on 29th August 2024.

Institutional Development and Sustainability

Oath Taking Ceremony of office bearer of the 10th Council of the Institute

The oath taking ceremony of the newly elected President, CA. Prabin Kumar Jha and Vice President, CA. Nil Bahadur Saru Magar for the first tenure of the 10th Council along with the newly elected Council Members of the 10^{th} Council of the Institute was held on 20^{th} July 2024 in Kathmandu. The Oath Taking ceremony was graced by the Rt. Hon'ble Deputy Prime Minister and Finance Minister Bishnu Prasad Paudel as a Chief Guest. Whereby, Hon'ble Auditor General, Mr. Toyam Raya and Governor, CA. Maha Prasad Adhikari addressed the program as the Special Guest.

Hon'ble Auditor General Mr. Toyam Raya (Center Left) administering the oath to the newly elected President CA. Prabin Kumar Jha (Center Right)

The oath taking ceremony started with the welcome remarks of CA. Sujan Kumar Kafle, President, ICAN whereby, the President highlighted the major initiations undertaken by the Council during the last fiscal year. After the welcome remarks, CA. Sujan Kumar Kafle, President, ICAN presented token of appreciation to all fellow Council Members of the 10^{th} Council of the Institute. Moreover, Rt. Hon'ble Deputy Prime Minister and Finance Minister Bishnu Prasad Paudel, also presented President Medalion to the Past President of the 9^{th} Council, CA. Yuddha Raj Oli, CA. Bhaskar Singh Lala and CA. Sujan Kumar Kafle.

Hon'ble Auditor General Mr. Toyam Raya administered the oath to the newly elected President CA. Prabin Kumar Jha in the premises of the Office of Auditor General. Thereafter, CA. Prabin Kumar Jha administered the oath to the newly elected Vice-President, CA. Nil Bahadur Saru Magar and all the Council Members of the 10^{th} Council.

Newly Elected President, CA. Prabin Kumar Jha administrating oath to the Newly Elected Vice-President, CA. Nil Bahadur Saru Magar

Addressing the ceremony Chief Guest, Rt. Hon'ble Deputy Prime Minister and Finance Minister Bishnu Prasad Paudel, stressed about the role of the Institute and Members of the Institute in the sustainable economic development of the nation and assured to speed up the process of inducting Chartered Accountants in the public sector of Nepal.

After the oath taking ceremony, CA. Prabin Kumar Jha delivered the acceptance speech highlighting the strategies, plan and policies of the Institute for the upcoming fiscal year 2081/82. Likewise, CA. Bhaskar Singh Lala, Past President, also addressed the ceremony and congratulated the newly elected President, Vice-President and all newly elected council members of ICAN.

Newly Elected President, CA. Prabin Kumar Jha administrating oath of office and secrecy to the newly elected Council Members of the 10th Council.

Likewise, addressing the program CA. Maha Prasad Adhikari, Governor Nepal Rastra Bank (NRB) appreciated the quality of education, training and professional development activities undertaken by the Institute. Moreover, Mr. Toyam Raya, Auditor General also assured to support the leadership of the Institute and expressed his commitment for coordination between the Institute and Office of Auditor General in the matters of joint interest.

CA. Sanjay Kumar Sinha, Executive Director, ICAN and Mr. Sanoj Bhattarai, President, ICAN Employee Union presented token of love to the outgoing President, CA. Sujan Kumar Kafle. Besides, CA. Prabin Kumar Jha, President ICAN presented token of love to the election officer for the 10^{th} Council Election, Mr. Shreekumar Rai, Assistant Auditor General.

The ceremony concluded with the closing remarks and vote of thanks from CA. Nil Bahadur Saru Magar, Vice-President, ICAN.

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

333rd Council meeting of the Institute dated 12th August 2024 has formed following Non-standing Committee and Branch Coordination Committee in accordance with Section 13(2) of the Nepal Chartered Accountants Act, 2051 for fiscal year 2081/82. The composition of Committee can be viewed from the link below:

https://en.ican.org.np/site/show/non-standing-committee

Moreover, the same Council meeting, in accordance with Rule 76(ka), Rule 101 and Rule 103 of the Nepal Chartered Accountants Regulation, 2061 has also formed Board of Studies, Accounting Technician Board and Quality Assurance Board respectively for fiscal year 2081/82 to 2083/84. The composition of Boards can be viewed from the link below:

https://en.ican.org.np/site/show/accounting-techinician-board

https://en.ican.org.np/site/show/board-of-studies

https://en.ican.org.np/site/show/quality-assurance-board

All Staff Meeting with Newly Elected President and Vice President

The Institute organized meeting of entire staff with newly elected ICAN President, CA. Prabin Kumar Jha and Vice-President, CA. Nil Bahadur Saru Magar on 7th August 2024 at ICAN Premises whereby, staffs at branch offices participated in the meeting via virtual mode. In the meeting, newly elected President and Vice-President shared their envisioned plans and priorities and expressed their hope for continued support from management and staffs to honor their commitment and initiatives for overall development of the Institute and accounting professionals.

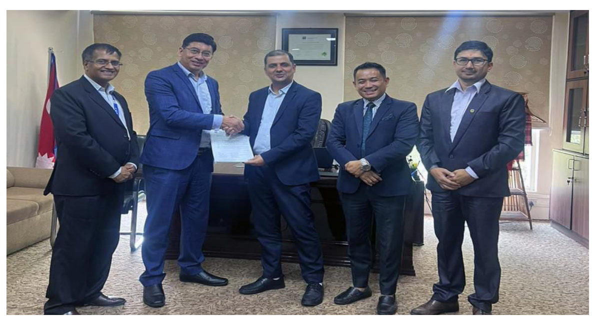
Farewell Program of the Executive Director

The Institute bid a heartfelt farewell to CA. Sanjay Kumar Sinha, Executive Director on 18th August 2024. The farewell program was organized at the premises of the Institute whereby, President and Vice-President along with staff from the Institute appreciated his dynamic leadership demonstrated during his tenure as an Executive Director of the Institute. CA. Sanjay Kumar Sinha served as the Executive Director of the Institute for seven years and resigned with effective from 19th August 2024.

Glimpse of farewell program of the Executive Director, CA. Sanjay Kumar Sinha

Appointment of Executive Director

The Institute appointed CA. Surendra Bhusan Shrestha as an Executive Director of the Institute for tenure of four years effective from 10th November 2024.



Glimpse of contract signing ceremony with newly appointed Executive Director of the Institute

Yoga Session in ICAN

The Institute in collaboration with the Patanjali Yoga Samiti Nepal organized 4-days Yoga Session, for the staffs of the Institute from 21st to 25th August 2024 at ICAN premises located at Satdobato. The session was focused on rejuvenating minds and bodies, strengthening connections, and embracing the peace and wellness that yoga brings. A total of 45 participants actively took part in the Yoga session.

Glimpse of yoga session in ICAN

Teej Program 2081

Employee Union of the Institute organized Teej program for the staffs of the Institute on 31st August 2024 in Goodwill Green Resort, Dahachowk, Kathmandu. The program was also addressed by President, ICAN. The Teej festival is dedicated to Goddess Parvati.

Glimpse of Teej Program, 2081

Staff Training on Information Technology

The Institute organized seven days training on "Fundamentals of MS Office" from 9th to 16th September 2024, for all the assistant-level staff at head and branch offices. Similarly, a session was organized for officer level staffs on Microsoft 365 on 25th September 2024 at ICAN premises.

ICAN NOTICE

Notice Regarding Carve Out on NFRS for SMEs and NAS for NPOs

The Institute has published notice regarding carve-out in specific section of NFRS for SMEs and NAS for NPOs. The notice of the same can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/045a428d15efc1b2ca7a1144ffee4d16.pdf

Notice Regarding Deferral of NFRS 17 Insurance Contracts

The Institute has published notice regarding deferral of NFRS 17 which shall be effective from Fiscal Year 2082/83. The notice of the same can be viewed from the link below:
https://en.ican.org.np/_uploads/_downloads/_files/3/a7338315c7324ab3af6b1b5df26c0228.pdf

Notice Regarding Amendment in Effective Date of NFRS for SMEs, NAS for MEs and NAS for NPOs

The Institute has published notice regarding amendment in the effective date of application of NFRS for SMEs, NAS for MEs and NAS for NPOs. The notice of the same can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/988d23a548e7e9fb868e0a9984ca0c2c.pdf

Notice Regarding Listing of Auditors at Local Level

The Institute has published notice to members in practice, regarding listing of auditors at local level. The notice of the same can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/536afef5a4dc1ddb8b57c60738fdd15d.pdf

Notice Regarding Publication of NFRS, NFRS for SMEs, NAS for MEs and NAS for NPOs

The Accounting Standards Board of Nepal has issued notice regarding availability of NFRS, NFRS for SMEs, NAS for MEs and NAS for NPOs in the website of the board. The notice of the same can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/437d2b350079fb003531d9b825570e05.pdf

List of Toppers in Chartered Accountancy, December 2023 and June 2024

The Institute has published name list of toppers in CA examinations held in December 2023 and June 2024 batch. The name list of toppers can be viewed from the link below:

https://en.ican.org.np/_uploads/_downloads/_files/3/5544d26d8fa45c183ed564aecbbc1554.pdf

NATIONAL UPDATES

Amendment in Unified Directives, 2080 issued for Licensed A, B and C Class Banks and Financial Institutions

Nepal Rastra Bank has issued circular regarding amendment in the Unified Directives, 2080 issued to licenses A, B and C class Banks and Financial Institutions. The circular can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2024/06/Circular-9-Final-ABC.pdf

https://www.nrb.org.np/contents/uploads/2024/08/Circular-3-for-ABC-final-merged.pdf

https://www.nrb.org.np/contents/uploads/2024/08/Circular2-ABC-FinalUpload.pdf

Amendment in Unified Directives, 2079 issued for Licensed D Class Micro Finance Financial Institutions

Nepal Rastra Bank has issued circular regarding amendment in the Unified Directives, 2079 issued to licenses D class Micro Finance Financial Institutions. The circular can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2024/07/Circular-1-For-MFIs-Final.pdf

https://www.nrb.org.np/contents/uploads/2024/08/Circular-3-for-MFIs-Final-merged-1.pdf

Amendment in Unified Directives, 2080 issued for Licensed Infrastructure Development Banks

Nepal Rastra Bank has issued circular regarding amendment in the Unified Directives, 2079 issued to licenses D class Micro Finance Financial Institutions. The circular can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2024/08/Circular-2-for-NIFRA-Final-merged.pdf

Issuance of Monetary Policy for Fiscal Year 2024/25

Nepal Rastra Bank has issued monetary policy for fiscal year 2024/25. The policy can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2024/08/Monetary-Policy-in-English-for-2024-25.pdf

https://www.nrb.org.np/contents/uploads/2024/07/Monetary-Policy-2081-82.pdf

Issuance of Financial Stability Report for Fiscal Year 2022/23

Nepal Rastra Bank has issued fifteenth issue of the financial stability report for fiscal year 2022/23 based on the provisional data of Bank and Financial Institutions (BFIs), financial markets, financial infrastructures and other financial institutions as of mid-July 2023.

The report can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2024/06/FSR-2022_23-2.pdf

Issuance of Notice for Recognition of Interest Income

Nepal Rastra Bank has issued notice to all licensed A, B and C Class Banks and Financial Institutions, D Class Micro Finance Financial Institutions and Infrastructure Development Banks regarding interest income recognition. The notice can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2024/07/Notice-1-2081.82-Interest.pdf

Issuance of Nepal Rastra Bank Swap Transaction Byelaws, 2081

Nepal Rastra Bank has issued Nepal Rastra Bank Swap Transaction Byelaws 2081. The Byelaws can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2024/07/2081.04.13_Notice-with-Swap-Bylaw.pdf

Issuance of Bank Account Freezing and Release Byelaws, 2081

Nepal Rastra Bank has issued byelaws regarding provision for freezing and releasing the bank account. The byelaws can be viewed from the link below:

https://www.nrb.org.np/contents/uploads/2024/09/Khata-Rokka-Fukuwa-2081.pdf

Issuance of Directives to Entities Transacting on Precious Metals and Other Items

The Inland Revenue Department has issued a directive to all the informer entities *(Suchak Sanstha)* dealing in trading of precious metals and other items in accordance with the provision of the anti-money laundering and combating the financing of terrorism. The Directive can be viewed from the link below:

https://ird.gov.np/public/pdf/926484968.pdf

Issuance of Digital Service Tax Guidelines, 2081

The Inland Revenue Department has issued guidelines on digital service tax. The Guidelines can be viewed from the link below:

https://ird.gov.np/public/pdf/155675464.pdf

Issuance of Luxury Fees Guidelines, 2081

The Inland Revenue Department has issued a guideline on luxury fees. The Guidelines can be viewed from the link below:

https://ird.gov.np/public/pdf/1818590468.pdf

Issuance of Foreign Tourism Fees Guidelines, 2081

The Inland Revenue Department has issued a guideline on foreign tourism fees. The Guidelines can be viewed from the link below:

https://ird.gov.np/public/pdf/1351899135.pdf

Issuance of Guidelines on Value Added Tax on Offline Air Transportation Service Provided by No-Resident Person, 2081

The Inland Revenue Department has issued a guideline regarding the provision of Value Added Tax on offline air transportation service offered by nonresident person. The Guidelines can be viewed from the link below:

https://ird.gov.np/public/pdf/1869928803.pdf

Issuance of Guidelines on Value Added Tax on Digital Service Provided by No-Resident Person, 2081

The Inland Revenue Department has issued a guideline regarding the provision of value added tax on digital service offered by nonresident person, 2081.The Guidelines can be viewed from the link below:

https://ird.gov.np/public/pdf/769198405.pdf

Issuance of Enlistment Guidelines for Foreign Reinsurers and Reinsurance Brokers, 2024

Nepal Insurance Authority has issued guidelines on enlistment of foreign reinsurers and reinsurance brokers. The Guidelines can be viewed from the link below:

https://nia.gov.np/Admin/images/Law/Directive/66bb1d94a884f_1723538836.pdf

Issuance of Assets Insurance Directive, 2080 (First Amendment)

The Nepal Insurance Authority has issued first amendment to the directives on Assets Insurance. The Directive can be viewed from the link below:

https://nia.gov.np/Admin/images/Law/Directive/66d84d83c6f43_1725451651.pdf

Issuance of Accidental Insurance Directive, 2078 (First Amendment)

The Nepal Insurance Authority has issued first amendment to the directives on Accidental Insurance. The Directive can be viewed from the link below:

https://nia.gov.np/Admin/images/Law/Directive/66d84fb663023_1725452214.pdf

Issuance of Foreign Employment Term Life Insurance Group Insurance Fund (Pool) Formation and Operation Directives, 2081

The Nepal Insurance Authority has issued Foreign Employment Term Life Insurance Group Insurance Fund (Pool) Formation and Operation Directives, 2081. The Directive can be viewed from the link below:

https://nia.gov.np/Admin/images/Law/Directive/66d84bbd64cde_1725451197.pdf

INTERNATIONAL UPDATES

New Report from International Federation of Accountants, ICAEW, and Basel Institute on Governance Urges Accountants in Business to Continue to Lead Anti-Corruption Actions

The International Federation of Accountants (IFAC), the Institute of Chartered Accountants in England and Wales (ICAEW), and the Basel Institute on Governance have published a new, joint report, Integrated Mindset in Practice: Professional Accountants in Business and Anti-Corruption Compliance. It offers practical guidance and actionable strategies to approach anti-corruption initiatives with an integrated mindset, resulting in long-term value creation. Further details can be viewed from the link below:

https://www.ifac.org/news-events/2024-07/new-report-international-federation-accountants-icaew-and-basel-institute-governance-urges-0

Accounting for a Better World: Takeaways from the Latest PAIB Advisory Group Meeting

Professional accountants in business (PAIBs) occupy a pivotal position in driving sustainable business practices, fostering transparency, and contributing to the economic and social well-being of communities worldwide. Recognizing that in an increasingly interconnected and rapidly changing global economy, the role of accountants is evolving, the theme of our last PAIB Advisory Group meeting was *Accounting for a Better World*. The event was hosted by IFAC Member SAICA (South African Institute of Accountants) in Cape Town, South Africa, and the theme was inspired by the ACCA's agenda for action.

Further details can be viewed from the link below:

https://www.ifac.org/news-events/2024-08/accounting-better-world-takeaways-latest-paib-advisory-group-meeting

Exposure Draft and Comment Letters: Translation to a Hyperinflationary Presentation Currency

On 25th July 2024 the International Accounting Standards Board (IASB) published for public comment the Exposure Draft *Translation to a Hyperinflationary Presentation Currency.* The Exposure Draft proposes to improve information for investors in a cost-effective manner by requiring an entity to translate amounts from a functional currency that is the currency of a non-hyperinflationary economy to a presentation currency that is the currency of a hyperinflationary economy using the closing rate at the date of the most recent statement of financial position. The IASB is inviting feedback on the proposed amendments until 22nd November 2024. Link to access exposure draft:

https://www.ifrs.org/content/dam/ifrs/project/transl-hyperinflationary-currency/iasb-ed-2024-4-thpc.pdf

Further details can be viewed from the link below:

https://www.ifrs.org/projects/work-plan/consolidation-of-a-non-hyperinflationary-subsidiary-by-a-hyperinerinflationary-parent/ed-cl-transl-hyperinflationary-currency/

Exposure Draft and comment letters: Amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures

In July 2024 the International Accounting Standards Board (IASB) published its Exposure Draft *Amendments to IFRS 19* Subsidiaries without Public Accountability: Disclosures. The IASB is proposing to update IFRS 19. The Standard, issued in May 2024, permits eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements. The comment letter period is open until 27 November 2024. Link to access exposure draft:

https://www.ifrs.org/content/dam/ifrs/project/

updating-ifrs-19/iasb-ed-2024-5-ifrs19-dr.pdf

Further details can be viewed from the link below:

https://www.ifrs.org/projects/work-plan/updating-the-subsidiaries-without-public-accountability-disclosures-standard/ed-cl-amendments-ifrs-19/

Exposure Draft and comment letters: Climate-related and Other Uncertainties in the Financial Statements

In July 2024, the International Accounting Standards Board (IASB) published the Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements*. The Exposure Draft proposes eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The deadline for submitting comment letters is 28 November 2024. Link to access exposure draft:

https://www.ifrs.org/content/dam/ifrs/project/climate-related-other-uncertainties-fs/iasb-ed-2024-6-climate-uncertainties-fs.pdf

Further details can be viewed from the link below:

https://www.ifrs.org/projects/work-plan/climate-related-risks-in-the-financial-statements/ed-cl-climate-related-uncertainties-fs/

Exposure Draft and comment letters: Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures (revised 202x)

On 19 September 2024 the International Accounting Standards Board (IASB) published Exposure Draft *Equity Method of Accounting—IAS 28* Investments in Associates and Joint Ventures *(revised 202x)*. The Exposure Draft proposes amendments to IAS 28 to answer application questions about how to apply the equity method of accounting; and complements the proposed amendments to IAS 28 by proposing new disclosure requirements to IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements. The deadline for submitting comment letters is 20th January 2025. Link to access exposure draft:

https://www.ifrs.org/content/dam/ifrs/project/equity-method/exposure-draft/iasb-ed-2024-7-equity-method.pdf

Further details can be viewed from the link below:

https://www.ifrs.org/projects/work-plan/equity-method/ed-cl-equity-method/

Now Available from the IAASB: New ISA For LCE Guidance on Auditor Reporting

The International Auditing and Assurance Standards Board (IAASB) has released new supplemental guidance on auditor reporting as it relates to the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities, known as the ISA for LCE. Meant to be read with the ISA for LCE, the new guidance provides assistance for auditors about modifications to the auditor's report when using the standard. The guidance also includes information on using emphasis of matter and other matter paragraphs, reporting on other information, and reporting on a material uncertainty related to going concern. Further details can be viewed from the link below:

https://www.iaasb.org/news-events/2024-07/now-available-iaasb-new-isa-lce-guidance-auditor-reporting

New Guidance Available from IAASB on Using the ISA for LCE

The International Auditing and Assurance Standards Board (IAASB) has issued new guidance on the application of the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities, known as the ISA for LCE. The Authority Supplemental Guidance will help users in determining the appropriate situations to use the standard.

The Guidelines can be viewed from the link below:

https://ifacweb.blob.core.windows.net/publicfiles/2024-08/IAASB-ISA-for-LCE-

Guidance-Authority-of-Standard.pdf

Further details can be viewed from the link below:

https://www.iaasb.org/news-events/2024-08/new-guidance-available-iaasb-using-isa-lce

IAASB Releases 2022-2023 Public Report: Balancing Effectiveness and Timeliness in Audit and Assurance Standard Setting

The International Auditing and Assurance Standards Board (IAASB) is pleased to share its 2022-2023 Public Report, *Balancing Effectiveness and Timeliness in Audit and Assurance Standard Setting*. This report offers a comprehensive overview of the IAASB's progress in addressing key public interest issues and reiterates its strategic direction to continue bolstering confidence in audits and assurance engagements. Further details can be viewed from the link below:

https://www.iaasb.org/news-events/2024-09/iaasb-releases-2022-2023-public-report-balancing-effectiveness-and-timeliness-audit-and-assurance

IAASB Publishes New ISA for LCE Adoption Guide

The International Auditing and Assurance Standards Board (IAASB) has released a comprehensive adoption guide designed to help jurisdictions adopt the ISA for LCE, an alternative to the full suite of International Standards on Auditing. The guide provides valuable insights into the adoption process, highlighting common steps and successful approaches, while also addressing potential challenges. The guide also outlines steps for legislative, regulatory, or relevant local bodies with standard-setting authority to allow practitioners to use the ISA for LCE. Further details can be viewed from the link below:

https://www.iaasb.org/news-events/2024-09/iaasb-publishes-new-isa-lce-adoption-guide

IESBA Submits Comment Letter on CEAOB's Draft Guidelines Concerning Limited Assurance on Sustainability Reporting

The IESBA today submitted a comment letter to the Committee of European Auditing Oversight Bodies (CEAOB) regarding the CEAOB's draft non-binding guidelines on limited assurance on sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD) in the European Union (EU). Further details can be viewed from the link below:

https://www.ethicsboard.org/news-events/2024-07/iesba-submits-comment-letter-ceaob-s-draft-guidelines-concerning-limited-assurance-sustainability

Now Available: IESBA Handbook 2024 Edition

The International Ethics Standards Board for Accountants (IESBA) today released the 2024 Handbook of the *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

Further details can be viewed from the link below:

https://www.ethicsboard.org/news-events/2024-08/now-available-iesba-handbook-2024-edition

IESBA Q&A Update: Clarifying PIE Definition for Global Compliance

The Staff of the International Ethics Standards Board for Accountants (IESBA) today released an update to its Questions and Answers (Q&As) publication, originally published in March 2023, on the IESBA revisions to the definitions of listed entity and public interest entity (PIE) in the IESBA Code of Ethics. Further details can be viewed from the link below:

https://www.ethicsboard.org/news-events/2024-09/iesba-qa-update-clarifying-pie-definition-global-compliance

New IAASB Handbook Now Available for Digital Access and Print Orders

The IAASB has released the 2023-2024 edition of the *Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*, which includes International Standard on Auditing (ISA) 600 (Revised), Special Considerations—Audits of

Group Financial Statements (Including the Work of Component Auditors). For the first time, the 2023-2024 Handbook comprises four volumes to improve user experience and accommodate new as well as revised standards.

- Volume 1 – International Auditing Practice Notes, International Standards on Auditing, and International Standards on Quality Management
- Volume 2 – The ISA for LCE
- Volume 3 – International Standards on Assurance Engagements, International Standards on Review Engagements, and International Standards on Related Services
- Volume 4 – A Framework for Audit Quality and the International Framework for Assurance Engagements

Further details can be viewed from the link below:

https://www.iaasb.org/news-events/2024-08/new-iaasb-handbook-now-available-digital-access-and-print-orders

New Exposure Draft to Clarify Requirements for First-Time Adoption of Accrual Basis IPSAS

The International Public Sector Accounting Standards Board (IPSASB) has released Exposure Draft (ED) 91, *Limited-scope Updates to First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSAS) (Amendments to IPSAS 33)* for public comment. Comments on the ED are requested by December 13, 2024.

Further details can be viewed from the link below:

https://www.ipsasb.org/news-events/2024-08/new-exposure-draft-clarify-requirements-first-time-adoption-accrual-basis-ipsas

IFRS Foundation publishes guide for companies as investors call for voluntary application of ISSB Standards

Investors globally have called on companies to voluntarily apply ISSB Standards to provide investors with decision-useful, globally comparable information in the absence of regulatory requirements to apply ISSB Standards. To support companies meet this demand, the IFRS Foundation has—at New York Climate Week—published *Voluntarily applying ISSB Standards—A guide for preparers*. The guide aims to support companies as they start to apply ISSB Standards voluntarily as well as helping them communicate their progress to investors. Further details can be viewed from the link below:

https://www.ifrs.org/news-and-events/news/2024/09/ifrs-foundation-publishes-issb-voluntary-application-guide/

अनुशासन सम्बन्धी उजुरी उपर सजाय गरिएको बारे ।

दाङ जिल्ला स्थित साविकमा वित्तीय मध्यस्तता सम्बन्धी कार्य गर्दै आईरहेको एक FINGO संस्थालाई "घ" वर्गको इजाजतपत्र प्राप्त संस्थामा रुपान्तरण गर्ने क्रममा उक्त सुपर FINGO ले ठुलो मात्रामा कृत्रिम ऋणी खडा गरी तयार गरेको मिति २०७६/०४/०१ देखि २०७६/०९/२८ सम्मको वित्तीय विवरणलाई प्रमाणित गरी लेखापरीक्षकले गैर जिम्मेवारी तथा गम्भीर लापरबाहीपूर्वक कार्य गरेको भन्ने व्यहोरा सहित उक्त संस्थाका लेखापरीक्षक यस संस्थाका "घ" वर्गका एक सदस्य विरुद्ध एक नियामक निकायले यस संस्थामा उजुरी गरेकोमा अनुशासन समितिबाट उक्त उजुरीका सम्बन्धमा छानविन गर्दा उक्त FINGO संस्थाको आ.व. २०७६/७७ को मिति २०७६/०९/२८ सम्मको लेखापरीक्षण गरिएका वित्तीय विवरणमा उल्लेख भएको कुल कर्जाको ९८.८३ प्रतिशत बराबरको रकम नक्कली कर्जा रहेको र उजुरीकर्ता नियामक निकायले सम्बन्धित लघुवित्त तथा सो निकायका पदाधिकारीहरुलाई नक्कली ऋणी खडा गरेको लगायतका सम्बन्धमा कारवाही गरेको पाईयो ।

उजुरीकर्ताको उजुरी, फाईलमा उपलब्ध कागजातहरु, लेखापरीक्षकले पेश गरेका जवाफहरु, अनुशासन छानबिन शाखाको प्रतिवेदन, बयानको क्रममा निज आरोपित लेखापरीक्षकले दिएको बयानबाट निज लेखापरीक्षकले उक्त निकायको लेखापरीक्षण गर्दा लेखापरीक्षणमान (मापदण्ड) बमोजिमका प्रक्रियाहरु पुरा नगरेको तथा आवश्यक तथ्य प्रमाण संकलन नगरी उक्त निकायबाट नक्कली ऋणी खडा गरी तयार गरेको झुट्टा वित्तीय विवरण तथा लेखापरीक्षण प्रतिवेदनमा सहिछाप गरेको देखिन आयो । साथै उक्त निकायका अध्यक्षले आफ्नो फर्मको छाप तथा आफ्नो हस्ताक्षरको दुरुपयोग गरी गलत प्रतिवेदन तयार गरिदिएको हुँदा सो कार्यमा आफ्नो कुनै संलग्नता नरहेको भनि निजले जिकिर गरेतापनी आरोपित लेखापरीक्षकको छाप तथा हस्ताक्षर दुरुपयोग भएको भनी निज लेखापरीक्षकले गरेको जिकिर छानविनबाट प्रमाणित हुन सकेन । साथै निज लेखापरीक्षकको पेशागत प्रमाणपत्र वर्ग "घ" रहेको अवस्थामा नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली, २०६१ को नियम ५३ बमोजिम "घ" वर्गको दर्तावाला लेखापरीक्षकले जम्मा ६ करोड रकम सम्मको मात्र लेखापरीक्षण गर्न पाउने व्यवस्था रहकोमा उक्त लेखापरीक्षण गर्दा जम्मा रु २५,७१,९९,०५७.०१ बराबरको रकम रहेको देखिएकोले निज लेखापरीक्षकले नियम ५३ को विपरित हुने गरी समेत कार्य गरेको पाइयो ।

सुपर FINGO संस्थाको आ.व. २०७६/७७ (मिति २०७६/०४/०१ देखि २०७६/०९/२८ सम्म) को लेखापरीक्षण गर्ने क्रममा यस संस्थाका उक्त सदस्यले नेपाल चार्टर्ड एकाउन्टेन्ट्स ऐन, २०५३ को दफा ३४(१), दफा ३४(६), दफा ३४(८), दफा ३४(९), दफा ३४(१३), दफा ३४(१४) र दफा ३४(१५) मा उल्लेखित आचरण सम्बन्धी व्यवस्थाहरु पालना नगरेको तथा नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली २०६१ को नियम ६४(क) र (ग) साथै पेशागत प्रमाणपत्र प्राप्त सदस्यले पालना गर्नुपर्ने आधारभुत सिद्धान्तहरु समेत पालना गरेको नदेखिएकाले निजले गरेको पेशागत आचार संहिता विपरितको कार्यको गाम्भिर्यतालाई मध्यनजर गरी निज सदस्य लाई नेपाल चार्टर्ड एकाउन्टेन्ट्स ऐन, २०५३ को दफा १४(५)(ग) बमोजिम **पाँच (५) वर्षको लागि लेखाव्यवसाय गर्न नपाउने गरी रोक** लगाउने सजाय दिने निर्णय परिषदको मिति २०८१ असार २९ गते बसेको ३३० औं बैठकबाट भएको व्यहोरा सार्वजनिक जानकारीको लागि नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली, २०६१ को नियम ८४(२) (ग) बमोजिम प्रकाशन गरिएको छ ।

नोटः

यो सूचनामा उजुरी तथा उजुरी उपर भएको निर्णयको संक्षिप्त व्यहोरा मात्र उल्लेख गरी सार्वजनिक जानकारीको लागि प्रकाशन गरिएको हुँदा यसलाई अनुशासन छानविनको पूर्ण प्रतिवेदनको रुपमा लिन उपयुक्त नहुने ।

MEMBERS AND FIRM UPDATE

[From July 2024 – September 2024]

Name and Membership Number of New Chartered Accountants (CA) Member

The Institute registered Chartered Accountant Members pursuant to Section 16(2) of the Nepal Chartered Accountants Act, 1997. New CA Membership issued during this quarter from July to September 2024 is presented in table below:

S.N	Membership No.	Members Name	S.N	Membership No.	Members Name
1.	CA-2235	Chitrasen Prasad Shah	16.	CA-2250	Suman Khadka
2.	CA-2236	Anjan Bandhu Poudel	17.	CA-2251	Samir Khadka
3.	CA-2237	Rasmila Maharjan	18.	CA-2252	Anup Chapagain
4.	CA-2238	Guru Prasad Pokhrel	19.	CA-2253	Ramita Tulsibakhyo
5.	CA-2239	Sunil Shrestha	20.	CA-2254	Durga Prasad Sapkota
6.	CA-2240	Shashibhushan Yadav	21.	CA-2255	Bibek Ram Bhandary
7.	CA-2241	Ravi Kumar Jayswal	22.	CA-2256	Najmul Hoda
8.	CA-2242	Diwakar Giri	23.	CA-2257	Kalyan Vikram Adhikari
9.	CA-2243	Sandhya Panthi	24.	CA-2258	Sagar Dhungana
10.	CA-2244	Nawraj Gautam	25.	CA-2259	Gobinda Bhusal
11.	CA-2245	Satish Kumar Gupta	26.	CA-2260	Paras Kumar Biswas
12.	CA-2246	Ganesh Sapkota	27.	CA-2261	Kushal Nepal
13.	CA-2247	Shiv Lal Gupta	28.	CA-2262	Sujan Adhikari
14.	CA-2248	Bhola Acharya	29.	CA-2263	Prajeeta Maharjan
15.	CA-2249	Sunil Ghimire	30.	CA-2264	Prakash Sharma

Name and Membership Number of New Fellow Chartered Accountants (FCA) Member

The Institute registered Fellow Chartered Accountants pursuant to Section 17(b) of the Nepal Chartered Accountants Act, 1997. New Fellow Chartered Accountants Membership issued during this quarter from July to September 2024 is presented in table below:

S.N	Membership No.	Members Name	S.N	Membership No.	Members Name
1.	CA-660	Buddhi Prasad Pathak	9.	CA-1325	Tirtharaj Shiwakoti
2.	CA-888	Virochan Khanal	10.	CA-1346	Krishna Nepal
3.	CA-1004	Kshitij Sharma	11.	CA-1378	Raj Kumar Aryal
4.	CA-1027	Bishal Panthi	12.	CA-598	Sunil Adhikari
5.	CA-1056	Chakra Bahadur Budha	13.	CA-1297	Bal Krishna Pandey
6.	CA-1130	Arun Kumar Sah	14.	CA-1329	Madhu Pokharel
7.	CA-1240	Rajmani Bhattarai	15.	CA-1367	Krishnahari Budhathoki
8.	CA-1281	Sagar Adhikari	16.	CA-1387	Lalit Kumar Agrawal

Name and Membership Number of New Certificate of Practice (CoP) issued Member

The Institute issues Certificate of Practice to the Chartered Accountant Members pursuant to Section 28 of the Nepal Chartered Accountants Act, 1997. New Certificate of Practice issued during this quarter from July to September 2024 is presented in table below:

S.N	Membership No.	Members Name	S.N	Membership No.	Members Name
1	CA-1606	Princy Lamichhane	16	CA-2234	Kshitiz Singh
2	CA-1832	Dimpal Agrawal Joshi	17	CA-2235	Chitrasen Prasad Shah
3	CA-1903	Sanjay Pokhrel	18	CA-2238	Guru Prasad Pokhrel
4	CA-1942	Priyanka Rauniyar	19	CA-2242	Diwakar Giri
5	CA-2025	Kabita Wagley	20	CA-2243	Sandhya Panthi
6	CA-2048	Bishal Gupta	21	CA-2244	Nawraj Gautam
7	CA-2075	Shyam Thapa	22	CA-2246	Ganesh Sapkota
8	CA-2076	Susan Basnet	23	CA-2247	Shiv Lal Gupta
9	CA-2104	Sagun Jung Rana	24	CA-2248	Bhola Acharya
10	CA-2121	Pratima Pandey	25	CA-2250	Suman Khadka
11	CA-2148	Jemi Shrestha	26	CA-2251	Samir Khadka
12	CA-2204	Mahesh D. C.	27	CA-2254	Durga Prasad Sapkota
13	CA-2209	Shambhu Paudel	28	CA-2255	Bibek Ram Bhandary
14	CA-2225	Udeshya Shrestha	29	CA-2256	Najmul Hoda
15	CA-2233	Dipak Acharya	30	CA-2257	Kalyan Vikram Adhikari

Name of New Chartered Accountancy Firm

The Institute issues registration of Auditing Firms pursuant to Section 28A of the Nepal Chartered Accountants Act, 1997. New firms' registration during this quarter from July to September 2024 is presented in table below:

S.N	Firm No.	Firm Name	S.N	Firm No.	Firm Name
1	1303	Pokhrel Sanjay & Associates	20	1322	S. L. Gupta & Associates
2	1304	Acharya D. & Associates	21	1323	Priyanka Rauniyar & Associates
3	1305	M. S. G. & Associates	22	1324	S. Panthi & Associates
4	1306	Thapa Shyam & Associates	23	1325	G. Sapkota & Associates
5	1307	C. P. Shah & Associates	24	1326	K. W. & Associates
6	1308	Rumba Associates	25	1327	Acharya Bhola & Associates
7	1309	Shambhu Paudel & Associates	26	1328	Suman K. & Associates
8	1310	Pande Ramesh & Associates	27	1329	Durga Prasad & Associates
9	1311	P. K. P. Associates	28	1330	Hoda & Associates
10	1312	Gupta Bishal & Associates	29	1331	D. C. & Associates
11	1313	Udeshya Associates	30	1332	Anup Chapagain & Associates
12	1314	Pratima & Associates	31	1333	Jemi Shrestha & Associates
13	1315	Dimpal Agrawal & Associates	32	1334	Khadka Samir & Associates
14	1316	Basnet Susan & Associates	33	1335	B. Ram Bhandary & Associates
15	1317	Singh Kshitiz Associates	34	1336	S. J. Rana & Associates
16	1318	Guru & Associates	35	1337	K. V. A. & Associates
17	1319	Diwakar Giri & Associates	36	1338	B. S. R. & Associates
18	1320	Princy & Associates	37	1339	Sunil Das & Associates
19	1321	Gautam Nawraj & Associates			

Name and Membership Number of Demised Member

The Institute removes name of members from the Membership Register in case of death of members pursuant to Section 22(1) of the Nepal Chartered Accountants Act, 1997. Details of demised members whose membership has been removed from list of members during this quarter from July to September 2024 are presented in table below:

S. No.	Membership No.	Members Name	Class
1	RA-489	Madhav Ranabhat	RA 'B' Class
2	RA-5811	Kashi Singh Karki	RA 'D' Class
3	RA-3966	Moha Raj Dahal	RA 'B' Class
4	RA-6030	Ramesh Raj Sharma Kafle	RA 'D' Class
5	RA-4109	Hari Bahadur Chhetri	RA 'C' Class
6	RA-1864	Jhanka Prasad Gautam	RA 'B' Class
7	RA-374	Surya Kanta Lal Karna	RA 'D' Class
8	RA-607	Ratna Man Shakya	RA 'B' Class

लेखापरीक्षण गर्न पाउने हद रकम परीमार्जन सम्बन्धी सूचना

मिति: २०८१/०४/१७

परिषदको मिति २०८१/०३/२९ गते बसेको ३३० औं बैठकले नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली २०६१ को नियम ५३(२) को व्यवस्था सम्बन्धमा नियम ५३(१) बमोजिम वर्गीकरण गरिएको पेशागत प्रमाणपत्र प्राप्त सदस्यहरुको लेखापरीक्षण गर्न पाउने हद रकम नेपाल राष्ट्र बैंकले प्रकाशित गरेको थोक मूल्य सूची (Wholesale Price Index) को आधारमा २०८१ श्रावण १ गते देखि लागु हुने गरी निम्नानुसार हेरफेर गरेको व्यहोरा सम्बन्धित सबैको जानकारीको लागि यो सूचना प्रकाशित गरिएको छ ।

पेशागत प्रमाणपत्र प्राप्त सदस्यको वर्गीकरण	लेखापरीक्षण गर्न पाउने हद रकम
ख	१ (एक) अर्ब ५२ (बाउन्न) करोड रुपैया रकम सम्म
ग	३८ (अठ्तीस) करोड रुपैया रकम सम्म
घ	१३ (तेह्र) करोड रुपैया रकम सम्म

स्पष्टीकरण : यस नियमको प्रयोजनको लागि रकम भन्नाले वासलातमा उल्लेख भएको जायजेथा वा दायित्वको रकम सम्झनु पर्छ र सो शब्दले वासलात तयार नगर्ने संस्थाको हकमा नाफा नोक्सान वा आम्दानी वा खर्चको कुल अंकमा उल्लेखित रकम समेतलाई जनाउनेछ ।

सिए. संजय कुमार सिन्हा
कार्यकारी निर्देशक

अनुशासन सम्बन्धी उजुरी उपर सजाय गरिएको बारे ।

संस्थाका “ख” वर्गका एक सदस्यको लेखापरीक्षण फर्मको गुणस्तर आश्वस्तता पुनरावलोकन गर्ने क्रममा निज सदस्यले आर्थिक वर्ष २०७९/८० मा लेखापरीक्षण सम्पन्न गरी UDIN Generate गरेका विवरणहरु हेर्दा निज लेखापरीक्षकले Statutory Audit अन्तर्गत प्रवृष्ट गर्नुपर्नेमा Tax Audit अन्तर्गत प्रवृष्ट गरी UDIN Generate गरेको पाईएको र यसरी UDIN प्राप्त गरेको विवरणहरुको विश्लेषण गर्दा निज लेखापरीक्षकले लेखापरीक्षण गर्न पाउने लेखापरीक्षण संख्याको सीमा भन्दा उल्लेख्य मात्रामा बढी संख्यामा लेखापरीक्षण गरेको पाईएको (आ.व. २०७९/८० मा मिति २०८०/०२/०५ सम्ममा २००८ UDIN Generate भएको जस मध्ये गणना हुने निकायको संख्या ५७८ रहेको) ले नेपाल चार्टर्ड एकाउन्टेन्ट्स ऐन, २०५३ को दफा ३५(२) बमोजिम कार्यकारी निर्देशकको प्रस्तावमा नीज सदस्य विरुद्ध उजुरी दर्ता भएको थियो ।

उक्त उजुरी उपर छानविन गर्दा निज लेखापरीक्षकको आफ्नो कार्यालय तथा आफ्नो एक जना पनि कर्मचारी नरहेको, निज लेखापरीक्षकले संस्थाबाट जारी भएको निर्देशनको पालना नहुने गरी तोकिएको भन्दा बढी संख्यामा संस्थालाई झुक्यानमा पार्दै फरक शिर्षक अन्तर्गत UDIN जारी गरी लेखापरीक्षण गरेको तथा सो सम्बन्धमा संस्थाबाट गरिएका पत्राचारहरुको जवाफ पेश गर्दा तथ्यगत भन्दा भावनात्मक व्यहोराहरु उल्लेख गरी तथ्यलाई तोडमोड गर्न खोजेको, संस्थाले यस विषयमा छानविन गर्न सुरु गरेपछि समेत निज लेखापरीक्षकले पुनः सोहि कार्य दोहोऱ्याई रहेको तथ्यबाट निज लेखापरीक्षकले व्यावसायिक आचरण तथा सामान्य सुझबुझ समेत नदेखाएको पाईएको तथा सो कार्यहरु सामान्य मानविय त्रुटी मात्र नभई बद्नियतपूर्ण ढंगले गरेको स्पष्ट भएको र उक्त कार्यबाट समग्र लेखाव्यावसायको गरिमामा नै आँच ल्याउन सक्ने देखिएकोले निज सदस्यले नेपाल चार्टर्ड एकाउन्टेन्ट्स ऐन, २०५३ को दफा ३४ (१), ३४(९) तथा ३४(१५), नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली २०६१ को नियम ६४(ङ), लेखाव्यवसायी फर्मको मापदण्ड तथा शूल्क सम्बन्धमा सदस्यहरुलाई जारी गरिएको निर्देशिका, २०७८ को दफा ६(द) र Handbook of code of ethics ले तोकेका लेखाव्यवसायीहरुका आधारभुत सिद्धान्तहरुको विपरीत हुने गरी कार्य गरेको देखिएकोले निजले गरेको पेशागत आचार संहिताको उल्लंघनको गाम्भिर्यताका आधारमा नीज लेखापरीक्षकलाई नेपाल चार्टर्ड एकाउन्टेन्ट्स ऐन, २०५३ को दफा १४(५)(ग) बमोजिम **पाँच (५) वर्षको लागि लेखाव्यवसाय गर्न नपाउने गरी रोक लगाउने सजाय** दिने निर्णय परिषदको मिति २०८१ असार २९ गते बसेको ३३० औं बैठकबाट भएको व्यहोरा सार्वजनिक जानकारीको लागि नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली, २०६१ को नियम ८४ (२) (ग) बमोजिम प्रकाशन गरिएको छ ।

नोटः

यो सूचनामा उजुरी तथा उजुरी उपर भएको निर्णयको संक्षिप्त व्यहोरा मात्र उल्लेख गरी सार्वजनिक जानकारीको लागि प्रकाशन गरिएको हुँदा यसलाई अनुशासन छानविनको पूर्ण प्रतिवेदनको रुपमा लिन उपयुक्त नहुने ।

Note

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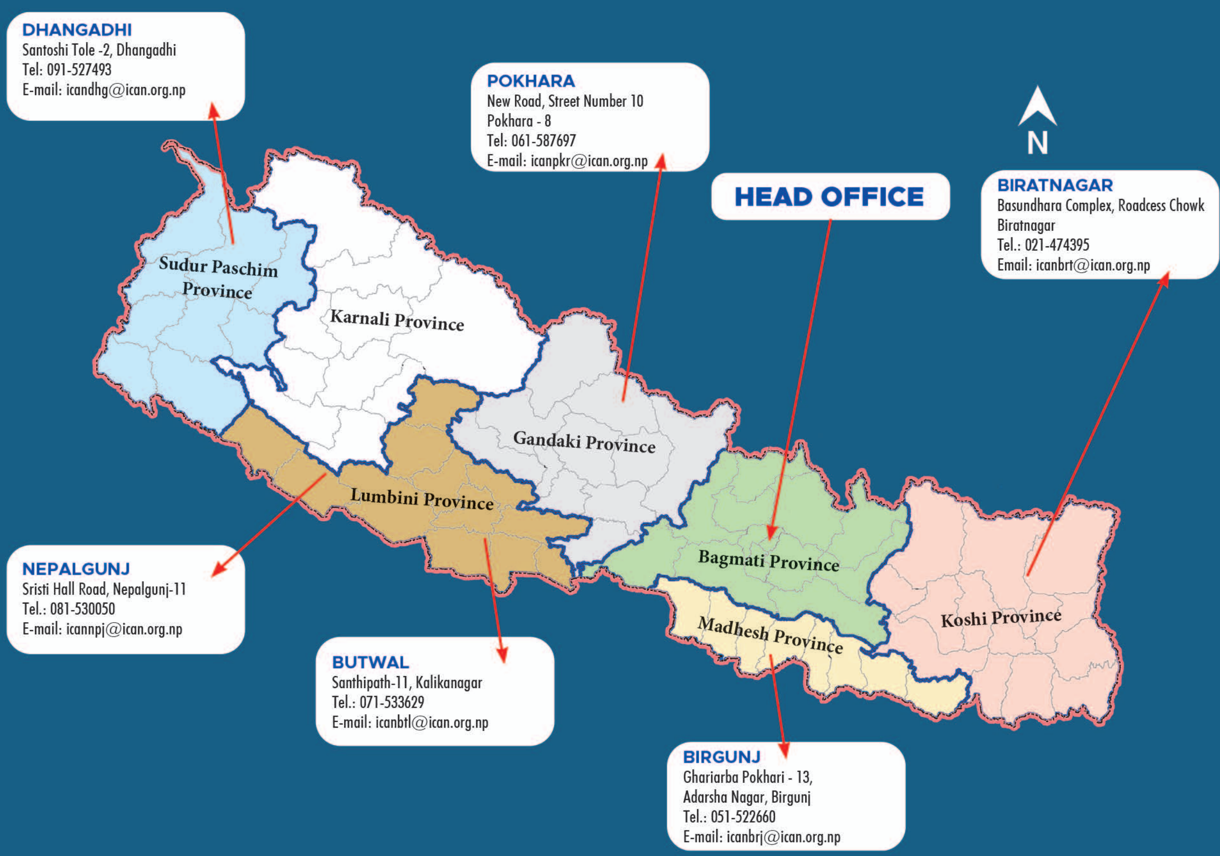

पुनन्तु मनसा धियः

नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था

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