



December 2018
Vol. 21, No 2

THE NEPAL CHARTERED ACCOUNTANT

Journal of the Institute of Chartered Accountants of Nepal



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THE NEPAL CHARTERED ACCOUNTANT

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

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Editorial



The quest of establishing a just and equitable society is the end and ultimate objective of every civilized nation. This can be attained only when the government directs its resources to the group at the bottom of the pyramid. The Constitution of Nepal has also guaranteed right to labor to every citizen and has ensured that laborer shall have the right to appropriate remuneration, facilities and contributory social security. In the same spirit, the government has promulgated Contributions Based Social Security Act, 2074 (2017) in order to ensure contribution based social security rights of workers and to provide social security to the contributories.

This Act covers under it ambit employees of organized sectors, workers of informal sectors and self-employed individuals. From May 22 2019, private sector employees will have to mandatorily contribute 11 per cent of their basic salary to the Social Security Fund (Fund), while employers will have to contribute another 20 per cent of the employees' basic salary. Out of the total fund collected, the Fund will allocate 3.22 per cent for medical treatment, health and maternity security, and 4.52 per cent for accident and differently-abled security. Likewise, it will allot 0.87 per cent for dependent family security and 91.39 per cent for old age security.

Social security scheme is generous and ambitious as well. Intent behind the announcement is noble but the success of the program is contingent on how well it will be implemented. The costs involved are significant to employer and the private sector has not reacted well to the potentially huge increase in wage burden. Majority of Nepal's workforce is working for informal sector and it is obvious that the success of scheme can be measured only after incorporating informal sector as well.

The Act also covers a wide range of benefits like medical and health security, maternity security, accident security, differently-abled security, old-age security, dependent family

security, unemployment aid security and other schemes as prescribed. The Act contains stringent provisions for listing of both employers and employees. Further, in order to protect the contributions and make sound and healthy returns, the Fund must comply with various criteria like investment in designated areas, maintaining adequate and strong internal controls, auditing, actuarial valuation, etc.

Setting up a Social Security Fund will also provide the much needed mega investor fund finance mega projects. It has the potential of being the next EPF and CIT. This will also promote saving culture among the citizenry. As the participants themselves fund for their security, this will also ease the burden on the Government budgetary system. However, security of the investment must be of prime importance.

After the passing of Labor Act 2074, this the next major reform in the human resource sector in the country. However, the success of this Act will ultimately be measured by how well the contributories are benefited. It is seen that the employees in informal sector are often ignorant of their rights. Therefore, a campaign should be organized first to bring the vulnerable and disadvantaged group in the realm of this scheme and then ensure that they are rightly benefitted as envisaged by the Act.

We expect implementation of Social Security scheme will get overwhelming response from all employer and employees and it will not only assist but to improve livelihood of the contributories.

Happy Reading.

President's Message



Dear Professional Colleagues,

Let me begin with a quote of the famous logotherapist, Victor Frankl:

'Between stimulus and response there is a space. In that space is our power to choose our response. In our response lies our growth and our freedom' As I embark into the six month of my tenure as President of ICAN, I believe that with right intent and the decision we make, we can achieve much more. I feel that my freedom of choice to take collective decision as President is bound by the sole purpose of glorifying our esteemed Institute.

I am overwhelmed to be part of the moment, as President of ICAN, when our Institute is celebrating its 22nd Anniversary on 31 January 2019. Collective efforts of Staffs, Council Members, Developing Partners and Regulating Authorities, above all, the Students and Members have been the key determinants for the success story of ICAN. I too have received full-fledged support of all the stakeholders and this has bolstered my resolve to serve our Institute with full zeal and tenacity.

Now, I would like to present glimpses of some of the major activities during the past three months in the Institute:

International Accounting Day and Walkathon

As the world celebrated International Accounting Day 2018 on 10 November 2018, ICAN organized a Walkathon in which More than 200 participants including Vice President, Past Presidents, Council Members, Members, Students of the Institute and Accounting Professionals took part.

Interaction with Government Dignitaries and Officials

Establishing sound, healthy and win-win relation with the Government and Regulators is my priority. The Institute is always keen to promote healthy, productive discussion and exchange of ideas. During this period, the Institute had meetings with Inland Revenue Department, Revenue Investigation Department, Office of the Auditor General, Finance Comptroller General Office, Ministry of Finance, Department of Money Laundering Investigation etc.

MOU with DMLI

It is my privilege to inform you that the Institute has signed Memorandum of Understanding (MoU) with the Department of Money Laundering Investigation (DMLI) for mutual cooperation between the Institute and DMLI to combat the money laundering and terrorist financing in the country. In this connection the Institute held series of meeting with officials of DMLI for the fruition of the MOU during this period.

Know Your Member

In an effort to build an online data repository for efficient delivery of service, the Institute has hosted Know Your Member

(KYM) form in our website. I request all the members to fill the KYM form to equip Institute with members data base.

Human Resource Development

Human resource is the backbone of the Institute. Healthy, spirited and efficient human resource are the key drivers of the Institute and it is their wellbeing and welfare that is of supreme interest to the Institute. In an effort to enhance communication and language skills of our staffs, a one month training program was held in the premises of the Institute. This training imparted and honed communication skills of the staffs. The Institute plans to conduct such and similar training catering to needs of staff in future in future also.

With increased volume of work and activities, it has been felt that existing organizational structure of the Institute need to be revamped and restructured. In this connection, the Institute has recruited seven new staffs in contractual basis in the head office and branches.

Member Affairs and Professional Development Activities

CPE for F.Y. 2075/76

In an effort to impart adequate level of current knowledge and proficiency to the members, the Institute has been organizing continuing professional education (CPE) training program. CPE schedule for F/Y 2075/76 has been published. Altogether five Institutes will be conducting CPE training in different places within Ashar 2076.

Training and Workshop

The Institute also strives to enhance knowledge of members through workshop and seminars, conference and special capacity development trainings. In this connection the Institute conducted various training programs till mid of January 2019. . The Institute had conducted capacity development training on Labor Act and Tax Audit Procedure in Kathmandu and Nepalgunj in 23 November and 8 December 2018 respectively. The Institute has also organized a workshop on NFRS for SMEs and its impact on Corporate Sector in Butwal.

Similarly, an interaction program was organized in Kathmandu to disseminate insights new and revised reporting Standards and conforming amendments. Requirements for improved auditor's reporting were also presented in the interaction program.

A five-day Audit Practice Manual Training was organized in partnership with the Asian Development Bank and technical association of the Institute of Chartered Accountants in England and Wales, in ICAN premises from 3-7 December 2018.

Enrollment of New CAs

It is my pride and pleasure to inform that the strength of CA fraternity has increased upon enrollment of 37 new chartered accountants during the period of mid July 2018 to mid-January 2019. I wish them success in their future endeavors and believe they will uphold and enhance the prestige of our profession and Institution in the days to come.

Student Affairs and Educational Activities

CA Exams

Our students are at the core of our activities and it is their interest and development that is of supreme importance to us. We are keen on imparting latest and cutting edge knowledge to the students by revising the study and education materials. December 2018 Examination were held in Kathmandu, Pokhara, Biratnagar, Birgunj and Butwal.

Scholarships

With a view to support deserving and needy students and induct quality students in the profession, the Institute has been awarding scholarships in all levels of CA education. In the same line scholarship were awarded to the deserving and needy students in this period also.

New Admission

With the growing demand of CA and the International recognition of the Institute and the profession, enrollment of new students has been highly promising. During this period, newly registered 1805 students were oriented about the Institute and the CA education. They were informed about the education policies of the Institute, course in the CA education, availability of scholarship, course duration, future prospective and some other student related matters.

CA International Conference

The students were given opportunity to participate in the CA International Conferences in South Asia Region. In this regard during last six months all together 14 students made their participation in students conferences held in Pakistan and India. This kind of

participation helps the student to boost their knowledge and get exposure of International environment.

ICAN Quiz & Elocution Contest and Commerce Olympiad

In its effort to provide opportunity to the students ICAN has organized Quiz and Elocution contest among students of CAP III level and Commerce Olympiad among the students of grade IX to XI. The rationale of these competitions were to provide International forum to students to keep their confidence level up to compete at any forum. Further, the national level winners of Quiz and Elocution contest were provided with an opportunity to compete at SAFA level where they have proved their level of knowledge by bagging the prizes.

International Relation

Collaborative and friendly relationship with International, Regional and Foreign Accounting Bodies has been one of our top priority. The increasing number of tie ups with International Bodies is also a sign of recognition of the Institute and pre-excellent services

of its members.

The officials representing the Institute participated in the different International and Regional level workshops, conferences and meetings. During this period officials visited and attended the SAFA meetings and workshop organized in Sri- Lanka, Pakistan, Bangladesh and India. Similarly, our team members visited and attended WCOA conference and IFAC, CAPA and SAFA Meetings in Australia.

Dear Colleagues,

This is my second message as a President of the Institute. My priority has always been for the stellar development of the Institute and our profession. I feel I have put my utmost effort for the betterment of the Institute and I believe there is still many more to do.

Further, my best wishes are there with all the participants of ICAN day celebration and conference.

Best wishes,

A handwritten signature in black ink, appearing to read 'Jagannath Upadhyay', with a long horizontal stroke extending to the right.

CA. Jagannath Upadhyay (Niraula)
President , ICAN

मेरो Citizens बचत खाता



बचत खाता

६.५०%



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आ.व. २०७५/७६ को सी.पी.ई. तालिम कार्यक्रम सम्बन्धी सूचना

नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्थाको आ.व. २०७५/७६ मा संचालन हुने तालिमहरू निम्न मिति र स्थानमा संचालन हुने भएकोले इच्छुक सदस्य महानुभावहरूले आफ्नो उपयुक्त स्थान र मितिमा सम्बन्धित संस्थाहरूसँग सम्पर्क गर्नको लागि यो सूचना प्रकाशित गरिएको छ ।

क्र.स.	मिति	स्थान	संचालन गर्ने संस्थाहरू
१.	२०७५ माघ ४, ५ र ६	ईलाम/पोखरा	LABA / AuDAN
२.	२०७५ माघ २५, २६ र २७	दाङ/घनगढी/जनकपुर	ICAN / AuDAN / AuDAN
३.	२०७५ फाल्गुण ३, ४ र ५	सुर्खेत/काठमाडौं/भैरहवा	CAI / ICAN / PS
४.	२०७५ फाल्गुण १०, ११ र १२	हेटौडा/नेपालगञ्ज/महेन्द्रनगर	AuDAN / ICAN / AuDAN
५.	२०७५ फाल्गुण १७, १८ र १९	बिराटनगर/नारायणघाट	PS / AuDAN
६.	२०७५ फाल्गुण २४, २५ र २६	विरतामड/काठमाडौं/बुटवल	AuDAN / LABA / AuDAN
७.	२०७५ चैत्र १, २ र ३	बिरगञ्ज/बिराटनगर/काठमाडौं	PS / AuDAN / AuDAN
८.	२०७५ चैत्र ८, ९ र १०	पोखरा	ICAN
९.	२०७५ चैत्र २८, २९ र ३०	काठमाडौं	AuDAN
१०.	२०७६ बैशाख ६, ७ र ८	काठमाडौं	ICAN
११.	२०७६ बैशाख १३, १४ र १५	काठमाडौं	AuDAN
१२.	२०७६ बैशाख २०, २१ र २२	काठमाडौं	AuDAN
१३.	२०७६ बैशाख २७, २८ र २९	काठमाडौं	CAI
१४.	२०७६ जेष्ठ ३, ४ र ५	काठमाडौं	AuDAN
१५.	२०७६ जेष्ठ १०, ११ र १२	काठमाडौं	ICAN
१६.	२०७६ जेष्ठ १७, १८ र १९	काठमाडौं	PS
१७.	२०७६ जेष्ठ २४, २५ र २६	काठमाडौं	AuDAN
१८.	२०७६ जेष्ठ ३१, ३२ र असार १	काठमाडौं	ICAN
१९.	२०७६ असार ६, ७ र ८	काठमाडौं	AuDAN
२०.	२०७६ असार १३, १४ र १५	काठमाडौं	PS
२१.	२०७६ असार २०, २१ र २२	काठमाडौं	ICAN

पुनश्च: प्राविधिक कारणले उपरोक्त समय तालिकामा हेरफेर हुन सक्ने छ । हेरफेर भएको अवस्थामा सूचना मार्फत जानकारी गराइने छ ।

विस्तृत जानकारीको लागि सम्पर्क:

१. नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था (ICAN), ललितपुर, फोन: ०१ ५५३०८३२, ५५३०७३०
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५. लावा प्रा. लि. (LABA), काठमाडौं, फोन: ०१ ४९०२७२९, ४९०२७२२, ४९०२७२३

The Importance of an Audit System for Small and Medium-Sized Audit Practices

The APM has been specifically designed for use by SMPs and includes audit programmes which, if used properly, will produce efficient and effective audits and comply with all of the requirements of the ISAs and ethical standards.



As the complexity and requirements involved in carrying out an effective audit increase, it is essential that, like the international audit networks, small and medium-sized audit practices (SMPs) have access to a system which helps them conduct quality audit reviews.

Standard setters developed International Standards on Auditing (ISAs) to help reduce the number of audit failures over the past few years. The main change introduced by the ISA is the focus on risk.

The greatest risk to audit firms is that they issue the wrong audit opinion - that the audit report states the client's financial statements are 'true and fair' but later it is found that the financial statements

contained significant errors or omissions. Failure by an audit firm to detect errors or omissions is the key risk and using an effective audit system will reduce this risk.

While audit tests have stayed broadly the same, the focus on risk has made significant changes to both the planning and completion stages of the audit.

An *Audit Practice Manual* (APM) is a key tool to help auditors conduct quality audit reviews and mitigate the risks.

Introducing an APM in Nepal

The Institute of Chartered Accountants of Nepal (ICAN), with the support of the Institute of Chartered Accountants in England



Mr. Alan Hind

He can be reached at:
alan.hind@icaew.com

and Wales (ICAEW) are working on an Asian Development Bank funded project with the aim of improving audit quality in a few selected pilot countries of which Nepal is one.

The main part of this project has been to establish a national system to regulate auditors. This includes periodic visits to audit firms to review the quality of their audits.

The project also recognised that support must be provided for SMPs to help them understand the requirements of the new audit quality reviews so that their audit work meets the required quality. As part of the project, ICAEW developed an APM designed for use by SMPs.

This is being supplied free of charge to firms holding a licence to practice audit. Firms will also receive an invitation to attend a free 2-day training programme on how to use it.

Why it's important for SMPs

There have been significant changes in how you are required to carry out audit work. It would be very difficult for an audit firm to design its own system to meet all of the ISA requirements and almost impossible for smaller firms.

The APM has been specifically designed for use by SMPs and includes audit programmes which, if used properly, will produce efficient and effective audits and comply with all of the requirements of the ISAs and ethical standards.

The APM allows auditors to complete an audit in softcopy or hardcopy using standard Microsoft Word and Excel templates. It provides a standard system for carrying out and recording audits of straight forward smaller clients. That means if a firm follows the process it will be able to show clearly what it has done and that it has complied with the ISA requirements.

We've already considered the ISAs focus on risk and the APM gives you the resources to do that.

As staff become more familiar with the system it also means firms can do audits more efficiently and, since it has a standard filing system, it makes audit files easier to review.

Structure of the APM

The APM comes in three parts:

1. Planning and control (section Ac)
2. Detailed procedures (sections B to V)
3. Review and completion (sections Aa and Ab)

The APM includes the following documentation:

- Guidance on how to use the APM.
- Information on how it complies with ISA requirements (100 pages).
- Word/Excel templates which firms can complete on screen or in print.
- A 'permanent' file to use for recording key information on the client.
- Checklists in the planning stage with links to both the permanent file and the audit file.
- A documents folder, which includes example documentation such as engagement letters, debtors' circularisation letters and bank confirmation letters.
- Example working papers for a fictional audit client covering the planning and finalisation sections, as well as some example fieldwork sections.

The detailed procedures provide examples of audit tests covering each area of the financial statements and the APM also includes audit file dividers to provide the structure for the audit file.

The following box sets out the key ISA requirements, all of which are covered by the APM.

Key requirements of planning an audit

Planning is the foundation for carrying out a good audit. The APM can help to guide you through this process. It includes consideration of risk and the "risk" ISAs:

- ISA 315 - identifying and assessing risks of material misstatement through understanding the entity and its environment
- ISA 330 - the auditor's responses to assessed risks and
- ISA 240 - the auditor's responsibilities relating to fraud in an audit of financial statements.

At a basic level a firm is required to understand the client and its environment by recording:

- its understanding of the client and where and how it operates and
- its assessment of the risk of material misstatement from the above

Understanding involves talking to management to establish what system and controls are in place; and observing and inspecting every year to make sure that the controls are operating in practice.

A firm then has to assess the risk in each material area and decide what the audit approach is going to be to address the risks it has identified.

At the same time the firm has to consider the possibility of fraud. It isn't the auditor's responsibility to detect fraud but it is his duty to carry out work which will give the best chance of detecting fraud if it has happened. The firm must apply professional scepticism which means disregarding previous experience and its assessment of management integrity. This means accepting records as genuine in the absence of suspicions but, if there are suspicions about documents, a firm has to investigate further.

Other areas in the planning process which the ISAs focus on are materiality (ISA 320), sampling (ISA 530) and making sure the audit team have been properly briefed (part of ISA 315 and ISA 240).

Materiality

The auditor needs to set levels of materiality as part of the planning process. This means it doesn't have to be concerned about anything which is not material as it won't affect the financial statements. This will make the audit more efficient. There are different levels of materiality:

- **Overall materiality**
This is the measure above which clients have to make adjustments to the financial statements. Firms also use this when calculating sample sizes.
- **Performance materiality**
This is the level above which a firm must carry out audit work. Firms must also keep a note of each error which isn't trivial and if the sum of these exceeds performance materiality they will need to adjust the financial statements.
- **Triviality**
This is the level at which firms can safely ignore any errors.

Sampling

Firms don't need to test every transaction in the audit period. Firms should choose sample sizes for the areas they will be testing and these will normally be a lot less than the whole of the population of transactions.

Firms can either use what is called judgemental sampling or use a sample-size calculation which an audit system provides. This is much easier to justify if there is a challenge to the level of audit work carried out.

Briefing the audit team

ISA 315 and ISA 240 set out the requirement for an audit team meeting as part of the planning process. This briefing meeting must cover:

- the susceptibility of financial statements to material misstatement

- how and where there may be a risk of fraud in the financial statements, including how fraud may occur and
- the risk of fraud resulting from related party relationships/transactions

The meeting should also consider the audit approach and the firm must put a record of the meeting on the audit file.

Key requirements of the completion process

There are three key ISA requirements which a firm must carry out as part of the completion process and this means additional work for audit firms before they can sign the audit report:

Final analytical review

This is a final check to make sure the financial statements make sense. ISA 520 says a firm has to make an overall conclusion on whether the financial statements are consistent with its understanding.

This is about the presentation and consistency as well as the numbers in the financial statements.

Subsequent events

Firms must consider events and transactions in the period between the year-end date of the financial statements and the date it signs the audit report.

That means looking at the latest information, not only the audit work it has already done (although that might give some information on subsequent events). The main areas which firms should consider are:

- Management accounts, budgets and forecasts
- Post year-end client accounting records
- Contracts, minutes and correspondence
- Discussions with management and obtaining written representations from them

Going concern

The client has to confirm in writing that the business is able to continue for the foreseeable future. The audit firm has to document its conclusion on that assurance provided by the client.

Increasing Complexity

With the increased complexity and requirements involved in carrying out an effective audit it is essential that audit firms have a system which helps them. The APM provides a structured and well-tested method for carrying out straight forward smaller client audits. It provides auditors with a consistent structure for their audits and will help auditors to comply with ISAs and the International Code of Ethics.

If firms use the system they will be able to show clearly what they have done and how they have complied with the standards. As audit staff become more familiar with the system it also means firms can do audits more efficiently and with a standard filing system it will make audit files easier to review.

International audit networks have used Audit Practice Manuals for many years. This APM provides an equivalent toolkit at no cost for small and medium-sized audit practices. ■

Accounting Profession and Way Forward: *Enhancing Quality of an Audit to Meet the Expectation of Stakeholders*

The need for enhancing the quality of audit has gained momentum since recent past due to various factors, such as multiple global financial crises leading to unparalleled stress on global markets and economy, huge financial frauds (national and international), poor corporate governance system, amplified and complex financial reporting and “questionable” roles of the institutions contributing to financial stability, including regulators and auditors,



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Introduction

Welcome to this conference organized by the Institute of Chartered Accountants of Nepal to celebrate its 22nd establishment day. The members and students (cumulative) have reached 8594 (CA- 1335 and RA-7259) and more than 14000 by today. It's a matter of pride for all of us. However, we have also faced many challenges during this journey and ICAN has been continuously endeavoring to address whatever comes in its way as a sound professional body that knows very well that it has to play vital role in nation building. I sincerely believe that such a forum with proactive interaction and dissemination of knowledge definitely contributes in raising audit quality. I also expect

that it will provide an excellent opportunity to hear from you about your suggestions in going hand in hand with ICAN's initiatives of quality assurance mechanism.

I am happy to note that ICAN has chosen a pertinent topic to discuss in this august gathering. One of the goals of this conference is to discuss on how we can enhance quality of an audit to meet the expectation of stakeholders. In fact, audits are useful only if there is public trust in the integrity and quality of audits - user and stakeholder perceptions are a key factor. In this context it is worthy to copy the IFAC Policy Position: Regulation of the Accountancy Profession, Dec 2007, which states that “The sustainability of the accountancy profession depends upon the

quality of the services provided by its members and on the profession's capacity to respond effectively and efficiently to the demands of the economy and society."

Context

The need for enhancing the quality of audit has gained momentum since recent past due to various factors, such as multiple global financial crises leading to unparalleled stress on global markets and economy, huge financial frauds (national and international), poor corporate governance system, amplified and complex financial reporting and "questionable" roles of the institutions contributing to financial stability, including regulators and auditors, etc. Although we cannot single out the responsibility only to the auditors in all financial crises/issues, yet I see this as an opportunity for an auditor to stem out as responsible agency to take care and serve public in their interest by improving the way they do their business and trying to narrow down the expectation gaps that exists. Challenges that an auditor faces these days are basically two folds: meeting the expectation of their clients and maintaining quality of their services.

Stakeholders' Expectations

In its simple sense, the purpose of statutory audit is clear that for the benefit of shareholders an independent opinion is provided on the financial statements presented by the management. This requirement is also enshrined in various laws (e.g. Company Act, Banking and Financial Institutions Act, etc.) of incorporation of an entity. From the economic point of view, the independent auditor's report helps organisations to access finance at reduced cost, within country or from abroad.

The reality is, however, that a number of people, besides shareholders, have expectations of the statutory audit since the world is far more complex than organisations. Stakeholders have expectations both about what types of audited information organisations should provide and about the assurance aspects of audited information (for example, what auditors do when they perform statutory audits). Stakeholder dissatisfaction might arise where expectations from either or both sets of expectations are not met.

The audit report is a publicly available report and as a result it is only to be expected that there will be others who have an interest in and expectations of the audit and who are interested in the way audits are conducted. Thus, this means that to satisfy the interests

of others is a 'consequence' of the audit, though not its legal purpose. However, we must appreciate that the stakeholders taken together do have a potential impact on audit practice and there is pressure on the audit to evolve to meet their expectations.

In the Nepalese context, the expectation gap even stems from the legal requirement. Let me cite here some of the pertinent provisions of important laws that have expected a lot than the professional understanding of the audit's objective to provide an independent opinion on the truth and fairness of the financial statements in accordance with applicable reporting framework.

- Section 115 (1) of the Company Act 2063 (with amendment) requires that the auditor shall submit "certified" (not audited) financial statements based on the audit of accounts to the Company together with the audit report.
- Section 115 (3) of the Company Act 2063 (with amendment) requires the auditor to state additional information, including "acts in contrary to laws, mis-use of assets and loss to the company caused by its Board or representative or staff and about the accounting frauds (this is yes or no requirement).
- Similarly, Section 63 (2) of Banking and Financial Institutions Act requires further affirmation from auditor as to whether operations are done satisfactorily, interests of depositor and inventors are protected, among others (can this assurance be made by an auditor who conducts audit in accordance with I/NSAs).
- Section 160 (c) and 161 (d) of the Company Act 2063 (with amendment) levies penalties to the auditor for willful negligence in conducting the audit or willful reporting or not reporting important issues in the audit report or not reporting as prescribed.
- Sections 121/127 of the Income Tax Act 2058 (with amendment) make the auditor party to tax evasion and impose fine and penalties.
- Anti-Money Laundering Act and Long Form Audit Reports for various regulators contain numerous affirmations expected of the auditors, which are judgmental and beyond their scope as statutory audit.

Interestingly, in those Acts, the actions to the auditors are joint and several with the directors and other officials/staffs of the Company.

To summarize:

- An expectation gap exists among the direct stakeholders of an organisation (e.g. shareholders' expectations may be different to directors' expectations and the expectations of auditors).
- There is no single expectation gap. The expectations of other stakeholders can create additional audit expectation gaps.
- Expectations change over the years as does the importance of different stakeholders
- Expectation gaps are not unique to audit, as it is just one part of the corporate governance framework of an organisation.

Meeting the Expectation Gaps

If the audit is reshaped to meet all these expectations then it is very likely that its purpose would change. As a result, it may become less meaningful to shareholders and the use of the audit as a means of addressing the specific principal-agent conflict may no longer be relevant. In seeking to try to reconcile all these expectations the audit could end up making no one happy. However, to remain survived in the modern era, we shall realize that it's not the strongest of the species that survives, nor the most intelligent, but the most responsive to change.

Let's now look at the opportunities to address these challenges. In my opinion, there are three responsible parties that can work together in cohesive manner to narrow down the gaps, as discussed below.

1. The Company and its Managers

It is their utmost responsibility to find way how they can deal with the concerns of stakeholders. This requires them to:

- a) Assess the expectations on a continuous basis through direct engagement and feed them to respective agencies, including what they themselves can do,
- b) Outsource some of the operations to avoid conflict of interest situation and maintain independence, and

- c) Use professional accountants for other activities as well besides "audit" so that it is clear to the stakeholders that various activities have different purpose.

2. The Regulators/Supervisors

The regulators shall take into account different expectations that are emerging and whether that warrants not only taking actions but also facilitating the players to comply with the set rules and regulations. Also, they shall:

- a) Address social dimension of public accountability, may be through social responsibility standards, revise legislation to specify the real purpose of audit, etc.
- b) Strictly implement directives and laws through regular and effective inspection themselves, and not wait till it is reported by others or transfer the responsibility to others
- c) Motivate for compliance and take appropriate actions to the perpetrators
- d) Involve professional accountants in policy dialogue.

3. The Auditors/Professional Accountants

It is always easy to pass on responsibilities/blame to others but at the same time it is very difficult to change others' way of doing, but change yourselves. Thus, the auditor shall adapt to the situation for survival and command of the position in the society through:

- a) Developing different skills and enhancing auditor's capability through appropriate implementation of two quality control standards (NSA220 and NSQC1)
- b) Understanding the expectations and acting ethically without compromise to the very purpose of audit,
- c) Realizing the fact that it is not the quantity of the audit but the quality of the audit that prevents extinction and ensures survival in the market, and
- d) Creating public awareness about what they do and how they do.

Auditors are not only the parties responsible for preventing financial frauds and meeting the expectations of the diverse group of stakeholders.

All the responsible parties, as stated above, shall perform their tasks honestly and effectively. It's their collective endeavours to serve the society, meet their expectations and be party to nation building.

ICAN's Initiatives

In order to assist their members in meeting the evolving expectations of stakeholders of their services, including audit, the regulator of the accounting profession in this country, the Institute of Chartered Accountants of Nepal (ICAN) has implemented various activities and is continuously striving to meet the international standards. Besides, regular continuing professional education and organizing seminars/trainings on contemporary issues, important initiatives implemented by ICAN are briefly described below.

1. Quality Assurance Board

Ensuring that all audit firms consistently perform high quality audits is important to the Institute as well as the stakeholders. In my view, it is foremost important to prove to the public (and regulators) that the auditor performs their duties in full compliance of 5 set audit principles, viz., Integrity, fair presentation, due professional care, confidentiality and independence. This needs to be supplemented through a mechanism that oversight the functions of the auditor. For this purpose, ICAN through 7 members independent Quality Assurance Board has been carrying out review of audit in both firm and entity levels. The review is being carried out through its approved Quality Assurance Procedures and members are encouraged to participate in this process.

2. Audit Manual

To emphasize on the importance of documentation in an audit, an additional audit principle of "Evidence Based Approach" can be well accepted. In an audit, it is believed that if there is no documentation, it is equivalent to nothing has been done. Also, various Nepal Standards on Auditing have made it mandatory

for the auditor to base his/her opinion on the evaluation of appropriate sufficient audit evidence collected for any particular assertion or class/group of transactions and financial statements as a whole. Also, recent development in auditing standards (e.g. enhanced reporting and NOCLAR standards) has increased auditor's responsibilities and hence assurance on their work in line with the requirement of all applicable standards has become sine-qua-none for protecting auditors from breach of professional duties.

In this context, ICAN in technical collaboration with the Institute of Chartered Accountants of England and Wales (ICAEW) has planned for introducing "Audit Manual" that provides for samples of various documentation, including formats and illustrations, that shall be produced in each audit by its members. The audit manual, though framed to provide assistance in case of small and medium practice units with smaller audits, can be suitably modified to be used in larger assignments as well. The manual contains 3 chapters, viz., Planning and Control, Detailed Substantive and Control Procedures and Review and Completion. A ToT (for 9 persons) and trainings to more than 20 auditing firms have already been conducted by ICAN in December 2018 with support from ICAEW and is in process of conducting more trainings on the Audit Manual.

Finally, let me conclude here by reiterating that CAs are capable of carrying forward the legacy of Trust, Excellence and Integrity and remain partner in Nation Building. ■

Reference Materials:

IAASB/International Auditing and Assurance Standards- Relevance and Quality/IAASB Chairman presentation in Madrid/Sep/2010

ICAEW/Audit Quality Evolution/Stakeholder Expectation of Audit /2008

ICAEW/Audit Quality Evolution/Reconciling Stakeholder Expectation of Audit/Issue Paper

HACT Audit Manual/ICAEW/Version 2018

Best Practices for Effective Cash Management for SME's in Nepal

Mostly, SME's in Nepal operate in an informal market where implementation of the above mentioned best practices could be a daunting task. This would include changing the existing status quo from only de jure to putting things in action.



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SME's: Center for Employment and Job Creation

SME's are vital for *employment and job creation*. Nepalese SME's are mostly involved in manufacturing of food items, consumer goods, textiles and related products, forest fiber based products like wooden and metal handicrafts, handmade paper etc, and agro based products. They are supported by Department of Cottage and Small Industry (DCSI), Industrial Enterprise Development Institute (IEDI), Trade and Export Promotion Center (TEPC) and many other Nongovernmental organizations working for the upliftment of social sector of the country. Lately, the GoN has been providing incentives to large firms

that subcontract their work to small and cottage industries.

[Note: SME's are small and medium scale enterprises engaged in a variety of businesses. In most of the cases 'small and medium scale is measured in terms of investment in fixed assets'. However, few countries also base the scale on the basis of threshold revenue or assets, whichever is higher].

SLOW POISON: Poor Financial Management

When does a business fail: *lack of cash or lack of profits?* From the current perspective, the former takes the center stage. Cash crunch situations are dangerous. This is due to poor financial management which is jeopardizing the business

operations of SME's all around the globe, including Nepal. *What follows next is the risk of insolvency or/and lack of capital or funds to keep the business in operation?* Undoubtedly, both these could be true. *Liquidity constraints*, due to reckless management of cash are a precursor to fall in sales value or/and quantity because there is not enough cash to purchase raw materials or finished goods, eventually reducing turnover of sales. Also there would be inability to pay off operational expenses. This may also arise when, at times of positive cash flow balance; the owner-manager makes large purchases while having *post dated cheques* around the corner. On the one hand, we see *personal nature of transaction* in SME's books of accounts, both credit and debit, when cash is scarce in the business. However, the *ability to recoup* the same is fairly low in most of the SME's. Due to the personal infusion of cash, the business remains in operation but it negatively impacts the *profitability measures (ROA, and ROE)*. Also, there is lack of planning and prioritizing the payments of the expenses in order of importance and due dates. This suggests that *cash flow forecasting* is the greatest challenge to SME's.

We have not seen any *fund earmarked* for emergency situations or imminent crisis which at times can lead to borrowing at exorbitant rates. One of the solution to this problem is to manage the deficit owed by the debtors is through personal financing, which is never settled. Though this is a clever way to alleviate the problem, but the owner-manager has to realize that he has only narrowly escaped the problem. Owner-managers lack the necessary skills and tools to identify problem areas in their business. It is due to his dearth of necessary skills while also considering *effective cash management techniques time consuming and unnecessary that cash flows are negative*.

There are few instances where *cash management is centralized* in a SME having many stores or branches around the country. These branches or stores are not authorized to carry on banking transactions without taking permission from the corporate office. At *times of scarcity*, the entire process from approval to retrieval may seem to be prolonged causing undue hardships in business operations. It is not surprising to see low production rate or employee strikes at these times. Also, record keeping is considered very labor intensive to SME's. *Lack of proper recording suggests arbitrary decisions on cash payments and receipts*.

Therefore, after considering all the above problems and due to their limited size (balance sheet), but with good business prospects (partly due to support

of GON); SME's owner-managers should emphasize more on effective cash management.

Focal Point: ECM

Effective cash management is important because cash is the lifeblood of every business, big or small alike. *A profitable business does not always mean a cash king. By contrast, a loss making enterprise may still operate if it has cash.* Therefore, effective cash management not only increases the survival of business but it also helps to attract investors who can fund its expansion. It helps to plan for unforeseen eventualities. Moreover, it increases the flexibility and competitive advantage of a business in dealing with emergency situations or taking advantage of opportunities as they arise in the short notice. *The implementation of sound cash management principles is essential to ensure profitability and sustainability of any successful business.*

▪ Expansion with a common goal

Businesses with good growth prospects are often on the lookout for expansion. Expansion may take the following forms:

- Growth of business products and service offerings, or
- Increasing stores, unlike relocation

The personnel numbers for these entities is quite low. Indubitably, growth brings in new recruits. Nevertheless, though human resource challenges may be averted by putting the right person at the right place and in the right time (cultural change), yet *operational challenges (mainly cash management)* may still be a hurdle to SME's. *Now you may know the reason why I put more emphasis on cash.* Centralization of the financial (cash) operations is a key to successful cash management system, but it cannot be singled out everywhere. Whether or not it is centralized, SME's owner-managers should aim for one common goal: *proper management of cash.*

Key Principles of ECM

Though the very notion of establishing a business is to earn profits, yet it is still the cash concern that acts as a crucial resource in the short, medium, and long term life of the business. Therefore the **four key principles for an effective cash management** are all what this article talks about. This will apply to all SME's, irrespective of their nature of business. Owner-managers should note these meticulously.

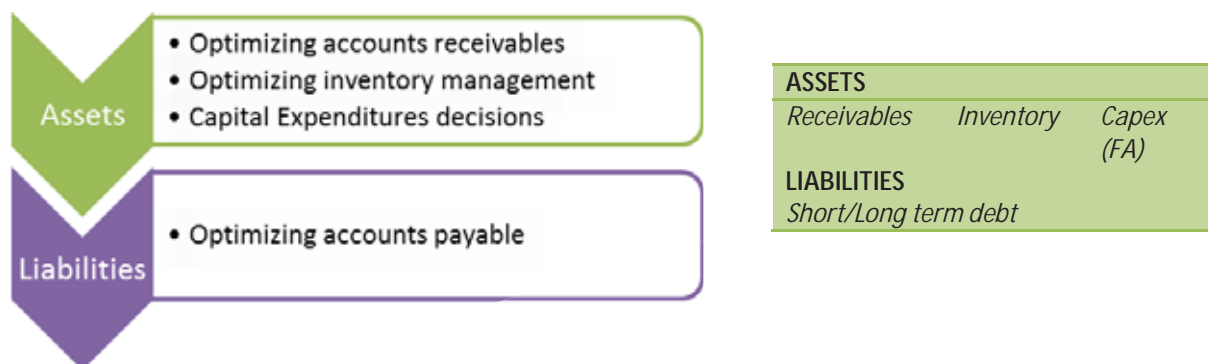


Figure 1: Affected variables for EMC

On the assets side, there are three variables (Receivables, Inventory and Capex) to be scrutinized. Alongside, liabilities which includes debt (short/long term) needs to be considered *because most of the assets of SME's are financed through long/short term liabilities*.

Let's look into the principles one by one.

1. Optimizing Accounts Receivables

A *low debtor's turnover ratio* would mean money is tied up on your balance sheet and this has a cost. *Though most SME's have formal accounts receivable policies that mandate when to bill, how much to bill and credit period etc, yet they are not put in practice*. One reason could be the *engrained culture of being modest to every customer to jack up sales at the cost of free financing (extending credit period)*. While *failure to follow up with customers on a timely basis, bad credit risks, lack of appropriate training to staff, lackluster billing procedures and cash allocation mismatch* may be incidental reasons, the need for optimizing accounts receivables cannot be delayed.

The best practices to an owner-manager in an SME to optimize AR could be:

- Ensure *market realities* are reflected (comparing to a similar kind of business under the same industry) to be cognizant of the following factors:
 - > *when to grant credit*
 - > *circumstances that justify overriding credit limits*
 - > *situations that prompt placing accounts on hold*
- Assessing *credit limits* to a new or old customer on the basis of volume sold which hinges around the *credit worthiness* of the customers

- Have a *clear guideline* while committing to *approve or reject credit* applications to minimize turnaround time
- Regularly *review the credit approval process*
- Prepare a *customer master data* reflecting the above criteria while conducting regular audits of master data to strike out anomalies
- Prepare for *electronic invoicing*
- Boost the cash application process to ensure *accounts are up-to-date* and which are outstanding. *Don't let accounts languish in the suspense basket*
- Collect the payment on a timely basis from *recalcitrant customers*

Note:

Mostly, SME's in Nepal operate in an informal market where implementation of the above mentioned best practices could be a daunting task. This would include changing the existing status quo from only de jure to putting things in action. If the market realities are such that a trade credit sale of 60 days takes an average of 120 days to recover, than the intermittent period requires frequent follow ups, rather than just rely on the market reality. Although market realities are to be reflected, efforts must be made to ensure they don't go haywire. Sometimes close and knit business relations would justify granting credit over the threshold limit and the outcome could be skewed: 20% of amount due for more than a year leading to write offs. Bad debts lead to negative impact on the business. It is common to note that even though the economy may be improving, yet bad debts may be soaring. Eventually write offs could be a common phenomenon which could lead

the auditor to flag these amounts and ask for an intelligent justification for the same. There are instances where amounts owed to the SME by a debtor is credited to the owner's personal account or sister concern's bank account. Lack of adjustments leads to unreconciled accounts. This gives rise to suspense accounts never settled and later camouflaged to some other account, again leading to write offs. Only when the SME's begins to prepare customer master data for each customer, than only inconsistencies like the above may be averted. On one hand, the owner-manager has the responsibility to boost sales as much as possible, but on the other he should also not forget the to do's before accepting any credit application. Customer review, though not much in practice, should be adopted to avoid risky sales to bankrupt customers. A prior review will definitely make the owner-manager aware of the financial condition of his customers. This will avert the condition to infuse personal finance to manage deficit owed by the debtors. It is commonly seen that bank overdrafts are being availed to cover the gap in the cash flow. This needs to be stopped and one way could be to avoid selling to overdue debtors unless their debts are fully paid, or even partly.

2. Optimizing Inventory Management

Correspondingly, we know that often inventory constitutes one of the SME's largest balance sheet items. This proclaims to us that *ample cash outlay* is required to acquire it. Since this is one of the four key principles of effective cash management, it has a significant influence on the working capital of the SME. A good inventory management system would ensure that SME's cash flow is not affected while also meeting the demand for inventories. Therefore, the owner-manager must prevent buyers from over purchasing for fear of losing sale.

The best practices to an owner-manager in an SME to optimize inventory could be:

- **Centralizing the inventory management** through regional or national depots to reduce warehousing costs and optimize shipment to the end customers
- **Augmenting internal controls** around inventory counts, inventory transfers, inventory adjustments and procurement and sourcing practices

- **Automating processes** to improve accuracy and completeness of your inventory tracking and help you maintain appropriate inventory levels
- Developing a mechanism for suppliers wherein they could **electronically** track the status of orders, delivery schedules, potential product shortages and payments processed.
- Tracking **key performance indicators (KPI)** like average inventory levels, days inventory outstanding (DIO) and inventory turnover ratios to critically measure performance and improvement across the organization.

Note:

Generally speaking, SME's in Nepal own/rent godowns for storage of inventories. Internal controls around inventory are usually absent because of 'just next to me' syndrome. It means that sufficient control mechanism does exist when inventories are just next to them. In reality it does not. Managing inventories require robust internal control system because inventories losses, spoilage, damage or other calamities will lead to cash drainage to recover the same goods again. Therefore SME owner-managers should not turn blind eye towards inventory management and tracking KPI (key performance indicators). This would minimize arbitrary order sourcing and procurement practices. Further moving towards a digital platform would require capital investment in an E-Procurement System which will revolutionize the inventory system towards transparency, accountability, efficiency and productivity. Owner-manager must have proper knowledge of those customers who would require inventories just in time and those who do not. Alongside, a network of suppliers with an efficient supply chain mechanism should exist to accentuate the delivery process (JIT or no JIT). SME owner-manager focuses on maintaining relational capital in order to meet the demands of the customers, yet majority of them lack best practices that could ensure better efficiency and productivity in this area. The fear to lose customers, thereby compromising on sales leads to backwashes in the entire inventory system. All in all, the SME's need to discard the pen and paper system to manage inventory. Having figures in their head intuitively would not lead to long term efficiency and effectiveness of inventory management.

3. Optimizing Accounts Payable

This principle explains the importance of *extending the payment to creditors* as long as possible to *maximize free cash flow*. SME's are often juxtaposed between 'pay now' and 'pay later' due to the discount factor. A more generous way could be to *adopt a strategic approach* to accounts payable that includes freeing up working capital to fuel growth.

Some of the best practices that can guide the way could include:

- Creating a *paperless processing environment* through an E-Procurement system to communicate electronically with vendors and customers to automatically generate Purchase Orders (PO's) for each new order, electronically validate and accept invoices, approve requisitions, track goods received and pay invoices on a timely basis. The underpinning factor would be to avoid *manual follow ups*
- Strengthening purchase *approval process* (according to the size of the order)
- Adopting more robust *governance practices* focused on reducing risk and internal control around account payable processing, and contract review
- If possible, *centralizing* the accounts payable processing and reporting

Note:

Moving towards adopting best practices in accounts payable will not come about overnight. It has to start from the vendor selection process to streamlining the accounting and financial process. The outcome will materialize only if governance practices are well formulated and implemented which is not the case at present for SME's in Nepal. Therefore SME's in Nepal will have to carve out this back end activity very carefully. Though contractual statements stipulate T&C's, yet there is a lapse in enforcement due to the benevolent nature of SME's towards other their suppliers. This is because of motivations to maintain relational capital. A call for greater transparency would require SME's to pull greater attention on the contract and time to time contract review mechanisms. Conflicts of interest amongst the supplier and owner-manager should be minimized

as far as possible. Owner-manager must be sure whether or not to write off payables because you have to pay taxes on them (non-operating income). Efforts must be made to delay the payment of liabilities as much as possible. Implementing credit control procedures is also recommended.

4. Capital Expenditure Decisions

Capital expenditures are considerably low for SME's considering the size of their balance sheet. Since their use is considered long term, their *purchase decision should not be in haste as long term growth is entirely dependent on today's initial outlay* (positive NPV). The *availability of funds* is a prelude to make a decision whether to buy or not and after that follows the outcome: will it generating enough returns to fuel our growth? A good return would lead to *profit accretion*, assuming cash constraints would not arise during this time.

Some of the best practices for capex decisions would include:

- Set clear *investment objectives* for qualitative or quantitative investments that tap's the SME's wisdom.
- Try to reduce spending on non-major assets
- Use *ROI (return on investment)* throughout the investment life cycle and compare with expected results
- Tackle *few questions* like whether the capex proposal is complete, whether it exceeds minimum hurdle rates, are funds available right now and whether it is attractive or not
- *Identify* past errors and correct course.

Note:

Capital outlay is mostly a one-time investment to SME's in Nepal. Though assets may be fully depreciated, they continue to be in operation unless change is imperative when operation comes to a standstill. Measuring the benefits of capital investment as against expected is still a novel concept to these enterprises unless they understand the value-return from it. The time has come to make the owner-managers more cognitive towards the adoption a capital-portfolio-management system which results in better cash flow, faster growth, and competitive advantage.

Other Common Strategies

There are few instances where we see that owner-manager wanted a positive cash balance right from the beginning but did not know how to achieve it. This seems very bizarre. I assume that even if the above principles will not assist few idiosyncratic owner-managers, the below could in some way. Therefore, few common strategies to uphold the benefits of effective cash management would include the following:

- Accelerate cash inflows wherever possible
- Investing surplus cash to earn a rate of return
- Borrowing cash at the best possible terms
- Maintaining an optimum level of cash that is neither excessive nor deficient
- Better financial record keeping to avoid haunches
- Employ and maintain skilled and knowledgeable employees

Growth Implications: Challenges Faced

Growth is inevitable. But, in either way enhanced growth would not solve cash management problems. If SME's were to grow further, than they need to have the *capacity to generate enough credit for expansion*. Personal credits from families, relatives or friends are the traditional methods of financing. This is partly because of lack of awareness regarding financial institutions for credit. They are reluctant to seek formal credit because they consider the *process complicated and overly bureaucratic. Moreover, their credit worthiness is low and access to institutional credit is limited due to their inability to contribute to equity capital*

and provide collateral. Nonetheless, they have to face high interest rates due to ease and timely availability if they avail loan from unregulated cooperatives. At the end, growth is achievable and one of its pre-requisites is effective management of cash. However, since this being a major challenge it may be overcome by adhering to the above basic principles of cash management.

[Note: Recently, Nepal Rastra Bank has pledged to obtain the tax clearance certificate from SME's before renewal of loan or extending additional or new loan].

Conclusion: Education and Awareness

The commonly used expression, "cash is king", cannot be contested. There is an aphorism in the business world that goes, "*When you are out of cash, you are out of business*". Effective cash management is an important element in the success of a business. It cash forecasting as the most important step in the continuum. An educated owner-manager with sound decision making ability can be a bonus to the SME, but only when he follows the rule of cash forecasting. This is because future cash flow behavior cannot be predicted. It is only after this when the objective of *optimizing each resource (assets, liabilities) based on the above principles would command a success. Certainly, this would lead to a positive correlation between a firm's profitability and its working capital management*. In this way, the cash/working capital cycle will reflect the efficacies of a well established cash management system. Therefore, the greater the emphasis on cash and management of liquidity, the smaller will be the magnitude of operational challenges to a SME. ■

Trends of World's GDP Calculation: Nepal's Practice and its Drawback

Usually a nation's economy is measured and calculated in terms of Gross Domestic Product (GDP) numbers. In fact, it is an index of economic growth. Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.



Abstract:

The purpose of this article is to find out whether GDP (gross domestic product) is a good measure of economic activity and well being and which problems arise by comparing GDP across countries. The calculating gross domestic product (GDP) data of any country including Nepal is a complex process and hence GDP needs to be understood in a wider context. This study analyzes the most widely accepted measure of a country's economic condition has been Gross Domestic Product (GDP). Calculation methodology should change time to time with the context of Nepal and around the world. Since its creation, economists who are familiar with GDP have emphasized that GDP is a measure of economic activity, not economic or social well-being. The article starts with a brief background of the gross domestic product. Strengths, weaknesses, and drawbacks of the GDP with respect to measuring of economic activity and well being will be discussed in the following. Next, the article deals Nepalese context of calculating GDP and it deals with difficulties which could occur by comparing the GDP of different countries. Finally, a conclusion is given to identify the key findings of this article.

Keywords: GDP, Economic Activities, Calculation methodology, Strength, Weaknesses, Drawbacks, Social Well-being.



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Background:

GDP first came into use in 1937. Simon Kuznets, an economist at the National Bureau of Economic Research, presents the original formulation of gross domestic product in his report to the U.S. Congress, "National Income, 1929-35." His idea is to capture all economic production by individuals, companies, and the government in a single measure, which should rise in good times and fall in bad. GDP was born. After the Bretton Woods conference in 1944, GDP was widely adopted as the standard means for measuring national economies, though the U.S. actually used GNP as its official measure of economic welfare until 1991, after which it switched to GDP. Its use spread rapidly, becoming the defining indicator of the last century. But in today's globalized world, it's increasingly apparent that this Nobel-winning metric is too narrow for these troubled economic times.

When GDP was initially developed in the US in the 1930s and 1940s, the world was in the midst of major social and economic upheaval from two global wars and the Great Depression. President Roosevelt's government used the statistics to justify policies and budgets aimed at bringing the US out of the depression. As it became more likely that the US would become involved in World War II (WWII), there was a concern about whether this would jeopardize the standard of living of US citizens who were just beginning to recover from the depression. GDP estimates were used to show that the economy could provide sufficient supplies for fighting WWII while maintaining adequate production of consumer goods and services.

Beginning in the 1950s, however, some began to question the faith of economists and policymakers in GDP internationally as a gauge of progress. Some observed, for example, a tendency to accept GDP as an absolute indicator of a nation's failure or success, despite GDP's failure to account for health, distribution of wealth, discrimination and other constituent factors of public welfare. In other words, these critics drew attention to a distinction between economic progress and social progress. Others, like Arthur Okun, an economist for President Kennedy's Council of Economic Advisers, held firm to the belief that GDP is as an absolute indicator of economic success, claiming that for every increase in GDP there would be a corresponding drop in unemployment.

In recent decades, governments have created various nuanced modifications in attempts to

increase GDP accuracy and specificity. Means of calculating GDP have also evolved continually since its conception so as to keep up with evolving measurements of industry activity and the generation and consumption of new, emerging forms of intangible assets.

Today, GDP in particular and economic growth in general is regularly referred to by leading economists, politicians, top-level decision-makers, and the media as though it represents overall progress. In fact, a report released by the World Bank indicates that only long-term high rates of GDP growth (specifically a doubling of GDP each decade) can solve the world's poverty problem. Essentially, this is like measuring a building's energy use and saying that the more electricity used, the better the quality of life of the building's inhabitants. Although electricity powers some of life's amenities, a higher electric bill, as many people are beginning to find out, does not equate to a better life.

What is Gross Domestic Product (GDP):

Usually a nation's economy is measured and calculated in terms of Gross Domestic Product (GDP) numbers. In fact, it is an index of economic growth. Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well. GDP includes all private and public consumption, government outlays, investments, private inventories, paid-in construction costs and the foreign balance of trade (exports are added, imports are subtracted). Put simply, GDP is a broad measurement of a nation's overall economic activity. For the actual calculation of GDP, we need a base year. The base year is a benchmark with reference to which the national account figure is calculated. The base year must be a representative year and must not experience any abnormal incidents such as droughts, floods, earthquakes etc. It must be a year which is reasonably proximate to the year for which the national accounts statistics are being calculated. The base year has to be revised periodically in order to reflect the structural changes taking place within an economy, such as increasing share of services in GDP. The more frequently the base year can be updated, the more accurate the statistics will be. Countries all over the world follow different ways of fixing the base year.

The Strength of GDP:

GDP is commonly used as an indicator of the economic health of a country, as well as a gauge of a country's standard of living. Since the mode of measuring GDP is uniform from country to country, GDP can be used to compare the productivity of various countries with a high degree of accuracy. Adjusting for inflation from year to year allows for the seamless comparison of current GDP measurements with measurements from previous years or quarters. In this way, a nation's GDP from any period can be measured as a percentage relative to previous periods. An important statistic that indicates whether an economy is expanding or contracting, GDP can be tracked over long spans of time and used in measuring a nation's economic growth or decline, as well as in determining if an economy is in recession (generally defined as two consecutive quarters of negative GDP growth).

Gross Domestic Product represents the economic production and growth of a nation and is one of the primary indicators used to determine the overall well-being of a country's economy and standard of living. One way to determine how well a country's economy is flourishing is by its GDP growth rate. This rate reflects the increase or decrease in the percentage of economic output in monthly, quarterly, or yearly periods.

Gross Domestic Product enables economic policymakers to assess whether the economy is weakening or progressing if it needs improvements or restrictions, and if threats of recession or inflation are imminent. From these assessments, government implementing agencies can determine if expansionary, monetary policies are needed to address economic issues.

Investors place important on GDP growth rates to decide how the economy is changing so that they can make adjustments to their asset allocation. However, when there is an economic slump, businesses experience low profits, which means lower stock prices and consumers tend to cut spending. Investors are also on the lookout for potential investments, locally and abroad, basing their judgment on countries' growth rate comparisons.

Weakness in Calculation of GDP:

The economic situation of a country i.e. whether developed, developing or underdeveloped it is very essential for economist and national planner to know the impact of the fluctuation of economic sector to GDP, so that they can take corrective actions and measures the level of modernization and economic development of the nation.

Calculating gross domestic product (GDP) data of any country is a complex process. Ever wondered how many resources it takes to derive the single number. There are problems with the way we count GDP, which is why we need to be careful sometimes just talking about growth. This has raised questions over whether the doubts about the new methodology which we use to arrive at GDP numbers. GDP needs to be understood in a wider context particularly whether GDP growth is leading to jobless growth or job-creating growth. In many views it is needs to improve over the previous method and also in line with the methodology adopted globally to calculate GDP.

The government should change the base year for estimating GDP. This, however, is done routinely after every five years or so to keep the numbers contemporary and incorporate the changing structure of the economy. We should shift from factor-cost-based method to market-cost-based method. Many country's GDP is now measured by using gross value added (GVA) at market price, rather than factor cost. Simply put, the new formula takes into account market prices paid by consumers. It is calculated by adding GDP at factor price and indirect taxes (minus subsidies).

Raising doubts over the new GDP growth rate methodology, there is a need for better computation of numbers so as to avoid overlaps and capture the net gains to the economy. There are problems with the way we count GDP which is why we need to be careful sometimes just talking about growth. We have to be a little careful about how we count GDP because sometimes we get growth because of people moving into different areas. It is important that when they move into newer areas, they are doing something which is adding value. We do lose some, we gain some and what is the net, let us be careful about how we count that.

There has been a long overdue flurry of recent activity in developing better indicators of national progress, prosperity, well-being, and happiness. This activity has arisen from the growing recognition of the inappropriate misuse of Gross Domestic Product (GDP) as a proxy for these goals.

Problems Which Arise by Comparing GDP across Countries:

When comparing the GDP across different nations, problems could arise because all nations have different basic prerequisites. For instance, they have always different numbers of inhabitants, different economic

and ecological requirements and mostly different currencies. Comparing total GDP between nations demonstrates only the dimensions of the economies but gives no information about the productivity of the inhabitants of this country. Accordingly, other measures such as GDP per head of the employed population have to be used to generate a convincing comparison of the average output of each worker. This eliminates the problem of different numbers of workers at an economy and makes them more comparable. The second problem deals with the state of development of the different nations. Education, infrastructure, technology, mineral resources and political stability are only a few treats which contribute to the productivity of the workers and, hence, to a high or low GDP. To differentiate developed from developing countries, economists mostly classify nations into First, Second, Third and Fourth World economies. Accordingly, it makes no sense to compare just the GDP figures of two countries it also has to be clarified whether these two nations work at a similar economic level. Another problem which could arise by comparing GDP of different nations is the fact that almost all countries have different currencies. As a result, the amounts of GDP have to be transformed into an equal currency with the help of an exchange rate. Nevertheless, flawed figures could occur because the exchange rate does not consider the price level of each country. This could lead to different GDPs even if both countries have sold equivalent products and services. Accordingly, the purchasing power parities approach which considers such price levels should be used to prevent this mistake. This highlights that not only the amount of the GDP is required but also the way of how this value is calculated.

Nepalese Context:

The Central Bureau of Statistics (CBS), the official government agency that collects, processes, analyses and disseminates data. The CBS first launched national accounts figures in 1961/62. It has been producing these data on an annual basis since 1964/65. The CBS has been revising the base year for calculation of national accounts every 10 years. Many developed countries revise the GDP base year every five years. After updating the GDP basket, the CBS had changed the base year for calculation of national accounts to 2010-11 from 2000/01. The CBS had initiated the process of revising the national accounts base year to 2010/11 in 2015. But the devastating earthquakes of April and May 2015 prevented the CBS from revising the benchmark data. CBS will introduce the revised GDP basket in

2019. This means the national accounts for fiscal year 2018/19 will capture new goods and services that are not currently used in the calculation of the GDP. The revision will reflect changes in economic activities taking place in the country and capture areas, such as information technology (IT), which have not been covered by the national accounts.

The CBS has currently divided the economy into three broad sectors: agriculture, industry and, services. These three broad sectors have further been divided into 15 categories, namely, agriculture and forestry; fishing; mining and quarrying; manufacturing; electricity gas and water; construction; and wholesale and retail trade. Also, hotels and restaurants; transport, storage and communications; financial intermediation; real estate, renting and business activities; public administration and defense; education; health and social work; and other community, social and personal service activities make a big contribution to the economy. Since then, the CBS has conducted around 35 surveys to include economic activities that have not been covered by current national accounts.

Drawbacks of GDP:

Gross Domestic Product does not reflect the underground economy, which may be significant in certain countries. The black market or underground economy includes illegal economic activities, such as the sale of drugs, prostitution, and some lawful transactions that don't comply with tax obligations. In these cases, GDP is not an accurate measure of some components that play a large role in the economic state of a country. Income earned in a country by an overseas company that is remitted back to foreign investors is not taken into account. This overstates a country's economic output.

Conclusion:

GDP is an important part of the popular culture because it is a reference point for the health of local, regional, national, and global economies of Nepal or around the world. It is the easiest way to show what is happening to a particular economy. In today's complex business world it is very difficult to identify a measure which exactly highlights the activity of an economy and, additionally, the well being. The calculation of GDP includes the main treats of an economy. Thus, it is possible to make statements about its size. Nevertheless, it covers not all activities. Especially social factors are not recorded in this measure. By comparing GDP across countries some problems arise because it has to be adjusted at regional differences

such as different currencies and different price levels. However, in connection with other measures, it is definitely a good instrument to evaluate the economic performance of a country.

As a general rule, a high GDP is better than a low GDP, because a more productive economy is better than a less productive economy. More precisely, life is better when the GDP is rising, as long as inflation is not a problem. A rising GDP indicates that more goods and services are being produced, which means that people are (on the average) wealthier and have a better life. Moreover, a healthier economy leads to a more stable political system, which is good for everyone. For this reason, the goal of both politicians and central bankers is to raise the GDP of their country as much as possible without causing inflation.

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Prospects of Raising Per Capita Income to \$5,000 in a Decade

To raise Nepal's per capita GDP (in US\$) by the end of the decade to \$5,000 would call for an average annual growth at 18.9 percent for the decade. Raising the average annual growth of per capita income in the current US dollars from the present average growth of 5.1 percent to 18.9 percent, a 13.8 percentage points increase, would indeed be a miracle



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1. The Promise

One of the popular promises of the Government of Nepal has been raising the per capita income of Nepal at least to \$5,000 in the coming decade (2018/19-2027/28). Nepal's per capita income has traditionally remained below \$1,000. So, this message of quintupling the per capita income in a decade obviously seemed comforting for the average Nepalese. They welcomed the idea by their hearts as the message contained an ingrained element that they were soon going to be a part of their long-aspired prosperity in their own lives. They believed that the days of unemployment, low growth rate, price rise, poverty, and inequality were lost forever. They dreamed that their children would feed well, receive fine education and proper health service, and their bitter memories of decades of scarcities

and shortages would soon be over. They were particularly rejoiced at the possibility that their offspring will not have to frequent Malaysia and the Gulf countries in search of their bare minimum livelihood. According to the World Economic Outlook Database published by the International Monetary Fund in October 2017, Nepal's per capita income at \$883 had been the lowest among the 30 emerging and developing economies of Asia. In the SAARC region, per capita income of Nepal was lowest after conflict-torn Afghanistan's. In this perspective, the present article, by also citing international experience, attempts to enquire whether raising per capita income to \$5,000 within ten years' time would be an achievable proposition. In the article, per capita gross domestic product and per capita income have been used interchangeably.

2. Growth of Nepal's Per Capita GDP in Current US Dollars

Per capita GDP of Nepal in current US dollars during the past 38 years (1980-2018) witnessed an average annual growth at 5.1 percent (see Table 1). During the 38 years, per capita GDP in current US dollars declined in six years (1982, 1992, 1998, 2002, 2012 and 2016) while there was double-digit growth in eight years (1981, 1988, 2004, 2005, 2007, 2008, 2010 and 2017). Average annual growth of per capita GDP in current US dollars during the eight years (2004-2011) remained high at 13.5 percent. During the same period, average annual growth of per capita GDP at constant price (in domestic currency) or average real growth rate remained 3.1 percent. In the previous eight years (1996-2003), the per capita GDP in current dollars increased by an average of 1.8 percent compared to the 2.3 percent average rise in the per capita real GDP. During 1988-1995, the per capita GDP in current dollars

increased by an average of 2.4 percent compared to the 2.7 percent average rise in the per capita real GDP. During 1981-1987, the per capita GDP in current dollars increased by an average of 4.6 percent compared to the 2.0 percent average rise in the per capita real GDP. During the latest seven-year period, i.e., 2012-2018, the per capita GDP in current dollars increased by an average of 3.4 percent compared to the 3.2 percent average rise in the per capita real GDP (see Text Table 1). As the correlation coefficient (R) between these variables is 0.431 and coefficient of determination is 0.1858, there is weak relationship between per capita GDP in current dollars and per capita real GDP. This means that the determinants of the exchange rate with dollar may not be closely associated with the determinants of real economic growth, implying that pegging the per capita income in current US dollars as a goal of Nepal's economic policy may look fallacious, uncertain and distorting.

Text Table 1. Average Growth of Per Capita GDP in Current US Dollars and Per Capita Real GDP (Percent)

Period	Average Annual Growth of Per Capita GDP in Current US Dollars (Percent)	Average Growth in Per Capita Real GDP (Percent)
1981-1987 (7 Years)	4.6	2.0
1988-1995 (8 Years)	2.4	2.7
1996-2003 (8 Years)	1.8	2.3
2004-2011 (8 Years)	13.5	3.1
2012-2018 (7 Years)	3.4	3.2
38 Years Average:	5.1	2.7

3. Growth Scenarios for Attaining the Promise of Increasing the Per Capita GDP in Current US Dollars

If the historical trend of average annual growth rate at 5.1 percent is assumed to be prevailing in the coming decade, the per capita GDP should rise to \$1,452 at the end of the 10th year, much less than the promised \$5,000. Attaining higher growth than the growth attained in the past (i.e., 5.1 percent) would mean correspondingly higher per capita GDP, with the various scenarios being illustrated in Table 2. To attain the \$2,000, \$3,000 and \$4,000 target, the required average annual growth in per capita GDP in terms of current US dollars would be 8.5 percent, 13.0 percent and 16.3 percent respectively. To attain the \$5,000 target, the required average annual growth in per capita GDP in terms of current US dollars would be 18.9 percent, which is 13.8

percentage points higher than the past average growth of 5.1 percent.

4. Growth of Current GDP and Per Capita Current GDP (in US\$) in Selected Countries

Among the six selected Asian countries (see Table 3), the average annual growth of GDP size during the past 38 years (1980-2018) remained 10.4 percent in China followed by 7.8 percent in Sri Lanka, 7.2 percent each in India and Thailand, 7.0 percent each in Malaysia and Nepal, and 6.8 percent in Bangladesh. During the same period, per capita GDP in current US dollars grew by an average of 9.4 percent in China followed by 6.7 percent in Sri Lanka, 6.1 percent in Thailand, 5.3 percent in India and, and as mentioned before, 5.1 percent in Nepal.

5. Average Growth Rate Percent of Some GDP-based Indicators

Among the selected Asian countries, real GDP or GDP at constant price (national currency) grew by 9.5 percent in China, 6.3 percent in India, 5.7 percent in Malaysia, 5.2 percent each in Bangladesh and Sri Lanka, 5.1 percent in Thailand and 4.5 percent in Nepal (see Table 4). GDP at current price (national currency) grew by 14.8 percent in China, 14.5 percent in Sri Lanka, 13.5 percent each in India and Nepal, 11.7 percent in Bangladesh, 8.9 percent in Malaysia and 8.6 percent in Thailand. GDP at current price (national currency) grew at the similar rates (13.5 percent) in Nepal and India while the real GDP growth in Nepal averaged much lower (4.5 percent) than the average of real GDP growth in India (6.3 percent) for the reasons of higher productivity in India as well as the higher growth of GDP deflator in Nepal (8.6 percent) compared to that in India (6.8 percent). Lower growth of GDP deflator in Malaysia (3.0 percent), Thailand (3.3 percent) and Bangladesh (6.2 percent) resulted in higher growth of real growth despite their lower GDP growth at current price in comparison to that of Nepal.

6. Countries in the World that attained Higher Average Annual Growth Rate of GDP and Per Capita GDP

As Table 5 shows, countries that were successful in attaining the higher average annual growth rate of GDP at current price (in US\$) during 1980-2018 were the Equatorial Guinea, Maldives, China, Singapore, South Korea, Angola, Qatar and Bhutan with such growth rates remaining at 16.3 percent, 12.1 percent, 10.4 percent, 9.0 percent, 8.8 percent, 8.6 percent, 8.6 percent and 8.3 percent respectively. Likewise, countries with notably higher average annual growth rate percent of per capita GDP (at current price in US\$) during 1980-2018 comprised the Equatorial Guinea, Maldives, China, South Korea, Sri Lanka, Ireland, Singapore, Bhutan and Thailand, with such rates at 12.2 percent, 9.5 percent, 9.4 percent, 7.9 percent, 7.9 percent, 6.7 percent, 6.5 percent, 6.4 percent and 6.1 percent respectively (see Table 6). As depicted in Table 7, the foremost countries with the higher average annual growth rate of GDP at constant price (in national currency) during 1980-2018 comprised the Equatorial Guinea, China, Bhutan, Maldives, Vietnam, Lao PDR, India and Singapore, with such growth rates remaining at 13.4 percent, 9.5 percent, 7.5 percent, 6.9 percent, 6.6 percent, 6.5 percent, 6.3 percent and 6.2 percent respectively. Likewise, the average annual growth rate of per capita GDP at constant price (in

national currency) during 1980-2018 was 9.3 percent in Equatorial Guinea, 8.5 percent in China, 5.6 percent in Bhutan, 5.1 percent in Vietnam, 4.5 percent each in India and Maldives, 4.4 percent in Lao PDR and 3.8 percent in Singapore (see Table 7).

7. Nepal's Per Capita GDP (in US\$) in 2028 if per capita GDP grows by corresponding average annual growth rate as attained by countries with notably higher average annual growth rate

Nepal's per capita GDP (in US\$) by the end of the decade (i.e., 2028) could be projected based on experience of countries across the globe with notably higher average annual growth rate percent of per capita GDP (at current price in US\$) during 1980-2018. If Nepal could attain the highest average annual per capita GDP growth at 12.2 percent during the coming decade as achieved by Equatorial Guinea, Nepal's per capita dollar income at the end of the decade (i.e., 2028) would reach \$2,792 (Table 6). If Nepal could attain the average growth rate equal to that of Maldives (9.5 percent), then the per capita income at the end of the decade would be \$2,188. Likewise, if Nepal could succeed in attaining the average growth rate equal to that of China (9.4 percent), then Nepal's per capita income at the end of the decade would be \$2,168. Even if Nepal achieves the highest growth rate as attained by Equatorial Guinea (i.e., 12.2 percent), the resulting per capita GDP (\$2,792) would be 44.2 percent lower than the promised \$5,000. Equatorial Guinea found the fortunes in oil and gas reserves while Maldives could tap its tourism and fishery prospects. China has developed a super-giant economy mesmerizing the world with its record-surpassing growth and development miracle. In Nepal, such bounties of Mother Nature and miracles of human achievements have not yet been manifest.

8. Conclusion

To raise Nepal's per capita GDP (in US\$) by the end of the decade to \$5,000 would call for an average annual growth at 18.9 percent for the decade. Raising the average annual growth of per capita income in the current US dollars from the present average growth of 5.1 percent to 18.9 percent, a 13.8 percentage points increase, would indeed be a miracle. As per the Nepalese and global experience and trend for the past 38 years, it is estimated that the probable range of Nepal's per capita GDP achievable in 10 years' time will be \$1,452 to \$2,792,

which will represent 29.0 percent to 55.8 percent of the promised amount at \$5,000. Looking at the past trend and medium-term outlook for economic growth, Nepalese economy needs turnaround to meet even the reasonable needs and expectations of the people. For continued improvements in the economic conditions, the nation requires exploration of new avenues including discoveries and fuller utilization of new mines and other natural and financial resources, adaptation of new technologies and innovative production processes, making strides in generating employment opportunities and tapping prospects in human capital formation, adopting policies and regulations that incentivize nation's production possibilities to get transformed into actual development outcomes, and so forth. In the process, topmost attention and priority should be given for mitigating the infrastructure bottlenecks, trade union issues, supply-related uncertainties, problems concerning coordination, over-lapping, governance, and managerial inefficiencies. Besides, leakages and lower productive use of resources as well as inflation remain the serious bottlenecks and weaknesses vitiating the economic growth and development process, which need to be addressed on a priority basis. As the nation's engines of growth and development are fed, built, and strengthened by the continued development of favourable environment for higher and sustained investment, the government needs to develop and implement action plan encompassing all important sectors and activities bearing on the investment promotion as the crucial agenda of national development.

Further, it should be understood that the determinants of the exchange rate with dollar may not be closely associated with the determinants of real economic growth, implying that even fulfilling the promise of reaching the per capita income at \$5,000 mark in ten years' time may not bring desired impact on the people's lives. So, to speed up the economic growth and bring favourable impact on the people's lives, it is strongly urged that sincere, credible, and innovative efforts be made toward realizing the socio-economic objectives like generating more employment opportunities at home, creating infrastructure across the nation, augmenting human capital formation, controlling excessive trade deficit, maintaining fiscal consolidation and balance, fostering equity and inclusiveness in the society, and maintaining economy's internal and external stability. At the same time, for attaining Nepal's higher growth aspiration, the engine of economic

progress and prosperity would essentially depend on these four factors of growth, namely, (a) human resources (labor supply, education, skills, discipline, motivation), (b) natural resources (land, minerals, fuels, environmental quality), (c) capital (factories, machinery, roads, intellectual property, social overhead capital), and (d) technological change and innovation (science, engineering, management, entrepreneurship). To elucidate further, managing population including improving their education, health, and technical training is crucial. Land and natural endowments offer substantial opportunities for growth. As the elements of capital formation, the investment and saving rates need to be higher. Technological change, managerial efficiencies, and entrepreneurship development comprise an important source of growth.

Finally, in pursuance of progress and prosperity in a developing country like Nepal, following strategies of development are, therefore, worth considering: (a) raising productivity of farms instead of focusing on the capital-intensive, unsustainable industrialization, (b) drawing upon the capital, skills, and more productive technologies of advanced countries, (c) extensive reliance on markets (predominance of private property and ownership, openness in trade policy, low tariffs and few quantitative trade restrictions, promotion of small business, fostering of competition, and stable macroeconomic environment), and (d) outward orientation (improving efficiency and competitiveness, developing foreign markets, keeping trade barriers low, relying primarily on a private market system of profits and losses to guide production, reaping economies of scale and the benefits of international specialization, minimizing the interference with financial flows, and allowing supply and demand to operate in financial markets. The government has a vital role in establishing and maintaining a productive and healthy economic environment. It must ensure respect for the rule of law, enforce contracts, fight corruption, and orient its policies toward competition and innovation. Government must play a leading role in investments in social overhead capital—in education, health, communications, energy, and transportation—but it should trust the private sector where it has no comparative advantage. So, a firm commitment to tap nation's production possibilities by creating better climate for investment promotion will be of paramount importance for facilitating a higher growth trajectory for Nepal.

Table 2: Average Growth Percent of Nepal's Per Capita GDP (in current US\$)

Year	Per Capita GDP	Growth Rate Percent	Year	Per Capita GDP	Growth Rate Percent	Five-Yearly Average Annual Growth Rate	Ten-Yearly Average Annual Growth Rate
1980	133		1981	152	14.3	1981-1985: 4.8 percent (real GDP growth: 4.9 percent; real per capita GDP growth: 2.5 percent)	1981-1990: 4.6 percent (real GDP growth: 4.7 percent; real per capita GDP growth: 2.4 percent)
1982	150	-1.3	1983	160	6.7		
1984	166	3.8	1985	168	1.2		
1986	179	6.5	1987	182	1.7	1986-1990: 4.3 percent (real GDP growth: 4.6 percent; real per capita GDP growth: 2.2 percent)	
1988	210	15.4	1989	207	1.4		
1990	208	0.5	1991	222	6.7		
1992	196	-11.7	1993	205	4.6	1991-1995: 1.2 percent (real GDP growth: 5.2 percent; real per capita GDP growth: 2.4 percent)	1991-2000: 1.5 percent (real GDP growth: 5.0 percent; real per capita GDP growth: 2.6 percent)
1994	208	1.5	1995	220	5.8		
1996	222	0.9	1997	236	6.3	1996-2000: 1.8 percent (real GDP growth: 4.8 percent; real per capita GDP growth: 2.7 percent)	
1998	230	-2.5	1999	232	0.9		
2000	241	3.9	2001	244	1.2		
2002	244	-0.3	2003	254	4.1	2001-2005: 5.8 percent (real GDP growth: 3.6 percent; real per capita GDP growth: 2.1 percent)	2001-2010: 4.0 percent (real GDP growth: 4.0 percent; real per capita GDP growth: 2.7 percent)
2004	289	13.8	2005	321	11.1		
2006	351	9.3	2007	396	12.8	2006-2010: 13.2 percent (real GDP growth: 4.4 percent; real per capita GDP growth: 3.4 percent)	
2008	477	20.5	2009	483	1.3		
2010	595	23.2	2011	699	17.5		
2012	685	-2.0	2013	692	1.0	2011-2015: 4.8 percent (real GDP growth: 4.3 percent; real per capita GDP growth: 3.1 percent)	2011-2018: 4.3 percent (real GDP growth: 4.3 percent; real per capita GDP growth: 3.1 percent)
2014	710	2.6	2015	751	5.8		
2016	733	-2.4	2017	824	12.4	2016-2018: 5.5 percent (real GDP growth: 4.2 percent; real per capita GDP growth: 3.0 percent)	
2018	883	7.2	Average Annual Growth Rate Percent for 38 Years: 5.1				

Source: Calculations based on the World Economic Outlook Database published by the International Monetary Fund, October 2017

Table 3: Attaining Per Capita GDP of US\$ 5,000 in Ten Years (base year, i.e., 2018, per capita GDP at US\$ 883) as promised in the Election Manifesto of the Government: Possible scenarios of required average annual growth rate in Per Capita GDP in terms of US dollar at current price

Growth Rate Scenarios (Average Annual Percent Required)	To Arrive at PCI in 10 Years (\$)	Growth Rate Scenarios (Average Annual Percent Required)	To Arrive at PCI in 10 Years (\$)
5.1 (the same as in last 38 years)	1452	5.4	1,500
7.1	1,750	8.5	2,000
9.8	2,250	11.0	2,500
12.0	2,750	13.0	3,000
13.9	3,250	14.8	3,500
15.6	3,750	16.3	4,000
17.0	4,250	17.7	4,500
18.3	4,750	18.9	5,000

Table 4: Size of GDP (Current Price, US\$ Billion) in 1980 and 2018, Per Capita GDP at Current Price (US\$) in 1980 and 2018 and Average Growth Rate Percent during the 38-year period

Country	Size of GDP			Per Capita GDP		
	1980	2018	Av. Growth Rate (%)	1980	2018	Av. Growth Rate (%)
Bangladesh	22.6	273.6	6.8	274	1,660	4.9
China	305.4	13,118.7	10.4	309	9,377	9.4
India	189.4	2,654.2	7.2	276	1,989	5.3
Malaysia	26.4	340.9	7.0	1,900	10,490	4.6
Nepal	2.0	26.1	7.0	133	883	5.1
Sri Lanka	5.0	87.2	7.8	344	4,049	6.7
Thailand	33.4	466.6	7.2	719	6,745	6.1

Source: World Economic Outlook Database published by the International Monetary Fund, October 2017

Table 5: Average Growth Rate Percent of Some GDP-based Indicators, 1980-2018

Particulars	Bangladesh	China	India	Malaysia	Nepal	Sri Lanka	Thailand
GDP at constant price (national currency)	5.2	9.5	6.3	5.7	4.5	5.2	5.1
GDP at current price (national currency)	11.7	14.8	13.5	8.9	13.5	14.5	8.6
GDP deflator	6.2	4.9	6.8	3.0	8.6	8.8	3.3
Inflation (growth rate of average consumer price index)	7.4	4.8	7.2	2.9	8.5	13.4	3.2
Population	1.84	0.92	1.77	2.26	1.81	1.03	1.05

Source: Calculations based on the World Economic Outlook Database published by the International Monetary Fund, October 2017

Table 6: Countries Attaining Higher Average Annual Growth Rate of GDP at Current Price (in terms of US dollar) during the Past 38 Years, i.e., 1980 through 2018

Country	Average Annual Growth Percent	Country	Average Annual Growth Percent
Equatorial Guinea	16.3	Maldives	12.1
China	10.4	Singapore	9.0
South Korea	8.8	Angola	8.6
Qatar	8.6	Bhutan	8.3

Source: World Economic Outlook Database published by the International Monetary Fund, October 2017

Table 7: Countries that attained Higher Growth of Per Capita GDP at Current Price (US\$), 1980 and 2018

Country	Per Capita GDP		Av. Annual Growth Rate Percent of GDP Growth Rate	Nepal's Per Capita GDP (in US\$) in 2028 if Per Capita GDP grows by corresponding average annual growth rate
	1980	2018		
Equatorial Guinea	144	11,457	12.2	2,792
Maldives	413	13,195	9.5	2,188
China	309	9,377	9.4	2,168
South Korea	1,711	30,919	7.9	1,889
Sri Lanka	344	4,049	7.9	1,889
Ireland	6,250	74,493	6.7	1,689
Singapore	5,004	55,231	6.5	1,658
Bhutan	308	3,217	6.4	1,642
Thailand	719	6,745	6.1	1,596

Source: Based on World Economic Outlook Database published by the International Monetary Fund, October 2017

Table 8: Countries Attaining Higher Average Annual Growth Rate of Real GDP (i.e., at Constant Price in terms of national currency) during the Past 38 Years, i.e., 1980 through 2018

Country	Average Annual Growth Percent	Av. Annual Per Capita Growth Rate Percent	Country	Average Annual Growth Percent	Av. Annual Per Capita Growth Rate Percent
Equatorial Guinea	13.4	9.3	China	9.5	8.5
Bhutan	7.5	5.6	Maldives	6.9	4.5
Vietnam	6.6	5.1	Lao PDR	6.5	4.4
India	6.3	4.5	Singapore	6.2	3.8

Source: World Economic Outlook Database published by the International Monetary Fund, October 2017

Intellectual Property Rights Protection in Nepal

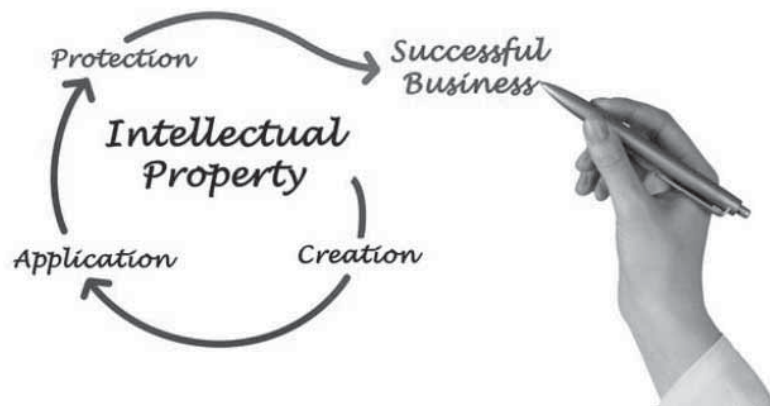
Intellectual Property Right (IPR) plays a vital role for economies to thrive in today's competitive world. Countries have been adopting rigorous legal and technical measures to secure the intellectual properties (IPs) which they consider very important to attract investments and also to secure their national interests.



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1. Introduction

What is Intellectual Property?

The World Intellectual Property Organization (WIPO), a specialized agency of the United Nations, refers to IP as "creations of human intellect, such as inventions, literary and artistic works, designs, symbols, names and images used in commerce." Traditionally, patents, designs, trademarks and copyrights have been considered major IPs. In recent times, database, trade secrets, indigenous knowledge and geographical indications along with publicity rights, rights against unfair competition and moral rights have also found place in the list of IPs. In this way, IPR refers to the legal rights obtained by institutions or individuals over the ownership and use of the IPs.¹

Intellectual Property Right (IPR) plays a vital role for economies to thrive in today's competitive world. Countries have been adopting rigorous legal and technical measures to secure the intellectual properties (IPs) which they consider very important to attract investments and also to secure their national interests. For businesses, IPR has become a valuable intangible asset which is necessary for their growth and sustainability. Protecting such assets creates an environment where they can invest to expand their businesses and engage in fostering innovations which in turn generate employment, besides adding revenue to the government offers.²

¹ World Intellectual Property Organization (WIPO)

² Securing IPR

2. Current IPR Scenario in Nepal

The history of IPR regime in Nepal can be traced back to the period of Rana Prime Minister Juddha Sumsher some 80 years ago. He enacted the Nepal Patent, Design and Trade Mark Act, 1993 BS in order to address IP related issues which had begun to surface gradually with the growing industrial and commercial activities. Eight decades after the implementation of the country's first IP law, it is an irony that the IPR ecosystem in Nepal is still in a nascent stage. Intellectual Property Protection Society of Nepal (IPPSON) has stated four factors that drive the engine of IP smoothly as; creation, promotion, protection and use of IP. Although, Nepal's IP ecosystem is moving at a snail's pace due to inadequacies in the remaining three driving factors of IP. On the other hand, the quality of IPR protection and its service delivery is extremely poor. IPPSON is an independent organization formed in 2012, which mentions there is no dearth of creative activities here coming out from academic and research organizations as well as technical professionals that produce literary, artistic, musical and scientific creations.

At present, IP activities in Nepal are limited only to the areas of trademark, design, patent and copyright. It is because the existing legal frameworks only cover these four aspects of IP. Presently, two separate laws, namely Patent, Design and Trade Mark Act, 2022 BS and Copyright Act, 2059 BS exist. To this date, there are some 4,000 maintained and valid trademarks but the annual application rate of patent and design ranges from zero to four which is quite disappointing. IP registration is not mandatory for copyright and so it does not indicate the total progress. Copyright activities in musical and cinematographic works appear satisfactory but the creators of literary and academic works are not aware about copyright even though creative activities are taking place.

There are little or no activities seen in other forms of IP including geographical indication, trade secrets, integrated circuit design and new plant varieties due to the absence of legal frameworks to govern these aspects. Factors such as traditional knowledge and indigenous technology, cultural expressions, digital data, bio-diversity and genetic resources and utility models, etc. are part of national interest.

Besides the far too inadequate legal framework, the absence of a specialized IP office, service institutions

and training centers also present difficulties in mitigating the 21st century challenges in properly managing IPR issues and fostering a favorable environment for the creators and innovators.³

3. National Frameworks on IPR Protection in Nepal

Laws

- Constitution / Basic Law
 - Constitution of Nepal, 2015 (2015)
- Main IP Laws: enacted by the Legislature
 - The Patent, Design and Trade Mark Act, 2022 (1965) (2006)
 - Copyright Act, 2059 (2002) (2002)
- IP-related Laws: enacted by the Legislature
 - Competition Promotion and Market Protection Act, 2063 (2007) (2007)
 - Foreign Investment And Technology Transfer Act, 2049 (1992) (2001)
 - Consumer Protection Act , 2054 (1998) (1998)
 - National Broadcasting Act, 2049 (1993) (1993)

Rules and Regulations

- Intellectual Property
 - Copyright Rules, 2061 (2004) (2004)

National Intellectual Property Policy, 2073 BS

The National Intellectual Property Policy, 2017 incorporates wide issues relating to IP with a view to develop balanced IP management system in Nepal. The policy seeks to:

- Develop new legal framework or revise the existing ones for copyright, patent, industrial design, trademark, geographical indication, plant species, trade secrets, integrated circuit, layout design, traditional and indigenous knowledge, traditional cultural expression and folklore, biodiversity and genetic resource in line with the country's needs
- Use existing traditional knowledge, biodiversity and geographical indication as a tool for national development

³ Views on IPR

- Use IP as a source for environment-friendly technology transfer, foreign investment, research promotion and development of technical capacity and knowledge
- Increase awareness about IP and its importance for the economic, social and cultural progress of the society
- Encourage commercialization of all forms of IP
- Develop strong laws and institutional and human resources to enforce protection of IPR
- Develop a separate institutional mechanism namely National Intellectual Property Council to enforce effective execution of policies set out in the National Intellectual Property Policy, 2017
- Develop a separate and integrated IP Office under DoI to look after the promotion, protection and recording of IPR

Patent, Design and Trademark Act, 2022

According to the Patent, Design and Trademark Act, 2022, the department of industry shall register the trademark in the name of the applicant based on necessary examination of a trademark application. The department shall conduct necessary investigation and provide sufficient opportunity to the applicant to defend his/her case and also conduct further inquiry before registering it.

The refusal of trademark application are based on following, if the applied trademark:

- Hurts the prestige of any individual or institution
- Affects the public conduct or morality or undermine the national interest
- Affects the reputation of the trademark of any other person is already registered in the name of another person

The registered trademark will remain valid for seven years from the year of registration and can be renewed every seven years for any number of times.

Copyright Act, 2022

Extends to the work of book, pamphlet, article, thesis, drama, dramatic-music, musical notation with or without words, audio visual works, architectural design, fine arts, painting, works of sculpture and woodcarving, lithography, and other works relating to architecture, photography, applied art, illustration,

map, plan, 3-D work relating to geography and scientific article and work and computer programme.

Grants the author of the work with the exclusive right to reproduce, translate and revise or amend the work, sell, distribute or rent the original and copy of the work for the general public, transfer or rent the right of audiovisual work, work embodied in sound recording, computer program or musical work in graphic form conferred to that author or owner, to publicly exhibit or communicate or perform the original or copy of the work in public and broadcast the work.

Registration of a work, sound recording, performance or broadcasting is not mandatory to acquire the right.

Enables reproduction of work by library and archives and for personal use, citation appropriate with referencing and teaching and learning purpose and for the purpose of information to the general public. But any of such reproductions shouldn't be detrimental to the economic rights of the work's author or owner.

4. International Treaties and Convention for IPR

Paris Convention for the Protection of Industrial Property

Under the Paris Convention, each member state must grant similar protection to nationals of other member countries that it grants to its own nationals.

Article 6bis of the Paris Convention seeks its member countries to refuse or cancel the trademark registration, and to prohibit the use of a trademark which constitutes a reproduction, an imitation or a translation, liable to create confusion, of a mark considered by the competent authority of the country of registration or use to be well known in that country as being already the mark of a person entitled to the benefits of this Convention and used for identical or similar goods.

The article 6bis allows at least five years' timeframe to request the cancellation of such a mark from the date of registration.

Trade-related Aspects of Intellectual Property Rights (TRIPS)

TRIPS came into effect on January 1995 as a multilateral agreement between WTO countries. Its major objective is to provide strong and comprehensive protection for various forms of IP throughout the world. It lays down

certain minimum standards for national governments for the regulation of copyright, trademarks, geographical indications, industrial designs, patents including the protection of new varieties of plants, layout designs of integrated circuits and undisclosed information including trade secrets and test data.

The agreement requires compliance of the most recent amended version of WIPO, Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention). The TRIPS principally mandates member countries to formulate domestic IPR enforcement procedures to allow right holders to exercise their IPR rights and remedies for the contravention of the agreement

Under the TRIPS, disputes are subject to the WTO's dispute settlement procedure.

The agreement requires developed countries to provide incentive to their enterprises to facilitate transfer of technology and forge technical and financial cooperation with LDCs to enable them to implement the agreement

The article 27.3 (b) of the TRIPS agreement enables the patentability of seeds and plants other than non-biological and micro-biological processes. The provision is contentious as it may lead to appropriation of indigenous knowledge and resources.

Berne Convention for the Protection of Literary and Artistic Works

The Berne Convention governs copyright law thus protecting works and rights of authors, musicians, poets, photographers, painters, etc. The convention provides them authority to have control over the reproduction or any other form of use of their works.

5. Preserving Competitiveness

IPR has to be formulated such that it is advantageous to both producers and consumers, and is conducive to the social and economic welfare of the country. As Nepal struggles to formulate and implement relevant IP protection laws, many developed countries are gaining from our weakness. Nepal may have lagged behind in technological assets, but we have rich cultural and natural assets. It is important to protect these assets using IP so that the nation and local populations can benefit from them. In Nepal's case, we need to not only focus on being competitive in producing new ideas, but also on protecting the creative knowledge that we already have, which spans from herbal

medicines and indigenous knowledge to traditional art and patterns. With the lack of adequate IP protection, we are promoting a suitcase culture in Nepal in two ways. First, biological 'samples' are being taken to foreign countries in suitcases that are researched and patented, building on indigenous knowledge. Second, young and innovative minds are leaving the country with a 'suitcase of hope' for better opportunities, and their creative ideas are being patented elsewhere. Other challenges, like the process of patenting pharmaceutical drugs and agricultural seeds and plants, making these products prohibitively expensive and creating technological dependence of developing countries on industrialized countries, is another level of discussion. These internal and external challenges should be addressed urgently.

As much as we are excited about the increasing number of trademark and copyright applications in Nepal, there also exist issues like counterfeiting, copyright infringement and other piracy practices that go unpunished. These violations have been voiced repeatedly in the media, forums and op-eds by experts. Enforcement of strict laws against alarming IP violations should be the government's priority.

6. Inability to Reform Law

The increasing IP insecurity is tied to Nepal's inability to reform or update laws in accordance with various international treaties which it signed many years ago. The country became a member of WIPO in 1997 and a signatory to the Paris Convention for the Protection of Industrial Property in 2001. The country signed the Trade-related Aspects of Intellectual Property Rights (TRIPS) agreement after its ascension to the membership of the World Trade Organization (WTO) in 2004. Similarly, Nepal joined the Berne Convention for the Protection of Literary and Artistic Works in 2006. Nevertheless, the government has not been able to reform or update the existing IPR laws in line with the landmark global deals. Nepal has been continuously receiving extension of deadlines to update or reform its existing IPR laws and policies to meet its commitments. For instance, the deadline for implementing the convention for Nepal has been extended thrice. The country, after missing the first deadline in 2006, was provided the period of 2007-2015 to update and reformulate its existing IPR law which has now been extended to 2021. This indicates the apathy of the government and lawmakers towards the importance of the international treaties and conventions signed by the country. Nonetheless, Section 9 of the Nepal Treaty Act, 2047 BS, clearly

states that global treaties signed by Nepal shall be enforceable as any Nepali law. So, in this respect, the treaties are legally binding for us.

Similarly, Nepal is yet to become a signatory to other international agreements related to IPR. Despite being a member, the country hasn't signed the WIPO's Copyright Treaty and Performances and Phonograms Treaty.⁴

7. Conclusion

Nepal has natural resources, unique skills, and indigenous knowledge, which can be transformed into intellectual properties (IP). However, the country still ranks 109 in the Global Innovation Index when measuring the innovation performance of 127 countries. A major factor affecting Nepal's performance in this index is innovation output in the form of IP. Intellectual property frameworks in the context of least developed countries (LDCs) like Nepal, where IP rights (IPR) only exist in rhetoric, should be contextualized as per the country's needs, interest, and competitiveness, to turn IPR into practice. Nepal's participation in filing IP nationally is alarmingly low. What is stopping us from being competitive? Are we missing the context in trying to innovate and create in Nepal?

Not there yet

Since Nepal joined the World Intellectual Property Organization (WIPO) in 1997, it has entered important treaties like Protection of Industrial Property in 2001 and Protection of Literary and Artistic Works in 2001. One of the most popular treaties that Nepal has signed is the Trade-Related Aspects of Intellectual Property

Rights (TRIPS) agreement in 2004. The main objective of the TRIPS agreement is to address the needs of LDCs for maximum flexibility, to enable an environment for building a sound technological base. Pursuant to recent treaties, Nepal has committed to raise IP protection standards within a grace period. However, even with extended deadlines, the adoption of those standards is not yet fulfilled. Nepal is plagued by two key issues with respect to IP: lack of formal laws against rampant forms of IP violations like piracy and counterfeiting, and inability to enforce existing laws against the violators.

In spite of these issues, there has been a steady rise in the number of trademarks and copyrights filed in Nepal. According to WIPO and Nepal Copyright Registrar's Office statistics, 3,357 trademarks (in 2016) and 167 copyrights (from April 2016 to February 2017) were registered in Nepal. However, the trend in the filing of patents and industrial designs needs serious attention. Only 11 patent of the applications were filed in 2016 from Nepal, out of which only two were granted. Unfortunately, most of the granted patents have expired, leaving only the two most recent ones in force. Clearly, the Nepal's IP protection effort is not enough to match the rapid global increase in IP activities. With the globalization of the world economy, it is imperative for a country like Nepal to maintain competitiveness for its development. The lack of IP protection in Nepal and other LDCs has created a hostile environment for domestic and foreign investment, which is needed to accelerate country's economic growth. Thus, it is crucial for Nepal to acquire the ability to develop, protect, and commercialize innovative skills and knowledge. ■

⁴ *World Intellectual Property Organization (WIPO) Country Profile - Nepal*

Dimension of Labor Laws: Labor Audit Perspective

The Labor Act 2017 has recognized in its preamble that the purpose of enactment is because of the requirement to ensure laborers' rights, benefits and facilities in one side and on the other to balance between the workers and employers by securing their rights and duties for promoting sound industrial relation and elimination of all forms of exploitation to increase in industrial productivity.



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Background

Sound industrial relation is landmark for economic development. Industrial disputes are common phenomenon around the world. If they are not settled in timely and proper manner, it becomes serious menace to the society. Hence, they require early solution, if not to eradicate then at least to mitigate them in the very beginning. Employers paid their sole attention in their investments, services and industrial improvements including production and supply whereas employee uses their best efforts in terms of knowledge, skills and labor. Traditional concept of master and servant has been shifted to employer and employee and they are considered to be the two sides of a coin and their equal efforts

and satisfaction are must. In this reference, the Supreme Court of Nepal has also pronounced in the case of *Hulas Metal Craft v. Ministry of Industry and Commerce*¹ that there requires balancing the relation between employer and employee as the disputes will have potential risk in the national economy. It is therefore sound, adequate and balancing laws related to labor and employment is must in each economy. In this background the new labor laws and regulation has been instrumental in Nepal.

Enactment of Labor Law and Basic Contents

Realizing the importance of balancing the relation of employee and employer and managing industrial relation, the year 2017

and 2018 became landmark in Nepal. Highly awaited Labor Act 2017, Contribution Based Social Security Act 2018 has been enacted by the Legislative Assembly apart from the adoption of Labor Rule 2018 and Contribution Based Social Security Regulation 2018. Upon enactment of these Acts, it is expected that the laws will create new dimension in the labor market by balancing best interest of employer and employee.

The Labor Act 2017 has recognized in its preamble that the purpose of enactment is because of the requirement to ensure laborers' rights, benefits and facilities in one side and on the other to balance between the workers and employers by securing their rights and duties for promoting sound industrial relation and elimination of all forms of exploitation to increase in industrial productivity.

The Labor Act 2017 has introduced various new provisions and interpretation the terms salary to include basic salary and allowances. The employer is defined to denote company, private firm, partnership firm, cooperative and other organization registered and operated as per prevailing laws having objective of earning profit or for non-profit and also includes International Non-Governmental Organization (INGOs) under non-profit enterprises as it was under confusion previously. In addition the Labor Act 2017 has also introduced mandatory requirement of employment agreement and appointment letter, issuance of experience letter, regulation and licensing of outsourcing entities, categorization of employees, social security including gratuity entitlement from the first day of service, extension of maternity leave and benefits including paternity leave, sexual harassment at workplace and penalty, performance appraisal, mandatory insurance against medical and accidental, wider and clear procedure of dispute settlement, compulsory framing of policy for health and safety, festival allowances and likewise. Among many new dimensions introduced, Labor Audit is one of the important aspects of Labor Act 2017.

Labor Audit and Auditor

Inpromoting the proper implementation of laborlaw, for the first time in history of Nepali legislation, the requirement of Labor Audit was envisaged. The Labor Act 2017 has made mandatory provision of conducting Labor Audit by employer. Labor Audit is one of the fundamentals to correct the imbalance

of power between the employee and the employer by protecting their various rights. Like any financial audits which are undertaken annually to evaluate financial status of an employer, Labor Audits provide a systematic means for employers to determine their exposure to employment lawsuits and to minimize potential liability by taking preventative action. Provision of Labor Audit is thus introduced to determine the employees' attitude towards the employer, to identify possible areas of vulnerability and to review the compliances of the employer's policies and procedures along with the prevailing local labor laws.

In this reference, Labor Act 2017 prescribes the requirement of Labor Audit to be done by employer in order to identify whether the work-related activities are done through due process of prevailing Labor Act 2017, Labor Rules 2018 and other existing laws of Nepal and prepare a report of it.²As labor law audits are integral in today's industrial world, for the proper functioning of and safety for employees and assurance of availability of minimum contents guaranteed by the labor laws and regulations within an establishment in line with the principles laid down by laborlaws, Labor Audit is important component introduced. In this perspective the Act requires that Labor Audit shall be conducted within Mid-January of each year(End of Poush) through the employee of managerial level who meets the criteria prescribed by the concerned Ministry or through any individual or organization related to labor sector.³In case where the Labor Office or the Invigilator claims to see the report of Labor Audit, then such shall be made available to them by the employer.⁴ The Labor Audit Standard also prescribes that the Labor Auditor shall possess minimum bachelor degree and shall have at least Two Years' experience in the management of any organization.⁵

Contents and Methods of Labor Audit

The Ministry of Labor Employment and Social Security has introduced Labor Audit Standard 2018. The Standard articulates that the purpose of the Labor Audit is to effectively implement the legal provisions of Labor Act 2017 so that the employees' rights and benefits are secured for the purpose of enhancing industrial production.⁶ It further articulates that the Labor Audit intends to develop the standard of law and policy implementation, enhance ownership towards employer by minimizing

employees' grievances, reducing the work load of surveillance, investigation and monitoring of the Government and making responsible to the employer in terms of legal compliances. The Labor Act and Rules prescribe about the contents that Labor Audit should include ensuring the employer has confirmed the adoption of Labor Act and have various provisions and benefits employees are entitled.

As per the Schedule of the Labor Rule 2018, the Labor Audit requires to demonstrate details of employee based on their employment categorization, status of appointment of employees, attainment of work permit and work permission in case of foreign employees, employment agreement and major contents, engagement of children and interns, trainees' benefits on equal basis, part time employees, social security benefits, working hours, interval and overtime payment, transportation facilities for women workers, minimum remuneration, annual grade increment, time of salary payment and festival allowance, leave provisions and facilities, provident Fund and gratuity entitlement, medical and health insurance, status of license if employees are outsourced from any outsourcing company, health and safety measures, formulation of by-laws by the entity and its distribution to concerned bodies and employees, conduction of performance appraisal, information about ongoing or settlement of individual and collective dispute settlement, status of any litigation, compromise, decision and judgment from Labor Court. Apart from arrangement of having contribution of social security fund, distribution of bonus and trade union are major contents to be briefed in the Labor Audit.⁷

Regarding methodology of conducting the Labor Audit, the Standard mentions that the employer or the Labor Auditor shall carry various methods to finalize his report such as collection of overview of the employer and analysis of the details, field visit and observation of the employer, interview or other necessary methodology as required. In this process the employer is obliged to submit the actual description of the employer and employee, the remuneration to the Auditor and benefits and providing necessary support to the Labor Auditor.⁸

Accuracy of Labor Audit

The Labor Act 2017 requires the Labor Auditor to ensure the description mentioned in the Labor

Audit shall be true and fair. The Labor Auditor requires to produce the report based on accurate scenario of the employer.⁹ The Auditor should be independent person and should not come under influence of any financial benefit or reassurance from an employer.¹⁰ Labor Auditor shall ensure that except any report need to be produced, important and confidential document should be kept on top confidence and avoid any disclosures.¹¹ To avoid any intentional fallacy in the Labor Audit, the Labor Act has also provisioned penalty in such cases. The Act provides that if any false detail is found in Labor Audit, the Labor Auditor or entity presenting such false report are penalized for each time with the amount up to NPR 20,000 by Labor Office¹² and requires to be produced to the Central Bank if it is related to banking and financial institutions, to the concerned District Administrative Office if it is related to Non-Governmental organizations and other concerned authorities related.¹³

Opportunities and Challenges

The importance of conducting periodic and systemic Labor Audit introduced first time by the Labor Act 2017 is instrumental to ensure minimum standards and requirement enshrined in the Act and shall be adopted and followed by the employer. The audit process allows employers to proactively identify and correct their own gaps, problems of existing practices and compliances of the laws and regulation. The audit will also avoid the more costly alternative of having the problems addressed by legal action. The Labor Audit confirms that labor law compliances are properly carried out in a detailed, elaborated and systematic fashion and the employer gets an upper hand in the event of any difficulties or hassles created by the Government authorities and this works effectively even to keep interference by non-Government elements at bay. Because of these benefits and opportunity of avoidances of consequences, employers should treat Labor Audits just as seriously as financial audits they conduct annually.

As the legal audit is newly introduced provision, Auditor requires expertise knowledge of this Labor Audit function and labor laws and associated laws and regulation, conducting Labor Audit is not less challenging. Labor Audit stands different footing from financial audit, as Labor Audit is more operational aspect of functioning. Hence, the Labor Auditors

are expected to conduct the audit functioning minutely and identify the areas of improvements. Labor Auditing aims to serve to spread awareness about large number of compliances requirement. The Auditor is also expected to deliver various suggestions regarding the areas of improvements and strategies to meet such requirements at the end of report. The audit report also expected to give references of particular provisions so that employers finds easier to trace out. Because of this various aspect to be inculcated into the report, the job of Labor Auditor is challenging and the function itself is challenging. Due to new provisions and lack of adequate information and practices, conducting legal audit for initial few years is challenging and the consequential threat posed by the Labor Act 2017 regarding penalty for any errors committed negligently or intentionally or under undue influence of the employer may not encourage the qualified individual to carry legal audit other than organized employer.

Endnotes

- 1 Writ No- 935, 2027 BS, Supreme Court of Nepal, *Supreme Court Precedent on Labor Laws*, Part 11, (2006)
- 2 Labor Act 2017, Section 100(1)
- 3 Labor Rule 2018, Rule 56(1)
- 4 Labor Act 2017, Section 11(2)
- 5 Labor Audit Standard 2018, Standard No 5
- 6 Labor Audit Standard 2018, Standard No 4
- 7 Labor Rule 2018, Schedule 10
- 8 Labor Audit Standard 2018, Standard No 7
- 9 Labor Audit Standard 2018, Standard No 8 (a)
- 10 Labor Audit Standard 2018, Standard No 8 (b)
- 11 Labor Audit Standard 2018, Standard No 8 (c)
- 12 Labor Rule 2018, Rule 56(3)
- 13 Labor Rule 2018, Rule 56(4) ■

The Future Chartered Accountant: Past Reflections, Future Imagination

In Nepal, the imagination of Chartered Accountants is often limited to getting on the boards of institutions, seeking political appointment or getting a seat in regional entities. What is required is a transformation in thinking about careers that puts long-term future at the center. My world has revolved around adaptability and being able to constantly adapt to meet ever-changing needs



**MAKE
—YOUR—
FUTURE**

When I qualified as a Chartered Accountant in 1992, I was the 75th one to hold this distinction in Nepal. In those days, Chartered Accountants enjoyed many privileges due to their limited supply. Among these were lateral entry into government organizations and corporations. Back then, Chartered Accountants were at the helm of institutions and held the reputation of being agents of transformation.

One of the biggest changes the profession saw was due to the advent of affordable personal computers, which gave rise to a world of hardware and software that drove accounting and finance that had previously relied on human competencies. With the rapid growth in economic activity, specialization became the name of the game. There were Chartered

Accountants specializing in Finance who went on to pursue further management education. I, for one, took additional certification courses in Finance and later even acquired a degree in Marketing from Boston University. When I became the President of Tara Management and Bhote Koshi Power Company in 2006, I had finished several certification courses in various management disciplines. However, one thing dawned on me, it is not the software or hardware that make or break organizations, it is the people.

With this awareness, I left a twenty-year career in the corporate world to explore a world where people were at the center of an organization by starting a management consulting firm. Doing so allowed me to work with a diverse set of clients



CA. Sujeev Shakya

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and reinforced my belief that an organization's people make the difference. I was prompted to dive deeper into this issue and thus went to on to get a Certification in Coaching from Columbia University in 2012. This was a turning point for me and is when I started using a triangular approach to organizations—be it for-profit organizations or not-for-profit. I look at finances through knowledge I acquired through my training as a Chartered Accountant, supplemented by various courses. I look at brands and marketing through knowledge gained from my courses and my experience of working as a C-Suite professional. Finally, I explore the corporate world through the eyes of the human capital. This tri-dimensional approach has given me a unique opportunity to triangulate and bring together perspectives that many people miss.

When I started beed, I had already been writing columns on economic issues for close to a decade and decided to institutionalize my writings through a book. *Unleashing Nepal* was published by Penguin first in 2009 and thereafter a revised edition was published in 2013. With a keen interest in reaching a wider audience in Nepal, I started writing for Kantipur daily and in May 2018, I released my first book in Nepali, *Arthat Arthatantra* (It's the Economy). Business environment and political economy are key to the survival of any business or organization. This realization is crucial for better understanding and preparing for the future in terms of one's own career.

I thought it would be interesting for young budding Chartered Accountants and others thinking of career moves to get a perspective on how it is important to move with the times and have a broader perspective. As Chartered Accountants, we are trained to be focused, but the world demands the opposite.

So What Is Cooking?

The future is interesting and Nepal is in the middle of a big transformation in the region. If we draw a line from Beijing to Mumbai, the line will pass through the outskirts of Kathmandu. In 2050, Nepal will be in the middle of two large economies—China and India, that together will make up 35% of global GDP. By 2030, Nepal will hopefully be a USD 100 billion economy with a per capita income of approximately 2,500. This means that everything that is reducible to monetary terms will have grown three times!

At the same time, 2030 has larger implications. UN's Sustainable Development Goals (SDGs) are set to be achieved by 2030 and concerted action need to be

taken to meet the Intergovernmental Panel on Climate Change (IPCC) target of keeping temperature increase to 1.5%. The realization of these targets will lead to many innovations in line with newer concepts such as Circular Economies and sustainable businesses. The lines between for-profits and not-for-profits will also have blurred as there will be a need to focus on inter-dependability as well as collaboration between various organizations across fields, spectrums and geographies.

Preparing for the Future

Reflecting on my own past of how changes in the wider led to shifts in career, it is important to consider how one can better prepare for the future. Like an MBBS has been considered a basic qualification for doctors for decades, Chartered Accountant is now similarly a basic qualification and not a specialized one. Therefore, one needs to look at the possibility of undertaking supplementary training and acquiring additional professional qualifications. With the advent of online courses, many of which are free, it is easy to go through courses, but it is getting difficult to find ways to improve human interaction and skills relating to communication—both written and spoken. From a person sitting in the back office, the Chartered Accountant has now moved to the forefront and now has direct interactions with end customers, be it in banking, insurance, corporate or not-for-profit organizations.

Chartered Accountants may want to expand their horizon of understanding economics and the models around which countries function. Cost-benefit analysis will become ever more important as the question of what is the impact on the environment will regularly be asked. Human capital contribution measurement will be next as the people who will be behind machines, algorithms and artificial intelligence will be expensive and demanding. Further, there will be tools to measure efficiency and productivity.

In Nepal, the imagination of Chartered Accountants is often limited to getting on the boards of institutions, seeking political appointment or getting a seat in regional entities. What is required is a transformation in thinking about careers that puts long-term future at the center. My world has revolved around adaptability and being able to constantly adapt to meet ever-changing needs. This is my way of adapting to change, other people may of course have different ways of thinking. Please feel free to agree or disagree, but be tolerant of different perspectives. ■

**LARGE TAXPAYERS OFFICE, HARIHAR BHAWAN, LALITPUR
VS.
BIRENDRA KUMAR SANGHAI on the behalf of
PASHUPATI CEMENT PVT. LTD.**

(Decision No. 10005, Vol.5 Bhadra 2075)

Compiled and Translated by
Sushery Nepal, Abhinawa Law Chambers'

1. INTRODUCTION

A. Parties:

- i. Large Tax Payers Office, Harihar Bhawan, Lalitpur: *The Appellant*
- ii. Birendra Kumar Sanghai on behalf of PAN No. 500013168 Shri. Pashupati Cement Pvt. Ltd: *The Defendant*

B. Court of Adjudication: Division Bench, Supreme Court.

C. Judges:

- i. Hon'ble Justice Deepak Raj Joshi.
- ii. Hon'ble Justice Ishwar Prasad Khatiwada.

D. Date of Judgment: 2074/01/19

E. Relevant Laws: Income Tax Act, 2058

2. DESCRIPTION/ BACKGROUND INFORMATION

A. Facts of the Case:

Pashupati Cement Pvt. Ltd (the Defendant) made a self-tax assessment for the fiscal year 2063/064 and submitted the taxable amount of Rs. 63,89,250 to Large Tax Payers Office, Harihar Bhawan, Lalitpur (the Appellant) on 2064/9/29. On 2064/9/17, the Tax Office notified the Defendant to make an amendment to the said tax assessment and gave 15 days' time for the submission of proof and evidence for such assessment since the Defendant had not included profit or loss amount in its tax

assessment as per Income Tax Act 2058, and moreover had claimed waiver of some amount which was not deductible.

The Defendant in its reply stated that it has given Rs.1, 89, 22, 656/- to Diamond Cement situated in Madhya Pradesh in India to buy raw materials, and the amount had not yet arrived in the year 2063/64. Nevertheless, Diamond Cement sent back certain amount of money and had sent raw materials for the remaining amount afterwards in the year 2064/65. The Defendant claimed to make tax assessment by deducting interest for the aforementioned amount.

The Appellant affixed the taxable amount of the Defendant at Rs. 73,09,361 through a notice. However, the Defendant submitted an application to the Inland Revenue Department (IRD) asking to declare such determination null and void. However, the IRD sustained the decision of the Tax Office reasoning that it is in consonance with S.7 and S.14 of the Income Tax Act, 2058.

The Defendant filed an appeal before Revenue Tribunal in Kathmandu challenging the decision of the IRD.

Revenue Tribunal reversed the decision of Inland Revenue Office stating that where the tax payer has submitted clear ground and evidence for the tax deduction, the decision made by Tax Office and determination of amendment of tax assessment which was later upheld by IRD is not correct.

The Appellant then filed an appeal to the Supreme Court.

B. Question/s (Issue/s) before the Court:

The following issue was identified in the present case:

1. Whether the Appellant has reasonable ground for appeal?
2. Whether the interest on advance amount (Rs 1,89,22,656) sent to the Indian Diamond Cement for buying raw materials necessary for Pashupati Cement is deductible or not?

C. Judgment:

The court decided that the amount claimed by the Defendant does not fall within the criteria of debt liability which is deductible from income tax for the year 2063/64. Moreover, Section 14 (1) of Income Tax Act, 2058 has asserted a clear provision that interest on debt liability could be deducted for an income year if such a debt liability was created for the act in which income is earned from business or investment, or if debt liability has been created for having borrowed any amount, and that amount has been used in that year or used to buy any property used in that year.

The court held that the decision of the Revenue Tribunal stating that the interest on advance amount to the Indian Diamond Cement is to be deductible, is against the principles of income-tax, and is therefore reversed. The court validated the decision of the Inland Revenue Department which sustained the amendment prescribed by the Tax Office.

3. CRITICAL ANALYSIS

The law has recognized a definitive standard to determine the parameters of making one's income taxable. Nevertheless, the same law also provides liberty to the taxpayer to make self-assessment for exemption or deduction if their expenses are in accordance with and within the ambit permitted by law.

Certain principles guide income determination. The nomenclature of 'income-tax' itself suggests that one's 'income' is 'taxable'. In the present case, it is apparent that the taxpayer Defendant did not obtain the raw materials for which they had received the loan. The Appellant made a claim that the loan taken from the bank was not utilized for the business purposes, and hence

the decision of the Revenue Tribunal must be reversed. On the other hand, the Defendant have stated that even though the raw materials were not received immediately, some amount of money was eventually sent back in the Financial Year 2065/066 BS and some materials were recovered in 2065/066. They have also claimed that interest expenses should be exempted since the money borrowed from the bank has been used for the arrangements of the industry itself.

In other words, the taxpayer (the Respondent) have accepted that they have not imported any materials from the aforementioned amount in the Financial Year, 2064/65. Further, it is undisputed that the amount of Rs. 1,89,22,656/- was not spent for any commercial transaction to generate income in 2065/66 B.S. The Appellant has pleaded that interest on advance amount should not be deductible since the said amount has not been utilized to generate income.

Here, the law in dispute is Section 14 (1) of Income Tax Act, 2058. The impugned provision reads as follows:

"Any person may, for the purpose of computing his income from any business or investment in any income year, deduct all interests chargeable in that year under the following debt liabilities of that person: -

- (a) *If the debt liability has been created for having borrowed any amount, and that amount has been used in that year or used to buy any property used in that year, or*
- (b) *That debt liability has been created in any other circumstance. Provided that, such a debt liability has to be created for the act in which income is earned from a business or investment.*

As per the legal arrangement cited above, if the debt liability has been created for having borrowed any amount, and that amount has been used in that year or used to buy any property used in that year. Any amount that is not brought into utilization in that same year may not be deducted in the garb of interest expense according to S. 14 (1). Moreover, the Defendant have themselves conceded that some raw materials were not made available to them, out of the total amount borrowed from the bank. In such a circumstance, the honorable Supreme Court has rightly held that

tax exemption in the name of interest deduction on amount which was not even made available to income generating business, would be against the spirit of law.

Where tax deduction is claimed by tax payer and where the decision makers have wrongly interpreted the clear legal provision, condescends the generally accepted principle of taxation. In Large Tax Payers Office, Harihar Bhawan, Lalitpur vs. Arihant Multi Fibers Ltd (Decision No. 8862, Decision Date: 2068/05/06), the honorable Supreme Court has meticulously examined the spirit of Section 14 (1) of Income Tax Act, 2058. They observed that according to section 14(1) (a) and (b) of the Income Tax Act 2058 the following conditions has to be fulfilled in order to obtain deduction on debt liability:

- a. *The loan taken for fiscal year has to be used in the same financial year or has to buy the property in the same year.*
- b. *The obtained loan or its liability must be used only in the conduct of its business or to earn income*

In the present case, the Defendant have not used the loan borrowed from the bank in the same financial year. Thus, decision of the Revenue Tribunal to give exemption on the ground that the interest on advance amount to the Indian Diamond Cement is to be deductible, is seemingly contrary to the precedent established by the honorable Supreme Court. Therefore, the decision of the Supreme Court to reverse the order of the Revenue Tribunal is in consonance with the principles of taxation and the statutory legal provision regulating income tax. ■

**PRAKASH NARAYAN SINGH on behalf of
NEPAL ELECTRICITY AUTHORITY, BIRATNAGAR
VS.
AAKRITI ADVERTISING PVT. LTD.
(Decision No. 9911, Chaitra 2074)**

Compiled and Translated by
Sushery Nepal, Abhinawa Law Chambers'

1. INTRODUCTION

A. Parties:

- i. Prakash Narayan Singh on behalf of and authorized by Nepal Electricity Authority Distribution Center, Biratnagar: The Applicant.
- ii. Aakriti Advertising Pvt. Ltd. located on Morang District, Biratnagar Sub-Metropolitan, Ward No.3: The Respondent.

B. Court of Adjudication: Division Bench, Supreme Court of Nepal.

C. Judges:

- i. Hon'ble Justice Cholendra Shumsher Jung Bahadur Rana, and
- ii. Hon'ble Justice Meera Khadka

D. Date of Judgment: 2073/11/24

E. Relevant law/s: Self Governance Act, 2055

2. DESCRIPTION/ BACKGROUND INFORMATION

A. Fact of the Case:

The parties had entered into an agreement on 2069/09/02 to put hoarding boards on electricity poles, pursuant to which Aakriti Advertising Pvt. Ltd (the Respondent) had been depositing the negotiated amount to the Nepal Electricity Authority Distribution Center, Biratnagar (the Applicant). On 2071/04/01, the municipality entered into an agreement with Codex Advertising Pvt Ltd. for collection of taxes within Biratnagar Sub-Metropolitan region.

The Respondent then filed a writ petition claiming to issue mandamus (writ no. 04-070-0306) against Codex Advertising Pvt. Ltd. in the Appellate Court, Biratnagar, after they started to take out its hoarding boards. The court, however, quashed the writ petition stating that there is no legal provision regarding the power of Nepal Electricity Authority, Biratnagar (NEA) to collect fees for keeping the hoarding board on its electricity poles thus, the Respondent cannot claim that its legal rights are infringed, arising out of an unauthorized contract between the Applicant and the Respondent. The Respondent then informed the Applicant about the decision of the Court. Instead of complying with the same, Applicant however commenced the procedure of recovering the said fees from the amount kept as a guarantee in the Bank by the Respondent.

The Court of Appeal of Biratnagar held that the municipal authority has the right over properties within the municipality, therefore it has the right to levy taxes, fees, or service charges. Further, since there is no clear provision in law that Nepal Electricity Authority has the right to place hoarding boards in its poles and collect taxes. Therefore, the Court held that the claim that the right has been infringed from an unauthorized contract does not stand valid. Due to this reason, the Court ordered an injunction against Nepal Electricity Authority not to collect charges for advertising from the bank guarantee kept by the Applicant in its name.

Nepal Electricity Authority then filed an appeal to the Supreme Court.

B. Questions (Issues) Before the Court

Following two issues were identified in the present case:

- a. Whether there is a reasonable ground for appeal?
- b. Whether the decision of the Court of Appeal, Biratnagar is just and fair?

C. Judgment

Since Nepal Electricity Authority, Biratnagar does not have a legal right to levy charges by maintaining hoarding boards in its electricity poles within its municipality, there is a reasonable apprehension due to the Applicant's letter to the Bank that the Applicant would recover the amount. Therefore, the injunction order against the Applicant by the Court of Appeal of Biratnagar stands valid. The Applicant does not have reasonable ground for appeal to the Supreme Court.

On 2069/09/02, the Applicant and the Respondent had an agreement to keep hoarding boards in the electricity poles. Biratnagar Sub-Metropolitan made an agreement with Codex Advertising on 2071/04/01 for collection of advertisements.

The joint bench of the Supreme Court adjudged that Section 125 of Local Self Governance Act 2055 has made the provision that municipality has the right to impose tax, fee or charges. There is no legal provision which allows Nepal Electricity Authority Distribution Department to levy charges. Therefore, agreement between Applicant and Aakriti Advertising is non-enforceable.

Moreover, Section 125 (f) of Local Self Governance Act, 2055 provides that amount received from taxes, fees, service, charges, duties, tariffs, fares, etc. deposited on municipality fund. Further, as per the section 143 of the same act the Municipality may levy tax on signboards, 'globoards', stalls etc. permitted to be placed on roads, junctions, public places in its area for advertisement, publicity etc. The right over the imposition or for exemption of tax is exclusively reserved to the municipality. The same has been made clear by the Local Self Governance Act 2055. Thus, the agreement to pay and collect taxes is beyond the jurisdiction of law and the same cannot be recognized by law.

3. CRITICAL ANALYSIS

The bone of contention in the present case is regarding charges levied by Nepal Electricity Authority on advertisement boards on its electricity poles pursuant to the agreement dated 2069/09/02 between the parties. It is the contention of the Respondent that the Applicant commenced the process to recover charges acting according to the said agreement even after the same was declared unenforceable and unauthorized by the court.

The Applicant has asserted that they have lend their electricity poles for advertisement, which has been misinterpreted as levying of tax. Applicant has further contested that in consonance with the decision of the Operation Committee formed under Section 9(3) of Nepal Electricity Authority Act, 2041, Nepal Electricity Authority has the right to collect rents or charges over placements of boards on its electricity poles pursuant to Section 223(2) of Nepal Electricity Authority Financial Administration Byelaws, 2068. The Applicant has claimed that this provision, thus, is the legitimate source of law governing the agreement between the parties. Further, the Applicant has constructed that the legislative intent of Section 125 of the Self Governance Act, 2055 is that municipality is to levy charges, taxes, rents etc. on materials made by the Municipality Fund. And, the right to decide whether to allow for placement of advertisement boards on electricity poles under the ownership of Nepal Electricity Authority rests solely on the Authority. In such state of affairs, the municipality may have the right to collect taxes but such right does not extend over fee levied over the rent of poles.

Section 143 of the Self Governance Act, 2055 overtly provides in clear words that the municipal authority has the right to levy advertisement tax on properties within the municipality. The municipality may levy taxes on signboards, 'globoards', stalls, etc. placed for the purposes of advertisement or promotion within the municipal limits. Further, Section 125 of the same statute empowers the municipality to levy tax, fees, service costs, etc.

Nevertheless, there is no clear and explicit provision of law which intelligibly allows Nepal Electricity Authority to charge and recover fees for placement of boarding boards on its electricity poles. Therefore, the agreement between Nepal

Electricity Authority and Aakriti Advertising Pvt. Ltd. does not have the legal potency to make the same agreement enforceable. The Applicant, hence, has no clear ground to claim that their legal right has been breached on non-performance of the said agreement by the Respondent.

Section 4(3) of Nepal Electricity Authority Act, recognizes NEA as a corporate body which may acquire, possess, sell or otherwise dispose of movable and immovable property like an individual. Nepal Electricity Authority, being an independent income generating entity, may utilize its property for the purposes of earning income. Further, it may also take up consideration for renting its property for commercial usage. Such consideration is not a tax, but a mere rent amount. Arguendo, the injunction order against the NEA has curbed its right to earn income through lease/rent of its property. The owner of a property has the fundamental and legal right, pursuant to prevailing laws of Nepal, to acquire, use and dispose the property.

By the virtue of the court's decision, the agreement dated 2069/09/02 between the parties has been struck ineffectual. When the court itself has held the agreement to be unenforceable, the Applicant shall not be able to recover the consideration through the amount kept as bank guarantee.

The honorable court has categorically dismissed Applicant's claim to recover consideration pursuant to the agreement entered between

the parties. The agreement was held to be unauthorized; in other words, void. A void agreement is unenforceable or illegitimate from the moment it is created. In cases where agreements are not in compliance with the governing laws of the country, the obligation of the parties previously agreed upon is considered to be illegal or is considered to be in violation of principle of fairness. Nevertheless, the agreement was enforceable for a considerable period of time when the Respondent had utilized the resources made available by the Applicant, before the agreement was adjudged unauthorized by the Court. In retrospect, the Court did not consider the Respondent has used the resources of the Applicant, however, the agreement per se was held to be unauthorized when the Applicant made endeavors to recover fees for providing its resources to the Respondent. The judgment is silent with respect to whether the Respondent should pay certain cost to the Applicant for reaping out of a void agreement.

Furthermore, it is apparent that the judgment has passively treated recovering of consideration by the NEA, as a form of a tax. The Self Governance Act vests with the Municipality, the right of levying and collection of tax. The judgment is, nevertheless, silent whether allegedly recoverable amount by the Applicant is a form of tax, or is it a fee as defined by the agreement. ■

NEWS

Meeting with Inland Revenue Department (IRD) Representatives

ICAN President CA. Jagannath Upadhyay (Niraula) and Executive Director CA. Sanjay Kumar Sinha had a meeting with the officials of Inland Revenue Department (IRD) on 1 October, 2018 to discuss on mutual cooperation between the ICAN and IRD in specific areas to enhance the monitoring system of both the organizations. In this regard, a team of technical persons of both the organizations have been identified to explore the possibilities of integration of Electronic Information System (Software) to share data related to members of ICAN and access of audit related information by each other.

Interaction Program on "Recent Developments in Cooperative Sector"

An interaction program on "Recent Developments in Cooperative Sector" was held on 5 October, 2018 at ICAN Building, ICAN Marg, Satdobato, Lalitpur.



ICAN Officials and Resource Person at Recent Development in Co-operative Sector Interaction Program

The program started with the welcome remarks by the Chairman of RA Members Capacity Development Committee and Council Member, RA. Kedar Nath Poudel. Following the welcome remarks, ICAN President CA. Jagannath Upadhyay (Niraula) addressed the participants about the program. The program witnessed the technical session on new

Cooperative Act and related issues of Cooperative Sector, presented by CA. Badri Kumar Guragain, Deputy CEO, Cooperative Development Bank Ltd. Further, Mr. Narayan Prasad Aryal, Deputy Registrar, Cooperative Department highlighted about recent developments and challenges in Cooperative Sector. These two sessions were followed by open floor discussion. Altogether 95 members were participated in the program.

Interaction on Financial Sector Stability

ICAN Vice-President, CA. Krishna Prasad Acharya, represented the ICAN in the interaction program organized by Society of Economic Journalist-Nepal (SEJON) on 5 October, 2018 on the theme "Interaction on Financial Sector Stability: A Priority for National Agenda" in Kathmandu to discuss on the issues related with the stability of the financial sector in Nepal. Dr. Chiranjibi Nepal, Governor, Nepal Rastra Bank was the Chief Guest to the program which was participated by the representatives of Government Departments and Development Organizations.

Meeting at Office of Auditor General (OAG)

ICAN President CA. Jagannath Upadhyay (Niraula), Vice President CA. Krishna Prasad Acharya and the Council Members made a courtesy visit to Office of Auditor General on 12 October, 2018. The representatives from ICAN had a meeting with Honorable Auditor General of Nepal Mr. Tanka Mani Sharma (Dangal) and other officials of OAG. During the meeting President briefed about the contemporary issues relating to accounting profession, activities relating to monitoring activities, disciplinary affairs and ongoing quality assurance review process as well as other activities undergoing relating to regulation of accounting profession and initiations undertaken for the integration of data base of ICAN with other regulating authorities. The Auditor General also assured that the Office of the Auditor General will always extend necessary support for effectiveness of the role of ICAN in the area of accounting profession.

Meeting with Department of Money Laundering Investigation

Executive Director of ICAN CA. Sanjay Kumar Sinha represented in the meeting organized by Department of Money Laundering Investigation with all Regulatory Bodies such as Nepal Rastra Bank, Inland Revenue Department, Security Exchange Board of Nepal, Department of Cooperative, Office of the Company Registrar, Department of Industry, Central Investigation Bureau, other Government agencies and ICAN to provide feedback on contemporary Assets (Money) Laundering Prevention Act, 2064 in order to amend it in line with International provisions on 1 November, 2018.

International Accounting Day, 2018 Celebrated

On the occasion of International Accounting Day, ICAN organized a Walkathon program on 10 November, 2018 in Kathmandu and its Branch Offices. ICAN Vice-President CA. Krishna Prasad Acharya inaugurated the programme in Kathmandu. The walkathon started from Bhrikuti Mandap and passed through Bhadrakali, Ratna Park, and again assembled at Bhrikuti Mandap. More than 200 participants including past presidents, council members, members, students and accounting professionals participated in the walkathon program.



Participation in Walkathon on the occasion of International Accounting Day, 2018.

Deputy Auditor General Mr. Ishwor Nepal was the Chief Guest while Management Dean, Tribhuvan University Prof. Dr. Dilli Raj Sharma was Guest of Honor of the closing ceremony of the event.

ICAN Vice-President highlighted the importance of accounting profession and importance of marking of the International Accounting Day whereas, Prof. Dr. Dilli Raj Sharma thanked the ICAN for organizing Walkathon,

which in his opinion was a platform to look back and roll out plan for development of the profession. He stated that the Tribhuvan University is happy to collaborate with the Institute for the professional and academic development of the country. Similarly, the Chief Guest of the programme thanked the Institute for the celebration of International Accounting Day and expressed his commitment to support ICAN for the development of accounting profession.

Meeting at Office of the Auditor General

ICAN President CA. Jagannath Upadhyay (Niraula) had a meeting with Honorable Auditor General Mr. Tanka Mani Sharma (Dangal) on 14 November, 2018. The meeting was focused on joint coordination between the ICAN and Office of the Auditor General for the regulation of accounting profession in Nepal. Apart from discussion on contemporary issues on accounting profession in Nepal, discussion was also held on the progress of Institute's activities relating to monitoring and regulation of members, quality assurance review, disciplinary affairs etc.

Coordination Meeting to Implement IPFMRP

ICAN President CA. Jagannath Upadhyay (Niraula), Vice President CA. Krishna Prasad Acharya, Executive Director CA. Sanjay Kumar Sinha, Deputy Director CA. Ghanashyam Kafle, had a meeting with PEFA Coordinator Mr. Sushil Pandey, Member Secretary of PEFA Secretariat Mr. Mun Kumar KC and other officials at PEFA Secretariat on 14 November, 2018 organized by Coordination Committee of Integrated Public Financial Management Reform Project (IPFMRP).

The meeting was focused on finding out best possible ways to implement all the planned activities of ICAN within the set timeline. The participants also discussed on the areas of joint cooperation between ICAN and PEFA Secretariat to get this assignment successfully completed.

Further, meeting concentrated on effective ways to contribute for strengthening Public Financial Management (PFM) System of the Nation with continuous coordination between the Institute and PEFA Secretariat.

MoU between ICAN and Department of Money Laundering Investigation

ICAN signed a Memorandum of Understanding (MoU) with the Department of Money Laundering Investigation

for mutual cooperation between the Institute and the Department to combat the money laundering and terrorist financing in the Nation on 16 November, 2018,.

By signing this MoU, the Institute and the Department have agreed to exchange the information relating to money laundering and terrorist financing within their knowledge. The MoU was signed and exchanged between Executive Director CA. Sanjay Kumar Sinha and Director General of Department Mr. Jiwan Prakash Sitaula in the presence of President of the Institute CA. Jagannath Upadhyay (Niraula) and Directors of the Department.

RA Members Capacity Development Training

Registered Auditors Member Capacity Development Committee of the Institute organized a day capacity development training on the subject matter of Labor Act of Nepal and Tax Audit Procedure in Kathmandu on 23 November, 2018 for its registered auditor members. The aim of the program was to enhance their knowledge in the subject matters related to recent changes introduced by the Labour Act of Nepal and procedures to be followed for tax audit which is expected to attract special attention of the members whether they are in practice or employment.



ICAN Officials and Resource Person at Capacity Development Training on Labour Act & Tax Audit Procedure.

The programme started with a welcome speech by Chairman of Registered Auditor Members Capacity Development Committee RA. Kedar Nath Poudel. This was followed by opening remarks by President CA. Jagannath Upadhyay (Niraula). Vice President CA. Krishna Acharya briefed about the importance of the interaction programme. The programme was conducted in three technical sessions. Advocate Ramesh Badal presented a technical paper covering

major implications of Labour Act and CA. Arun Raut presented the paper on Tax Audit Procedure. The open floor discussions followed the technical sessions.

Altogether 107 members actively participated in the program besides participation by Council Members, Members of Organizing Committee, Executive Director and Acting Director of the Institute.

Interaction Program at Department of Money Laundering Investigation

A team comprising of Council Members, Past Presidents, and Senior Management Officials in the leadership of President CA. Jagannath Upadhyay (Niraula) attended the interaction program which was organized by Department of Money Laundering Investigation to impart with the relevancy of MoU signed between the Institute and Department of Money Laundering Investigation on 26 November, 2018 in Kathmandu.

The program was focused to foster cooperation between the Institute and Department to combat money laundering and terrorist financing in Nepal. The program was chaired by the Director General of Department Mr. Jeevan Prakash Sitaula. Executive Director CA. Sanjay Kumar Sinha presented briefly about the Institute and its strategy, recent activities that is relevant in the context of achieving the objectives of the Department and Anti Money (Assets) Laundering Act, 2064. Similarly, Information Officer of Department Mr. Binod Lamichhane presented on contemporary scenario of money laundering in Nepal, objectives and strategies of department in order to prevent money laundering and creating a society free of terrorist financing. Presentation by the department was followed by open floor discussion where the representatives of both the organizations expressed their views on best way to achieve objectives of Anti Money (Assets) Laundering Act and committed to work towards the common goal.

Meeting at Inland Revenue Department (IRD)

ICAN President CA. Jagannath Upadhyay (Niraula) had a meeting with the Deputy Director General of IRD Mr. Yagya Prasad Dhungel and other officials of Inland Revenue Department (IRD) at Kathmandu on 26 November, 2018 to discuss on the progress made in the area of mutual cooperation between the Institute and IRD to facilitate exchange of information in order to strengthen regulating function of both entities. The meeting decided to speed up installation of necessary

infrastructure for information exchange between IRD and the Institute by linking information system.

Workshop on NFRS for SMEs and its Impact on Corporate Sector

The Institute organised a two-day workshop on "NFRS for SMEs and its Impact on Corporate Sector" on 20-21 December, 2018 in Butwal, Rupandehi. The programme was comprised of various technical sessions relating to NFRS for SMEs such as Property, Plant and Equipment, Inventories, Borrowing Cost, Provision and Contingencies, Foreign Currency Translation etc. These technical sessions were facilitated by resource persons CA. Nanda Kishor Sharma and CA. Aman Upreti.



ICAN Officials and Resource Person at Workshop on NFRS for SMEs and Its Impact on Corporate Sector.

Altogether 71 participants participated in the programme. The workshop was conducted in the presence of President CA. Jagannath Upadhyay (Niraula), Vice President CA. Krishna Prasad Acharya, Executive Director CA. Sanjay Kumar Sinha, Coordinator of Butwal Branch Coordination Committee CA. Hari Lamsal and Members of Branch Coordination Committee, Butwal.

Similarly, during their branch visit President, Vice-President and Executive Director had an opportunity to organise separate interaction programme with Inland Revenue Office, Butwal and Bahirawaha, Siddhartha Chamber of Commerce and Industry, Bhairawaha to explore the possible areas of joint cooperation for the enhancement of profession and catering the needs of each other for social and national benefits. Further, an interaction programme was also organised with the local students perusing chartered accountancy course with the Institute and their parents to address the concerns of the students outside the Kathmandu Valley.

ICAN Commerce Olympiad, 2018

The Institute organised "ICAN Commerce Olympiad, 2018" on 21 December, 2018 at ICAN Building, ICAN Marg, Satdobato, Lalitpur. The objective of the programme was to hunt commerce talent from secondary and higher secondary levels and to create awareness about the Institute, chartered accountancy education and future prospects of the accounting professionals among the participants. The program started with the welcome remarks of Acting Director Mr. Binod Prasad Neupane followed with an elaboration of rationale behind this competition and the process of selection of students for the competition by Deputy Director CA. Gaurav Khaunju Shrestha.



Students Participating in ICAN Commerce Olympiad Selection Process

Altogether 32 students of various schools and colleges participated in the event. The winners of ICAN Commerce Olympiad will be honoured with a cash prize and letter of appreciation along with an opportunity to compete with the students selected at SAFA (South Asia Federation of Accountants) level.

Council Member and Member of Board of Studies CA. Yuddha Raj Oli distributed the certificates of participation and delivered the closing remarks.

Interaction Programme on Audit Reporting Framework

The Institute organised a one-day interaction programme on Audit Reporting Framework Issues and Challenges on 1 December, 2018 in Kathmandu. The objective of the programme was to present new and revised reporting standards and conforming amendments, and provide participants with useful insights of the requirements for improved auditor's reporting. The technical sessions were designed to discuss on difficulties expected to be encountered on practical implementation of recent changes of Auditing Standards.

The programme started with the welcome remarks by the Chairman of Auditing Standards Implementation Committee/ICAN Past President CA. Bijay Kumar Agrawal. ICAN President CA. Jagannath Upadhyay (Niraula) delivered introductory remarks and shed lights on the importance and relevance of the programme. Similarly, ICAN First President CA. Komal Bahadur Chitracar and SAFA President/ICAN Past President CA (Dr.) Suvod Kumar Karn delivered the keynote speech in the programme. The programme witnessed four technical sessions.

In the first session, CA. Chandra Kanta Bhandari presented a working paper on Reporting Framework and Basis for Forming Opinion, which was followed by another presentation on Issues and Challenges of Auditing Reporting Framework by Dr. Ashok Haldia. Similarly, chairman of Auditing Standards Board CA. Anup Kumar Shrestha presented a paper on Recent Development in Auditing Standards and Quality Control. Dr. Ashok Haldia gave concluding presentation on IFRIC 12 Service Concession Arrangements. The technical sessions were followed by floor discussions.

ICAN Vice President CA. Krishna Prasad Acharya had delivered concluding remarks.

157 participants participated in the programme.

Training on Audit Practice Manual

As part of the project on Strengthening Audit Quality Assurance in Asia and Pacific, a five-day training programme on Audit Practice Manual was conducted in the Institute from 3-7 December 2018 in partnership with the Asian Development Bank (ADB) and in technical association with the Institute of Chartered Accountants in England and Wales (ICAEW). The training was organised to enable the audit firms achieve quality in their audit works while carrying out audit in compliance with the Nepal Standards on Auditing (NSA) and Code of Ethics using the model Audit Practice Manual.



Participants with Resource Persons at Audit Practice Manual Training

The ICAEW's technical Audit Quality Assurance Specialist Mr. Alan Hind provided the three days 'Train the Trainers Workshop on Audit Practice Manual' to nine Chartered Accountant Members selected by the Institute. Likewise, two-day Training on Audit Practice Manual was provided to the partners of 18 audit firms practicing in Nepal that were reviewed for quality assurance from among the audit firms performing audit of listed entities. Vice President of the Institute CA. Krishna Prasad Acharya presented certificates to the participants of the training and delivered his closing remarks. He urged that the use of the Audit Practice Manual by audit firms would help promoting quality of audit and assured that the Institute would provide similar training to the audit firms in the days to come too.

RA. Capacity Development Training on Labor Act and Tax Audit

The Registered Auditor Members Capacity Development Committee of the Institute organised a one-day capacity development training for its registered auditor members on Labor Act and Tax Audit Procedure on 8 December, 2018 in Nepalgunj.



Glimpse of Capacity Development Training on Labor Act & Tax Audit

Opening remarks of the program was delivered by Council Member RA. Abdul Karim Khan. The programme was designed to capture the subject matters in three technical sessions. First session of the programme witnessed a presentation on new provisions of Labor Act, 2074 by Advocate Bishnu Prasad Neupane and in second session, CA. Arun Raut made his presentation on Tax Audit Procedure. These sessions were followed by the floor discussion where the queries raised by the participants were addressed by the respective resource persons. Fifty-two members of the Institute participated in the programme.

Participation in the Programme Organised by NAFIJ

President CA. Jagannath Upadhyay representing ICAN participated in a one-day Knowledge Enhancement Training program organized by Nepalese Association of Financial Journalist (NAFIJ) on 29 December, 2018 in Kathmandu. The objective of the training was to impart knowledge about impact of preparing financial statements adopting NFRS among financial journalist.

ICAN with the objective to support community at large had nominated CA. Suraj Lamichhane to present on impacts of NFRS on financial statements of Banks and Financial Institutions (BFIs) and different ways of analyzing such financial statements. More than 120 financial journalists were participated in the program.

MEMBERS AFFAIRS

CPE Calendar of 2075/76 Published

The Institute has published the schedule of Continuing Professional Education (CPE) Training program for the fiscal year 2075/76. The CPE training program is directed towards imparting the knowledge among members on latest issues of the profession which on the other hand is a mandatory requirement for the renewal of membership by the members. CPE programs will be conducted within and outside of Kathmandu Valley. The detail program schedule of CPE training can be downloaded from ICAN website.

Registration of New Chartered Accountant

The Institute of Chartered Accountants of Nepal registered new chartered accountant from October 2018 to December 2018 in pursuant to the Nepal Chartered Accountants Act, 1997, under the provision of Section 16(2).

The List of newly registered 24 chartered accountants is as given below.

Name of the Members	Name of the Members
BHANUBHAKTA POUDEL	PRATIMA GHIMIRE
KHILA RAJ POKHREL	MADHU POKHAREL
UMESH AWASTHI	BINOD SHRESTHA
PANKAJ ACHARYA	PRAJWAL SHRESTHA
SAMIKSHA SHARMA	RASHMINA RANJIT
BIKRAM PARAJULI	DIPENDRA PHUYAL

Name of the Members	Name of the Members
SUGAM ADHIKARI	KABINDRA CHALISE
GAURAB BARAL	SHAILAJA LAXMI DHITAL
AARATI PARAJULI	SADHANA SUBEDI
TIRTHARAJ SHIWAKOTI	NEHA AGRAWAL
SAKAR KOIRALA	DEV KUMAR YADAV
UMESH LAMICHHANE	DIPENDRA POKHREL

STUDENTS AFFAIRS

Chartered Accountancy and Membership Examination December 2018

The Institute conducted Chartered Accountancy and Membership Examination, 2018 from 2-10 December, 2018 in Kathmandu, Biratnagar, Birgunj, Pokhara and

Butwal. More than 3,000 students appeared in the examination. The detail numbers of applicants and appeared students were as follows.

Level/Group	First Group	Second Group	Both Group
CAP I			
Total Applicants			1136
Total Appeared			1078
CAP II			
Total Applicants	403	269	937
Total Appeared	308	228	874

CAP III			
Total Applicants	246	211	177
Total Appeared	214	180	174
Membership			
Total Applicants	1	6	224
Total Appeared	0	4	183

Student Orientation Program

The Institute organized an orientation program for the newly registered students of CAP- I level on 18 December 2018 at ICAN office, ICAN Marg Satdobato, Lalitpur. Altogether 747 students attended the program for pursuing the chartered accountancy course. Program was conducted in group basis.

level of chartered accountancy course and accounting technician course.

Level	CAP I	CAP II	CAP III	Total
No. of Student	698	7	19	724

Accounting Technician Result Published

In pursuance of By-law 17 of the Accounting Bylaws, 2067, the result of the Accounting Technician Examination held in September 2018 has been published on 26 October 2018. Only one candidate passed the examination.

One year Internship for Foreign CA Degree Holders

Pursuant to Nepal Chartered Accountants Regulation, 2061, Rules 41(KA) of its 5th amendment, The Institute of Chartered Accountants of Nepal has made mandatory provision of one year internship to the foreign CA degree holders for getting Membership and Certificate of Practice. During the period of October 2018 to December 2018, total number of 60 chartered accountants member from ICAI have joined one year internship.

New Student Registration

Chartered accountancy course is being attraction to the student interested to make their career in accounting and auditing profession. From October 2018 to December 2018, 601 students enrolled in different

INTERNATIONAL RELATION

Participation in SAFA Strategy Meeting

A team led by ICAN President CA. Jagannath Upadhyay (Niraula) participated in the SAFA Strategy Meeting conducted in Sri Lanka by The Institute of Certified Management Accountants of Sri Lanka (CMA Sri Lanka) on October 17, 2018. The Program was addressed by SAFA President and Past President of ICAN CA. Suvod Kumar Karn.

The other team members of the Institute were Vice President CA. Krishna Prasad Acharya, Past President CA. Prakash Lamsal and Acting Director Mr. Binod Prasad Neupane.

Participation in the Workshop on Sustainable Development Goals

A team led by President CA. Jagannath Upadhyay (Niraula) participated in the workshop of CMA Sri Lanka on the theme Sustainable Development Goals. Similarly, the same team also participated on another workshop of IFAC on the theme PAO Development in Sri Lanka on October 18, 2018.

The Program was addressed by CA. Suvod Kumar Karn, SAFA President and ICAN Past President and Dr. Ravi Fernando, Executive in Residence of INSEAD Business School (Social Innovation Center- France) gave a Keynote Speech on Embedding the Environment in Sustainable Development Goals.

The other team members of the Institute were Vice President CA. Krishna Prasad Acharya, Past President CA. Prakash Lamsal and Acting Director Mr. Binod Prasad Neupane.

SAFA Committee Meetings and Board Meeting

The representatives of the Institute participated in the different SAFA Committee meetings and Board Meeting conducted on October 19, 2018 in Sri Lanka. International Relation, SAFA MRA, iTAG and Women Leadership Committee meeting were held. CA. Prakash Lamsal attended in International Relation Committee meeting and SAFA MRA meetings between Cost Accountants Institutes and Chartered Accountants Institutes. Similarly, i-TAG meeting was attended by Vice President CA. Krishna Prasad Acharya and Acting Director, Mr. Binod Prasad Neupane.

Board Meeting was also attended by the representatives of the Institute.

WCOA Conference and IFAC, CAPA & SAFA Meetings in Australia

A delegation led by the President of ICAN CA. Jagannath Upadhyay (Niraula) participated in the conference of World Congress of Accountants (WCOA) organized from November 5-8, 2018 in Australia. Similarly, they also attended the sideline meetings organized by the IFAC, CAPA and SAFA from November 1-4, 2018.



ICAN President CA. Jagannath Upadhyay (Niraula) and Vice President CA. Krishna Prasad Acharya is with IFAC President Prof. In-Ki Joo.

The WCOA, 2018 tried to explore a range of key themes, including: protecting the public interest and building prosperity; addressing the leadership challenge; embracing disruptive technologies and innovation; enhancing ethics and integrity; and exploring sustainable solutions to business, social enterprises, and economies.

The other members participating the program were Vice President CA. Krishna Prasad Acharya, Council Member CA. Surendra Shrestha, Council Member RA. Kedar Nath Poudel, SAFA President and ICAN Past President CA. (Dr.) Suvod Kumar Karn, CAPA Director and ICAN Past President CA. Prakash Lamsal and AuDAN President RA. Mohan Raj Regmi.

SAFA International CFO Conference in Dhaka, Bangladesh

A high level delegation led by President of ICAN CA. Jagannath Upadhyay (Niraula), ICAN Past President, CA. Madhu Bir Pande, Council Member RA. Bahadur Singh Bista and Executive Director, CA. Sanjay Kumar

Sinha participated in the International CFO Conference and different SAFA Meetings.



ICAN President CA. Jagannata Upadhyay (Niraula) Delivering Speech on SAFA CFO Conference.

The Institute of Cost and Management Accountants of Bangladesh (ICMAB) coinciding with SAFA Committee Meetings and Board Meeting organised a one-day SAFA International CFO Conference on December 8, 2018 in Dhaka which was attended by more than 500 local and foreign guests. The conference highlighted on the facts related to Challenges of Future Corporate Reporting, Impact of Technology and Innovation and Milestones for Journey from CFO to CEO.

In the conference, President of ICAN made a presentation on the Challenges of Future Corporate Reporting citing reference of local context and international developments in this regards.

Students Participation in International Conference

Three students of ICAN studying in CAP III level participated in the International Conference on a theme "Conquer your Dream: Be Limitless" in Lahore, Pakistan, organized by the chartered accountants students' association in collaboration with the Northern Regional Committee of the Institute of Chartered Accountants of Pakistan on 20 October, 2018. The students of ICAN presented the technical papers on the topics provided by the ICAI. Students from SAFA member bodies participated in the International conference. It is expected that students participated in the conference got exposure in an international environment, understand global direction of the profession for the development of the professional quality.

Prashansa Koirala, Rizzu Rimal and Santosh Karki of CAP-III level were participated in the Student International Conference.

12
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