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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NEPAL  
(Established under the Nepal Chartered Accountants Act, 1997)



# Fundamental Principles of Professional Accountants

**INTEGRITY**

**OBJECTIVITY**

**PROFESSIONAL  
COMPETENCE  
AND DUE CARE**

**CONFIDENTIALITY**

**PROFESSIONAL BEHAVIOR**

## Strategic Direction of ICAN





# THE NEPAL CHARTERED ACCOUNTANT

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

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## Put less effort on politics and more energy on the development of economy.

*The newly elected coalition Government has been formed and has commenced its functioning and is committed to work as per the aspiration of the people. The challenges of the government at this juncture, are very daunting however, fiscal and economic stimulatory measures should be put in place by the government aimed at ameliorating from the impact of crisis to save the economy from further worsening. The new government has been formed as the world economy and supply chain has been disrupted in the aftermath of the COVID - 19 pandemic and the Russia-Ukraine war.*

*Although the quarterly review of Monetary Policy of Nepal Rastra Bank (November 2022) indicated red-flags in the economy, the economic growth rate of FY 2079/80 is expected to be at healthy rate of 8 percent. Currently, the country is going through a critical phase as there is increased unemployment, high inflation rate, unpredictable remittance, declining export, increased import, high deficit, poor industrial productivity, low agriculture productivity etc. NRB had taken few strict remedial measures to bring the economy back on track like import restriction on luxurious items and host of other policy measures. Despite the measures taken by NRB, the balance of payments deficit has widened due to the large portion reserves being depleted for import of goods and services which has put pressure on the foreign exchange reserves and that situation may continue for some time. However, the foreign exchange adequacy indicator has remained stable in recent months due to the policy measures adopted by the NRB.*

*It is worth noting that the government has to fulfill the commitment made during the general election. The general public needs tangible benefits and must be able to enjoy dividends in their daily lives. To fulfil aspirations of citizenry healthy source of funds are required through, increased revenue collection, maintenance of foreign exchange reserve, encouraging domestic production to promote export and for import substitution, use of stringent measure to cut recurrent expenditure etc.*

*Moreover, the government may consider report submitted by the Expenditure Review Committee that has suggested various measures to improve the public expenditure. The suggestion include increase in development expenditure by cutting recurrent expenditure, scrapping ministries, unnecessary government bodies, Boards, Development Committees etc. which are working without productive results. Similarly, transparent and better management of all the investment project shall also be desirable for effectiveness the expenditure. The implementation of suggestions of the Committee may be useful to deal with the current economic and financial crises that we are facing.*

*Chartered Accountants are partners in nation building and the Institute is cognizant of the regulatory and advisory role it has to play in order to help the country at this crossroad. The acumen, skill and vast experience of chartered accounts in various sectors and working in various capacities is an asset that needs to be rightly channelized. The Institute is always committed to continue to work together with government, regulators, tax authorities and other stakeholders to supplement government's initiatives with regards to national development.*



# From The President



**CA. Bhaskar Singh Lala**  
President

## Dear Professional Colleagues,

Welcome to the October- December, 2022 Edition of The Nepal Chartered Accountant Journal of the Institute. The first six months of my presidency have been completed and this is my second communication to you through this Journal. The activities of the Institute during last six months were guided by the priorities laid down in the Strategic Plan of the Institute (2078/79 – 2080/81) and the annual program and budget approved by the Council. On this note, let me take you through the key activities of the Institute undertaken during the period from October to December 2022.

## Regulation and Supervision

The Quality Assurance Board of the Institute with the aim of brainstorming the avenues of strengthening Quality Review Mechanism of the Institute and improving Audit Firm's system of quality management organized the workshop on Quality Assurance Review on 30<sup>th</sup> November 2022, at ICAN Premises. In the Workshop, three papers were presented including two presentations from the consultants from the Institute of Chartered Accountants in England and Wales (ICAEW). The panel discussion was conducted on Quality Review Mechanism and Firms Quality Management Mechanism- ISQM 1 and ISQM 2. The workshop was attended by partners and proprietors of more than 68 practicing firms.

## Professional Development

As a continuing effort of the Institute to strengthen members' capabilities and competencies through regular training and development programs, the Institute organized training on "Fiscal Federalism and Fiscal Transfer in Nepalese Context and Income Tax Return Filing Procedure" on 4<sup>th</sup> November 2022 at Pokhara. Similarly, the Institute also conducted a training on "Verification of Working Capital, NAS for NPOs & AML-CFT Compliances by Accountants and Auditors" on 9<sup>th</sup> November 2022 at Biratnagar.

## National Relation: Public and Government

With the formation of the newly elected government, a delegation led by me paid a courtesy visit to the newly appointed Hon'ble Deputy Prime Minister and Finance Minister, Mr. Bishnu Prasad Paudel on 28<sup>th</sup> December 2022 at Ministry of Finance and discussed on the various economic challenges that the country is facing currently. The delegation assured full support to the government in dealing with the challenges.

The Institute in cooperation with Nepal Insurance Authority (NIA) organized three days Training on Nepal Financial Reporting Standard to the staffs of insurance companies at ICAN premises from 12<sup>th</sup> to 14<sup>th</sup> December 2022. This program was organized as per the MoU signed with the Nepal Insurance Authority (NIA) to maintain coordination and facilitation in NFRS implementation in Insurance Companies in Nepal,

The Institute as a regulatory and supervisory body and a regulator of Accountants and Auditors has issued AML/CFT Directives to its Members performing various professional services. During this quarter, Senior Officers from Institute participated in the Asia/Pacific Group on Money Laundering Mutual Evaluation Pre-Onsite Visit held at Office of Prime Minister and Council of Ministers.

Furthermore, as a guest I also addressed the National Conference





on Sustainable Economic Development that was organized by the Association of Chartered Accountants of Nepal (ACAN) on 14<sup>th</sup> October 2022. The Institute also celebrated the International Accounting Day on 10<sup>th</sup> November 2022 in Kathmandu and in all its branch offices by organizing various programs.

### International Relation Global Positioning and Leadership

Under my leadership a six-member delegation attended the 21<sup>st</sup> World Congress of Accountants (WCOA) held at Mumbai, India from 18<sup>th</sup> to 21<sup>st</sup> November 2022 hosted by the Institute of Chartered Accountants of India (ICAI). The WCOA which was first held more than 118 years ago, and which occurs in every four year and was for the first time hosted by the PAO of South Asia region with the largest gathering in the history of congress. The main theme of 21<sup>st</sup> WCOA was on “Building Trust Enabling Sustainability” and attended by more than 9,000 delegates from over 100 countries. The 21<sup>st</sup> WCOA was a very proud event and milestone achievement not only for Institute of Chartered Accountants of India (ICAI) but for all PAOs in South Asian Region. This global event covered range of key themes that included Role of Accounting Profession in Enabling Sustainability, Global Collaboration for Inclusive Growth, Growing Importance of Digital Technologies, Integrity, Ethical leadership and Trust, Global Trend in Accounting, Auditing, Corporate Governance and Taxation, Nurturing Innovation, Fintech and Start-up, Future ready Profession and Strengthening Public Financial Management. Technical papers in each sub-theme were presented in the congress. We feel that this event provided us the opportunity to broaden our knowledge and get acquainted with latest development in the area of accounting profession across the world. During the visit, we signed the MoU on Technical Collaboration with ICAI on 21<sup>st</sup> November 2022, in Mumbai, India as an extension of the MoU signed by the Institute with the ICAI in 2017. We hope that the MoU extension shall help further strengthening our mutual relationship between two institutions in the field of professional development.

On 18<sup>th</sup> December 2022, the Institute hosted SAFA Best Presented Annual Report (BPA) Awards 2021 at Kathmandu. Annual Reports of 121 entities for the year 2021 from 5 SAFA Member countries comprised of Bangladesh, India, Nepal, Pakistan and Sri Lanka, were evaluated for Awards. Out of total 137 awards comprising of Certificate of Merit, Joint/Bronze Award, Joint/Silver Award and Joint/Gold Award were conferred under 16 different categories in the award distribution ceremony. The ceremony was attended by more than 250 participants including delegation from SAFA countries and representative from Award winning entities of participating countries. Similarly, on the same date the Institute also organized SAFA Conference 2022 on International Taxation and Digital Currency and hosted 76<sup>th</sup> SAFA Board Meeting.

Moreover, a delegation led by me also attended the 74<sup>th</sup> and 75<sup>th</sup> SAFA Board Meeting held at Bangladesh and India respectively. I also participated in the SAFA International Conference 2022 on theme “Regional Connectivity for Sustainable Growth” hosted by the Institute of Chartered Accountants of Bangladesh (ICAB) on 15<sup>th</sup> October 2022 in Dhaka, Bangladesh.

Similarly, I participated as a Guest in International Conference on International Financial Reporting Standards (IFRS) / Nepal Financial Reporting Standards (NFRS) organized by the Nepal Accounting Standards Board (ASB, Nepal) in technical support from Asian Oceanian Standard Setters Group (AOSSG) on 13<sup>th</sup> November 2022 at Kathmandu and attended 14<sup>th</sup> Annual AOSSG Meeting hosted by the Accounting Standards Board of Nepal (ASB, Nepal) from 14<sup>th</sup> to 15<sup>th</sup> November 2022 at Kathmandu.

### Institutional Development and Sustainability

The Institute as a regulatory body of accounting profession in Nepal, has always accorded priority in building international level monitoring and regulating mechanism for practicing audit firms in Nepal. In this regard, a two-member delegation from the ICAEW visited the Institute from 28<sup>th</sup> November 2022 to 9<sup>th</sup> December 2022 and discussed with Quality Assurance Board about quality assurance review process, disciplinary investigation process of the Institute and conducted training sessions to the QA Reviewers of the ICAN. The delegation had an interaction meeting with Council Members and Members of the Quality Assurance Board of the Institute on 9<sup>th</sup> December 2022 and briefed their observation and shared their experiences on International Best Practices.

In line with new organizational structure the Institute appointed five new Chartered Accountants officials in various vacant position.

### Concluding Remarks,

To conclude, I would like to emphasize that the service provided by the professional accountant is inevitable for development of nation as a whole. As we know after the General Election 2022 the new government has been formed and it is hoped that the country will be able to experience political stability and bring wave of economic prosperity in the country. I urge all the professional members to act in the best interest of the public by showing sense of ethical standards and contribute towards national development in this challenging time.

With Best Wishes,



CA. Bhaskar Singh Lala

President



# Fiduciary Risk in Local Government

LGs are the new structure in the federal context of Nepal. However, these institutions were operated since last 5 years. While evaluating the performance of LGs with regards to planning, budgeting, resource mobilization, procurement, expenditure management, accounting, auditing, service delivery, accountability and transparency found weak and the fiduciary risk is considered high. When such risk remains high the economic, efficient and effective utilization of resource will remain in threat. Such situations create breeding ground for corruption and misuse of resources increases which ultimately led to public dissatisfaction. Strong public financial management is crucial to reduce fiduciary risk. It can be achieved through proper plan, execution, monitoring and evaluating public resources to deliver public service in economic and efficient manner.



**Mr. Ramu Prasad Dotel**

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as conditional, equalization, matching and special grant. They can contribute in efficient and effective service delivery, infrastructure development, reduction of poverty, and economic development. In this context, fiscal decentralization can also help in efficient allocation of resources whereby subnational governments can play pivotal role as they have better information regarding local level demand, needs, and expectations of people.

As per constitution, LGs can generate own source revenue and allocate those revenue and grant received to respond the preferences of the people in their area with policies, programme and budgets to achieve specific goals. It can help to foster political and financial accountability. In political accountability general citizens delegate their sovereignty to the representative through election.

Local Assembly representatives authorize budget and formulate policies, laws and delegates majority of their authorities to the LG executive and to respective civil servants. They monitor the use of the public resources and penalizes if those representatives are unable to fulfil the people's expectations. In financial accountability, all LGs representatives and public officials are accountable for rational, efficient and effective use of public resources however, there might be fiduciary risk in utilization of resources. Considering the fiduciary risks, ombudsman and audit offices, independent supervisor authorities, anti-corruption offices are established to maintain financial accountability. Office of the Auditor General (OAG) reviews not only probity and legality of public spending, but also its economy, efficiency and effectiveness.

## 1. Introduction

The constitution of Nepal 2015 has laid the foundation for fiscal federalism and has assigned spending responsibilities and revenue sources to federal, provincial, and local governments. All three tiers of government have the constitutional power to enact laws, collect revenue, prepare and execute budget. Under the federal structure, the federal and subnational government (provincial, and local governments) are assigned various authorities and responsibilities such as planning, delivery of public services at local level, active participation of citizens at governance, and fiscal autonomy from the constitution of the country. Sub-national governments (SNGs) have a variety of responsibilities including managing their administrative affairs and mobilizing revenue. Local Governments (LGs) receive substantial fund from the federal and provincial governments as a fiscal transfer and various grant such





## 2. LGs' Resource Mobilization Scenario

The principle is that authority and resources are given to the LGs and expected the prudent use of resources for the service delivery and infrastructure development. While analysing the resource mobilization status, it is found in Auditor General's Reports that 43.73 to 59.57 percent of resource in comparison to the federal government was used in LGs during 3 years, which can be depicted in the table below.

Fiscal year	Expenditure of Federal Government (Rs "000")	Number of LGs	Expenditure of LGs (Rs."000")	Percentage
2018/19	7,33,12,81,38	753	3,58,70,82,88	48.97
2019/20	6,58,37,79,20	694	3,92,11,70,40	59.57
2020/21	11,16,54,56,37	744	4,87,88,17,57	43.73

*Note: The number of LGs and expenditure incurred has been mentioned as per the audit carried out by Office of the Auditor General, Nepal.*

Almost half of the resource was utilized through LGs. But, Nepal Fiduciary System Assessment conducted by World Bank, Asian Development Bank and Auditor General's Annual Reports of last 3 years have identified the weaknesses in managing financial resources by LGs. In this context, public financial management of LGs needs to be improved and fiscal discipline are to be maintained. Thus, it is important to analyse the status of public financial management in LGs, which has direct correlation with fiduciary risk involved in these sub-national government. This article mainly focus on the analysis of fiduciary risk of LGs in Nepal.

## 3. Fiduciary Risk

Fiduciary risk is the risk that funds are not used for the intended purposes; do not achieve value for money; fund are utilized in less priority sector and are not properly accounted revenue and expenditure. If the public organizations fail in using their resources economically, efficiently and effectively with due regard to the legal compliance, that indicate high fiduciary risk. In the context of LGs, the policies, procedures, institutional and legal arrangement should prevail to mitigate the fiduciary risk. Any circumstances or situation that hinders LGs to achieve value for money are treated as fiduciary risk. The fiduciary risks can be caused by variety of factors such as weak internal control, inadequate and incompetent manpower, bureaucratic inefficiency or corruption, poor governance and accountability mechanism. Normally, fiduciary risks comprise three types of risk, which includes: a) process related risk that deals with the process and procedures designed and implemented, b) result related risk that deals with the achievement of the intended output or outcome, and c) corruption related risk that deals with the extent to which corruption is identified.

While analyzing fiduciary risk among the LGs, it can be

categorized in three categories i.e. LGs having high fiduciary risk that indicate failure to meet minimum standard, LGs having medium fiducial risk that indicate some significant weaknesses in achieving value for money and LGs having low fiduciary risk indicates that some level of legal compliance and resource utilization is satisfactory. As fiduciary risk in LGs can be analyzed in various dimension such as planning, budgeting, resource mobilization, expenditure management, human resource management, public procurement management, accounting and recording, audit and scrutiny, transparency and accountability that has been discussed below.

**i. Planning:** Fiduciary risks are measured by analysing the planning function of LGs. Appropriate legal arrangement has been made to establish ideal planning function in LGs. Local Government Operation Act (LGOA), 2074 provides that each LGs needs to prepare long-term and medium-term periodic plan. It also suggests to adopt participatory planning process from community to ward level. Intergovernmental Fiscal Arrangement Act, 2074 stipulates to prepare Medium Term Expenditure Framework (MTEF). However, the Annual Report of Auditor General (AG), 2079 has highlighted that most of the LGs have not formulated periodic plan and MTEF. In some LGs if they are formulated, those are neither linked to the annual plan nor internalized with Sustainable Development Goals. Small projects of having cost estimate less than NRs 50 thousand were also implemented. This has impeded the sustainability and quality of implemented projects/programmes. Projects and programmes are not selected considering cost and benefit. As highlighted in AG's Annual Report, most of the programs implemented are not sustainable, which might create unnecessary burdens to the respective government in future. Increasing recurrent expenditure in comparison to the internal revenue may create financial anarchism. The concept of participative planning process has not been implemented and project bank is not prepared by prioritizing project and programme. Most of the projects undertaken by LGs are not completed within the stipulated time and there is a high turnover in the project executed by LGs. This clearly signals high fiduciary risk relating to resource allocation and planning.

**ii. Budgeting:** Budget preparation process to be followed by the local level is clearly defined in LGOA 2074. As provided by Act, resource forecasting and budget threshold committee and budget preparation committee need to be constituted for budget preparation. Apart from the Act, the budget manual also specifies a clear annual budget calendar that starts from february every year. The proposed budget is to be discussed in different levels. Finally, it needs to be submitted in the Assembly before 10th of Ashad and approved by end of ashad. However, many LGs are not complying the budget formulation process as mentioned in the Act. Many instances of non-compliance of budgetary





process has been given in the AG's Annual Report such as: some LGs are approving budget after the stipulated time; budget variance is high; most of the expenditures are made without complying the budgeted program, and endorse the program after execution, which is contrary to budgetary principle. While approving budget, there is a tendency of keeping some amount in unallocated head, which can be allocated as per decision of Mayor or Chairperson of LGs. As per AG's Annual Report 2079, 233 LGs kept Rs 4733 million in unallocated head. Sometimes budget remains unutilized due to inappropriate allocation and poor absorption capacity. Likewise, due to various reasons spending that is heavily skewed towards the end of every fiscal year results in non-compliance of laws, excessive virement and poor quality of work performed. Such inconsistencies indicate higher fiduciary risk in the budgetary process of LGs.

**iii. Resource Mobilization:** As per LGOA and Intergovernmental Fiscal Arrangement Act, 2074, LGs can impose tax and collect other type of revenue such as integrated property tax, advertisement tax, entertainment tax, selling of natural resources etc. However, many of LGs have not focused on collecting revenue and most of the LGs are relying on the federal and provincial grant. As per AG's Annual Report 2079, it is revealed that LGs are mobilizing only 6 percentage resources from internal sources. During fiscal year 2020/21, 744 LGs have received NRs 505 billion as an income, out of which only NRs 35 billion was from internal sources. Similarly, some LGs are not collecting income properly. Monitoring and revenue recording system is poor. Revenue is collected only when tax payer wants to pay. Likewise, some LGs have given revenue exemption and some are reluctant to collect arrears in timely manner. They have not attempted to expand revenue base as per the jurisdiction given by the constitution. Thus, considering such situation of revenue mobilization status of LGs highlighted in AG's annual report, fiduciary risk is perceived high.

**iv. Expenditure Management:** LGOA, 2074 provides that after approval of budget, Chairperson or Mayor of the LGs authorizes Chief Administrative Officer to execute the budget. While spending appropriated budget the responsible officials of LGs, need to follow the Financial Procedure and Fiscal Accountability Act, 2076 or they can formulate their own Financial Procedure Act. Likewise, they have to follow Public Procurement Act and regulation and other related Act. All legal provision, procedures, standards and norms are designed to promote economy, efficiency and effectiveness in the utilization of resources.

However, LGs are not fully complying with the legal provision to achieve value for money. Most of the LGs have yet to formulate Financial Procedure Act to utilize public fund properly. There is no any approved standard to incur administrative expenditure, so that each LG spent huge percentage in administrative

expenditure. As stated in the Intergovernmental Fiscal Arrangement Act, 2074 the administration expenditure shall be limited to the amount of internal revenue and the revenue sharing, however most of the LGs are not complying with the provision. As per AG's Annual Report 2079, the portion of recurrent expenditure is NRs 250 billion (51 percent), whereas the capital expenditure is only NRs 160 billion (33 percent). It shows that the portion of unproductive and distributive expenditure in LGs is significantly high. Cost cutting measures to control facility relating to staff and representatives of LGs, meeting allowance and other miscellaneous expenditure has not been taken into account. Providing sectoral grant in agriculture, livestock, education and health sector is increasing, but the criteria and transparent mechanism for the distribution and monitoring of grant utilization is lacking. Duplication, fragmentation and overlapping is common phenomenon while executing programme from three tiers of government. There is lack of mechanism to control spending towards conditional and special grants provided for other purposes and lack of reporting mechanism from local to provincial government and provincial to federal government has affected the utilization of resources in cost effective manner.

Likewise, service delivery of LGs has been affected because the approved positions remaining unfulfilled. Many LGs are not organizing public hearing to know the satisfaction level of the service recipient. Use of ICT in service delivery is lacking. These facts show meagre financial management of LGs which has increased the fiduciary risk.

**v. Human Resources Management:** Government of Nepal (GON) has adjusted available number of civil servants in federal, province and local level. The various level of position for three tiers of government have been already approved. Provision has been made to draft separate Act for local as well as provincial civil service. However, such provincial Civil Service Act has yet to be formulated, due to delay in formulating new federal civil service Act. Altogether 67,119 various level of positions have been approved for LGs, but only 44,321 positions have been fulfilled through adjustment process. Remaining positions are vacant until fiscal year 2020/21, which has hindered the service delivery of LGs. As per AG's 59th Annual Report, 512 LGs have spent Rs 6,293 million by hiring staff in contract basis. LGs need to follow the legal provision of requesting Provincial Public Service Commission (PPSC) to recruit staff. However, most of LGs has not requested PPSC for recruiting staff. Some LGs have already promoted their staff without consulting PPSC. Even many of LGs are providing additional allowance to their staff contrary to the legal provision of LGOA that provides the term and conditions and facilities of local level staff are to be similar to the federal Civil Service Act. The lack of competency (functional knowledge, skills, behavioral and leadership



competencies) of prevailing manpower compared to functional jurisdiction to LGs affected service delivery. The current workforce seems inadequate to provide services to satisfy the public expectation. These facts indicate weak human resource management which has contributed to increase fiduciary risk.

**vi. Public Procurement Management:** Public Procurement Act 2063 and Regulation 2064 provides detail procurement procedures to be followed by LGs. It is also suggested that LGs can also formulated separate procurement regulation if necessary. However, the legal compliance in procurement is challenging. Most of the LGs have not prepared their own procurement regulation. Substantial procurement has been made by LGs at the end of the fiscal year. As per AG's 59th Annual report, sixty eight percent of total capital expenditure was made on 3rd quarter of the fiscal year. Moreover, it is found that 45 percent of capital expenditure was incurred in the month of Ashad. The AG Annual Report highlighted the incidence of direct procurement of good and services without complying the provision of Public Procurement Act. Many of civil work awarded to the contractors were not completed in time. Most of the LGs are assigning different works including works with technical or complex nature to the User's Committee. But such User's Committees are subletting such works to the contractor. Works exceeding 10 million rupees were also assigned to the User's Committee in some LGs, which they are not entitled to perform as per legal provision. Cost estimate of works is not prepared considering the actual physical condition of the construction site, as a result of which variation order is issued after awarding contract in LGs. Many of the LGs neither prepare procurement plan nor using electronic government procurement (eGP) system for making procurement. Lack of competency of current manpower in procurement system in LGs is another problem in the most of the LGs. Such weaknesses in procurement indicates high fiduciary risk in LGs.

**vii. Accounting and Reporting:** Financial Comptroller General Office (FCGO) has initiated the process of establishing accounting and recording system in LGs. It has a responsibility of preparing whole of the government accounts. It is worth noting that without establishing appropriate accounting system that covers all LGs, it is not possible to prepare consolidated financial statement of three tiers of government. Thus, FCGO has developed Sub-national Treasury Regulatory Application (SUTRA) specially for LGs. Almost all LGs are using SUTRA. However, it does not cover all transactions entered in Computerised Government Accounting System (CGAS) and other operational funds. OAG has issued qualified opinion on financial statements of almost all LGs. Nepal Public Sector Accounting Standard (NEPSAS) based financial statements prepared by LGs do not present true and fair view of the entities. Some income and expenditure such as social security and other conditional grants were not

included in Financial Statement. In course of audit OAG, it has been identified that bank reconciliation statement was not prepared by many of the LGs and 167 LGs have carried forward less amount comparing to the bank balance as shown in the previous year. They have not used IT based revenue collection and recording system. Most of the account staff are new comer. Thus, LGs do not have adequate capacity to maintain proper accounts. Reporting of expenditure and internal income from LG to Provincial Treasury Comptroller Office (PTCO) and PTCO to federal Ministry of Finance as per Inter-governmental Fiscal Arrangement Act, 2074 is lacking. Thus, whole of the government account could not be prepared in timely manner.

Most of the LGs have not used Public Assets Management System (PAMS). Thus, updated record of public properties owned by LGs is lacking. Some of them have conducted inventory inspection and some have not conducted such inspection. Where inspection of inventory was conducted, the maintenance and auction of inventory as suggested by inspection report was lacking in most of the LGs. While analyzing the accounting and reporting practice, the fiduciary risk of LGs is perceived high.

**Internal Control, Audit and Scrutiny:** As per legal provision, LGs are required to implement appropriate internal control system. Almost all LGs have not designed internal control system and formulated its procedure as required by law. LGs are not implementing code of ethics for official and elected representatives. As reported in AG's 59th Annual Report, internal audit of 250 LGs was not conducted for the fiscal year 2020/21. Internal audit section has been established in some of the LGs and where established, it is not independent, because the official who is directly accountable to the Chief Administrative Officer, conducts internal audit of the financial transaction executed by him. Capacity limitation and use of audit standard and guideline are the shortcomings relating to internal audit.

Audit observations raised by final auditor were not settled in timely manner. Account Committee is either not constituted or effective in discharging their duty. Final Audit could not be completed in 9 LGs for 2020/21, 5 LGs for 2018/19, 2 LGs for 2017/18 and 4 LGs for 2016/17 due to non-submission of account. Final audit is also facing some problems. Geographical dispersion of LGs posing challenge to complete audit in timely manner. Uniformity in raising audit observations among the LGs and implementing result-based audit are the areas for improvement in final audit. Such situation has affected the level of fiduciary risk in the LGs.

**viii. Accountability and Transparency:** Fiduciary risk is assessed considering the status of accountability and transparency. If we consider the structure of LGs, budget and programme are approved by the assembly. Approved programmes are implemented by the executive. While



implementing budget and programme, many of the members of the executive or assembly are involved. Conflict of interest can be noticed in the operation of the LGs. Because those who were involved in approving the programme and budget are also involved in implementation, monitoring and evaluation. In case of audit observation settlement, Account Committee is constituted including the members of assembly of LGs, who may be involved in executing the programme or they may have conflict of interest to settle the audit observations. Looking at the current practice, the audit observations are settled under the recommendation of Account Committee which may have conflict of interest with audit observation. This practice dilutes the accountability. While reviewing the audit observation settlement status of the LGs, it is disappointing. As per AG's Annual report, 3 year's audit observation settlement / audit irregularity status is depicted in the table below.

*Amount in Million NRs*

Fiscal Year	Last Year's Cumulative Irregularity	Adjustment (+) (-)	Cleared/ Settled in Follow up audit	Last Year's Balance	Current Year's addition	Cumulative Outstanding Irregularity
2020/21 (2077-78)	103,037.7	-361	10,588.7	92,412.9	43,909.5	1,36,322.4
2019/20 (2076-77)	69,810.9	-94.2	7,513.7	62,203.0	40,834.7	103,037.7
2018/19 (2075-76)	35,992.4	-35.9	4,273.6	31,682.9	38,127.9	69,810.8

As mentioned in the table, the audit irregularity settlement is NRs 10 billion in 2020/21, which is encouraging. But, while considering the addition during the year, it is discouraging. Audit irregularity addition is 4.14, 5.43 and 8.92 times of settlement amount in FY 2020/21, 2019/20 and 2018/19 respectively. It shows that LGs are not accountable to discharge their duties. Moreover, public participation in budgetary process is weak. Audit observations of the LGs are not published in the website and very few LGs are organizing public hearing to get feedback from the public. Regular interaction and communication with stakeholder are lacking. LGs are reluctant to provide information as per Right to Information Act. Many laws relating to financial management, service delivery, LG operation and management are to be formulated. This has affected the transparency, accountability and contributed to high fiduciary risk.

#### 4. Causal Analysis

Considering the public expenditure financial accountability (PEFA) framework, the fiduciary risk of the LGs is perceived high. The main underlying causes for this situation are lack of institutional capacity, skill and knowledge, bureaucratic inefficiency and corruption. The overall financial discipline in the country is poor, which has created spillover effect to the LGs. Moreover, the local elected representatives are not much concerned with the financial control. They represent people's aspiration and focus on result to satisfy the general public. In this

context, the control environment created by laws and procedures may impede their priority. Thus, they either violate the existing rules or show unwillingness in framing rules and regulation. Legal compliance is weak in LGs which has contributed to high fiduciary risk. The involvement of elected representatives in programme implementation creates conflict of interest and confines them from monitoring functions. Likewise, limited knowledge of representatives on public financial management and ineffective oversight function has also affected level of fiduciary risk. Diversification and complex nature of activities to be performed by LGs has also added risk in the utilization of the resources. Moreover, it seems that three tiers of government to perform and implement the programme without coordinating and considering the list of power provided in the constitution have also upsurged the fiduciary risk.

#### 5. Way forward

Fiduciary risk in LGs is considered significantly high. This can be indicated in the Auditor General's report and other studies or assessments conducted by various organization and development partner. The development effort could not be materialized and service delivery could not be effective, where the fiduciary risk is high. People are not satisfied with the performance of the LGs. Such dissatisfaction towards LGs may affect the overall democratization process of the country. In this regards, certain preventive measures need to be adopted to reduce the fiduciary risk of LGs. Some measures are discussed below.

- 5.1. Local Government Operations Act, 2017 and the Inter-governmental Fiscal Arrangement Act 2017 provides some basis to operate LGs. However, many procedural Acts relating to financial management, service delivery, operation and management need to be formulated for effective operations of LGs. Ministry of Federal Affair and General Administration (MOFAGA) has formulated model laws. Thus, based on the model laws, each LGs need to formulate required laws.
- 5.2. Coordination among federal, province and local government is another major weakness. In this context, proper institutional and legal framework need to be established to achieve joint objective through co-operative and collaborative approach.
- 5.3. Required number of staff with technical competency should be available at LGs. It is necessary to empower local elected officials to perform their constitutional functions. Adequate number of training and orientation is necessary to build capacity of staff and elected officials.
- 5.4. Citizen participation in budgetary process is crucial to improve accountability. Effective link should be established between citizens and elected officials.
- 5.5. Accounting standards and procedures such as NPSAS,



SuTRA and Chart of Account should be implemented fully by all LGs. The reporting mechanism of grant utilization and income and expenditure to the province and federal government needs to be strengthened. SuTRA needs to be updated by including the features of collecting and recording revenue and other fund. All LGs needs to use PAMS to maintain proper records of public properties. Financial Management Improvement Plan (FMIP) of LGs needs to be developed and implemented.

- 5.6 Internal control should be strengthened by designing standard operating procedures for LGs. Likewise, internal audit function of LGs should be made independent and effective. In this regard, internal audit staff with right capacity are needed; professional training should be provided; a well-functioning and independent audit committee is required to review final audit report and to support internal audit function. Audit irregularities are to be settled in timely manner.
- 5.7 It is important to avoid duplication and fragmentation in program implementation among three tiers of the government. Distributive, unproductive and administrative expenditure needs to be restrained. The grant disbursement process should be revisited and strengthen monitoring mechanism to ensure the effective use of grant. Sustainability and, cost benefit analysis and achievement of goal should be the guiding principle for allocating resources to the LGs.
- 5.8 Planning function needs to be strengthened. LGs are required to prepare periodic plans and to internalize the Sustainable Development Goals. MTEF is required to be prepared by LGs before preparing budget. Budget should be realistic and approved on time. Budget discipline should be complied with by adhering to the limit of approved budget and programme. Participative approach needs to be adopted while formulating the budget.
- 5.9 Use of ICT in the operation management of LGs including service delivery is important to reduce the fiduciary risk. Public hearing is important to get feedback in service delivery.
- 5.10 Public procurement Act and Rules should be complied with and additional regulation can be formulated if required. Use of eGP for the procurement, preparing master and annual procurement plan and restricting direct procurement are the main areas for improvement of procurement. Moreover, mobilizing User's Committee is undertaking large, complex and technical construction work needs to be stopped.

## 6. Conclusion

LGs are the new structure in the federal context of Nepal. However, these institutions were operated since last 5 years. While evaluating the performance of LGs with regards to planning, budgeting, resource mobilization, procurement, expenditure management, accounting, auditing, service delivery, accountability and transparency found weak and the fiduciary risk is considered high. When such risk remains high the economic, efficient and effective utilization of resource will remain in threat. Such situations create breeding ground for corruption and misuse of resources increases which ultimately led to public dissatisfaction. Strong public financial management is crucial to reduce fiduciary risk. It can be achieved through proper plan, execution, monitoring and evaluating public resources to deliver public service in economic and efficient manner. In this regard, LGs should take prominent steps to reduce fiduciary risk by adopting the Fiduciary Risk Reduction Action Plan prepared by MOFAGA. However, the duration of action plan is ending by 2079/80 and new action plan needs to be prepared. The most important strategies are directed to ensure fiscal discipline by ensuring economical, transparent, result based use of public resources; enhance allocative efficiency by making productive and effective allocation in the strategic priority areas; and achieving value for money by managing public resources with due regard to economy, efficiency and effectiveness.

Currently, local election has been completed and new elected representatives are assuming their responsibility. The lesson learnt in the past and the financial management review reports of various study are available with the government. Elected representatives can start to prepare the plan to minimize the fiduciary risk. In this context, proper legal and regulatory framework should be designed, institutional mechanism, capacity and mind set needs to be improved. Likewise, inter-governmental coordination, clarification and use of appropriate right and duties as mentioned in the list of power defined in the constitution and improving financial management of sub-national government are the main agendas for fiduciary risk reduction.

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# Risk of Non-Taxation of Digital Transactions in Nepal

The digital economy is gradually increasing in its size and is making remarkable contribution to the world economy nevertheless, the question of taxation of digital transactions has also been a major concern for every nation. Though the risk of loss of revenue may be higher in less developed countries, developed countries also face challenge in taxing digital transactions. No doubt, all the nations and government should contribute for bringing consistency in tax application and erasing the possibility of double taxation as ecommerce potentially crosses national borders.

## Abstract

The growth of the digital transaction in Nepal has been significant and grew exponentially after the pandemic situation of COVID 19. The growth in the digital transaction has also increased the challenges of the tax authorities as the conventional business model based on brick and mortar has failed to tax the digital transaction as the concept taxing business transactions based on of physical presence has been obsolete. Despite the increment in the volume of digital transactions, Nepal government has recently introduced provisions for taxing of the digital transactions vide Finance Act, 2079 however the same is not adequate for bringing all the digital transactions into the tax bracket, hence, risk of non-taxation prevails. This study has tried to explore the risk of non-taxation of digital transaction by study of the literature on taxing the digital transaction and identified global trends and practice adapted by other countries and attempts to figure out the strategies for mitigating the risk of non-taxing the digital transactions and tries to find suggestions for the tax authorities for



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amendment of the tax laws. The study is based on the literature available in the field along with critical analysis of the conventional taxation models to identify provisions which may be replicated in the Nepalese context. As the taxation models adapted differs from country to country, we conclude that whatever the model adapted, the model should however be based on the concept of neutrality and similar nature of transaction whether it be conventional or digital should be taxed consistently. Irrespective of the taxation model adapted, focus should also be maintained so that the administrative cost of the tax authorities and compliance costs for the taxpayer should be minimized to the extent possible.

**Keywords:** consumption, digital

transaction, OECD, permanent establishment, risk of non-taxation, taxation models, withholding tax.

## Chapter 1: Introduction

### a. Ecommerce/ Digital Transactions

The pattern of doing business has changed significantly with the advent of internet. Commercial transactions are increasingly undertaken using information technology, or the internet thereby exponentially increasing the trade over the web. The mechanism of- buying or selling of goods/services over digital and electronic network is termed as digital transaction/ e-commerce which is considered convenient as compared to the transactions from brick-and-mortar structures termed





as the traditional mechanism of trading. Digital transaction/e-commerce encompasses all the transactions undertaken over the internet using web applications, emails, messaging, web services etc. without physical presence. The transaction may be on account of receipt or delivery of either goods or services, transfer of the funds or data or intellectual property or rights. The payment may either be online or physical.

As per (Research and Markets, 2021) for the year 2020, the volume of the Global Digital Payments Market stood at USD 5.44 trillion and the same is expected to reach to about USD 11.29 trillion by 2026.

Transactions through the digital platform was gradually on a rise since more than 2 decades, the global pandemic situation due to COVID-19 has further triggered the growth in the e-commerce transactions making it clear that e-commerce is also necessary for small as well as medium businesses. As ecommerce is necessitated for all size of business and economy the growth is inevitable.

Digital transactions are growing as people tend to prefer transacting through a digital platform due to ease access to information or products, saving of time/money, convenience, easy comparison of pricing, etc. The 57<sup>th</sup> Annual Report, 2020 of the Auditor General of Nepal notes that the digital transactions without any physical presence have been raising globally and also in Nepal.

## b. Models of Taxation

There are basically two models of taxation the first, residence based and second, based on source of income. Further countries levy tax based on income as well as based on consumption. Tax on net income is charged on annualized basis while tax on consumption is levied at the time of the transaction. The tax liability to be discharged on annual basis is the direct tax, commonly termed as "income tax", while the liability to be discharged at the time of occurrence of the transaction is an indirect tax, comprising of tax levied on intermediate transactions between business or sale to the end user such as value added tax, and tax such as excise duty, custom duty etc. which are charged as levies on goods and services (OECD, 2011). Income taxes are payable at the taxpayer's residence and the place of source of income while the consumption taxes are payable at the place of destination.

The taxation models adapted by the countries for developing of the tax rules and regulations is based on the broad policy considerations which include neutrality, efficiency, certainty and simplicity, effectiveness and fairness, as well as flexibility. In the context of work leading up to the Report on the Taxation of Electronic Commerce, these overarching principles were the basis for the 1998 Ottawa Ministerial Conference and are since then referred to as the Ottawa Taxation Framework Conditions. These factors have traditionally guided by the development of the taxation system.

Economies stick to the residence based and source of income-based taxation models for determining whether a particular income is taxable in the concerned country. The general criterion of taxation is based on the concepts of taxpayers' residence or normal place of abode or nationality of the taxpayer and source of the income sought to be taxed. More specifically there a nexus should be established for taxing the income by the specific country.

Generally, for taxation purpose under the conventional system, taxpayers are categorized as either resident or non-resident. Resident (either individuals or non-individuals) taxpayers are to be taxed on their worldwide income while non-resident (individuals) taxpayers have to pay the tax only on the income accruing or deemed to accrue within a specific country. For a non-resident other than individuals, the residential status is determined by identifying the place of effective management ("POEM"). POEM signifies the place of effective management viz., the place where the key managerial and commercial decisions of the business entity are made. In case where the non-resident has income from more than one tax jurisdiction problem may arise as to which of the jurisdiction has the taxing right. Hence for determining the global taxing right, concept of permanent establishment is recognized, and the taxation of the non-resident (non-individuals or entities) is based on the clauses generally specified in the Double Tax Avoidance Agreement "DTAA" between two or more countries. Article 7 of a normal Double Tax Avoidance Agreement ("DTAA") provides for taxation of profits of an enterprise of a contracting state only in that state unless the enterprise carries on business in the other contracting state through PE (Permanent Establishment) situated therein.

## c. Digital Transactions in Nepal

The digital transaction in Nepal is also increasing. However, it may be at a slower pace as compared to that of the developed countries. The digital payment in Nepal recorded an increase of 94 percent in the first quarter started mid-July to mid-October 2021 as compared to the corresponding period of the earlier year. On account of turnover the transaction reached Rs 1.22 trillion in the first quarter of 2021 as compared to Rs 630.85 billion in the first quarter of the immediately preceding year (Prasain, 2022).

In the preceding period of last fifteen years, digital payments and banking companies have emerged to become key players in Nepal's payments market. The ongoing pandemic of COVID-19 has further triggered the growth of digital transaction in Nepal and Nepalese seem to have preferred digital transactions over the physical transaction. The boundary of the digital transaction has tremendously expanded to the rural areas as well. The whim of digitalized transaction has increased the use digital wallets for ticketing and online payments, with wallets now seen as



the safest method of paying for groceries, courier services, electricity bills, and ridesharing etc.

The report of Nepal Rastra Bank, mentions (please, specify the name of the report) that during a single month of 2020, digital transaction worth Rs 8.2 billion was made vide 1,12,706 transactions. The data reveals that Nepalese economy is gradually being dominated by the digital transaction and the growth rate will accelerate in the days to come. Furthermore, digital business operations have also paved an opportunistic path for online advertisement that connect business houses with potential consumers. Digital businesses operations have widened the scope not only to Nepali companies but also foreign businesses to market their products via Nepal's IP (Internet Protocol) address.

Unfortunately, besides the elementary registration requirement under the Company Act of Nepal, there are limited regulations which govern the e-commerce business in Nepal indicating it as one of the least regulated sectors. It is thus possible for digital businesses to undertake transactions in Nepal even without registration and no official data is available on the registration status of the e-commerce business. More specifically, even the social media platforms viz., YouTube, Facebook, Google etc. banner advertisement of local or international brands targeting the Nepalese consumers and earning income having a source in Nepal however those social platforms are neither registered in Nepal nor do pay tax in Nepal based on the source of income. In order to regulate and monitor e-commerce business, the Ministry of Industry, Commerce and Supplies has drafted a Bill, however it is to be passed by the Parliament after discussion.

Moreover, even the residents of Nepal are engaged in delivery of the services such as web hosting, web designing, freelancing etc. to foreign companies online and obtaining payments from the financial institutions in foreign currency, however in the absence of proper coordination between the tax authorities and the financial institutions, there is a prevailing risk of non-taxation of such income. The Office of the Auditor General in its 57<sup>th</sup> Annual report has also stressed on the need for bringing the digital transactions. The extracts of the report reads as follows:

*"There have been the situation where huge amounts of the country have gone foreign from the advertisements made through the use of various social networks, such as- Facebook, Messenger, Viber, Imo, WhatSapp. In the state of non-registration of such social sites in Nepal and non-existence of payment gateway for sending the payment legitimately to such sites operators from Nepal, the persons or businesspersons residing within the country and foreign have been sending the payments to the concerned network operators by using the international electronic payment mode such as- Paytm, PayPal, credit cards etc. and the advertisements are being uploaded after the receipt of such payment. For the advertisement uploaded, the concerned social-site operators have been recovering the*

*advertisement charges on the basis of frequency of visits to the advertisements. Since the advertisement services are delivered within Nepal, taxes are to be paid in Nepal on the basis of principle of income at source, whatsoever the payments are done anywhere. However, none of taxes have been collected in the state's treasury from such transactions, as such transactions are not yet recognized and social sites are not registered in Nepal. There should be arrangements to bring the network operators within the tax net or scope."*(para 40.1)

#### **d. Critics on Traditional Model of Taxation**

Traditional taxation models envision taxing the income based on physical presence which is not the case with digitalized businesses as transactions may be undertaken with less human interference or no physical presence. Hence the traditional taxation model become less relevant in the context of digital economy due to the following reasons:

- place of registration of the company is irrelevant as the products are intangibles and companies may get themselves registered in countries with favorable tax rates
- it fails to identify value creation and profit-making in the digital economy, raising issues of tax avoidance.
- there are no physical boundaries in e-commerce as in the case of conventional commerce making the PE as per DTAA irrelevant.
- access to internet facilitates e-commerce traders to transact in different countries by people residing outside the tax jurisdiction
- it is difficult to identify the source of income as the place of service delivery and the place of the digital platform may be in different jurisdiction
- the characterization of the income generated by ecommerce companies in the category such as business profits, royalty or fee for technical service is debatable

Though the digital transactions limited with national border could be taxed in accordance with the current modality for taxation. Challenges of non-taxing the digital transactions arise in case where the digital transaction cross the international border. The taxation policies of countries based on territory, source and jurisdiction has begun to fail after innovation of ecommerce.

Disparities may exist between the taxpayer undertaking similar nature of transactions from a brick-and-mortar structure and those undertaking it a digital form. Hence, there is an urgent need to draft new tax models by taking into consideration the risk posed due to non-taxation of the digital transactions.

#### **e. Problems Relating to Digital Taxation in Nepal**

Despite the exponential growth in the digital transactions, both within and outside the border, the contribution it has made to the overall tax revenue is one of the areas remaining unexplored.



Challenges are faced by the tax authorities around the globe in the aspects of taxing the digital economy which has been a matter of concern for all countries and more specifically the developing countries who rely more on the tax revenue for meeting the budgeted expenditure and Nepal is not an exception to this.

From the tax perspective, Income Tax Act 2058 is based on the conventional tax model and has not envisioned existence of online businesses. The income taxable in Nepal is categorized broadly under business income, employment income, investment income and windfall gain, and the category fails to incorporate the online business from its definition.

In Nepal, in the absence of the framework policy, rules and legal arrangements pertaining to tax assessment of E-commerce, such transactions have not come under tax net despite of the transactions are operated in the country. No formal study has been yet carried out pursuant to how much taxes can be collected to the country and how many such transactions are operated in the country.

As per the Finance Act, 2079, digital Service Tax shall be levied at the rate of 2% of the transaction value (excluding indirect tax levied in Nepal) of digital services provided by Non Resident Person to Resident consumers, in case the annual transaction of digital service crosses 2 millions however the provision in itself may not be adequate for covering all the digital transactions based on with the tremendous increase in digital transactions and there is a risk that digital transactions primarily those businesses operating in the country through social media portals, are left out of the tax bracket. Social media platforms for instance, Facebook and Instagram, which are freely accessible and are used by people for creating an online page to deliver news, goods or services however lacks registration with competent authority.

Advertisements pertaining to either local or foreign products/services placed in such social platform or pages through the country's IP addresses remain largely untouched. The earned income is directly proceeded into individual account without being taxed. However, there is some ground to tax such activities using the section 67 (6) (H) of Income Tax Act 2002 (2058), that provides the payments received by a person who carries a business of transmitting information or news through means of communication such as wire, radio, optical fiber or satellite in respect of transmitting news or information through networks established in Nepal, shall be deemed to have source in Nepal. And section 67(6) L (2) of same Act provides that the payments made in respect of activities carried out in Nepal shall be deemed to have source in Nepal. The tax authority has not been able to catch up transaction as mentioned earlier using this provision. The government has recently introduced guidelines for regulating the e-commerce operation but the bill has failed to see any daylight. (Dahal, 2021)

Digitalization also raises broader challenges such as the fair allocation of taxing rights in a globalized world. These challenges stem from the tax rules of nexus, the nature and value of data, and characterization of income (BEPS Action 1 in OECD 2015). In indirect taxation, the challenges are more straightforward and primarily related to the sound collection mechanism of VAT.

Though the risk of non-taxation of the digital transaction may be present in different aspects, this article will try to explore how the Income Tax Act of Nepal is to be amended to mitigate the risk of non-taxation of digital transaction from the following questions:

- What should be the registration requirement?
- What sort of revision is required for defining the place of residence or permanent establishment?
- What may be other modalities appropriate for taxing the digitalized business?

This article has focused on the guidelines available regarding the taxation of ecommerce business worldwide to arrive at the alternatives available for reducing the risk of non-taxation of digital business in Nepal.

## Chapter 2: Theoretical Framework for Digital Taxation

The tax policy framework is premised on the concept of equity generally categorized as horizontal equity and vertical equity. The concept of horizontal equity demands that taxpayers operating under the similar circumstances should be taxed evenly. The interpretation of vertical equity can differ from one another, and critics prevails as some interpret those taxpayers operating in better environment should also be liable to pay larger tax as a proportion of their income. Hence, the interpretation of vertical equity is dependent on the intent of the specific country for balancing the income variation and whether it should be applied to income earned in a specific period or to lifetime income. (OECD, 2014)

Leaders of the G 20 countries in their meeting in 2013 at St. Petersburg agreed that the "International tax rules, which dates back to the 1920s, have not kept pace with the changing environment, including the growing importance of intangibles and the digital economy." (Declaration, 2013) and was also acknowledged by OECD in 2015 in its final report "Addressing the Tax Challenges of the Digital Economy". Organization for Economic Cooperation and Development "OECD" is composed of members from 29 countries and was created as a forum to sponsor international discussion concerning all aspects of society with an objective to provide inputs to the member countries regarding the tax challenges rather than producing direct tax policy action. (Olbert M. , 2017)

OECD was of the view that risk of non-taxation exists both under direct as well as indirect tax. (OECD, 2014). Challenge of



collection of direct/ corporate tax exists as companies can have access to foreign market without a taxable nexus (by creating a subsidiary company or permanent establishment) which are not taxable under the conventional taxation model. Further companies may deliberately plan to profit shifting activities such as placement of the intangible assets in locations outside the related country thereby raising risk of base erosion and profit shifting "BEPS".

As the current taxation model is based on the origin principle, risk of non-collection of indirect tax exists as the digitalized firms can configure their point of sale "POS" in low tax jurisdiction for minimizing the tax burden arising in the form of value added tax or goods and services tax. (Olbert M. , 2019)

The consequences of digital taxation become even more complex when dealing with e-commerce sales that cross borders as the tax policies of countries differ from each other and are inconsistent. (Simkin, n.a.)

The risk of non-taxing the digital transactions may be summarized based on the categories viz., Consumption Taxes, Registration, Permanent Establishments, and Withholding Tax.

### **Consumption Taxes**

As per (OECD, 2001) the consumption tax for use of the digital goods or services should be levied in the jurisdiction in which the consumption actually takes place. Levy of tax at the place of consumption prevents confusion on the part of the tax jurisdiction as to whether to the income shall be taxed at source or at destination and minimizes the risk of non-taxation.

Though the tracking of the tangible goods is convenient, for the consumption of intangible services, the place of consumption shall mean the place where the consumer consumes the services irrespective of the contract, payment, beneficial interest, or the location of the supplier or customer at the time of the supply. Hence for both B2B and B2C transactions, consumption tax should come under the jurisdiction where the consumption takes place.

For the consumption tax on import of intangible property/ services, reverse charge mechanism shall apply, and the consumer have the duty to deposit the tax with the tax authorities of respective countries.

### **Registration of Ecommerce Business**

A voluntary registration system is recommended for registration of the ecommerce business specifically non-residents for obliging the non-resident to charge, collect and remit the consumption tax to that country. As compulsory registration requirement for all non-resident business irrespective of the volume of the transaction might increase the tax administration cost, (OECD, 2001) suggests that threshold shall be applied for registration. The introduction of threshold for registration will exempt non-resident business to get registered in countries

where the transaction is low. However, the Technical Advisory Group of OECD has felt that the criteria for registration shall be applied for B2C transactions only as B2B transactions are well covered by the reverse charge mechanism.

### **Permanent Establishment**

As digital business may be conducted without having any presence in the tax jurisdiction in which the goods and services are provided, presence of risk of non-taxation could not be avoided. The current definition of permanent establishment is inadequate to cover the digital transactions where the supplier of intangible products/ services may be in a different tax jurisdiction providing services vide a server to customers residing in any other tax jurisdiction.

As per the discussion held between the members of the technical advisory groups formed by OECD for chalking out modalities for income classification and permanent establishment resulting in incorporation of Article 5 to the OECD Model Tax Treaty. Based on the discussion, Article 5 of the OECD Model Tax Convention, specifying the criteria of determining the permanent establishment in a country was recently amended to include the location of the server of a company at a particular location for a significant period of time, a concept of "significant economic presence" as add-ins to the present definition of permanent establishment.

Territorial location of the server might be enough for constituting a permanent establishment if it was an essential and significant part of the business activity of the enterprise as a whole, or where other core functions of the enterprise are carried on through the computer equipment. (Sardana, n.d.)

In case a web server of a company is hosted in another country, the company hosting the website should not be construed as permanent establishment of the company if such agents are operating in an independent capacity.

### **Withholding Tax**

As an alternative of the present permanent establishment rules, OECD has also recommended for introducing a concept of withholding tax on payment against digital transaction and introduced a levy named "equalization levy" (BEPS Action 1 in OECD 2015).

The OECD (2018) reports that 110 economies have agreed to form an international consensus on how to tax digital businesses across borders. These economies have agreed to review the old or traditional tax system that does not fit the digital economy. While these suggested options are good starting points toward an international standard for taxing the digital economy, the details are yet to be developed and finalized.

Pending the final say by OECD, many countries have taken unilateral measures and the measures differs in content, though all the measures share the following aspects: (i) they do not



rely in international cooperation and are sought to be executed under domestic or regional laws; (ii) they aim to preserve or expand the source taxation of online business activities generally performed by multinationals; and (iii) they draw upon certain elements of the above options originally proposed by the OECD for international standards. Though OECD seems to support the framework designed by the countries unilaterally, with a particular focus on nexus and profit allocation, more importantly, it also has stressed that the interim measures should comply with international standards and trade obligations, be temporary and targeted, and minimize the impact on start-up companies and administrative burdens.

Few of the Asian countries viz., Malaysia, India and Philippines have taken measures for broadening the scope of withholding tax and introduction of new turnover tax. Value Added Tax "VAT" has also been one of the major tools for taxing the digital economy in order to take advantage of growth and level the playing field between online businesses and those that operate offline.

Italy, for example, has introduced provisions that all of the businesses should issue electronic receipts to all customers. Companies are required to obtain their "digital address" number from the tax authority as well as of all their customers and suppliers.

OECD has been continually focusing on designing approaches for taxing digital transactions and has considered review of implementation and the impact of the BEPS package and the interim measures adapted by the countries domestically.

### Chapter 3: Analysis and Way Forward

Because of the advent of the technology and new ways of doing business, tax administrations are finding it hard fetching information about taxes that should be collected, and the risk of non-taxation exists. Obviously, the tax base of developing countries is more at risk than that of OECD countries. The Corporate Income Tax "CIT" usually figures more prominently in developing countries than in developed countries in terms of its share of the total tax revenue. The Value Added Tax "VAT" generates the largest share of tax revenue in many developing countries. As a result, any erosion of tax base of the CIT/VAT could have profound consequences on the revenue capacity of developing countries. (Li, 2018)

The policy to be adapted for taxing the digital economy determines its future. The governments should be cautious on crafting taxation strategies for minimizing the risk of non-taxing of the digital transaction as the tax strategy may affect small business to compete globally.

Based on the review the methods adapted by the countries globally, it is imperative that neutrality of the tax system is important. Irrespective of the model of the trade either electronic or conventional, digital or non-digital, same rate of VAT shall be applied for cross-border transactions and domestic ones. Further

VAT exemption/ registration thresholds should apply to foreign and domestic sellers. A neutral VAT expansion to digital services removes the distortion of digital consumption being untaxed while similar goods or services acquired locally face tax.

Second, it's important to implement systems that are efficient and easy to deal with from an administrative and compliance standpoint in line with the Ottawa Taxation Framework Conditions, which specifies that a tax system should be efficient in the sense that "compliance costs for taxpayers and administrative costs for the tax authorities should be minimized as far as possible."

Understanding the modality of operation of ecommerce business and the way it is creating value is necessary for the tax authorities and government so that the existing tax laws may be amended, or new acts may be enacted. The definition of taxable income and taxable businesses need to be defined in a broader sense. Based on the review, the tax authorities in Nepal may initiate the following actions for mitigating the risk of non-taxation of the digital transactions:

- The definition of digital/ecommerce business needs to be incorporated in the Income Tax Act.
- The definition of resident person in the Income Tax Act shall have to be revised for including persons transacting with the electronic devices with IP address of Nepal, and making payment vide debit or credit cards issued by the financial institutions in Nepal.
- Registration criteria need to be specified for the ecommerce business based on threshold criteria.
- Reverse charge mechanism may be specified for the collection of consumption tax for B2B transactions.
- Need to broaden the definition of permanent establishment to broaden the tax base for example: adapt the concept of "significant economic presence" in its definition
- The concept of equalization levy may be introduced for bringing the social networks under the tax bracket
- The provisions of the withholding tax need to incorporate services from resident as well as non-resident entities and individuals

The author concurs with the statement made by the Auditor General in its 57<sup>th</sup> Annual Report which stresses the need to prepare acts, rules, structure and infrastructure and to enhance the knowledge, skills and capacity regarding ecommerce/digital transactions. Likewise, the legal provision should be framed which requires the business-persons operating E-Commerce business globally to register in Nepal or the definition of permanent establishment should be revised so as to cover any person conducting business from other countries without physical presence in Nepal shall also be deemed to be permanent establishment in Nepal.





In addition, the legal provision should also be amended to cover the alternative of allocating the incomes and tax-base of such companies on the basis of the places where business transactions are operated or allocating the incomes on the basis of the place of receipt where incomes are generated. Pursuant to this, an initiative should be taken globally to collect revenues by adopting the 'Action Plan related Tax-base Impairment and Profit Transfer' prepared by the OECD.

Further exploration may be needed for finding out how the non-resident digital companies are providing services to Nepalese customers by using Nepali IP users from Nepal and vice versa and bring them under the tax domain of Nepal. To avoid any unnecessary burden and double taxation or charges on a single transaction of goods and services, it is necessary to determine whether the services availed by these businesses, the income generated, or the online transactions made is to be charged. Nepal should also adapt new tax models for reducing the risk of non-taxing the digital transactions based on the practice adapted in other countries until consensus is reached on taxation models for taxing the digital transaction.

#### Chapter 4: Summary and Conclusion

The digital economy is gradually increasing in its size and is making remarkable contribution to the world economy nevertheless, the question of taxation of digital transactions has also been a major concern for every nation. Though the risk of loss of revenue may be higher in less developed countries, developed countries also face challenge in taxing digital transactions. No doubt, all the nations and government should contribute for bringing consistency in tax application and erasing the possibility of double taxation as ecommerce potentially crosses national borders.

Different measures have been taken by countries as an interim measure of taxation of digitalized business which however may be insufficient and inappropriate in the long run. OECD is continually discussing the issue however the final version is yet to be obtained. Unilateral measures are taken by countries foreseeing the risk of non-taxation as the broad guidelines for taxation of the digital business is yet to be reformed.

As the subject is a matter of huge concern to all countries, detailed analysis of the policy options along with the consequences need to be explored for responding to the tax challenge.

Policymakers though recognize that the digital transactions have posed challenge to existing tax models, it is required more research to understand fully and accept the challenges in this fields. Considering the growth of e-commerce business in Nepal, tax authority of Nepal has also initiated to levy digital service tax since 2079. However, the government should accord priority in tabling the draft bill on e-commerce in the Parliament for passing it in time so as to regulate and monitor the electronic transaction and to increase tax base for collecting untapped taxes.

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#### Acronyms

B2B	Business to Business
B2C	Business to Consumer
BEPS	Base Erosion and Profit Shifting
CIT	Corporate Income Tax
DTAA	Double Tax Avoidance Agreement
IP	Internet Protocol
OECD	Organization of Economic Cooperation and Development
PE	Permanent Establishment
POEM	Place of Effective Management
POS	Point of Sale
VAT	Value Added Tax





# The Future of Currencies: CBDC & its Practice in Neighboring Economy

With the evolution of decentralized and unregulated cryptocurrencies like Bitcoin & Dogecoin, government of different countries has raised concern and felt the importance for state-owned and government controlled digital currencies. The practice of issuing CBDCs (digital currencies) is getting the pace around the globe in recent years to have a well regulated and stable economy. Following this trend, the neighboring economies like China and India have already moved ahead with the issuance of CBDCs in the form of e-CNY (digital Yuan) and e₹ (e-rupee) respectively. These currencies are issued following the fundamentals of CBDCs and planned to be available for general public after testing in closed group and collecting the feedbacks from stakeholders.

## 1. Background

Recently, it has been observed that central banks of various countries like China, India, Sweden or South Africa, and even the European Union have been experimenting with their own form of digital currencies to counter the severe effect of decentralized and unregulated cryptocurrencies like bitcoin. As the central bank cannot control its demand and supply, the lawful or unlawful use of crypto threatens the sovereignty of its own national currency. Hence, it is imperative to put forth efforts for the state-owned issued Central Bank Digital Currency (CBDC).

On the flip side, the use of primitive bank notes relative to digital payment has indeed been declining consistently for the past three to five years, and similar trends will be evident in coming years as well. It has led some observers to project a “Less-Cash society” soon. So, it will be high time to think about the digital currency instead of printing physical notes and coins to



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preserve the central bank’s seigniorage revenue.

These days, if we are banking with any bank or a financial institution regulated by Nepal Rastra Bank, we could experience that our money is already in digital form. The use of digital wallets, payment apps, bank to bank fund transfers, use of debit, prepaid, and credit cards are a few lively examples. So, it is observed that the newer generation even in Nepal rarely uses physical cash for their day-to-day payments, settlements, or purchases. These online payments/transfers are possible as the settlement takes place between the accounts of customers in the respective banks whose accounts are centrally maintained in the central bank. This depicts that our currencies are already in digital form.

## 2. What is CBDC

CBDC is a digitalized version of domestic currencies that is equal to physical cash that every individual and corporate use or the reserves that banks hold at the central bank. CBDCs, however, are the direct liability of the central bank and are token/account-based where these tokens would be represented on a blockchain, or distributed ledger established by the central bank. Unlike public blockchains like Bitcoin and Ethereum where the information recorded is available to all, these are private or highly regulated blockchains which only the central bank or authorized parties can have access.

Theoretically, there are two types of CBDC’s: Wholesale CBDCs and Retail CBDCs. If the transaction takes place





between the central bank and commercial banks or the entities that are licensed by the central bank holding accounts with the central bank, it is called wholesale CBDCs. These are more to do with the infrastructure and plumbing of the financial system and do not affect the individual/general public directly.

However, if digital currencies can be used by businesses as well as general people like us, it is termed Retail CBDCs. In a simple sense, it is like the currency that is in our mobile wallet issued directly by the central bank. In developing countries like Nepal, where so many people are supposed to be unbanked and underbanked, Retail CBDCs could make a strong case for financial inclusion because a central bank directly can transfer funds to the unbanked as long as they have a mobile phone. Just think of distributing senior citizen allowance, widower allowance, Covid-19 relief package, or any natural disaster relief fund by the government via central bank in the form of digital currency directly to the right beneficiary at right time with few clicks without using the long, traditional and expensive chain of distribution.

Having said that, the practical use of Retail CBDCs could expose a few risks and losses as well. If the general public could all hold the money with the central bank why do, they need to hold the money in a neighboring branch of the bank or financial institution? Taking all of these theoretical aspects of digital currencies into account, the Indian central bank has already planned to launch central bank-backed digital currencies. It recently published a concept paper in order to solicit public feedback on this neo-currency.

### 3. The Concept Note

The Reserve Bank of India (RBI) on 07 October 2022 has released a Concept Note on e ₹ (e-rupee) for piloting the Central Bank Digital Currency (CBDC) in nine banks: State Bank of India, Bank of Baroda, Union Bank of India, HDFC Bank, ICICI Bank, Kotak Mahindra Bank, Yes Bank, IDFC First Bank and HSBC. With this, India has reached a significant milestone and joined a group of few countries that have adopted a blockchain based digital currency as legal tender.

Behind this announcement, there is a lot of exercise of RBI, India's central bank, and the Indian government, primarily to counterbalance the issuance of similar currencies by large economies such as China and the United States (China has already launched the digital Yuan or e-CNY on 05 January 2022 whereas USA has not materialized major milestones on CBDC).

To get to this point, the Indian government formed a formal committee in November 2017 to conduct a feasibility study of CBDCs in its economy, followed by the formation of an internal team by the RBI in October 2020. On February 20, 2021, the team shared its recommendation for the issuance of government-controlled digital currency. Following the recommendation,

Finance Minister Mrs. Nirmala Sitaraman mentioned about a sovereign digital rupee and announced the piloting of digital currency in this fiscal year during her Union Budget speech.

The Concept Note's purpose is to raise awareness about CBDCs in general and to explain the objectives, options, benefits, and potential risks of issuing a CBDC. The Note aims to explain the central bank's approach to the introduction of the CBDC, as well as key considerations such as technology and design choices, potential uses of the e rupee, issuance mechanisms, and so on. It investigates the implications of CBDC implementation on the banking system, its monetary policy, financial stability, and privacy issues.

### 4. E-Rupee and its features

E-rupee is just like a rupee note but in a digital form. So, it will do everything that a rupee note does in a physical environment as well as functions that a physical note cannot perform in a digital environment. Even today, when we conduct digital transaction via mobile App, banks still have to do a process amongst themselves or intervene even in these digital transactions for the final settlement which may range from 2 to 3 days depending on the type of transaction. However, when we do a physical currency transaction, the moment we give the money, the settlement is done then and there, no further adjustment would be required. Payment is equal to settlement. This is exactly what happens with the e-rupee in the financial environment. So, having e-rupee in picture will make significant implications for the payment and settlement ecosystem.

The rigorous discussion on the CBDC Concept paper in various media and among experts has outlined the following key features of e-rupee:

1. Wholesale CBDC (available type: Wholesale Vs Retail)
2. Account Based (available type: Account Vs Token)
3. Non-Interest bearing (available type: Non-interest Vs Interest)
4. 1 e-rupee is equivalent to 1 INR
5. To be used in inter-bank transactions, G-sec segment and capital market (but how? it is still to be observed).
6. To be issued as the replacement of existing rupee to restrict undermine the value of rupee.

However, when the e-rupee is used in the retail sector of the economy, several questions arise, such as how the e-rupee will be stored, how individuals' privacy will be maintained, and whether a mobile phone or internet connection will always be required. To answer these questions, the rupee will be stored digitally in the mobile application, but no separate digital wallet will be required; instead, it will be linked to an existing payment application with its own backend system.



The modality will be in place to enable the payment directly to the merchant using e-rupee alongside normal deposit account by making the e-rupee interoperable with the existing digital payments infrastructure. Transactions via e-rupee will be kept private, just as they are in the telecom industry. Despite the fact that there will be specific transactions, anonymity will be maintained, and the authority must follow the legal procedure to gain access. The offline capability will be included to make the rupee accessible to non-tech savvy consumers or those who cannot afford mobile phones. The e-rupee will be loaded in "Stored Value Cards" and can be used without the need for the internet or mobile phones.

## 5. Operating Procedures

CBDC would only be beneficial if the public and businesses adopts it, hold it, use it to settle transactions like banknotes or commercial papers. The RBI has stated that it is rolling out the CBDC with minimum disruption to the financial and monetary ecosystem and it wants e-rupee to be as close to cash as possible. But people will not be going to deal with the RBI for the e-rupee. There are going to be banks and financial institutions who will effectively act as the interface for final consumers. So, a consumer who needs Rs.100 in digital form, will receive it from any of the pilot banks but not directly from RBI. The digital rupee is not going to be interest bearing. So, it won't work like a normal deposit in a bank account. The customer will have an account but that account will be with the bank and at the back end the e-rupee, the non-interest bearing currency will be with the RBI. It will be booked as liability of RBI but not of immediate bank of the customer like normal deposit. If it would have been an interest bearing account, effectively the digital rupees maintained in RBI will be competing with bank deposits and that can have quite significant implications for the banking system.

But even for the digital rupee, there will be a cost, which definitely will be less than printing and logistic cost of physical notes and coins. We actually require three massive technology stacks: first for issuance, second for intermediaries (wholesale stack), and third for final consumers (the retail stack). There will be a huge cost of building and maintaining these infrastructures. So, we should not expect CBDC to be free of charge. The banks, financial institutions, merchants, and end consumers has to absorb the cost in one way or other.

## 6. Nepalese Context

As a neighbor of two tech giants like India and China, Nepal is also stepping stones for moving forward towards digital and innovative economy. Nepal Rastra Bank (NRB) has expressed interest in, and recognized the need for CBDCs via its monetary policy for the fiscal year 2021/22 where it announced to carry out a detailed study about CBDC which was planned to be

carried out by Currency Management Department of the Bank. Following that a high-level CBDC steering committee headed by Deputy Governor Mr. Bam Bahadur Mishra was formed to provide necessary directions. A task force formed by this committee has prepared the Concept report on CBDC and has been issued for public consultation on August 2022. The report intends to brief about the key policy goals motivating central bank for exploring CBDC, prototypes of digital currencies being experienced around the globe and the necessities for moving toward a complete cash-less society. Moreover, it highlights models of CBDCs, its purpose or use cases, system architecture, ledger infrastructure, key foundational issues or challenges that could likely emerge, available design choices for CBDC and finding an appropriate design choice of CBDC for Nepal and to provide ways forward for implementing CBDC in Nepal.

Besides, with the release of this document, the NRB seeks valuable input on the information and ideas covered in this report, as stakeholders can provide feedback and suggestions to make CBDC implementation more practical and acceptable.

## 7. Conclusion

CBDC is not an easy project for central banks as it requires a visionary approach to gradually shift the cash-based economy to a digital economy that demands wider political support and public acceptance. A lot of changes in the areas such as legal framework, capacity development, public awareness, and system infrastructure, among others, have to be undertaken. However, with the changing dynamics of the economy and expansion of digital footprints in every aspect of economic activities, it is imperative for the central bank to step forward in the digital currencies. As per the records, many CBDC projects are reported to be underway in different countries. The Atlantic Council states that 14 countries are in the pilot stage, 26 countries are in the development stage, and 47 countries are in the research stage by July 2022. In a way, the essence for moving through these waves of digital currency is important to discourse the interest of general public towards unregulated and highly volatile cryptocurrencies which has a severe impact on the remittance based economy like Nepal. Providentially, Nepal Rastra Bank has brought lots of hope and positive impression on the launch of digital currencies in near future.

However, the regulator should simulate a prototype before the final launch and should keep eye on the concerns of general public, use of robust technology with appropriate security measures to protect against unauthorized use of e-currencies, personal data privacy etc. Moreover, for the adoption of this neo-currency at large, public digital awareness program should be continuously conducted through print, digital and virtual



mediums. The regulator should mobilize the bank's branches as well to disseminate the knowledge for using these currencies. At the same time, the consumers should be aware about the modus operandi for using digital currencies, the ways to keep the asset safe and secure, and should put hand-on-hand with the government to make the project viable and successful with the objective of building a complete digital ecosystem.

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A concept report released for public consultation issued by Nepal Rastra Bank

## Congratulations to Newly Appointed SAFA President and SAFA Vice-President for Year 2023 w.e.f 1<sup>st</sup> January 2023



**CA. Nihar N. Jambusaria**  
**President, SAFA**

CA. Nihar N. Jambusaria, is the Past President of the Institute of Chartered Accountants of India (ICAI). He qualified as a Chartered Accountant in 1984 and was in practice for over 27 years. CA. Nihar N. Jambusaria is also a member of Professional Accountants in Business (PAIB) Advisory Group of International Federation of Accountants (IFAC). He had also been member of very important committees constituted by the Indian government and regulators relating to policy formulation.



**Mr. Heshana Kuruppu**  
**Vice-President, SAFA**

Mr. Heshana Kuruppu, is the Vice President of the Institute of Chartered Accountants of Sri Lanka (CA Sril Lanka) for the term 2022/23 and has served as a Council Member of CA Sri Lanka since 2012. He has also served as Chair and Member in various Committee of CA Sri Lanka and SAFA. He is the Fellow Member of CA Sri Lanka has over 23 years of experience. He is also a MBA Graduate from the Postgraduate Institute of Management (PIM), and holds Master of Financial Economics from University of Colombo.



# New Guidelines on Working Capital Financing: Perspective of End Users and Way Forward

One of the major reasons behind rolling out the guideline can be related to “National Risk Assessment report on Money Laundering and Terrorist Financing- 2020”, which has depicted that money laundering may occur with over financed corporate loans. The report states the risk of over financing of the project than actual requirement and the possibilities of siphoning off the borrowed fund may create risk of money laundering in the corporate business. In such situation, the corporate entity could engage in the capital flight while the chance of doing business may without injecting the owners’ capital also exists. So, considering this statement of report, we can assume that NRB is working towards optimized lending to minimize the risk of money laundering.

## Introduction

Before trying to acquaint with the term “Working Capital Loan (WCL)” and its rationale, one should conceptualize the term “working capital”. The basic components of working capital are current assets and current liabilities of a company. Working capital is the state of financial condition of any business. Different authors at different literature usually present current assets and liabilities as two basic elements that influence the level of net working capital. Apart from current assets and current liabilities, profits that are generated from sales revenue are the third most important element that significantly influences the level of net working capital. Several studies showed that the length of the production process and other technological characteristics are important determinants of working-capital demand. At very simple level of understanding, working capital is the net of current assets (like cash, accounts receivable, unpaid bills, inventories) and current liabilities (like trade payables and



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accounts payables) of any business. For e.g. When a business purchases some level of stock/merchandise at Rs. 100, hold some stocks & sell some stock/merchandise of Rs. 50 and realise the proceeds of sales (Cost of Rs. 50 plus some profit margin), there is holding of fund by customers in the form of receivables restricting the business for additional purchase of stock/merchandise. In this scenario, Rs. 50 is held on stock and Rs. 50 is held by customer in the form of receivables resulting the working capital of Rs. 100. In such scenario the promoter of business need to finance the blocked amount (called as working capital) either through his own equity or through the debt. This borrowed portion is working capital loan. Thus, working capital loan is the

financing provided by banks and financial institutions (BFIs) to meet their short term fund requirement for routine operational activities. In other words, WCL is short-term financial support against the unrealised revenues, a company avails to cover its operating expenses. The short-term operational needs include costs like stock procurement, rent, debt payments, payroll, etc. (Investopedia). The main rationale behind the working capital loan is maintenance of cash flow on any business. Working capital financing helps keeping a business afloat by financing its payment gaps and fulfilling its operational cash flow requirements.

The credit facilities provided by BFIs are normally categorised into two types:







Fund based and Non-fund based. Fund based credit facilities involves flow of funds from BFIs to the borrower. Overdraft facilities, cash credit against hypothecation of inventories and/or receivables, etc. are some examples of fund based working capital financing. Non-fund based facilities involves the flow of funds from BFIs to third party in the event of default or non-payment or non-performance by the borrower. As there is no direct flow of funds from BFIs to borrower directly, it is referred to as non-fund based facilities. Bank guarantees, letter of credits, etc. are some examples of non-fund based working capital financing.

### Nepal Rastra Bank Guidelines on Working Capital Financing

In the recent practice of WCL financing, different Nepalese BFIs (as per their internal guidelines) were adopting different methods of assessment for allocating the working limits and the way to inspect and monitor them. Due to diversity in the WCL assessment by different institutions, NRB has channelized the assessment criteria in order to curb weak assessment of limit for WCL with doubts in the utilization of such loans. So, with objective of bringing the uniformity in the assessment of WCL loans, making the transparent limit sanctioning process and developing the basis for appropriate credit risk management, utilization, and monitoring of WCL throughout the BFIs, NRB has rolled out a Guideline dated 2079/05/07 named as “*Chalu Punji Karja Sambandhi Marganirdeshan, 2079*”. The first amendment on the guideline has been made on 2079/09/20.

The guideline is directed towards assuring the utilization and efficiency of working capital loan. The governing body wants to build a confident environment for actualization of assets quality and appropriate credit risk management strategies. This has been a very hot topic for the discussion among different stakeholders about the efficacy of this guideline and assumption of impact on the economy through their different angle of view.

One of the major reasons behind rolling out the guideline can be related to “National Risk Assessment report on Money Laundering and Terrorist Financing- 2020”, which has depicted that money laundering may occur with over financed corporate loans. The report states the risk of over financing of the project than actual requirement and the possibilities of siphoning off the borrowed fund may create risk of money laundering in the corporate business. In such situation, the corporate entity could engage in the capital flight while the chance of doing business may without injecting the owners’ capital also exists. So, considering this statement of report, we can assume that NRB is working towards optimized lending to minimize the risk of money laundering.

This guideline may control the trend of availing the WCL greater than sales of business. There is a practice of sanctioning

the WCL only based on the NCA. But now BFIs are bound to sanction the loan after the assessment of actual drawing power and the sales volume of business both. The guideline has segregated provisions categorising WCL in three different limits: up to 1 crore (added through first amendment), up to 2 crores and above 2 crores.

**For working capital loans up to 1 crore**, the BFIs are allowed to fix limits as per their own guidelines for working capital financing.

**For working capital loans up to 2 crores**, NRB has provisioned the ceiling of working capital limit up to 20% of its projected sales with an aim to unify the way of limit assessment throughout the BFIs of Nepal.

An impact expected from this is that Small and Medium Enterprises currently downsizing the actual sales for tax avoidance shall be compelled to discourage such activities. The business may try to show the actual sales which is quite good assumption from the rolled out guideline. But the borrowers have shown their dissatisfaction over the ceiling claiming the operating cycle for the struggling business may shrink to minimal level. i.e. to 73 days which will create a pressure for most of the businesses except rare ones. Another dissatisfaction expressed is that businesses should be treated separately as per their nature of operation and not be put in a single basket. However, some flexibility has been given to SMEs in the assessment of WCL limit in case of special requirements. SMEs can avail up to 40% after the appropriate assessment of operating cycle, cash conversion cycle, inventory cycle, lead time, accounts payable periods, etc. This method may give a good basis for the assessment of drawing power. Further, the guideline has directed to identify the fixed and fluctuating WCL if the calculation is feasible in the case of WCL below the limit of 2 crore.

**For working capital loans above 2 crores**, the guideline has clearly instructed to identify the fixed and fluctuating working capital need of business. Permanent WCL shall be availed for a period of **3 to 10 years** based on the assessment of last 3 years audited annual report and 3 years projection. Fluctuating working capital loan shall be availed for a period of 1 year or less, the assessment of which shall be based on estimated annual turnover. The limit of fluctuating WCL shall be limited to 25 percent of annual turnover. Though some BFIs are also currently practicing this concept of fixed working capital financing for fixed nature of working capital requirement, most of the borrowers are still not so familiar with such nature of fixed working capital financing. This guideline has helped to provide clear understanding of bifurcation of fixed and fluctuating working capital loans to the borrowers or end-user levels.

Regarding collateral requirement, the guideline has clearly



mentioned that there is no need of additional Real Estate (R/E) collateral for working capital financing. Although this provision is not new and is guided by the principle behind the working capital loans, many BFIs follow traditional concept and require collateral to cover up the working capital loan risk exposure. Currently almost all BFIs seek at least some R/E collateral to bring confidence in the working capital financing. During project financing, if the fixed term loans are secured against collateral, BFIs may not require additional collateral for WCL. However, in case of requirement of WCL only, BFIs do not show confidence to finance without any back up. Another reason can be related to miss-presentation of financial records and books of the borrowers; the BFIs are compelled to back up their financing with additional collateral. If everything is properly recorded, tracked and inspected, then there is no need of additional security. This guideline has stepped up towards proper inspection of books of borrowers either through relying on self-declaration of the borrower, or through certification from Internal Auditor of the borrower, and/or through periodic inspections of borrower's business from BFIs as discussed in detail afterwards in the article.

### Utilization and Monitoring

The guideline sought the assurance of utilization of fund in the business propose only. NRB has guided to provision the loan as Bad Loan if any fund has been paid or transferred to promoter, proprietor, staffs and any other unrelated parties. So, BFIs shall make strong mechanisms to track the payment and NRB shall make proper arrangement of getting reported about such information to track the utilization of such funds. Similarly, borrowers are restricted to withdraw cash more than 2% of sanctioned limit. This may restrict the unnecessary withdrawal, ultimately discouraging mis- utilization of funds.

However, the guideline has aroused dilemma to borrowers with respect to the provision of keeping the WCL account unutilized for at least 7 days. Though it might seem a control factor from the perspective of regulatory body, the nature of business is continuous operating. So, the demand of the provision may be genuinely difficult for the businesses. Also, NRB had guided to operate separate WCL account and current account separately and instructed to deposit the sales proceed into the current account. This also appears to be another control factor for optimisation of WCL facility, but end users claim that this will increase the finance cost and are perplexed about the basic difference between WCL and term loan if the limit cannot be exercised as revolving limit. To address the issue, the provision for transferring amount from current account to WCL account by way of standing instruction has been added through first amendment.

To discourage the repayment of financial obligation from

additional loans, enhancement of limits is restricted in the last month of each quarter except during unexpected requirement of business. The earlier provision was feared to leave out the actual requirement of businesses in some cases. So, through first amendment, the guideline has clarified that provision shall not restrict the renewal of WCL or disbursement of WCL remaining within the pre-approved limit.

As an important control mechanism for the availing and utilization of WCL, the guideline has provisioned for the assessment of variance analysis of projected and actual financial statements specially through turnover (or sales) of business. BFIs shall reconcile the details of audited financial and tax clearance report along with the projection report provided during the limit allocation. BFIs shall prepare Variance analysis report before the renewal of limit comparing the projected financials provided during the limit allocation and the audited financials during the assessment period for the re-alignment of WCL limit based on the variance report. If the negative variance above 20 percent is found during the analysis, the limit of fluctuation WCL shall be adjusted as per following.

**WCL limit = (Projected Turnover \* Allocated Loan Limit Percentage) \* (1-0.50 \* Variance)**

*Allocated Loan Limit Percentage is the initial percentage of estimated sales on which the loan limit is allocated.*

*Variance is the percentage difference of projected sales and actual audited sales.*

The BFIs shall also re-assess the limit of permanent WCL limit and adjust the limit as accordingly if the variance calculation based on sales of last 3 years audited financials and projected financials is above 25 percent.

The guideline has also provisioned for the collection of NTA information quarterly which is to be certified from the customer itself who are availing the loan below 5 crores. The adopted measure may help in tracking the information regarding the utilization of borrower loan. The institutional client availing the WCL above 5 crore need to submit the NTA report certified from its Internal Audit Department on semi-annual basis.

### Market Reaction

It seems that regulating body had focussed on the control of WCL. However, borrowers claim that the governing body should focus on the contribution of business requirement and ultimately the economy rather than imposing controls which may hamper business growths. Corporate business especially involved on the production business may not be able to complete their operation cycle within short span of time. The rush in the operation may create problem in the different aspects like production and product quality. Borrowers also have appealed that the limit of fluctuating WCL up to 25% of sales may not be



sufficient to all nature of businesses and may ultimately reduce the competitiveness of business scope.

The Confederation of Nepalese Industries (CNI) vide press release dated 2<sup>nd</sup> September, 2022 has welcomed some of the provisions of the guidelines like inapplicability of guidelines for WCL below 50 lakhs, enhancement of limit from 1 crore to 2 crores, and change in provisions of auditing but has suggested changes in several provisions. It has claimed that the guidelines would make easier for small businesses, however would hamper medium and large scale industries as the provisions will affect the credit transactions and businesses shall have to transact in cash. The Confederation has demanded for abolition of the provision that demands for zero arrears for seven consecutive days at some point in fiscal year. The new provisions will restrict the WCL limit which will ultimately enhance the cost, CNI claims.

Observing the market scenario, NRB welcomed suggestions from BFIs and has made amendments in its provisions vide first amendment in the guidelines. The stakeholders had much more expectations of change in the guidelines which might have not been fully covered by the first amendment. However, it has been able to clarify various provisions and has also added provisions for renewal of existing WCL facilities. The move from the central bank has been viewed as a very positive step from the business community.

### Way Forward

Conclusively, the guidelines provide a path for regulating the working capital requirements and financing. It is a very progressive step as the guidelines bring diversified practices into unified direction. The guidelines, in the current scenario,

is expected to control the financing of working capital loans for the intended business purposes. This will ultimately control the over financing and encourage businesses for optimum utilisation of loan capacity.

The central bank has made some amendments to address the market reaction. However, there are still some expectations from borrowers, which should be gradually clarified or addressed by the central bank. For an instance, the guideline has provisioned that the WCL should remain unutilised for at least 7 days in any financial year. The businesses are continuous operating in nature and the provision may be honestly difficult for borrowers. Central bank should reconsider the provision making it suitable for different nature of businesses.

Any guidelines formed should be progressive, and should comprehensively address the issues over time. The businesses should welcome the guidelines and present their requirements to the regulating body on regular basis. The regulating body also should collect inputs from the businesses and try to incorporate them to guidelines and regulations. This will ultimately form a win-win position for both regulators and end users.

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## Know Your Member-KYM सम्बन्धमा

नेपाल सरकारको सम्पत्ति शुद्धिकरण ऐन अनुसार यस संस्थालाई पनि सूचक संस्थाको रूपमा तोकेको छ जस अनुसार यस संस्थाका आफ्ना सदस्यहरूको केहि विवरण अद्यावधिक गर्ने कार्य यस संस्था र आन्तरिक राजस्व विभागसंग भएको तथ्यांक आदानप्रदान (Data Sharing) को सहमतिको आधारमा भइरहेकोले Know Your Member-KYM Online को माध्यमबाट आफ्नो व्यक्तिगत, पारिवारिक र व्यावसायिक विवरण अद्यावधिक गर्न सबै सदस्यलाई अनुरोध छ ।

Know Your Member-KYM अद्यावधिक नभएका सदस्यहरूको सदस्यता नविकरण नहुने जानकारी गराउँदछौ ।

थप जानकारीको लागी सस्थाको website: <https://en.ican.org.np/member>



# Communication Skills for SMART Consulting

Communication Skill of a consultant is fundamental to effective consulting engagements. Right from the stage of appointment to the stage of completion and termination of engagement, various tools of communication are used. Knowledge of these tools and ability to use them effectively helps to establish a solid client-consultant relationship. Both verbal and non-verbal tools are important for relationships. Most of the non-verbal tools are behavioral approaches. The final formal deliverable of the consulting engagement is SMART advice. To validate credibility as well as accountability of a consultant, communication tools are also used post consulting engagement. Communication skills also help to deal with unsought situations like Consulting Engagement Failures.

The secret of money-making is “Solving A Problem”. In the Accounting and Financial service sector, the professionals solve the problems of their clients through advisory and allied service delivery. Sometimes the problems are apparent and sometimes they are disguised. Sound Consulting does not only address the apparent problem but also envisions the disguised problem and addresses it before it materializes. While it is extremely crucial to understand “what” advice is being given to solve the problem, it is also equally important to understand “how” the advice is being delivered. The entire process of the service delivery related to accounting and financial advisory services is based on effective communication. Communication is the “only” channel that helps identify the problem and then solve it.

In Nepal, Accounting and Finance Service sector is one the contributor within

the Service Sector which is the largest contributor (61.76% in 2021-2022)<sup>1</sup> in Gross Domestic Product (GDP) of Nepalese Economy. The accounting and financial services include but are not limited to bookkeeping services, compliance with laws and regulations relating to books of accounts, auditing and assurance services, management consultancy services, etc. The requirements of these services are fulfilled either by hiring a professional directly by organization as a full-time employee (except in some regulatory roles such as statutory auditors) or by outsourcing the services by hiring consultants. In both cases, the role of communication, communication skills and communication channel is important to understand the requirement, analyze it and provide an effective solution. With the growth in economy and introduction to international market as a result of globalization, it becomes important to sharpen the communication skills for effective delivery of consulting and advisory services

In February 2022, the business research company published that global management consulting services market is expected to grow from USD 891.88 billion in 2021 to USD 973.67 billion in 2022 at a compound annual growth rate (CAGR) of 9.2%.<sup>2</sup> This data shows



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the volume of problems, whether apparent or disguised, being addressed by the consultants. It further shows the immense potential of consulting services worldwide which continue to grow with global development.

A consultant is expected to solve a particular problem by providing strategic advice and actionable solutions. A consultant is also expected to have a bird’s eye view of the situation so that the dimensions of anticipated problems can be predicted for future planning and achieving the business goals in an efficient manner. The ability to provide effective advice to solve a problem depends on the ability to communicate. **Often it is assumed that having knowledge of the subject matter is enough to become a consultant. However, having knowledge over the subject matter generally comprise only one third of the consulting ability.** The remaining abilities are the ability to research and the ability to communicate advice. Technical Knowledge provides basic skills for evaluating and confronting a problem. Research ability helps to gather enough information and knowledge to solve problems. Communication skills help to deliver a solution in a systematic manner by establishing and strengthening a client- consultant relationship.



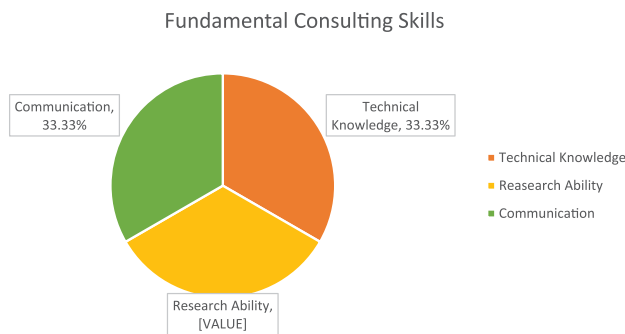


Fig: Fundamental Consulting Skills

### Impact of Communication in Consulting Process

A broad overview of consulting processes can be divided into 6 Steps:

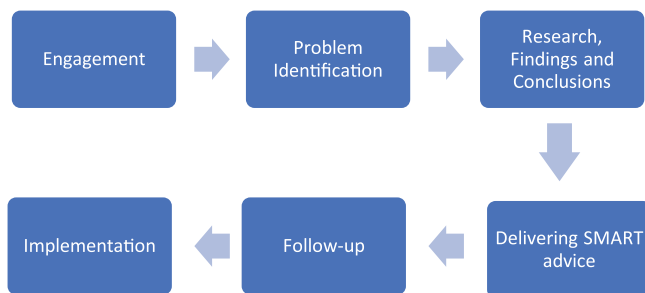


Fig: Consulting Process

**All these steps have an active ingredient, “communication” which plays a vital role in achieving the objectives of each step involved.** Let us see how communication plays a significant role in each of these steps:

#### 1. Engagement with the Client

The client might seek consulting services through two different approaches:

##### a. Seeking proposal for ongoing consultation or for a specific project

If the client is seeking proposal from consultants for retainer basis or for a specific project, then it is important to prepare a strong proposal which communicates the credentials of the consultant to provide assurance that the requirements will be met in exceptionally competent manner. The proposal needs to interact with no loose ends to answer the questions of the client.

**Sometimes too lengthy proposals with too much information create uncertainty in understanding of the client which may lead to rejection and selection of a less competent consultant who prepared a concise proposal.** Well, this may be a loss for the client, but it is also a loss for the competent consultant

whose proposal got rejected because of his/her inability to communicate effectively through a concise proposal.

Although developing a general template for consulting engagements is helpful for an ongoing basis, it is important to research client properly and customize the proposal to communicate effectively on how the consultant can add value to the client’s business.

##### b. Direct approach through network/ public relation

If the consultant is approached directly through a network/ public relation, then it is extremely important for the consultant to prepare a communication strategy before meeting the client. This strategy includes both verbal and non-verbal communication techniques.

Verbal communication includes asking right questions to understand the problem, being empathetic about the situation, understanding sentiments of the clients etc.

Non-verbal communication includes facial expressions, dressing etiquette, body language, etc.<sup>3</sup> **For example: Checking your phone frequently while meeting with a (potential) client may leave an impression of not being attentive to a problem. It is interesting that every gesture made in a meeting is captured by the subconscious mind of the attendees.** This then helps clients to decide on engagement for consulting services.

Whatever the approach is, once the client agrees to hire the consultant, the next big step is to make an effective agreement on engagement terms. Through the agreement, the terms of engagement are communicated. It helps to set boundaries for the client and the consultant for their respective responsibilities. Like audit expectation gap, it is highly likely that “consultancy expectation gap” might arise. This gap is created when the solution proposed by a consultant does not achieve the expected results of the client.

**And expectation gaps are always painful for both client and the consultant.**

One way to reduce this expectation gap is by communicating effectively about the approaches, methods, compensation, limitations in due course and **being proactive in communicating the unexpected circumstances** which may have a direct or indirect effect on the consulting assignment.

#### 2. Problem Identification with questioning techniques

At this stage, a consultant is communicated about the situation/ problem for which the client is seeking a solution. Communication skills of a consultant help them to gather as much as information

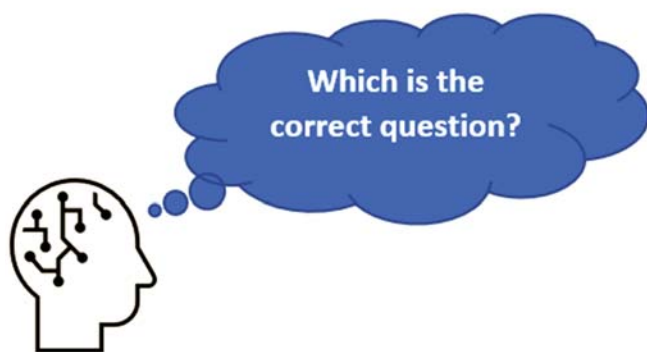


required to identify the problem. Sometimes a client may not be able to define the problem despite its existence. The effective communication skills of the consultant can help the client to identify and define the problem in an effective way.

Mostly, a “questioning technique” can help to drill down the situation and identify an exact problem. This step is crucial because identification of an exact problem is already an attainment of half of its solution.

**Open Ended Questions** are those which start with “what”, “how”, “why”, “describe” etc. There is no single word answer to these questions like “yes” or “no”. These questions help to find the details about the situation. They are also useful in understanding the perspective and expectations of the client.

**Closed Questions** are those which can be answered in a single word. These questions are generally asked to validate the understanding of consultant post discussion with the client. For example, asking “Do you mean, if you are not able to negotiate further, XYZ will file a case against you?” or, “Have you consulted with any other banks for financing?”. The beauty of closed questions is that sometimes these questions help to provoke a solution to client which ultimately helps consultant deliver high quality advice.



A wrong perspective is that a client might not want to be questioned too much. **Asking only a few questions to avoid annoyance to the client will lead to a fatal situation of consulting failure.** It depends on the communication skill of the consultant to convince that lots of questions will help them to drill down the problem further. Consultant should communicate well about the probability of dealing with lots of questions in their meeting which will help them to identify the problem in an exact manner. Pre-information would help the client to be mentally prepared for dealing with questions and thus avoid annoyance and make the most out of “questioning” session.

### 3. Research, Findings and Conclusions

This stage mostly involves consultants’ internal organizational communication processes. For effective research, it is important to identify and brainstorm over the right source of information.

**Communication Techniques at this stage are used for:**

- Work bifurcation and mentoring to research team
- Meetings with experts for knowledge sharing
- Brainstorming
- Filtering the specific information
- Streamlining the findings
- Documenting the findings and related evidence
- Reaching the final conclusion

### 4. Delivering SMART Advice

Although the acronym SMART is used for goal setting, it is also relevant to structure the final advice given to client as a deliverable for consulting engagement. **SMART represents 5 elements as Specific, Measurable, Achievable, Realistic, and Time Bound.**<sup>4</sup> The final advice given to the client should have all these elements to reduce the consultation gap.



**Specific-** When the problem is clear, giving a generalized solution may invoke disappointment to the client. After all the time and resources involved, it is always expected of the consultant to provide specific advice related to the problem. **The charm of being an expert is always followed by high level expectations.**

**Measurable-** The advice given should be measurable in terms of impact after the advice was implemented. Most of the time, the measurement is in quantitative aspects such as monetary benefits in terms of reduction or avoidance of costs, avoidance of penalties due to compliance etc. It may also have qualitative aspects such as improvement in Key Performance Indicators (KPIs) of the specific department(s) after the advice was implemented.





**Achievable-** The advice given by the consultant should be achieved by the client with their existing or easily available resources. For example, depending on the size of the company, a consultant may suggest using expensive software for automation of the processes or suggest customizing the existing manual processes. If the entity is relatively smaller and consultant suggests an immediate implementation of automated processes, it may not be feasible to implement such advice due to constraint of resources. Therefore, the advice should have the ability to be easily implemented.

**Realistic/ Relevant:** While the element “Achievable” considers the resources and benefits of implementation, the element “Realistic” considers the long-term purpose of the situation being dealt. For example, while consulting about the sales target of the business, the consultant might have to consider the actual capacity, current utilization and the gap. If the current utilization is 60%, advice on operating at 90% without digging the other areas such as availability of resources, capital, long-term plan etc. may not be a realistic advice although it is achievable in some future period. Therefore, the advice should be relevant to business goals with realistic steps forward.

**Time-bound:** The advice being delivered should consider the time factor in implementation. For example, implementing now vs implementing after 3 months could affect the business in a different way. In an ongoing consulting engagement, consultants should envision the future trends and set the timeline for delivering their advice accordingly to align with the business goals. **Consultants should be proactive enough to sense and communicate the future trends of the business.**

## 5. Implementation

At this stage, a consultant helps the client to implement SMART advice. **Merely communicating advice without assistance in implementation is considered as half work done.** The implementation support is crucial to achieving the objective of consultation engagement. For example, if the advice is related to legal compliance matter, a consultant should be willing to provide guidance on how best to maintain a compliance framework within the entity. This would include educating the accounting team on documentation, preparation of checklists for compliance, knowledge of fines and penalties etc. Merely communicating about the provisions of laws to be complied with wouldn't be of much help to the client. **Communication techniques at this stage are important to train the department, obtain information on the current situation and the ability to make the concerned department understand about the compliance process and framework.** This is the stage where a consultant demonstrates his/her expertise through implementation.

## 6. Post Implementation Follow-up

In her article “Five Essential Elements for Great Customer Service” Stefanie Amini writes that A business without customers is not a business. Even a business with unhappy customers won't be a business for very long.<sup>5</sup> This is also the same with the consultation engagement. Consultants' ability to communicate even after implementation about the feedback, advice and overall service delivery leaves a positive impression on the client. **It creates a sense of security and also acknowledgement of responsibility and avoids the sense of “abandonment” to the client.**

### Communication Techniques to deal with the Consulting Engagement Failure

Consulting failure is a situation where the advice of the consultant did not help the client at all or had an adverse effect on the current problem. Consulting failures may happen due to client's inability to evaluate the requirement of consultant or choosing the right expert, or it may occur due to negligence or lack of competence on account of consultant. Some other reasons may be the circumstances beyond the control of both the parties such as change in laws and regulations or some other act of God. Except for the reasons arising out of circumstances beyond control, consultants should be responsible enough to acknowledge the failure that happened due to the reasons concerning their negligence or lack of competence. **The consultant is expected to take reasonable steps to reduce the loss occurred to client as much as possible due to consulting failure.** Rather than avoiding the situation or not taking the responsibility, the consultant should reasonably communicate with the client regarding the following:

#### 1. Does Client wish to start all over again?

In certain cases, the client might want to start all over again with the same remuneration which was agreed earlier. Although there would be temporary financial loss in terms of resources utilized, it is always beneficial for the consultant to evaluate this proposal from the client which would help consultant to rectify the situation and establish credibility. **The financial loss can be treated as a one-time investment.**

#### 2. How does the client wish to reduce financial loss sustained due to consulting failure?

It is always courteous to ask what the client wishes to do to compensate the financial loss sustained? Consultants can offer to waive their entire professional fees if the reason for failure was their negligence or lack of competence. **It would not be rational to argue that the consultant had already spent time and resources on delivering the services. Afterall, the services failed.** Waiving the remuneration or proposing to



participate in making up losses of some reasonable proportion would again be an investment opportunity for the consultants to establish their credibility.

### **Communication after Termination or Transfer of Engagement.**

Clients have the choice and the right to choose their consultants. Just like a customer has the choice of many stores in a town. Sometimes it is observed that the consultant makes it difficult for the client to exercise that choice. This is all because of the “self-interest” which a consultant has in the client. **Nobody likes a customer leaving. However, the intelligence of a professional should not be gripped by this bias created due to greed.** Consultants face this situation often. When being terminated, holding back information, or not letting go easily is one problem whereas in the case of an appointment, lack of co-operation from the previous consultant is another. This creates a question mark on the consultant’s integrity and professionalism.

**It is always important for the consultant to respect the right and choice of the client,** if the client prefers to switch the consultant or terminate the current engagement unless it is due the non-compliance by the client where consultant can exercise legal remedies.



### **Termination of An Engagement Should Validate**



ACCOUNTABILITY



LONG TERM  
RELATIONSHIP BUILDING



INTEGRITY

When the engagement is terminated or transferred, consultants should be able to substantiate their rapport with the following communication techniques.

A. Return all the resources of client to the custody of the consultant.

- B. Communicate appropriately whenever approached by the client to answer the questions related to engagement undertaken.
- C. Co-operate with the newly engaged consultant on the projects that were undertaken by the consultant previously.
- D. Be accountable at all times for the work done on the project (engagement).

Sometimes, it is observed that when a new consultant takes over, the previous consultant is hesitant to co-operate to provide the information or creates complexities for the new consultant. This approach definitely questions the credibility of a consultant in the long run.

Developing communication skills automatically establishes a larger scope of work for the consultants. Afterall, consulting business depends upon the public relationship and a solid network. The horizon of this network can be expanded by establishing credibility through effective communication skills. **The essence of consulting lies in holistic development of all three aspects: Technical Knowledge, Research ability and Communication Skills.** Sharpening communication skills is a first step in preparing ourselves for the international market, growth and contribution to Nepalese Economy by becoming world class consultants.

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# Digital transformation and Nepal

Digital transformation is a cultural change more than a technological shift. As per International Data Corporation (IDC), enterprises will spend \$2.8 trillion on digital transformation by 2025, which is more than twice what they did in 2020. Kepios analysis indicates that internet users in Nepal will increase by 822 thousand (+7.7 percent) between 2021 and 2022. Huge access to the internet has been beneficial for digital communication, e-commerce, and online marketing. However, according to a 2016 Forbes assessment, 84% of digital transformation projects fail. So, how to proceed towards the way of digital transformation such as 5G, Blockchain, Digital Banking and so on? Let's find out...

## Introduction

Digital transformation is the integration of computer-based technology into all areas of business for creating or modifying existing businesses – processes, culture, and customer experiences – to meet changing business and market requirements. It is the incorporation of computer-based technologies into an organization's products, processes, and strategies. Digital transformation begins and ends with the customer or it is more a cultural change rather than just a technological shift. One example of digital transformation is transitioning to a remote-first workspace.

There are two concepts related to digital transformation: digitization and digitalization. Digitization is the process of translating analog information and data to digital—for example, scanning a photo or document and storing it on a computer whereas digitalization is the use of digital technologies to change business processes and projects, such as skilling employees to use new software platforms designed to help launch products faster.



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So, how do we know whether we need a digital transformation in our organization? No organization will collapse overnight by not adopting digital technology, however, by not transforming digitally, it will become difficult for an organization to remain viable in this massively expanding world of technology. To understand why digital transformation is essential, one needs to understand the benefits of the move as well as the cost of status quo. The decision on digitalization has to take into consideration consumers who have already begun shifting to digitally enabled services, and therefore it is also about how the said organization can continue to remain relevant.

Some benefits of digital transformation to an organization include:

- Increased productivity and reduced labor costs
- Improved customer experiences
- Impetus for innovation, to help us remain ahead of competition, and
- Increased agility and responsiveness to changing markets.

Companies like Coca-Cola, Best Buy, and others have reaped the advantages of digitization. Coca-Cola, which had been using paper for its proof of delivery tickets has converted to a digital traceability system to replace paper-based processes, which has helped the company to save millions of dollars annually and allow employees to spend more time working rather than looking for or replacing documents. (Demodia, 2021)





However, there is difference between “doing” digital to “being” digital. Businesses must understand the difference between these concepts. Businesses in our region focus excessively on technology that may not yield all the expected outcomes after transitioning. This is because the transformation requires attention on multiple areas, including:

- a. Leadership for transitioning
- b. Technology involved
- c. Processes that need to be streamlined
- d. Data or digitization, and
- e. People and organizational readiness.

## Global Trend

International Data Corporation (IDC) has predicted in 2021 that by 2025, enterprises will spend \$2.8 trillion on digital transformation (DX), more than twice what they had done in 2020. As a result, they were expected to experience 16.4% compounded annual growth over the next five years from the greater emphasis on people, processes, cutting-edge technology, and digital solutions. Smartphone shipments are anticipated to increase globally in 2021 and 2022 by 5.4% and 3%, respectively. This is expected despite the global supply chain and logistics problems the world markets have experienced after the coronavirus disruptions. (IDC, 2021).

At the technology end, Internet connectivity and speed is expected to reach a new high with the introduction of 5G technology, and according to a cautious prediction, by 2022, half of the world's economy will be based on or influenced by digital. The Asia-Pacific region, home to 60% of the world's population, is leading the transformation. Spending on information and communication technology (ICT) in the region was expected to increase by 9.3% to \$1.3 trillion in 2021 on telecom services, new breakthrough technologies like AI, robotics, cloud computing, and the Internet of Things, as well as IT investment (IoT). (IDC, 2021).

## Nepal and Digital Transformation

Some digital transformation has been underway in Nepal, but the process has been slow. According to *Digital 2022* report on Nepal, there were 11.51 million internet users in January 2022 and the internet penetration rate stood at 38.4 percent. Analysis by Kepios, a business consulting and services firm (<https://kepios.com>) internet users in Nepal increased by 822 thousand (+7.7 percent) between 2021 and 2022.

With improved connectivity, technology has begun changing nearly all sectors of Nepal's economy. The increasing access to the internet has been beneficial for digital communication, e-commerce, and online marketing. E-commerce is quickly becoming a trend in urban areas supported by digital payment

platforms. This has come alongside the use of debit cards/ credit cards, ATMs, and digital gateways for payments. This has been made possible by improvements in connectivity.

The outbreak of COVID-19 kick-started Nepal's move towards digitalization. Forced to remain indoors, the population quickly began exploring digital options following the lockdowns that began in early 2020. Effectively, it was the pandemic that assisted people to cross over barriers that had prevented quicker adaptation of the technology.

As per *Payment Systems Oversight Report- FY 2020/21* published by Nepal Rastra Bank, in FY 2020/21, the total number of Inter-Bank Payment System (IPS) transactions increased by 84.5 percent and reached to 1,08,41,023, the total number of connectIPS transactions had increased significantly (560.8%) and reached to 1,88,33,752. Similarly, the number of mobile banking users increased by 25.5% to 1,41,94,839 and the number of internet banking users by 12.5% to 11,60,321 (Nepal Rastra Bank, 2021).

The Digital Nepal Framework provides a roadmap on how digital initiatives can contribute to economic growth, with innovative suggestions to solve major challenges in a shorter period of time with fewer resources, and also identifies opportunities for Nepal to participate in the global economy. It has identified eight sectors – digital foundation, agriculture, health, education, energy, tourism, finance, and urban infrastructure – for digitalization in close consultations with stakeholders.

## Adoption of Digital Technologies

The most visible application of digital technology in Nepal is in e-commerce. However, e-commerce has remained limited to the capital city and major urban centers as connectivity still prevents wider use, especially in rural areas. The use of technology in both finances and e-commerce has caught up, mainly among youths indicating their preference of a cashless economy.

Digital technologies have begun supporting even daily routines in major urban centers, with individuals coming closer to technology than ever. From using ride sharing applications such as Pathao, In-drive, etc. to go to the work, making payments via online platforms such as Esewa, Fonepay, etc., signing in at workplaces using biometric systems, ordering food from e-platforms such as Foodmandu, Khaanpin, etc. to finally backing up work on clouds. Or, we are all going digital. Another parameter that suggestive of this change is our own reliance to various online shopping platforms like Daraz Nepal, Sastodeal.com, Hamrobazar, etc.

## Taxation

Government of Nepal has allocated a budget to develop the infrastructure of information technology related to the information highway, data centers, internet exchange centers,





online services, and electronic payments. It also has developed and rolled out an application – Nagarik App – that allows citizens to upload and retain vital documents, and also serves as a portal for government services. Some tax provisions related to digital transactions are as follows:

- One-percent tax is levied on income of a person who receives foreign currency by providing software, digital services, business process outsourcing, or information technology-based services of similar nature from Nepal.
- “Cash payment” under Section 21 of Income Tax Act, 2058 excludes payments made through a digital wallet approved by the Nepal Rastra Bank.
- Digital service tax of 2% is levied on the transaction value of digital services provided by non-residents to Nepali customers. However, such tax shall not be applicable in cases where the annual transaction is up to Rs 2 million, and
- Income, on which digital service tax once deposited, is not be taxable under the Income Tax Act, 2058.

The Inland Revenue Department administers the digital service tax.

### Why Digital Transformation Fails?

According to a 2016 assessment by Forbes, 84% of digital transformation projects will fail. McKinsey, Boston Consulting Group, KPMG International Ltd., and Bain & Company estimate that the chance of failure ranges from 70% to 95%. These projections for failure indicate that something is wrong with the digital revolution. Forbes had listed the following reasons for failures in digital transformation:

1. Lack of alignment to business outcomes
2. Lack of awareness within the organization
3. Distraction by the minutia
4. Inability to translate into executive language
5. Lack of control over external vendors
6. Lack of training for internal users
7. Resistance for fear of being replaced, and
8. Slow decision-making processes. (Forbes, 2016)

To summarize, The tech side is fine, it's the people who are getting in the way!

### Is Digital Transformation the Future?

Digital transformation is a journey toward ubiquitous optimization to achieve innovation, flexibility, and stakeholders' buy-in to support optimal organizational decision-making. The digitalization of organizational processes is one of the most successful strategies for accelerating growth and scaling up operations.

EPC Group. (2022), The coronavirus pandemic disrupted

production across many different industries, forcing people to implement digital transformation strategies, techniques, and technologies for business continuity. Even though organizations had the option of remote operations before the epidemic, the stringent health regulations after the COVID-19 outbreak made it the only available option. It was not just organizations that were doing remote work, even students were learning from home. This experience during the pandemic clearly suggests that going digital is the future. Some developments that will facilitate this are:

1. **5G:** The 5<sup>th</sup> generation mobile network is the new global wireless standard after 1G, 2G, 3G, and 4G networks. 5G enables a new kind of network designed to connect virtually everyone and everything together including machines, objects, and devices. 5G is soon likely to be the wireless standard. The mainstreaming of 5G connectivity can enhance the user experience and improve the process of digital collaboration, which subsequently can accelerate digital transformation.
2. **Blockchain:** A blockchain is a decentralized digital ledger that saves transactions on thousands of computers around the globe. Blockchain technology increases security and speeds up information exchange both cost-effectively and more transparently. The versatility of blockchain has attracted the attention of organizations, with banking sector being the most active at this stage. It is expected that Blockchain might play a crucial role in cybersecurity and might be increasingly used in industry, capital markets, cross-border payments, and to improve digital identity.
3. **Digital Banking:** Digital transformation in banking largely entails the shift to offering online and digital services, as well as the backend changes required to support the transformation. It is the operational and cultural shift towards integrating digital technology into all areas of banking for optimizing operations and delivering value to customers. If executed successfully, digital transformation can improve a bank's ability to compete in an increasingly crowded market. For example, some banks now offer mobile apps that allow customers to deposit checks remotely.
4. **Cybersecurity:** Cybersecurity is the protection of electronic data, hardware, software, systems and network from theft or damage. The continuously expanding reliance on computer systems, internet, and wireless network standards such as Bluetooth and Wi-Fi have made electronic data vulnerable to third-party exploitation. Therefore, it is recommended that the organizations remain vigilant and take the time to ensure that they are engaged in cyber defense best practices, including increased monitoring of network logs, regularly reminding employees to practice phishing awareness and ensuring that servers and critical systems are patched



for all known security threats. Increased investments in cybersecurity will be a part of any digital transformation.

5. **Multi-cloud systems:** Cloud computing was born, not from IT necessity, but from the needs of business. In the post-pandemic world, organizations have begun moving faster to cloud platforms. This will inadvertently lead to the growth of the multi-cloud systems. As the system has the potential to remove the common issues faced by providers and the vendor lock-ins, multi-cloud systems can be expected to flourish and shape the process of digital transformation in the medium-term.

## Impact of Digital Transformation in Accounting Profession

Changes in business practices are likely to also impact accounting. According to Lazarova (2019), digital transformation affects all institutional levels and functions, including accounting and finance, and not just the upper administrative levels. Accounting without the use of technology required much time, intelligence, and labor. The field has evolved much beyond simple bookkeeping and payrolls, and like procurement, technology is vital to these processes. The great digital revolution on the Internet and communications networks has led to a wide and rapid change in the business environment, which made it imperative for organizations to keep pace with the developments to move accounting and management information systems from classic methods to modern digital methods (Andreassen, 2020).

Digital transformation ranks at the top of the boardroom agenda in multinationals. However, success belongs to those who perceive this as an evolving journey rather than the destination. Finance, as a low hanging fruit for digital transformation, can serve control the decisions of the management if it delivers business partnering, which is only possible with digitalization. It is more important than ever now to begin to realize that the finance role lies in business partnering and not only back-office financial management. Finance, as a discipline, is now at the crossroads of the IT strategy and business intelligence.

For example, periodic reporting is no more the driver of operations, instead real time access to local decentralized data has become mandatory for operational decisions. Availability of decentralized, secure data is a challenge that can be overcome only through digitalization. Various financial digital solutions are available to challenge conventional Enterprise Resource Planning (ERP). Robotic process automation in payables is one potential area of discussion as accounting goes digital, together with the debate on use of digital public relations (PR), purchase orders and digital invoices. The digital transformation thus will also require massive shift in mindset.

## Conclusion

Digital transformation has a momentum of its own and the

process self-perpetuates. Therefore, this transformation is more than a discrete project but a journey, with all the ups and downs that could be encountered enroute. Since digital transformation is for real, it is important to prepare for a digital future. Digital transformation is not just about technology and digitization, more importantly, it is about people. Therefore, how an enterprise adapts its culture and vision to the transformation will be just as crucial as leaving behind legacy infrastructure where it is no longer relevant.

In order to remain competitive, it is therefore important to ensure we are investing in both raising our team's digital IQ and implementing modern technological solutions. The benefits can be quite extensive, from boosting one's efficiency and decreasing costs, to being able to focus on growth. Digital transformation is continuously evolving, and it is here to stay. Dealing with and benefiting from this transformation requires all policy makers, IT professionals, businesses and all stakeholders to work on sustainable strategies for adopting to this change.

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# What and Why of Internal Audit

With the growing size of business, use of information communication technology, and pan world coverage, internal audit has proven to be an effective tool to ensure the operational efficiency and effectiveness for the organizations. It also helps in ensuring the compliance with applicable legal and regulatory requirements, and also helps in risk management activity in the organization. Internal audit function tests the effectiveness, efficiency, and adequacy of the internal control measures implemented within the organization.



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## Background

Internal auditing is an independent and objective assessment that provides assurance and suggests measures to add value to improve organizational operation. It is the part of internal control system of an organization that helps accomplish organizational objectives by evaluating each and every function of the entity to improve the risk management, control, and governance processes. Internal audit is conducted periodically or on continuous basis and the audit team submits reports to the management with valuable suggestions for further improvement. Internal audit function helps an organization to achieve highest level of corporate governance, risk management practices, and compliance with the prevailing laws. Generally, internal audit is carried out by professional of the concerned domain, or they may be employees of the organization or outside consultant. Due to the rise in technological advancement and its adaptation in the business processes, internal audit team is now evolving being a multidisciplinary team consisting of experts of different domains.

## Audit and Its Types

The Institute of Chartered Accountants of India has defined an audit as (The Institute of Chartered Accountants of India, 2021), “an independent examination of financial information of an entity, whether profit oriented or not, and irrespective of its size or legal form, when such examination is conducted with a view to expressing an opinion thereto.” When the term “audit” comes into our mind – we immediately relate it to financial audit. However, the audit also refers to a methodological examination and review ( Merriam - Webster, 2022). The word ‘Audit’ was developed from a Latin word ‘audites’

meaning to hear or listen (etymonline, 2022).

Hence, we can deduce that an audit is to perform systematic examination or verification of something or facts or information. For example; energy audit refers to the examination and verification of energy consumption and efficiency of energy consumption, environmental audit refers to the compliance with environmental regulations, agreements and suggests measures to manage carbon emission. Following table illustrates some of the widely adopted types of audit around the globe (Page & Pennings, 2021):





S.N.	Type of Audit	Meaning
1	External audit/ Statutory audit	An audit conducted by external independent party i.e. a CA Firm in private sector and Supreme Audit Institution in public sector to comply with the statutory requirement with an intention to provide an opinion thereto whether or not the financial statements prepared by an entity are free from material misstatement.
2	Internal audit	Conduct internal assessment either by third party or internal staffs of the organization to provide assurance on internal control, process, and compliance to the legal requirements, etc.
3	Performance audit	To evaluate economic efficiency and effectiveness while acquiring & utilizing resources in accordance with the set standards and policies,
4	Operational audit	To assess the operational aspects of an organization with an aim to increase the operational efficiency and remove the redundancies.
5	Environmental audit	An audit to ensure organization is complying with the environmental agreement, rules and regulations, and suggests measures to address the carbon emission problems.
6	Compliance audit	An audit to ensure that the organization is complying with all the applicable legal and regulatory requirements.
7	Revenue audit	An audit of revenue aspects of the organization to find out revenue leakages, and implementing controls to prevent such leakages.
8	Employee's remuneration and benefits audit	An audit of employee's remuneration and benefits and their impacts on the financial statements of the organization, and their impact on overall employee's engagement.
9	Information System Audit	An audit of information system implemented within an organization to evaluate existing Information Technology system considering input, process and output of the software to ensure the confidentiality, security, access control, integrity, and availability of the appropriate information.
10	Forensic audit	It is performed with an intention to gather the evidences that are admissible in the court of law.
11	Tax audit	It is performed to assess the correctness of the tax return prepared by a taxpayer, and ensure the effective compliance of tax law and regulations to prevent and discourage the practice of tax evasion.

## Internal audit

Various Professional Accounting Organizations have defined internal audit in their own way in their published literature; however, there is uniformity in the spirit of the meaning and scope of internal audit function. As per The Institute of Internal Auditors (IIA, 2022), "Internal auditing is an independent objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." Similarly, (The Institute of Chartered Accountants of India, 2009) has defined internal audit as an independent management

function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system.

From the above definition it is clear that internal audit is:

- An independent management function,
- With an aim to improve organization's operations or functioning,
- By suggesting or recommending ways to improve organizational performance,
- An approach towards risk management, and ensured internal control's adequacy.

Internal audit function is carried out by professional with due care to the standards issued by IIA and various professional bodies. The aim of standards is to provide set of procedures and ethical requirement while conducting the internal audit function in any organization. IIA has recommended 33 performance standards and 19 attribute standards for the internal audit professional to comply with (IIA, 2023). These standards are recommendatory in nature, and if followed will enhance the quality of the audit work and reliance on the work of the internal audit function.

With the growing size of business, use of information communication technology, and pan world coverage, internal audit has proven to be an effective tool to ensure the operational efficiency and effectiveness for the organizations. It also helps in ensuring the compliance with applicable legal and regulatory requirements, and also helps in risk management activity in the organization. Internal audit function tests the effectiveness, efficiency, and adequacy of the internal control measures implemented within the organization.

The internal audit can be performed by appointing external experts, or by creating internal department or an in-house team within an organization. However, care must be taken while creating internal department or an in-house team so that independency and accountability of the audit team is at a highest level, and management doesn't put limitations on the audit assignments.

## Difference between Internal Audit and Statutory Audit

Unlike statutory or financial audit, the scope of internal audit is beyond financial aspects of the organizations to cover the operations and compliances, and to provide recommendations based on the audit observation for further improvements in the business processes for achieving highest level of efficiency and effectiveness. Audit assignments have different purposes or agenda based on the terms of engagement and legal requirements.



Statutory audit is conducted with an intention to express an opinion on the financial statements of an organization.

Another difference in these two types of audits arises on account of reporting authority of the audit report. If it is going to be reported to the members/shareholder of an organization, it would be statutory or external audit. However, internal audit is reported to the head of the organization or audit committee (a board level committee), if there is the provision of audit committee in the organization, or the management, as the case maybe. External auditor has to express an opinion thereto in the audit report, whereas, internal auditor doesn't have to express the opinion. Rather, internal auditors are expected to provide recommendations for improvements in the processes for strengthening implemented internal control measures and risk management activities.

### Status of the Internal Audit in Nepal

Internal audit practice is for the own benefits of the organization rather than conducting for complying with legal and regulatory requirements only. Unlike Indian corporate law, Nepalese corporate law i.e. Companies Act, 2063 doesn't mandate companies to conduct an internal audit. Companies Act, 2063 contains the provision of constituting an Audit Committee for certain companies fulfilling criterions mentioned therein. Further, Audit Committee has the responsibility of supervising and reviewing the internal auditing activity of the company. It can be concluded that, if a company conducts the internal audit activity, Audit Committee shall overview the internal audit process. However, it is not mandatory to conduct the internal audit as per the corporate law of Nepal.

Section 61 of Banking and Financial Institution Act, 2073 requires the Audit Committee to conduct internal audit of the banks and financial institutions in order to ensure the records are prepared and preserved in accordance with the prevailing laws and the business transactions of the BFIs are being conducted in compliant with the laws and regulations. Similarly, Nepal Rastra Bank (NRB) Unified Directive, 2078 also mandates the board of BFIs to conduct internal audit of the BFIs. However, these provisions are only applicable to the banks and financial institutions in Nepal.

Moreover, Clause 6.4 of NRB Working Capital Guidelines, 2079 requires the borrower availing working capital facilities exceeding Rs. 5 Crore to submit the details of current assets and current liabilities duly certified from the internal auditor of the concerned borrower. By virtue of this clause, it may be assumed that borrower availing working capital loan exceeding Rs. 5 Crore might have to conduct internal audit even if it is for the purpose of providing current assets/liabilities certification only.

Thus, internal audit function is robust in Bank and Financial Institutions (BFIs) as compared to other entities due to regulatory

requirements, and the nature and size of the business. Apart from BFIs, other listed companies and some of the large public companies conduct internal audit either by forming a separate unit within the organization itself or by outsourcing the same to the external experts. Large scale private sector companies are conducting internal audit for their own benefits rather than strict compliance with the laws and regulations.

Small businesses like MSMEs, SMEs, etc. are not much aware about the internal audit function and often they confuse bookkeeping with auditing functions. Sometimes a service provider is providing them with the service of book-keeping and some function of control as well, and it is often correlated with internal audit function.

Hence, MSME, SME, Co – operative societies, etc. are out of the ambit of internal audit function altogether. Further, they don't take initiatives for conducting internal audit by themselves due to lack of awareness about how it helps them and their businesses.

While considering the public sector, as mandated by Financial Procedure and Fiscal Accountability Act, 2076, internal audit of all offices of the Government of Nepal is carried out by the District Treasury Comptroller Offices and for the Provincial Government, it is conducted by Provincial Treasury Comptroller Offices. In case of public enterprises, they have their own internal audit division as required by the law in which they have been established or by adopting best practice to promote public accountability.

### Roles of the Internal Auditor

Internal auditors perform their duties in a manner that deviates from traditional financial auditors. The major role of the internal auditor is to act as a bridge between the management and the entire organization: their role is to communicate the expectations of the management and take feedback from the employees that may be crucial for organizational decision making processes. Internal auditors perform site visit, conduct verification and physical inspection, conduct interview with various staffs; it enables them to have thorough and clear picture on how the organizational functions are being carried out. It also enables them to identify real issues that rarely reach through the regular monitoring within an organizational hierarchy.

The major roles of the internal auditor are explained in the following points:

- Acting as the eyes and ears of the governing body, and providing assurance to the board and top management that the organization is functioning as per the policies and regulatory requirement with optimizing operational efficiency,
- Assisting to establish risk management practices in the



organization,

- Evaluation of the effectiveness of the internal control designed and implemented,
- Becoming catalyst for changes in the organization by effective communication of the changes and the purpose behind such changes across the organization,
- Prevention and detection of fraudulent activities,
- Review compliance with the prevailing laws and regulations,
- Review of the accomplishment of target of the operating activities within the organization,

The above list of roles are not exhaustive; due to rapid evolution in the information communication technology, and fast paced business environment, the role of internal audit function is also evolving day by day. The primary objective, however, remains the same i.e. to independently assess the management function of the organization and supports the top executive in prudent decision making and risk management.

### Importance of Internal Audit

Internal audit helps the organization in achieving the organizational goals and objectives. Now, let's discuss some of the ways in which internal audit function helps the organizations achieving their objectives (Shankar, 2020):

- Focusing audit functions on the high risk areas that might have catastrophic impact on the going concern of the organization,
- Independently reviewing the operational activities within the organization and providing recommendations for improvement thereon,
- Assisting top management and board of directors on effective decision making,
- Facilitating in identifying risks, and controls to mitigate those risks,
- Providing assurance by designing and implementing adequate internal control measures,
- Objectively assessing the operational efficiency of the organization, and devising ways to improve the efficiency,
- Evaluation of compliance with the applicable legal and regulatory provisions,
- Helps to external auditor by identifying the material misstated issues, which are to be included in the audit opinion and also helps to save time.

Each and every function of the organization helps in achieving the organizational objective, if some of the functions are misaligned with the vision of the organization – it is difficult

for the organization to achieve the objectives. Likewise, internal audit function directly supports the management and executives by providing clearer picture of the different functions of the organization, and recommendations based on the observation and available data/facts. Further, internal audit function provides assurance that the internal controls are functioning as they should be, which provides assurance to the executives and makes them focus on achieving organizational objectives.

### Limitations of Internal Audit

Internal auditors may be carried out by both employees of the organization and/or third-party consultants appointed by the organization. Hence, the question of independence or integrity of the internal auditor always arises while considering the quality of internal auditor's work. Further, the qualification of the auditor and expertise is not explicitly mentioned anywhere and it is up to the discretion of the organization to appoint the auditor. Even though the internal audit has been conducted throughout the year in an organization, its effectiveness always remains at the expertise, experience, and knowledge of the auditor appointed. If internal audit is conducted using the manpower of the organization, the competency always remains challenging, because developing qualified manpower within an organization may not be cost effective. Effectiveness of the internal audit function not only rests on the audit team but also over the shoulder of the management or executives who shall be responsible for carrying out the recommendations prescribed by the auditor. If management is reluctant towards implementing the recommendations, the output of the internal audit function would be largely impaired.

### Conclusion

This discussion so far as led to the conclusion that, corporate law of Nepal is primitive and doesn't include provision of mandatory conducting internal audit activity. It has almost provided discretion at the end of the companies to decide whether or not to conduct internal audit on their own. Now, it's not risky for private companies – as the interest of general public is lower. However, for public companies – where the interest of general public is higher – it must be made mandatory for conducting internal audit for independent assessment of management function and protecting the interest of the stakeholders. Thus, in most of the public-sector clear-cut provision has been made to conduct internal audit in their jurisdiction.

Globally, the internal audit function is getting much acceptance, and it is imperative that our economy also need to be aware of this. Further, with the evolvement of information communication technology in the business processes, unprecedented risks are



looming and it is becoming nuisance to many entities to manage those risks. Hence, business entities must be aware of these threat and use internal audit as a mean to proactively manage risks and mitigate the loss of valuable assets.

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## पेशागत सदस्यहरूले प्रदान गर्ने सेवा तथा सो बापत जारी गर्ने प्रतिवेदनहरूमा प्रयोग गरिने Unique Document Identification Number (UDIN)सम्बन्धमा

मिति : २०७८/०९/१४

नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्थाले लेखाव्यवसायप्रति सामाजिक मान्यता र विश्वास अभिवृद्धि गर्न तथा नेपाल चार्टर्ड एकाउन्टेन्ट्स ऐन २०५३ तथा नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली, २०६९ बमोजिम लेखापरीक्षणलाई थप व्यवस्थित गर्ने उद्देश्यले Unique Document Identification Number (UDIN) २०७६ कार्तिक १ गतेदेखि अनिवार्य रूपमा लागू गरेको व्यहोरा सबैमा अवगत नै छ । यस सन्दर्भमा, संस्थाबाट पेशागत प्रमाण पत्र प्राप्त सदस्यहरूले आफ्नो व्यावसायिक प्रयोजनको सिलसिलामा हस्ताक्षर गरिने कुनै पनि प्रकारको प्रतिवेदनहरूमा अनिवार्य रूपमा 18 Digit को UDIN समावेश गर्नुपर्ने व्यवस्था गरिएको छ । UDIN समावेश नगरी जारी गरिएका प्रतिवेदनहरूलाई संस्थाले मान्यता नदिने व्यहोरा समेत जानकारी गराइन्छ ।

तसर्थ, संस्थाका पेशागत सदस्यहरूले तल उल्लेखित लेखापरीक्षण तथा प्रमाणिकरण लगायत अन्य कार्य गर्दा प्रत्येक प्रतिवेदनको लागि छुट्टै अनुबन्धन गर्नुको साथै प्रतिवेदनहरूमा छुट्टा छुट्टै UDIN Number generate गर्नुपर्नेछ ।

- अन्तिम लेखापरीक्षण (Statutory Audit)
- आन्तरीक लेखापरीक्षण (Internal Audit)
- कर लेखापरीक्षण (Tax Audit)
- संचालन लेखापरीक्षण (Operational Audit)
- विशेष प्रयोजनका लागि गरिने लेखापरीक्षण (Special Purpose Audit)
- शाखा लेखापरीक्षण (Branch Audit)
- मूल्यांकन लेखापरीक्षण (Due Diligence Audit)
- मूल्यांकन प्रतिवेदन (Valuation Report)
- नियमकारी निकायलाई आवश्यक पर्ने प्रतिवेदन जस्तै Long Firm Audit Report - LFAR
- कुनै पनि प्रमाणिकरण कार्य जस्तै Working Capital Certification, Sec 78 of Company Act Certification, etc.
- अन्य (Others)



# Understanding of NFRS 16: Leases

NFRS 16 is an adopted form of IFRS 16. Before IFRS 16, there was IAS 17. There might be a question, “Why IFRS 16 and not IAS 17?” This has been best replied by IASB chairman and said that he wanted to fly in an aircraft that actually existed on an airline’s balance sheet. A company may not own all the assets it is using to generate the revenue. It may be leasing various assets. NFRS 16 has been introduced for better presentation of the leased assets, especially, in the books of lessee which is helpful to prospective investor for informed economic decision.

## 1. Introduction

Lease is a contract whereby supplier conveys to the customer, right to control the use of an identified asset for agreed period of time in exchange for consideration.

If any lease contract has been entered for multiple assets then each asset will be taken as separate lease component, if following conditions are satisfied:

- Each asset has its own benefit
- Each asset is an independent asset

Further, it may be possible that there are some non-lease components in the contract in the form of admin charges, maintenance charges etc. for leased assets. In such case, non-lease components should be separated from lease components and treated differently in books of account.

Nepal Financial Reporting Standard 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. In comparison to NAS 17, there is no significant changes in the books of account of lessor under NFRS 16, but there are some changes in relation to Accounting and Presentation in the books of lessee. The main objective is to set principles regarding accounting and presentation for lease contracts in the books of respective parties.

## 2. Purpose and Importance of NFRS 16

Suppose there is an investor Mr. A, who wants to invest in a company with low debt, gives high return and makes good use of assets. Mr. A wants to invest in ABC Airline Company which has the financial statement as shown below:



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**Balance sheet of ABC Airline Company**

Assets	NPR Million	NPR Million	Liabilities	NPR Million	NPR Million
<b>Fixed Assets</b>		40	<b>Equity</b>		14
Land	20				
Building	6		<b>Long Term Debt</b>		
Office Equipment	14		Bank Borrowing		6
			<b>Current Liabilities</b> (including o/s lease rent)		40
<b>Current Assets</b>		20			
<b>Total Assets</b>		<b>60</b>	<b>Total Liabilities</b>		<b>60</b>

**Extract of Profit and Loss Account**

Particulars	NPR Million
Turnover	40
Profit After Tax	10

Mr. A is excited with the above information as it seems to be meeting all his criteria. The debt equity ratio is 0.43:1, Return





on Capital Employed (ROCE) is 50% and Assets Turnover ratio is 1. It seems that the debt equity ratio is low, ROCE is high and Assets Turnover Ratio is satisfactory.

But, when Mr. A closely looks the balance sheet, he notices that there is no aircraft in the assets side of balance sheet. Later on, he finds that all the aircrafts of company are on lease. Since, the aircrafts are not the assets of company, it is not showing in the balance sheet. Now, Mr. A investigates further and add the total rent that ABC Airline is paying for renting aircraft and finds out that the total rent is equal to the purchase price of aircraft (suppose NPR 6 million). Mr. A understands that the company has actually purchased the aircrafts and the only difference is that the company has not paid the money upfront but it is paying every year in the form of rent. So, it is not really a rental agreement, instead it is a financing agreement. Mr. A prepares the balance sheet considering the aircraft as assets and the rental payable by ABC Airline to aircraft owner as long term liabilities as below:

**Balance sheet of ABC Airline Company**

Assets	NPR Million	NPR Million	Liabilities	NPR Million	NPR Million
<b>Fixed Assets</b>		46	<b>Equity</b>		19
Land	20				
Building	6		<b>Long Term Debt</b>		12
Office Equipment	14		Bank Borrowing	6	
Aircraft	6		Lease Liability	6	
			<b>Current Liabilities</b>		35
<b>Current Assets</b>		20			
<b>Total Assets</b>		<b>66</b>	<b>Total Liabilities</b>		<b>66</b>

**Extract of Profit and Loss Account**

Particulars	NPR Million
Turnover	40
Profit After Tax	15

Mr. A again calculates his requirement, where he gets debt equity ratio equals to 0.63:1, ROCE equals to 48% and Assets Turnover Ratio equals to 0.87. Now, Mr. A has to rethink for making the investment in ABC Airline Company.

The financial statement of lessee shows different picture in second case which may be misleading to the stakeholders of the company.

### 3. Assets out of scope of NFRS 16:

As per NFRS 16, the following assets are not under the scope of this statement:

- Mineral Oils, Natural Gases, Ores or other non-regenerative resources (dealt under NFRS 6)
- Patents and Copyrights, contracts for motion pictures, manuscripts etc. (dealt under NAS 38)
- Biological Assets (dealt under NAS 41)

- Service Concession Arrangements (dealt under NFRS 15)
- Contracts made for granting licenses of Intellectual Property Rights (dealt under NFRS 15)

### 4. Exemptions from Application of NFRS 16:

As per NFRS 16, lessee can avail exemption from application of NFRS 16 Rules for lease if any one condition out of the following two conditions, is satisfied:

Condition I: It is a “Short-term Lease”

Condition II: It is a “Low Value Lease”

#### Short-term Lease:

If any lease contract is made for 12 months or less than 12 months then lessee can avail exemption from application of NFRS 16.

#### Note:

- If any contract was classified as long-term lease on commencement date of contract but subsequently, it is reclassified into short-term lease then there will be no exemption for such type of short-term lease.
- If lease contracts have been entered into for similar assets then such assets will be considered separately for short term or long-term lease

#### Low value Lease:

There is no clear explanation on the assets from the point of view of value of assets. The following two conditions, if satisfied, then an asset can be classified under low value assets:

- It should not be dependent or highly inter-related with other assets from the point of view of its use. Example: mobile, laptop, tablet etc.
- Lessee can take benefit from low value asset on its own without merging it with other sources.

### 5. Accounting in the books of lessee in case exemption is available:

Lessee will write-off lease rentals during the lease period on Straight Line Method (SLM) Basis or any other systematic basis in Profit and Loss Account. And the difference between actual payment and SLM rentals shall be considered as prepaid or outstanding.

Example:

Years	Lease Rentals (NPR)
1	20,000
2	18,000
3	22,000

In above cases, following entries will be made in books of



lessee if exemption has been availed:

$$\text{Rent on SLM Basis} = \frac{20000 + 18000 + 22000}{3} = \text{Rs. } 20,000$$

#### 1<sup>st</sup> Year

- |     |                                  |    |            |
|-----|----------------------------------|----|------------|
| i.  | Lease Rental A/C                 | Dr | Rs. 20,000 |
|     | To Bank A/C                      | Cr | Rs. 20,000 |
|     | (Being lease rental paid)        |    |            |
| ii. | Profit & Loss A/C                | Dr | Rs. 20,000 |
|     | To Lease Rental A/C              | Cr | Rs. 20,000 |
|     | (Being lease rental written off) |    |            |

#### 2<sup>nd</sup> Year

- |     |                                  |    |            |
|-----|----------------------------------|----|------------|
| i.  | Lease Rental A/C                 | Dr | Rs. 18,000 |
|     | To Bank A/C                      | Cr | Rs. 18,000 |
|     | (Being lease rental paid)        |    |            |
| ii. | Profit & Loss A/C                | Dr | Rs. 20,000 |
|     | To Lease Rental A/C              | Cr | Rs. 18,000 |
|     | To Outstanding Rent A/C          | Cr | Rs. 2,000  |
|     | (Being lease rental written off) |    |            |

#### 3<sup>rd</sup> Year

- |     |                                  |    |            |
|-----|----------------------------------|----|------------|
| i.  | Lease Rental A/C                 | Dr | Rs. 22,000 |
|     | To Bank A/C                      | Cr | Rs. 22,000 |
|     | (Being lease rental paid)        |    |            |
| ii. | Profit & Loss A/C                | Dr | Rs. 20,000 |
|     | Outstanding Rent A/C             | Dr | Rs. 2,000  |
|     | To Lease Rental A/C              | Cr | Rs. 22,000 |
|     | (Being lease rental written off) |    |            |

### 6. Identification of Lease in a contract

If all the conditions are satisfied in a contract as mentioned below then we will assume that the contract contains a lease agreement:

- There should be an identified asset in the contract
- The customer will obtain substantially all of the economic benefits from the asset throughout the lease period
- Customer will have *right to direct "how and for what purpose"* the asset will be used throughout the lease period / If "how and for what purpose" is pre-determined in a contract the customer will operate or design the asset.

#### **Note:**

Right to direct "how and for what purpose" means, customer will decide:

- When to produce the output using the asset
- Where the output will be produced
- How the output will be produced
- Whether the output will be produced or not

### 7. Commencement date of lease:

As per NFRS 16, the accounting of lease will be started from the commencement date of lease. Commencement date is when right to control the use of asset is transferred to lessee.

### 8. Calculation of Lease term (lease period)

Particulars	Period
Non-cancellable Period	XXX
+ Option for extension of non-cancellable period and extension is certain from point of view of lessee	XXX
+ Termination period	XXX
Lease Term	XXX

#### *Note:*

*Lease term shall not include cancellable period. Any contract can be considered as cancellable if lessor or lessee can cancel the contract any time without other party's permission and penalty is nominal.*

Lease term should be assessed by lessee at the end of the year considering the following factors:

- If lessee has made major improvements in leasehold properties
- If lessee has carried major modifications in assets
- If lessee has taken a business of related assets
- If lessee has sub-leased the leased assets for beyond its non-cancellable period

### 9. Lease Payment

For Lessee → It is calculated to record asset and liabilities

For Lessor → It is calculated to record investment in lease

#### Lease Payment for Lessee:

Lease payment is the amount which is paid or expected to be paid by lessee to lessor during the lease period for use of underlying asset. It includes:

- Fixed Rental less lease incentive
- Variable rental
- Payment for option of purchase
- Termination penalties
- Residual lease guarantee

#### Lease Payment for Lessor:

There is only single difference in the books of lessor in compare to lessee books while computing lease payment which is in relation to residual lease guarantee. Lessor will consider guaranteed residual value at full amount which is given by





lessee to lessor at commencement of lease.

## 10. Discount rate to be used for identifying financing component in lease contract

Discount rate should be identified for identifying the financing component in the lease contract for which, below points should be considered for calculation of discount rate:

- It should be calculated from lessor's point of view
- It should be Internal Rate of Return (IRR)

Example:

Lease Period	4 years
Lease Rentals	5 lakhs per annum
Guaranteed Residual Value (GRV)	1 lakhs
Lessor estimated residual value	3 lakhs
Fair Value of Assets	16 lakhs

From above, we can say that, unguaranteed residual value is 2 lakhs (i.e. Lessor estimated residual value – GRV)

Now, assuming two rates as 10% and 15%;

### i. NPV at 10%

Lease Rentals (5lakhs X 3.17)	15, 85,000
GRV (1lakhs X 0.683)	68,300
UGRV (2lakhs X 0.683)	1, 36,600
PV of Inflow	17, 89,900
PV of outflow	(16, 00,000)
NPV	189900

### ii. NPV at 15%

Lease Rentals (5lakhs X 2.855)	14, 27,500
GRV (1lakhs X 0.572)	57,200
UGRV (2lakhs X 0.572)	1, 14,400
PV of Inflow	15, 99,100
PV of outflow	(16, 00,000)
NPV	(900)

$$\begin{aligned} \text{IRR} &= \text{Lower Rate} + \frac{\text{Lower Rate NPV}}{\text{Lower Rate NPV} - \text{Higher Rate NPV}} \times \text{Difference in rates} \\ &= 10\% + \frac{1, 89,900}{1, 89,900 - (-900)} \times 5\% \\ &= 14.98\% \end{aligned}$$

## 11. Accounting in the books of Lessee

### I. Initial Recognition

As per NFRS 16, lessee will recognize an asset and a liability at the time of initial recognition of lease in its book on commencement date. The journal entry will be passed as below:

Right of Use Assets A/C	Dr. XXXX
To Lessor A/C	Cr. XXXX

To Bank A/C Cr. XXXX

To Provision A/C Cr. XXXX

(Being initial recognition made)

Where,

Amount of liabilities to lessor = Present Value of Lease Payment at IRR

Amount of Right of Use Assets = Present Value of Lease Payment + Initial Direct cost if incurred by lessee + Lease rentals if paid by lessee to lessor before commencement date + Provision for dismantling/ restoration/ decommissioning cost

### II. Subsequent Recognition

#### For Right of Use Assets (RoU Assets)

After initial recognition, RoU Assets will be carried under cost or revaluation model. Additionally, following points should be considered:

- The lessee shall calculate depreciation on leased assets at the end of each year.
- The depreciation will be based on useful life of assets or full life of assets.

#### For Liabilities to the lessor

As per NFRS 16, the liabilities to the lessor shall be dealt as normal liability and accrual interest and payment shall be recorded in books of lessee as below:

#### Statement showing liabilities to lessor

Year	Opening Balance of liabilities	Interest	Payment	Closing Balance of liabilities
A	B	C	D	(B+C-D)
		(BX IRR)		

#### Journal Entries

- Interest A/C Dr. C  
To lessor A/C Cr. C  
(Being interest accrued recorded)
- Lessor A/C Dr. D  
To bank A/C Cr. D  
(Being payment made to lessor)
- Depreciation A/C Dr. XXX  
To RoU Assets A/C Cr. XXX  
(Being depreciation charged)
- Profit & Loss A/C Dr. XXX  
To interest A/C Cr. C  
To depreciation A/C Cr. XXX  
(Being expenses charged to PL Account)



### III. Re-measurement of lease liability

Re-measurement of lease liability may take place due to change in term of lease payment. There may be four main reasons for change in lease liability which are as follow:

- Changes in lease term
- Changes in decision of purchase option
- Changes in guaranteed residual value
- Changes in rentals due to CPI/IR

If re-measurement takes place due to change in lease term or purchase option then these reasons shall have significant impact on lease payment due to which discount rate will be revised on such date.

If re-measurement in liabilities takes place due to change in GRV or CPI then these changes shall not have significant impact on lease payments due to which original discount rate can be used without any change.

#### Calculation of re-measurement amount

Present Value of lease payments as per new terms  
XXX

Carrying Amount of lease liabilities in the books as per original terms  
XXX

Differences XXX

The differences will be transferred to RoU Assets.

If liability increase:

RoU Assets A/C Dr. XXX

To lessor A/C Cr. XXX

If Liability decreases:

Lessor A/C Dr. XXX

To RoU Assets Cr. XXX

### IV. Modification in Lease Contract

If there has been any changes in lease liability due to pre-existing conditions in the contract then it will be considered as re-measurement, but changes in lease liability due to new terms, which were not in the contract earlier, will be considered as modification.

Lease modification may be due to following reasons:

- Changes in consideration
- Changes in scope of lease
- Changes in lease period

The modification should be considered as separate contract if both of the following conditions are satisfied:

- i. Modification is in relation to increase in scope of contract and
- ii. Lease payment for such increase should be at its stand-alone price.

In above case, there will be no change in lease liability of original existing contract and such increase in scope of lease shall be recognized as new contract.

If modification is considered as changes in existing contract due to following reasons:

#### i. Increase in scope of lease or changes in consideration:

If there has been increase in scope of lease or changes in consideration, the difference amount calculated as below shall be transferred to RoU Assets:

- A. Calculate the present value of lease liability as per modified terms on modification date
- B. Calculate book value of lease liability under original contract on modification date

XXX (A-B) will be transferred to RoU Assets.

*Note: Under modified terms, revised discount factors will be used.*

#### ii. Decrease in scope of lease

- A. Calculate carrying amount of original contract on modification date
- B. Calculate profit/loss on proportionate surrendered/reduced portion under decrease in scope of contract
- C. Calculate the increase/decrease in lease liability due to change in terms of continuing portion of lease contract

### 12. Accounting in the books of lessor

Before making the recognition in the books, lessor shall classify the lease contract into one of the following:

#### i. Operating Lease

If any lease cannot be classified as a finance lease then it should be classified as an operating lease.

#### ii. Finance Lease

Finance lease is a contract whereby lessor transfers all risks and rewards to lessee incidental to ownership. Any one of the following indicators can be considered to classify an agreement under finance lease:

- If lease period covers major part of useful life of leased assets
- If there is an option with lessee to purchase the leased asset at the end of lease period





- If lessee is bound to acquire the lease assets at the end of lease period
- If present value of lease payment becomes equal to or higher than fair value of asset
- If nature of asset is relevant to lessee only

Additional indicators which may lead to finance lease are:

- If the lease is non-cancellable
- If lessee can extend the lease period at lower rates
- If lessee has option to purchase below market rates

## I. Accounting for Finance Lease

### Initial Recognition

As per NFRS 16, lessor will derecognize "Asset" which is given in the lease, and recognize "Lease Receivables" on commencement date. The journal entries will be passed as below:

Lease Receivables A/C    Dr. XXXX (Net Investment)  
 To Assets A/C                      Cr. XXXX (Carrying Amount)  
 (Being initial recognition made)

Any difference in carrying amount and net investment will be considered as profit or loss on transfer of Asset and it will be transferred to Profit and Loss Account.

### Subsequent Recognition

After initial recognition, the following entries shall be recorded each year:

- Lease Receivables A/C                      Dr. XXXX  
 To Interest Income A/C                      Cr. XXXX  
 (Being interest income made due)
- Bank A/C                                      Dr. XXXX  
 To Lease Receivables A/C                      Cr. XXXX  
 (Being payment received from lessee)
- Interest Income A/C                      Dr. XXXX  
 To Profit and Loss A/C                      Cr. XXXX  
 (Being income charged to profit and loss account)

## II. Accounting for Operating Lease

Lessor recognizes the payment received from lessee as rental income in profit and loss account on SLM basis. If there is difference between payment received and SLM rent then the differences should be recognized as advance income or outstanding income.

Example:

Lease Period	3 years
Lease Rentals	Rs.
1 year	60,000
2 year	40,000
3 year	20,000

In this case, SLM rent =  $\frac{60,000+40,000+20,000}{3} = 40,000$

The journal entries will be passed as below:

### 1-Year

- Bank A/C                                      Dr. 60,000  
 To Lease Rental A/C                      Cr. 60,000  
 (Being rental received)
- Lease Rental A/C                      Dr. 60,000  
 To Profit and Loss A/C                      Cr. 40,000  
 To advance rent A/C                      Cr. 20,000  
 (Being rental income charged to profit and loss account)

### 2 Year

- Bank A/C                                      Dr. 40,000  
 To Lease Rental A/C                      Cr. 40,000  
 (Being lease rental received)
- Lease Rental A/C                      Dr. 40,000  
 To Profit and loss A/C                      Cr. 40,000  
 (Being rental income charged to profit and loss account)

### 3 Year

- Bank A/C                                      Dr. 20,000  
 To Lease Rental A/C                      Cr. 20,000  
 (Being lease rental received)
- Lease Rental A/C                      Dr. 20,000  
 Advance rent A/C                      Dr. 20,000  
 To Profit and loss A/C                      Cr. 40,000  
 (Being rental income charged to profit and loss account)

## 13. Challenges in implementation of NFRS 16

Firstly, the implementation of NFRS 16 will have the impact on the assets and liabilities of lessee in the balance sheet.

The assets side of lessee will be increased by RoU Assets and liabilities side will be increased by lease liabilities due to which there will be impact in debt equity ratio as it seems like the debt is increased without increase in equity. This will create insecurities to financier of debt like bank, debenture holders etc. and equity injection may be demanded. Further, depreciation expenses and interest expenses will be charged in profit and loss account of lessee instead of lease rental expenses. NFRS 16



has an impact on the performance measures such as EBITDA and employee compensation based on such metrics. Also, there may be various implications in taxation because of difference in interpretation. Lessee may need to improve processes and controls, including evolving IT systems. Implementation of NFRS 16 may be complex and time consuming and the cost may be high at initial stage due to requirement of professionals and collection of data but applying this really impact the quality and accuracy of the financial reporting information.

#### 14. Conclusion

The objective of NFRS 16 since, it has been required to implement NFRS 16 from the annual reporting periods beginning on or after July 16, 2021, there will be withdrawal of NAS 17 Leases along with its implementation. NFRS 16 helps

to faithfully represent lease transactions and provides the basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. NFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Unlike NAS 17, NFRS 16 takes a totally new approach to accounting for leases, called the 'right of use' model. NFRS 16 also prescribes a number of disclosures in the notes to the financial statements.

#### References:

[http://www.standards.org.np/asb/resources/882201\\_16.0%20NFRS%2016\\_SetPassword.pdf](http://www.standards.org.np/asb/resources/882201_16.0%20NFRS%2016_SetPassword.pdf)

#### आर्थिक वर्ष २०७९/८० को सि.पि.ई. कार्यक्रम तालिका

क्र.सं.	मिति	तालिम संचालन हुने स्थान	तालिम संचालन गर्ने संस्था
१.	२०७९ आश्विन १ र २	पोखरा	ACAN
२.	२०७९ कार्तिक २५, २६ र २७	काठमाडौं	ICAN
३.	२०७९ मंसिर २३, २४ र २५	जनकपुर	AuDAN
४.	२०७९ माघ ६, ७ र ८	काठमाडौं / बुटवल / हैटौडा	ICAN / ICAN / AuDAN
५.	२०७९ माघ १३, १४ र १५	नेपालगंज / पोखरा / चितवन	ICAN / ICAN / AuDAN
६.	२०७९ माघ २०, २१ र २२	विरगंज	AuDAN
७.	२०७९ माघ २७, २८ र २९	धनगढी / बागलुङ्ग	ICAN / AuDAN
८.	२०७९ फाल्गुण ५, ६ र ७	काठमाडौं	ICAN
९.	२०७९ फाल्गुण १२, १३ र १४	विराटनगर / दाङ्ग	ICAN / AuDAN
१०.	२०७९ फाल्गुण २६, २७ र २८	महेन्द्रनगर	AuDAN
११.	२०७९ चैत्र ३ र ४	विरगंज / बुटवल	ICAN / ACAN
१२.	२०७९ चैत्र ३, ४ र ५	काठमाडौं	ICAN
१३.	२०७९ चैत्र १०, ११ र १२	धनगढी	AuDAN
१४.	२०७९ चैत्र १७, १८ र १९	भैरहवा	AuDAN
१५.	२०७९ चैत्र २४, २५ र २६	काठमाडौं	AuDAN
१६.	२०८० वैशाख ८, ९ र १०	पोखरा	AuDAN
१७.	२०८० वैशाख १५, १६ र १७	विरतामोड	AuDAN
१८.	२०८० जेठ ५, ६ र ७	काठमाडौं / विराटनगर	ICAN / AuDAN
१९.	२०८० जेठ १२, १३ र १४	काठमाडौं	AuDAN
२०.	२०८० जेठ १७	काठमाडौं	ACAN
२१.	२०८० जेठ २६, २७ र २८	काठमाडौं	AuDAN
२२.	२०८० आषाढ ८, ९ र १०	काठमाडौं	ICAN
२३.	२०८० आषाढ १५, १६ र १७	काठमाडौं	AuDAN
२४.	२०८० आषाढ २९, ३० र ३१	काठमाडौं	AuDAN



# JUDICIAL UPDATE



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## Case-I: Income Tax Act, 2058

Supreme Court Decision Date: 2078/12/21

Parties: Large Taxpayer Office, Lalitpur Vs Prime International Pvt Ltd, Kathmandu

Supreme Court Case No.: 071-RB-0211

Link: [https://supremecourt.gov.np/cp/assets/downloads/supreme\\_140353.pdf](https://supremecourt.gov.np/cp/assets/downloads/supreme_140353.pdf)

*The intention of the assessee company for concluding such interest bearing agreement with its debtor was just to enforce the latter for making the payment of credit sale on time. So, on the basis of such terms & conditions of the agreement, it is not reasonable to interpret that the assessee company would have collected the interest income in its credit sale and have included it in its assessable income. Income tax is levied on income earned, not on contingent or projected gain. So, just on the basis of suspicion and projection of incurrence of any such contingent or projected income, it is inappropriate to make the assessee liable for bearing income tax liability.*

## INTEREST INCOME ON CREDIT SALE OF GOODS

### Fact:

The assessee M/s Prime International Pvt Ltd had submitted its self-assessed Income Tax Return of F/Y 2058/59 pursuant to section 96 of the Income Tax Act, 2058 under section 99 of the Act on 2059/09/30.

Subsequently, the Large Taxpayer Office (LTO) issued an initial tax assessment notice for F/Y 2058/59 against the assessee under section 101(6) of the *idem* Act on 2063/03/14. At the notice, the LTO had caused the assessee to include at its assessable income, *inter alia*, the uncollected interest income of NPR 17,44,665.00 which was agreed with debtors in a written deed dated 2058/04/01 for collecting interest at 13% p.a, if delayed to pay the credit

sale proceed beyond the 21 days credit period. However, even after receiving a clarification letter of such uncollected interest income from the assessee, LTO decided not to change the initial assessment verdict regarding the uncollected interest income on 2063/04/15 and delivered a notice of final tax assessment with consistent provision on 2063/04/19.

### Dispute:

The assessee, being dissatisfied with such tax assessment order made by the LTO dated 2063/04/15, had applied to the Inland Revenue Department (IRD) for Administrative Review under Section 115 of the Income Tax Act, 2058 on 2063/06/30. However, the IRD endorsed the tax assessment order of the LTO and rejected the claim of the assessee on the ground such tax assessment is in consonance with the Act on 2064/10/27.

Hence, the assessee appealed to the Revenue Tribunal, Kathmandu under section 116 of the *idem* Act on 2065/11/26. The Revenue Tribunal quashed the tax assessment order of LTO along with the decision of the Administrative Review made to endorse such order of LTO on 2068/10/04. So, the LTO, being dissatisfied with such decision of the Revenue Tribunal, appealed to the Supreme Court against its decision.

### Supreme Court Judgement:

The Supreme Court quashed the tax assessment order of LTO made for including the uncollected interest income of the credit period in assessable income of the assessee and upheld the decision of Revenue Tribunal stating that *the intention of the assessee company for concluding such interest bearing agreement with its debtor was just to enforce the latter for making the payment of credit sale on time. So, on the basis of such terms & conditions of the agreement, it is not reasonable to interpret that the assessee company would have collected the interest income in its credit sale and have included it in its assessable income. Income tax is levied on income earned, not on contingent or projected gain. So, just on the basis of suspicion and projection of incurrence of any such contingent*





*or projected income, it is inappropriate to make the assessee liable for bearing the income tax liability.*

## Case-II: Income Tax Act, 2058

Supreme Court Decision Date: 2079/01/12

Parties: Large Taxpayer Office, Lalitpur Vs Probiotic Industries Pvt Ltd, Parsa

Supreme Court Case No.: 074-RB-0196

Link: [https://supremecourt.gov.np/cp/assets/downloads/supreme\\_179095.pdf](https://supremecourt.gov.np/cp/assets/downloads/supreme_179095.pdf)

*Supreme Court ruled that there is no any clear provision regarding the treatment of storage loss in Income Tax Act, 2058 & Income Tax Rules, 2059. However, a Ministerial level (Ministry of Finance) decision was made for waiving off such normal storage loss on 2062.06.20 and IRD had also circulated the same on 2062.08.06. So, on the condition of issuing such a clear circular for waiving off the actual normal loss of raw materials, tax cannot be imposed to the assessee by disallowing such actual normal loss incurred due to dried up, perished or otherwise of raw materials.*

## CLAIM DEDUCTION FOR STORAGE LOSS

### Fact:

The assessee M/s Probiotic Industries Pvt Ltd had submitted its self-assessed Income Tax Return of F/Y 2063/64 pursuant to section 96 of the Income Tax Act, 2058 under section 99 of the Act on 2064/09/19.

Subsequently, the Large Taxpayer Office (LTO) issued an initial tax assessment notice for F/Y 2063/64 against the assessee under section 101(6) of the *idem* Act causing to addback, *inter alia*, the storage loss of raw materials amounting to NPR 32,50,142.58 on 2065/02/27. However, even after receiving a clarification letter of such disallowed expense from the assessee, LTO decided not to change the initial assessment verdict regarding the storage loss on 2065/4/02 and delivered a notice of final tax assessment with consistent provision on 2065/04/20.

### Dispute:

The assessee, being dissatisfied with such tax assessment order made by the LTO dated 2065/04/02, had applied to the Inland Revenue Department (IRD) for Administrative Review under Section 115 of the Income Tax Act, 2058. However, the IRD endorsed the tax assessment order of the LTO and rejected the claim of the assessee on the ground such tax assessment is in consonance with section 7, 13, & 15 of the Act on 2066/02/17.

Then, the assessee, being dissatisfied with decision of the

Administrative Review, appealed to the Revenue Tribunal, Kathmandu against such decision under section 116 of the Act on 2066/04/05. The Revenue Tribunal quashed the tax assessment order of LTO along with the decision of the Administrative Review made to endorse such order of LTO on 2069/06/04. So, the LTO, being dissatisfied with such decision of the Revenue Tribunal, appealed to the Supreme Court against its decision.

### Supreme Court Judgement:

Supreme Court ruled that there is no any clear provision regarding the treatment of storage loss in Income Tax Act, 2058 & Income Tax Rules, 2059. However, a Ministerial level (Ministry of Finance) decision was made for waiving off such normal storage loss on 2062/06/20 and IRD had also circulated the same on 2062.08.06. So, on its ground, the Supreme Court quashed the tax assessment order of LTO along with the decision of Administrative Review made for disallowing the storage loss and upheld the decision of Revenue Arbitration Tribunal stating that *on the condition of issuing such a clear circular for waiving off the actual normal loss of raw materials, tax cannot be imposed to the assessee by disallowing such actual normal loss incurred due to dried up, perished or otherwise of raw materials.*

## Case-III: Income Tax Act, 2058

Supreme Court Decision Date: 2079/05/20

Parties: Large Taxpayer Office, Lalitpur Vs United Finance Ltd, Kathmandu

Supreme Court Case No.: 072-RB-0194

Link: [https://supremecourt.gov.np/cp/assets/downloads/supreme\\_149860.pdf](https://supremecourt.gov.np/cp/assets/downloads/supreme_149860.pdf)

*The share issuance write off expense does not relate to income or transaction of the concerned fiscal year. As per section 13 of the Income Tax Act 2058, any person may, for the purpose of computing his income from any business or investment in any income year, deduct the expenditures, subject to this Act, made by that person in earning income from the business or investment in the concerned fiscal year. However, the disputed share issuance write off expense does not seem to be related to the income earned in F/Y 2061/62. Hence, such expense cannot be claimed for deduction against the income of the concerned fiscal year under section 13 of the Act.*





## CLAIM DEDUCTION FOR SHARE ISSUANCE COST

### Fact:

The assessee M/s United Finance Ltd had submitted its self-assessed Income Tax Return of F/Y 2060/61 pursuant to section 96 of the Income Tax Act, 2058 under section 99 of the Act on 2061/09/14.

Subsequently, the Large Taxpayer Office (LTO) issued an initial tax assessment notice for F/Y 2060/61 against the assessee under section 101(6) of the *idem* Act causing to addback, *inter alia*, the deferred share issuance write off expense amounting to NPR 356,592.00 on 2064/09/04. However, even after receiving a clarification letter of such disallowed expense from the assessee, LTO decided not to change the initial assessment verdict regarding the deferred share issuance write off expense and delivered a notice of final tax assessment with consistent provision on 2065/09/23.

### Dispute:

The assessee, being dissatisfied with such tax assessment order made by the LTO dated 2065/09/23, had applied to the Inland Revenue Department (IRD) for Administrative Review under

Section 115 of the Income Tax Act, 2058. However, the IRD did not give any decision on time. Hence, the assessee appealed to the Revenue Tribunal, Kathmandu under section 115(8)(9) & 116 of the Act on 2066/04/05. The Revenue Tribunal quashed the tax assessment order of LTO on 2069/06/25. So, the LTO, being dissatisfied with such decision of the Revenue Tribunal, appealed to the Supreme Court against its decision.

### Supreme Court Judgement:

The Supreme Court upheld the tax assessment order of LTO made for disallowing the deferred share issuance write off expense and quashed the decision of Revenue Arbitration Tribunal for allowing it stating that the *share issuance write off expense does not relate to income or transaction of the concerned fiscal year. As per section 13 of the Income Tax Act 2058, any person may, for the purpose of computing his income from any business or investment in any income year, deduct the expenditures, subject to this Act, made by that person in earning income from the business or investment in the concerned fiscal year. However, the disputed share issuance write off expense does not seem to be related to the income earned in F/Y 2061/62. Hence, such expense cannot be claimed for deduction against the income of the concerned F/Y 2061/062 under section 13 of the Act.*

## लेखापरीक्षण गर्न पाउने रकमहदका सम्बन्धमा

पेशागत प्रमाणपत्र प्राप्त सदस्यहरूले परिषदले तोकेको आचार संहिताको १०औं संशोधनको अधिनमा रहि निम्न अनुसार लेखापरीक्षण गर्न पाउने व्यवस्था रहेको छ ।

- “चार्टर्ड एकाउन्टेन्ट्स” वा “क” वर्गका पेशागत प्रमाणपत्र प्राप्त सदस्यले जतिसुकै रकमको पनि लेखा परीक्षण गर्न पाउने छ ।
- “ख” वर्गका पेशागत प्रमाणपत्र प्राप्त (Register Auditor) सदस्यले १ अर्ब २० करोड सम्म ।
- “ग” वर्गका पेशागत प्रमाणपत्र प्राप्त (Register Auditor) सदस्यले ३० करोड रुपैयाँसम्म ।
- “घ” वर्गका पेशागत प्रमाणपत्र प्राप्त (Register Auditor) सदस्यले ६ करोड रुपैयाँसम्म ।
- “लेखा प्राविधिज्ञ” (Accounting Technician) अनुमती प्राप्त व्यक्तिले २० करोड रुपैयाँसम्म



## Regulation and Supervision

### Quality Assurance Review Workshop -2022

The Institute organized a Quality Assurance Review Workshop-2022 on 30<sup>th</sup> November 2022 at ICAN premises located at Satdobato, Lalitpur, Nepal. The objective of this workshop was to brainstorm the avenues of strengthening Quality Assurance Review Mechanism of ICAN and improving Audit Firm's System of Quality Management.

The program started with the welcome speech of ICAN Vice-President, CA. Sujan Kumar Kafle and was organized in two sessions. In the first session Technical Director, CA. Kiran Kumar Khatri gave presentation on “Quality Review Mechanism: Present State and Way Forward”. After the presentation, a panel discussion was held on “Quality Review Mechanism and Quality Management Standards”, which was chaired by the Chairperson of the Quality Assurance Board (QAB), Mr. Dev Bahadur Bohara. Whereby, Chairman of the Auditing Standard Board of Nepal (AuSB, Nepal), CA. Anup Kumar Shrestha; Practicing Chartered Accountant, CA. Sashi Satyal and ICAEW Chartered Accountant, Consultant on Audit Quality Assurance for ICAEW, Mrs. Linda Barnes were the panelist.

In the second session ICAEW Chartered Accountant and Audit Quality Assurance Reviewer at ICAEW, Mrs. Karen Cook gave presentation on “An Overview of Firms Quality Management System- International Standard on Quality Management (ISQM 1)”. Similarly, Mrs. Linda Barnes, gave presentation on “International Standard on Quality Management “ISQM 2”. After the presentation, there was a panel discussion comprising of the same panelist as in the first session and Mrs. Karen Cook. Both the sessions were followed by open floor discussion and question answer session. In question and answer session, where various comments, questions and views were shared by the participants. The session was ended with the concluding remarks from the Session Chair Mr. Dev Bahadur Bohara and presented token of love to the paper presenter and panelist.



*Left: ICAEW Consultant, Mrs. Karen Cook; QAB Chairperson, Mr. Dev Bahadur Bohara; ICAEW Consultant, Mrs. Linda Barnes; CA. Sashi Satyal; Chairman AuSB, Nepal, CA. Anup Kumar Shrestha and Technical Director, CA. Kiran Kumar Khatri during the panel discussion in the QA Review Workshop, 2022.*

The workshop concluded with the vote of thanks from the Council Member and Member of the QAB, CA. Chhetra Gopal Pradhan. Around, 85 practicing members, Past Presidents, Council Members and Officials from the Institute participated in the workshop.

### Publication of Guidelines on Verification of Working Capital and School Audit Guidelines, 2079

The Institute has issued two guidelines one in Verification of Working Capital and second in School Audit Guidelines, 2079. The Verification of Working Capital Guideline can be viewed from the link below:

[https://en.ican.org.np/\\_browsable/file/general/Guideline\\_on\\_Verification\\_of\\_Working\\_Capital\\_Statement.pdf](https://en.ican.org.np/_browsable/file/general/Guideline_on_Verification_of_Working_Capital_Statement.pdf)

Likewise, the School Audit Guidelines can be viewed from the link below:

[https://en.ican.org.np/\\_browsable/file/policies/School\\_audit.pdf](https://en.ican.org.np/_browsable/file/policies/School_audit.pdf)

The hard copies of these guidelines can also be obtained from the head office of the Institute.

### Publication on Judiciary Cases Collection on Nepalese Taxation

The Institute has published compilation of judiciary cases on Nepalese taxation that were decided from the Honorable Supreme Court of Nepal. The compilation can be viewed from the link below:

[https://en.ican.org.np/\\_browsable/file/general/Judicial\\_Case\\_Law\\_Collection.pdf](https://en.ican.org.np/_browsable/file/general/Judicial_Case_Law_Collection.pdf)

## Professional Development

### Training on “Verification of Working Capital, NAS for NPOs & AML-CFT Compliances by Accountants and Auditors”

The Biratnagar branch of the Institute organized training on “Verification of Working Capital, NAS for NPOs & AML-CFT Compliances by Accountants and Auditors” on 9<sup>th</sup> of November 2022. The training was chaired by Coordinator of Biratnagar Branch Coordination Committee (BCC), CA. Aswani Bansal.

The training was conducted in total four technical sessions. In the first and second session Council Member, CA. Prabin Kumar Jha gave presentation on “Verification of Working Capital” and “NAS for NPOs” respectively. Similarly, in the third and fourth session, Technical Director of the Institute, CA. Kiran Kumar Khatri gave presentation on “AML-CFT Compliance Requirements for Auditors and Accountants” and “AML-CFT Risks in a client and identification and Reporting



of Suspicious Transactions” respectively. The training also had an open discussion to address the concern of the participants. Altogether, 81 persons comprising of the Members of the Institute participated in the training.

### Training on “Fiscal Federalism and Fiscal Transfer in Nepalese Context and Income Tax Return Filing Procedure”

The Pokhara branch of the Institute conducted a half day training on “Fiscal Federalism and Fiscal Transfer in Nepalese Context and Income Tax Return Filing Procedure” on 4<sup>th</sup> November 2022 at Deep Sagar Hotel. The training was conducted in two technical sessions. In the first session, Secretary, Ministry of Finance, Gandaki Province, Mr. Bishnu Prasad Sharma gave presentation on “Fiscal Federalism and Fiscal Transfer in Nepalese Context” and in the second session the Member of Pokhara Branch Coordination Committee, CA. Laxman Adhikari gave presentation on “Income Tax Filing Procedure”. Altogether, 57 participants attended the training.

### New Members Welcome Program

The Institute organized new Members Welcome Program on 21<sup>st</sup> December 2022 at ICAN Premises, located at Satdobato, Lalitpur. The program started with the welcome remarks of CA. Sanjay Kumar Sinha, Executive Director, ICAN. Welcoming the new members, he highlighted that the objective of the program was to orient the new members about various aspects related to their personal and professional growth. Speaking in the program, CA. Yuddha Raj Oli, Immediate Past President, ICAN, emphasized on importance of Artificial Intelligence (AI) for Accounting and Auditing. Similarly, Mr. Suresh Gautam, resource person of the program focused on the Professional Aptitude and life for Chartered Accountants. Altogether, 62 new CA Members participated in the program. Program was concluded with vote of thanks and closing remarks of President CA Bhaskar Singh Lala.

### Continuing Professional Education (CPE) Training

The Institute organized three days CPE training for Members from 11<sup>th</sup> to 13<sup>th</sup> November 2022 at ICAN premises Satdobato, Lalitpur. The objective of the CPE training was to enhance members’ practical and theoretical knowledge regarding the presentation of Financial Statements of Non-Profit Organizations (NPOs), Long Form Audit Report (LFAR) of Cooperatives and Nepal Standards on Auditing (NSAs) for Micro Entities (MEs) with practical examples. The three days CPE was conducted in 12 sessions. The training covered various topics such as Audit of NPOs, General Application of Code of Ethics, Cooperative Audit, Audit of (MEs) and IT Security for the Accounting Profession etc. Altogether, 68 members participated in the training.

## Education

### Chartered Accountancy Examination, December 2022

The Institute of Chartered Accountants of Nepal has conducted Chartered Accountancy CAP-II and CAP-III level and CA Membership for ACCAs Examination, December 2022 from 1<sup>st</sup> to 11<sup>th</sup> December 2022 in Kathmandu Valley, Biratnagar, Butwal, Pokhara, Hetauda and Chitwan. Altogether 4,231 students appeared in the examination out of total 4,811 applicants. Details of students who applied and appeared in different level of CA Examination; December 2022 is as follows:

Level	CAP-II			CAP-III			CA Membership Exam for ACCAs
	Group I	Group II	Both	Group I	Group II	Both	
Applicants	838	683	2,161	467	366	294	2
Appeared	637	555	2,030	399	321	287	2

### Participation in International Conference for CA Students -2022

Five students of CAP III level comprising of Ms. Neha Tamrakar, Mr. Sujana Paudel, Ms. Pooja Neupane, Mr. Dewamsh Basyal and Mr. Abhisekh Karn participated in the International Conference for CA Students 2022 on theme “Facing the Future-Innovate, Integrate, Motivate” organized by the Institute of Chartered Accountants of India. The conference was held at Shilpakala Vedika, Hyderabad, India on 2<sup>nd</sup> and 3<sup>rd</sup> December 2022.

### CAP-I Students' Orientation Program

The Institute organized an orientation program for its newly enrolled CAP I Level students eligible to appear in June 2023 examination on 27<sup>th</sup> December 2022 at Nepal Academy, Kathmandu. The main objective of the Students’ Orientation Program was to impart knowledge among the new Students about Chartered Accountancy Course, prospects of Chartered Accountants and were welcomed by the Institute.-

The Orientation Program was organized physically in Kathmandu and was broadcasted live in the branch offices, Birgunj, Pokhara, Butwal, Nepalgunj, and Dhangadhi. Hon’ble Auditor General, Mr. Tanka Mani Sharma Dangal was the Chief Guest in the program and CA. Prabhu Ram Bhandary, Past President, ICAN were the Special Guest in the program. The program started with the welcome remarks of CA. Sanjay Kumar Sinha, Executive Director whereby, CA. Bhaskar Singh Lala, President ICAN delivered the opening speech in the program. CA. Himad Dahal, Deputy Director, ICAN tour of ICAN and CA Education. Likewise, CA. Vibek Jha, Director, Surya Jyoti Life Insurance Co. Ltd. and CA. Ashish Garg, Managing Director, Nepal Power Exchange Ltd. gave motivational speech



to the students. CA. Sujun Kumar Kafle, Vice-President, ICAN concluded the program with vote of thanks.



*Glimpse of CAP I Student's Orientation Program at Kathmandu on 27th December 2022*

Altogether, 448 students physically attended the program in Kathmandu, whereby, 42 students attended the program virtually at branch offices as below:

Branch Office	Birgunj	Pokhara	Butwal	Nepalgunj	Dhangadhi
No. of Students	7	13	11	1	10

Similarly, Biratnagar branch office also organized the Orientation Program physically on 28<sup>th</sup> December 2022. at Hotel Swagatam, Roadcess, Biratnagar. Altogether, 50 students were present in the Orientation Program.

CA. Aswini Bansal, Coordinator, Biratnagar Branch Coordination Committee (BCC) inaugurated the program and delivered his welcome speech. Keynote speaker Dr. Sandesh Dass Shrestha gave his motivational presentation. Similarly, CA. Ruhee Murarka, Member Biratnagar BCC delivered a speech on the national and international relations of ICAN. Likewise, CA. Tirtha Prasad Yadav expressed his views on prospects with Chartered Accountancy Qualification. Resource person from ICAN Head Office, Joint Director CA. Suman Kumar Bohora made his presentation on Tour of ICAN and CA Education. Newly qualified Chartered Accountant CA. Yuwaraj Uprety shared his views on his journey of CA education. Further, CA. Manoj Adhikari motivated students with his personal experience about Accounting Profession and Practice. RA. Vijay Hari Sharma, Member, Biratnagar, BCC also delivered a speech on self-discipline and importance of personal behavior to achieve targets.

There was a student performance session in the program where interested students showed their extra talents. The program was concluded with vote of thanks by Krishna Ram Poudel, Officer Biratnagar Branch Office.

### **Chartered Accountancy (CA) Membership Examination, September 2022 Result Published**

The Institute has published the results of CA Membership Examination, September 2022 held on 20<sup>th</sup> and 21<sup>st</sup> September

2022. The result was published on 14<sup>th</sup> November 2022. Altogether, 52 examinees qualified the CA Membership Examination out of total 463 applicants where only 382 applicants appeared the exam.

### **Career Counselling**

The Institute with the objective of spreading awareness among the students about Chartered Accountancy education covering the aspects like syllabus, fees, scholarship scheme, exemption and to address students query regarding CA education and other relevant and useful information for pursuing Chartered Accountancy course in Nepal has been conducting Career Counselling at different places across the country

**Career Counselling by Pokhara Branch Office:** Pokhara Branch Office of the Institute has organized a career counselling program in schools at Kaski District (Pokhara) of Gandaki Province on 17<sup>th</sup> October 2022. Altogether, 115 students of Grade 12 from Management and Science stream participated in the career counselling program.

**Career Counselling by Butwal Branch Office:** Butwal Branch Office of the Institute has organized a career counselling program in Shanti Namuna School and Rammani Campus at Rupandehi District of Lumbini Province on 14<sup>th</sup> and 15<sup>th</sup> November 2022. Altogether, 262 students of Grade 12 from Management faculty participated in the career counselling program.

**Career Counselling by Birgunj Branch Office:** Birgunj Branch Office of the Institute has organized a career counselling program in Siddhartha International Campus, Parsa District, Madhesh Province on 3<sup>rd</sup> December 2022. Altogether, 31 students of Grade 12 from Management faculty participated in the career counselling program.

### **National Relation: Public and Government**

#### **Courtesy Meeting of ICAN with the Newly Appointed Hon'ble Deputy Prime Minister and Finance Minister**

The delegation of the Institute, comprising ICAN President, CA. Bhaskar Singh Lala, Vice President CA. Sujun Kumar Kafle, Council Member, RA. Shankar Gyawali and Executive Director CA. Sanjay Kumar Sinha paid a courtesy call on newly Appointed Hon'ble Deputy Prime Minister and Finance Minister Mr. Bishnu Prasad Paudel on 28<sup>th</sup> December 2022 at the Ministers Office. During the courtesy call Finance Minister was appraised of activities of the Institute as regulatory body of the accounting profession and contemporary issues of the profession.





*Left: CA. Sanjay Kumar Sinha, Executive Director, ICAN; CA. Sujan Kumar Kafle, Vice-President, ICAN; CA. Bhaskar Singh Lala, President ICAN; Hon'ble Deputy Prime Minister and Finance Minister Mr. Bishnu Prasad Paudel and RA. Shankar Gyawali, Council Member ICAN, during courtesy meeting at Ministry of Finance on 28th December 2022*

## Training on Nepal Financial Reporting Standards (NFRS)

The Institute in coordination with the Nepal Insurance Authority (NIA) organized three days training on NFRS to the personnel of Insurance Companies at ICAN Premises from 12<sup>th</sup> to 14<sup>th</sup> December 2022. The training was organized in total 12 session, delivering the application of NFRS in Insurance Companies and focusing on the provision of NFRS 4: Insurance Contracts and NFRS 17: Insurance Contracts. Altogether 49 individuals from 37 life and non-life insurance companies participated in the training. CA. Sanjay Kumar Sinha, Executive Director, ICAN and Mr. Raju Raman Poudel, Executive Director, NIA jointly distributed certificates of participation in the training to the participant.

## Participation in Asia/Pacific Group on Money Laundering (APG) Anti-Money Laundering and Counter-Terrorism Financing (AML/CFT) Mutual Evaluation Pre-Onsite Visit

As a part of third Mutual Evaluation of Nepal's AML CFT Regime, the pre-onsite visit for AML/CFT Mutual Evaluation of Nepal was held from 12<sup>th</sup> to 14<sup>th</sup> October 2022 from APG Secretariat including the experts from APG member countries, by way of three days interaction and questionnaire session organized in the Office of Prime Minister and Council of Ministers. The pre-onsite visit included evaluation of technical compliance as to the adequacy and appropriateness of laws, regulation, policies and procedures in place, for preventing and deterring the incidence of anti-money laundering and financing of terrorism.

As ICAN is a supervisory body and a regulator of Accountants and Auditors as mandated by the Nepal Government pursuant to the provisions of prevailing Law, in matters of AML CFT regulation of the accounting sector, the participation was called from ICAN to the pre- onsite visit of the Nepal's AML CFT Mutual Evaluation Process to make deliberations in matters relating to accounting sector. Executive Director CA. Sanjay Kumar Sinha, and Joint Director, CA. Kiran Kumar Khatri participated in the program, at relevant sessions in which participation was called for.

## Participation in National Conference on Sustainable Economic Development

ICAN President, CA. Bhaskar Singh Lala addressed as a Guest in the National Conference on "Sustainable Economic Development" organized by the Association of Chartered Accountants of Nepal (ACAN) on 14<sup>th</sup> October 2022 at Radisson Hotel, Kathmandu. Hon'ble Former Prime Minister Dr. Baburam Bhattarai inaugurated the program as a Chief Guest while the Hon'ble State Minister Mr. Umesh Shrestha; Hon'ble Auditor General Mr. Tanka Mani Sharma Dangal; were present as a Special Guest. Likewise, Acting Governor, Dr. Nilam Dhungana and AuDAN President RA. Kedar Nath Paudel also spoke in the conference as a Guest in the program. The Chairman of the program, ACAN President, CA. Deepak Pandey also addressed the program. The conference was organized in two technical sessions on "Nepal's Development Roadmap" and "Good Governance for Sustainable Economic Development" and had around 12 Speakers.

Similarly, senior level staffs of the Institute comprising of Director, Mr. Binod Prasad Neupane; Joint Director, CA. Suman Kumar Bohara; Deputy Director, CA. Bharat Nepal; Assistant Director CA. Santosh Bista and CA. Amrita Thapa also participated in the Conference.

## Meeting with the Representatives of World Bank

The delegation from the World Bank had a cordial meeting with the Executive Director and other officers of the Institute on 24<sup>th</sup> November 2022 at ICAN Premises located at Satdobato, Lalitpur. The objective of the meeting was to discuss ongoing progress under the Integrated Public Finance Management Reform Project (IPFMRP). The Institute is one of the implementing agencies of IPFMRP project to strengthen fiscal reporting, control, and Public Finance Management (PFM) training capacity in Nepal.

## International Accounting Day Celebrated

The Institute of Chartered Accountants of Nepal celebrated the "International Accounting Day" on 10<sup>th</sup> November 2022, by organizing various program at the Head and Branch Offices of the Institute. The Institute has been celebrating the



International Accounting Day on 10<sup>th</sup> November every year with the objective to spread message about the significance of Accountancy Education, discuss the issues and implement innovative strategies for the development of the Accounting Profession, raise awareness and acknowledge the contribution of the Professional Accountants in the economic development.

### Head Office

**Walkathon Program:** The Institute conducted a walkathon which began from Bhirkuti Mandap at 8:00 AM, went around Ratnapark and completed at Bhirkuti Mandap at 8:30 AM. The event was inaugurated by ICAN President CA. Bhaskar Singh Lala and Vice- President CA. Sujan Kumar Kafle. More than 800 participates comprising of ICAN Past President, Council Members, Committee Members, Members, Student, Stakeholders and staffs took part in the event. The event was concluded with the concluding remarks of ICAN President CA. Bhaskar Singh Lala and ACAN President CA. Deepak Pandey and vote of thanks by ICAN Vice-President CA. Sujan Kumar Kafle.



*A Glimpse of Walkathon program conducted at Kathmandu*

**Interaction Program:** The Institute also organized an interaction program on “Emerging Trends in Accounting Profession” at ICAN Premises located at Satdobato, Lalitpur. The program started with a welcome remark by the Executive Director, CA. Sanjay Kumar Sinha. Immediate Past President, CA. Yuddha Raj Oli and Former Deputy Auditor General Mr. Ramu Prasad Dattel gave paper presentation on “International Developments in Standards, Regulations and Practices of Accounting Profession” and “Recent Updates and Standardization in Government Accounting and Auditing” respectively. After the presentation a panel discussion was held on “Emerging Trends in Accounting Profession”. The Session was chaired by President, CA. Bhaskar Singh Lala and Moderated by Vice-President CA. Sujan Kumar Kafle whereby, Past President, CA. Madan Krishna Sharma; Council Member and Assistant

Auditor General of the Office of the Auditor General, CA. Baikunta Bahadur Adhikari; Chairman of the Accounting Standard Board of Nepal, CA. Anup Kumar Shrestha, Joint Financial Comptroller General, Mr. Jitendra Basnet and ACAN President, CA. Deepak Pandey were the panelist in the session. The program concluded with vote of thanks from the President CA. Bhaskar Singh Lala and distributed token of love to the paper presenter and panelist of the session.



*A Glimpse of Interaction Program at ICAN Head Office*

### Branch Office Pokhara

**Walkathon Program:** Pokhara Branch Office of the Institute organized a Walkathon program in Pokhara, which begun from branch office premise at Nayabazaar-08, Pokhara at 8:15 AM went around Mahendrapool and completed on Deep Sagar Hotel, New Road at 9:00AM. More than 70 participants including the members of Pokhara Branch Coordination Committee (BCC), Members, Students and Staffs participated in the Walkathon program.



*A Glimpse of Walkathon program at Pokhara*

### Branch Office Nepalgunj



**Walkathon Program:** Nepalgunj Branch Office also conducted a Walkathon program, which began from branch office premises at Shristy Hall road went around Tribhuwan Chowk, BP chock and completed at the Nepalgunj branch office at Shristy Hall road. More than 150 participants including the member of Nepalgunj BCC, Members, Stakeholders, Students and Staffs participated in the event.



*A Glimpse of Walkathon program at Nepalgunj*

### Branch Office Biratnagar

**Walkathon Program:** Biratnagar Branch Office of the Institute conducted Walkathon program, which begun from Roadscs Chowk went around Mahendra Chowk, Sani Mandir, Traffic Chowk and completed at Roadscs chowk. Around, 150 participants including the member of Biratnagar BCC, Members, Students and Staffs participated in the event.

**Quiz Competition:** Biratnagar Branch Office also conducted Quiz Competition among the six college at Biratnagar. Students of grade 12 from management faculty participated in the competition. The quiz competition was organized in Chairmanship of Coordinator of Biratnagar BCC, CA. Aswani Bansal whereby, Chief Tax Officer of Inland Revenue Office, Biratnagar, Dr. D.B. Chhetri was the Chief Guest in the program.



*A Glimpse of Walkathon program and Quiz Competition conducted at Biratnagar*

### Branch Office Dhangadhi

**Seminar:** Dhangadhi Branch of the Institute organized a Seminar on “Emerging Issues in Accounting Profession” at Dev Training Center, Dhangadhi. The program was chaired by Coordinator of Dhangadhi BCC, CA. Chiranjeev Pathak whereby, Chief Tax Officer of Inland Revenue Office, Dhangadhi, Mr. Gauri Sankhar Upadhyay was the Chief Guest in the program. In the seminar, CA Janma Raj Timilsina and CA. Umesh Raj Pandey gave their presentation related to AML/CFT and Taxation. Representative from ACAN, CA. Lokendra Ayer and AuDAN, RA. Padama Raj Sharma Upadhyay also addressed the program. Total 35 participants including the Member of Dhangadhi BCC, Members, Stakeholders and Staffs attended the seminar.

### Branch Office Butwal

**Interaction Program:** Butwal Branch Office of the Institute organized an Interaction Program on “Importance of Accounting in Tax and Banking System” at Hotel Pauwa, Yogikuti, Butwal. The program was chaired by Coordinator of Butwal BCC, CA.



Sheo Hari Sharma whereby, Ms. Ranjana Pandit: Director, Nepal Rastra Bank was the Chief Guest in the program.

The program was commenced with the welcome remarks by CA Balam Pokharel, committee member, Butwal BCC. Mr. Dhanishwor Aryal, Tax Officer, Krishnanagar and Mr. Sujal Dungana, Assistant Director, Nepal Rastra Bank presented paper on “Importance of Accounting in Tax” and “Importance of Accounting in Banking” respectively. The program then entered with open floor discussion session. CA Shushil Gyawali facilitated the discussion in the program. The program concluded with vote of thanks from the Chairman of the program. Altogether, 105 participants participated in the interaction program.



*A Glimpse of Interaction Program at Butwal*

### Branch Office Birgunj

**Elocution Contest:** Birgunj Branch Office of the Institute organized an Elocution Contest at Birgunj Campus. The program was chaired by Coordination of Birgunj BCC, CA Ramesh Agrawal whereby, CA Jagadish Prasad Khandelwal member of Birgunj BCC was the Chief Guest in the program. Likewise, CA Arvind Kumar Khetan, Chairperson of ACAN, Birgunj Chapter; RA Gajendra Man Singh, Chairperson of AuDAN, Birgunj; Prof. Dr. Dipendra Chaudhary, Chairperson of Birgunj, Campus were the Special Guest in the program and other member of the Birgunj BCC were Guest in the program. Total 40 students participated in elocution contest.

## **International Relation: Global Positioning and Leadership**

### **South Asian Federation of Accountants (SAFA) Conference on International Taxation and Digital Currency 2022**



*Glimpse of Inaugural session of SAFA Conference in International Taxation and Digital Currencies 2022, at Kathmandu, Nepal on 18th December 2022*

The Institute hosted SAFA Conference on International Taxation and Digital Currency 2022 on 18th December 2022 at Hotel Yak & Yeti, Durbar Marg, Kathmandu. The program was commenced with the welcome speech of ICAN President CA. Bhaskar Singh Lala. Chief Guest of the program, Mr. H M Hennayake Bandara, FCMA, President, SAFA and Guest of Honor, CA. Maha Prasad Adhikari, Governor, Nepal Rastra Bank jointly inaugurated the program. Likewise, CA. Nihar N. Jambusaria - Vice President, SAFA and CA. Maha Prasad Adhikari, Governor, Nepal Rastra Bank addressed the conference as a Guest of Honor, in the inaugural session of the program. Similarly, Mr. H M Hennayake Bandara, FCMA, President, SAFA was the keynote speaker in the program.

Further two technical session were also conducted in the conference as below:

### **Technical Session 1: International Taxation and Transfer Pricing**

The technical session on “International Taxation and Transfer Pricing” was chaired by Mr. Rameshwor Dangal, Secretary (Revenue), Ministry of Finance, Nepal. Whereby, CA. Sanjay Kumar Agrawal, Central Council Member ICAI, made presentation on “International Taxation and Transfer Pricing”. Likewise, Mr. Dirgha Raj Mainali, Director General, Inland Revenue Department; CA. Sudarshan Raj Pandey, Past President, ICAN; Mr. Mohammed Humayun Kabir, Council Member ICA Bangladesh, Technical Advisor, SAFA Board and Mr. Awais Yasin, Fellow Member and Honorary Treasurer, ICMAP; were panelist in the panel discussion session.





*Glimpse of Panel Discussion on "International Taxation and Transfer Pricing"*

### Technical Session 2: Digital Currencies: Evolution and Trends

The technical session on "Digital Currencies: Evolution and Trends" was chaired by CA. Maha Prasad Adhikari, Governor, Nepal Rastra Bank. Whereby, CA. Chandrashekhar Vasant Chitale, Central Council Member ICAI, gave paper presentation on "Digital Currencies: Evolution and Trends". Likewise, Dr. Biswash Gauchan, Executive Director, The Institute for Integrated Development Studies; Mr. Muhammad Awais, Council Member, ICA Pakistan; Mr. Heshana Kuruppu, Vice President - CA Sri Lanka and Technical Advisor, SAFA Board and Mr. Guru Prasad Poudel, Executive Director, Nepal Rastra Bank were panelist in the panel discussion session.



*Glimpse of Panel Discussion on "Digital Currencies: Evolution and Trends"*

CA. Bhaskar Singh Lala, President, ICAN distribute token of love to the Session Chair, Paper Presenter and Panelist in the program. The conference was concluded with vote of thanks from CA. Sujun Kumar Kafle, Vice-President, ICAN.



*Left Photo: Glimpse of participant in the Conference; Right Photo: CA. Sujun Kumar Kafle, Vice-President, ICAN delivering vote of thanks in the Conference*

### Hosted SAFA Best Presented Annual Report (BPA) Awards, Integrated Reporting Award and SAARC Anniversary Award for Corporate Governance Disclosure Ceremony, 2021

The Institute hosted SAFA Best Presented Annual Report Awards, Integrated Reporting Award & SAARC Anniversary Award for Corporate Governance Disclosures Ceremony 2021, on 18<sup>th</sup> December 2022 at Hotel Yak & Yeti, Durbar Marg, Kathmandu.

The program was commenced with the welcome speech of Ms. Anoji De Silva, SAFA Improvement in Transparency, Accountability and Governance (ITAG) Committee, Chair. In her speech, she highlighted the importance of SAFA BPA Award. Likewise, the Special Guest, CA. Nihar N. Jambusaria - Vice President, SAFA and Mr. H M Hennayake Bandara, FCMA, President, SAFA also addressed the program and stressed on the significance and impact of SAFA BPA Award. Hon'ble Auditor General, Mr. Tanka Mani Sharma Dangal, was the Chief Guest in the program.

The SAFA BPA Award for the "Best Presented Annual Reports" is considered as the most prestigious accolade for financial reporting in the South Asian region and SAFA has been organizing Best Presented Annual Report Awards since year 1997 in various business categories. For SAFA BPA 2021, Annual Report of total 121 entities for year 2021 from 5 SAFA Member Countries comprised of Sri Lanka, Bangladesh, India, Nepal and Pakistan were evaluated. Total 137 awards comprising of Certificate of Merit, Joint/Bronze Award, Joint/Silver Award and Joint/Gold Award were given under 16 different categories.

### Country and Award Wise BPA Award List

Award	Sri Lanka	Bangladesh	India	Nepal	Pakistan	Total
Certificate of Merit	16	8	16	6	9	55
Joint/Bronze Award	10	9	2	1	8	30
Joint/Silver Award	6	10	1	-	8	25
Joint/Gold Award	4	12	4	-	7	27
Total	36	39	23	7	32	137





*Glimpse Opening Session of SAFA BPA Award 2021*

Hon'ble Auditor General, Mr. Tanka Mani Sharma Dangal; Mr. H M Hennayake Bandara, FCMA, President, SAFA; CA. Nihar N. Jambusaria - Vice President, SAFA; Ms. Anoji De Silva, SAFA ITAG Committee Chair; CA. Bhaskar Singh Lala, President ICAN and CA. Sujan Kumar Kafle distributed Award to the winners of SAFA BPA Award 2021.



*Glimpse of SAFA BPA Award 2021 Distribution Ceremony*

## The BPA Awards were given in following 16 categories

1. Overall Winners, 2. Private Sector Banking Institutions (including Co-operative Banks), 3. Public Sector Banking Institutions, 4. Insurance Sector, 5. Financial Services Sector, 6. Manufacturing Sector, 7. Communication and Information Technology Sector, 8. Service Sector (Excluding Financial Services & Communication & IT Sector), 9. Non-Governmental Organizations (including NPOs), 10. Agricultural Sector, 11. SAARC Anniversary Award for Corporate Governance, 12. Public Sector Entities, 13. Diversified holdings, 14. Power & Energy, 15. Infrastructure & Construction and 16. Integrated Reporting.

## Winners of SAFA BPA 2021 from Nepal

Category	Contestant	Remarks
Private Sector Banks	Siddhartha Bank Limited	Certificate of Merit
	Mega Bank Nepal Limited	Certificate of Merit
	Sunrise Bank Limited	Certificate of Merit
Financial Services	Muktinath Bikas Bank Limited	Certificate of Merit
Manufacturing	Bottlers Nepal Ltd	Certificate of Merit

Category	Contestant	Remarks
Service (Excluding Financial Services & Communication & IT Sector)	Karja Suchana Kendra Limited	Bronze Award
Power & Energy	Butwal Power Company Limited	Certificate of Merit

Hon'ble Auditor General of Nepal, Mr. Tanka Mani Sharma Dangal, congratulated ICAN for hosting SAFA BPA Award Distribution Ceremony in Nepal and commended the Award Winners. CA. Bhaskar Singh Lala, President, ICAN distributed token of love to the Chief Guest, Special Guest and Master of Ceremony. He concluded the BPA Award distribution ceremony with his closing remarks and vote of thanks to the Chief Guest, Guest of Honors, SAFA delegates, Member of the ITAG Committee, other Distinguished Guest, Past President, Council Members, representative of the Award-winning entities, participants, press and staffs. More than 250 participants attended the event.

## Hosted 76th SAFA Board Meeting

The Institute hosted 76<sup>th</sup> SAFA Board Meeting at ICAN Premises at Lalitpur on 18<sup>th</sup> December 2022. CA. Bhaskar Singh Lala, President ICAN; CA. Sujan Kumar Kafle, Vice-President ICAN and CA. Sanjay Kumar Sinha, Executive Director, ICAN participated in the SAFA Board Meeting. CA. Suvod Kumar Karn, SAFA Past President and ICAN Past President also participated as an invitee in the Meeting.



*Glimpse of 76th SAFA Board Meeting hosted by ICAN at ICAN Premises on 18<sup>th</sup> December 2022*

## SAFA BPA Report Award 2021 Conference Marking Completed

Delegation from South Asian Federation of Accountants (SAFA) member countries, comprising of representative from the Institute of Chartered Accountants of India (ICAI), Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and



Institute of Chartered Accountants of Bangladesh (ICAB) visited the Institute from 24<sup>th</sup> to 28<sup>th</sup> November 2022 whereby, the representative from the Institute of Chartered Accountants of Pakistan (ICAP) participated virtually during the, SAFA Best Presented Annual Report (BPA) 2021 conference marking event.

The delegation from SAFA member countries including the representative from the Institute of Chartered Accountants of Nepal (ICAN) conducted review of allocated marks of total 126 participant companies under 14 different categories including Insurance, Banking, Manufacturing, Financial Service Sector, Communication and Information Technology, Service (Excluding Financial Services and Communication and IT Sector), NGOs (Including NPOs), Agriculture, Public Sector, Diversified Holdings, Power and Energy, Infrastructure and Construction, SAARC Anniversary Award for Corporate Governance and Integrated Reporting.

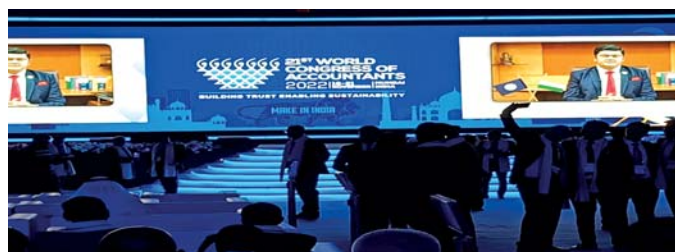
The Institute hosted the SAFA BPA Award 2021 in Kathmandu in December 2022.

### Meeting of SAFA ITAG Committee Hosted

The Institute hosted meeting of South Asian Federation of Accountants (SAFA) Committee for Improvement in Transparency, Accountability and Governance (ITAG) at Kathmandu on 29<sup>th</sup> November 2022. The Chair of the Committee Ms. Anoji De Silva from ICASL, the member of the Committee Mr. Anuj Goyal from ICAI, Md. Humayun Kabir from ICAB, and CA. Surendra Shrestha, Council Member from ICAN participated in the meeting whereas other member joined the meeting virtually. Likewise, Vice-President, CA. Sujan Kumar Kafle, Executive Director, CA. Sanjay Kumar Sinha, along with other Directors were invited in the meeting.

### Participation in 21st World Congress of Accountants

A delegation from the Institute comprising of the President, CA. Bhaskar Singh Lala; Vice – President, CA. Sujan Kumar Kafle; Council Members, CA. Ram Chandra Khanal, RA. Shankar Gyawali, Mr. Umakanta Acharya and Executive Director CA. Sanjay Kumar Sinha participated in the 21<sup>st</sup> World Congress of Accountants on theme “Building Trust Enabling Sustainability” hosted by the Institute of Chartered Accountants of India (ICAI) at Mumbai, India from 18<sup>th</sup> to 21<sup>st</sup> November 2022.



*Glimpse of 21<sup>st</sup> World Congress of Accountants, 2022*

During the visit, the delegation from Institute also had a sideline/ cordial meeting with the delegation from the International Federation of Accountants (IFAC), Institute of Chartered Accountants in England and Wales (ICAEW), Association of Chartered Certified Accountants (ACCA), Chartered Accountants Australia and New Zealand (CA ANZ), and Certified Professional Accountants (CPA) Australia and discussed on professional and matters of mutual interest. Moreover, the delegation also attended Members Meeting and Extraordinary General Meeting of Confederation of Asian and Pacific Accountants (CAPA).

### Participation in 75th SAFA Board Meeting

President CA. Bhaskar Singh Lala, Vice-President, CA. Sujan Kumar Kafle and Executive Director, CA. Sanjay Kumar Sinha participated in the 75<sup>th</sup> SAFA Board Meeting hosted by the Institute of Chartered Accountants of India on 17<sup>th</sup> November 2022 at Mumbai, India.



*Glimpse of 21st World Congress of Accountants, 2022*



## Participation in the South Asian Federation of Accountants (SAFA) International Conference 2022 and Board Meeting

A delegation of the Institute led by the President, CA. Bhaskar Singh Lala comprising of Vice President CA. Sujan Kumar Kafle, Council Member, CA. Peeyush Anand, RA. Bhola Nath Pathak, Mr. Uma Kanta Acharya and Executive Director, CA. Sanjay Kumar Sinha attended. Moreover, the delegation also attended the 74<sup>th</sup> SAFA Board Meeting on 16<sup>th</sup> October 2022 in ICAB Office, Dhaka.



*Glimpse of 74th SAFA Board Meeting in ICAB Office, Dhaka*

## Memorandum of Understanding (MoU) between The Institute of Chartered Accountants of Nepal (ICAN) and the Institute of Chartered Accountants of India (ICAI)

The Institute of Chartered Accountants of Nepal (ICAN) and the Institute of Chartered Accountants of India (ICAI) has signed MoU for Technical Collaboration between both the Institutes on 21<sup>st</sup> November 2022, in Mumbai, India. This MoU is an extension of the MoU signed by the Institute with the ICAI in 2017 and is effective for the period of five years. The MoU was signed by CA. Bhaskar Singh Lala, President ICAN and CA. (Dr.) Debashis Mitra, President ICAI.

The MoU has been signed with the objective to establish mutual co-operation between ICAN and ICAI for advancement of accounting knowledge, professional and intellectual development, advancing the interest of their respective members and positively contributing to the development of accounting profession in Nepal and India.



*MoU Signing Ceremony between ICAN and ICAI at Mumbai, India on 21st November 2022*

## Participation in International Conference on International Financial Reporting Standards (IFRS) / Nepal Financial Reporting Standards (NFRS)

ICAN President, CA. Bhaskar Singh Lala addressed as a Guest in the “International Conference on IFRS/NFRS” organized by the Nepal Accounting Standards Board (ASB, Nepal) in technical support from Asian Oceanian Standard Setters Group (AOSSG) on 13<sup>th</sup> November 2022 at Soaltee Hotel, Kathmandu, Nepal. Nepal Rastra Bank, Governor, CA. Maha Prasad Adhikari inaugurated the program as a Chief Guest while ASB Nepal Chairman, CA. Prakash Jung Thapa Chaired the Conference. Nepal Auditing Standard Board (AuSB, Nepal), Chairman CA. Anup Kumar Shrestha and Ministry of Finance, Secretary (Revenue), Mr. Rameshwor Dangal also addressed the program as a Guest.



*President, CA. Bhaskar Singh Lala addressing the opening session of International Conference on IFRS/NFRS held at Kathmandu*

The conference was organized in three technical sessions on “IFRS/NFRS 9 Financial Instruments- Impairment: Application Practices and Challenges”, “Sustainability Reporting – A need and challenges” and “IFRS/ NFRS 17: Insurance Contract and IFRIC 12: Service Concession Arrangements: Practical expedients.” International Accounting Standards Board (IASB), Board Member, Dr. Jianqiao Lu and Chairman, AOSSG, Mr. Nishan Fernando were the Key Note Speaker in the program. In the conference 6 papers were presented and 11 panelists from amongst the National and International delegates discussed and expressed their views on the papers presented.



Representatives from 23 member countries of AOSSG participated in the conference. Moreover, delegation from the Institute comprising of the Executive Director, CA. Sanjay Kumar Sinha, Director, Mr. Binod Prasad Neupane and CA. Kiran Kumar Khatri; Joint Director CA. Suman Kumar Bohara; Deputy Director CA. Himal Dahal, CA. Bharat Nepal and Assistant Director CA. Santosh Bista, CA. Amrita Thapa, CA. Manoj Ghimire and CA. Gaurab Khatiwada also participated in the Conference.

### Participation in 14th Annual Asian Oceanian Standard Setters Group (AOSSG) Meeting

ICAN President, CA. Bhaskar Singh Lala attended the 14<sup>th</sup> Annual AOSSG Meeting hosted by the Accounting Standard Board of Nepal (ASB, Nepal) from 14<sup>th</sup> to 15<sup>th</sup> November 2022 at Kathmandu.



*Group photo of the President CA. Bhaskar Singh Lala with the Hon'ble Auditor General, Mr. Tanka Mani Sharma Dangal; Chairman of the ASB, Nepal, CA. Prakash Jung Thapa along with delegates from the member countries of AOSSG and other officials while attending the 14th Annual AOSSG Meeting*

### Participation in SAFA Committee Meeting

Council Member, CA. Santosh Kafle virtually attended meeting of SAFA Committee on Information Technology. Similarly, Council Member, CA. Prabin Kumar Jha also attended virtual meeting of Committee on Sustainable Reporting and Assurance.

## Institutional Development and Sustainability

### Interaction Meeting of ICAEW Delegates with the Council and Quality Assurance Board

A delegation from the Institute of Chartered Accountants in England and Wales (ICAEW), Quality Assurance (QA) consultant comprising of independent consultant for ICAEW, Mrs. Linda Barnes and Quality Reviewer at ICAEW, Mrs.

Karen Cook had an interaction with the Council Members and Members of the Quality Assurance Board of the Institute on 9<sup>th</sup> December 2022. Senior officials of the Institute also participated in the interaction meetings.

The two-member delegation from ICAEW visited the Institute from 28<sup>th</sup> November 2022 to 9<sup>th</sup> December 2022. During their visit, the delegates discussed with the QAB members, Institute officials. QAB staff about the Quality Assurance Status of Institute, disciplinary investigation process of the Institute, reviewed the sample Quality Assurance Review files to evaluate the QA Review Process, facilitate the Quality Assurance Review Workshop organized by the Institute, observed the on-site review performed by QA reviewer during quality assurance review of audit firms and delivered training to the QA Reviewers of the ICAN. During the interaction meeting with the Council and Quality Assurance Board, the delegation discussed on various aspect of QA program of the Institute and shared their observation and experiences on International Best Practices.



*Glimpse of Interaction Meeting of ICAEW Delegation with the Council Members, Members of Quality Assurance Board and Officers of the Institute at ICAN Premises on 9th December 2022*

### Training to the Quality Assurance Reviewer of the Institute

Delegation from the Institute of Chartered Accountants in England and Wales (ICAEW), Quality Assurance (QA) consultant comprising of independent consultant for ICAEW, Mrs. Linda Barnes and Quality Reviewer at ICAEW, Mrs. Karen Cook conducted training to the Quality Assurance Reviewer of the Institute on 5<sup>th</sup> and 6<sup>th</sup> December 2022.

Technical Director, CA. Kiran Kumar Khatri; Deputy Director, CA. Bharat Nepal; Assistant Director, CA. Amrita Thapa, CA. Manoj Ghimire and CA. Gaurab Khatiwada attained training.

### Relocation of Pokhara Branch Office

President, CA. Bhaskar Singh Lala; Vice President, CA. Sujana Kumar Kafle and Mayor of Pokhara Metropolitan City, Mr. Dhanraj Acharya jointly inaugurated the Pokhara



Branch Office of the Institute located at Naya Bazar on 4<sup>th</sup> November 2022. The Inauguration ceremony was chaired by President, CA. Bhaskar Singh Lala were Mayor, Mr. Dhanraj Acharya was the Chief Guest in the event. Likewise, Council Member, RA. Kesh Bahadur K.C. and Executive Director of the institute CA. Sanjay Kumar Sinha also attended the inauguration ceremony. Speaking in the event, Mayor, Mr. Dhanraj Acharya expressed his commitment to work hand-in-hand in different initiatives of the Institute and activities related to accounting profession.



*A Glimpse of relocation of New Premises of Pokhara Branch Office*

### Recruitment of New Staff

The Institute has recruited five new staffs (Chartered Accountants) in the position of Technical Director (1), Joint Director (1), Deputy Director (1) and Assistant Director (2) under Technical Division of the Institute. The total number of Chartered Accountants staffs has now reached to 12 serving in the Institute.

### Participation in Youth & Women's Empowerment Course Training

A staff of the Institute participated in one day outdoor training on "Youth & Women's Empowerment Course" organized by

Financial Institute Employees Union of Nepal (FIEUN) on 21<sup>st</sup> December 2022 at Battisputali, Kathamandu.

### Annual Staff Picnic

The Institute organized one day staff picnic in Ghyampe Danda, Bhaktpur on 24<sup>th</sup> December 2022. CA. Bhaskar Singh Lala, President ICAN and CA. Sanjay Kumar Sinha, Executive Director, ICAN also accompany the picnic along with around 55 staffs of the Institute.

### Futsal Match with NCASA

Seven staffs of the Institute participated in Futsal match organized by Nepal Chartered Accountants Students Association (NCASA) on 23<sup>rd</sup> December 2022 at Baijanti Futsal kadaghari Bhaktpur.

## ICAN NOTICE

### Notice Regarding Listing of Auditors

The Institute has issued notice for all concern regarding listing of Auditor. The notice can be viewed from the link below:

[https://en.ican.org.np/\\_uploads/\\_downloads/\\_files/3/7ed4fdcd812a49b7ca9013d15bf3b419.pdf](https://en.ican.org.np/_uploads/_downloads/_files/3/7ed4fdcd812a49b7ca9013d15bf3b419.pdf)

### Continuing Professional Education (CPE) Calendar 2079/80

The Institute has published CPE Calendar for Fiscal Year 2079/80, and it can be viewed from the link below:

[https://en.ican.org.np/\\_uploads/\\_downloads/\\_files/3/dfeb6725a5ebee03db44258f15bd9ad.pdf](https://en.ican.org.np/_uploads/_downloads/_files/3/dfeb6725a5ebee03db44258f15bd9ad.pdf)

### Notice Regarding Approval of Student's Group Accidental Insurance Procedure, 2079

The 271<sup>st</sup> meeting of the ICAN Council has approved the Student's Group Accidental Procedure, 2079. In this regard, the Institute has published notice specifying the criteria for applicability of accidental insurance facilities to the students at CAP-I, CAP-II, CAP-III, and AT. The notice can be viewed from the link below:

[https://en.ican.org.np/\\_uploads/\\_downloads/\\_files/3/4f0d0f4cc6e1ce8193caa21f7e4db1f5.pdf](https://en.ican.org.np/_uploads/_downloads/_files/3/4f0d0f4cc6e1ce8193caa21f7e4db1f5.pdf)

## NATIONAL UPDATES

### Amendment in Unified Directives 2078 issued to A, B and C Class Banks and Financial Institutions

Nepal Rastra Bank has issued different Circulars regarding amendment made in Unified Directives 2078 for A, B and





C Class Banks and Financial Institutions. The Circulars can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2022/09/Circular-3-ABC-Working-Capital-Loan-guidelines-related.pdf>

<https://www.nrb.org.np/contents/uploads/2022/12/Circular-No-4ABC-Directive-no-19-related-1.pdf>

<https://www.nrb.org.np/contents/uploads/2022/12/Circular-No-6-ABC.pdf>

<https://www.nrb.org.np/contents/uploads/2022/12/Circular-5ABC-Monetary-Policy-first-quarter-review.pdf>

### **Amendment in Unified Directives 2078 issued to D Class Micro Finance Financial Institutions**

Nepal Rastra Bank has issued different Circulars regarding amendment made in Unified Directives 2078 for D Class Micro Finance Financial Institutions. The Circulars can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2022/12/Circular-3D-Monetary-policy-first-quarter-review-related.pdf>

<https://www.nrb.org.np/contents/uploads/2022/12/Circular-No-4D.pdf>

### **Amendment in Unified Directives 2078 issued to Infrastructure Development Bank**

Nepal Rastra Bank has issued Circulars regarding amendment made in Unified Directives 2078 issued to Infrastructure Development Bank. The Circular can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2022/12/Circular-No-2-NIFRA.pdf>

<https://www.nrb.org.np/contents/uploads/2022/09/Circular-1-Nifra-Working-Capital-Loan-guidelines-related.pdf>

### **Amendment in Unified Circular 2078 issued to A Class Commercial Banks, B Class National Level Development Banks, and other Licensed Entities to Carry out Foreign Exchange Transaction**

Nepal Rastra Bank has issued Circular regarding amendment made in Unified Circular 2078 to A Class Commercial Banks, B Class National Level Development Banks, and other Licensed Entities to carry out Foreign Exchange Transaction. The Circular can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2022/10/FXMD-Circular-10-2079-80.pdf>

### **Bank and Financial Institutions Merger and Acquisition Guidelines, 2073 (Fifth Amendment, 2079)**

Nepal Rastra Bank has issued Bank and Financial Institution Merger and Acquisition Guidelines, 2073 (Fifth Amendment, 2079). The notice and the guideline can be viewed from the link below:

<https://www.nrb.org.np/contents/uploads/2022/10/Notice-5-Merger-and-acquisition-by-laws-2073-Fifth-Amendment-2079.pdf>

### **Enactment of Insurance Act, 2079**

The legislature parliament has enacted Insurance Act, 2079 on 2079.06.23 (B.S.) by consolidating two laws relating to Insurance. The Insurance Act, 2049 and National Insurance Corporation Act, 2025 has been repealed by the Insurance Act, 2079. The Insurance Act, 2079 can be viewed from the link below:

[https://nib.gov.np/wp-content/uploads/2022/11/%E0%A4%AC%E0%A5%80%E0%A4%AE%E0%A4%BE%20%E0%A4%90%E0%A4%A8,%20%E0%A5%A8%E0%A5%A6%E0%A5%AD%E0%A5%AF\\_compressed.pdf](https://nib.gov.np/wp-content/uploads/2022/11/%E0%A4%AC%E0%A5%80%E0%A4%AE%E0%A4%BE%20%E0%A4%90%E0%A4%A8,%20%E0%A5%A8%E0%A5%A6%E0%A5%AD%E0%A5%AF_compressed.pdf)

### **Circular to Life and Non-Life Insurer**

Nepal Insurance Authority has issued circular to all the life and non-life insurer regarding the provision to be complied by insurer regarding Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT). The circular can be viewed from the link below:

<https://nib.gov.np/circular-3/>

### **Circular to Life and Non-Life Insurer**

Nepal Insurance Authority has issued circular to all the life and non-life insurer regarding issuance of license to the insurance agent. The circular can be viewed from the link below:

<https://nib.gov.np/circular-3/>

### **Securities Issuance and Allocation Directives, 2074 (Sixth Amendment 2079)**

Securities Board of Nepal has made sixth amendment on Securities Issuance and Allocation Directives, 2074 which shall be effective from 2079.07.17 B.S. The updated directives can be viewed from the link below:

<https://sebon.gov.np/uploads/2022/11/06/uT7HMNeMnH4IAFf12nOayYULLs0kuPHbh3S2TCPi.pdf>





### 3 Directives relating to Merger and Acquisition of Entities which has Registered their Securities, 2079

Securities Board of Nepal has issued directives relating to Merger and Acquisition of Entities which has Registered their Securities. The directives can be viewed from the link below:

<https://sebon.gov.np/uploads/2022/11/10/940GJo9RArd7K7WCtrbc1AYCMXN4VH4CbXJrvBd3.pdf>

### Securities Market Operation Regulation, 2064 (Second Amendment 2079)

Securities Board of Nepal has issued second amendment on Securities Market Operation Regulation, 2064 (Second Amendment 2079) which is applicable from 2079.05.26 B.S. The Regulation can be viewed from the link below:

<http://www.sebon.gov.np/uploads/2022/10/19/Ae7XChdwIENxchft51Xdocxzz7lst8NEINK6d1e.pdf>

## INTERNATIONAL UPDATES

### Exposure Draft and comment letters: Third edition of the IFRS for SMEs Accounting Standard

The International Accounting Standards Board (IASB) has published proposals to update the IFRS for SMEs Accounting Standard—to reflect improvements that have been made in full IFRS Accounting Standards, while keeping the Standard simple for small and medium-sized entities.

The ED can be viewed from link below:

<https://www.ifrs.org/content/dam/ifrs/project/2019-comprehensive-review-of-the-ifrs-for-smes-standard/exposure-draft-2022/ed-2022-1-iasb-ifrs-smes.pdf>

The comment letter period is open until 7 March 2023.

Further details can be viewed from the link below:

<https://www.ifrs.org/projects/work-plan/2019-comprehensive-review-of-the-ifrs-for-smes-standard/exposure-draft-and-comment-letters/>

### Expanding Roles in Sustainability and Digital Transformation Priorities for Professional Accountants in Business and the Public Sector

IFAC's Professional Accountants in Business (PAIB) Advisory Group has compiled insights on how professional accountants are navigating uncertain global conditions and expanding their roles in both the private and public sectors in a new report, Professional Accountants as Finance and Business Leaders.

Further details can be viewed from the link below:

<https://www.ifac.org/news-events/2022-12/expanding-roles-sustainability-and-digital-transformation-priorities-professional-accountants>

### IFAC Releases New Implementation Tool for Auditors on Identifying and Assessing Risks of Material Misstatement

The International Federation of Accountants (IFAC) has released a new resource, The Risk Identification and Assessment Process: Tips on Implementing ISA 315 (Revised 2019). The tool helps auditors implement the International Auditing and Assurance Standards Board's (IAASB) International Standard on Auditing (ISA) 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, which is effective for audits of financial statements for periods beginning on or after December 15, 2021.

Further details can be viewed from the link below:

<https://www.ifac.org/news-events/2022-12/ifac-releases-new-implementation-tool-auditors-identifying-and-assessing-risks-material-misstatement>

### IFAC's new Report Highlights a Lack of Comparability in Corporate Climate Reporting

The International Federation of Accountants (IFAC) released a new report providing insight into climate-related disclosure. Getting to Net Zero: A Global Review of Corporate Disclosures focuses on corporate emissions reduction reporting. It finds that inconsistency and incomparability of target disclosures may pose challenges for investors, regulators, and other stakeholders who require actionable information. The report's findings strongly support the movement in global policy towards rapidly enhancing the usefulness of disclosures on climate-related targets and transition plans.

Further details can be viewed from the link below:

<https://www.ifac.org/news-events/2022-11/new-ifac-report-highlights-lack-comparability-corporate-climate-reporting>

### Public Sector Needs Finance Professionals to Achieve Essential Financial Reforms

Public Financial Management (PFM) reforms will only be achieved through finance professionals with the right skills and knowledge. Governments are implementing PFM reforms in a bid to improve the accountability, transparency, governance and integrity of revenues and spending. But many reforms have addressed structures, systems and processes rather than people and capabilities, according to ACCA (the Association of Chartered Certified Accountants) and the International Federation of Accountants (IFAC).





A new joint ACCA/IFAC report – released at the World Congress of Accountants (WCOA) held in Mumbai India 18-21 November – aims to boost PFM reforms across the globe.

[A Global Guide for Professionalization in Public Sector Finance](https://www.ifac.org/news-events/2022-11/public-sector-needs-finance-professionals-achieve-essential-financial-reforms) outlines what professionalization means in public sector finance, sets out the benefits of professionalization, and offers a high-level roadmap to support global good practice in professionalization.

Further details can be viewed from the link below:

<https://www.ifac.org/news-events/2022-11/public-sector-needs-finance-professionals-achieve-essential-financial-reforms>

### **IFAC's new Insights Report Connects Educational Programming and Emerging Trends**

To guide professional accountancy organizations (PAOs) in how they can act today to prepare their current and future members to seize opportunities presented by emerging trends, IFAC has published [a new report with insights](https://www.ifac.org/news-events/2022-11/new-ifac-insights-report-connects-educational-programming-and-emerging-trends) from its Professional Accountancy Organization Development and Advisory Group. These insights address four emerging trends—sustainability-related reporting, anti-corruption efforts, sound public financial management, and technological change—that will help PAOs ensure their own and their members' resilience, relevance and adaptability today and into the future.

Further details can be viewed from the link below:

<https://www.ifac.org/news-events/2022-11/new-ifac-insights-report-connects-educational-programming-and-emerging-trends>

### **Significant Improvements in Climate-Related Information Key to Plugging Net-Zero Information Gap**

The International Federation of Accountants (IFAC) and Accounting for Sustainability (A4S) hosted their Climate Week New York City event Finance Leaders Plugging the Net-Zero Information Gap: Exploring the critical role of CFOs and finance teams in the climate transition. The event brought together finance and accounting leaders to better understand how they are enabling their organization's decarbonization strategies and transition planning and what obstacles they are facing. The recorded event and takeaway can be viewed from the link below:

<https://www.ifac.org/news-events/2022-10/significant-improvements-climate-related-information-key-plugging-net-zero-information-gap>

### **IAASB Issues Guidance on How Amendments Made to IFRS Standard IAS 1 Impact the ISAs**

The International Auditing and Assurance Standards Board (IAASB) has published [new guidance](https://www.iaasb.org/news-events/2022-11/iaasb-issues-guidance-how-amendments-made-ifs-standard-ias-1-impact-isas) to help users understand the impact on the International Standards on Auditing (ISAs) due to [narrow-scope amendments made to International Accounting Standard \(IAS\) 1](https://www.iaasb.org/news-events/2022-11/iaasb-issues-guidance-how-amendments-made-ifs-standard-ias-1-impact-isas), Presentation of Financial Statements by the International Accounting Standards Board (IASB).

Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2022-11/iaasb-issues-guidance-how-amendments-made-ifs-standard-ias-1-impact-isas>

### **IAASB's new Fact Sheet Helps Auditors Navigate Quality Management for Group Audits**

The International Auditing and Assurance Standards Board (IAASB) has published a new fact sheet on the interactions between International Standard on Audit (ISA) 220 (Revised), which addresses quality management at the engagement level, and ISA 600 on group audits. The fact sheet highlights aspects of a group audit that may be affected by ISA 220 (Revised) and International Standard on Quality Management 1 addressing quality management at the firm level. This includes the revised definition of engagement team and leadership and direction, supervision, and review responsibilities. The factsheet will be particularly useful for group audits in which component auditors are involved.

Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2022-12/new-iaasb-fact-sheet-helps-auditors-navigate-quality-management-group-audits>

### **IAASB Opens Public Consultation for Revised Audit Evidence Standard**

the International Auditing and Assurance Standards Board (IAASB) opened the [public consultation for proposed changes](https://www.iaasb.org/news-events/2022-10/iaasb-opens-public-consultation-revised-audit-evidence-standard) to one of its fundamental standards, International Standard on Auditing (ISA) 500, *Audit Evidence*. The current ISA 500 addresses an auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate evidence to draw reasonable conclusions on which to base the auditor's opinion. The IAASB invites all stakeholders to comment on the Exposure Draft via the IAASB website. Comments are requested by 24<sup>th</sup> April 2023.

Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2022-10/iaasb-opens-public-consultation-revised-audit-evidence-standard>





## **New Edition of The IAASB Handbook Now Available on The IAASB Website**

The International Auditing and Assurance Standards Board (IAASB) has released a new edition of the [Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements](#).

Further details can be viewed from the link below:

<https://www.iaasb.org/news-events/2022-12/new-edition-iaasb-handbook-now-available-iaasb-website>

## **The IESBA Releases Update on Sustainability Work**

The International Ethics Standards Board for Accountants (IESBA) has released "[Continuing with the Development of Global Ethics and Independence Standards for Sustainability Reporting and Assurance](#)," a publication providing an overview of the sustainability-related decisions made by the Board at its recent meeting and how those decisions will shape the Board's work in 2023 and beyond.

Further details can be viewed from the link below:

<https://www.ethicsboard.org/news-events/2022-12/iesba-releases-update-sustainability-work>

## **IESBA Releases Comprehensive Research on Impacts of Technology on Ethics; Reaffirms Relevance, Applicability and Need for IESBA code in Accounting Profession**

The International Ethics Standards Board for Accountants (IESBA) released its Technology Working Group's final report, [IESBA Technology Working Group Phase 2 Report](#). The Report has been informed by the IESBA's [Technology Expert Group](#) and the input of a diverse group of stakeholders, including investors, regulators, those charged with governance, firms, national standard setters, professional accountancy organizations, public sector organizations, and academics.

Further details can be viewed from the link below:

<https://www.ethicsboard.org/news-events/2022-11/iesba-releases-comprehensive-research-impacts-technology-ethics-reaffirms-relevance-applicability>

## **IESBA Issues Staff Publication Highlighting the Relevance and Applicability of The IESBA Code in Combatting Greenwashing**

The Staff of the International Ethics Standards Board for Accountants (IESBA) released a Questions & Answers (Q&A) publication, [Ethics Considerations in Sustainability Reporting, Including Guidance to Address Concerns about](#)

[Greenwashing](#). The publication highlights the relevance and applicability of the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) to ethics-related challenges in the context of sustainability reporting and assurance, especially circumstances involving misleading or false sustainability information (i.e., "greenwashing").

Further details can be viewed from the link below:

<https://www.ethicsboard.org/news-events/2022-10/iesba-issues-staff-publication-highlighting-relevance-and-applicability-iesba-code-combatting>

## **IPSASB Confirms its Role in Advancing Public Sector Sustainability Reporting**

The International Public Sector Accounting Standards Board (IPSASB) has decided to commence the scoping of three potential public sector specific sustainability reporting projects pending securing the resources needed to begin guidance development.

Further details can be viewed from the link below:

<https://www.ipsasb.org/news-events/2022-12/ipsasb-confirms-its-role-advancing-public-sector-sustainability-reporting>

## **The IPSASB Seeks Comments on Sustainability Reporting Implementation Guidance Proposals**

The International Public Sector Accounting Standards Board (IPSASB), developer of IPSAS®, international accrual-based accounting standards for use by governments and other public sector entities around the world, has issued a new Exposure Draft (ED) proposing additional guidance on how two previously published Recommended Practice Guidelines (RPGs) can be applied now by governments and public sector entities to report on sustainability program information. This is ahead of any decision on the potential development of a sustainability reporting framework for the public sector.

Comments on ED 83 are requested by January 16, 2023 and will be reviewed and discussed by the IPSASB and will help shape the final Implementation Guidance and Illustrative Examples added to the existing RPGs.

[Access the ED and its related At-a-Glance summary.](#)

Further details can be viewed from the link below:

<https://www.ipsasb.org/news-events/2022-11/ipsasb-seeks-comments-sustainability-reporting-implementation-guidance-proposals>



# Quality Assurance Review Workshop

## About the Workshop

Quality Assurance Board (QAB), as a part of its annual activities, has organized the workshop on Quality Assurance Review on 30<sup>th</sup> November 2022, at ICAN Premises, Satdobato, Lalitpur. The workshop was organized with the aim of brainstorming the avenues of strengthening Quality Review Mechanism of the Institute and improving Audit Firm's system of quality management and was attended by the Partners and Proprietor of more than 68 firms. The focus of the workshop was to discuss the common findings of Quality Assurance Reviews and to urge firms to explore ways for improvement. Likewise, the feedback was also expected of practicing members on the Quality Assurance Processes implemented by the Institute.

The half day program was conducted in three sessions and led by staff members of ICAN and experts from ICAEW. The first session was on ICAN's Quality Review Mechanism, and the next two sessions were on the newly pronounced Quality Management Standards.

In the present context, where IAASB has pronounced new ISQM1 and ISQM 2 replacing ISQC 1 which shall be effective internationally from 15 December 2022, the requirement of orientation to the firm in this regard was also felt necessary by the QAB. Therefore, two presentations were made on newly pronounced ISQM1 and ISQM 2 issued by IAASB in the workshop by consulting team of Institute of Chartered Accountants of England and Wales (ICAEW) to raise awareness on the changes brought by these standards along with practical expedients to meet the requirements brought by those changes. The presentation provided an opportunity to create awareness to practicing firms about implementing ISQM 1 and ISQM 2, and the preparedness that was likely to be initiated. Similarly, open discussion on the presentation about QA review system and feedback from participants was useful to QAB to improve the review process.

This workshop was part of brainstorming on enhancing audit quality through panel discussion and providing platform to sharing audit experiences, views and concern about quality assurance review including the ground level challenges and explore on the possible remedial measure to address them. The workshop was targeted to the Proprietors and Partners of Firms who already had their quality assurance reviews from the Quality Assurance Board of ICAN and were at a better position to engage in the discussion, offer feedback and benefit from experience sharing. The annual report of QAB for FY 2021/22 was also shared with participants for insight on activities carried out by QAB.

This report has been prepared by assembling the materials like key issues discussed, technical papers presented in the workshop in the form of workshop document. We hope this report, to some extent, will serve as a reference document to formulating quality control and quality assurance policy and undertake activities by the Institute in future to elevate the quality assurance review practice.



## Welcome and Opening Remarks



*(CA. Sujan Kafle, Vice President ICAN, Welcoming the participants and giving opening remarks)*

The Vice-President CA. Sujan Kumar Kafle opened the workshop by delivering the welcome speech. Delivering his speech, he highlighted the journey of Quality Assurance Review Mechanism of the Institute and shared the milestones of achievement on Quality Assurance Review by the QAB together with QA Division since its establishment. He highlighted the importance of the workshop and believed that it would set the milestone in maturity process of Quality Assurance Review mechanism and considered it as a platform to initiate the discussion about audit quality between ICAN and practicing members. He also mentioned that maintaining audit quality is a challenge before the practicing members as per the requirement of NSAs and urged the participants to accord

priority in quality of audit they perform. Concluding his remarks, expressed thanks to the ICAEW for their continuous support since the outset of Quality Review to till date and congratulated QAB members and staff for publishing the QAB Annual Report for FY 2021/22.

## Technical Sessions

There were two sessions in which three technical papers were presented as follows:

1. Quality review Mechanism: Present Status and way forward
2. International Standards on Quality Management 1, Quality Management for firms that perform Audits or Review of Financial Management, or other Assurance or related Services
3. International Standards on Quality Management 2, Engagement Quality Review Proposed (ISA 220 revised)



## Session: 1: Quality Review Mechanism: Present State and Way Forward



CA. Kiran Kumar Khatri, Technical Director, ICAN, delivering session on *Quality Assurance Review Mechanism* in ICAN

The Purpose of this session was:

- 1) Holding discussion on common issues in the firm's system of quality control and compliance of standards to maintain the audit quality, as identified by QA Reviews, in a way, to explore ways for improvement.
- 2) Explore the areas of improvement in the Quality Assurance Review Program of ICAN, through an effective two-way relationship with the firms, based on international practice,

In this session CA. Kiran Kumar Khatri, Technical Director ICAN, presented papers on Quality Assurance Review mechanism adopted by the Institute. In his session he explained the structure of Quality Assurance Board and Division, Quality Assurance Review Process, progress of review till date, major finding from the reviews, limitation, and the scope of Quality Assurance Review. He suggested firm with various methods and ways that could be implemented to overcome the finding identified during the review and increase the quality of audit documentation.



**Session 2: An Overview of Firms Quality Management System – ISQM 1 and ISQM 2**

The purpose of this session was to:

- 1) Create awareness about the new Quality Management standards compared to Quality Control standards, and the impacts created to firms and,
- 2) Discuss on the benefits and challenges of implementing the Quality Management Standards.

In this session, two papers were presented on ISQM 1 and ISQM 2 and these papers were presented by Karen Cook, ICAEW Chartered Accountant, Audit Quality Assurance reviewer at ICAEW and Linda Barnes ICAEW Chartered Accountants, Consultant on Audit Quality Assurance for ICAEW, respectively. This session was aimed at helping participants to understand about the new International Quality Management Standards pronounced by IFAC and to identify key differences with the requirements of ISQC-1.

Presenting the paper on ISQM 1, Karen covered components of ISQM, such as relevance, risk assessment, potential risks in smaller firms, designing risk response, monitoring and recommendation, Root Cause Analysis etc. Under root cause analysis, she talked about its benefits and training needs of the firm's staff, as necessitated by large size new audit client, complex clients and engagements, fee income and so on.

In the second presentation on ISQM 2, Linda mentioned that this is new standard and covered the key provision of the standard. The provision of Engagement Quality Controller Reviewer (EQCR) is as set out in ISQC1, some provisions are new and few of the provision have been deleted. Presenting the paper, she talked about extended scope of review, engagement quality reviewer's requirement, appointment of engagement quality reviewer, qualification and experience of the



reviewer, independence of the reviewer, performance and documentation requirement, and other provision. She stressed on Paragraph 25 of the standards that talks about areas to consider in maintaining quality of audit.

### Panel Discussion



*(Panel discussion on session 1: From left CA. Kiran Kumar Khatri, Technical Director, ICAN as a paper presenter and RA. Dev Bahadur Bohora, Session Moderator, and Panelist team of Linda Barnes, CA. Sashi Satyal, and CA. Anup Kumar Shrestha)*

CA Anup Kumar Shrestha, Chairperson of Auditing Standards Board, CA Shashi Satyal-Senior Partner PKF TR Upadhy & Co were the panelists and discussion was moderated by Dev Bahadur Bohara, Chairperson of QAB.

As per the program schedule, at the end of each presentation, panel discussion was conducted to deliberate about QA findings and reasons for the same, the prospective ways to improve the state of audit quality, purpose of the newly introduced ISQM 1 and ISQM 2, the operational challenges of new standards and possible ways to deal with such situation. Immediately after completion of paper presentation some question and concerns were raised by moderator and the participants of the workshop put their questions before the panelists of the workshop. Some of the questions, concerns and advice received from participants have been given here in brief. The questions raised before the panelist was replied by the member of the panelist to whom the question was directed. More than 15 important submissions were made before the panelists. The panelist replied to each question raised by participants.





(Panel discussion on session 2: From left Kareen Cook, ICAEW Chartered Accountant as a paper presenter and RA. Dev Bahadur Bohora, Session Moderator, and Panelist team of Linda Barnes, CA. Sashi Satyal, CA. Anup Kumar Shrestha and session 1 presenter: CA. Kiran Kumar Khatri, Technical Director, ICAN)

### CA. Anup Kumar Shrestha, Chairman, Auditing Standards Board (ASB)

Replying a question about firm compliance to Quality Standard requirements, CA Anup Kumar Shrestha, talked about the introduction of the standards and its present condition internationally. Adding to the QA finding in the firms presented by the presenter, he stated that the limited number of listed entity clients, size of the firm and audit fees are the factor in constraint for compliance with the standard in compared to other neighboring countries. He highlighted the need for educating, discussing and orientation of the members with the support from government and regulators for effective implementation of standard. He discussed with examples of consequences of non-compliance with the quality requirements in international arena.

### CA. Shashi Satyal, Senior Partner, PKF TR Upadhya & Co, Chartered Accountants

Replying a question about training requirements and audit documentation quality, CA Shashi Satyal talked about the role of those in leadership position and their willingness for continuous training to the staffs. Explaining the practice in TR Upadhya & Co., he added that being a member of an international firm have added the benefits of access to documents prepared by PKF, easy availability of training materials and its adoption considering the local requirements in Nepal. The calendar of staff trainings is made each year in practical working environment as the new staffs already are aware of the theoretical knowledge. At last, he suggested that it might be costly for smaller firm to train staff in regular basis, but initiative can be taken to bring together the firms for collective training and resource sharing which ultimately will add value to the organization.



### **Linda Barnes, ICAEW Chartered Accountant, Consultant ICAEW**

*Replying a question about areas for improvement by firms, Linda talked about the start of quality assurance review system in ICAEW and compare the current scenario and situation of review in Nepal with ICAEW at the beginning phase. She added that, gradually the situation shall be improved but compliance with the auditing standards is required to uplift the quality of the audit service rendered by the audit firms. Further she emphasized the Quality Assurance as a learning process and Nepal has opportunity to learn from the experience and difficulties faced by ICAEW.*

**Question/ Answer Session-** Participants were allowed to ask few questions, queries, comment, concern, suggestions with regards to quality assurance that were directed to panelist after comments from panelist

### **Prabin Kumar Jha, Partner, Joshi & Bhandari, Chartered Accountants**

*Speaking about the presentation, he stated that we need to have a strong approach toward implementation of Quality Standards with learning and continuous improvement. He highlighted the practical issues in the market and the situation of compliance with the quality standard by the Audit firms. Further, he said that there is always a continuous need for check and balance by the institute towards the firm to adherence with the NSQC 1 requirements.*

### **Gaurav Agrawal, Director, B.K Agrawal & Co., Chartered Accountants**

*He talked about the practice management software and audit implementation software which are already in use by the bigger firm and have experience in well controlled audit environment. He suggested ICAN to collaborate with vendors and network firm for access of the documents and sharing of the systems to the smaller firm who might have limitation for improvement due to high cost and frequent turnover of the staffs.*

### **Mahesh Guragain, Partner, M.G.S. & Associates, Chartered Accountants**

*He talked about the development of Quality Review Mechanism in ICAN, and the contribution made for its effectiveness. He shared the perspectives of differentiating the views between the Auditor and Quality Assurance Reviewer while carrying out the assurance review. Moreover, he stated that the review shall be based upon the client size and fee's structure rather than seeking the similar documentation compliance in all cases. He also suggested to conduct review based on risk approach, client weighted having effect in public interest, compliance to governance requirements and increased training by ICAN to the firm's partners and staffs. At last, he objected on the fees being charged for Quality Assurance Review by the Institute and suggested to adopt other method for the purpose.*

CA. Kiran Kumar Khatri, Technical Director at the Institute, at last, clarified some of the issues raised by the participants and ensured the commitment to address the suggestions provided in future days.



**The Way forward** -In the discussion, various matters with regards to quality control system of practicing firms and quality assurance review systems of the Institute were unfolded. The key points emerged through presentation and deliberation in the workshop are given below in a nutshell.

- **Need of Co-ordination** - Only quality assurance cannot be seen in isolated manner hence coordination among regulators and users about the NAS, NSA and guidelines pronounced by the Institute to create a synergetic effect in the profession. Discussion, interaction, continuous dialogue in the matters of accounting and auditing among regulators, audit firms, major business entities like banks, insurance companies, Public Sector undertakings (PSUs), construction entrepreneurs, hotel and tourism industries, etc. to resolve the issues of financial sectors with regard to adoption of the accounting and audit standards.
- **Joint work** – ICAN and Accounting Standards and Auditing Standards Boards as key players of accounting profession in the country need to join hands for joint work and support each other in the professional matters and hold meeting in time to time to resolve the problem related to it, basically the gaps as can be seen with pronouncement and implementation status of the standards.
- **Tone from the Top**- Firms' leadership should primarily be responsible to maintain quality of audit in the firm by proper management of audit practice.
- **Skill Development Activities**- It is well known fact that without competent staff, it is difficult to deliver quality services to the client. So, enhance the skill set of staff involved in audit by preparing training calendar for providing training opportunities. Small firms might jointly organize such activities.
- **Quality Assurance Approach**- Improve QAR approach as the reviewer used audit type of approach in quality assurance review. The approach should take care of assisting firms to identify their root causes for the findings that are unfolded.
- **Audit Fee structure**- Audit fee is directly related to the quality of audit hence existing audit fee regime should be revisited or policy decisions taken to enhance the effectiveness of implementation of the related Guideline issued by the Institute and initiate dialogue with major stakeholders.
- **Use of Audit Software**- To improve the audit practice management various, audit engagement software is available in south Asian countries and beyond, that can be used by audit firms. In this connection, Institute should take initiation to encourage the audit firms for application of such software.
- **Collaborate with local big Audit firms**- There are more than ten firms that are either members or associate firms of big global audit firms and are at better positions receiving technical support from their Network Firms. So, audit firms can collaborate for transfer of knowledge by signing collective or firm to firm MOUs.



## Summarizing and Vote of Thanks



*CA. Chhetra Gopal Pradhan summarizing with Vote of Thanks*

CA. Chhetra Gopal Pradhan, Council Member and Member of QAB, delivered vote of thanks and summarized QA program activities and result achieved. He emphasized on firm priority for maintaining the quality as per the required standards and the need for adoption of new standard. He put forward the major learning from the technical session and thank the panelist, paper presenter, and participating member for their active participation. At end, he described the prominence of need for quality and concluded with saying that “the word quality though sound simple is very tough to maintain, it is the part of culture, our traditions and values, a good quality comes with a price and bad quality cost a fortune”.

## Conclusion

Concluding the workshop, the Chair of the QAB mentioned that in every profession quality comes first and we are not the exception. We have no other option just to adopt new ISQM as a member of IFAC. So, practicing firms are required to prepare for conducting the audit as per the auditing standards and maintain high quality in the audit service they deliver. In this connection ICAN, AuSB, government regulators need to work together to strengthen the audit regime within the country. The challenges regarding the audit profession can be dealt by the consorted efforts of ICAN and Audit Firms together with support and cooperation from of the other regulators and stakeholders.

Ensuring adherence to the technical standards, changing behavior and attitude of a staff is not an easy task. So, Audit firms require a proper system of monitoring, continuous support, and encouragement by the supervisors.

Later or sooner AuSB will prepare the new NSQM and ICAN will pronounce the standards. Audit practitioner has no option other than to implement the standards. Considering this fact at least the audit firms need to focus on the aspect like read ISQM thoroughly, need to relook or assess the current approach and audit quality of the firm, commitment from leadership and governance towards audit quality, increase sufficient time in staff training, monitoring and supervision of audit and conduct Root cause analysis to find out the systematic defect and prevent repetition of same the weakness.



## SAFA Conference on International Taxation and Digital Currency 2022 And SAFA Best Presented Annual Report Awards, Integrated Reporting Award & SAARC Anniversary Award for Corporate Governance Disclosures Ceremony 2021

The Institute of Chartered Accountants of Nepal (ICAN) hosted the SAFA Conference on International Taxation and Digital Currency followed by SAFA Best Presented Annual Report Awards, Integrated Reporting Award & SAARC Anniversary Award for Corporate Governance Disclosures Ceremony 2021, on 18<sup>th</sup> December 2022 at Hotel Yak & Yeti, Durbar Marg, Kathmandu Nepal.

The program was organized in two sessions as under:

### First Session:

#### SAFA Conference on International Taxation and Digital Currency 2022

#### Inaugural Session

CA. Bhaskar Singh Lala, President, ICAN started the program with his welcome remarks. Chief Guest of the program, Mr. H M Hennayake Bandara, FCMA, President, SAFA and Guest of Honor, CA. Maha Prasad Adhikari, Governor, Nepal Rastra Bank jointly inaugurated the program. Likewise, CA. Nihar N. Jambusaria - Vice President, SAFA and CA. Maha Prasad Adhikari, Governor, Nepal Rastra Bank addressed the program as a Guest of Honor, in the inaugural session of the program. Similarly, Mr. H M Hennayake Bandara, FCMA, President, SAFA was the keynote speaker in the program.



*Mr. H. M. Hennayake Bandara, FCMA, President, SAFA delivering keynote speech on Inaugural Session of SAFA Conference*



*CA. Nihar N. Jambusaria, Vice-President, SAFA delivering speech on Inaugural Session of SAFA Conference*



*CA. Maha Prasad Adhikari, Governor, Nepal Rastra Bank delivering speech on Inaugural Session of SAFA Conference*



*CA. Bhaskar Singh Lala, President, ICAN delivering welcome remarks on Inaugural Session of SAFA Conference*

The Conference was further organized in two technical sessions as below:

#### Technical Session 1: International Taxation and Transfer Pricing

#### Paper Presentation and Panel Discussion

CA. Sanjay Kumar Agrawal, Central Council Member ICAI, started his session with the question of taxation jurisdiction while determining the Residential Status of the person who does not fulfill the criteria of stay duration in any country and taxation to the investment whose real location is disguised. Highlighting the issues, he said that the global minimum taxation might be the way out which is already in implementation in various countries worldwide. Moreover, he also explained about the policy and regulations adopted by India for extending the horizon of global taxation and avoidance of tax evasion.



*Paper Presentation in Technical Session 1 of SAFA Conference by CA. Sanjay Kumar Agrawal, Central Council Member, ICAI*



CA. Sudarshan Raj Pandey, Past President, ICAN, discussed the criticality of global taxation and provision of DTAA and transfer pricing in the Income Tax Act of Nepal. He added the hit back that Nepal may face due to complexity of taxation on foreign direct investment on which the economy largely depends. The major challenges that have been faced are due to multi layered transactions creating high chances of tax erosion and added emphasis on clarity of Income Tax Act and Guidelines to mitigate it.

Mr. Mohammed Humayun Kabir, Council Member ICA Bangladesh, Technical Advisor, SAFA Board also added to the words of previous panelist on the DTAA provision as a step to restrict the evasion and control the issues in taxation. He added that transfer pricing has tapped the area of loophole in international transactions between the companies and the important role of the accountants for its implementation and review. The challenges might also be faced due to misunderstanding of the regulatory bodies and administrator in application of laws and requirements due to lack of highly equipped professionals to deal with it. He at last shared the practice in Bangladesh regarding the international taxations and challenges.

Mr. Awais Yasin, Fellow Member and Honorary Treasurer, ICMAP, discussed the Multinational Companies (MNC) who are trying to escape the higher taxed jurisdictions by booking profit in less taxed zones. He briefed about the Pakistan practice of reporting by Multinational Companies namely three reports i.e., Country by Country Report (CBC), Master File, and Local File filed in Country Board of Revenue. This voluntary requirement of filing by companies to some extent has reduced the risk of tax evasion.

At last, he added that Pakistan has recently developed and implemented the new regulations for taxing the resident who might be liable to pay tax even irrespective of residency status i.e., 182 days requirements normal above requirements. Additional documents need to be presented in the tax office if they are not within the scope of new requirements.

Mr. Dirgha Raj Mainali, Director General, Inland Revenue Department, explained about the practice that Nepal has initiated and tax provision for including the MNC and foreign company transactions. He highlighted the practice of the other countries and the need for development of new policies and regulations to address the new developing issues in international taxation.



*Panel Discussion in Technical Session 1 of SAFA Conference*

## Session Chair

Mr. Rameshwor Dangal, Secretary (Revenue), Ministry of Finance, Nepal, put forward the need and requirement of introduction of digital taxation systems in the current fast changing economy. He added that the challenges Nepal is facing is mainly due to the cross-border transactions and requirement to mitigate these challenges by developing the policies and guidelines. He further added on the topic of presentation where Global minimum taxation can be the way out to avoid the tax escape but required higher concentration of taxation authority and international companies.



*Mr. Rameshwor Dangal, Secretary (Revenue), Ministry of Finance, Nepal Chairing the Technical Session 1 of SAFA Conference*

## Question and Answer Session

**Q. What can be the tactics and action plan that can be implemented to foreign companies and Multinational companies transferring the profit to low taxed zones to bring within the local tax boundaries.**

**A.** The way out could be to expand the reporting requirements by



the FC and MNC where profit earned in different jurisdictions is reported to local taxation authorities. If there is sufficient provision of disclosure and liability for the same, they can be brought within the parameters of the jurisdictions.

**Q. Next question was raised on defining the arm length transaction values and what types of evidence is required to validate the transaction being performed in arm's length.**

A. There is a well-defined method in OECD regarding the valuation of transactions on an arm length basis. The major factors that are considered are comparability and uncontrolled price of the service or products.

However, tax authorities in case of local level complexities can determine themselves the minimum price and cost for the transactions.

### **Vote of Thanks**

CA. Sujan Kumar Kafle, Vice-President, ICAN concluded the first session of the program with closing remarks and vote of thanks.

### **Technical Session 2: Digital Currency – Evolution and Trends**

#### **Paper Presentation and Panel Discussion**

CA. Chandrashekhar Vasant Chitale, Central Council Member ICAI, presented about the recent development in Digital Currency and steps initiated by the Central Bank of different countries for its adoption. In his paper he differentiated the Digital Currency with Virtual Currency and Cryptocurrency, which are indeed all the part of overall digital currency. Further, he highlighted the current status of Central Bank Digital Currency (CBDC) and initiation taken to cope with the challenges posed by the crypto currency. He also presented the two types of CBDC namely CBDC-R (CBDC – Retail) and CBDC-W (CBDC Wholesale) and its effectiveness.



*Paper Presentation in Technical Session 2 of SAFA Conference by CA. Chandrashekhar Vasant Chitale, Central Council Member, ICAI*

Mr. Guru Prasad Poudel, Executive Director, Nepal Rastra Bank, presented about the initiation taken by the Central Bank of Nepal (NRB) in the study and steps towards development of Digital Currency. He highlighted the major aspect from the BIS (Bank for International Settlements) Survey 2021, NRB study of CBDC and strategic plan developed by the central bank for stage wise process for its implementation. Further, he discussed the major challenges and recommendations from the BIS report and perspectives of regulators to consider CBDC as an opportunity rather than a threat.

Dr. Biswash Gauchan, Executive Director, The Institute for Integrated Development Studies, talked about the history of currency development and its current role in the economy since the beginning. He said that the future of currency is the digital currency which is a part of evolution and emphasis on its regulated adoption by the authorities. Likewise, he pointed out the major challenges in case of Nepal being an open border transaction with India, which has already developed and brought into circulation their own digital currency.

Mr. Muhammad Awais, Council Member, ICA Pakistan, explained the scenario of digital currency in Pakistan and the regulatory environment existing for prohibiting of its uses. He said that the digital currency will not be free of challenges since it mostly depends on the computer system and needs a highly qualified technical team to manage its circulation with strong regulatory measures. Moreover, he mentioned that digital currency will not completely remove the paper currency but will coexist at the same time.

Mr. Heshana Kuruppu, Vice President - CA Sri Lanka and Technical Advisor, SAFA Board, talked about the status of the digital currency in Sri Lanka. He mentioned that there are not any specific guidelines or study being conducted by the Central Bank but is bringing the technical experts and accountants in the same place to study the market of digital currency and further work that can be carried out by Sri Lanka to catch up with the pace of digital currency development.



*Panel Discussion in Technical Session 2 of the SAFA Conference*



## Session Chair

CA. Maha Prasad Adhikari, Governor, Nepal Rastra Bank, Chaired the session and presented the status of

Digital Currency study by the NRB and informed that NRB is aware of the recent developments of Digital Currency, majorly Cryptocurrency. He said that the transaction of Cryptocurrency is strictly prohibited, and continuous public notice has been issued by NRB regarding its illegality. He further added that in order to be tender as the currency, it must fulfill the attributes of the legal currency. He also explained the initiative taken by SAARC finance region to develop the common digital currency in SAARC countries and expects the study will bring positive news. At last, he thanked SAFA and ICAN for bringing such important and pertinent issues to the floor for discussion and expressed his confidence of assistance from the valued member of the SAFA for its effective study and implementation.



*CA. Maha Prasad Adhikari, Governor, Nepal Rastra Bank Chairing the Technical Session 2 of the SAFA Conference*

## Question and Answer Session

Question was raised by the participant about the challenges in implementation faced by India regarding the Digital Currency and how had the new development been interpreted by Public.

The issue raised was answered by the paper presenter about the preparation carried out by the Central Bank of India prior to issues and rules, regulations of the same adopted to restrict the misinterpretation. Also, the central bank has assured and increased the confidence of the public for its legal obligation of payment to the value same as paper currency.

## Second Session:

### SAFA Best Presented Annual Report (BPA) Awards, Integrated Reporting Award and SAARC Anniversary Award for Corporate Governance Disclosure Ceremony, 2021

The second session started with the welcome remarks of Ms. Anoji De Silva, SAFA Improvement in Transparency, Accountability and Governance (ITAG) Committee, Chair. In her remarks, she highlighted the importance of SAFA BPA Award. Likewise, the Special Guest, CA. Nihar N. Jambusaria - Vice President, SAFA and Mr. H M Hennayake Bandara, FCMA, President, SAFA also addressed the program and stressed on the significance and impact of SAFA BPA Award. Hon'ble Auditor General, Mr. Tanka Mani Sharma Dangal, was the Chief Guest in the program.



*Ms. Anoji De Silva, Chair, SAFA ITAG Committee delivering welcome remarks, highlights on SAFA BPA Awards and its Importance*



*Mr. H. M. Hennayake Bandara, FCMA, President SAFA delivering Speech in SAFA BPA Awards Ceremony, 2021*

*CA. Nihar N. Jambusariya, Vice-President, SAFA delivering speech in SAFA BPA Awards Ceremony, 2021*



Hon'ble Auditor General, Mr. Tanka Mani Sharma Dangal; Mr. H M Hennayake Bandara, FCMA, President, SAFA; CA. Nihar N. Jambusaria - Vice President, SAFA; Ms. Anoji De Silva, SAFA ITAG Committee Chair; CA. Bhaskar Singh Lala, President ICAN and CA. Sujan Kumar Kafle distributed Award to the winners of SAFA BPA Award 2021. Altogether, 137 (*Certificate of Merit, Joint Bronze, Bronze, Joint Silver, Silver, Joint Gold and Gold*) award under 16 categories (*1. Overall Winners, 2. Private Sector Banking Institutions (including Co-operative Banks), 3. Public Sector Banking Institutions, 4. Insurance Sector, 5. Financial Services Sector, 6. Manufacturing Sector, 7. Communication and Information Technology Sector, 8. Service Sector (Excluding Financial Services & Communication & IT Sector), 9. Non-Governmental Organizations (including NPOs), 10. Agricultural Sector, 11. SAARC Anniversary Award for Corporate Governance, 12. Public Sector Entities, 13. Diversified holdings, 14. Power & Energy, 15. Infrastructure & Construction and 16. Integrated Reporting*) were distributed to total 121 entities from amongst 5 SAARC Countries (*Sri Lanka, Bangladesh, India, Nepal and Pakistan*).

Hon'ble Auditor General, Mr. Tanka Mani Sharma Dangal, Office of the Auditor General, Nepal congratulated ICAN for hosting SAFA BPA Award Distribution Ceremony in Nepal and commended the Award Winners.



*Hon'ble Auditor General, Mr. Tanka Mani Sharma Dangal, Office of the Auditor General, Nepal commending the BPA Award Winners*



*Sample Photo of Representative of Award-Winning Entity receiving the award*

CA. Bhaskar Singh Lala, President, ICAN distributed token of love to the Chief Guest, Special Guest and Master of Ceremony. He concluded the BPA Award distribution ceremony with his closing remarks and vote of thanks to the Chief Guest, Guest of Honors, Paper Presenter, Panelist, SAFA delegates, Member of the ITAG Committee, other Distinguished Guest, Past President, Council Members, representative of the Award-winning entities, participants, press and staffs. More than 250 participants attended the SAFA events. Mrs. Shivanee Thapa Basnet was the Master of Ceremony in both sessions.



*CA. Bhaskar Singh Lala, President, ICAN providing token of Love to Mr. H M Hennayake Bandara, FCMA, President, SAFA*



*Representatives of Award-Winning Entities from India*





CA. Bhaskar Singh Lala, President, ICAN providing token of Love to Hon'ble Auditor General, Mr. Tanka Mani Sharma Dangal

## Annex 1: Country Wise Award List

Category	Award	Sri Lanka	Bangladesh	India	Nepal	Pakistan	Sub-Total
Private Sector Banks	Certificate of Merit	1		3	3	1	15
	Joint/Bronze Award	2					
	Joint/Silver Award					2	
	Joint/Gold Award		3				
Public Sector Banks	Certificate of Merit	2		1		2	9
	Joint/Bronze Award	1				1	
	Joint/Silver Award		1				
	Joint/Gold Award		1				
Insurance	Certificate of Merit	2	2	1		2	10
	Joint/Bronze Award					1	
	Joint/Silver Award	1	1				
	Joint/Gold Award						
Financial Services	Certificate of Merit	2			1	3	10
	Joint/Bronze Award	1	1				
	Joint/Silver Award		1				
	Joint/Gold Award		1				
Manufacturing	Certificate of Merit	3		3	1		13
	Joint/Bronze Award		1			1	
	Joint/Silver Award		1			1	
	Joint/Gold Award		1			1	

Category	Award	Sri Lanka	Bangladesh	India	Nepal	Pakistan	Sub-Total
Communication & Information Technology	Certificate of Merit			1			4
	Joint/Bronze Award		1				
	Joint/Silver Award		1				
	Joint/Gold Award	1					
Service (Excluding Financial Services & Communication & IT Sector)	Certificate of Merit			1			5
	Joint/Bronze Award				1		
	Joint/Silver Award	1	1				
	Joint/Gold Award	1					
NGOs (Including NPOs)	Certificate of Merit	1	1	1			10
	Joint/Bronze Award	2	1				
	Joint/Silver Award					1	
	Joint/Gold Award		1			2	
Agriculture	Certificate of Merit						4
	Joint/Bronze Award	1	1				
	Joint/Silver Award	1					
	Joint/Gold Award	1					
Public Sector	Certificate of Merit		2				9
	Joint/Bronze Award		1	1		2	
	Joint/Silver Award					1	
	Joint/Gold Award			2			
Diversified Holdings	Certificate of Merit		1			1	6
	Joint/Bronze Award	1					
	Joint/Silver Award	1					
	Joint/Gold Award	1				1	
Power & Energy	Certificate of Merit	1	1	1	1		9
	Joint/Bronze Award			1		1	
	Joint/Silver Award		1	1			
	Joint/Gold Award					1	
Infrastructure & Construction	Certificate of Merit	1		1			6
	Joint/Bronze Award		1				
	Joint/Silver Award	1					
	Joint/Gold Award			2			





Category	Award	Sri Lanka	Bangladesh	India	Nepal	Pakistan	Sub-Total
SAARC Anniversary Award for Corporate Governance	Certificate of Merit	2					9
	Joint/Bronze Award	1				2	
	Joint/Silver Award					1	
	Joint/Gold Award		3				
Integrated Reporting	Certificate of Merit	1	1	3			12
	Joint/Bronze Award	1	1				
	Joint/Silver Award	1				1	
	Joint/Gold Award		1			2	
Overall Excellence in Corporate Reporting	Certificate of Merit						6
	Joint/Bronze Award		1				
	Joint/Silver Award		3			1	
	Joint/Gold Award		1				
Sub-Total	Certificate of Merit	16	8	16	6	9	55
	Joint/Bronze Award	10	9	2	1	8	30
	Joint/Silver Award	6	10	1	-	8	25
	Joint/Gold Award	4	12	4	-	7	27
Total		36	39	23	7	32	137

## Annex 2: List of BPA Award 2021

Overall Excellence in Corporate Reporting		
Country	Name of the Entity	Award
Bangladesh	Bank Asia Ltd	Bronze Award
	BRAC Bank Ltd.	Joint Silver Award
	Shahjalal Islami Bank Ltd.	Joint Silver Award
	Walton Hi-tech Industries PLC	Joint Silver Award
	Bangladesh Finance Limited	Gold Award
Pakistan	Fauji Fertilizer Company Limited	Joint Silver Award
Private Sector Banks		
Country	Name of the Entity	Award
Bangladesh	BRAC Bank Ltd.	Joint Gold Award
	Shahjalal Islami Bank Ltd.	Joint Gold Award
	Bank Asia Ltd.	Joint Gold Award
India	Federal Bank Ltd.	Certificate of Merit
	Kotak Mahindra Bank Ltd.	Certificate of Merit
	Axis Bank Ltd.	Certificate of Merit

Nepal	Siddhartha Bank Limited	Certificate of Merit
	Mega Bank Nepal Limited	Certificate of Merit
	Sunrise Bank Limited	Certificate of Merit
Pakistan	Allied Bank Limited	Certificate of Merit
	MCB Bank Limited	Joint Silver Award
	Bank Alfalah Limited	Joint Silver Award
Sri Lanka	Hatton National Bank PLC	Certificate of Merit
	Commercial Bank of Ceylon PLC	Joint Bronze Award
	National Development Bank PLC	Joint Bronze Award

### Public Sector Banks

Country	Name of the Entity	Award
Bangladesh	Sonali Bank Limited	Silver Award
	Janata Bank Limited	Gold Award
India	State Bank of India	Certificate of Merit
Pakistan	Bank of Punjab	Certificate of Merit
	National Bank of Pakistan	Certificate of Merit
	Bank of Khyber	Joint Bronze Award
Sri Lanka	Bank of Ceylon	Certificate of Merit
	National Savings Bank	Certificate of Merit
	People's Bank	Joint Bronze Award

### Insurance

Country	Name of the Entity	Award
Bangladesh	Green Delta Insurance Ltd	Certificate of Merit
	City General Insurance Co. Ltd	Certificate of Merit
	Reliance Insurance Ltd	Gold Award
India	HDFC Life Insurance Company Ltd	Certificate of Merit
Pakistan	Salaam Takaful Limited	Certificate of Merit
	Jubilee Life Insurance Company Limited	Certificate of Merit
	Adamjee Insurance Company Limited	Bronze Award
Sri Lanka	Union Assurance PLC	Certificate of Merit
	Ceylinco Life Insurance PLC	Certificate of Merit
	Softlogic Life Insurance PLC	Silver Award

### Financial Services

Country	Name of the Entity	Award
Bangladesh	IPDC Finance Limited	Joint Bronze Award
	IDLC Finance Ltd	Silver Award
	Bangladesh Finance Limited	Gold Award
Nepal	Muktinath Bikas Bank Limited	Certificate of Merit
Pakistan	First Habib Modaraba	Certificate of Merit
	Jahangir Siddiqui & Co. Ltd	Certificate of Merit
	JS Global Capital Limited	Certificate of Merit
Sri Lanka	Citizen Development Business Finance PLC	Certificate of Merit
	People's Leasing & Finance PLC	Certificate of Merit
	L B Finance PLC	Joint Bronze Award





<b>Manufacturing</b>		
<b>Country</b>	<b>Name of the Entity</b>	<b>Award</b>
Bangladesh	Reckitt Benckiser Bangladesh Limited	Joint Bronze Award
	British American Tobacco Bangladesh	Joint Silver Award
	Walten Hi-tech Industries PLC	Joint Gold Award
India	Ambuja Cements Ltd	Certificate of Merit
	Grasim Industries Ltd	Certificate of Merit
	JK Cement	Certificate of Merit
Nepal	Bottlers Nepal Ltd	Certificate of Merit
Pakistan	Cherat Packaging Limited	Joint Bronze Award
	Engro Polymer and Chemical Limited	Joint Silver Award
	Fauji Fertilizer Company Limited	Joint Gold Award
Sri Lanka	Samson International PLC	Certificate of Merit
	Dipped Product PLC	Certificate of Merit
	Lanka Walltiles	Certificate of Merit
<b>Communication &amp; Information Technology</b>		
<b>Country</b>	<b>Name of the Entity</b>	<b>Award</b>
Bangladesh	Robi Axiata Ltd	Bronze Award
	Grameenphone Ltd	Silver Award
India	National Internet Exchange	Certificate of Merit
Sri Lanka	Sri Lanka Telecom PLC	Gold Award
<b>Service (Excluding Financial Services &amp; Communication &amp; IT Sector)</b>		
<b>Country</b>	<b>Name of the Entity</b>	<b>Award</b>
Bangladesh	Unique Hotel & Resorts Ltd	Joint Silver Award
India	EIH Associated Hotels Limited	Certificate of Merit
Nepal	Karja Suchana Kendra Limited	Bronze Award
Sri Lanka	Hayleys Advantis Limited	Joint Silver Award
	Singer Sri Lanka PLC	Gold Award
<b>NGOs (Including NPOs)</b>		
<b>Country</b>	<b>Name of the Entity</b>	<b>Award</b>
Bangladesh	BRAC	Certificate of Merit
	Community Development Center (CODEC)	Joint Bronze Award
	SAJIDA Foundation	Joint Gold Award
India	Vidya Dairy	Certificate of Merit
Pakistan	Memon Medical Institute & Hospital	Silver Award
	The Citizens Foundation	Joint Gold Award
	Childlife Foundation	Joint Gold Award
Sri Lanka	The Ceylon Chamber of Commerce	Certificate of Merit
	Sri Lanka Institute of Marketing	Joint Bronze Award
	The Association of Accounting Technicians of Sri Lanka (AAT)	Joint Bronze Award
<b>Agriculture</b>		

<b>Country</b>	<b>Name of the Entity</b>	<b>Award</b>
Bangladesh	ACI Formulations Limited	Joint Bronze Award
Sri Lanka	Elpitiya Plantations PLC	Joint Bronze Award
	Talawakelle Tea Estates PLC	Silver Award
	Kelani Valley Plantations PLC	Gold Award
<b>Public Sector</b>		
<b>Country</b>	<b>Name of the Entity</b>	<b>Award</b>
Bangladesh	Bangladesh Infrastructure Finance Fund Ltd	Certificate of Merit
	Infrastructure Development Co. Limited	Certificate of Merit
	Investment Corporation of Bangladesh	Joint Bronze Award
India	Numaligarh Refinery Ltd	Joint Bronze Award
	Southeastern Coalfields Limited	Joint Gold Award
	Power Finance Corporation Limited	Joint Gold Award
Pakistan	Pakistan Petroleum Limited	Joint Bronze Award
	Oil and Gas Development Company Limited	Joint Bronze Award
	Pakistan State Oil Company Limited	Silver Award
<b>Diversified Holding</b>		
<b>Country</b>	<b>Name of the Entity</b>	<b>Award</b>
Bangladesh	ACI Limited	Certificate of Merit
Pakistan	TPL Corporation Limited	Certificate of Merit
	Crescent Steel and Allied Products Limited	Joint Gold Award
Sri Lanka	Diesel & Motor Engineering PLC	Bronze Award
	John Keells Holdings PLC	Silver Award
	Hayleys PLC	Joint Gold Award
<b>Power &amp; Energy</b>		
<b>Country</b>	<b>Name of the Entity</b>	<b>Award</b>
Bangladesh	United Power Gen. Dist Co. Ltd	Certificate of Merit
	Summit Power Limited	Joint Silver Award
India	Tata Power Delhi Distribution Limited	Certificate of Merit
	GAIL (India) Ltd.	Joint Bronze Award
	The Tata Power Company Limited	Joint Silver Award
Nepal	Butwal Power Company Limited	Certificate of Merit
Pakistan	The Hub Power Company Limited	Joint Bronze Award
	K-Electric Limited	Gold Award
Sri Lanka	Resus Energy PLC	Certificate of Merit
<b>Infrastructure &amp; Construction</b>		
<b>Country</b>	<b>Name of the Entity</b>	<b>Award</b>
Bangladesh	Eastern Housing Limited	Bronze Award
India	Railtel Corporation of India Limited	Certificate of Merit
	Rites Ltd	Joint Gold Award
	NHPC Limited	Joint Gold Award





Sri Lanka	RIL Property PLC	Certificate of Merit
	Access Engineering PLC	Silver Award
<b>SAARC Anniversary Award for Corporate Governance</b>		
Country	Name of the Entity	Award
Bangladesh	Shahjalal Islami Bank Limited	Joint Gold Award
	IDLC Finance Ltd.	Joint Gold Award
	Bank Asia Ltd.	Joint Gold Award
Pakistan	Fauji Fertilizer Company Limited	Joint Bronze Award
	MCB Bank Limited	Joint Bronze Award
	Adamjee Insurance Company Limited	Silver Award
Sri Lanka	Commercial Bank of Ceylon PLC	Certificate of Merit
	Hatton National Bank PLC	Certificate of Merit
	LB Finance PLC	Joint Bronze Award

<b>Integrated Reporting</b>		
Country	Name of the Entity	Award
Bangladesh	IDLC Finance Ltd	Certificate of Merit
	Shahjalal Islami Bank Ltd	Joint Bronze Award
	Bank Asia Ltd.	Joint Gold Award
India	Credit Access Grameen Ltd	Certificate of Merit
	Grasim Industries Limited	Certificate of Merit
	Tata Consultancy Services Limited	Certificate of Merit
Pakistan	Atlas Honda Limited	Joint Silver Award
	Fauji Fertilizer Company Limited	Joint Gold Award
	Engro Fertilizers Limited	Joint Gold Award
Sri Lanka	National Development Bank PLC	Certificate of Merit
	John Keells Holdings PLC	Joint Bronze Award
	Softlogic Life Insurance PLC	Joint Silver Award

## सूचीकरण नहुने/नगर्ने सम्बन्धी सूचना !

नेपालमा लेखाव्यवसायको विकास, संरक्षण र सम्बर्द्धनका लागि नेपाल चार्टर्ड एकाउन्टेन्ट्स ऐन, २०५३ अन्तर्गत एक स्वायत्त नियमनकारी निकायको रूपमा 'नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था' स्थापना भएको सर्वविदितै छ । यस संस्थाबाट पेशागत प्रमाणपत्र प्राप्त सदस्यहरूले कुनै पनि निकायमा सूचीकरण गर्नु नपर्ने तथा ती निकायलाई लेखाव्यवसायी फर्महरूको नामावली आवश्यक भएमा यस संस्थाबाट वा संस्थाको वेबसाईट [www.ican.org.np](http://www.ican.org.np) बाट सहजै प्राप्त गर्न सकिने व्यवस्था गरिएको व्यहोरा सबैमा अवगत नै छ । यस संस्थाबाट प्रमाणपत्र प्राप्त लेखापरीक्षकद्वारा सम्पादन गरिने लेखा, लेखापरीक्षण वा लेखाव्यवसायसँग सम्बन्धित कुनै पनि कार्य गर्न सूचीकरण गर्नु नपर्ने सम्बन्धमा यस अधि संस्थाबाट विभिन्न मितिमा सूचना प्रकाशन गरी सम्बन्धित सबैमा जानकारी गराइएको र नेपाल सरकार संघीय मामिला तथा सामान्य प्रशासन मन्त्रालयको २०७५/०६/१४ गतेको निर्णयअनुसार नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्थाले उपलब्ध गराउने सूचीबाट नै लेखापरीक्षक नियुक्ति गर्न सबै स्थानिय निकायहरूमा समेत परिपत्र भए बमोजिम सोको सूचना समेत मिति २०७५/०६/१६ मा प्रकाशित भई सोको व्यहोरा सम्बन्धित सबैमा जानकारी भएकै छ । संस्थाका सदस्यहरूले आफ्नो लेखाव्यवसायसँग सम्बन्धित सेवा प्रदान गर्नकै लागि शुल्क तिरी वा नतिरी कुनै पनि नाममा दर्ता वा सूचीकृत हुनुपर्ने भएमा लेखापरीक्षण कार्यको निष्पक्षता तथा स्वतन्त्रता माथि गम्भिर प्रश्नचिन्ह खडा हुन सक्ने साथै समग्र स्वतन्त्र लेखापरीक्षण व्यवसायप्रति नै अन्योलता सिर्जना हुन जाने भएको र हरेक स्थानीय तहमा सूचीकृत हुनु पर्ने व्यवस्था भएमा कुनै पनि तरिकाले व्यवहारिक समेत नहुने स्पष्ट छ ।

तसर्थ स्थानीय निकायहरूले आगामी दिनमा सम्बन्धित स्थानिय तह अन्तर्गतका विद्यालय लगायतका निकायहरूको लेखापरीक्षक नियुक्ति गर्दा गराउंदा नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्थाबाट पेशागत प्रमाणपत्र प्राप्त गरी नवीकरण गराएकामध्ये कुनै पनि सदस्यलाई वर्जित नगर्ने गरी नियुक्ति गराउने व्यवस्था मिलाउनुहुन समेत अनुरोध गरिन्छ ।

साथै, यस संस्थाका सदस्यहरूले कुनै पनि प्रकारको शुल्क वा रकम तिरी वा नतिरी सूचीकृत भए गरेको पाइएमा नेपाल चार्टर्ड एकाउन्टेन्ट्स ऐन, २०५३, नेपाल चार्टर्ड एकाउन्टेन्ट्स नियमावली, २०६१ र लेखापरीक्षण सम्बन्धी आचारसंहिताको पालना नगरेकोमा आवश्यक कारवाही हुने व्यवस्था भएको व्यहोरा सम्बन्धित सबैमा जानकारी गराउँदै यस्तो कार्य नगर्न/नगराउन हुन पुनः यो सूचना प्रकाशित गरिएको छ ।



### नेपाल चार्टर्ड एकाउन्टेन्ट्स संस्था

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## Effective date for implementation of NFRS, NFRS for SMEs, NAS for MEs, NAS for NPOs and NSAs

### Background

ICAN has been continuously working on improving quality of accounting and developing credibility of accounting profession in the society. In line with achieving the objective and developing consistency in the accounting profession, ICAN has pronounced various standards to be implemented for accounting and auditing. The date of effectiveness of such standards are listed below under 3 sections:

### Section 1

#### Nepal Financial Reporting Standards (NFRS 2018)

S.No.	NFRS	Name	Effective Date	Effective FY
1	NFRS 1	First-Time Adoption of Nepal Financial Reporting Standards	July 16, 2020	2077/78
2	NFRS 2	Share based Payment		
3	NFRS 3	Business Combination		
4	NFRS 4	Insurance Contracts		
5	NFRS 5	Non-Current Assets Held for Sale & Discontinued Operation		
6	NFRS 6	Exploration for and Evaluation of Mineral Resources		
7	NFRS 7	Financial Instruments: Disclosure		
8	NFRS 8	Operating Segments	July 16, 2021	2078/79
9	NFRS 9	Financial Instruments		
10	NFRS 10	Consolidated Financial Statements	July 16, 2020	2077/78
11	NFRS 11	Joint Arrangements		
12	NFRS 12	Disclosure of Interests in other Entities		
13	NFRS 13	Fair Value Measurements		
14	NFRS 14	Regulatory Deferral Accounts	July 16, 2021	2078/79
15	NFRS 15	Revenue from Contracts with Customers		
16	NFRS 16	Leases	July 16, 2024	2081/82
17	NFRS 17	Insurance Contracts		
18	NAS 1	Presentation of Financial Statements	July 16, 2020	2077/78
19	NAS 2	Accounting Policies, Changes in Accounting Estimated and		
20	NAS 7	Statements of Cash Flow		
21	NAS 8	Accounting Policies, Changes in Accounting Estimates and Errors		
22	NAS 10	Events after Reporting Period		
23	NAS 12	Income Tax		
24	NAS 16	Property, Plant and Equipment		
25	NAS 19	Employee Benefits		
26	NAS 20	Accounting for Government Grants and Disclosure of Government Assistance		
27	NAS 21	The Effects of Changes in Foreign Exchange Rates		
28	NAS 23	Borrowing Cost		
29	NAS 24	Related Party Disclosures		
30	NAS 26	Accounting and Reporting by Retirement Benefits Plan		
31	NAS 27	Separate Financial Statements		
32	NAS 28	Investment in Associates and Joint Ventures		
33	NAS 29	Financial Reporting in Hyperinflationary Economics	July 16, 2021	2078/79
34	NAS 32	Financial Instruments: Presentation	July 16, 2020	2077/78
35	NAS 33	Earnings Per share		
36	NAS 34	Interim Financial Reporting		
37	NAS 36	Impairment of Assets		
38	NAS 37	Provision, Contingent Liabilities and Contingent Assets		
39	NAS 38	Intangible Assets		
40	NAS 39	Financial Instruments: Recognition and Measurement		
41	NAS 40	Investment Property		
42	NAS 41	Agriculture		



## Section 2

### NFRS for SMEs, NAS for MEs and NAS for NPOs

S.No.	Applicable Standards	Original Effective Date	Revised Effective Date	Revised Effective F.Y.
1	NFRS for SMEs	July 16, 2021	July 17, 2023	2080/81
2	NAS for MEs			
3	NAS for NPOs			

#### Applicability of the above standards

For financial reporting purpose the entities can be classified as

1. Those having public accountability: NFRS shall be applicable
2. Those NOT having public accountability: NFRS for SME shall be applicable
3. Those NOT having public accountability other than SMES:

**Micro Entities-** NAS for MEs

**NPOs-** NAS for NPOs

#### 1. Entities having Public Accountability

- a. Whose debt or equity instruments are traded in public market or is in process of issuing such instruments (except listed Micro Finance not having economic significance)
- b. It holds assets in a fiduciary capacity for broad group of outsiders as one of its primary businesses:
  - i. banks, credit unions, insurance companies, security dealers and mutual funds, investment banks (except Micro Finance and Cooperatives not having economic significance)
  - ii. Pension and retirement funds
- c. Government Business Enterprises (GBEs), Public entities established under special acts not preparing financial statements under NPSAS
- d. Entities having economic significance
  - i. Borrowings from banks or financial institutions or public funds or from entities holding assets in fiduciary capacity of NRs 500 million or more;
  - ii. Statement of Financial Position (Balance Sheet) total (without off-setting current liabilities with current assets) of NRS 1000 million or more;
  - iii. Employing more than 300 employees including workers in an average or

- iv. Annual Turnover (Revenue of Entity) of NRS 1000 million or more;
- v. Holding assets in fiduciary capacity in excess of NRs 500 million (includes security brokers handling demat account, micro finance and cooperatives),

An entity which attains at least 1 of these limits in 2 consecutive years shall be deemed to be an entity having economic significance to qualify as an entity with Public Accountability and once qualified, must fall below all of these limits for 2 consecutive years to cease to qualify.

#### 2. Small and Medium Sized Entities

Small and Medium Sized Entities are those entities that:

- a. Do not have public accountability; and
- b. Publish general purpose financial statements for external users

#### 3. Micro Entities:

Micro entities are those entities with the following thresholds (all):

- (i) Annual Turnover (Revenue of Entity) of NRs 100 million or less;
- (ii) Borrowings from banks or financial institutions or public funds or from entities holding assets in fiduciary capacity of NRS 50 million or less;
- (iii) Statement of Financial Position (Balance Sheet) total of NRs 100 million (without off-setting current liabilities in current assets) or less; and
- (iv) Holding assets in fiduciary capacity of NRS 50 million or less (includes security brokers handling demat account, micro finance and cooperatives).

An entity must meet all of these limits in 2 consecutive years to qualify as a micro- entity and once qualified, must exceed at least 1 of these limits for 2 consecutive years to cease to qualify.





### Section 3

#### Nepal Standards on Auditing (NSA)

S.No.	NSA No.	Standards	Effective Date
NEPAL STANDARDS ON QUALITY CONTROL(NSQCs)			
1	NSQC 1	Nepal Standard on Quality Control (NSQC) 1 : Quality Control For Firms that Perform Audits and Reviews Of Financial Statements, and Other Assurance and Related Services Engagements	July 17, 2019
Audits of Historical Financial Information			
200-299 GENERAL PRINCIPLES AND RESPONSIBILITIES			
1	NSA 200	Overall Objective of the Independent Auditor and the conduct of an Audit in Accordance with Nepal Standards on Auditing	July 17, 2019
2	NSA 210	Quality Control for an Audits of Financial Statements	
3	NSA 220	Audit Documentation	
4	NSA 230	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	
5	NSA 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	
6	NSA 250	Consideration of Laws and Regulations in an Audit of Financial Statements	
7	NSA 260 (Revised)	Communication with Those Charged with Governance	
8	NSA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	
300-499 RISK ASSESSMENT AND RESPONSE TO ASSESSED RISKS			
9	NSA 300	Planning an Audit of financial statements	July 17, 2019
10	NSA 315(Revised)	Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment	
11	NSA 320	Materiality in Planning and Performing an Audit	
12	NSA 330	The Auditor’s Responses to Assessed Risks	
13	NSA 402	Audit Considerations Relating to an Entity Using a Service Organization	
14	NSA 450	Evaluation of Misstatements Identified during the Audit	
500-599 AUDIT EVIDENCE			
15	NSA 500	Audit Evidence	July 17, 2019
16	NSA 501	Audit Evidence-Specific Considerations for Selected Items	
17	NSA 505	External Confirmations	
18	NSA 510	Initial Audit Engagements—Opening Balances	
19	NSA 520	Analytical Procedures	
20	NSA 530	Audit Sampling	
21	NSA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	
22	NSA 550	Related Parties	
23	NSA 560	Subsequent Events	
24	NSA 570 (Revised)	Going Concern	
25	NSA 580	Written Representations	
600-699 USING THE WORK OF OTHERS			
26	NSA 600	Special considerations-Audit of Group Financial statements (including the work of component Auditors)	July 17, 2019
27	NSA 610(Revised)	Using the work of Internal Auditors	
28	NSA 620	Using the work of an Auditors Expert	





	700-799 AUDIT CONCLUSIONS & REPORTING		
29	NSA 700 (Revised)	Forming an opinion and Reporting on financial statements	July 17, 2019
30	NSA 701	Communicating Key Audit Matters in the Independent Auditors Report	July 16, 2020 for MNCs, Listed and Government entities, and July 16, 2021 for Other Institutions
31	NSA 705 (Revised)	Modifications to the opinion in the Independent Auditors report	July 17, 2019
32	NSA 706 (Revised)	Emphasis of Matter Paragraphs and other Matter Paragraphs in the Independent Auditors Report	
33	NSA 710	comparative information-corresponding Figures and comparative Financial Statements	
34	NSA 720 (Revised)	The auditor's responsibilities relating to Other information in Documents Containing Audited Financial statements.	
	800-899 SPECIALIZED AREAS		
35	NSA 800 (Revised)	special Considerations-Audit of financial statements Prepared in accordance with special Purpose Frame works	July 17, 2019
36	NSA 805 (Revised)	special Considerations-Audits of Single Financial statements and Specific Elements, Accounts or Items of a Financial statements	
37	NSA 810 (Revised)	Engagements to Report on Summary of Financial Statements	
	NEPAL AUDITING PRACTICE NOTES		
38	NAPN 1000	Special considerations in Auditing Financial Instruments	July 17, 2019
	AUDITS AND REVIEW OF HISTORICAL FINANCIAL INFORMATION		
	2000-2699 NEPAL STANDARDS ON REVIEW ENGAGEMENTS(NSREs)		
39	NSRE 2400	Engagement to Review Financial Statement	July 17, 2019
40	NSRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity	
	ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION		
	3000-3699 NEPAL STANDARDS ON ASSURANCE ENGAGEMENTS (NSAEs)		
	3000-3399 APPLICABLE TO ALL ASSURANCE ENGAGEMENTS		
41	NSAE 3000	Assurance Engagements Other than Audits or Reviews of Historical Financial Information	July 17, 2019
	3400-3699 SUBJECT SPECIFIC STANDARDS		
42	NSAE 3400	The Examination of Prospective Financial Information	July 17, 2019
43	NSAE 3402	Assurance Reports on Controls at a Service Organization	
44	NSAE 3410	Assurance Engagements on Greenhouse Gas Statements	
45	NSAE 3420	Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus	
	RELATED SERVICES		
	4000-4699 NEPAL STANDARDS ON RELATED SERVICES (NSRSs)		
46	NSRS 4400	Engagements to Perform Agreed-Upon Procedures Regarding Financial Information	July 17, 2019
47	NSRSs 4410(Revised)	Compilation engagements	
48	AUDIT QUALITY	A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality	
49	ASSURANCE FRAMEWORK	Amended Nepal Framework for Assurance Engagements	



## **“REQUESTING ARTICLE TO BE PUBLISHED IN ICAN JOURNAL ”**

“The Nepal Chartered Accountant” is the official publication of The Institute of Chartered Accountants of Nepal and has been published since 1998. The purpose of this Journal is to disseminate accounting, auditing, financial market, innovations information for enriching the knowledge of members and stakeholders in readable and understandable manner. So, we try to feature the articles in the Journal covering various issues related to information and technology, economy, accounting and auditing, taxation, banking, insurance, management, public financial management, governance, public policies such as monetary and economic policies, transparency and accountability, ethical and professional matters, management issues etc. and make our members, students, readers aware of the contemporary changes or innovations in business and professional landscape in accounting sector and get them updated.

Therefore, Members of the Institute and other writer may contribute innovative articles, research material, insights on professional matters in English Language with 2,500 - 3,500 words by sending an email at [editorialboard@ican.org.np](mailto:editorialboard@ican.org.np) for publishing it in the Journal of the Institute. Moreover, 4 CPE credit hours (to the Members of the Institute) and NPR 7,000.00/- is awarded to the writer whose article is published in the Journal. For any queries related to this, please send an email at above email ID.

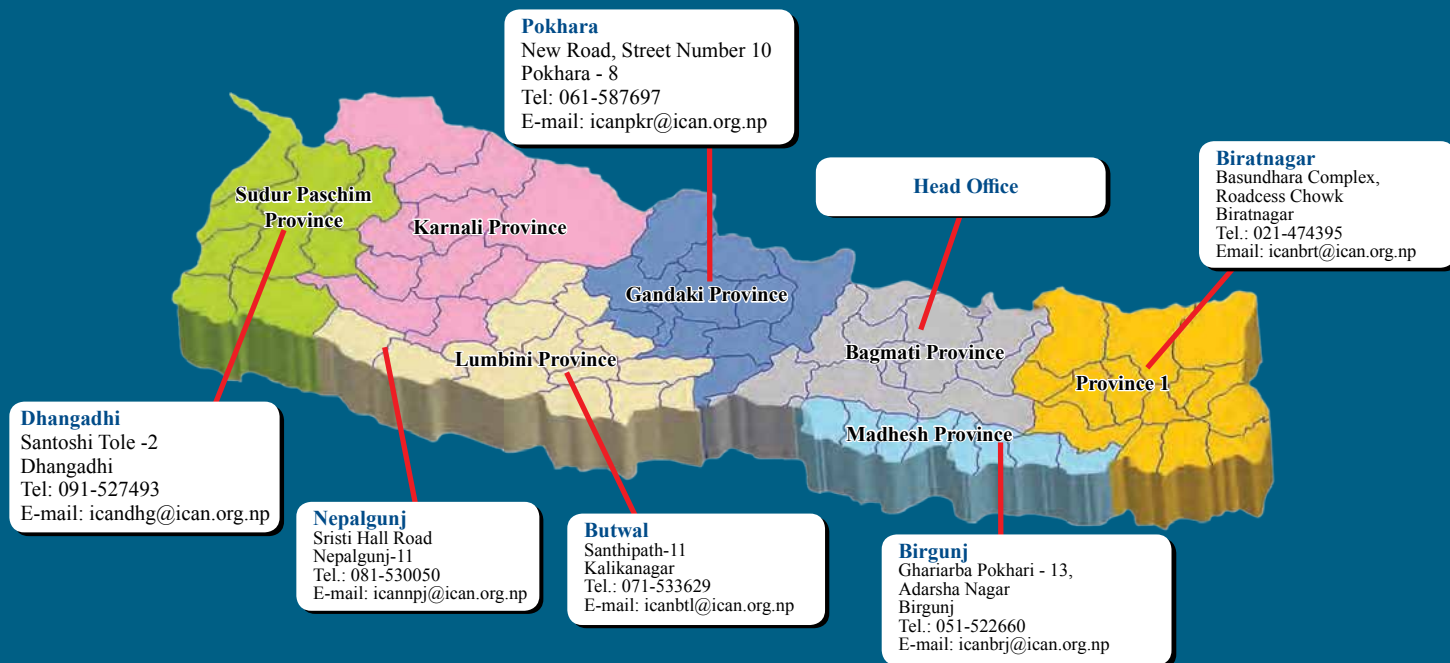
### **The structure of Article for Journal shall be as outlined below:**

1. Title- The title should be self-explanatory and capture the essence of the text and should be few words as much as possible.
2. Keywords used - Key words can be provided as per need.
3. Introduction
4. Main body
  - Heading - It must be in concise form and related to topic
  - Sub-heading – supports to heading
5. Conclusion- Article should be concluded with conclusion
  - a) References- Must be adequate and provided in case of need.

Moreover, articles should be original in nature, and it shall not have been published or submitted for publication elsewhere either in print or electronic media. Author should avoid Plagiarism of all kinds in their article. Author shall maintain at least 85% originality in their article



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